NLB Group

This is Our Home

Annual Report 2020

Wisely without paper

Annual Report 2020

Contents

Further information on sustainability is available in the NLB Group Sustainability Report 2020.

Report format

The Annual Report in PDF format represents its unofficial version. The Annual Report in ESEF format is pursuant to Commission Delegated Regulation (EU) 2019/815 and paragraph one of Article 134 of the Market in Financial Instruments Act (ZTFI-1) and represents its official version published on SEOnet.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this report are based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be different.

Home is where people who matter the most are.

Our home is here in this region. With you, among you.

Who we are

The Group, headquartered in Ljubljana, is the largest banking and financial group in Slovenia with a strategic focus on selected markets in SEE – our home region. It covers markets with a population of approximately 17 million people. The Group is comprised of NLB as the main entity in Slovenia and nine subsidiary banks in SEE, several companies providing ancillary services (asset management, real estate management, leasing, etc.), and a limited number of non-core subsidiaries in a controlled wind-down. NLB has an investment grade rating by S&P and is a publicly listed company owned by a diversified investor base and whose largest shareholder is the RoS with a 25% plus one share. With the acquisition of Komercijalna Banka, Beograd in December 2020, the Group further strengthened its strategic and systemic position in the region and now holds a top 3 position in six out of seven markets where it has a banking presence.

Vision

The Group will take care of the financial needs of its clients and improve the quality of life in its home region.

Mission

The Group values and understands its home region, and strives to improve and develop it for all generations.

Our strategic focus

- Become regional champion
- Putting clients first
- Defend our market position
- Exploit opportunities and synergies

Enablers

- Investments in NLB brand
- Availability and support anytime/ anywhere
- Robust cyber security
- Improved human talent management
- Simplification and quality of services
- Benefiting from emerging opportunities
- Prudent risk management
- Capital optimisation
- Cost and investment optimization

Sustainable banking

NLB is the first bank in Slovenia that has signed the UN Principles of Responsible Banking and has also made decisive steps on the path of sustainable banking by undertaking commitments to EBRD and MIGA on the Group level. With the sustainability ambition anchored in the purpose of our functioning, the Group ensures products and services meet the needs of this generation and simultaneously preserve the opportunities of future generations.

The Group employees operate in a family-friendly environment. The Bank received the 'Top Employer' certificate already for the 6th consecutive year. The Group has one of the broadest social responsibility programmes in the region. It supports many humanitarian and cultural projects, as well as promotes sports among young people – all this to ensure a better quality of life in the region it calls and treats as its home.







A new boost for sustainable development

The COVID-19 pandemic caused a downturn in the economy, but on the other hand it also brought us some positives. We pay more attention to what is happening in the environment and wonder how we influence it with our actions. In doing so, we have become enthusiastic about finding sustainable, especially local solutions.

One of the most recognised projects of 2020 in the entire region of SEE is certainly the #HelpFrame project. With the #HelpFrame project, we offered our own advertising space to 274 entrepreneurs, farmers, and micro and small businesses – which would be difficult for them to afford in these times – and thus helped them to reach potential customers, thereby making an important contribution to strengthening the domestic small business.

Statement by the Management Board of NLB

Dear Stakeholders,

2020 was an extremely challenging and, yet in many ways, a ground-breaking year, not soon to be forgotten. In more ways than one it was also very memorable for the Group, although by far not only due to the COVID-19 pandemic and its consequences as one might think. The pandemic has, of course, had an impact on our business operations and day-to-day work, but even more notable were the lessons learned and new practices we have since adopted.

A divestment of insurance company NLB Vita fulfilled the last commitment to the EC, by which a highly limiting state aid process was officially completed and after many years the Group could resume its full business capacity.

Also notable are a couple of essential milestones. In the middle of the year we managed to complete a divestment of insurance company NLB Vita as the last commitment to the EC, by which a highly limiting state aid process was officially completed and after many years the Group could resume its full business capacity. This enabled us to again address eventual value accretive business opportunities, and we very proudly ended the year with the game-changing acquisition of Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd). With this transaction, we further solidified the Group's presence in all our markets in SEE, our home region.

High responsibility, supported by knowledge, experience, professionalism, and finally the strong market position of NLB Group as a regional player proved once again to be especially effective in times of crisis, brought by the COVID-19 pandemic. We have responded successfully and effectively to the new circumstances, maintaining as a priority the concern for the health of our employees. We provided protective equipment in our offices, while enabling as many of them as possible to work from home. In the meantime, the latter has also been supported as the regular working mode, wherever applicable and mutually acceptable. As the utmost priority, we also protected the health of our customers by securing preventive measures in our branches, while at the same time providing significantly enhanced accessibility and quality of our key services through online channels. Clients of NLB in Slovenia can now get cash loans, overdrafts, credit cards and can order any other services 24/7 via a mobile bank without direct personal interaction, and as unique experience can sign any contract with the Bank digitally through our mobile bank Klikin. All of that is supported by 24/7 chat and the video chat service from our Contact Centre with a closing capacity for the majority of services. With that, NLB has already surpassed the client experience levels of majority of FinTech challengers. We have a clear plan for further enhancements and consistent replication of this delivery model in all our markets.

After witnessing economic hibernation during a substantial part of the first half-year, various factors contributed to a robust revival of especially industrial activities by the end of the year. As a result, in the second half of the year the Group recorded a normalisation of revenues to pre-COVID-19 levels and generated a sound net profit of EUR 141.3[1] million, with all SEE subsidiary banks reporting solidly positive net earnings and contributing 36%[1] to the result.

This outcome was clearly strongly supported by a quick and determined response from governments and regulators with measures that helped stabilise the economic environment, but also by a very proactive response of our whole Group. We have learnt our lessons in the period from 2008-2014 and we are fully aware that concrete actions speak the loudest, especially in times of crisis. That is why we decisively addressed clients' needs as soon as the pandemic hit, and its potential consequences were assessed. We have, for instance, secured stable liquidity by instituting significant working capital lines to vital businesses, maintaining regular lending activity and releasing eventual liquidity squeeze to all client segments through moratoria.

We enhanced relationships and maintained the high quality of portfolios with very limited NPL migration by intensified daily contacts with clients and prompt reactions. During the first wave of epidemic we anticipated material impacts to credit quality, resulting in significant pool impairments and provisions and cautious guidance regarding the cost of risk. However, in the second half of the year the economy and clients proved to be more resilient and actual cost of risk did not follow the initial estimates. This is clear proof that the underwriting criteria and practices we introduced in 2013 have been very robust across economic cycles.

Structural profitability challenges, in contrast, escalated further. Due to lockdowns, prohibiting consumption, along with governmental measures, defending employment and boosting household income, and the influx of predominantly retail deposits introduced further significant drag on interest income. We managed to partially mitigate this impact by strongly focusing on additional fee and commission income, thus defending the financial intermediation margin, though it has become obvious that in the EUR-denominated Slovenian market there is no alternative to following the logic of corporate deposits and also introducing charges for household balances. Given that a decision was taken to start charging fees from 1 April 2021 on for the balances exceeding EUR 250 thousand with the ambition to reduce the threshold to EUR 100 thousand in the second half of 2021.

High responsibility, supported by knowledge, experience, professionalism, and finally strong market position of NLB Group as a regional player proved once again to be especially effective in times of crisis, brought by the COVID-19 pandemic.

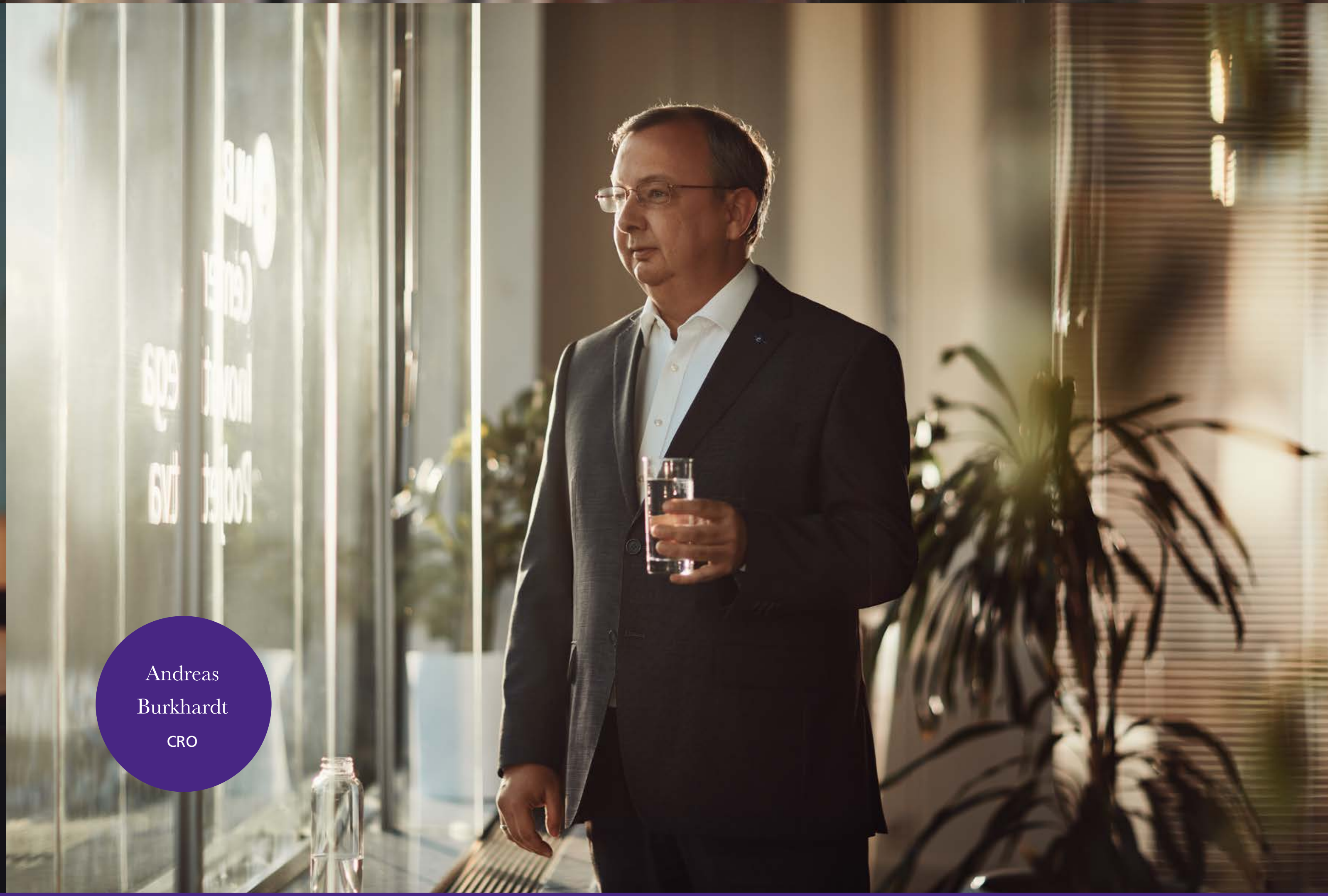
Significantly enhanced accessibility and quality of our key services through online channels.

1. Without the effect of the acquisition of Komercijalna Banka, Beograd.


Blaž Brodnjak
CEO & CMO


Archibald Kremser
CFO


Petr Brunclík
COO


Andreas Burkhardt
CRO

269.7 million EUR

net profit including EUR 137.9 million negative goodwill from acquisition of Komercijalna Banka, Beograd, while net profit would be

141.3 million EUR

without the effect of acquisition of Komercijalna Banka, Beograd.

With the implementation of capital relief measures, the inclusion of two successfully issued subordinated Tier 2 bonds and undistributed profit for the year 2019 into capital (due to the BoS restricted dividend payout in 2020 following ECB recommendation) the Group even after the sizeable acquisition concluded the year with a diversified capital structure and solid capital position above the regulatory requirements and management buffer. This besides very high liquidity reserve balances provides a solid foundation for our further business operations and resumed targeted dividend payouts as soon as supported by regulators. This position has been also shared by Moody's rating agency when upgrading the long-term local and foreign currency deposit ratings of the Bank from Baa2 to Baa1.

Despite the pandemic and numerous related challenges, measures, key activities and achievements, we positioned the Group in the most important growth market through the successfully completed acquisition of Komercijalna Banka, Beograd. Consequently, we have assumed a unique top 3 banking positions with more than a 10% market share in six out of seven of our markets. Moreover, we further improved our international footprint by supporting selected cross-border corporate projects, we reintroduced leasing services in Slovenia through the subsidiary NLB Lease&Go with the firm ambition of a regional roll-out, we adopted a consistent and decisive IT strategy with the aim to build the best digital bank and IT team in the SEE with cyber security being at its core, and we undertook several strategic initiatives and measures for strategic cost optimisation and boosting sales - among them an ambitious channel strategy with further swift digitization, paperless operations, corporate real-estate optimisation, etc.

The Group closed 2020 in a very good shape. We realised that this crisis offered us many opportunities to differentiate in the market and above all by being relevant and further strengthening our relationships with clients. One of these insights resulted in the first Group-wide CSR project that has a clearly defined sustainability component, #HelpFrame project, with which we further demonstrated our genuine interest in improving the quality of life in our region we call and therefore treat as home. We have been supporting people with an entrepreneurial spirit and creative ideas who have introduced products and services with a sustainable local footprint. In the Group, we acknowledged their efforts and provided almost 274 entrepreneurs, farmers, and micro and small businesses from all our markets, not only with our financial mentorship and professional support, but also with advertising space that they would otherwise not have been able to afford.

We consciously and decisively committed to sustainability by signing the UN Principles for Responsible Banking and commitments toward EBRD and MIGA. NLB Group decided to discontinue any financing support to coal-based technologies and has been actively seeking and supporting energy efficiency improvement and renewable energy production projects. We are genuinely focusing on the sustainability of our business decisions and actions, as well as customers' needs and expectations. As a systemic player, we are in the position to truly influence the environment and the quality of life. We know that sustainability is an ongoing series of decisions and actions. We thus aim to create a regional sustainability platform with an important positive impact on the environment and society, while being recognised as a role model in governance. By that we strive to become one of the most meaningful businesses and the most desirable employers in our region. We wish to partner in these endeavours with like-thinking clients, associations and other entities to create an ecosystem of relevant services, delivered in a sustainable way.

All this cannot be secured without a dedicated team of colleagues who truly care about our customers and our mission and go the extra mile when needed. Year 2020 was truly an exceptional year and colleagues deserve clear recognition of extraordinary efforts and a resounding gratitude. We have learnt that in times of great uncertainty and concern, things that once seemed unfeasible, undesirable, or even unacceptable, can become possible.

In 2020 the Supervisory Board of NLB added members, appointed by the Workers' Council, enabling the inclusion of employees in the strategic steering of the Group. The Supervisory Board acknowledged the team's efforts and demonstrated trust in the Management Board by extending the mandates of the CEO/CMO, CFO and CRO until July 2026.

Our plan for 2021 is to continue to act prudenly to leave COVID-19 behind us as soon as possible, while in parallel to further enhance our capabilities in the field of knowing our clients, in order to provide even more relevant, personalised services, whenever and wherever necessary. Our goal is no longer to just be an excellent distributor of universal financial services, but also one of the most ambitious, technologically-driven banking groups in our home region providing top quality experience to our existing and prospective clients.

We truly believe that the best for the Group is yet to come and we confidently look forward to the challenges in front of us. We are convinced that we will not only overcome them, but also learn from them and become even stronger. With full motivation and energy we will take the Group to another level as one of the most meaningful businesses in the region with great positive impact in the environment and society we live in. This is our home, we respect it and we will support it, nurture it, invest in it, and make sure that it is ready – for whatever may come.

Yours truly,
Management Board of NLB

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Petr Brunclík
COO

Blaž Brodnjak
CEO & CMO

Normalisation of revenues to pre-COVID-19 levels.

The acquisition of Komercijalna Banka, Beograd further solidified the Group's presence in all our markets in SEE.

We aim to create a regional sustainability platform with an important positive impact on environment and society.

Statement by the Chairman of the Supervisory Board of NLB

To Our Shareholders,

A simple statement, like 'Not only we have survived, but we came out leaner, fitter, and readier to run . . . for the ride that is ahead of us, and for whatever may come,' would probably fit well into the Darwinism of the moment. But it actually describes the year 2020 and our banking business model, as run by your bank, our NLB.

Primož Karpe
Chairman of the Supervisory Board

As McKinsey rightfully points out, unlike many past shocks, the COVID-19 crisis is not a banking crisis; it is a crisis of the real economy, caused by a tiny virus particle. Banks will naturally be affected, as credit losses cascade down their balance sheets. Still, the problems are not self-made. The Group entered the crisis extremely well-capitalised and is far more resilient than it was 12 years ago. I dare to say we are actually in the best shape ever, when it comes to regulatory capital robustness.

However, the road ahead is not so much the road of credit impairments and loan loss provisions, it's the road that tackles the real issue of the forgone banking revenue years down the line – the foregone revenue for those not adapted. And I wholeheartedly believe that the traditional banks that allow their cost bases to evolve quickly, and digitize their service delivery efficiently, will win. The incumbency of multi-product relationship sales performs better than monoline product-based businesses. The seemingly never-ending cash burn rate of banking FinTechs proves this point.

Rest assured, the Group responded extraordinarily well to the first phases of the crisis, keeping employees and customers safe and keeping the financial system operating well across all our core markets. Not only that, 2020 was a year marked by our strong pursuit of our strategic goals, a set of promises we made in order to deliver for you, our employees, and our society.

We grew our capital base and acquired Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd), in what we believe will be a major value accretive transaction, increasing both our DPS and EPS potentials by more than 30% and 20%, respectively, over the course of the next few years. Furthermore, we see opportunities on both the numerator and denominator of our ROE: not only in the capital management exercises we regularly promote, such as RWA consumption and optimisation, but predominantly on the side of an increased productivity. But most of all, we are transitioning towards the core of our strategy, to be the talent magnet for tech and consumer behaviour savvy job-seekers.

We will remain and further strengthen our unique banking play proposition. We will stay focused on our core region, where fragmented geographies sometimes represent some challenges for us, but also provides solid protection from most other regional bank players. In the aftermath of the Komercijalna Banka, Beograd acquisition, we will hold meaningful market shares in all our core markets. We now simply have to continue focusing on our dividend capacity as the main shareholder value proposition.

If I tell you that we know we have to: (i) speed up our going-to-digital transformation, (ii) take costs out faster, (iii) place a focus on a 'charge or change' commercial policy at the retail level, (iv) further increase of our fee vs. net interest ratio with an alternative business mix on the corporate level, (v) quickly integrate Komercijalna Banka, Beograd and optimise this joint market undertaking, and (vi) last but not least, further increase the productivity of our employees, then you know we are aware of the challenges ahead. Even more, we are aware of our focus in value creation efforts. Additionally, Supervisory Board is committed to promote and monitor the implementation of sustainability governance in the Group, as well as giving special focus on raising the overall level of cyber security resilience.

That said, I believe the Group will deliver on its promises to all of its key constituencies (shareholders, clients, employees, and society), not only in the year of 2021, but over the mid- to long- term cycle as well.

2020 business developments

The course of the global economy in 2020 was determined by the COVID-19 pandemic, and consequently the Group's region was not able to remain intact because of the pandemic and its economic implications. The Group's region recorded a substantial drop in economic growth, although the implications of the COVID-19 pandemic hit countries of the Group's region disproportionally due to underlying differences in exposure to the hardest hit sectors. For instance, countries with a strong reliance on the tourism sector were particularly more affected by the imposed COVID-19 containment measures.

In general, economic contraction was driven by a reduction in demand, with restrictive containment measures negatively affecting all demand components except government consumption that partially offset the reduction. Fiscal measures aimed at mitigating COVID-19 economic implications weighed on fiscal balances and public debts, while external sector was influenced by restrictive measures abroad.

Nevertheless, the pandemic also initiated or accelerated some structural shifts, most notably the digitization of work and consumption which was reflected in an increase of online purchases and working from home. Thereby, the world became much more digital due to the COVID-19 pandemic.

But digital or non-digital, what we could not avoid were the restrictions of regulators (ECB and BoS) regarding dividend payments, therefore the General Meeting of shareholders on 15 June 2020 adopted the decision that the total distributable profit for 2019 in the amount of EUR 228.04 million would remain undistributed, representing the profit carried forward. We do aim to reverse no-dividend trend with meaningful dividend distribution subject to regulatory approval during this year.

2020 – a year that will never be forgotten – and a year that brought new energy into our business story

In the financial year 2020, we all faced a challenging environment, due to the already mentioned challenges of the COVID-19 pandemic and following economic hibernation, but for us it was also a year that brought new energy into our business story. The Group has further strengthened the position in SEE market with acquisition of Komercijalna Banka, Beograd, that increased the Group's total assets to almost EUR 20 billion and to a more than 12% market share in the Serbian market. The Group also managed to defend a stable level of profit before impairments and provisions of EUR 210.5 million, supported by non-recurring income from the sale of NLB Vita and debt securities.

Profit after tax amounted to an impressive EUR 269.7 million, and was strongly affected by the acquisition of Komercijalna Banka, Beograd, with positive impact of negative goodwill in the amount of EUR 137.9 million. Without this acquisition the profit after tax of the Group would amount to a solid EUR 141.3 million, lower than a year before due to additional impairments and provisions related to the COVID-19 pandemic. The Bank reached a profit after tax in the amount of EUR 114.0 million, lower than a year before, but mostly due to retained dividends in the Group member banks and established impairments and provisions, both related to the COVID-19 pandemic. All SEE subsidiaries finished the year with a profit and significantly contributed to the Group's result.

The operations of the Group were underpinned by strong liquidity and capital positions, with the TCR reaching 16.6%, which is above the regulatory requirements, demonstrating the Group's financial resilience. In these COVID-19 circumstances, the Group has been perceived as a safe heaven, and therefore faced growing excess liquidity. The impacts of the pandemic did not cause any material liquidity outflows.

The overall risk appetite profile of the Group continues to be moderately conservative. Despite the crises, the NPL ratio (EBA definition) of the Group remained below 5%, which shows the strong resilience of the Group. The acquired Komercijalna Banka group has a similar business model to the existing NLB Group, and its impact on the Group's risk profile was moderate. The overall slow-down of the economy caused by pandemic, had some negative impacts on the loan portfolio, though its quality remained solid and well diversified. The cost of risk increased due to the impact of the downturn in the macroeconomic environment, still, it remains within the set outlook.

NLB Group maintains its corporate governance principles in line with the highest standards

The Supervisory Board performed its work in accordance with applicable laws (predominantly, but not exclusively the Companies Act (ZGD-1) and the Banking Act (ZBan-2)), as well as powers and procedures as set by the Articles of Association of NLB and the Rules of Procedure of the Supervisory Board of NLB. It carried out its function of assuring efficient supervision over the management of NLB and the Group in its duty of careful and scrupulous performance, while adhering to the internal acts of the Bank.

In performing its duties, the Supervisory Board followed the recommendations of the Corporate Governance Code for Listed Companies, exclusively. The Corporate Governance Statement of NLB adopted by the Supervisory Board on its session dated 18 February 2021 reveals deviations from the mentioned code, as well as explains key aspects of the Bank's corporate governance, particularly the composition and work of the Bank's Management Board and Supervisory Board and its committees, internal control mechanisms, and internal control functions (Internal Audit, Risk Management, Compliance, Information Security Function and AML/CTF Function). It also provides a description of the implementation of the Diversity Policy related to representation in the management and supervisory bodies and senior management. This statement is published in the business report of this annual report.

In 2020, there were seven regular and 12 correspondence sessions. The Supervisory Board received expert assistance from its five operational committees, namely Audit, Risk, Nomination, Remuneration, Operations, and IT. The committees of the Supervisory Board met at its regular meetings and discussed topics and adopted decisions related to the areas that they oversee.

The Supervisory Board issued approvals to the Management Board related to the Bank's business policy and financial plan, adopted NLB Group Annual Report, adopted decisions with regards to the convocation of the General Meeting of shareholders, adopted decisions related to management of risk, adopted the annual Internal Audit Plan and annual Plan of Compliance and Integrity, and reported on their activities.

The Supervisory Board also adopted decisions on establishment of new companies, cross-border financing and international syndicated financing, large exposures, sale of receivables, claim write-offs, the divestment of the Group companies, legal proceedings involving NLB and the Group members, transactions with persons in special relations with the Bank, etc. Supervisory Board endorsed Sustainability programme together with roadmap with key milestones in the mid-term period.

Additionally, the Supervisory Board approved achievements of the Management Board and proposed new goals for the Management Board, adopted decisions on succession planning for members of the Management Board, and acknowledged new candidates for members of the Supervisory Board. In addition to the already appointed Petr Brunclík, the Supervisory Board in its session in November 2020, also reappointed Blaž Brodnjak as CEO & CMO, Archibald Kremser as CFO, and Andreas Burkhardt as CRO of the Bank.

Through the year the Supervisory Board acknowledged regular reports on documents received from the regulator(s), namely BoS and ECB, and on the implementation of the requirements of mentioned regulators, adopted changes to the Corporate Governance Policy of the NLB, and adopted other amendments to the internal policies.

The year 2020 was remarkably challenging also from the corporate governance perspective, as NLB, as the first bank in Slovenia, implemented Constitutional Court's decision dated June 2019 that enabled workers' participation in the management bodies. To that extent, amendments to the Articles of Association of NLB were adopted on the General Assembly of shareholders in June 2020 that changed the composition of the Supervisory Board, that now consists of 12 members, out of which eight are representatives of the capital and four are employee representatives.

At the end of 2020, the Supervisory Board was composed of 11 members, of which eight were representatives of shareholders (in addition to Primož Karpe and Andreas Klingen, members were also Gregor Rok Kastelic, Mark William Lane Richards, Shrenik Dhirajlal Davda, Peter Groznik, David Eric Simon, and Verica Trstenjak) and three were representatives of employees (Sergeja Kočar, Bojana Šteblaj, and Janja Žabjek Dolinšek). The procedure for election of another member of the Supervisory Board – worker representative was still ongoing at the end of December 2020.

While members of the Supervisory Board have proper and complementary knowledge, experience and skills to perform their duties, they all have different professional, national, and educational backgrounds. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, which was confirmed by the positive Fit & Proper assessment. This provides the assurance that they can carry out their supervisory roles in a responsible manner and make decisions that benefit NLB and add value to the Group. The delivery of critical and assertive opinions has been and will always remain at the core of our decision-making principles through the expected engaged participation of all the members.

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

The Supervisory Board continued to act in accordance with the highest ethical standards of management, considering the prevention of conflict of interest. Throughout the year, there were some potential conflicts of interest identified and all were handled with due care. Supervisory Board members took precautionary measures to avoid any conflicts of interest that might have influenced their decisions.

Despite extremely demanding times during the COVID-19 pandemic, the Supervisory Board members assess NLB's operations in 2020 as strong and solid and performance of the NLB Management Board as successful and trustworthy. As per that special appreciation needs to be extended to the Management Board and the employees for their contributions and achievements. Additionally, it has to be highlighted that due to COVID-19 and its impact on the performance the voluntary solidaritary salary reduction was introduced for the Supervisory Board, Management Board, and employees holding service contracts.

Review and approval of the NLB Group Annual Report 2020

The NLB Group Annual Report 2020 and unaudited financial statements of NLB Group were examined by the Supervisory Board at the meeting on 18 February 2021. The external audit firm, Ernst & Young d.o.o., Ljubljana, reported to the Audit Committee on the findings and 2020 audit procedures on session of the Supervisory Board held on 11 March 2021.

Within the legal deadline, the Management Board of NLB submitted to the Supervisory Board the NLB Group Annual Report 2020, including the Business Report and Financial Report, with the audited financial statements of the Bank, the audited consolidated financial statements of the Group and the auditor's opinion. The Supervisory Board considered mentioned reports on 8 April 2021. According to the auditor, the financial statements with accompanying notes present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2020, and their financial performance and cash flows for that year in accordance with the IFRS as adopted by the EU. It was also established that the information contained in the business section of the Annual Report is consistent with the audited financial statements of the Bank and the Group.

For the session dated 8 April 2021, the Supervisory Board also prepared a written report on the verification results for the General Meeting of shareholders. This report was made in accordance with Article 34 of the Articles of Association of NLB and the second paragraph of Article 282 of the Companies Act (ZGD-1). At the end of its report, the Supervisory Board indicated that as a result of completion of its verification it does not have any comments in relation to the NLB Group Annual Report 2020, and gave its approval to it, therefore it is considered adopted.

Yours truly,
Supervisory Board of NLB

Primož Karpe
Chairman







298(i)
Number of branches in NLB Group

269.7
Result after tax in EUR million

1,874,804(ii)
Total active clients of NLB Group

We are from this region and understand business environment, customs and, most of all, its people. With our commitment, knowledge, and innovative solutions, the Group takes superior care of its customers and creates a better life, a better future for us all. Welcome to our home.

Strategic Members Overview

Presentation of the NLB Group

		Slovenia			North Macedonia	Bosnia and Herzegovina			Kosovo	Montenegro		Serbia		
	NLB Group	NLB, Ljubljana	NLB Lease&Go, Ljubljana	NLB Skladi, Ljubljana	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	Komercijalna Banka, Banja Luka	NLB Banka, Prishtina	NLB Banka, Podgorica	Komercijalna Banka, Podgorica	NLB Banka, Beograd	Komercijalna Banka, Beograd	Kombank INvest, Beograd
Market position in 2020														
Branches(i)	298(i)	80	-	-	50	51	36	19	34	19	19	28	203	-
Active clients(ii)	1,874,804(ii)	668,270	-	-	417,298	214,634	136,511	46,173	231,490	64,735	15,491	141,866	849,488	-
Total assets (in EUR million)	19,566	11,027	34	1,626(iii)	1,586	796	647	236(viii)	879	538	155(viii)	687	3,907(viii)	1(viii)
Net loans to customers (in EUR million)	9,645	4,595	24	-	957	431	399	155(viii)	559	367	104(viii)	472	1,630(viii)	-
Deposits from customers (in EUR million)	16,397	8,851	-	-	1,289	634	522	153(viii)	748	432	120(viii)	496	3,194(viii)	-
Result after tax (in EUR million)	269.7	114.0	-1.1	5.5	19.2	10.1	5.9	0.7(viii)	13.3	1.4	0.5(viii)	2.6	24.9(viii)	-
Market share by total assets	-	24.7%	-	34.9%(iv)	16.5%	18.6%(v)	5.3%(vi)	5.5%(v,ix)	17.2%	11.7%	3.4%(vii, ix)	1.9%(vii)	10.2%(vii, ix)	-
Macroeconomic indicators for 2020														
GDP (real growth in %)	-6.0	-5.5			-4.5	-5.2			-7.0	-13.0		-1.0		
Average inflation (in %)	0.2	-0.3			1.2	-1.0			0.2	-0.3		1.6		
Unemployment rate (in %)	15.5	4.9			16.4	18.0			26.5	18.0		9.0		
Current account of the balance of payments (as a % of GDP)	-4.7	7.3			-3.5	-4.9			-7.5	-15.4		-4.3		
Budget deficit/surplus (as a % of GDP)	-7.7	-8.5			-8.1	-4.6			-6.7	-9.9		-8.1		

(i) Branch offices of Komercijalna Banka, Banja Luka, Komercijalna Banka, Podgorica and Komercijalna Banka, Beograd not included in total number of NLB Group branches.
(ii) Number of active clients of Komercijalna Banka, Banja Luka, Komercijalna Banka, Podgorica and Komercijalna Banka, Beograd not included in total number of NLB Group active clients due to different definitions.
(iii) Assets under management.
(iv) Market share of assets under management in mutual funds.
(v) Market share in the Republic of Srpska as at 30 September 2020.
(vi) Market share in the Federation of BiH as at 30 September 2020.
(vii) Market share as at 30 September 2020.
(viii) Data from internal reports of Komercijalna Banka group.
(ix) Data from CBs and own calculations.

Shift to local and regional market

Grandfather of Samra Čomor
CoolTour, Bosnia and Herzegovina

Business ceased to exist for Vedran Grebo and Samra Čomor, owners of the touristic agency CoolTour Sarajevo, as it absolutely stopped with borders closing during the COVID-19 pandemic. The focus was shifted to local and regional market through offering of the hiking tours to Lukomir Village. The benefit of the tour is in establishing personalised experience through offering knowledgeable local guides and whose roots originate from the village, with family members still living in the area. The new situation considerably decreased their assets and required investments in promotion. The #HelpFrame project significantly helped Vedran and Samra reach a wider audience and be recognised as an authentic provider of touristic experiences locally and regionally.

Key Highlights

Financial Performance

Robust performance given challenging environment

Very solid year with core revenues from lending and fee and commission business at pre-COVID-19 levels.

Defending a stable level of **profit before impairments and provisions** (EUR 210.5 million, -1% YoY), supported by non-recurring income (the sale of NLB Vita and debt securities).

Profit after tax (EUR 269.7 million) strongly affected by the acquisition of Komercijalna Banka, Beograd with positive impact of negative goodwill in the amount of EUR 137.9 million and additional impairments and provisions in the amount of EUR 71.4 million, mostly related to COVID-19 outbreak.

Continuing focus on the **cost discipline** (4% lower costs YoY; CIR 58.3%). Costs remain well contained through all cost categories and geographies.

Business Overview

Strengthened market position in Serbia

The **divestment of insurance company NLB Vita** (on 29 May the Bank sold its 50% stake in the share capital of the company in a joint sales process together with the KBC) fulfilled the last commitment to the EC, by which state aid process was officially completed.

Acquisition of Komercijalna Banka, Beograd added EUR 4.3 billion to the Group's balance sheet, becoming top 3 market player on the Serbian market.

Although business in 2020 has been marked by COVID-19, the Group's results demonstrated the robustness and resilience of its sustainable business model.

Strong **deposit base** demonstrating client confidence in the Group.

Wider array of **digital solutions** (increased number of digital users and number of digital payments) and improved **customer experience**.

Healthy generation of housing loans.

New business opportunities pursued to generate additional revenues.

Asset Quality

Well diversified asset portfolio

Large share of retail in the credit portfolio structure – positively contributing to the diversification and credit portfolio quality.

The COVID-19 pandemic impacted the realised **cost of risk (62 bps[2])**, however, remaining within the set outlook.

Stable **NPE** (EBA def.) of **2.3%** with confident coverage ratio of 57.3%.

Proactive workout approaches and other precautionary measures to minimise potential future losses; NPL reduction recorded.

2. Komercijalna Banka group is excluded from calculation.

Capital & Liquidity

Well-capitalised, well above regulatory requirements

Capital position comfortably above regulatory requirements (**TCR of 16.6%**, 0.3 p.p. higher YoY). Due to acquisition of Komercijalna Banka, Beograd TCR was reduced by 5.7 p.p.

Adequate capitalisation throughout 2020 due to inclusion of subordinated Tier 2 bonds into capital, undistributed profit from 2019, minority capital and other capital relief measures.

Liquidity position of the Group remains very strong, with high level of unencumbered liquidity reserves.

Response to COVID-19 Pandemic

Quick adaptation of business operations, proactive response to clients

Instant adaptation of processes to ensure higher **availability and use of digital channels** – a wider range of 24/7 accessible digital solutions offered to clients.

Supporting clients through the downturn by offering **moratoriums** (EUR 2.4 billion), and **new financing** (EUR 148.9 million), of which majority is subject to public **guarantee schemes** (EUR 134.6 million). Most of approved moratoria (81%) already expired.

Due to positive experience and effects during the COVID-19, the Bank will continue with **work-from-home initiative** in the future.

Strategy & Outlook

Committed to pursue its strategic objectives

Integration of Komercijalna Banka group enabling synergy extraction.

Special focus on **stable revenues** and cost sustainability.

Dividend payout in 2021 will be conditional on regulatory requirements and in line with NLB's capacity.

Striving to become **regional champion**, whereby clients remain the first priority.

Continue to serve the community aiming to **improve the quality of life** in the region.

Meeting stakeholder needs and expectations and driving **business value through sustainability**.

Key performance indicators

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

	2020		2019		2018	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Income statement data (in EUR million)						
Net interest income	300	139	318	158	313	158
Net non-interest income[i]	205	173	199	197	184	167
Net non-interest income (BoS)[i]	360	180	219	204	206	175
Total costs[i]	-294	-180	-305	-191	-292	-180
Operating costs (BoS)[i]	-311	-188	-321	-198	-309	-189
Result before impairments and provisions[ii]	211	131	212	164	205	144
Impairments and provisions	-71	-17	-1	14	23	33
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	1	-	4	-	5	-
Result before tax	278	114	215	178	233	177
Result of non-controlling interests	3	-	8	-	8	-
Result after tax	270	114	194	176	204	165
Financial position statement data (in EUR million)						
Total assets	19,566	11,027	14,174	9,802	12,740	8,811
Gross loans to customers	10,033	4,753	7,938	4,718	7,627	4,704
Impairments and deviations from FV	-388	-158	-334	-129	-479	-226
Net loans to customers	9,645	4,595	7,605	4,589	7,148	4,478
Financial assets	5,120	3,017	3,830	3,169	3,399	2,869
Deposits from customers	16,397	8,851	11,612	7,761	10,464	7,033
Equity	1,953	1,451	1,686	1,333	1,616	1,295
Non-controlling interests	170	-	45	-	41	-
Total off-balance sheet items	4,671	3,684	4,222	3,644	3,996	3,473
Key financial indicators						
a) Capital adequacy						
Total capital ratio	16.6%	27.1%	16.3%	22.6%	16.7%	24.1%
Tier 1 ratio	14.2%	22.3%	15.8%	21.8%	16.7%	24.1%
CET 1 ratio	14.1%	22.3%	15.8%	21.8%	16.7%	24.1%
Total RWA (in EUR million)	12,421	6,029	9,186	5,225	8,678	5,024
RWA / Total assets	63.5%	54.7%	64.8%	53.3%	68.1%	57.0%
b) Asset quality						
NPL coverage ratio 1 (coverage of gross non-performing loans with impairments for all loans)	81.8%	76.0%	89.2%	76.2%	77.1%	65.8%
NPL coverage ratio 2 (coverage of gross non-performing loans with impairments for non-performing loans)	57.3%	57.9%	65.0%	56.7%	64.6%	57.1%
NPL coverage ratio (EBA definition)[iii]	56.9%	55.3%	64.5%	55.5%	63.7%	55.0%
NPL coverage ratio (EBA definition) (BoS)[iv]	56.9%	55.3%	64.5%	55.5%	63.7%	55.0%
NPL volume (in EUR million)	475	208	375	169	622	343
NPL ratio (internal def.; NPL/ Total loans)	3.5%	3.0%	3.8%	2.8%	6.9%	6.3%
Net NPL ratio (internal def.; net NPL / Total net loans)	1.5%	1.3%	1.4%	1.3%	2.6%	2.8%
NPL ratio (EBA definition)[iii]	4.5%	4.0%	4.6%	3.3%	7.9%	6.8%
NPL ratio (EBA definition) (BoS)[iv]	3.4%	2.8%	3.8%	2.7%	6.8%	6.0%
NPE ratio (EBA definition)	2.3%	1.9%	2,7%	2.0%	4.7%	3.9%
Received collaterals / NPL	60.7%	65.8%	66.6%	72.0%	67.4%	71.1%
NPL Collateral received / NPL (EBA definition)	42.4%	43.5%	35.4%	33.6%	41.2%	39.9%
Credit impairments and provisions / RWA	0.5%	0.1%	-0.1%	-0.3%	-0.3%	-0.6%
c) Profitability						
Net interest margin (BoS)[v]	2.0%	1.3%	2.4%	1.7%	2.5%	1.8%
Financial intermediation margin (BoS)[i]	4.4%	3.1%	4.0%	3.9%	4.1%	3.8%
Operational business margin[vi]	3.2%	2.5%	3.8%	2.9%	3.9%	3.0%
ROE b.t.	15.4%	8.2%	12.7%	13.4%	13.2%	12.4%
ROA b.t.	1.8%	1.1%	1.6%	1.9%	1.9%	2.0%
ROE a.t.	15.4%	8.2%	11.7%	13.3%	11.8%	11.6%
ROA a.t.	1.8%	1.1%	1.5%	1.9%	1.6%	1.9%
d) Business costs						
Operating costs / Average total assets (BoS)[i]	2.1%	1.8%	2.4%	2.2%	2.5%	2.1%
CIR[i]	58.3%	57.9%	59.0%	53.9%	58.8%	55.5%
Total costs / RWA[i]	2.4%	3.0%	3.3%	3.7%	3.4%	3.6%
Total costs / Total assets[i]	1.5%	1.6%	2.2%	2.0%	2.3%	2.0%
e) Liquidity						
Liquidity assets / Short-term financial liabilities to non-banking sector	56.1%	65.8%	54.7%	63.8%	54.1%	48.2%
Liquidity assets / Average total assets	51.8%	54.9%	44.7%	52.1%	38.0%	42.5%
f) Other						
Market share in terms of total assets	-	24.7%	-	23.8%	-	22.7%
LTD	58.8%	51.9%	65.5%	59.1%	68.3%	63.7%
Total revenues / RWA[i]	4.1%	5.2%	5.6%	6.8%	5.7%	6.5%
Key indicators per share						
Shareholders[vii]	-	2,455	-	2,100	-	1,716
Shares	-	20,000,000	-	20,000,000	-	20,000,000
The corresponding value of one share (in EUR)	-	10	-	10	-	10
Book value (in EUR)	97.6	72.5	84.3	66.7	80.8	64.8
International credit ratings						
S&P	BBB-		BBB-		BB+	
Fitch	BB+		BB+		BB+	
Moody's[viii]	Baa1		Baa2		Baa2	
Employees						
Number of employees	8,792	2,591	5,878	2,659	5,887	2,690

Further details on the definition of certain indicators in this table are available in chapter **Alternative Performance Indicators**.

(i) Data for 2019 and 2018 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses). More details are available in **note 2.3.** of the Audited Financial Statements of NLB Group and NLB d.d. of this report.

(ii) Result before impairments and provisions of NLB Group for the year 2020 does not include Negative Goodwill.

(iii) Loans and advances without loans and advances classified as held for sale, cash balances at CBs and other demand deposits.

(iv) Loans and advances including cash balances at CBs and other demand deposits.

(v) Calculated on the basis of average total assets.

(vi) Calculated as Net income from operational business (NII - Tier 2 bonds expenses + Net fee and commission income + Recurring net income from financial operations) / Average total assets.

(vii) As per share register of KDD. The shares are listed on Ljubljana Stock Exchange. The Bank of New York Mellon (the 'GDR Depositary') represented in the share register of KDD as one holder is not the beneficial owner of shares, it holds shares in its capacity as the depositary for the GDR holders. The GDRs representing shares are issued against the deposit of shares and are listed on London Stock Exchange. Therefore, the number in the share register of KDD does not represent all final beneficial owners of the Bank shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the general meeting of bank's shareholders or to exercise any voting rights under the deposited shares.

(viii) Unsolicited rating.

Table 1b: Selected indicators presenting performance with and without inclusion of Komercijalna Banka group

	2020		2019
	NLB Group	NLB Group (w/o Komercijalna Banka group)	NLB Group
Net loans to customers (in EUR million)	9,645	7,778	7,605
Financial assets (in EUR million)	5,120	3,755	3,830
Deposits from customers (in EUR million)	16,397	12,954	11,612
ROE a.t.	15.4%	8.1%	11.7%
NPL coverage ratio 1 (coverage of gross non-performing loans with impairments for all loans)	81.8%	86.9%	89.2%
NPL coverage ratio 2 (coverage of gross non-performing loans with impairments for non-performing loans)	57.3%	62.6%	65.0%
NPL volume (in EUR million)	475	435	375
NPL ratio (internal def.; NPL/ Total loans)	3.5%	3.9%	3.8%
NPE ratio (EBA definition)	2.3%	2.6%	2.7%

Table 2: Information on the LCR[i] (in EUR thousands)

	Q1 2020		Q2 2020		Q3 2020		Q4 2020	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Liquidity Coverage Ratio (LCR)	333.4%	381.5%	321.3%	370.1%	311.4%	357.8%	302.9%	351.2%
High Quality Liquid Assets (HQLA)	3,538,373	3,274,751	3,853,203	3,553,904	4,187,441	3,857,502	4,493,341	4,119,661
Net Liquidity Outflows	1,066,212	864,163	1,208,445	967,226	1,353,319	1,083,882	1,495,611	1,177,269

[i] Table 2 illustrates the values and data for each of the four calendar quarters.
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.

Outlook

Table 3: Market performance and outlook for the period 2021-2023

	Performance in 2020	Outlook 2021	Outlook 2023
Regular income	EUR 504.5 million	> EUR 600 million	> EUR 700 million
Costs	EUR 293.9 million	~ EUR 430 million[i]	< EUR 400 million
ROE a.t.	8.1%[ii]	High single digit	> 10% (RORAC[iii] > 12%)
Loan growth	3%[ii]	Mid single digit number	High single digit CAGR (2021-2023)
Cost of risk	62 bps[ii]	70-90 bps	40-60 bps
Dividend payout	/	EUR 92.2 million	> EUR 300 million[iv]

[i] Initial increase in cost base in 2021; projected costs include restructuring charges.
[ii] Komercijalna Banka group is excluded from calculation to ensure comparability with previous years.
[iii] RORAC calculated as Result after tax excl. Tier 2 bonds expenses divided by average RWA at 15.25% capital requirement.
[iv] Cumulative in the period 2021-2023.

Shareholder structure of NLB

The Bank shares are listed on the Prime Market sub-segment of the Ljubljana Stock Exchange (ISIN SI0021117344, Ljubljana Stock Exchange trading symbol: NLBR) and the GDRs, representing shares, are listed on the Main Market of the London Stock Exchange (ISIN: US66980N2036 and US66980N1046, London Stock Exchange GDR trading symbol: NLB and 55VX). Five GDRs represent one share of NLB.

Table 4: NLB's main shareholders as at 31 December 2020[i]

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders[ii]	11,769,972	58.85
of which Brandes Investment Partners, L.P.[iii]	/	>5 and <10
of which EBRD[iii]	/	>5 and <10
of which Schroders plc[iii]	/	>5 and <10
Republic of Slovenia (RoS)	5,000,001	25.00
Other shareholders	3,230,027	16.15
Total	**20,000,000**	**100.00**

[i] Information is sourced from NLB's shareholders book accessible at the web services of CSD (Central Security Depository, Slovenian: KDD - Centralna klirinško depotna družba) and available to CSD members. Information on major holdings is based on the self-declarations by individual holders pursuant to the applicable provisions of Slovenian legislation, which requires that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings pass the set thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, or 75%. The table lists all self-declared major holders whose notifications have been received. In reliance of this obligation vested with the holders of major holdings, the Bank postulates that no other entities nor any natural person holds directly and/or indirectly 10 or more percent of the Bank's shares.
[ii] The Bank of New York Mellon holds shares in its capacity as the depositary (the GDR Depositary) for the GDR holders, and is not the beneficial owner of such shares. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the shareholder's meeting or to exercise any voting rights under the deposited shares.
[iii] The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

Market performance of NLB's securities (shares and GDRs)

The COVID-19 pandemic weighed heavily on banking sector stocks in 2020. After reaching an annual peak in the middle of February 2020, European banking sector stocks dropped significantly as the COVID-19 pandemic spread. A moderate pick-up in value followed during the summer, but with the arrival of autumn, banking sector stocks returned to levels observed in the middle of March 2020. Despite rising at the end of the year, banking sector stocks still recorded an annual decrease in value of around 25%.

The price movement of the Bank's stocks did not differ substantially in comparison to European banking sector stocks. The Bank stocks experienced approximately a 25% drop in value in 2020. The difference was that the Bank's stocks decreased at a higher pace over the summer and reached levels similar to March 2020 already by the end of August 2020. Nevertheless, a subsequent uptick in value caused that by the beginning of September 2020. The Bank's stocks price movement was relatively synchronized with the price movement of European banking sector stocks. Similar to those stocks, the price of the Bank's stocks rose in the last couple of months in 2020. However, it should be noted that the substantial drop in price in the February–March period was not offset.

Source: Ljubljana Stock Exchange.

Figure 1: NLB shares' price movement on the Ljubljana Stock Exchange (in EUR)

Source: Bloomberg.

Figure 2: NLB GDR's price movement on the London Stock Exchange (in EUR)

Table 5: NLB share information

Share information	31 December 2020
Total number of shares issued	20,000,000
Highest closing price (in 2020)	EUR 65.0
Lowest closing price (in 2020)	EUR 34.1
Closing price as at 30 December 2020[i]	EUR 45.8
NLB Group book value per share	EUR 97.6
NLB Group earnings per share (EPS)	EUR 13.5
Price / NLB Group book value (P/B)	0.47
Dividend per share (for the previous business year)	/
Market capitalisation[i]	**EUR 916,000,000**

[i] No market on 31 December 2020.

Indices

The Bank's shares are included in several indices: the SBITOP index and ADRIA prime index of the Ljubljana Stock Exchange, the FTSE Frontier Index, MSCI Frontier and MSCI Slovenia, S&P Eastern Europe BMI, S&P Emerging Frontier Super Composite BMI, S&P Extended Frontier 150, S&P Frontier BMI, S&P Frontier Ex-GCC BMI, S&P Slovenia BMI, STOXX All Europe Total Market, STOXX Balkan Total Market, STOXX Balkan Total Market ex-Greece & Turkey, STOXX EU Enlarged Total Market, STOXX Eastern Europe 300, STOXX Eastern Europe 300 Banks, STOXX Eastern Europe Large 100, STOXX Eastern Europe Total Market, STOXX Eastern Europe Total Market Small, STOXX Global Total Market and STOXX Slovenia Total Market.

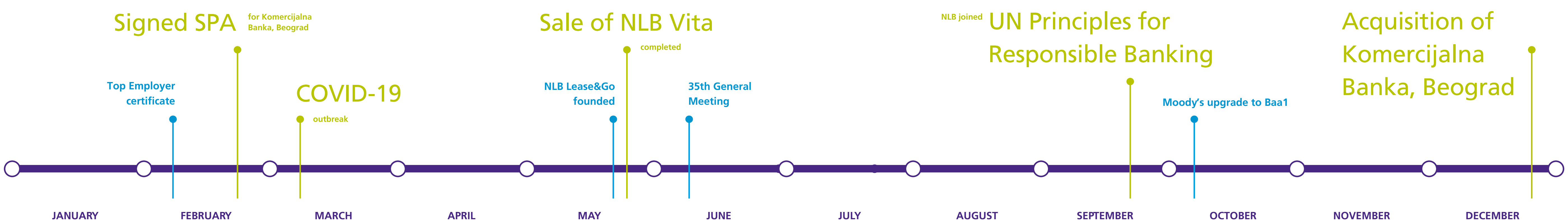
Investor Relations' function

Since the listing of the Bank's shares and GDRs in November 2018, the importance of the Investor Relations (IR) function has increased substantially, requiring engagement with investors and the broader community. The Bank participated in varied forms of engagement, such as investor meetings, calls, and conferences, reflecting the diverse nature of the Bank's ownership structure. Open and regular communication with investors and analysts allowed for dialogue promotion on strategic developments, as well as on the recent financial performance of the Group. The Bank promoted greater awareness and understanding of operating businesses, developments, and events which have an influence on the performance of the Bank's share price.

The IR section of the Bank's website is an important communication channel that provides comprehensive information on the Group and share price performance of the Bank. In addition, it enables the effective distribution of information to the market in a clear and consistent manner. IR presentations, financial reports, and important information are uploaded to the Bank's website in line with IR's **Financial Calendar**.

Since the listing, four analysts released research reports about the Group. The Bank's share is covered by analysts from JP Morgan, Deutsche Bank, Wood & Company, Citi, InterCapital, and Raiffeisen Bank International.

Key Events



February

On 4 February, the Bank announced that for the fifth consecutive year it is ranked among the best employers in the world. Top Employers Institute, an independent international certification company, has once again awarded the Bank the acclaimed 'Top Employer' Slovenia certificate.

On 5 February, the Bank issued 10NC5 subordinated Tier 2 bonds in the amount of EUR 120 million (ISIN code XS2113139195) on international debt capital markets to strengthen and optimise its capital structure. On 25 March, the Bank obtained the ECB's permission for the instrument's inclusion in the calculation of Tier 2 capital.

On 26 February, 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 for EUR 387 million.

March

On 4 March, NLB obtained the ECB's permission to include the 10NC5 subordinated Tier 2 bonds in the amount of EUR 120 million the Bank issued on 19 November 2019 (ISIN code XS2080776607) in the calculation of Tier 2 capital.

In March, the COVID-19 pandemic became a global phenomenon with wide and far-reaching consequences including implications for the global and regional banking sector and therefore for the Group as well.

April

On 9 April, the Bank disclosed the amended decision on the composition of Pillar 2 additional own funds requirement (P2R) of the currently applicable decision establishing prudential requirements (SREP). The decision was applied retroactively from 12 March 2020.

On 9 April, the Bank received the decision of the BoS relating to the MREL requirement, which amounts to 15.56% of TLOF on a sub-consolidated level of the NLB Resolution Group (consisting of the Bank and non-core part of the Group). The MREL requirement shall be reached by 31 December 2021 and shall be met at all times from that date onwards.

The NLB Cultural Heritage Management Institute, Ljubljana (entered in the register of companies on 16 April 2020) was established based on the concept of the Bank art collection management.

May

On 13 May, the ECB gave its consent to the appointment of Petr Brunclík as a member of the Management Board of the Bank and COO. Petr Brunclík, who was appointed by the Supervisory Board of the Bank at the end of November 2019, joined NLB in February 2020.

On 29 May, having met all the suspensive conditions under the sales agreement of 27 December 2019, the Bank sold its 50% stake in the share capital of NLB Vita in a joint sales process together with the KBC.

On 29 May, the Bank announced that the newly founded company, NLB Lease&Go, provider of leasing services, has entered the Slovenian market and joined the Group. The company offers leasing for personal vehicles and lorries, buses, and agricultural and construction machinery.

June

On 9 June, the Workers' Council of NLB elected and appointed Petra Kakovič Bizjak, Sergeja Kočar, and Bojana Šteblaj as members of the Supervisory Board – and representatives of the employees.

On 15 June, the shareholders of the Bank gathered at the 35th General Meeting of NLB where 56.85% shares with voting rights were present. Primož Karpe and David Eric Simon were re-elected for a new term of office; additionally, Verica Trstenjak was elected as a new member of the Supervisory Board.

On 26 June, the members of the Supervisory Board of the Bank elected Primož Karpe as their Chairman for the second time in a row. Andreas Klingen remains his deputy.

On 30 June, the Bank entered into contracts with MIGA (part of the World Bank Group) in the amount of EUR 303.1 million for the purpose of risk-weighted assets optimisation.

August

Between 14 and 18 August, the Management Board members of NLB, Blaž Brodnjak, CEO & CMO; Andreas Burkhardt, CRO; Archibald Kremser, CFO; and Petr Brunclík, COO together acquired 1,382 ordinary shares of NLB, ISIN: SI0021117344, LJSE ticker NLBR, in the total amount of EUR 51,031.20.

September

On 1 September, the Bank received a letter of resignation from Petra Kakovič Bizjak, a member of the Supervisory Board (the workers' representative).

At the end of September, NLB as the first bank in Slovenia, joined more than 180 banks from all over the world as a signatory of the UN Principles for Responsible Banking.

October

On 6 October, Moody's upgraded the long-term local and foreign currency deposit ratings of NLB from Baa2 to Baa1.

November

On 20 November, the Bank received information from the Workers' Council of NLB that they elected Janja Žabjek Dolinšek as member of the Supervisory Board of the Bank - and representative of the workers. Her term of office shall run from 20 November 2020 and will last until the conclusion of the Annual General Meeting of NLB that decides on the allocation of distributable profit for the fourth financial year after her election, counting the year in which she was appointed as the first one.

On 12 November, the existing members of the Bank's Management Board were reappointed for another term in office; Blaž Brodnjak as the CEO & CMO, Archibald Kremser as the CFO; and Andreas Burkhardt as CRO of the Bank, all for a period of five years from the end of their term on 6 July, 2021.

December

In relation to the completion of the transaction contemplated in the Sale and Purchase Agreement relating to 83.23% of the ordinary shares of Komercijalna Banka, Beograd, dated 26 February, 2020 (the 'SPA'), concluded between the Republic of Serbia as the Seller, and NLB as the Buyer, the Bank announced on 22 December that it has obtained all the required regulatory approvals contemplated by the SPA, while on 30 December the Bank completed the acquisition.

Macroeconomic Environment

-6.6%

economic growth in the Euro-area in 2020.

-5.5%

economic growth in Slovenia in 2020.

-6.0%

economic growth in the Group's region in 2020.

Global and European Economy

The course of the global economy in 2020 was determined by the COVID-19 pandemic, causing unprecedented contraction. Governments were forced to implement drastic measures to contain the pandemic despite significant economic implications. The COVID-19 shock disrupted production chains around the world when manufacturing in China came to a standstill. This caused supply-side disruptions while containment measures disrupted the demand side by weighing heavily on private consumption. Supported by the Chinese recovery, world trade and industrial production recovered after a significant decline in Q2 2020. A clear divergence between manufacturing and services sectors was observed as measures for containing the spread of the virus hit sectors disproportionally. The manufacturing sector remained somehow resilient to further waves while the services sector contracted on the back of re-introduced containment measures. To mitigate adverse negative impacts of the pandemic, governments and CBs provided fiscal support and monetary policy easing which mutually reinforced. Large-scale fiscal support and liquidity assistance have been extended to economies to avoid mass lay-offs, preserve incomes, and protect businesses. They could be categorised into (i) jobs retention schemes, (ii) household and self-employed income support, (iii) tax and loans forbearance and deferment, and (iv) liquidity and guarantees.

In the EU, fiscal measures adopted on the national level were complemented by a common European rescue package, which included (i) precautionary credit lines for member states, (ii) a programme to finance loans to businesses, and (iii) a jobs support programme. The agreement on a recovery plan, Next Generation EU, and the EU's long-term budget is set to ensure support to the hardest hit member states and underpin growth in subsequent years. National authorities also implemented capital, liquidity, and borrower-based macroprudential measures to support banks facilitating the real economy. The ECB provided abundant liquidity and conducted large-scale asset purchases with the objective to keep favourable financing conditions and to maintain the smooth working of the transmission mechanism. The ECB introduced and recalibrated existing and new monetary policy instruments several times over 2020. Key interest rates remained unchanged, though. Most importantly, the ECB introduced and recalibrated the Pandemic Emergency Purchases Programme (PEPP). The envelope of PEPP was increased over the year to a total of EUR 1,850 billion, and the duration of the programme was extended to March 2022. The ECB recalibrated Temporary Long-Term Refinancing Operations (TLTRO-III) and introduced Pandemic Emergency Long-Term Refinancing Operations (PELTRO).

In the US, the Fed ramped up its asset purchases programme to prevent financial tightening in the markets and introduced a monetary policy shift by allowing for a temporary overshoot in inflation after a period of undershooting the inflation target.

European governments in particular managed to achieve that the COVID-19 shock had only a very moderate effect on the unemployment rate, mainly due to jobs retention schemes masking the real impact of the crisis on the labour market. The downward pressures on prices amplified over the year. Nevertheless, a significant part of the downward pressure on prices could be credited to temporary factors, e.g. energy prices and the German VAT reduction.

The global economy is expected to rebound in 2021. However, countries all over the world are likely to continue with the alternating relaxations and restrictions until the broad vaccine rollout enables a sustainable easing of containment measures. The Euro area economy is expected to grow 4.0% in 2021. The rebound in the Euro area should be underpinned by fiscal measures on the national, as well as European levels and the accommodative monetary policy. The revival of private consumption and pent-up demand, underpinned by preserved stable incomes and households gradually releasing accumulated savings, should be important drivers of the rebound in the Euro area. Inflation is expected to rise in 2021, as drivers of deflation in 2020 are set to become drivers of reflation in 2021. The economic recovery should also play its part as an upward pressure on prices. Nevertheless, inflation is expected to remain in check due to the substantial output gap, as well as elevated unemployment in comparison to pre-crisis levels. The cost of mitigating the pandemic will continue to be felt in 2021, although pressures on public finances are expected to ease. Fiscal deficits are expected to narrow due to a growth-induced rise in budget revenues, gradual unwinding of pandemic-related emergency measures, and the projected rebound in economic activity. Public debts are expected to move in line with narrowing fiscal deficits and the economic rebound.

The Economy in the Group's region

The Group's region was not able to circumvent the COVID-19 pandemic and its economic implications. As a consequence, the Group's region recorded a substantial drop in economic growth. However, economic implications of the COVID-19 pandemic differed between countries of the Group's region due to underlying differences in features of economies. Countries with the strong reliance on the tourism sector were severely affected by restrictions on domestic and international travel. The disruption to global supply chains and a decline in remittances and FDI inflows weighed on economies as well. The lowest annual contraction was registered by Serbia, while the highest contraction was experienced by Montenegro. In general, inflation fell mainly because of downward pressure on consumer prices due to depressed domestic demand and a drop in oil prices. Fiscal balances and public debts were affected by implementation of fiscal measures aimed at cushioning COVID-19 economic implications. Current accounts worsened and deficit financing needed to be complemented by external loans due to a decrease in regular sources of financing, i.e., FDIs and remittances.

Table 6: Movement of key macroeconomic indicators in the Euro area and NLB Group region

	GDP (real growth in %)					Average inflation (in %)					Unemployment rate (in %)				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Euro area	1.9	1.3	-6.6	4.0	3.5	1.8	1.2	0.3	1.2	1.3	8.2	7.6	8.0	9.0	8.5
Slovenia	4.4	3.2	-5.5	4.5	4.0	1.9	1.7	-0.3	1.3	1.7	5.1	4.5	4.9	5.5	5.0
BiH	3.1	2.9	-5.2	3.5	3.5	1.4	0.6	-1.0	0.7	1.0	18.4	15.7	18.0	17.5	16.0
Montenegro	5.1	4.1	-13.0	6.5	4.5	2.6	0.4	-0.3	1.0	1.5	15.2	15.1	18.0	18.0	16.0
N. Macedonia	2.8	3.2	-4.5	4.5	3.5	1.4	0.8	1.2	1.5	1.8	20.7	17.3	16.4	17.5	16.5
Serbia	4.5	4.2	-1.0	4.5	4.0	2.0	1.9	1.6	2.0	2.3	12.7	10.4	9.0	9.0	8.5
Kosovo	3.8	4.9	-7.0	5.0	5.0	1.1	2.7	0.2	1.4	1.7	29.6	25.7	26.5	26.0	25.0

Source: Statistical offices, Focus Economics.
Note: NLB Forecasts are highlighted in grey.

In **Slovenia**, the economic growth had a similar path as other Euro area economies throughout 2020. After a significant contraction in H1 2020 due to containment measures negatively affecting all demand components except government consumption, the economy experienced a strong rebound in Q3 2020. However, re-imposed stringent containment measures due to a surge in COVID-19 infections interrupted the recovery in Q4 2020. The labour market was supported by policy measures, so, losses in employment were protected from a large drop in GDP, and much smaller than expected. The measures taken have also avoided a surge in insolvencies. Sizeable fiscal measures taken to support the economy and lost revenues reflected in a large deficit of public finances and elevated public debt.

In **Montenegro**, the COVID-19 pandemic had devastating implications for the economy due to its underlying features of being particularly vulnerable to external shocks and being exposed to hardest hit sectors. The pandemic and travel restrictions weighed heavily on Montenegro's tourism sector. The latter had spillover effects on domestic consumption and investment, which together with the weakened external demand weighed heavily on economic growth.

In **North Macedonia**, notable economic contraction was recorded as output contracted on the back of decreased private consumption with household spending being adversely affected by a drop in remittances and with the external sector being influenced by containment measures abroad. Despite fiscal measures and the toned-down effect on the labour market, domestic demand was suppressed.

In **Serbia**, the economy experienced a moderate contraction as a consequence of a swift and sizeable fiscal and monetary support measures. Another factor was the underlying feature of the economy being less exposed to sectors hardest hit by the pandemic in relation to their peers in the Group's region. The contraction was mostly driven by a reduction in private consumption, which was only partially offset by increased government consumption and net exports.

In **BiH**, the COVID-19 pandemic has pushed the country into a recession underpinned by the drop in domestic and external demand, and a drop in remittances.

In **Kosovo**, the COVID-19 pandemic had severe implications for the economy due to shortcomings in its consumption-based growth model. The economy contracted on the back of a decline in services exports due to lower diaspora visits, and a drop in private consumption and investment due to uncertainty and containment measures. Strong remittances inflows managed to offset some of the pandemic impact.

Table 7: Movement of the balance of payment and fiscal indicators in the Euro area and NLB Group region

	Current account balance (% GDP)					Fiscal balance (% GDP)					Public debt (% GDP)				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Euro area	2.9	2.3	2.2	2.4	2.4	-0.5	-0.6	-9.1	-6.2	-3.8	85.8	84.0	100.7	101.4	99.9
Slovenia	5.8	6.5	7.3	5.3	5.3	0.7	0.5	-8.5	-4.7	-3.0	70.3	65.6	79.6	78.8	77.6
BiH	-3.3	-3.0	-4.9	-4.6	-3.9	2.3	1.9	-4.6	-2.9	-1.7	34.3	32.8	38.4	38.6	37.5
Montenegro	-17.0	-15.0	-15.4	-14.0	-12.4	-3.6	-2.9	-9.9	-4.7	-3.4	70.1	76.5	90.6	90.7	87.7
N. Macedonia	-0.1	-2.8	-3.5	-3.0	-2.8	-1.8	-2.0	-8.1	-4.4	-3.3	40.4	40.7	51.0	51.2	50.9
Serbia	-4.8	-6.9	-4.3	-5.6	-5.4	0.6	-0.2	-8.1	-3.2	-1.7	53.6	52.0	56.8	58.7	57.0
Kosovo	-7.6	-5.7	-7.5	-6.1	-5.8	-2.6	-2.9	-6.7	-5.1	-3.7	16.9	17.5	24.4	28.7	31.0

Source: Statistical offices, Focus Economics.
Note: Consensus Forecasts are highlighted in grey.

In **Slovenia**, in 2021 economic activity is expected to rebound, backed by growth in private consumption. However, the household saving rate is expected to remain elevated in 2021 with households only gradually releasing accumulated savings. Investment growth is expected to be supported by large public investments and the recovery of private investment. Net exports are also expected to have a positive contribution to growth. However, a sustainable recovery is conditional on the vaccine rollout and containment of the pandemic.

In **Montenegro**, the economy should rebound in 2021 on the back of investments supporting construction works and the revival of private consumption driven by remittances and bank lending.

In **North Macedonia**, the rebound in 2021 is expected to be underpinned by strengthening domestic demand with remittances inflow boding well for consumption.

In **Serbia**, a recovery to pre-crisis levels is expected already in 2021. The rebound is projected to be driven by investment and private consumption, while a positive contribution from net exports depends on the recovery in the EU.

In **BiH**, the economy is expected to rebound in 2021 as a consequence of a revival in domestic demand and the gradual easing of COVID-19 containment measures in main export markets – which bodes well for the external sector.

In **Kosovo**, the economy should rebound in 2021 on the back of pent-up demand following the easing of domestic restrictions, while the external sector should be supported by gradual reopening of economies.

The economic growth in the **Group's region** could be around 4.8% in 2021. The return to growth of the economies of the Group region should be underpinned by a revival in consumer and investment spending, assuming that consumer and business confidence are restored when the pandemic is under control. Gradual easing of COVID-19 restrictions across the globe should boost external demand and release travel restrictions, resulting in tourism-dependent countries experiencing a more robust rebound. Nevertheless, lingering uncertainty regarding the course of the pandemic and the vaccine rollout cloud the outlook, in general. The economic growth in the Group's region also depends on the pace of the recovery in the EU because it affects the external trade and determines the remittance inflows, underpinning a significant part of consumption in several countries of the Group's region.

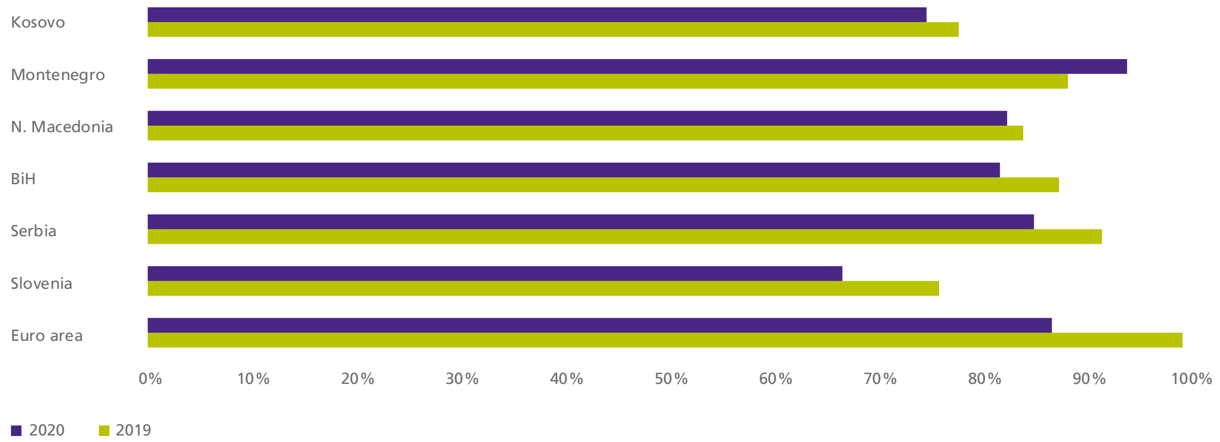
The Banking System in the Group's region

The banking systems in the Group's region were not able to remain intact by the overall pandemic implications. Nevertheless, lending exhibited diverging degrees of resilience to the adverse effects of weakened economies on the banking systems in the Group's region. The highest corporate loans growth was recorded in Serbia and Kosovo, while BiH and Slovenia recorded negative growth in corporate loans. The highest surge of household loans was registered by Serbia, North Macedonia, and Kosovo, while BiH recorded a slight decrease in household loans, as well. With the exception of Montenegro, where corporate and household deposits registered negative annual growth, all countries of the Group's region recorded high growth in corporate and household deposits. Corporate deposits increased the most in Serbia, followed by Slovenia and BiH. Household deposits recorded the highest annual growth in Kosovo, which was closely followed by Serbia and Slovenia. The net interest margin was the highest in Kosovo and Montenegro. In Slovenia, the decrease in net interest margin was driven by the decline in credit growth and falling returns on assets. The NPL ratio as a measure of the quality of bank portfolio improved in Slovenia, BiH, North Macedonia, and Serbia, while it deteriorated in Montenegro and Kosovo. The improvement in the NPL ratio could be deceiving due to macroprudential measures put in place by regulatory and supervisory institutions, e.g. moratoria. The capital adequacy of the banking systems remains solid and resilient to the increased risks, with banking systems remaining well-capitalised. The capital adequacy either improved or stagnated in almost all countries of the Group's region, with Serbia being an exception in this regard.

Table 8: Movement of key banking systems indicators in the NLB Group region, 2020

	Corporate loans		Household loans		Corporate deposits		Household deposits		Net interest margin		NPL		CAR	
	in million EUR	Δ % YoY	in million EUR	Δ % YoY	in million EUR	Δ % YoY	in million EUR	Δ % YoY	2018, in %	2019, in %	in %	Δ pp YoY	in %	Δ pp YoY
Slovenia	8,750	▼ -1.4	10,712	▲ 0.1	8,031	▲ 18.8	22,437	▲ 10.2	1.8	1.6	2.6	▼ -0.3	18.3	▼ -0.2
BiH	4,392	▼ -4.9	5,059	▼ -0.8	2,407	▲ 16.1	7,036	▲ 3.9	2.6	2.4[i]	6.6[i]	▼ -1.1	18.3 [i]	▲ 0.2
Montenegro	1,186	▲ 1.7	1,411	▲ 2.7	1,277	▼ -5.5	1,750	▼ -1.3	4.5	4.3[i]	5.5	▲ 0.7	18.5	▲ 0.8
N. Macedonia	2,761	▲ 1.1	3,021	▲ 8.0	2,004	▲ 10.1	4,638	▲ 4.6	3.4	3.2[i]	3.4[i]	▼ -1.6	16.9[i]	— 0.0
Serbia	14,856	▲ 10.9	9,544	▲ 13.8	9,600	▲ 26.3	14,897	▲ 12.4	3.3	3.0	3.7	▼ -0.4	22.4[i]	▼ -1.2
Kosovo	2,055	▲ 7.2	1,180	▲ 7.1	943	▲ 15.1	2,844	▲ 13.2	4.8	4.5	2.7	▲ 0.7	16.5	▲ 0.8

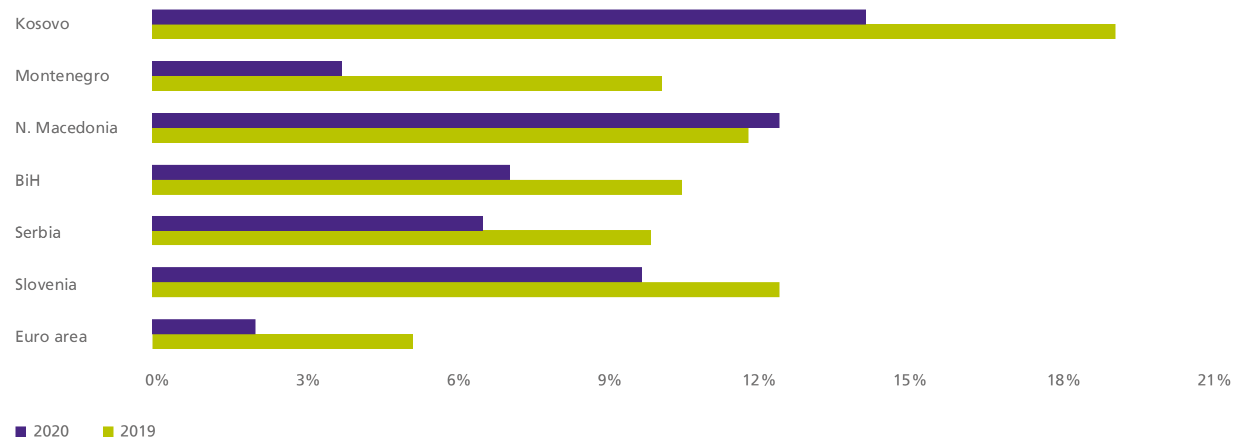
Source: Statistical offices, CBs, NLB.
Note: Net interest margin calculated on interest-bearing assets; Net interest margin calculated on average total assets for Serbia; [i] Data in Q3 2020.



Source: ECB, National CBs, NLB.
Note: Q3 2020 data for Serbia.

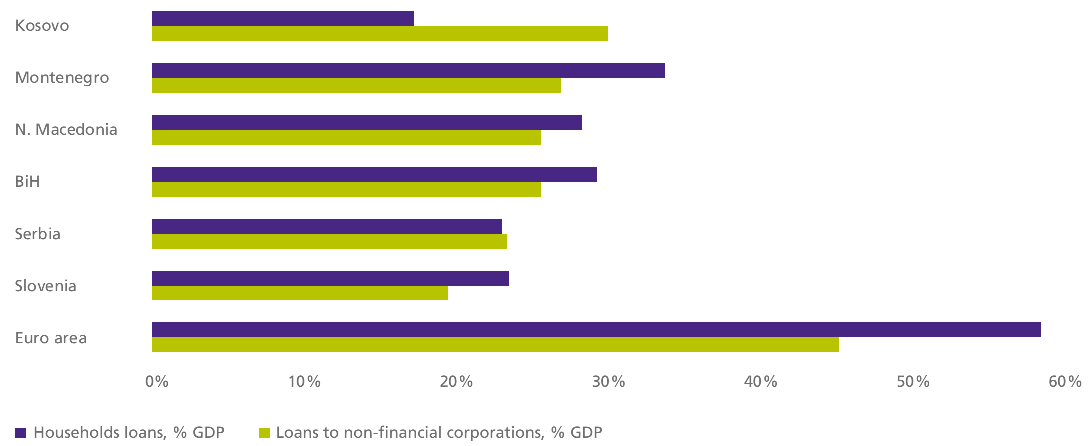
Figure 3: LTD ratio in the Euro area and NLB Group region

The LTD ratio increased in Montenegro, while in other countries of the Group's region the LTD ratio registered a decrease. The profitability of banking systems in the Group's region was not immune to the economic implications of the pandemic, hence the ROE ratio decreased in all countries of the Group's region with North Macedonia being an exception.



Source: ECB, National CBs.
Note: Return on average equity (ROAE) used for BiH; Q3 2020 data for BiH, N. Macedonia, and Euro area.

Figure 4: ROE ratio in the Euro area and NLB Group region



Source: National CBs, National Statistical Offices.
Note: Q3 2020 annualised data for BiH and Kosovo.

Figure 5: Loans to non-financial corporations and households' loans in the Euro area and the NLB Group region in 2020

Looking at the loans to non-financial corporations and households' loans as a percentage of GDP, it can be observed that the whole Group has the potential for further growth compared to the levels in the Euro area. The expected return of economies in the Group's region to growth in 2021 bode well for loans potential. The economic recovery should be underpinned by the revival in private consumption and fixed investments, both important components of loans potential, and both expected to exhibit growth in 2021 after the pandemic-induced drop in 2020. Private consumption, as the strongest part of the GDP, is forecasted to increase somewhere between 3.3%, as is the case for BiH, and 6.2%, as is the case for Montenegro. Fixed investment is forecasted to increase somewhere between 5.3%, as is the case for Montenegro, and 8.9%, as is the case for Serbia. The projected government consumption growth, although lower than in 2020, should support the expected return to economic growth in 2021 as well.

Regulatory Environment

During 2020, more than 100 changes in the EU and Slovenian regulatory environment were adopted with material effects on the Bank and its Group. The Group strives to be fully compliant with the existing and new requirements. Disclosure of the most relevant changes of legislation and regulation which has an effect on the Group is presented herein.

The Regulatory Environment in Slovenia

The Bank is subject to capital adequacy and liquidity rules imposed by the EU (CRR/CRD), which govern the activities in which banks may engage, and are designed to maintain the safety and soundness of banks as well as limit their exposure to risk. Even though the majority of the new provisions will apply from June 2021, the Bank started its implementation activities to ensure the timely implementation of CRR2 provisions. The CRD V, which will be further transposed into the Banking Act (ZBan-2), will also regulate the participation of employees in the management of the Bank, which the Bank already encourages.

As a financial institution offering benchmark-based products, the Bank meets its obligations under the Regulation 2016/1011 (BMR) and regularly monitors developments in this area by adapting its operations to the requirements of regulators and industry.

Due to the constant care for the interests of its customers, especially the protection of their data, the legislation in the field of personal data protection is also important for the Bank. The Bank strictly adheres to its obligations imposed on it by GDPR in both Slovenia and the Group. As the Slovenian law, which would further supplement the regulation, was not adopted either in 2020, further obligations for the Bank may arise when the law will be adopted.

As a provider of services and products in the field of financial markets, the Bank complies with the provisions of MIFIR / MIFID 2 regarding financial markets transactions, enhanced investor protection, transparency, and reporting obligations.

The Group also takes into account and complies with the regulations in the field of preventing money laundering and terrorist financing. In 2020, an amendment to the Prevention of Money Laundering and Terrorist Financing Act was adopted that transposed the AMLD 5 into the Slovenian legislation. At the end of 2020, a new amendment to the law was proposed.

Compliance with the Payments Act (PSD2) and regulatory technical standards, which brought open banking into the financial environment, required major changes to the Bank's information systems. The Bank is constantly monitoring new regulatory requirements imposed by the regulator and is adapting to them, taking into account the best user experience.

Due to the COVID-19 epidemic in 2020, the RoS adopted several intervention laws and measures which mainly affected the Bank in the area of credit moratoriums. The Bank was also involved in economic measures as a lender with state guarantees on loans.

An ongoing activity from 2019 included the amendment of policies and contracts due to EBA Guidelines on outsourcing arrangements, that provide a clear definition of outsourcing and specify the criteria to assess whether or not an outsourced activity, service, process, or function (or part of it) is critical or important.

In the EU's policy context under the European Green Deal, 'sustainable finance' is understood as finance to support economic growth while reducing pressures on the environment, and taking into account social and governance aspects. The Bank is approaching the development of a comprehensive policy on sustainable finance, comprising the action plan on financing sustainable growth and the development of a renewed sustainable finance strategy in the ESG EU regulatory framework as well.

Regarding upcoming legislation in the corporate governance area, an amendment to the Companies Act (ZGD-1) is in the process of adoption, which will have an impact on the Bank, mainly in the area of relations with shareholders and the exercise of shareholders' rights, as well as information on corporate actions (following SRD2).

Regulatory Environment in the Group's region

The regulatory environment in the rest of the region where the Group operates was dominated by legislative and regulatory changes related to COVID-19 pandemic and minimising its consequences in the financial sector and economies. There were also local regulatory (prudential and macroeconomic) measures adopted to ensure stable functioning of the financial systems.

In **BiH**, there were important changes related to introduction of the law on factoring, as well as changes to the DGS and labour law. The local regulator also adopted a number of regulations related to changes of regulatory reporting and risk management rules (liquidity, operational risk, collateral valuation, outsourcing, ICAAP/ILAAP, LCR).

Montenegro was, adding to the COVID-19 related changes, highly active, changing banking laws (together with a number of by-laws) and bank recovery and resolution law (together with a number of by-laws), which were later postponed to come into force on 1 January 2022, bankruptcy and liquidation law, law on DGS (together with a number of bylaws), and the law on companies.

In **Kosovo**, the local CB adopted a number of regulatory rules on reporting, IT management, the advertising of financial services, electronic money issuance and electronic payment systems, credit risk management, NPL, and restructuring prudential treatment.

Serbia made important legislative steps towards implementation of FATCA, additionally there were changes to CB's rules on regulatory reporting and risk management rules (liquidity, operational risk, collateral valuation, outsourcing, ICAAP/ILAAP, LCR, FX transactions). Serbia also made changes to the corporate and personal income tax law, law on VAT, and introduced digital property law and amended the AML law related to the treatment of digital assets.

In **North Macedonia**, COVID-19 pandemic-related laws focused mostly on social support for vulnerable social groups, loan restructuring, and write-offs, but there were also important EU-accession activities in legislation, introducing new rules for trade companies (in line with EU laws on cross-border mergers). AML law was amended to transpose the EU legislation in the relevant area, the law on classified information, the law on personal data protection, harmonising with GDPR regime in the EU, and last but also important were CB decisions on risk management rules and on the use of banking laws in emergency situations.

Combining ancient techniques with modern aesthetics increasing in popularity

Bogdan Darmanović
SHIMMPO, Montenegro

SHIMMPO is a team of young people, led by sculptor Bogdan Darmanović, gathered around the idea of applied sculpture.Their starting point is to combine ancient techniques with modern aesthetics, offering a new dimension of ceramic products, for full enjoyment around the table. All plates and cups are made in a studio in Podgorica, from 100 % natural materials. Each piece is hand sculpted, baked and glazed to a most beautiful shine. Thanks to NLB Banka, Podgorica and the #HelpFrame project, their products are becoming increasingly popular in restaurants and hotels. The team is grateful for such generous support.

Business Report

Acquisition of Komercijalna banka a.d. Beograd

Table 9: Market shares of Komercijalna Banka group[i]

	Serbia	Republic of Srpska	Montenegro
Total assets	10.2%	5.5%	3.4%
Loans	7.5%	5.9%	3.6%
Deposits	12.0%	4.9%[ii]	3.7%

[i] Data from CBs and own calculations as at 30 September 2020.
[ii] Includes deposits from banks.

By acquiring the most attractive target in the region, NLB Group became the third largest bank on the promising Serbian market.

On 30 December 2020, NLB Group achieved another key milestone by successfully concluding the acquisition process of an 83.23% shareholding in Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd) on the Serbian market. The final purchase price was EUR 394.7 million. As a result of the acquisition of Komercijalna Banka, Beograd the Group obtained four new members – Komercijalna Banka group:

- three banks in Serbia, BiH and Montenegro: Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd), Komercijalna Banka a.d., Banja Luka (Komercijalna Banka, Banja Luka), Komercijalna Banka a.d. Podgorica (Komercijalna Banka, Podgorica); and

- one investment fund company in Serbia: Kombank INvest a.d. Beograd (Kombank INvest, Beograd).

The acquisition further strengthened the Group's long-standing presence in the SEE region and ensured strategic and systemic position on all the markets where the Group operates. NLB Group now consists of nine banking members, locally even more firmly embedded as important financial institutions and market leader in various business segments. Going forward, the strategy for the next two years is to merge three pairs of banks that operate on the same market and by that simplify the Group's steering and provide benefit for clients and shareholders.

Serbia has long been a strategically important market for the Group in the context of its strategy to be the leading international bank headquartered in and focused on the SEE region. The acquisition has significantly increased NLB Group's presence in Serbia whose market is among the fastest growing in the region and will offer opportunities for long-term growth, profitability, and regional contribution due to stable core deposits and strong capital position. Following the acquisition, NLB became the third largest banking group in Serbia, with the market share increasing from pre-acquisition share of approximately 1.9% to over 12% (measured by total assets). Komercijalna Banka, Beograd adds more than 800,000 active retail customers and 203 branches, the largest distribution network in Serbia to NLB Group's existing operations. The business operations of NLB Group in Serbia will be (besides the Slovenian market) the largest and the most important one. Through the subsidiary banks of Komercijalna Banka, Beograd in BiH and Montenegro, NLB Group further solidified its already strong position in those two markets.

The enlarged Group will benefit from the diversification of its portfolio and given the improved product offering of Komercijalna Banka, Beograd combined with NLB Group staff local expertise, cost, and capability-related business synergies derived from its integration within the Group. It is estimated that synergy effects could be over EUR 20 million p.a. from 2023. In addition to classic banking products, the Group will also be able to extend the number of products and services on the Serbian market by distributing insurance products and asset management as well. Besides that, greater cross-border activity within the Group could be achieved by using the untapped potential for enhanced intra-regional trade in the Western Balkans.

Since the transaction was closed on 30 December 2020, only negative goodwill in the amount of EUR 137.9 million and 12-month expected credit losses on the performing portfolio in the amount of EUR 13.4 million are included in the NLB Group income statement for 2020 (partial influence also on income tax and result of non-controlling interests). This contributed to the strong result of NLB Group in 2020 (EUR 269.7 million of net profit).

Komercijalna Banka group contributed EUR 4,252.2 million to the balance sheet of NLB Group which reached EUR 19,565.9 million as at 2020 YE. This is close to the EUR 20 billion, the mark NLB Group once already achieved, this time, however, with substantially better dispersed risk and stronger capital and liquidity positions. The acquisition increased gross loans to customers of NLB Group by EUR 1,877.3 million (NLB Group year-end balance: EUR 10,033.3 million) and deposits by EUR 3,443.5 million (NLB Group year-end balance: EUR 16,397.2 million). The acquired Komercijalna Banka, Beograd with a similar business model to the existing NLB Group, has moderate impact on the Group's risk profile and cost of risk. The Group's TCR after acquisition (16.6%) remained above regulatory requirements and management TCR target. The acquisition is expected to positively contribute to the achievement of NLB Group's outlook.

Strategy

Despite the challenging and uncertain economic environment caused by COVID-19 pandemic, the Group has not changed its course and continues to pursue its strategy, putting focus on protecting and strengthening its market position in its home region, and actively participating in the growth and consolidation of the market. Digitalization, client centricity and cost efficiency remain some of key strategic orientations in order to deliver the Group's mission and vision.

Strategic focus

For us, this region is not just a point on the map, it is our home.

Become regional champion

The Group aims to further strengthen its role as a systemically important financial institution in SEE region and strives to become a market leader in all of its core markets. With the completion of the acquisition of Komercijalna Banka, Beograd in 2020, the Group made an important step in this direction. The Group believes there is a significant potential from the deal for the whole region given the complementing product offerings of Komercijalna Banka, Beograd combined with cost- and capability-related business synergies derived from its integration within the Group. It is estimated that synergy effects could be over EUR 20 million p.a. from 2023.

Defend our market position

The Group is working to protect and strengthen its market position as a systemic player in its home region. It also works to actively participate in the expected growth and consolidation of the market, while focusing on increasing profitability through a more customer-centric approach and digitalization.

As a systemic bank, it is our responsibility to keep and protect our current strong market position.

As a leading player, the Bank would like to best serve its clients' financial needs.

Putting clients first

In retail banking, the Bank continues to strive to get closer to its clients by offering anchor products and personalised, most accessible digital services (e.g. omnichannel, marketplace) that suit their lifestyles. In corporate banking, the Bank is looking to provide more complex, cross-border products and services, and find new entry points in order to suit all its clients' financial needs. The whole Group strives to have a prominent role in the region's development.

One of the key efforts is improved availability for all clients. The Group has made itself available anywhere and anytime by building a strong customer centre and upgrading its portfolio of digital sales channels. These now offer a growing set of banking products and services, both for retail and corporate clients. This has also become a very important issue due to the COVID-19 outbreak.

Exploit opportunities and synergies

Significant strategic business efforts are undertaken to achieve business synergies across the Group, both in costs and operational efficiency. The Group believes these can help offset significant negative economic effects of the COVID-19 pandemic on the Group's future business results. The Bank is pursuing growth through entering/expanding its presence into selected adjacencies (e.g. leasing, bancassurance) and diversifying its services on a horizontal level. By publishing takeover bid for the remaining regular and priority shares of Komercijalna Banka, Beograd, we reaffirmed our belief in the bank and confirmed strong investment case aimed at securing all synergy potential. The Bank is simultaneously monitoring additional M&A opportunities (within consolidation processes in banking sectors in the SEE), which are not part of the immediate strategic plan.

One of the more important strategic topics for the Group is the full exploitation of potential synergies within the Group.

Continuing transformation

To facilitate the aforementioned strategic focus and support continuous transformation in an everchanging environment, the Group is following an elaborated, comprehensive, and detailed program plan to deliver its mission and financial targets. The Group has identified a series of projects and initiatives and has also dedicated considerable investment funds for their implementation. With the projects, all major running change efforts are channelled into one overall strategic transformation program.

The backbone of the strategy is strengthening customer-centricity by establishing customer-based market management, improving the understanding of the clients, reimagining digital client journeys, and accelerating innovation to provide lifestyle and value chain services to lock relationships.

The transformation program also focuses some efforts into increased operational efficiency, cost management and the improved utilisation of the Group's capital. Simultaneously, overall operational capabilities are being enhanced by improving human capital, optimising IT, digitalizing internal processes, and leveraging information capital. To drive transformation, a new change management platform was set up.

COVID-19 response

COVID-19 pandemic resurfaced in the second part of 2020, on an even larger scale than during the first wave in H1. This reignited economic uncertainty across Europe. However, the Group entered the crisis well capitalised and prepared and has managed to exhibit profit resilience in 2020 results.

The Bank responded successfully to the COVID-19 pandemic, maintaining a concern for the health of our employees and customers as a top priority.

Customers have been offered an even wider range of 24/7 accessible digital solutions, while also providing uninterrupted branch operations and cash services. The Bank was continuously supporting its customers and their vital businesses and households by offering them moratoria and liquidity lines where needed.

Acquisition of Komercijalna Banka, Beograd

After receiving all relevant regulatory approvals, at the end of December 2020, the Bank successfully completed the formal process of acquiring Komercijalna Banka, Beograd. This represents an important step toward delivering our vision and mission. The deal was completely in line with Group's strategic focus and has enabled the Group to reinforce and strengthen its strategic position as a market leader in the SEE region. Also, the Group will be able to extend the number of products and services in the Serbian market, and allow greater cross-border activity within the Group.

Further information is available in the chapter
Acquisition of Komercijalna banka a.d. Beograd.

Digitalization

Highly correlated with the COVID-19 pandemic, the Group continues to implement comprehensive and substantial strategic efforts toward digital transformation. The new circumstances related to the pandemic and the economic uncertainty continue to affect the growth and acceptance of digital channels by our customers. The Group was prepared for such a market trend, since it was already the leading provider and innovator in its core markets before the outbreak.

At the same time, the Group is striving to simplify and automate processes in order to minimise costs and uses digitalization as the main tool. The focus on digitalization is to enable quicker and better customer service, a higher level of internal processes efficiency, and consequently additional cost savings.

The Group will continue to invest substantially in IT infrastructure and its capabilities. The focus will be on improving the speed IT can deliver results by adopting agile methodology principles, the provision and implementation of the best online experience for customers in the SEE, and how to enhance capabilities for processing data, modelling, and the relevance of services to clients.

Sustainable development vision

The Group has an important social responsibility mission, which is to contribute to a higher quality of life for all inhabitants in the environment where it operates. The Bank recognises its responsibility toward clients, its employees, the environment, and society as a whole.

Sustainability became a Group-wide initiative. In 2020, we developed the basis for the intensive integration of ESG factors into the Group's business model. Moreover, NLB became the first bank from Slovenia to commit to the UN Principles for Responsible Banking. By meeting stakeholder needs and expectations and driving business value through sustainability, the Bank will reinforce its efforts towards delivering the 2025 strategy.

Brexit's impact on the Group's performance

Due to the limited focus of the Group's operations beyond the SEE region, the estimation is that Brexit will not have any significant impact on the Group's business performance.

Other strategic priorities

Due to the positive effects from working remotely during the pandemic, the Bank will continue the work-from-home initiative in the future, thus offering more flexibility to its workforce and achieving cost benefits at the same time.

Following the lifting of EC State Aid constraints, the Group is now fully engaged in re-establishing some of the key financial services that were subject to restrictions (leasing, factoring, etc.).

The Group is also putting more efforts into cross-border loan activity. The Group's knowledge of the region and its presence are opening new possibilities.

Further information is available in the
NLB Group Sustainability Report 2020.

Risk Factors and Outlook

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 the year 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.

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

The indicated outlook constitutes forward-looking statements which are subject to a number of risk factors and are not guarantees of future financial performance.

The Group is pursuing a range of strategic activities to enhance its business performance. The economic environment has visibly changed, especially in the eurozone. Interest rate outlook is uncertain given the possible changes of the ECB deposit rates. The main ambition is that despite deteriorating market conditions, the Bank is committed to delivering sound financial performance.

The measures and potentials outlined in the above strategy are reflected in the Group's outlook for the 2021 to 2023 period:

	2021	2023
Regular income	> EUR 600 million	> EUR 700 million
Costs	~ EUR 430 million(i)	< EUR 400 million
ROE a.t.	High single digit	> 10% (RORAC(ii) > 12%)
Loan growth	Mid-single digit growth rate	High-single digit CAGR (2021-2023)
Cost of risk	70–90 bps	40–60 bps
Dividend payout	EUR 92.2 million	> EUR 300 million(iii)

(i) Initial increase in cost base in 2021; projected costs include restructuring charges.
(ii) RORAC calculated as Result after tax excl. Tier 2 bonds expenses divided by average RWA at 15.25% capital requirement.
(iii) Cumulative in the period 2021-2023.

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.

Dividend policy

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 payouts 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 the 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 Group result (without considering the impact of negative goodwill) totaling EUR 92.2 million. The Bank in the period 2021-2023 envisages the cumulative amount of dividends payout in excess of EUR 300 million.

The distributable profit of the Bank as at 31 December 2020 amounts to EUR 341,992,219.43, which consists of net profit for the year 2020 in the amount of EUR 113,952,339.70 and retained earnings from previous years in the amount of EUR 228,039,879.73.

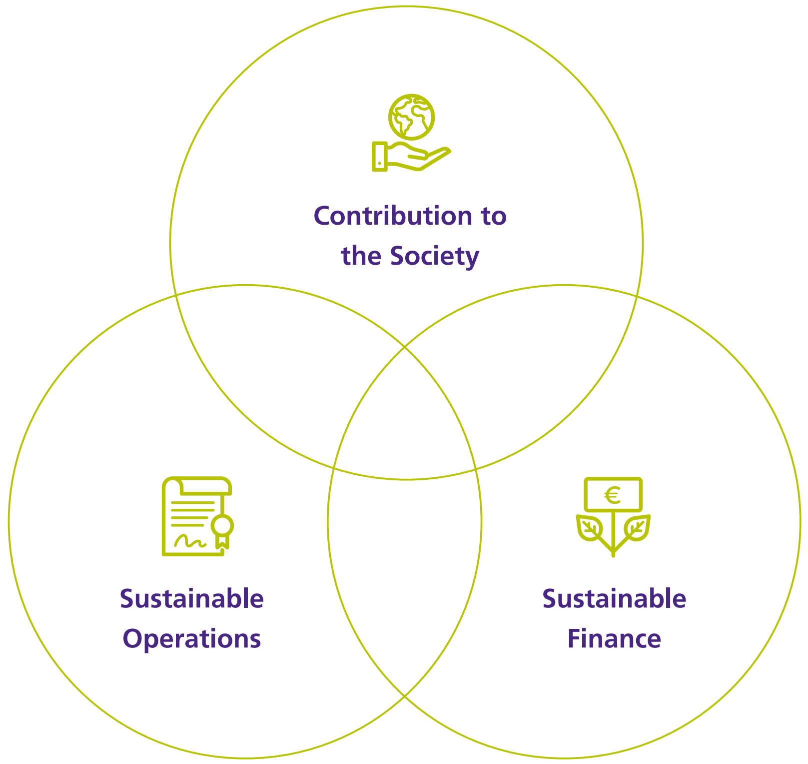
Once the ECB and BoS restrictions cease to apply, the Bank would resume with regular dividend payouts in line with its capacity and regulatory requirements.

Sustainability

In 2020, the Group embarked on a path of more intensive integration of sustainability into banking operations. If until this year it was possible to detect the activities of banks in the Slovenian financial sector in the direction of more ecologically and socially acceptable operations, the COVID-19 pandemic strengthened banking agendas related to environmental and social risk management, and thus more comprehensive implementation of the ESG factors. The Group's social role is stipulated in its Social and Environmental Policy,[3] which has paved the way for more than a decade's work on sustainability. However, the Bank's ambition is to increasingly focus on sustainability integration and translate it into real value-added. The transition to sustainable banking requires the adaptation of most processes in the Group, as well as changes in the banking culture.

NLB Group records sustainable financial performance and actively contributes to a more balanced and inclusive economic and social system.

In Sept. NLB Group became a signatory to the UN PRB.



Key impact areas:

Environmental
Climate Mitigation & Adaptation
Biodiversity
Resource Efficiency & Circular Economy

Social
Gender Equality
Human Rights
Financial Inclusion
Decent Employment

Internal Change
Strategy Alignment
Impact and Targets
Clients and Customers
Stakeholders
Governance and Culture
Transparency and Accountability

Implementation of sustainability into the Group business model

With the adoption of the Group's Sustainability programme at the end of 2020, the Bank has moved from the raising awareness phase to the phase of actively implementing sustainability elements into the business model. The goal of this organisation-wide initiative is to ensure sustainable financial performance of the Bank by considering social and environmental risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system.

The Bank in recent years signed Framework Agreements with EBRD and in 2020 Contract of Guarantees with MIGA. Based on this, the Bank and/or Group subsidiaries are obliged to develop ESMS and comply with certain E&S requirements. In 2020, considerable progress was made in the area of establishing a basic mechanism for E&S screening. Also, the ESMS Officers were appointed in the Group banking subsidiaries. Further actions to strengthen ESMS are in progress.

On 4 September, the Bank became a signatory to the UN Principles for Responsible Banking (and UNEP FI member), which is a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. More than 200 banks, which represent around a third of the global banking industry have joined, leading the way towards a future in which the banking community makes a positive contribution to people and the planet that society expects.

Throughout the year, the Group systematically followed the emerging EU regulations in the field of sustainability, and at the same time regularly monitored recommendations and guidelines from leading financial institutions and authorities, such as the ECB and the EBA. Plans, how to integrate the new regulation into the Group's operations, are prepared to meet the expectations of key stakeholders.

Corporate social responsibility

The Group's CSR has been continuously upgraded with projects that follow the UN Sustainable Development Goals (UN SDG). The Group's first such regional project was launched in spring 2020. #HelpFrame project intensively addresses the Bank's environmental and social role in all markets of the Group, as the goal is to establish a regional sustainability platform. The project provides advertising space to selected local entrepreneurs, farmers, as well as micro and small companies, thus helping their business to recover from the COVID-19 pandemic.

Most of the Bank's CSR financial budget was used to mitigate the consequences of the COVID-19 pandemic. Since March 2020, medical teams have been working around the clock to save the lives of patients infected with the virus, which has spread rapidly to all regions where the Group operates and all of the Group banks participated with financing or procurement of medical supplies.

One of the major CSR projects in the Bank was to provide help to young families on their road to their first home with professional advice and material incentives given to hundreds of borrowers. One hundred young families were randomly chosen and helped to take out a housing loan, and repaid them three monthly instalments in a total amount of a maximum of EUR 1,000 for each family. At the end of the year, the Bank also distributed EUR 140,000 to young borrowers below the age of 40.

Despite a drastic decline in public life, the Group maintained most of the agreed sponsorships and donor partnerships in the field of culture and sports. By supporting virtual festivals and events, the Group helped affected artists who were left without income almost overnight. In the field of sports, the Bank remained among the main supporters of all sports federations and clubs, with which we have been cooperating for many years.

More information on the corporate social responsibility and the implementation of sustainability into the Group business model (together with information on the GRI standards) is available in the NLB Group Sustainability Report 2020.

3. Published on www.nlb.si.

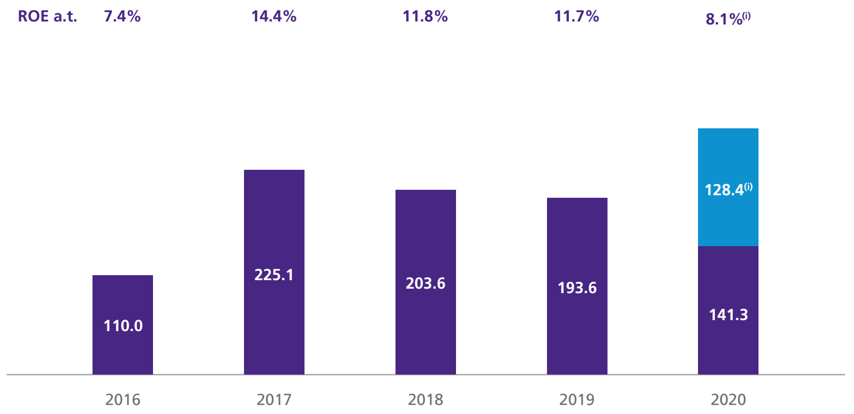
Helping hand in crisis means a lot

Emire Duraku
B.K.M Agro Krusha, Kosovo

The company Agro Krusha comes from the agricultural village Krusha e Madhe in the municipality of Rahovec, Kosovo. It is led by Emire Duraku, an entrepreneur who together with her family cultivated about 15 hectares planted with vegetables for the production of ajvar and pickles. When COVID-19 hit the country, the company suffered a major fallback due to decrease in demand even though the company had reserves from good performance in the past. Knowing the importance of advertising Emire decided to join #HelpFrame project presented to her by her banking advisor and has received many offers for cooperation since.

Overview of Financial Performance

The Group achieved a profit in the amount of EUR 269.7 million, 39% more than the year before (2019: EUR 193.6 million). The strong result was affected by the acquisition of Komercijalna Banka, Beograd,[4] with positive impact of negative goodwill in the amount of EUR 137.9 million. Without this acquisition, the profit of the Group would amount to EUR 141.3 million, a 27% lower YoY, affected mostly by additional impairments and provisions related to the COVID-19 outbreak.



(1) Acquisition of Komercijalna Banka, Beograd's contribution to the result after tax; the acquisition effects are excluded from ROE calculation.

Figure 6: Profit after tax of NLB Group (in EUR million) / ROE after tax (in %)

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

- The acquisition of Komercijalna Banka, Beograd with a positive impact of negative goodwill in the amount of EUR 137.9 million and a negative impact of the expected credit losses on the performing portfolio for Komercijalna Banka group[5] in the amount of EUR 13.4 million;
- Lower net interest income YoY (EUR 18.9 million or 6%), mostly related to lower yields due to reinvestment of debt securities, higher volume of cash and balances with the CB, the raised subordinated Tier 2 bonds, and continued pressure on interest margins in the Bank and banking members in SEE continues;
- Net fee and commission income on the same level YoY, influenced by the COVID-19 outbreak and its negative impact on card operations and payment transactions, but was compensated by increased package fees, higher assets management and bancassurance fees, and achieved discounts on card operations;
- Sale of NLB Vita with a positive effect of EUR 11.0 million and sale of debt securities in the Bank with a realised non-recurring profit of EUR 17.1 million;
- Lower costs YoY due to lower employee costs and positive effects of cost management projects, which remain well contained through all cost categories and geographies;
- Additional net impairments and provisions were established in the amount of EUR 71.4 million, out of which EUR 18.4 million due to changed macroeconomic parameters, that incorporate estimated impacts of the COVID-19 outbreak and EUR 13.4 million for expected credit losses on the performing portfolio for Komercijalna Banka group;
- Continued loan growth, especially to individuals, despite the COVID-19 outbreak and the negative impact of macroprudential measures on the consumer loans introduced in November 2019, causing an adverse effect on the new production of loans to individuals. An increase was recorded also in the corporate loan book YoY exclusively as a result of COVID-19 impact on ensuring liquidity to clients;
- A strong TCR of 16.6% while ROE a.t. dropped to 8.1%[6] (2019: 11.7%);
- As a consequence of the COVID-19 outbreak the NPL credit portfolio stock stopped its multi-year declining trend. Besides, changed treatment of excluded interest and acquisition of Komercijalna Banka, Beograd contributed additionally to its increase, while different workout measures positively influenced the stock of NPL. Nevertheless, the gross NPL ratio (EBA def.) decreased from 4.6% to 4.5% YoY, while the NPE ratio (EBA def.) decreased by 0.4 p.p. YoY to 2.3%;
- Liquid assets portfolio amounted to EUR 9,751 million (50% of total assets).

269.7 million EUR

net profit including EUR 137.9 million negative goodwill from acquisition of Komercijalna Banka, Beograd, while net profit would be

141.3 million EUR

without the effect of acquisition of Komercijalna Banka, Beograd.

4. More information is available in the chapter 'Acquisition of Komercijalna banka a.d. Beograd'.
5. Komercijalna Banka, Beograd; Komercijalna Banka, Banja Luka; Komercijalna Banka, Podgorica; Kombank INvest, Beograd.
6. Komercijalna Banka group is excluded to ensure comparability with previous years.

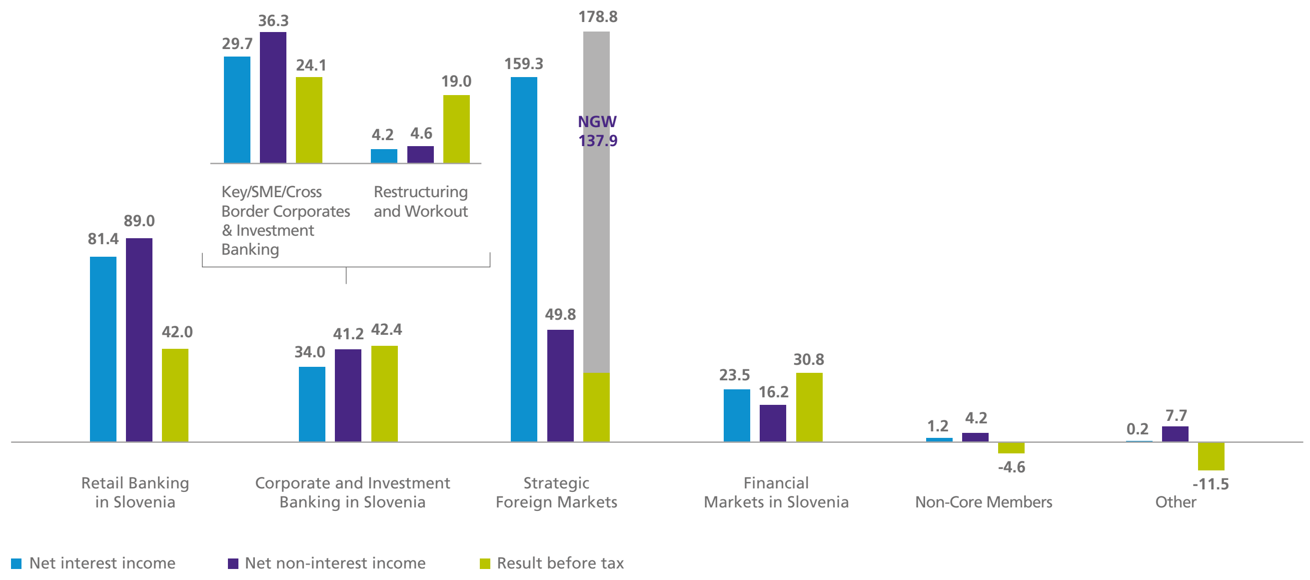


Figure 7: Segment results of NLB Group (in EUR million)

Strong result achieved in all Core segments of the Group

The Core segments achieved a result before tax of EUR 282.5 million. Strategic Foreign Markets contributed the largest share to result before tax in the amount of EUR 178.8 million due to acquisition of Komercijalna Banka, Beograd and its positive effect of negative goodwill in the amount of EUR 137.9 million. Corporate and Investment Banking in Slovenia recorded a profit before tax in the amount of EUR 42.4 million, Retail Banking in Slovenia EUR 42.0 million, and Financial Markets in Slovenia EUR 30.8 million. The Other segment recorded a loss before tax in the amount of EUR 11.5 million, mostly due to establishment of provisions for legal risk (EUR 3.8 million) and HR provisions (EUR 3.5 million).

Strategic Foreign Markets achieved the highest net interest income in the amount of EUR 159.3 million, followed by Retail Banking in Slovenia and Corporate and Investment Banking in Slovenia, with EUR 81.4 million and EUR 34.0 million, respectively. Financial Markets in Slovenia contributed EUR 23.5 million to the net interest income of the Group.

The net non-interest income was the highest in the segment Retail Banking in Slovenia, EUR 89.0 million, followed by Strategic Foreign Markets and Corporate and Investment Banking in Slovenia, EUR 49.8 million and EUR 41.2 million, respectively.

Non-core Members: Negative result due to continuing divestments

Total assets of Non-core Members decreased by EUR 38.3 million and the segment realised a loss before tax of EUR 4.6 million, which is in line with the restructuring plan.

Income statement

Table 10: Income statement of NLB Group and NLB[i]

in EUR million

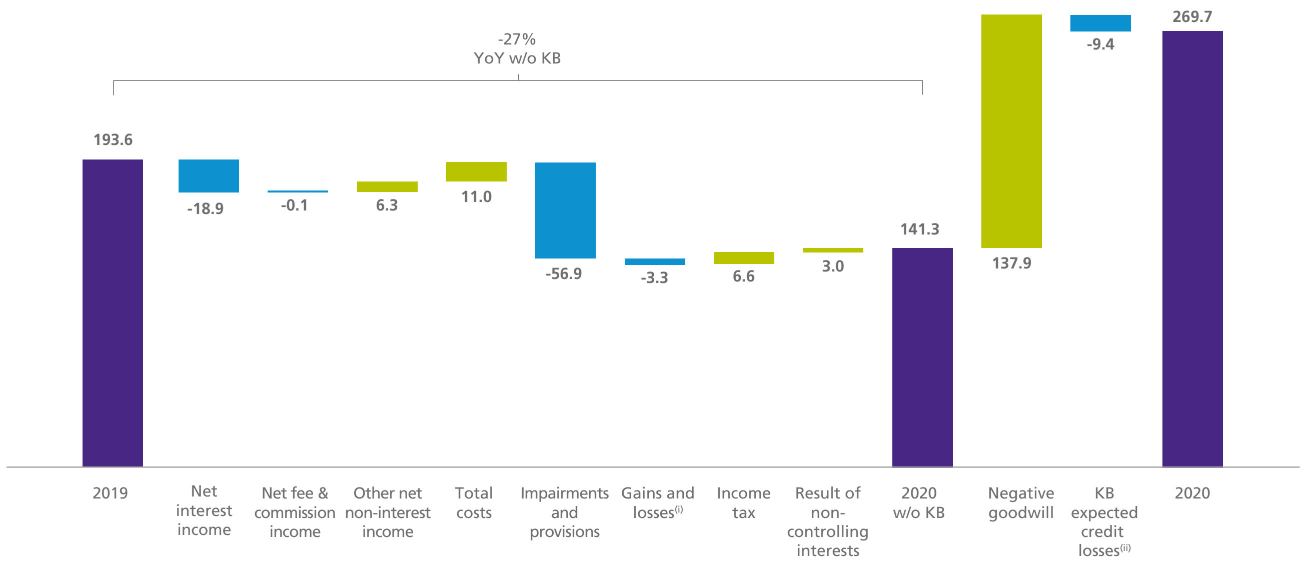
	NLB Group											
	2020	2019	Change YoY		Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change QoQ	
Net interest income	299.6	318.5	-18.9	▼ -6%	75.1	74.4	72.7	77.4	79.7	0.6	▲ 1%
Net fee and commission income	170.3	170.3	-0.1	0%	45.1	43.7	39.0	42.4	43.5	1.5	▲ 3%
Dividend income	0.1	0.2	-0.1	▼ -47%	0.0	0.0	0.1	0.0	0.0	0.0	▼ -50%
Net income from financial transactions	32.0	33.8	-1.9	▼ -6%	2.0	5.7	20.5	3.8	5.8	-3.7	▼ -65%
Net other income	2.6	-5.7	8.3	-	-1.0	-0.5	3.9	0.2	0.8	-0.5	▼ -99%
Net non-interest income	204.9	198.7	6.2	▲ 3%	46.1	48.9	63.5	46.4	50.1	-2.8	▼ -6%
Total net operating income	**504.5**	**517.2**	**-12.7**	**▼ -2%**	**121.2**	**123.3**	**136.2**	**123.8**	**129.8**	**-2.2**	**▼ -2%**
Employee costs	-165.0	-171.2	6.2	▲ 4%	-42.0	-40.2	-39.8	-42.9	-48.0	-1.9	▼ -5%
Other general and administrative expenses	-97.3	-102.8	5.6	▲ 5%	-27.6	-23.5	-22.5	-23.7	-32.3	-4.2	▼ -18%
Depreciation and amortisation	-31.7	-31.0	-0.8	▼ -2%	-8.0	-7.8	-7.9	-8.1	-7.7	-0.2	▼ -2%
Total costs	**-293.9**	**-305.0**	**11.0**	**▲ 4%**	**-77.7**	**-71.4**	**-70.2**	**-74.6**	**-88.0**	**-6.2**	**▼ -9%**
Result before impairments and provisions	**210.5**	**212.2**	**-1.7**	**▼ -1%**	**43.5**	**51.9**	**66.0**	**49.2**	**41.9**	**-8.4**	**▼ -16%**
Impairments and provisions for credit risk	-62.3	13.3	-75.6	-	-13.2	-16.3	-4.6	-28.2	-2.3	3.0	▲ 19%
o/w-KB	-13.4		-13.4	-	-13.4					-13.4	-
Other impairments and provisions	-9.1	-14.3	5.2	▲ 37%	-7.9	-0.7	-0.3	-0.2	-8.4	-7.2	-
Impairments and provisions	-71.4	-1.0	-70.4	-	-21.1	-17.0	-4.9	-28.3	-10.7	-4.1	▼ -24%
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	0.9	4.2	-3.3	▼ -79%	0.0	0.5	0.2	0.2	0.0	-0.5	-
Negative goodwill	137.9		137.9	-	137.9					-137.9	-
Result before tax	**277.9**	**215.4**	**62.5**	**▲ 29%**	**160.2**	**35.4**	**61.3**	**21.0**	**31.2**	**124.9**	**-**
Income tax	-5.2	-13.6	8.4	▲ 62%	3.8	-3.4	-3.9	-1.6	2.2	7.2	-
Result of non-controlling interests	3.0	8.2	-5.2	▼ -63%	-1.1	1.0	2.0	1.2	2.0	-2.1	-
Result after tax	**269.7**	**193.6**	**76.1**	**▲ 39%**	**165.1**	**31.0**	**55.4**	**18.3**	**31.3**	**134.1**	**-**
Result after tax w/o KB	141.3	193.6	-52.3	▼ -27%	36.6	31.0	55.4	18.3	31.3	5.6	▲ 18%

[i] Data for 2019 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses). More details are available in note 2.3. of the Audited Financial Statements of NLB Group and NLB d.d.

in EUR million

	NLB										
	2020	2019	Change YoY		Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Change QoQ	
Net interest income	138.9	158.1	-19.2	-12%	34.5	33.6	33.6	37.2	39.1	1.0	3%
Net fee and commission income	104.5	104.0	0.5	0%	27.3	26.9	24.2	26.1	25.9	0.5	2%
Dividend income	6.3	71.2	-65.0	-91%	5.5	0.7	0.0	0.0	0.0	4.8	-
Net income from financial transactions	28.1	24.0	4.2	17%	3.0	3.6	18.3	3.2	2.6	-0.5	-14%
Net other income	33.9	-2.6	36.6	-	1.5	0.8	30.0	1.6	1.4	0.8	104%
Net non-interest income	172.8	196.5	-23.7	-12%	37.4	31.9	72.5	31.0	29.9	5.5	17%
Total net operating income	**311.7**	**354.7**	**-43.0**	**-12%**	**72.0**	**65.5**	**106.1**	**68.1**	**69.1**	**6.5**	**10%**
Employee costs	-102.6	-108.6	6.0	5%	-25.4	-25.1	-24.9	-27.1	-31.2	-0.3	-1%
Other general and administrative expenses	-60.0	-64.5	4.5	7%	-17.0	-14.4	-14.1	-14.5	-21.8	-2.7	-18%
Depreciation and amortisation	-17.8	-18.0	0.2	1%	-4.3	-4.4	-4.5	-4.7	-4.6	0.0	0%
Total costs	**-180.5**	**-191.1**	**10.7**	**6%**	**-46.8**	**-43.8**	**-43.5**	**-46.3**	**-57.6**	**-2.9**	**-7%**
Result before impairments and provisions	**131.2**	**163.5**	**-32.3**	**-20%**	**25.2**	**21.6**	**62.6**	**21.8**	**11.5**	**3.5**	**16%**
Impairments and provisions for credit risk	-9.0	17.1	-26.1	-	8.5	-2.8	-0.6	-14.2	2.2	11.3	-
Other impairments and provisions	-8.3	-2.8	-5.5	-193%	-7.9	0.1	-0.5	0.0	-6.2	-8.0	-
Impairments and provisions	-17.4	14.2	-31.6	-	0.6	-2.7	-1.1	-14.2	-4.0	3.3	-
Result before tax	**113.9**	**177.7**	**-63.9**	**-36%**	**25.8**	**18.9**	**61.5**	**7.6**	**7.4**	**6.8**	**36%**
Income tax	0.1	-1.6	1.7	-	2.6	-1.2	-1.2	-0.1	5.7	3.9	-
Result after tax	**114.0**	**176.1**	**-62.2**	**-35%**	**28.4**	**17.7**	**60.3**	**7.5**	**13.2**	**10.7**	**61%**

(i) Data for 2019 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses). More details are available in note 2.3. of the Audited Financial Statements of NLB Group and NLB d.d.



(i) Gains less losses from capital investments in subsidiaries, associates, and joint ventures.
(ii) Effect partially also shown on Income tax and Non-controlling interests.

Figure 8: Profit after tax of NLB Group (in EUR million) – evolution YoY

Result reflects solid revenues despite COVID-19 negative impact on business operations

The Group generated EUR 269.7 million of profit after tax, EUR 76.1 million or 39% more YoY and was based on the following key drivers and YoY evolution:

- Lower net interest income, EUR 18.9 million YoY (6%), mostly related to lower yields due to reinvestment of debt securities (realised non-recurring profit of EUR 17.1 million in the Bank), a higher volume of cash and balances with the CB, and the raised subordinated Tier 2 bonds. The pressure on interest margins in the Bank and banking members in SEE continues. The decline was partially compensated with loan volume growth and growth in net interest income in some members (NLB Banka, Prishtina, NLB Banka, Podgorica and NLB Banka, Beograd);
- Net fee and commission income on the same level YoY, influenced by the COVID-19 outbreak and its negative impact on card operations and payment transactions however, was compensated by increased package fees, higher assets management and bancassurance fees, and achieved discounts on card operations;
- Non-recurring net income from financial transactions was affected by the sale of debt securities in the Bank (EUR 17.1 million); in 2019 by partial repayment of large exposure measured at fair value through profit and loss in the amount of EUR 5.1 million and revaluation of non-core equity stake in the amount of EUR 6.3 million. Non-recurring net other income was affected by the sale of NLB Vita with a positive effect of EUR 11.0 million in May 2020;
- Total costs were EUR 11.0 million lower (4%) YoY, mostly due to lower employee costs and positive effects from cash management and paperless projects, and cost of services (consulting). Costs remain well contained through all cost categories and geographies;
- Negative goodwill in the amount of EUR 137.9 million due to acquisition of Komercijalna Banka, Beograd at the end of the year;
- Additional net impairments and provisions were established in the amount of EUR 71.4 million, out of which EUR 18.4 million due to changed macroeconomic parameters, that incorporate estimated impacts of COVID-19 outbreak and EUR 13.4 million for expected credit losses on the performing portfolio for Komercijalna Banka group.

One-off effects from the

sale of NLB Vita

and

debt securities

in the Bank.

71.4 million EUR

established impairments and provisions mostly due to COVID-19 outbreak.

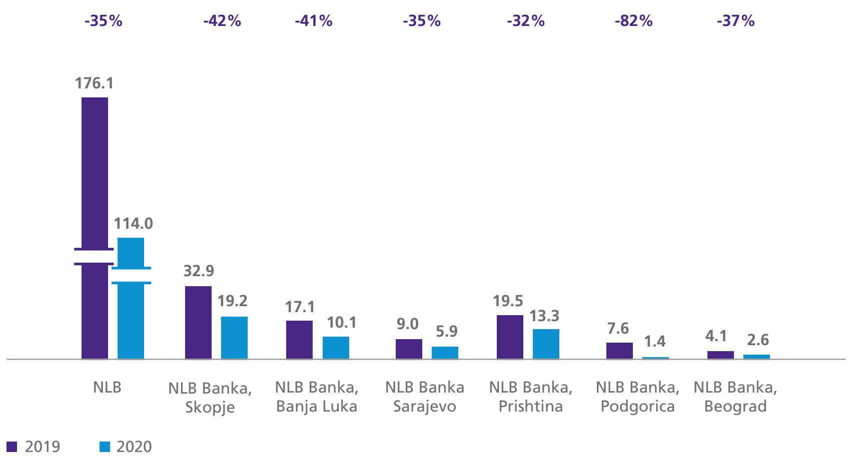


Figure 9: Profit after tax of NLB Group banks (on a stand-alone basis, in EUR million)

Despite the COVID-19 outbreak, all banks in the Group reported a profit. Lower profit YoY was recorded in all the banks, mainly due to establishment of credit impairments and provisions related to COVID-19 outbreak.

The result of the Bank decreased by 35% YoY to EUR 114.0 million from EUR 176.1 million achieved in 2019. Banking subsidiaries refrained from paying out dividends due to COVID-19 restrictions, and additional impairments and provisions related to COVID-19 outbreak were formed which materially lowered the final result. Sale of NLB Vita and debt securities, as well as an efficiently managed cost base partially neutralised the COVID-19 effects.

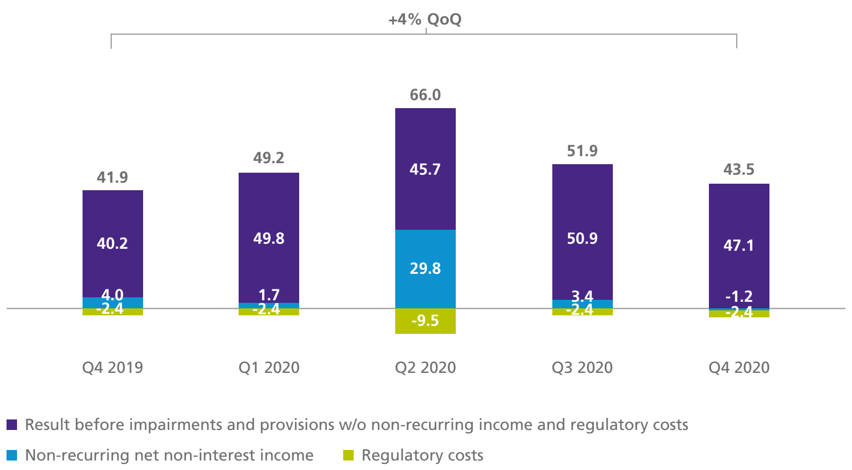


Figure 10: Result before impairments and provisions of NLB Group (in EUR million)

Profit before impairments and provisions of the Group totalled EUR 210.5 million, EUR 1.7 million or 1% lower YoY. In Q2 2020, the result before impairments and provisions was higher due to non-recurring net non-interest income (sale of NLB Vita and debt securities in the Bank), but partially offset by regulatory costs in the Bank (EUR 1.7 million for SRF and EUR 5.5 million for DGS).

Net interest income

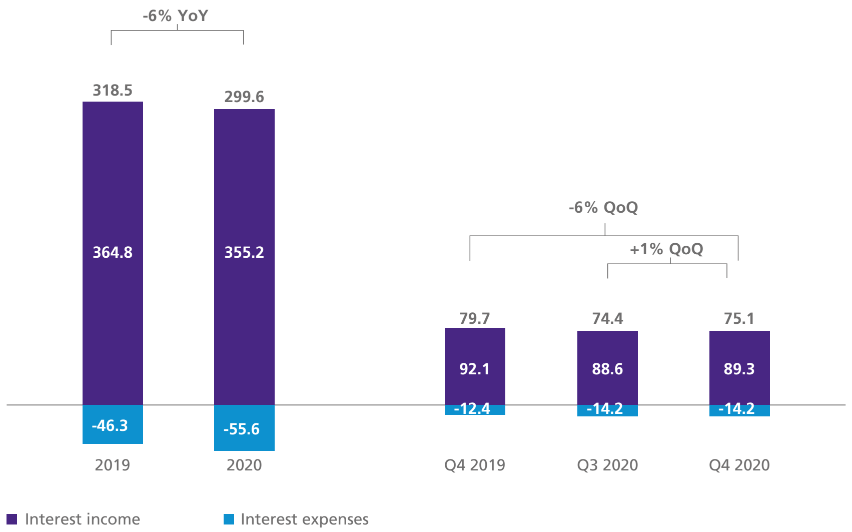
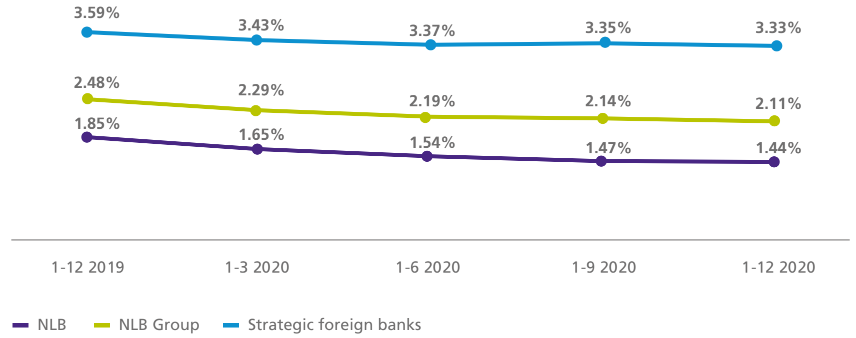


Figure 11: Net interest income of NLB Group (in EUR million)



(i) Calculated on the basis of average interest bearing assets; without the effect of acquisition of Komercijalna Banka, Beograd for NLB Group and Strategic foreign banks in the period 1-12 2020.

Figure 13: Net interest margin(i) of NLB Group (in %)

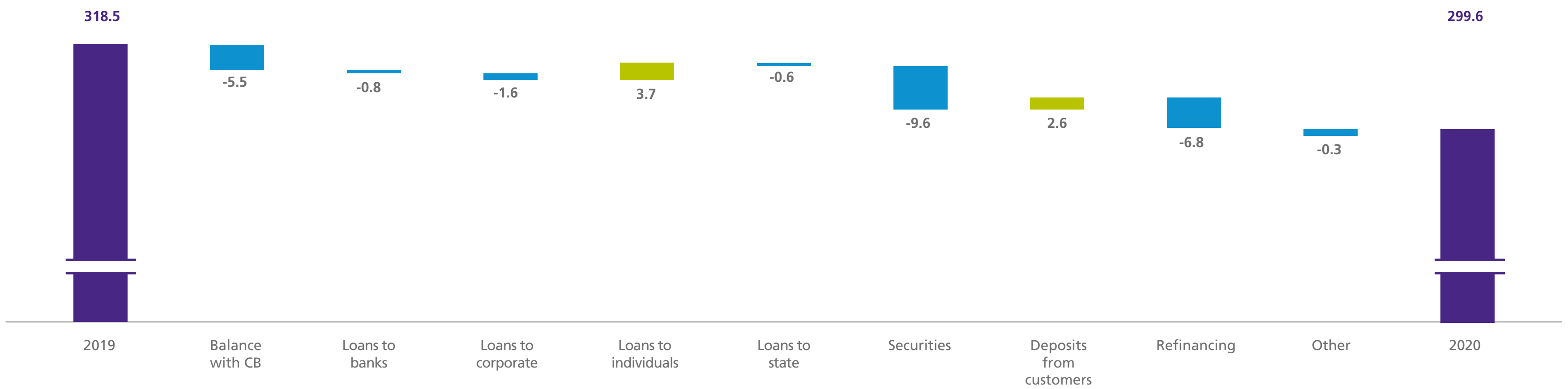


Figure 12: Effects on net interest income change (in EUR million) – evolution YoY

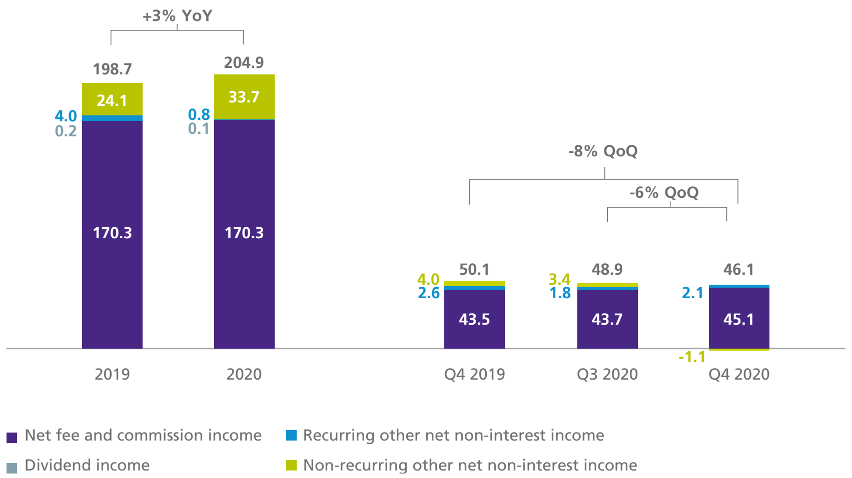
Net interest income of the Group accounted for 59% of the Group's total net revenues (2019: 62%), decreasing by 6% YoY to EUR 299.6 million. The decrease in interest income was mostly related to lower income from financial assets related to reinvestment of debt securities with lower yields, higher cash volumes and balances with the CB (bearing negative interest in line with the expansionary monetary policy), and continued pressure on interest rates achieved on the loan portfolio in the Bank and Group banking members in the SEE region. Higher interest expenses are related to the subordinated Tier 2 bonds raised by the Bank to optimize the capital structure, while interest expenses for customer deposits were decreased.

Net interest income was negatively affected by lower yields on securities, excess liquidity at CB, and higher volume of liabilities, especially subordinated debt. In contrast, there was a positive effect from the increase of interest income from loans to individuals (due to volume growth, despite lower interest rates), and the decrease of expenses for deposits (due to lower interest rates, despite increased volume).

Net interest margin in the Group decreased 0.37 p.p. YoY and amounted to 2.11%. The interest margin for the Bank and the Group banking members in the SEE region decreased YoY, totalling 1.44% and 3.33%, respectively. A substantial YoY decrease in the interest margin was recorded due to:

- the sale of debt securities in H1 2020 (realised one-off effect in the amount of EUR 17.1 million) and their reinvestment at lower yields, mostly in Q3 2020, in the Bank;
- higher cost of funding due to subordinated Tier 2 bonds raised by the Bank (EUR 7.3 million);
- higher cash volumes and balances with the CB bearing negative interest;
- continued pressure on interest rates in the Bank and banking members in SEE.

Net non-interest income



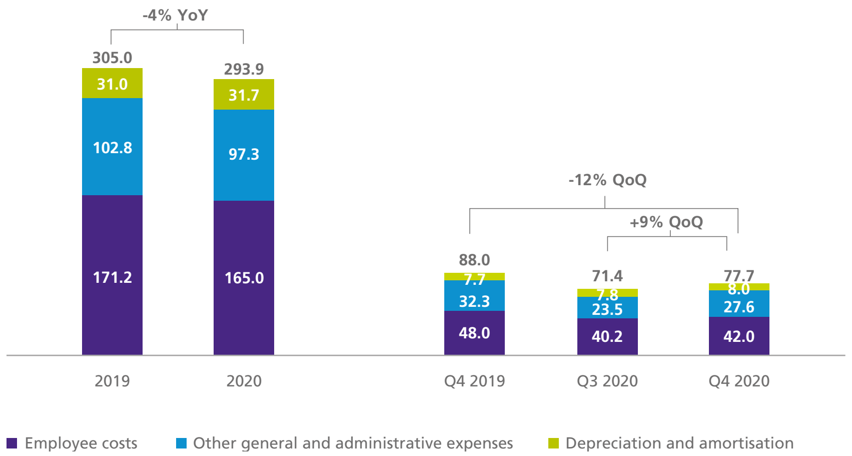
(i) Please refer to note (i) under Table 10.

Figure 14: Net non-interest income of NLB Group (in EUR million)(i)

Net non-interest income reached EUR 204.9 million and increased by EUR 6.2 million or 3% YoY. The YoY dynamic was influenced by the following factors:

- Net fee and commission income on the same level YoY. COVID-19 outbreak had negative impact mostly on card operations and payment transactions, but was compensated by increased package fees, higher assets management and bancassurance fees, and achieved discounts on card operations;
- A decrease in the last quarter mainly related to the modification losses caused by changes of contractual cash flows for loans subject to COVID-19 moratoria in a total amount of EUR 3.6 million (o/w EUR 2.1 million in NLB Banka, Skopje and EUR 1.1 million in NLB Banka, Beograd);
- Net non-interest income was positively impacted by non-recurring income. Non-recurring net income from financial transaction was affected by the sale of debt securities in the Bank (EUR 17.1 million) and non-recurring net other income by the sale of NLB Vita with a positive effect of EUR 11.0 million in May 2020;
- In 2019, non-recurring net income was affected by partial repayment of a larger exposure measured at fair value through profit and loss in the amount of EUR 5.1 million and revaluation of a non-core equity stake in the amount of EUR 6.3 million.

Operating costs



(i) Please refer to note (i) under Table 10.

Figure 15: Total costs of NLB Group (in EUR million)(i)

Total costs amounted to EUR 293.9 million and are thus by EUR 11.0 million or 4% lower YoY. The overall decrease was achieved due to lower employee costs (lower number of branches and employees, mainly in the Bank), positive effects from cash management and paperless projects, and the lower cost of services (consulting). Conversely, the Group recorded higher IT costs, costs of material (mostly due to COVID-19 protection material), and supervisory costs in the Bank.

CIR stood at 58.3%, a 0.7 p.p. decrease YoY.

Establishment of net impairments and provisions

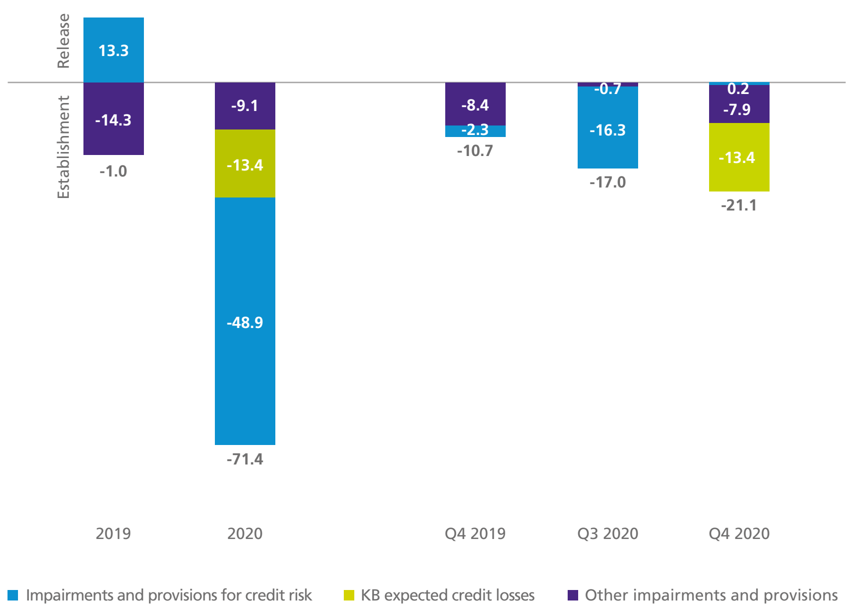


Figure 16: NLB Group impairments and provisions (in EUR million)

The Group established EUR 71.4 million of net impairments and provisions, out of which EUR 18.4 million due to changed macroeconomic parameters, that incorporate estimated impacts of COVID-19 outbreak. In addition, expected credit losses on the performing portfolio for Komercijalna Banka group in the amount of EUR 13.4 million were created.

The Group's cost of risk was positive (62 bps[7]), as it was in all Group bank members as well. This can mostly be attributed to established provisions related to the COVID-19 outbreak, although partially neutralised with the successful resolution of business cases in restructuring and workout (net release of approximately EUR 18 million in the Bank).

Other impairments and provisions were established in the amount of EUR 9.1 million, of which there were provisions for legal disputes (EUR 4.2 million in the Bank and EUR 1.3 million in NLB Banka, Podgorica) and HR provisions (EUR 3.5 million in the Bank).

7. Komercijalna Banka group is excluded from calculation to ensure comparability with previous years (excluded expected credit losses on the performing portfolio for Komercijalna Banka group and loans to customers acquired from Komercijalna Banka group).

Statement of financial position

Table 11: Statement of financial position of NLB Group and NLB

in EUR million

NLB Group	31 Dec 2020	31 Dec 2019	Change YoY		31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	Change QoQ	
ASSETS											
Cash, cash balances at central banks, and other demand deposits at banks	3,961.8	2,101.3	1,860.5	▲ 89%	3,961.8	3,010.9	3,084.6	2,095.4	2,101.3	950.9	▲ 32%
Loans to banks	197.0	93.4	103.6	▲ 111%	197.0	112.5	94.9	93.6	93.4	84.5	▲ 75%
Net loans to customers	9,644.9	7,604.7	2,040.3	▲ 27%	9,644.9	7,749.0	7,686.7	7,759.8	7,604.7	1,895.9	▲ 24%
Gross loans to customers	10,033.3	7,938.3	2,095.0	▲ 26%	10,033.3	8,111.1	8,048.9	8,125.6	7,938.3	1,922.2	▲ 24%
- Corporate	4,631.7	3,646.3	985.5	▲ 27%	4,631.7	3,702.4	3,751.7	3,823.6	3,646.3	929.3	▲ 25%
- Individuals	5,027.6	4,013.5	1,014.1	▲ 25%	5,027.6	4,119.4	4,002.6	4,016.1	4,013.5	908.2	▲ 22%
- State	374.0	278.6	95.5	▲ 34%	374.0	289.3	294.7	286.0	278.6	84.7	▲ 29%
Impairments and valuation of loans to customers	-388.4	-333.6	-54.8	▼ -16%	-388.4	-362.1	-362.2	-365.8	-333.6	-26.3	▼ -7%
Financial assets	5,119.5	3,829.7	1,289.8	▲ 34%	5,119.5	3,783.8	3,504.8	3,711.2	3,829.7	1,335.8	▲ 35%
- Trading book	84.9	24.0	60.8	-	84.9	16.8	22.6	25.6	24.0	68.1	-
- Non-trading book	5,034.7	3,805.7	1,229.0	▲ 32%	5,034.7	3,767.0	3,482.2	3,685.6	3,805.7	1,267.7	▲ 34%
Investments in subsidiaries, associates, and joint ventures	8.0	7.5	0.5	▲ 7%	8.0	7.7	7.9	7.7	7.5	0.3	▲ 3%
Property and equipment, investment property	304.0	247.9	56.0	▲ 23%	304.0	240.0	243.6	245.4	247.9	63.9	▲ 27%
Intangible assets	61.7	39.5	22.1	▲ 56%	61.7	37.5	37.6	37.9	39.5	24.2	▲ 65%
Other assets	268.9	250.0	19.0	▲ 8%	268.9	204.2	231.7	337.2	250.0	64.7	▲ 32%
TOTAL ASSETS	**19,565.9**	**14,174.1**	**5,391.8**	▲ **38%**	**19,565.9**	**15,145.7**	**14,891.9**	**14,288.3**	**14,174.1**	**4,420.1**	▲ **29%**
LIABILITIES											
Deposits from customers	16,397.2	11,612.3	4,784.9	▲ 41%	16,397.2	12,408.8	12,190.8	11,652.9	11,612.3	3,988.4	▲ 32%
- Corporate	3,949.1	2,772.0	1,177.2	▲ 42%	3,949.1	2,915.0	2,781.2	2,641.7	2,772.0	1,034.1	▲ 35%
- Individuals	12,023.5	8,582.9	3,440.6	▲ 40%	12,023.5	9,197.2	9,146.9	8,728.6	8,582.9	2,826.3	▲ 31%
- State	424.5	257.4	167.1	▲ 65%	424.5	296.5	262.7	282.5	257.4	128.0	▲ 43%
Deposits form banks and central banks	72.6	42.8	29.8	▲ 70%	72.6	49.7	54.3	63.1	42.8	23.0	▲ 46%
Borrowings	249.8	234.8	14.9	▲ 6%	249.8	218.6	220.9	232.5	234.8	31.2	▲ 14%
Other liabilities	434.9	342.6	92.3	▲ 27%	434.9	359.0	360.1	328.4	342.6	76.0	▲ 21%
Subordinated liabilities	288.3	210.6	77.8	▲ 37%	288.3	290.0	287.4	286.6	210.6	-1.7	▼ -1%
Equity	1,952.8	1,685.9	266.9	▲ 16%	1,952.8	1,770.8	1,730.6	1,678.9	1,685.9	182.0	▲ 10%
Non-controlling interests	170.3	45.0	125.2	-	170.3	48.9	47.7	45.9	45.0	121.3	-
TOTAL LIABILITIES AND EQUITY	**19,565.9**	**14,174.1**	**5,391.8**	▲ **38%**	**19,565.9**	**15,145.7**	**14,891.9**	**14,288.3**	**14,174.1**	**4,420.1**	▲ **29%**

in EUR million

NLB	31 Dec 2020	31 Dec 2019	Change YoY		31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	Change QoQ	
ASSETS											
Cash, cash balances at central banks, and other demand deposits at banks	2,261.5	1,292.2	969.3	▲ 75%	2,261.5	2,179.3	2,239.9	1,355.9	1,292.2	82.2	▲ 4%
Loans to banks	158.3	144.4	14.0	▲ 10%	158.3	187.8	214.2	160.3	144.4	-29.5	▼ -16%
Net loans to customers	4,595.1	4,589.2	5.9	0%	4,595.1	4,554.0	4,526.2	4,682.7	4,589.2	41.1	▲ 1%
Gross loans to customers	4,753.1	4,718.0	35.0	▲ 1%	4,753.1	4,697.5	4,671.4	4,834.1	4,718.0	55.6	▲ 1%
- Corporate	2,168.5	2,154.5	14.0	▲ 1%	2,168.5	2,143.7	2,178.3	2,303.4	2,154.5	24.8	▲ 1%
- Individuals	2,411.9	2,376.8	35.2	▲ 1%	2,411.9	2,381.0	2,317.6	2,354.2	2,376.8	31.0	▲ 1%
- State	172.6	186.8	-14.2	▼ -8%	172.6	172.8	175.5	176.4	186.8	-0.2	0%
Impairments and valuation of loans to customers	-158.0	-128.9	-29.1	▼ -23%	-158.0	-143.5	-145.3	-151.4	-128.9	-14.5	▼ -10%
Financial assets	3,017.2	3,168.6	-151.4	▼ -5%	3,017.2	3,123.4	2,847.6	3,053.2	3,168.6	-106.2	▼ -3%
- Trading book	18.8	24.1	-5.3	▼ -22%	18.8	17.0	22.7	25.6	24.1	1.9	▲ 11%
- Non-trading book	2,998.4	3,144.5	-146.1	▼ -5%	2,998.4	3,106.5	2,824.9	3,027.6	3,144.5	-108.1	▼ -3%
Investments in subsidiaries, associates, and joint ventures	750.7	353.2	397.5	▲ 113%	750.7	356.3	356.3	353.2	353.2	394.5	▲ 111%
Property and equipment, investment property	100.0	99.2	0.8	▲ 1%	100.0	95.6	97.5	98.5	99.2	4.4	▲ 5%
Intangible assets	28.1	26.0	2.1	▲ 8%	28.1	23.7	24.2	24.4	26.0	4.4	▲ 19%
Other assets	115.6	128.8	-13.2	▼ -10%	115.6	118.7	142.8	217.6	128.8	-3.1	▼ -3%
TOTAL ASSETS	**11,026.6**	**9,801.6**	**1,225.0**	▲ **12%**	**11,026.6**	**10,638.8**	**10,448.5**	**9,945.9**	**9,801.6**	**387.8**	▲ **4%**
LIABILITIES											
Deposits from customers	8,850.8	7,760.7	1,090.0	▲ 14%	8,850.8	8,405.6	8,266.3	7,834.7	7,760.7	445.2	▲ 5%
- Corporate	1,916.6	1,674.9	241.7	▲ 14%	1,916.6	1,750.0	1,640.7	1,576.0	1,674.9	166.6	▲ 10%
- Individuals	6,812.4	5,985.0	827.4	▲ 14%	6,812.4	6,529.6	6,516.5	6,146.1	5,985.0	282.7	▲ 4%
- State	121.8	100.9	20.9	▲ 21%	121.8	125.9	109.2	112.7	100.9	-4.1	▼ -3%
Deposits form banks and central banks	41.6	89.8	-48.2	▼ -54%	41.6	110.6	89.5	102.3	89.8	-69.0	▼ -62%
Borrowings	143.5	164.1	-20.6	▼ -13%	143.5	151.6	152.7	163.6	164.1	-8.1	▼ -5%
Other liabilities	251.4	243.1	8.3	▲ 3%	251.4	266.5	263.5	239.8	243.1	-15.1	▼ -6%
Subordinated liabilities	288.3	210.6	77.8	▲ 37%	288.3	290.0	287.4	286.6	210.6	-1.7	▼ -1%
Equity	1,451.0	1,333.2	117.8	▲ 9%	1,451.0	1,414.4	1,389.2	1,318.9	1,333.2	36.5	▲ 3%
TOTAL LIABILITIES AND EQUITY	**11,026.6**	**9,801.6**	**1,225.0**	▲ **12%**	**11,026.6**	**10,638.8**	**10,448.5**	**9,945.9**	**9,801.6**	**387.8**	▲ **4%**

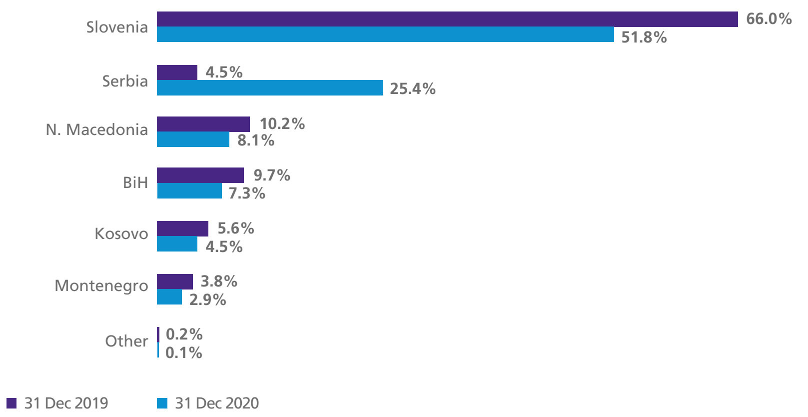
Table 12: Effects of Komercijalna Banka group acquisition on selected balance sheet items of NLB Group

in EUR million

	31 Dec 2020 consolidated	31 Dec 2020 w/o KB	31 Dec 2020 KB contribution	31 Dec 2019	Change YoY w/o KB	
Loans to banks	197.0	150.1	46.9	93.4	56.7	61%
Net loans to customers	9,644.9	7,777.9	1,867.0	7,604.7	173.3	2%
Gross loans to customers	10,033.3	8,156.0	1,877.3	7,938.3	217.7	3%
- Corporate	4,631.7	3,712.7	919.0	3,646.3	66.4	2%
- Individuals	5,027.6	4,178.2	849.4	4,013.5	164.7	4%
- State	374.0	265.1	108.9	278.6	-13.4	-5%
Impairments and valuation of loans to customers	-388.4	-378.0	-10.3	-333.6	-44.4	-13%
Financial assets	5,119.5	3,755.5	1,364.1	3,829.7	-74.2	-2%
- Trading book	84.9	18.5	66.4	24.0	-5.5	-23%
- Non-trading book	5,034.7	3,737.0	1,297.7	3,805.7	-68.7	-2%
Deposits from customers	16,397.2	12,953.7	3,443.5	11,612.3	1,341.4	12%
- Corporate	3,949.1	3,110.5	838.6	2,772.0	338.6	12%
- Individuals	12,023.5	9,577.2	2,446.3	8,582.9	994.3	12%
- State	424.5	265.9	158.6	257.4	8.5	3%

Balance sheet volume of the Group increased by EUR 5,391.8 million YoY totaling to EUR 19,565.9 million, with substantial increase related to acquisition of Komercijalna Banka, Beograd. Without its inclusion, the balance sheet volume of the Group would also increase, mainly due to the continued inflow of deposits from individuals (EUR 994.3 million YoY) and corporate (EUR 338.6 million) and higher subordinated debt (EUR 77.8 million). Excess liquidity was deposited on the account with the CB, while the net loans to customers would increase by EUR 173.3 million, predominantly to individuals. Substantial deleveraging of banking book securities in H1 2020 (EUR 323.5 million) was already reinvested in Q3 (EUR 284.8 million), followed by modest deleverage in Q4 (EUR 30.0 million).

Assets



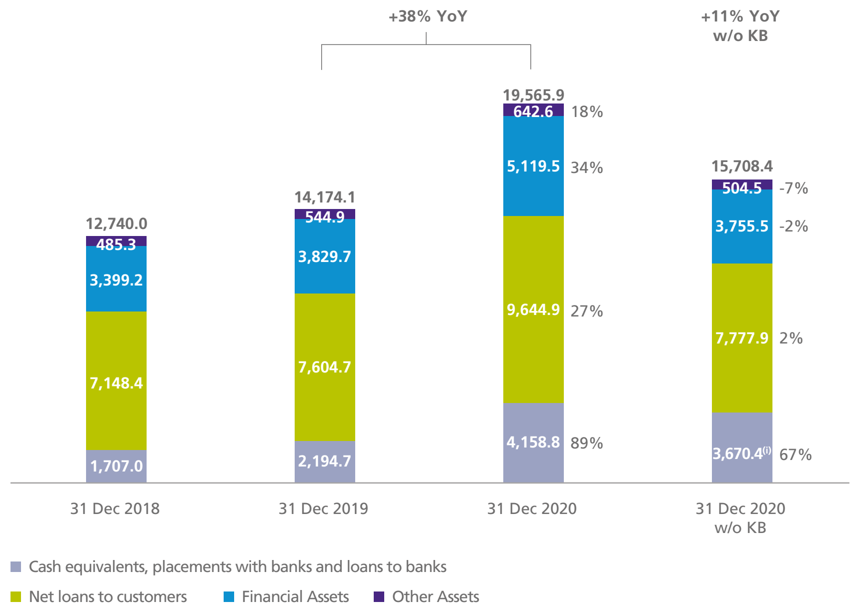
(i) Geographical analysis based on the location of NLB Group entities.

Figure 17: NLB Group total assets by location of NLB Group entities (in %)(i)

51.8% of the total assets were related to Group members located in Slovenia (2019: 66.0%). The change of the structure is due to increased share of assets in Serbia (from 4.5% to 25.4%), due to acquisition of Komercijalna Banka, Beograd.

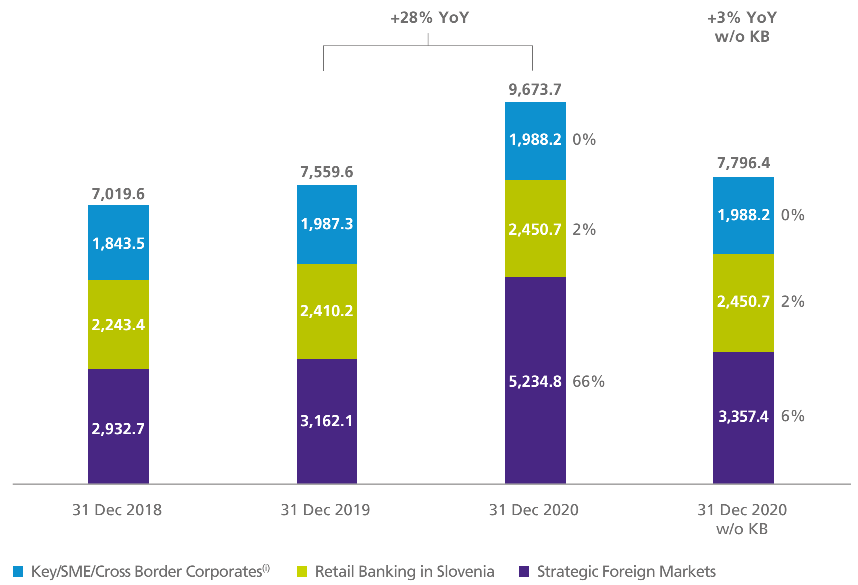
The Group recorded 26% growth in gross loans to customers to EUR 10,033.3 million, of which EUR 1,877.3 million due to the Komercijalna Banka, Beograd acquisition. Despite the COVID-19 outbreak and the negative impact of macroprudential measures on consumer loans introduced in November 2019, this caused an adverse effect on the new production of loans to individuals, the retail loan book without Komercijalna Banka group loans would increase YoY (EUR 164.7 million or 4%), especially housing loans. The Group without the inclusion of Komercijalna Banka group, would recorded a EUR 66.4 million or 2% increase of the corporate loan book YoY exclusively as a result of the pandemic's impact on ensuring liquidity (working capital loans, revolving loans and overdraft facilities for daily liquidity) in Q1 and Q4 2020, while decreases in outstanding loans were recorded in Q2 and Q3.

Key business activities recorded an 28% increase of gross loans to customers YoY to EUR 9,673.7 million, mostly in Strategic Foreign Markets due to the Komercijalna Banka, Beograd acquisition. Without it, the Key business activities would record 3% increase YoY, still mostly due to an increase in Strategic Foreign Markets (EUR 195.3 million or 6%). Retail Banking in Slovenia recorded an increase of EUR 40.5 million (2%), and the Key/SME/Cross Border Corporates stayed on the same level, with a slight EUR 0.9 million increase.



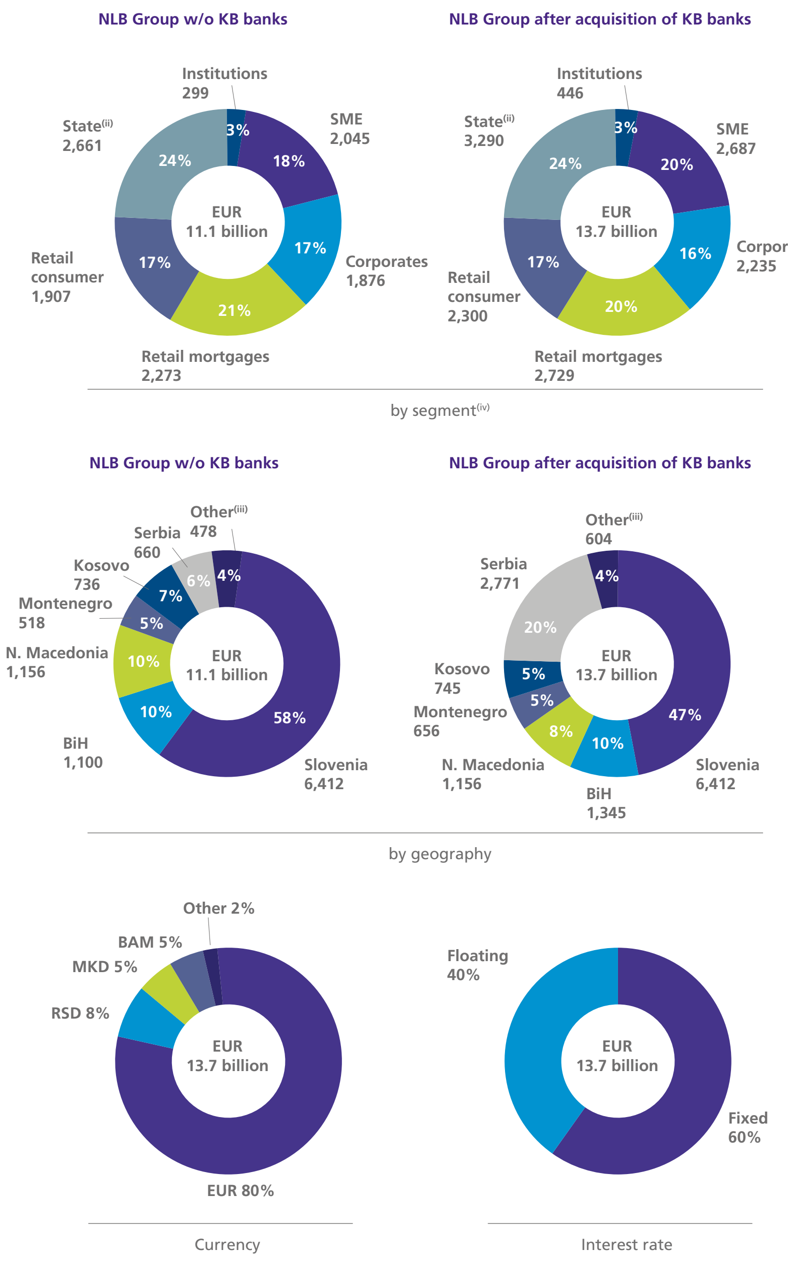
(i) Including cash for the purchase of Komercijalna Banka, Beograd.

Figure 18: Total assets of NLB Group (in EUR million) – structure



(i) Including Gross loans to Corporate and to State.

Figure 19: NLB Group gross loans to customers by Key business activities (in EUR million)



(i) Loan portfolio also includes reserves at CBs and demand deposits at banks.
(ii) State includes exposures to CBs.
(iii) The largest part represents EU members.
(iv) Segmentation in accordance with the company size defined in the Companies Act of an individual country in the region.

Figure 20: Loan portfolio(i) by segment, geography, currency, and rate type (in EUR million)

As at 31 December 2020, with acquisition of Komercijalna Banka, Beograd, there were no major changes in the corporate and retail credit portfolio structure. Credit portfolio remains well diversified, and there is no large concentration in any specific industry or client segment. The share of retail portfolio in the whole credit portfolio is quite substantial, with the segment of mortgage loans still prevailing. The majority of the loan portfolio refers to euro currency, while the rest originates from local currencies of the Group banking members. From interest rate type, more than 60% of the loan portfolio is linked to the fixed interest rate, and the rest to floating rate (mostly to the Euribor reference rate).

Liabilities

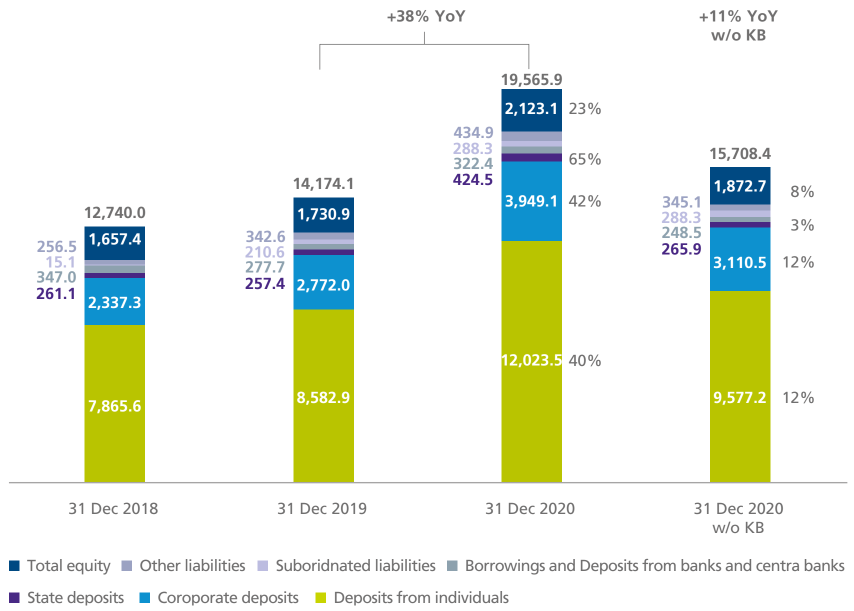


Figure 21: Total liabilities of NLB Group – structure (in EUR million)

Total liabilities of the Group increased and amounted to EUR 17,442.8 million. The Group's funding base is dominated by customer deposits accounting for 84% in which sight deposits prevail (85%, compared to 81% as at 2019 YE). The majority of customer deposits (73%) were from individuals. 54% of deposits were collected in Slovenia (67% at 2019 YE), 24% in Serbia (substantial increase due to Komercijalna Banka, Beograd), and the rest in other Group banking members in SEE.

Deposits from customers increased by 41% YoY, 12% without inclusion of deposits from Komercijalna Banka group. An increase without inclusion of Komercijalna Banka group was recorded in deposits from individuals (EUR 994.3 million or 12%), corporate (EUR 338.6 million or 12%), and state (EUR 8.5 million or 3%). The Komercijalna Banka group increased the deposit base of NLB Group by EUR 3,443.5 million, of which EUR 2,446.3 million was from individuals.

Wholesale funding activities in the Group are conducted with the aim of achieving diversification, improving structural liquidity and capital position, and fulfilling regulatory requirements. The Bank in February raised the subordinated Tier 2 bonds in the amount of EUR 120.0 million to strengthen and optimise the capital position. Two Group banking subsidiaries raised funds in a total amount of EUR 10 million.

The LTD ratio (net) was 58.8% at the Group level; a decrease of 6.7 p.p., of which the Komercijalna Banka group contributed 1.2 p.p. of LTD decrease.

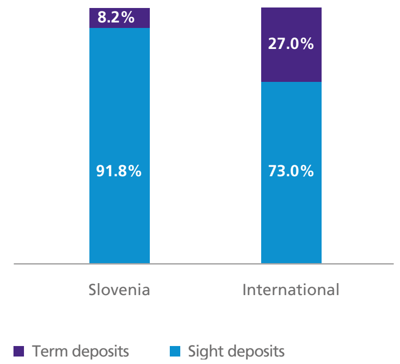


Figure 22: Deposits from customers by type

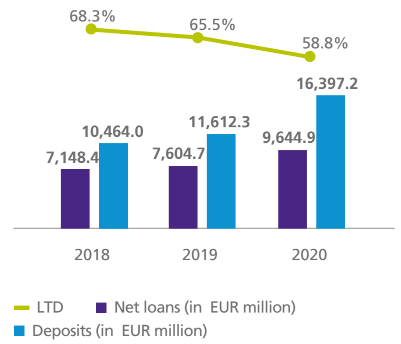


Figure 23: LTD ratio movement

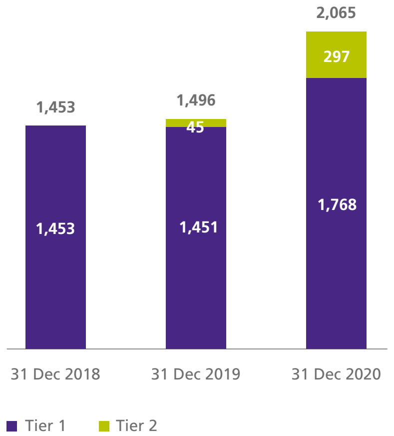


Figure 24: NLB Group capital (in EUR million)

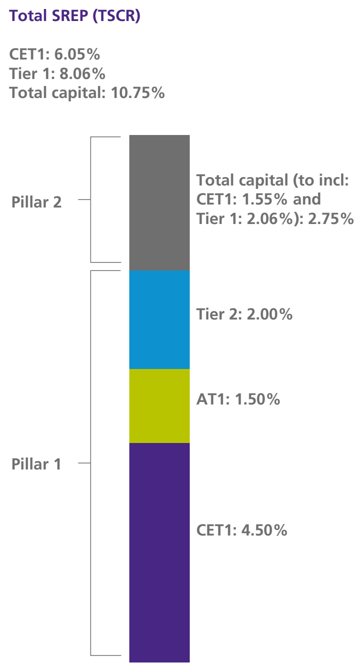


Figure 26: NLB Group capital requirements as at 31 December 2020

Capital and capital adequacy

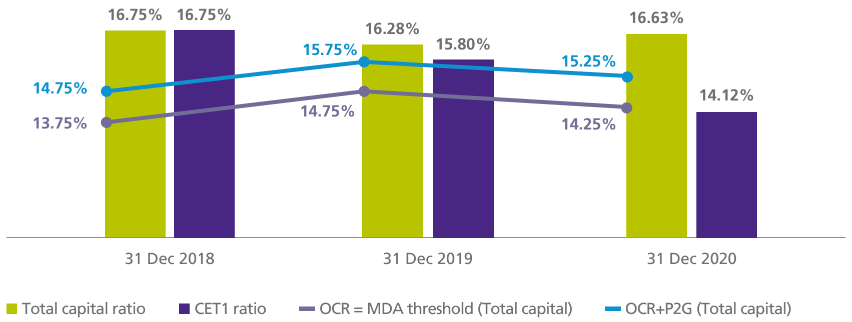


Figure 25: NLB Group capital ratios and regulatory thresholds (in %)

From 1 January 2020, NLB is required to maintain the OCR at the level of 14.25% on a 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 Pillar 2 Requirement decreased by 0.5 p.p. to 2.75%, as a result of better overall SREP assessment. Pillar 2 Guidance (P2G) amounts to 1.0% of CET1.

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

Several measures have been taken by the ECB in relation to COVID-19. The ECB has effectively, as of 12 March 2020, amended the applicable decision for NLB in relation to the Pillar 2 Requirement composition, whereby the Pillar 2 Requirement shall be held in the form of 56.25% of CET1 capital and 75% of Tier 1 capital as a minimum, and not entirely as CET1 capital as required in the previous years. Additionally, the CRR 'quick fix,' as of 26 June 2020, allowed the Group to benefit from lower capital requirements.

The Bank and Group's capital covers all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the P2G.

The Bank continued to strengthen and optimise its capital structure. On 5 February 2020, the Bank issued subordinated Tier 2 bonds (10NC5) in the amount of EUR 120 million. On 25 March 2020, the Bank obtained the ECB's permission to include them in the capital, and the subordinated notes have been included as of 31 March 2020. On 4 March 2020, the Bank also obtained the ECB's permission to include in the capital subordinated Tier 2 bonds

Table 13: NLB Group Capital Requirements and buffers

		from 12 March 2020 onwards	as at 1 January till 11 March 2020	2019	2018
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)	Total Capital	2.75%	2.75%	3.25%	3.5%
Total SREP Capital Requirement (TSCR)	CET1	6.05%	7.25%	7.75%	8.0%
	Tier 1	8.06%	8.75%	9.25%	9.5%
	Total Capital	10.75%	10.75%	11.25%	11.5%
Combined Buffer requirement (CBR)					
Conservation buffer	CET1	2.5%	2.5%	2.5%	1.875%
O-SII buffer	CET1	1.0%	1.0%	1.0%	0.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	10.75%	11.25%	9.875%
	Tier 1	11.56%	12.25%	12.75%	11.375%
	Total Capital	14.25%	14.25%	14.75%	13.375%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%	1.5%
OCR + P2G	CET1	10.55%	11.75%	12.25%	11.375%

(10NC5) issued in November 2019 in the amount of EUR 120 million. Non-controlling interest (minority capital) was included in the capital – as of June 2020 in the amount of EUR 31.7 million, and as of December 2020 in the total amount of EUR 99.0 million (of which EUR 66.1 million due to acquisition of Komercijalna Banka, Beograd). In addition, risk mitigation contracts to reduce RWA on consolidated basis were concluded with MIGA in the total amount of up to EUR 303.1 million and became effective as of 31 July 2020.

The TCR for the Group stood at 16.6% (or 0.3 p.p. higher than at the 2019 YE), and for NLB at 27.1% (or 4.4 p.p. higher than at the 2019 YE). As at 31 December 2020, the CET1 ratio stood at 14.1% (1.7 p.p. YoY decrease). 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. Total capital increased mainly due to inclusion of the subordinated Tier 2 bonds (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 RWA for credit risk increased by EUR 2,502.7 million YoY mainly due to completion of the acquisition process of Komercijalna Banka, Beograd. Excluding the purchase of Komercijalna Banka, Beograd, RWA decreased by EUR 173.9 million as the result of changes in regulation CRR and implementation of MIGA guarantee for obligatory reserves in NLB Group banks.

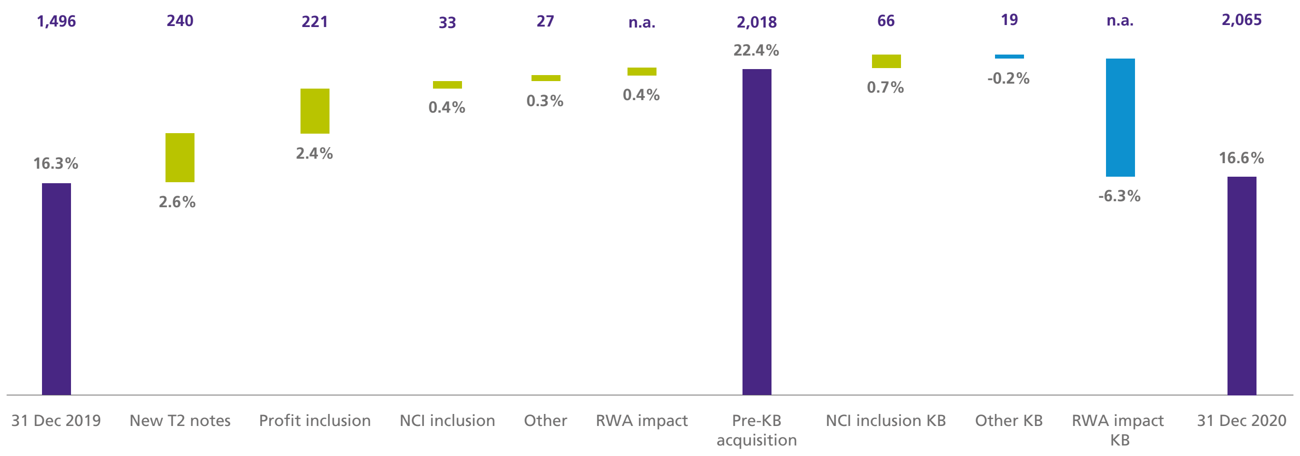


Figure 27: Capital of NLB Group (in EUR million) – evolution YoY

Table 14: Total risk exposure for NLB Group

in EUR million

	Balance at				Change	
	31 Dec 2020	31 Dec 2020 w/o KB	30 Sep 2020	31 Dec 2019	YoY	QoQ
Total risk exposure amount (RWA)	**12,421.0**	**9,014.6**	**8,863.2**	**9,185.5**	**3,235.5**	**3,557.8**
RWA for credit risk	10,222.9	7,546.3	7,374.4	7,720.2	2,502.7	2,848.6
Central governments or central banks	1,892.2	977.9	878.3	1,234.6	657.6	1,013.9
Regional governments or local authorities	135.5	64.1	62.6	58.9	76.5	72.9
Public sector entities	248.8	99.6	101.8	102.1	146.7	147.0
Institutions	311.7	243.4	235.5	208.1	103.6	76.1
Corporates	2,224.2	1,898.3	1,869.3	2,044.9	179.4	354.9
Retail	3,891.8	3,067.9	3,055.5	2,934.4	957.4	836.2
Secured by mortages on immovable property	355.7	355.7	349.2	363.8	-8.1	6.4
Exposures in default	231.5	170.7	156.9	140.0	91.5	74.6
Items associated with particulary high risk	344.2	230.5	256.0	204.3	139.9	88.2
Covered bonds	40.9	40.9	41.6	39.6	1.3	-0.7
Claims in the form of CU	18.7	13.0	12.5	13.3	5.4	6.2
Equity exposures	47.1	29.5	25.0	35.4	11.7	22.1
Other items	480.9	354.9	330.2	340.9	140.0	150.7
RWA for market risk + CVA	1,250.8	520.9	534.7	523.7	727.1	716.0
RWA for operational risk	947.3	947.3	954.1	941.6	5.7	-6.8

CRR QF brought more favourable 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, the inclusion of Serbia in the list of third countries whose supervisory and regulatory requirements are considered equivalent as 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.

The increase in RWA for market risks and CVA (EUR 727.1 million YoY) is 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.

Further information on capital and capital adequacy is available in the **Note 5.22** to the Audited Annual Financial Statements and in Pillar 3 Disclosures.

Liquidity position

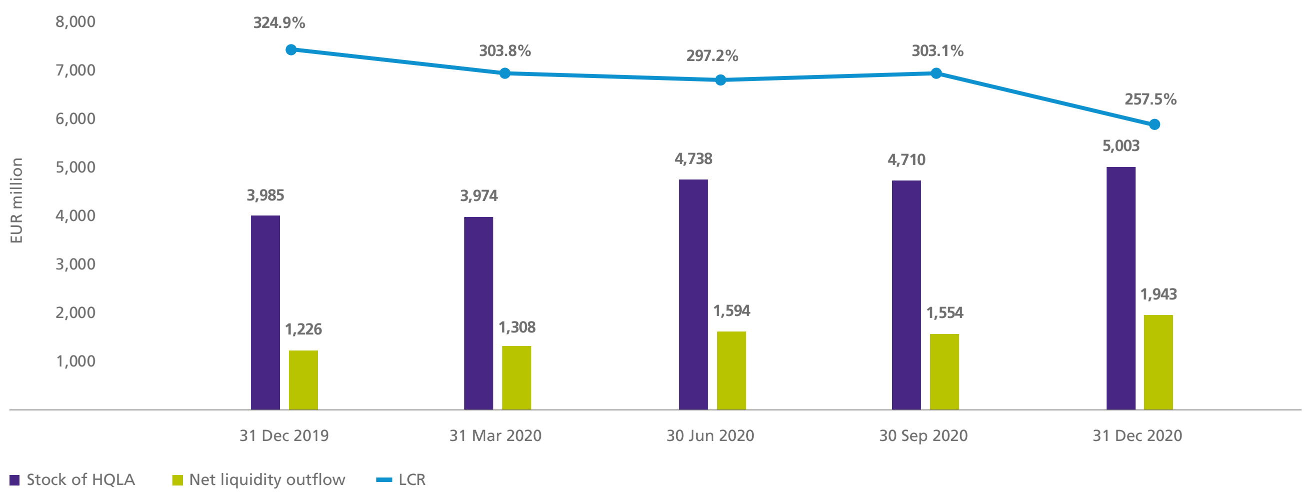


Figure 28: LCR quarterly dynamic of NLB Group

The Group's liquidity remains strong, with a high level of liquid assets in total assets (49.8%) that is reflected in the LCR ratio standing at 257.5%, compared to 324.9% as at 31 December 2019 (the acquisition of Komercijalna Banka group contributed to decrease of LCR, due to high increase of outflows on account of extremely higher amounts of National Bank of Serbia deposits). The Group holds a comfortable liquidity position at both the Group and subsidiary bank levels, standing well above the targeted risk appetite limit.

Segment Analysis

Core Segments

Non-core Segments

Retail Banking in Slovenia

includes banking with individuals and micro companies, asset management (NLB Skladi), and one part of the new subsidiary NLB Lease&Go that deals with retail clients as well as the contribution to the result from the associated company Bankart (in 2019 also from the joint venture NLB Vita[ii] and in 2020 the gains made from the sale of this investment).

Corporate and Investment Banking in Slovenia

includes banking with Key corporate clients, SMEs, and Cross Border corporates, Investment Banking and Custody, Restructuring and Workout, and one part of the new subsidiary NLB Lease&Go that renders services to corporate clients.

Strategic Foreign Markets

includes the operations of strategic Group banks in the strategic markets (North Macedonia, BiH, Kosovo, Montenegro, and Serbia). As a result of the acquisition of Komercijalna Banka, Beograd at the end of the year 2020, the NLB Group obtained three banks: Komercijalna Banka, Beograd, Komercijalna Banka, Podgorica, and Komercijalna Banka, Banja Luka as well as an investment fund company Kombank INvest, Beograd.

Financial Markets in Slovenia

covers treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).

Other

accounts for the Banks categories whose operating results cannot be allocated to specific segments as well as a new subsidiary The NLB Cultural Heritage Management Institute.

Non-core

includes the operations of non-core Group members, namely REAM and leasing entities – except NLB Lease&Go, NLB Srbija and NLB Crna Gora.

(in EUR million)	NLB Group	Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Other	Non-core
Profit b.t.	277.9	42.0	42.4	178.8	30.8	-11.5	-4.6
Contribution to Group's profit b.t.	100%	15%	15%	64%	11%	-4%	-2%
Total assets	19,566	2,554	2,043	9,346	5,218	273	131
% of total assets	100%	13%	10%	48%	27%	1%	1%
CIR	58.3%	67.0%	55.6%	52.1%	19.2%	147.4%	236.2%
Cost of risk (bps)	62[i]	63	-44	140[i]	–	–	-396

The data for 2019 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from the net other income to other general and administrative expenses), so there may be certain differences between the previously reported numbers and those presented below. Consequently, the CIR may also be different than the one published in 2019. More details are available below in note 2.3. of the Audited Financial Statements of NLB Group and NLB d.d.

[i] Komercijalna Banka group is excluded from calculation.
[ii] In 2019, the segment also included the result of the JV company NLB Vita. In December 2019, the NLB and KBC Insurance NV, in a joint process, agreed to sell their respective stakes. The sale was completed in May 2020.

Retail Banking in Slovenia

With knowledge and professionalism, the Bank continues to have a leading position in market shares in loans and deposits. In retail banking, the Bank is striving to get closer to its clients through anchor products and by offering personalised digital services to suit their lifestyles. With a successful response to circumstances in the time of the COVID-19 pandemic, the Bank once again proved its effectiveness and knowledge of its customers, who turned to digital channels which are available in various channels 24/7. If customers wish to do business in the traditional way and stay in personal contact, the Bank continues to be available through its branch office network and new mobile branch.

Contribution to NLB Group

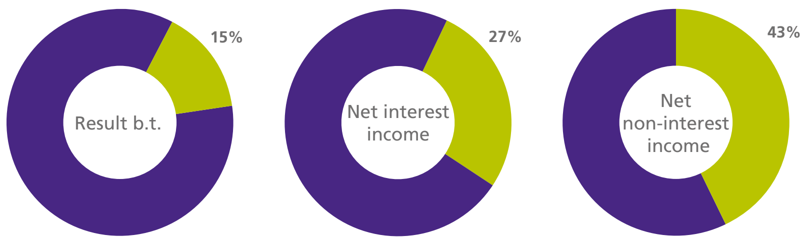


Figure 29: Contribution to NLB Group (result b.t., net interest income, net non-interest income)

The segment's profit before tax amounted to EUR 42.0 million, a 12% decrease YoY; this decrease is mostly related to higher impairments for credit losses and lower deposit margin from deposits, which was partially compensated by effects from NLB Vita sale.[8]

Net interest income was 7% lower YoY. Due to overliquidity of the Bank, the policy to de-stimulate the deposit collection triggered the reduction of retail deposits margin after transfer price (FTP) in the amount of EUR 8.5 million YoY. The interest income from loans to individuals was EUR 2.5 million higher YoY due to higher volumes and higher interest margin. In 2020 COVID-19 outbreak affected the new production of loans to individuals, as well as change of legislation that tightened the measures in consumer lending. The production of new consumer loans in 2020 amounted to EUR 196.7 million and was lower than in 2019 (EUR 368.6 million). The YoY decline in the balance of consumer loans (EUR 36.6 million) is largely due to a lower production of new consumer loans in H1 2020, while the H2 recorded a recovery (as a result of several activities – marketing campaigns, individualised preapproved loan campaigns, process improvements). The decrease was recorded also in the portfolio of overdrafts and cards (EUR 32.2 million YoY). The production of new housing loans amounted to EUR 303.1 million

8. In 2019, the segment also included the result of the JV company NLB Vita. In December 2019, the NLB and KBC Insurance NV, in a joint process, agreed to sell their respective stakes. The sale was completed in May 2020.

Table 15: Performance of the Retail Banking in Slovenia segment

in EUR million consolidated

	2020	2019	Change YoY	
Net interest income	81.4	87.4	-6.0	▼ -7%
Net interest income from Assets(i)	78.4	75.9	2.5	▲ 3%
Net interest income from Liabilities(i)	3.0	11.5	-8.5	▼ -74%
Net non-interest income	89.0	78.3	10.7	▲ 14%
o/w Net fee and commmission income	82.7	81.9	0.8	▲ 1%
Total net operating income	**170.4**	**165.7**	**4.7**	▲ **3%**
Total costs	-114.1	-118.0	3.9	▲ 3%
Result before impairments and provisions	**56.2**	**47.7**	**8.5**	▲ **18%**
Impairments and provisions	-15.1	-4.4	-10.7	
Net gains from investments in subsidiaries, associates, and JVs'	0.9	4.2	-3.3	▼ -79%
Result before tax'	**42.0**	**47.5**	**-5.5**	▼ **-12%**

	31 Dec 2020	31 Dec 2019	Change YoY	
Net loans to customers	2,415.4	2,385.1	30.3	▲ 1%
Gross loans to customers	2,450.7	2,410.2	40.5	▲ 2%
Housing loans	1,534.7	1,425.0	109.6	▲ 8%
Interest rate on housing loans	2.51%	2.54%	-0.03 p.p.	
Consumer loans	651.7	688.3	-36.6	▼ -5%
Interest rate on consumer loans	6.43%	6.33%	0.10 p.p.	
Other	264.3	296.9	-32.6	▼ -11%
Deposits from customers	7,356.8	6,456.2	900.6	▲ 14%
Interest rate on deposits	0.04%	0.05%	-0.01 p.p.	
Non-performing loans (gross)	52.4	40.8	11.6	▲ 28%

	2020	2019	Change YoY
Cost of risk (in bps)(ii)	63	19	44
CIR	67.0%	71.2%	-4.2 p.p.
Interest margin	1.75%	2.04%	-0.29 p.p.

(i) Net interest income from assets and liabilities with the use of FTP.
(ii) Cost of risk for 2019 is adjusted to new methodology.

22.5%

market share in housing loans.

Over 1 billion EUR

of assets under management as an important milestone for Private banking.

Video call service 24/7

NLB is the only bank in Slovenia offering video calls; the number of which increased 132% YoY.

M-bank Klikin

now, with an extended set of products and services available, allows digital signing of all documents, becoming a true branch office.

(2019: EUR 242.6 million) as a result of a more attractive offer for clients and intensive marketing campaigns and led to an increase in the portfolio (EUR 109.6 million YoY).

The segment recorded the net non-interest income of EUR 89.0 million, EUR 10.7 million (14%) increase YoY, due to the sale of NLB Vita with positive effect of EUR 11.0 million.

Net impairments and provisions were established in the amount of EUR 15.1 million due to additional credit impairments and provisions related to COVID-19 outbreak.

Deposits from customers increased substantially by EUR 900.6 million (14%) YoY, driven mostly by uncertain macroeconomic environment which led to lower consumption and also affected by received social transfers due to COVID-19 measures taken.

In the segment exposures subject to COVID-19 moratorium were concluded in the amount of EUR 123.3 million, with 20.0% already expired by the 2020 YE.

The market leader in retail banking in Slovenia

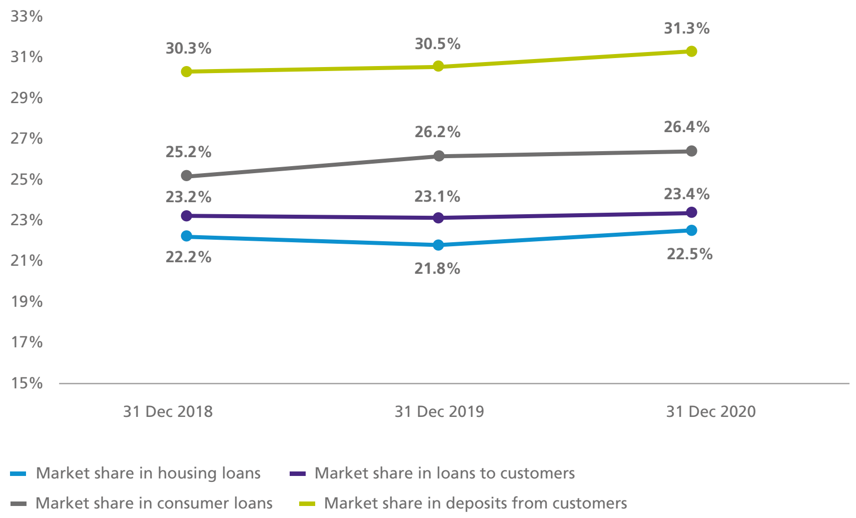


Figure 30: NLB's market share in Retail Banking in Slovenia

The Bank's main sales channel remains its branch network in Slovenia with 80 branches,[9] and is supported with the largest ATM network (552 or a 39.2% market share in Slovenia) of which 74% are contactless. To improve customer experience, the refurbishment of branch offices continued, including as well the relocation of two branches. Furthermore, the Bank introduced a different type of branch – the first mobile branch in Slovenia – bringing banking services to local residents who don't have the ability to contact the Bank through modern channels.

9. As of 1 January 2021 79 branches.

Digital sales channels are gaining prominence, and the Bank can also be reached through Slovenia's market-leading 24/7 NLB Contact Centre.

Private banking has positioned itself as a leader among private banking providers in Slovenia for almost 20 years, with increasing assets under management, complementing the asset management of the market-leading NLB Skladi, whose market share and annual net inflows have increased every year. With 2020 bancassurance volumes, the Bank once again proved to be the best insurance retailer among banks.

The Bank is retaining its role as a market leader in payments by being a reliable and trustworthy provider of payments services with a focus on providing a positive user experience. This is reflected in the Bank's achieved high market share in recent years. The competition on this market is fierce, and users require an ever-increasing flexibility of services.

In line with the UN Principles for Responsible Banking, the Bank also joined the national alliance for a green, smart, and technologically advanced Slovenia. The Bank's offer reflects this path, following its new sustainability strategy, by gradually transitioning to the most possible paperless banking being one of the measures to a sustainable environment.

Further information is available in the NLB Group Sustainability Report 2020.

Response to COVID-19

In spite of the COVID-19 pandemic, the Bank managed to provide 24/7 client support by enhancing the availability of digital channels and adjusting operations in the period of the lock-down. The Bank quickly adapted the sales process to the situation by introducing changes to its offer, namely the approval of new extraordinary overdrafts was made possible via digital channels, the prolongation of extraordinary overdrafts with no personal presence of the client necessary, and allowing clients to onboard to m- and e-bank via video call. The number of payments via e- and m-bank increased and indicates that clients are opting for digital payments over in-person payments via branch offices.

In order to maintain continuous 24/7 operations, the NLB Contact Centre was moved 'overnight' to several locations to split operational risk. In response to the circumstances, clients were more prone to use online and mobile banking services.

An Intervention Act adopted at the end of March and prolonged at the end of December, allowing borrowers to defer payment obligations with a moratorium of up to 12 months, helped clients mitigate the effects of the lock-down. The Bank prepared the relevant measures with all the necessary instructions and processes.

Distribution channels

Changed client habits affected the visits of the Bank's branch offices, and this is also expected to have effects in the future. So, the Bank further optimised the branch office network by closing 10 branch offices.

Just before the period of the second lock-down, the Bank introduced the first mobile branch in Slovenia – NLB Bank & Go, which will enable the Bank to get closer to residents in the local environment. The new mobile branch is a 'branch on wheels,' equipped with everything that 'static' branches have, and its advantage is that the Bank will also be able to be present in the areas where no bank office is available.

NLB is the only bank in Slovenia that has offered video call service 24/7 for the last three years. With video call, the digital experience is getting closer to the classic branch office, which can also be noticed in the large pick-up in the use of this channel. In 2020, the Bank experienced extensive growth across all digital channels of communication and significant change in the structure of the channels used by customers occurred. This is mostly evident by the extensive growth of video call and chat. A YoY comparison shows increases of 4% in inbound calls, 53% in chats, and even 132% in video call usage. The NLB Contact Centre has successfully remained a customer service channel, but also intensively fosters the role as an important sales channel by adding a range of products and services that can be executed on the spot, and a contact channel with an increasingly important role in efficient client relationship management.

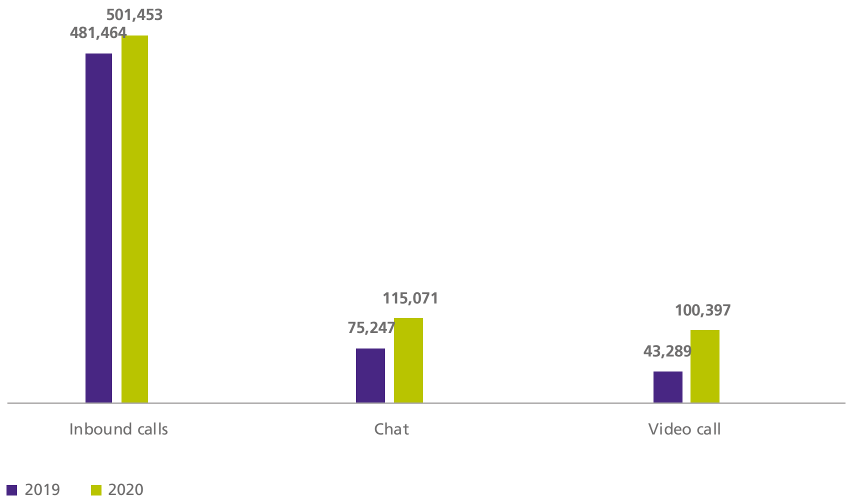
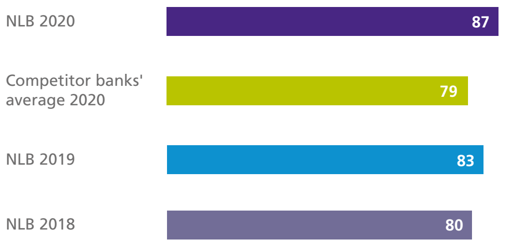


Figure 31: NLB Contact Centre no. of contacts

Digitalisation and improved client experience

The Bank remains the leader in the Slovenian market because of the knowledge, experience, and understanding of customers' needs, resulting in many solutions that pave the way for new customers and changing customer habits. Every year, customer experience is confirmed by the customer satisfaction index (6 points higher YoY). In the context of COVID-19 pandemic, the Bank has become even closer to customers and improved their satisfaction in all monitored areas. Customers are especially satisfied with attitudes toward customers, modern banking products and products included, and user experience, which also includes digital services. The reputation of and trust in the Bank also increased and exceeded the average of the competition. With the improvement in satisfaction, the level of loyalty and the share of recommendations also increased (2020 Valicon Client Satisfaction Survey).



Source: 2020 Valicon Client Satisfaction Survey.

Figure 32: Satisfaction with the attitude towards customers

The purchase, new construction, or renovation of a home is a demanding financial venture, therefore the involvement of an experienced adviser is important. To help young families toward independence, the Bank introduced the #HelpFrame project also to individuals by granting 100 borrowers of housing loans three free monthly instalments up to EUR 1,000. Record sales results of new housing loans supported by successful campaigns were recorded in the second half of 2020.

In line with the new sustainability strategy, the NLB Green housing loan with special benefits in financing the purchase or building of a passive house was introduced.

The packages offer, which has been modified based on customer feedback and needs, customers transparent and simple daily banking services. In June, the new 'NLB Digital Package' was introduced as a response to clients' feedback based on measures undertaken by the Bank due to pandemic, followed by the also new NLB Package 'My World' (Moj svet), primarily intended for young customers.

Digitalisation trends place an emphasis on the use of mobile phones, which is why the Bank focuses on improving user experience through mobile devices. For many tasks, where until recently there was no permissible alternative to a physical visit to the branch, effective, user-friendly solutions have quickly emerged. It is not just about signing forms, but above all about the comprehensive placement of business in the digital world, which enables remote business, especially from home. An extensive upgrade of m-bank Klikin resulted in new functionalities for ordering services and distance-signing of all opening documents, financial transactions, and loans. This is an important milestone in furthering digitalisation processes. Klikin is becoming more and more like a true branch office.

In 2020, the WEBSI web champions project,[10] Klikin also won two first places for digital achievement, one awarded by the expert jury composed of jurors from the financial sector and the other, most importantly, by the public.

The number of digital users (unique users of e-bank and m-bank) continued to increase, stopping roughly at 9% YoY. The number of m-bank Klikin and e-bank NLB Klik users recorded a YoY increase, 17% (+38,300 users) and 5% (+10,655 users) respectively. The YoY increase of the total volume and number of payments processed in the e-bank and m-bank was 13% and 15%, respectively, again proving that the clients more and more prefer digital payments over in-person payments in branch offices.

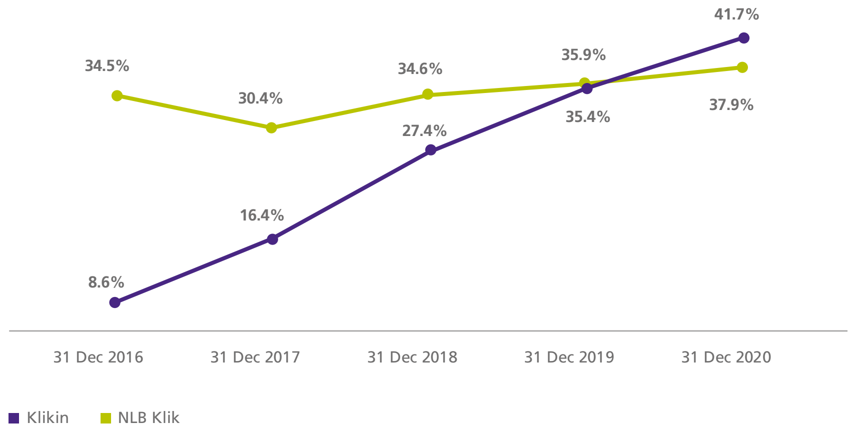


Figure 33: Online and mobile banking penetration

The mobile wallet, NLB Pay app was downloaded by over 18 thousand Android users and additionally over 8 thousand iOS users, who carried out 33% more transactions YoY with the total volume increasing by 55% YoY. The number of digitised cards grew 46% YoY and the number of users by 43.5% YoY (+5,575 users). The implementation of NLB Pay is almost finished in other Group banking subsidiaries.

10. Organized by WEBSI, Digital excellence institute.

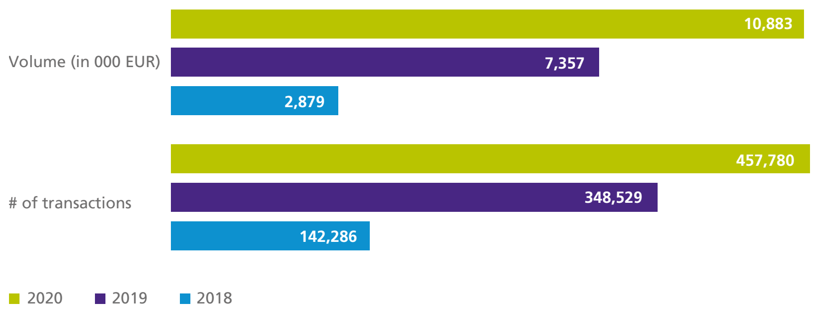


Figure 34: NLB Pay purchases in numbers

NLB Pay offers a new instant based payment method 'Flik,' facilitating payments from personal accounts between different bank clients using the contacts stored in the mobile device. A special version of NLB Pay with the Flik functionality is available to iOS users. To follow the PSD2 requirements, NLB Pay's functionality enables confirming e-commerce purchases which will replace the SMS OTP authentication. If the NLB Pay user's device has the right kind of functionality, confirmation can be done with biometric recognition.

The Bank's card market share remained at 26.5% (2019: 27.2%) of the Slovenian market. Individuals' debit and credit card volumes of payment transactions and cash withdrawals, despite two lock-down periods, remained approximately at 2019 levels.

As the first bank in Slovenia, clients receive an SMS message with their PIN for all new NLB cards (Maestro, Mastercard, and Visa). Clients are also no longer receiving new PIN numbers upon renewal of the NLB cards to a contactless card, since their existing PIN number remains valid.

The period for instalment purchases using pay-later payment cards was prolonged from 24 months to 60 months.

The Bank adhered to European and Slovenian payments infrastructure in order to be able to provide crossborder, as well domestic instant payments and improve the user experience of their customers. On the domestic market, instant payments Flik, i.e. payments which are executed in only few seconds were successfully introduced with the volumes increasing. By meeting PSD2 requirements, more efficient fraud prevention and higher protection of user payments is provided.

Private banking

Private banking has positioned itself among the leading private banking providers in Slovenia for almost 20 years. In 2020, its leading position even strengthened as an important milestone was reached, namely over EUR 1 billion of assets under management. By adding relevant products and services, it proves that the Bank knows their customers, their lifestyles, habits, goals, and challenges, and take care of their wealth with dedication and knowledge. With the increased assets under management (18% YoY), the number of clients also increased (21% YoY).

Figure 35: Assets under management and the number of private banking clients

Ancillary businesses complementing banking products

The market share of NLB Skladi increased to 34.9% (31 December 2019: 34.0%). The company ranked first among its peers in Slovenia, accounting for 69.6% of net inflows in the market with EUR 101.9 million in net inflows in 2020. The company remains the largest asset management company and the second largest mutual funds management company in Slovenia. The total assets under management amounted to EUR 1,625.5 million (31 December 2019: EUR 1,513.8 million) of which EUR 1,125.5 million consisted of mutual funds (31 December 2019: EUR 1,023.8 million), and EUR 500.0 million in the discretionary portfolio (31 December 2019: EUR 490.0 million).

The insurance company Vita remains the Bank's strategic partner. Their products are sold through the Bank's distribution network, such as savings and investment insurance products, risk, and health insurance products.

Non-life insurance products, including car and home insurance, are provided to clients in cooperation with the GENERALI Zavarovalnica. Despite challenging circumstances, encouraging results were achieved, namely gross written premiums increased YoY by 5%, and the number of car insurance and home insurance policies by 6% and 5%.

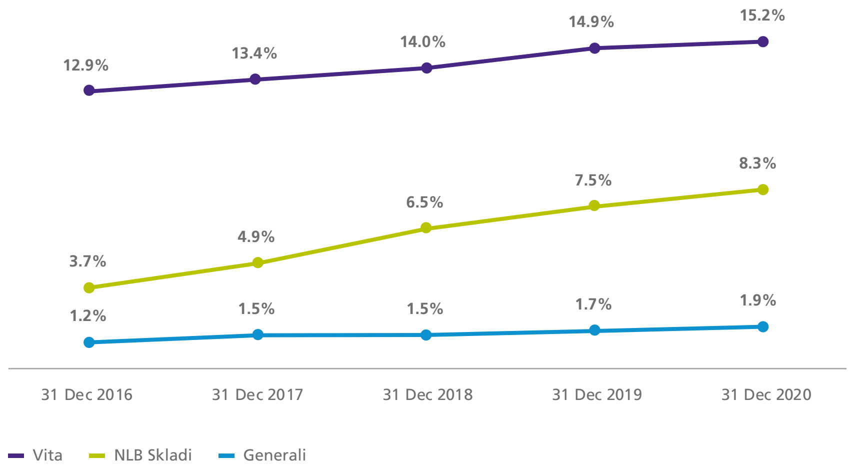


Figure 36: Customers' penetration of ancillary business

Corporate and Investment Banking in Slovenia

The Bank wants to strengthen its market position as a systemic player in its home region, and actively participate in the growth of the market by supporting a large infrastructure projects with sustainability being the focus of the future business model. As a leading player, the Bank is looking to cover more complex, cross-border needs of clients and find entry points to suit their needs. The Bank would also like to accelerate growth through its presence on international financial markets, and thus diversify services for its clients. To overcome and mitigate the impact of COVID-19, responsive measures were taken that prove the Bank's full spectrum of services is also available to clients in such circumstances.

Contribution to NLB Group

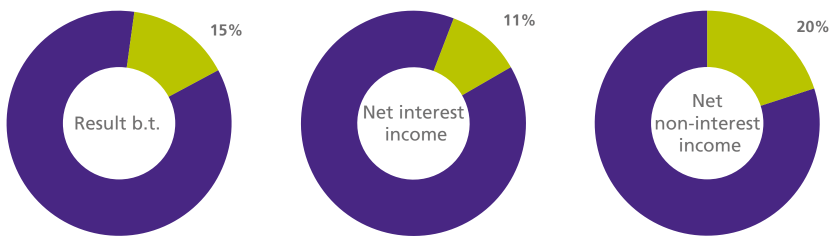


Figure 37: Contribution to NLB Group (result b.t., net interest income, net non-interest income)

The segment's profit before tax was EUR 42.4 million, EUR 14.4 million (25%) lower YoY. The decrease was mostly due to lower release of credit impairments and provisions as well as lower net operating income.

Net interest income decreased by EUR 3.3 million YoY, mostly due to reduction of corporate deposits margin after transfer price (FTP), despite higher deposit base (EUR 188.3 million). Key, SME and Cross Border clients recorded a growth in gross loans of EUR 8.2 million YoY, due to substantial growth in Cross Border (EUR 67.3 million) and in SME (17.8 million) segment, while Key segment recorded substantial decrease (EUR 76.9 million), due to maturity of few larger loans. The newly established company NLB Lease&Go also contributed significantly to the increase of the gross loans portfolio of the segment (EUR 17.8 million).

Net fee and commission income recorded slight, 3% increase YoY, while total costs decreased by EUR 2.7 million (6%) YoY.

Table 16: Performance of the Corporate and Investment Banking in Slovenia segment

in EUR million consolidated

	2020	2019	Change YoY		
Net interest income	34.0	37.3	-3.3	▼	-9%
Net interest income from Assets[i]	36.8	37.4	-0.6	▼	-2%
Net interest income from Liabilities[i]	-2.8	-0.1	-2.7		-
Net non-interest income	41.2	43.0	-1.8	▼	-4%
o/w Net fee and commission income	33.2	32.4	0.8	▲	3%
Total net operating income	**75.2**	**80.2**	**-5.0**	▼	**-6%**
Total costs	-41.8	-44.5	2.7	▲	6%
Result before impairments and provisions	**33.4**	**35.8**	**-2.4**	▼	**-7%**
Impairments and provisions	9.0	21.0	-12.1	▼	-57%
Result before tax	**42.4**	**56.8**	**-14.4**	▼	**-25%**

	31 Dec 2020	31 Dec 2019	Change YoY		
Net loans to customers	2,047.1	2,049.6	-2.5		0%
Gross loans to customers	2,167.5	2,150.9	16.7	▲	1%
Corporate	2,006.4	1,976.8	29.5	▲	1%
Key/SME/Cross Border Corporates	1,827.6	1,819.3	8.2		0%
Interest rate on Key/SME/Cross Border Corporates loans	1.79%	1.82%	-0.03 p.p.		
Investment Banking	0.2	0.1	0.1	▲	57%
Restructuring and Workout	160.8	157.4	3.4	▲	2%
NLB Lease&Go	17.8	-	17.8		-
State	160.7	173.6	-12.9	▼	-7%
Interest rate on State loans	2.20%	1.88%	0.32 p.p.		
Deposits from customers	1,487.4	1,299.1	188.3	▲	14%
Interest rate on deposits	0.06%	0.07%	-0.01 p.p.		
Non-performing loans (gross)	156.0	128.7	27.4	▲	21%

	2020	2019	Change YoY
Cost of risk (in bps)[ii]	-44	-102	59
CIR	55.6%	55.4%	0.2 p.p.
Interest margin	1.90%	2.20%	-0.30 p.p.

(i) Net interest income from assets and liabilities with the use of FTP.
(ii) Cost of risk for 2019 is adjusted to new methodology.

31.4%

market share in guarantees and letters of credit.

Arranging of

178.9 million EUR

in syndicated loans.

Arranging of

191.4 million EUR

of instruments issuances on debt capital markets.

Successful

#HelpFrame project

for the small and micro segment.

Supporting the

largest infrastructure project

in Slovenia.

Net impairments and provisions were released in the amount of EUR 9.0 million due to substantial release in Restructuring and Workout that offset additional credit impairments and provisions related to COVID-19 outbreak.

The Investment Banking and Custody recorded net non-interest income in the amount of EUR 9.4 million and increased by EUR 0.5 million YoY. The total income growth was the result of a larger volume of transactions and higher margins. The total value of assets under custody, together with the fund administration services, increased to EUR 16.2 billion (2019 YE: EUR 14.8 billion).

In the segment exposures subject to COVID-19 moratorium were concluded in the amount of EUR 366.5 million, with 34.8% already expired by the 2020 YE.

Market leader focusing on customers' needs

The Bank remains the leading bank servicing corporate clients in Slovenia, with by far the largest client base, whereas it has maintained its stronghold in all client segments. It has a 17.3% market share in corporate loans (2019 YE: 17.5%), and 31.4% (2019 YE: 30.0%) in guarantees and letters of credit (including guarantee lines). The Bank is increasingly focused on small and mid-sized enterprises.

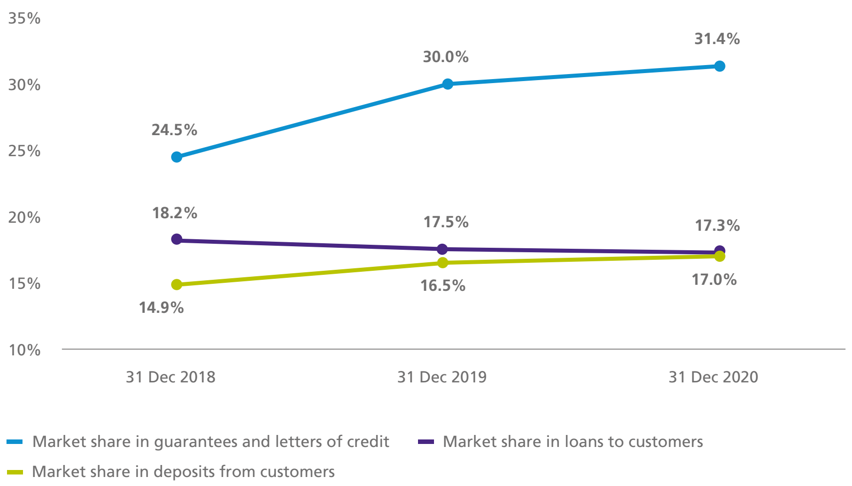


Figure 38: NLB's market share in Corporate Banking in Slovenia

The Bank maintains its relationship with different Slovenian institutions, such as SID Bank and the Slovenian Enterprise Fund, among them in the long-term lending to micro companies, SMEs, and the issuance of guarantees.

Large infrastructural projects are extremely important for the economy due to their multiplying effects. The Bank participated in the financing of the construction of the second rail track in Slovenia with a long-term loan of EUR 112.5 million.

The economy and society can be transformed and steered towards greater sustainable growth. Following the Bank's sustainability strategy, the business model is changing and a sustainable product portfolio is emerging. Business opportunities, such as energy renovations of buildings and the financing of a business where gas technology will replace the existing coal, only underscore the sense of cooperation in engaging the economy and the state in the direction of sustainable development.

Further information is available in the NLB Group Sustainability Report 2020.

Response to COVID-19

Following the development of the COVID-19 outbreak, the Bank envisaged and prepared adequate responsive measures by approving measures for the prevention of clients' financial problems and liquidity issues. The Bank also fully implemented relevant intervention acts by adopting special processes, while the moratorium of payments by clients is also possible under the Bank's regular offer.

Micro and small enterprises, which present an important pillar of the Slovenian economy, are expected to be the most affected by the economic cool down due to the COVID-19 pandemic. The Bank supported them through the #HelpFrame project. This is a project of the Bank and its partners aimed at giving the initiative to these enterprises and helping them restart.

The positive experience from digital signing during the first lock-down was implemented as a regular process, which enabled paperless, faster, and simpler client treatment.

Diversified product mix

The Bank's offer of financial services, including lending, cash management, payment services, as well as capital markets' advisory services supports various clients' needs.

The Bank is a leading Slovenian bank in the field of trade finance with products that also support the export economy, representing an important part of the Slovenian economy. The trade finance product range and tailor-made solutions are comprehensive from traditional trade finance products, to other modern structures which provide safe financing throughout the supply chains. As a member of the Factor Chain International, the Bank aims to offer exporters and importers international purchase of receivables, thus providing them with a modern, fast, and easy way of financing, which is an additional incentive for international business. Special attention is given to letter of guarantees by which the Bank supports major infrastructure projects in Slovenia and the wider home region. The stronger market position reflects an active advisory approach to the Group customers.

NLB Business Account for private individuals was implemented to support clients with unregistered activity, especially in the segment of farmers. The Bank would like to position itself in the agricultural segment, especially with young farmers investing in digitalisation and automation (flexible loans up to 10 years).

The Bank is a leader in merchant-acquiring by accepting all major cards, with modern contactless POS network, with market share in merchants acquiring of 37.9%.

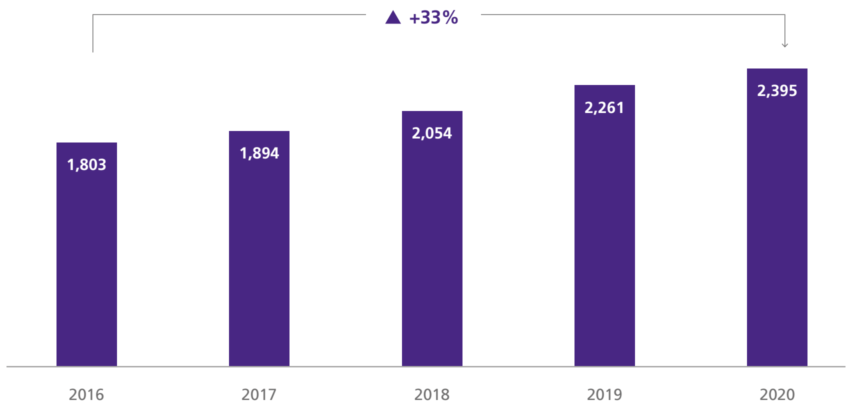


Figure 39: Transaction volume at NLB POSes (in EUR million)

The Bank also welcomed a rising demand from merchants for e-commerce card acceptance. Together with Bankart, the Bank introduced a new, modern online platform (i.e., Payment Gateway - PGW), which enables e-commerce merchants modern and competitive support for online business of card payments, while providing a friendlier user experience for card payments. However, market conditions and restrictive measures are increasingly encouraging retailers to expand their business online, thus enabling their customers to make easy, secure, and cashless purchases in the safe shelter of their home. The latter is also proved in YoY growth in the number and volume of transactions, namely by 156% or 230%, respectively, and in a larger average amount of the purchase (increased by 29% YoY).

In order to meet the growing needs and requirements of its corporate clients in the area of payments, the Bank embarked on Global Payments Innovation (GPI) service which enables higher transparency of costs, faster payment execution, and easier tracking of international payment transactions. The Bank is the only Slovenian bank that offers such a service for customers in the area of international payments. Despite the special situation due to COVID-19, the volume of operations remained stable, as the Group processed 154 million transactions with a total value of EUR 304.5 billion. In terms of fees from payments and cash operations, the Group gained more than EUR 50 million.

The Bank also enriched its offering in domestic payments with the introduction of a P2M (peer-to-merchant) instant payments service which enables corporations to improve their liquidity management and reconciliation, and at the same time offers a more cost-effective service.

International corporate business

In addition, the Group's goal is to build up clients' trust and satisfaction on the basis of proactive support and collaboration among the banking members in the Group. Such teamwork creates added-value opportunities that support the clients' plans across the Group's home region in SEE.

Since 2019, when the Bank re-entered financing of international corporate businesses, a total of EUR 170.5 million loan facilities (in 2020: EUR 54.5 million) were approved for projects in the home region, of which the Bank participated in the amount of EUR 142.0 million (in 2020: EUR 33.0 million), and other Group members in the amount of EUR 28.5 million (in 2020: EUR 21.5 million).

The Bank's entering into large European syndicated corporate loan market (via secondary market) increased its visibility among international banks and boosted the possibility of new collaboration in similar transactions. The Bank also successfully debuted on the schuldschein loan market.

Digitalisation of product offering

A fully digitised and user-friendly online application NLB factoring ('Odkup terjatev') provides the Bank's clients with a digitised receivables finance solution (including working capital financing option, financing domestic and cross-border receivables, import and export). This solution is well incorporated in the framework of easing potential liquidity problems faced by clients.

The number of m-bank Klikpro users is constantly rising (by 10% YoY), which indicates that clients are getting more used to digital banking. Constant upgrades also improve clients' experience, and Klikpro app being now available also in the Huawei App Gallery.

The Bank's mobile wallet NLB Pay app enables clients to make contactless, simple, fast, and safe payments on the contactless POS (in Slovenia and abroad) with the NLB Business Mastercard and NLB Business Maestro cards, and also enables instalment payments.

After the first lock-down period, many companies had to adapt their business practices to the changed behaviour, habits, and expectations of their customers. Digital transformation is bringing new opportunities to address customers' needs and adapt sales channels accordingly.

Investment banking and securities services

The Bank, as a mandated lead arranger, successfully organised syndicated loans in the amount of EUR 178.9 million, and as a lead manager or joint-lead manager successfully organised issuance of financial instruments in the amount of EUR 191.4 million on the domestic and international debt capital markets.

Within brokerage services the Bank executed clients' buy and sell orders in a total amount of EUR 941.3 million (2019: EUR 979.5 million), while in the area of dealing in financial instruments the Bank executed foreign exchange spot deals totalling EUR 724.0 million (2019: EUR 777.8 million) and for transactions involving derivatives in the amount of EUR 242.6 million (2019: EUR 309.6 million). Shrinking world trade and recession resulted in lower volumes of FX spot and FX derivatives deals, conversely extremely low and even negative interest rates proved to be unattractive for concluding interest rate derivatives.

The Bank remains one of the top Slovenian players in custodian services for Slovenian and international customers. The total value of assets under custody was, together with the fund administration services, EUR 16.2 billion (2019: EUR 14.8 billion).

Customers recognised us as a reliable and proven manufacturer

Marko Vrhovac
Domaćinstvo Vrhovac, Republic of Srpska, BiH

'Domaćinstvo Vrhovac' (The Vrhovac household) is located in the village of Mravica, near Prnjavor, Republic of Srpska and is engaged in the production of juices. The production started with pear juice, considering that the household had an orchard with over 3,000 trees. After excellent reactions to pears, apple, quince, chokeberry, blackberry, raspberry, grape and dogwood juices were soon added to the array of products. The basic idea is to create a quality domestic product using only top quality raw materials and thus start a successful family business in a completely natural environment.The #HelpFrame project immediately attracted their attention. As a developing business that does not yet have the possibility of serious promotion through traditional and digital channels, they managed to reach a large number of potential customers. By participating in the project, people recognised them as a reliable manufacturer, which gave their story the necessary boost.

Strategic Foreign Markets

With the acquisition of Komercijalna Banka, Beograd at the end of 2020, which added three banks and investment fund company, the core part of the Group in foreign markets now consists of nine banks and investment fund company. They are locally even stronger embedded as important financial institutions and market leaders in various business segments. All Group subsidiary banks have a stable market position and have earned a strong reputation. The market shares by total assets of subsidiary banks exceed 10% in five out of six markets.

Contribution to NLB Group

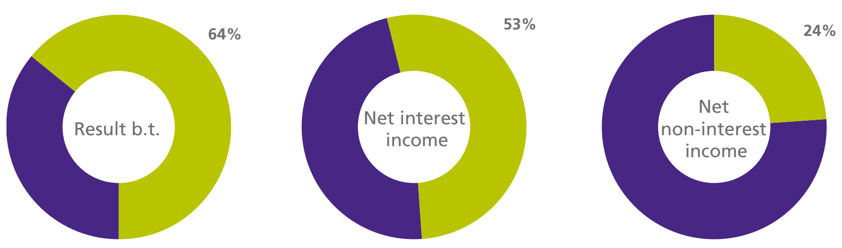


Figure 40: Contribution to NLB Group (result b.t., net interest income, net non-interest income)

The profit before tax was EUR 178.8 million, 92% higher YoY. The most important positive effect on the result had negative goodwill from Komercijalna Banka, Beograd acquisition (EUR 137.9 million), while the established impairments and provisions (EUR 59.1 million), to a large extent related to COVID-19 outbreak, had a negative effect. The result before impairments and provisions was 4% lower YoY.

Net interest income increased by EUR 1.7 million (1%) YoY due to higher volumes (gross loans to customers 6% higher YoY, without inclusion of loans from Komercijalna Banka group) and despite the falling trend of interest margins.

Net non-interest income decreased by EUR 4.7 million or 9% YoY, mostly due to modification losses caused by changes of contractual cash flows for loans subject to COVID-19 moratoria (EUR 2.1 million in NLB Banka, Skopje and EUR 1.1 million in NLB, Banka Beograd). Net fee and commission income decreased slightly YoY (EUR 0.9 million), due to COVID-19 negative impact on card operations and payment transactions.

Total costs decreased YoY (EUR 1.2 million or 1%).

Further information is available in the document **NLB Group Strategic Foreign Markets - further information**, which includes a detailed report on:

- NLB Banka, Skopje
- NLB Banka, Banja Luka
- NLB Banka, Sarajevo
- NLB Banka, Prishtina
- NLB Banka, Podgorica
- NLB Banka, Beograd
- Komercijalna Banka, Beograd
- Komercijalna Banka, Banja Luka
- Komercijalna Banka, Podgorica
- Kombank INvest, Beograd

Table 17: Results of the Strategic Foreign Markets segment

in EUR million consolidated

	2020	2019	Change YoY	
Net interest income	159.3	157.5	1.7	▲ 1%
Interest income	182.6	182.5	0.1	0%
Interest expense	-23.3	-24.9	1.6	▲ 6%
Net non-interest income	49.8	54.5	-4.7	▼ -9%
o/w Net fee and commission income	54.1	55.0	-0.9	0%
Total net operating income	**209.1**	**212.1**	**-3.0**	▼ **-1%**
Total costs	-109.0	-107.8	-1.2	▼ -1%
Result before impairments and provisions	**100.1**	**104.2**	**-4.2**	▼ **-4%**
Impairments and provisions	-59.1	-11.3	-47.8	-
o/w KB	-13.4			
Negative goodwill (KB)	137.9	-	137.9	-
Result before tax	**178.8**	**92.9**	**85.9**	▲ **92%**
o/w Result of minority shareholders	3.0	8.2	-5.2	▼ -63%

	31 Dec 2020	31 Dec 2020 w/o KB	31 Dec 2019	Change YoY w/o KB	
Net loans to customers	5,052.4	3,185.4	3,024.6	160.7	▲ 5%
Gross loans to customers	5,234.8	3,357.4	3,162.1	195.3	▲ 6%
Individuals	2,592.9	1,743.5	1,603.8	139.6	▲ 9%
Interest rate on retail loans	-	6.28%	6.71%	-0.43 p.p.	
Corporate	2,443.7	1,524.7	1,470.3	54.4	▲ 4%
Interest rate on corporate loans	-	4.15%	4.49%	-0.34 p.p.	
State	198.1	89.2	88.0	1.3	▲ 1%
Interest rate on state loans	-	3.53%	4.00%	-0.47 p.p.	
Deposits from customers	7,552.2	4,108.8	3,856.7	252.1	▲ 7%
Interest rate on deposits	-	0.43%	0.53%	-0.10 p.p.	
Non-performing loans (gross)	195.0	155.1	111.6	43.5	▲ 39%

	2020	2019	Change YoY
Cost of risk (in bps)(i, ii)	140	17	123
CIR	52.1%	50.9%	1.3 p.p.
Interest margin	3.33%	3.59%	0.26 p.p.

(i) Cost of risk for 2019 is adjusted to new methodology.
(ii) Komercijalna Banka, Beograd is excluded from calculation.

The market shares (by total assets) of subsidiary banks exceed

10%

in five out of six markets.

Nine

subsidiary banks and

One

investment fund company.

Profit before tax

178.8 million EUR

92% higher YoY, mostly due to acquisition of Komercijalna Banka, Beograd (EUR 137.9 million of negative goodwill).

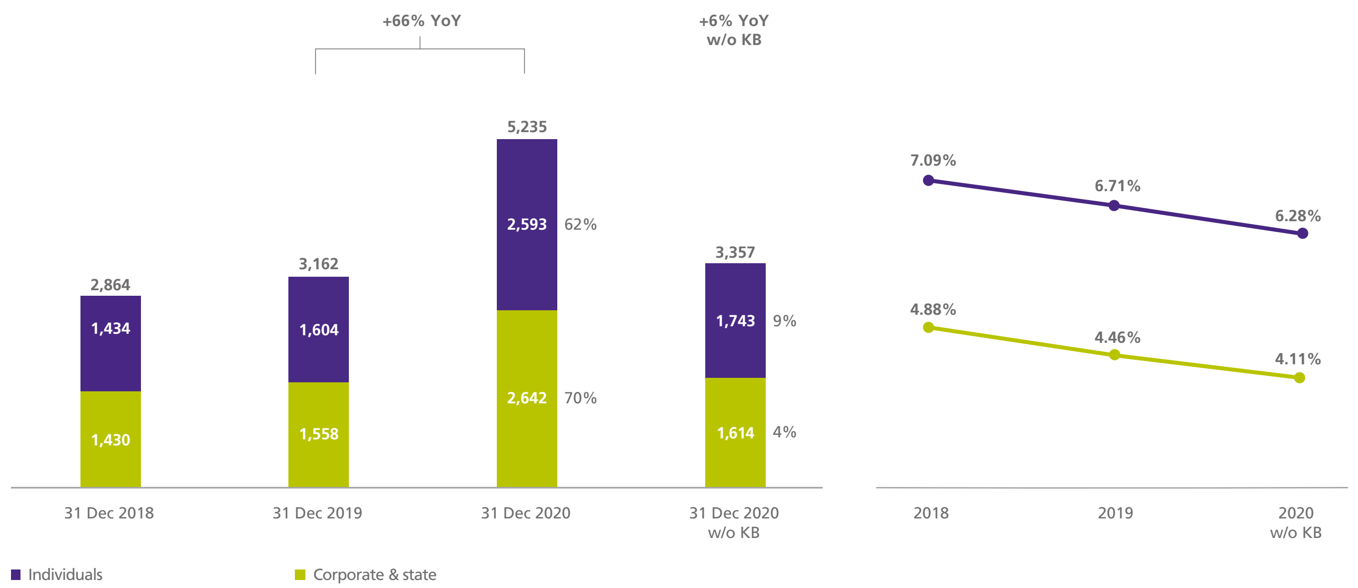


Figure 41: Gross loans volume and interest rates in Strategic Foreign Markets

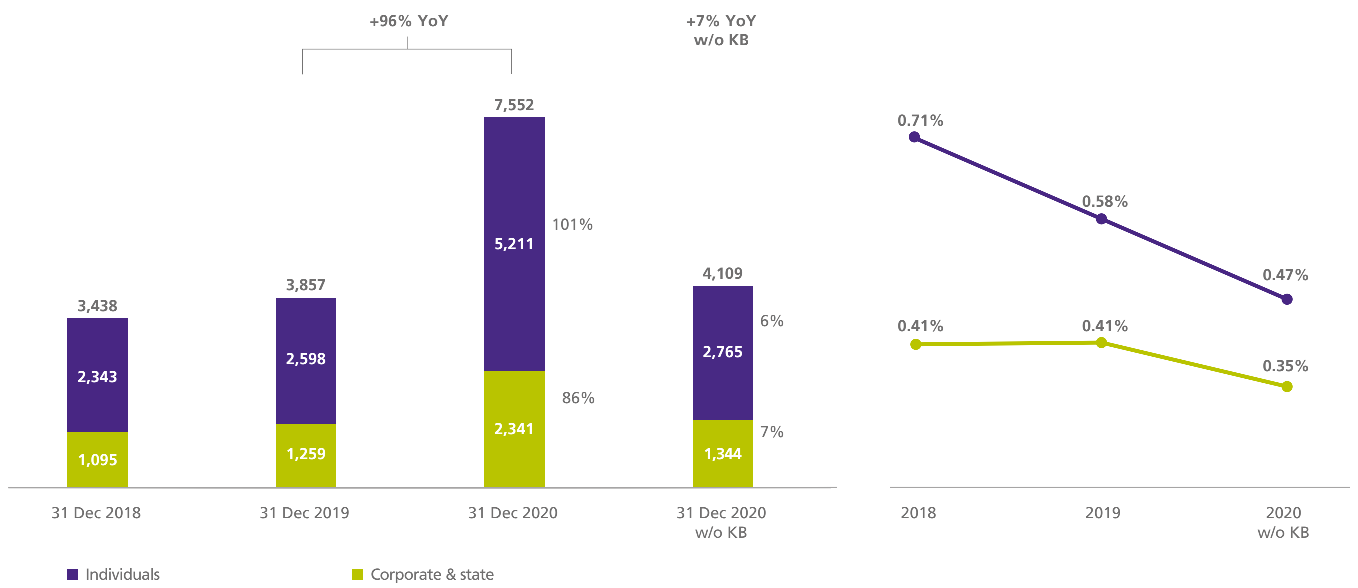


Figure 42: Deposit volume and interest rates in Strategic Foreign Markets

Net impairments and provisions in the amount of which EUR 59.1 million were formed, mostly related to COVID-19 outbreak, while additional EUR 13.4 million impairments were established for expected credit losses on the performing portfolio for the Komercijalna Banka group.

Gross loans to customers increased in all Group subsidiary banks in total by EUR 2,072.7 million or 195.3 million (6%) YoY without inclusion of acquired loans from Komercijalna Banka group; the largest YoY increases were recorded in NLB Banka, Beograd (EUR 63.0 million), NLB Banka, Skopje (EUR 52.1 million), NLB Banka, Prishtina (EUR 29.0 million), and NLB Banka, Podgorica (EUR 27.3 million). Without inclusion of Komercijalna Banka group the loans to individuals recorded a solid 9% increase YoY, mostly due to double digit growth in housing loans (18%), while consumer loans grew by 5% YoY. A lower but still moderate increase of 4% YoY was recorded in loans to corporate and state.

Due to the inclusion of the Komercijalna Banka group in the segment, total gross loans to customers of the segment increased by EUR 1,877.3 million (EUR 1,616.3 million from Komercijalna Banka, Beograd, EUR 155.4 million from Komercijalna Banka, Banja Luka, and EUR 105.7 million from Komercijalna Banka, Podgorica).

Deposits from customers increased by EUR 3,695.6 million, of which 3,443.5 million was due to the inclusion of the acquired banks. Without this inclusion, deposits would increase by 7%, distributed equally between individuals and corporate and state, 6% and 7%, respectively.

Banks in Strategic Foreign Markets have approved EUR 1,941.4 million moratorium, more than half of them by Serbian banks as a result of COVID-19 related measures taken at the state level. 93.1% of the moratoriums approved by banking members of the Group in SEE have already expired by the 2020 YE.[11] Moratorium maturity is normally 3-9 months of cumulative period. Following the EBA reactivation of guidelines on moratoria in December, new legislative moratorium measures were introduced by Serbian Central Bank as well with 11 months of cumulative allowed period.

Response to COVID-19 and digitalisation

Digital innovation helped the banks adapt during the COVID-19 pandemic by accelerating efficiency improvements and achieving profitable growth in regular business. Despite the COVID-19 outbreak, all the banks marked strong growth in loans production volume, especially in the retail housing segment, where a double digit-growth was achieved. The Group banking members improved their client-centric digital solutions, talent management, and active engagement in the Group sustainability agenda and social responsibility initiatives.

Despite the turbulent environment, a strong liquidity position was maintained and capital indicators were above minimum requirements. The introduction of modern technologies enabled the banks to swiftly adapt to the new normal environment and ensure undisturbed continuance of all banking activities. All the banks implemented protective measures for customers in branches, organised work from home where possible, and adapted the rules for safe business operations. Focusing on clients' health and achieving a positive customer experience were a part of the focal point of the banks' activities.

In order to help micro and small enterprises as an important pillar of the local economies and as most affected by the consequences of COVID-19 pandemic, in 2020 all Group banking members started the #HelpFrame project as a part of an ESG campaign.

Sustainability

Active engagement in social responsibility activities in the Group further strengthened the relationship with employees, clients, and the community. All member banks[12] made decisive steps on the path of sustainable banking, which is a Group-wide initiative driven by commitments to EBRD and MIGA and the UN Principles for responsible banking. In July 2020, the banks appointed ESMS Officers with responsibility for the overall administration and oversight of the Environmental and Social Management System.

Further information is available in the NLB Group Sustainability Report 2020.

11. Further details are available in Table 34.
12. Banks acquired on 30 December 2020 are excluded.

Financial Markets in Slovenia

The segment is focused on the Group's activities on international financial markets, including treasury operations. In the challenging environment of low interest rates on financial markets, the continuous focus was on prudent liquidity reserves management. Wholesale funding activities contributed to the Group's funding, and were mainly conducted with the aim of strengthening the capital position of the Group.

Contribution to NLB Group

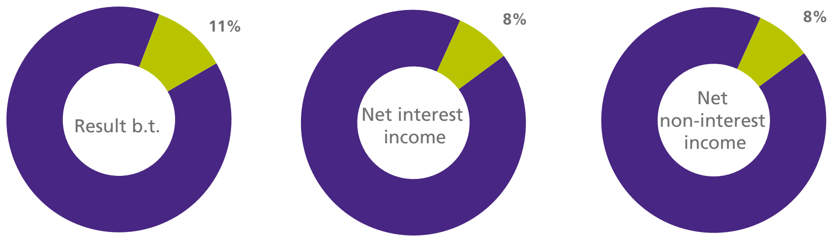


Figure 61: Contribution to NLB Group (result b.t., net interest income, net non-interest income)

The segment includes income generated by the liquidity reserves, as well as the surplus from fund transfer pricing (FTP) to other business segments in Slovenia. Financial Markets in Slovenia recorded a profit before tax of EUR 30.8 million, a 11% increase YoY.

Net interest income was EUR 10.1 million (30%) lower YoY, mainly due to the capitalisation of high yielding securities either as they were due or (and in particular) as they were sold because of higher risk perceived towards some exposures during the COVID-19 pandemic in H1 2020. Later, these funds were reinvested at lower yields in different asset classes to further diversify the portfolio.

Following the H1 2020 sale of high yielding securities net non-interest income was higher, EUR 14.1 million YoY. The total effect on the income statement from the sold securities in H1 amounted to EUR 17.1 million.

Increase in balances with CBs (EUR 953.9 million YoY), while banking book securities decreased by EUR 147.8 million due to lack of attractive and profitable short-term investments at the end of the year (T-bills auction cancellation by RoS).

Table 28: Performance of the Financial Markets in Slovenia segment

in EUR million consolidated

	2020	2019	Change YoY		
Net interest income	23.5	33.6	-10.1	▼	-30%
o/w ALM[i]	16.5	29.3	-12.8	▼	-44%
Net non-interest income	16.2	2.0	14.1		-
Total net operating income	**39.6**	**35.6**	**4.0**	▲	**11%**
Total costs	-7.6	-7.5	-0.1	▼	-1%
Result before impairments and provisions	**32.0**	**28.1**	**3.9**	▲	**14%**
Impairments and provisions	-1.3	-0.5	-0.8	▼	-167%
Result before tax	**30.8**	**27.6**	**3.1**	▲	**11%**
	31 Dec 2020	**31 Dec 2019**	**Change YoY**		
Balances with Central banks	1,998.1	1,044.1	953.9	▲	91%
Banking book securities	2,945.8	3,093.6	-147.8	▼	-5%
Interest rate on banking book securities	0.77%	1.03%	-0.26 p.p.		
Wholesale funding	143.5	161.6	-18.1	▼	-11%
Interest rate on wholesale funding	0.54%	0.50%	0.04 p.p.		
Subordinated liabilities	288.3	210.6	77.8	▲	37%
Interest rate on subordinated liabilities	3.64%	4.03%	-0.39 p.p.		

[i] Net interest income from assets and liabilities with the use of FTP.

49.8% liquid assets (% of total assets).

78% government securities in the Group's banking book portfolio.

3.65 years average maturity of the Group's banking book securities portfolio.

The Group's ALM

The purpose of the Group ALM process is to manage the Group's balance sheet with respect to the interest rate, currency, and liquidity risk considering the macroeconomic environment and financial markets development. Monitoring and management of the Group's exposure to market risk is decentralised. Uniform guidelines and limits for each type of risk are set for individual Group members. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to regulator on the consolidated level is carried out using a standardised approach. Pursuant to the relevant policies, the Group members must monitor and manage exposure to market risks and report to the Bank accordingly. The exposure of an individual Group member is regularly monitored and reported to the Group Asset and Liability Committee (Group ALCO).

From the interest rate risk perspective, the surplus liquidity position of the Group contributed to further growth of fixed interest rate loans, mostly housing loans, and investments in high quality debt securities. In terms of funding, non-banking sector deposits continued to increase in the form of sight deposits and savings accounts. The development of the COVID-19 pandemic contributed to a substantial increase in the propensity to save, and consequently to an increase in an already strong deposit base. The Group manages interest rate positions and stabilises its interest margin by actively adjusting pricing policy and by charging maintenance fees, whereas for managing interest rate risk exposure the Group keeps outstanding plain vanilla derivatives in line with the Group's conservative risk appetite. Additionally, the exposure to interest rate risk has been managed via fund transfer pricing and external pricing policy. Active profitability management has been supported by a highly disciplined deposit pricing policy, enabling the response to a very competitive loan market all over the Group's strategic markets.

The Group's FX risk is measured and managed with the use of a combination of a sensitivity analysis, VaR, and stress test scenarios.

In terms of the liquidity risk management, each Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification, and for managing liquid assets and fulfilling the requirements of regulations governing liquidity.

Based on due-diligence and the initial communication, acquisition of Komercijalna Banka, Beograd is not altering the current balance sheet concept of NLB Group.

Liquidity reserves management

The Group's liquidity management focuses on ensuring a sufficient level of liquid assets to settle all due liabilities, minimising the cost of maintaining liquidity, optimising the structure of liquidity reserves, ensuring an appropriate level of liquidity for different situations and stress scenarios, as well as anticipating emergencies and crisis conditions and implementing appropriate contingency plans.

Liquidity reserves management in the Group is decentralised. Each Group member is responsible for its own portfolio, while Financial Markets in Slovenia manages the liquid assets of the Bank. The liquidity position of Komercijalna Banka group is very strong and the management of liquidity reserves will be embedded into the Group's existing framework.

The Group's liquid assets as at year-end were comprised of a cash equivalent (EUR 4,089.9 million), a debt securities portfolio (EUR 5,077.6 million), and credit claims eligible for CB-secured funding operations (EUR 583.0 million). The liquid assets portfolio represents 49.8% of total assets corresponding to EUR 9,750.5 million (2019: 45.8%). A small part of liquid assets (EUR 1,030.0 million) was encumbered for operational and regulatory purposes. Liquidity reserves represent liquid assets which are not encumbered and can provide funding of the future core growth.

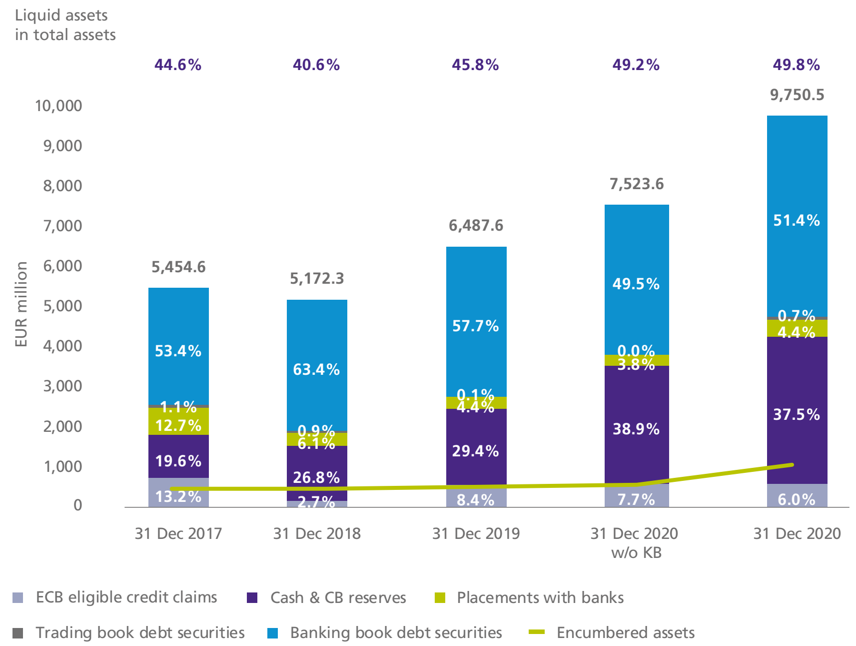
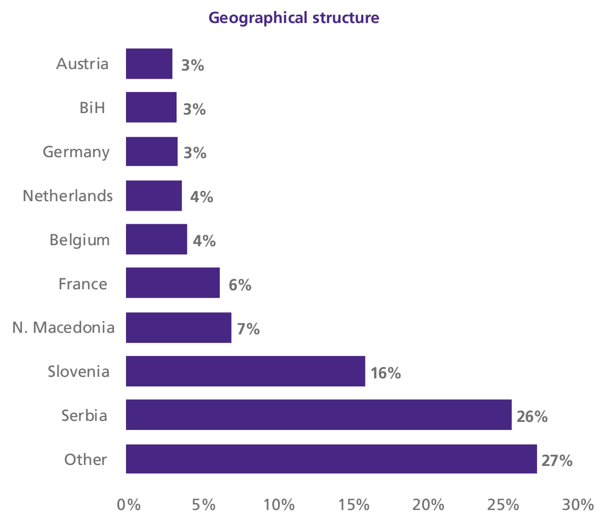


Figure 62: Evolution of NLB Group liquid assets structure (in EUR million)

Banking book debt securities constituted 51.4% of the Group's liquid assets. The purpose of the banking book securities is to provide liquidity, along with stabilisation of the interest margin, and interest rate risk management. When managing the portfolio, the Group uses conservative principles, particularly with respect to the portfolio's structure in terms of asset classes.

The portfolio is well diversified from the geographical and asset class perspective, while the prudent tenors of the investments also reflect the conservative risk appetite of the Group. In 2020, the Group turned its attention to the new and fast-developing market of ESG bonds. These bonds currently have a small share in the whole portfolio (EUR 56.9 million) and is expected to grow in the future.



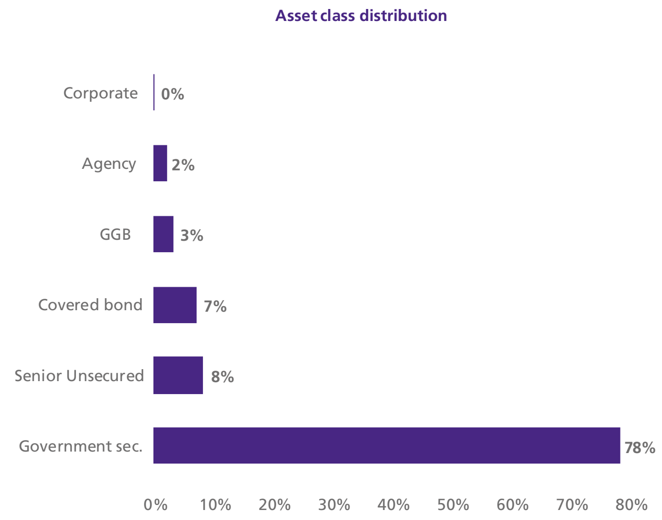


Figure 63: Banking book securities portfolio of NLB Group by asset class and geographical structure as at 31 December 2020

Table 29: Maturity profile of NLB Group's banking book securities as at 31 December 2020 (in EUR million)

	2021	2022-2023	2024-2025	2026+	Total
Domestic securities (the Group strategic markets)	579.2	923.6	647.9	602.5	2,753.2
- Slovenia	252.6	57.3	227.6	298.1	835.6
- Other SEE	326.6	866.3	420.3	304.4	1,917.6
International securities	268.3	651.9	558.3	777.2	2,255.7
Total	**847.5**	**1,575.5**	**1,206.2**	**1,379.7**	**5,008.8**

Distribution of asset classes in banking book securities portfolio shows government securities (including government guaranteed bonds GGB) have a share of 82% (excluding Komercijalna Banka group: 76%), while banking senior unsecured and covered bonds have 8% and 7%, respectively (excluding Komercijalna Banka group: 11% and 10%). From a geographical structure point of view, the nine highest exposures excluding Komercijalna Banka group are towards Slovenia (22%), North Macedonia (9%), France (8%), Belgium (5%), the Netherlands (5%), Germany (5%), Austria (4%), BiH (3%) and Finland (3%). Other contributed 35%.

The average maturity of banking book securities was approximately 3.65 years (excluding Komercijalna Banka group: 2020: 3.98 years and 2019: 4.09 years).

The maturity profile of the Group's banking book securities decreased mostly due to acquisition at 2020 YE. Excluding Komercijalna Banka group maturity profile substantially differs only in 'other SEE' item, where in 2021 it matures EUR 175 million, in 2022–2023 EUR 248 million, in 2024–2025 EUR 129 million, and in 2026 and beyond EUR 92 million.

The average yield on the Group's securities without Komercijalna Banka group securities was 0.9% (1.2% at 2019 YE).

Wholesale funding

Wholesale funding activities in the Group are conducted with the aim of achieving diversification, improving structural liquidity and capital position, and fulfilling regulatory requirements. The Bank raised EUR 120 million in wholesale funding in the form of a subordinated Tier 2 bonds on international capital markets to strengthen and optimise its capital position. The ECB's permission to include the instrument in the calculation of Tier 2 capital was received in March.

Two Group banking subsidiaries raised funds in a total amount of EUR 10 million.

Non-Core Members

The Non-Core Members segment includes the operations of non-core Group members and the non-core part of the Bank's portfolio, which consists of non-performing loans to foreign clients and a limited number of remaining Bank's equity participations, which are to be terminated. The main objective in the Non-Core segment remains a rigorous wind-down of all non-core portfolios and the consequent reduction of costs. The implementation of the wind-down has been pursued with a variety of measures, including the sales of portfolios, sales of non-core entities, sales of individual assets, the collection or restructuring of individual assets, and active management of real-estate assets.

The wind-down of the Non-Core segment in 2020 included:

- A reduction of the Bank's loan exposure with foreign clients
- Divestment of non-core Group members
- Sale of the Bank's equity participations
- Active management of real-estate assets

The segment recorded a EUR 4.6 million loss before tax. Lower net non-interest income also due to the positive effect from contractual penalty (EUR 1.3 million) in 2019.

A decrease of the total assets of the segment YoY (EUR 38.3 million) in line with the divestment strategy of the non-core segment, hence a EUR 6.0 million decrease in the net operating income.

Reduction of the Bank's credit business with foreign clients

The decreasing of non-core loan exposure is ongoing. The Bank resolved (whole or partly) several exposures in Croatia, Bulgaria, Slovakia, Serbia, and Montenegro, thus contributing to NPL and other off-balance wind-down processes with a positive effect on P&L.

Divestment of non-core Group members

During 2015 – 2020, a liquidation process was initiated in all non-core leasing and trade finance subsidiaries and some real estate subsidiaries; in 2020 for NLB Leasing d.o.o., Sarajevo and BH-RE d.o.o., Sarajevo. The divestment process has been running with thoughtful cost management and well-established collection procedures leading to a successful divesture in 2020 of NLB Leasing Sarajevo – in liquidation, NLB Leasing Podgorica – in liquidation and NLB Vita d.d., Ljubljana (which was also subject to EC commitments).

New business has been suspended in all non-core Group members which are in the process of being wound-down. The decrease of the cumulative non-core subsidiaries' portfolio remains ongoing through regular repayments and collection measures.

Table 30: Results of the Non-Core Members segment

in EUR million consolidated

	2020	2019	Change YoY	
Net interest income	1.2	2.7	-1.5	-56%
Net non-interest income	4.2	8.7	-4.5	-51%
Total net operating income	**5.4**	**11.5**	**-6.0**	**-53%**
Total costs	-12.9	-14.5	1.6	11%
Result before impairments and provisions	**-7.4**	**-3.0**	**-4.4**	**-148%**
Impairments and provisions	2.9	-0.1	3.0	-
Result before tax	**-4.6**	**-3.1**	**-1.5**	**-47%**
	31 Dec 2020	**31 Dec 2019**	**Change YoY**	
Segment assets	**131.2**	**169.5**	**-38.3**	**-23%**
Net loans to customers	45.0	67.4	-22.4	-33%
Gross loans to customers	95.0	137.2	-42.2	-31%
Investment property and property & equipment received for repayment of loans	70.2	75.6	-5.4	-7%
Other assets	16.0	26.5	-10.5	-40%
Non-performing loans (gross)	71.3	93.6	-22.4	-24%
	2020	**2019**	**Change YoY**	
Cost of risk (in bps)(i)	-396	-231		-165
CIR	236.2%	126.0%		110.2 p.p

(i) Cost of risk for 2019 is adjusted to new methodology.

42.2 million EUR

reduction of gross loans to customers in 2020.

29.6 million EUR

the total sales value of real-estate transactions executed or supported by the real-estate team in 2020.

Sale of NLB's equity participations

At the 2020 YE, the overall asset volume of equity participations is at EUR 0.28 million (2019: EUR 0.31 million).

Active management of real estate assets

The divestment process of still remaining NPL exposures at the Bank or at the non-core subsidiaries' level is being facilitated through a specialised team for repossessing, managing, and divesting collateral real estate. Real estate expertise and services are offered to the Group members assisting them in implementation of the most efficient divestment manner of the remaining non-performing portfolio or the repossession of the collateral real-estates.

The main task is to ensure value-preserving strategies for the real estate management, respectively the collateral value of NPL claims by either temporarily repossessing real-estate or ensuring a value-preserving divestment process of the real-estate or a claim. From 2015 to 2020, real-estate transactions with a total sales value of over EUR 168.7 million were executed or supported, and directly or indirectly contributed to a EUR 500.1 million of NPL reduction, of which EUR 29.6 million in 2020 alone.

Finding way to own a brand with help of scholarship

Tina Turk
Skripsi, Slovenia

There are many young people who want to actively contribute to the environment. If there is any entrepreneurial spirit in them, interesting entrepreneurial ideas are born. Tina Turk, a 21-year-old economics student, designed the sustainable Skripsi brand. Her basic idea is that by buying Skripsi, customers not only get a nice wooden pen, but a tree is planted in their name. Tina is so passionate about her idea, that she even invested her scholarship in its development. Just at the time of entering the market, the young businesswoman suffered a major blow - an epidemic was declared. In the new situation, she was forced to reduce the necessary investment in advertising, but she kept on going and became even more active on social networks. The #HelpFrame project helped her to further conquer the market.

Risk Management

The self-funded model, strong liquidity, and a solid capital position continued in 2020, demonstrating the Group's financial resilience. Efficient management of risks and capital is crucial for the Group to sustain long-term profitable operations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group, with the aim of proactively supporting its business operations.

Risk Management in the Group is in charge of managing, assessing, and monitoring risks within the Bank as the main entity in Slovenia, and the competence centre for nine banking subsidiaries. Following the acquisition of Komercijalna Banka, Beograd, integration process is underway, which is in the area of Risk Management primarily focused on the implementation of uniform Group's Standards.

Based on the Group's business strategy, credit risk is the dominant risk category, followed by interest rate risk in the banking book, liquidity, and operational risk. Management of credit risk focuses on the taking of moderate risks. The Group has limited exposure to other aforementioned risks, while liquidity risk tolerance is low. Market risk and other non-financial risks are less important from materiality perspective.

Table 31: NLB Group's Key Risk Appetite indicators (KRIs) as at 31 December 2020

TCR	16.6%
CET1 ratio	14.1%
LCR	257.5%
NSFR	165.7%
Cost of Risk	62 bps[i]
NPL (EBA def.)	4.5%
NPE (EBA def.)	2.3%
Interest rate risk (EVE)	-7.3%

[i] Komercijalna Banka group is excluded from calculation.

The overall slow-down of the economy, caused by the 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 increased loan volume of the Group is primarily a result of the acquisition of the Komercijalna Banka group. The cost of risk increased due to the impact of negatively affected 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 (further details are available under the Risk Factors and Outlook).

During the year 2020, the Group reviewed IFRS 9 provisioning on an ongoing basis by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and related future impacts.

The stock of NPE volume moderately increased, mainly as a result of COVID-19 impacts and acquisition of Komercijalna Banka group, while further reduction resulted from active workout activities. In addition, the coverage ratio remains high above the EU average, on slightly lower level due to acquisition impacts, enabling further NPE reduction without significant influence on the cost of risk in the years ahead.

In the COVID-19 environment the Group is perceived as safe heaven and therefore faced growing excess liquidity, and impacts of the pandemic did not cause any material liquidity outflows. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while keeping in mind the potential adverse negative market movements. Excess liquidity and market demand for fixed interest rate products resulted in moderately increased interest rate risk exposure, which stayed within the risk appetite tolerance toward this risk. Moreover, the Group's capital and liquidity position remained strong in both the Group and subsidiary bank levels, including the newly acquired Komercijalna Banka group.

Risk Management principles

The Bank is, as a systemic bank, involved in the Single Supervisory Mechanism, whereby the supervision is under the jurisdiction of the Joint Supervisory Team of the ECB and the BoS. ECB regulations are followed by the Group, where the Group subsidiaries operating outside Slovenia are compliant with the rules set by the local regulators. 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. Following the acquisition of Komercijalna Banka group, the harmonisation process in the area of Risk Management is underway.

Risk Management and control 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, 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 Group puts great emphasis on the risk culture and awareness across the entire Group. The Group's Risk Management framework is forward-looking and tailored to its business model and corresponding risk profile. The main risk principles and limits are set forth by the Group's Risk Appetite and Risk

Proactive Risk Management

in 2020.

2.3%

NPE (EBA def.).

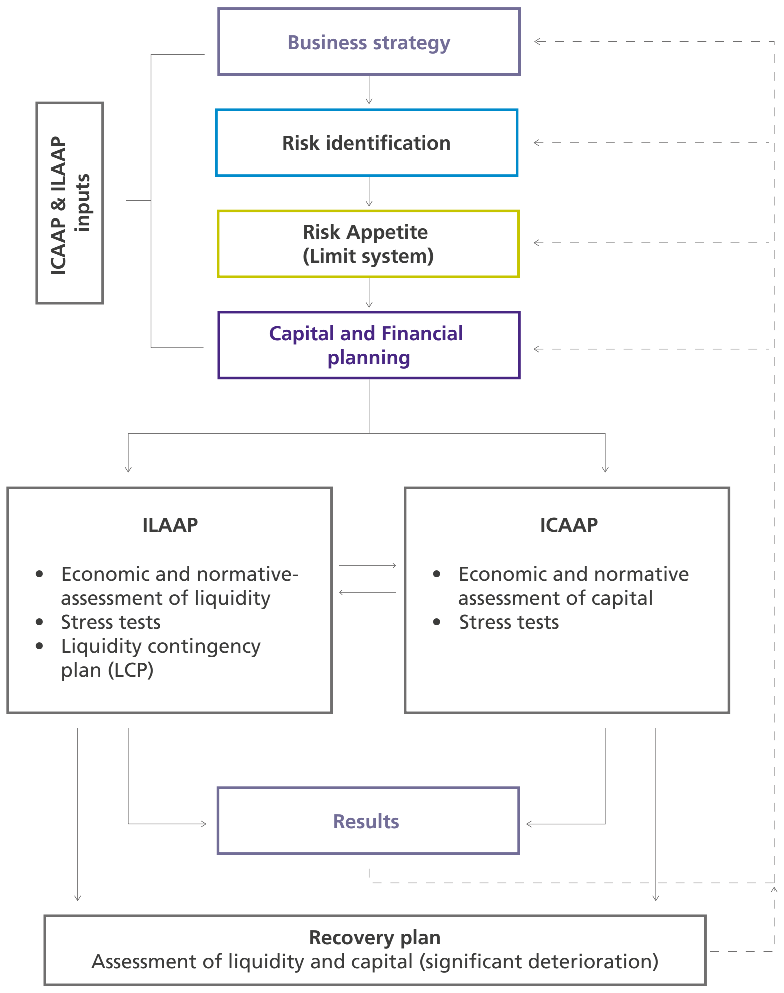
80.6%

of the granted moratoria expired by the 2020 YE.

Strategy, designed in accordance with business strategy. Special focus is placed on the inclusion of risk analysis into the decision-making process at strategic and operating levels, diversification to avoid large concentration, optimal capital usage and allocation, appropriate risk-adjusted pricing, and overall compliance with internal rules and regulations.

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. In addition, the Group is constantly enhancing its Risk Management system, where consistent incorporation of ICAAP, ILAAP, Recovery plan, and other internal stress-testing capabilities into the Risk Management system is essential. Moreover, the Group puts great emphasis on their integration into the overall Risk Management system in order to assure proactive support for informed decision-making.

Figure 64: NLB Group's Risk Management



The uniform stress-testing programme, which includes internally developed models, stress scenarios, and sensitivity analysis, was further complemented. Such a stress-testing framework is the subject of a regular internal validation cycle and related procedures where the Group established comprehensive validation framework. Namely, the Group supports a strong validation governance process and controls over applied selected risk approaches and internal models.

The business and operating environment, relevant for the Group operations is changing, with trends such as changing customer behaviour, emerging new technologies and competitors, and increasing new regulatory requirements. It should be noted that Risk Management is continuously adapting with the aim of detecting and managing new potential emerging risks.

Proactive Risk Management in 2020

Prudent level of capital position and MREL requirement

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital position. The Group monitors its capital position at the Group and individual subsidiary bank level in accordance with the Risk Appetite, also incorporating normative and economic perspective as part of the established ICAAP process. As at 31 December 2020, the Group had a very solid capital position and TCR of 16.6%. The capital increased mostly due to the inclusion of subordinated Tier 2 bonds (EUR 240 million), undistributed profit from 2019 (EUR 157.5 million), and the minority capital (EUR 99.0 million), also for the purpose of acquisition. Despite the implementation of CRR 'quick fix' and other capital relief measures, an increase of risk-weighted assets arising from the acquired Komercijalna Banka group, resulted in a drop of the Group's TCR at the end of the year 2020. The CET1 ratio, representing the capital of highest quality, stood at 14.1%. As at 31 December 2020, the Group meets all fully loaded regulatory requirements. Moreover, enhanced overall corporate governance led in the past two years to a lower Pillar 2 Requirement (P2R), which decreased from 3.5% in 2018 to 2.75% applicable in 2020 and 2021, while Pillar 2 Guidance remains at low level of 1%.

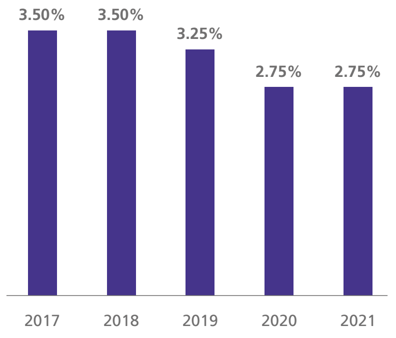


Figure 65: NLB Group's Pillar 2 Requirement evolution

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). The currently 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 of 31 December 2021 onward. 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 as part of Group's risk appetite. Otherwise, the MREL requirement is regularly analysed and monitored by the Group.

Maintaining a solid level and structure of liquidity

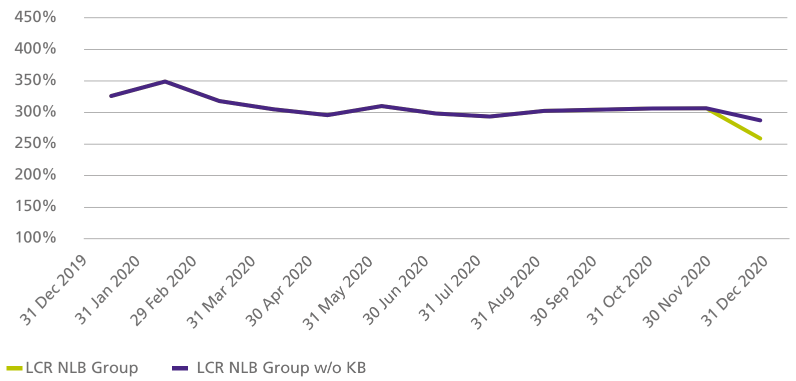


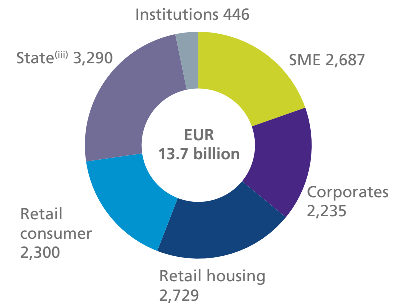
Figure 66: NLB Group's LCR

Maintaining a solid level and structure of liquidity represents the next very important risk target. The liquidity position of the Group remained very solid, and the impacts of the pandemic did not cause any material liquidity outflows. The Group holds a very strong liquidity position at the Group and individual subsidiary bank levels. Also, the liquidity position of Komercijalna Banka group is very comfortable. Due to the acquisition, LCR decreased to 257.5% (by 45 p.p. in comparison to Q3 2020), but remained well above the risk appetite. Although the Group gained EUR 1.5 billion of high-quality liquid assets (HQLA) with the acquisition of Komercijalna Banka, Beograd, only a part of them of each banking member can be included in the consolidated LCR calculation (only the amount of HQLA that covers net liquidity outflows incurred in the same currency). In addition, HQLA also decreased on the Bank level due to paid purchase price. Nevertheless, the level of the unencumbered eligible liquid assets increased up to EUR 8,720.5 million, representing 44.6% of total assets. Even if the event of the combined adverse stress scenario would be realised, the Group has sufficient liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. All banking members satisfy the minimum liquidity reserve criteria and would survive at least three months in such stress scenario. The main funding base of the Group at the Group and individual subsidiary bank levels predominately entails customer deposits, namely in the retail segment, representing a very stable and constantly growing base. By acquiring Komercijalna Banka, Beograd, LTD decreased from 62.4% (Q3 2020) to 58.8% (YE 2020), remaining at very comfortable level.

Maintaining the adequate credit portfolio quality

Maintaining the adequate credit portfolio quality is the most important goal, with the focus on cautious risk-taking and quality of new loans leading to a diversified portfolio of customers. The Group is constantly developing a wide range of advanced approaches in the segment of credit risk assessment in line with best banking practices to further enhance the existing risk management tools, while at the same time enabling greater customer responsiveness. The restructuring approach in the Group is focused on the early detection of clients with potential financial difficulties and their proactive treatment. From the beginning of the COVID-19 pandemic, the Group fully respected EBA guidelines on payment moratoria regarding forborne exposures, frequently performing the assessment of borrowers and ensuring effective early warning systems. Respectively monitoring systems were upgraded with the intention to detect any significant increase in credit risk at an early stage. All relevant information was available to management bodies with higher frequency than before crisis to assure adequate and timely oversight over the critical elements of credit Risk Management and executing mitigation measures if needed.

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).



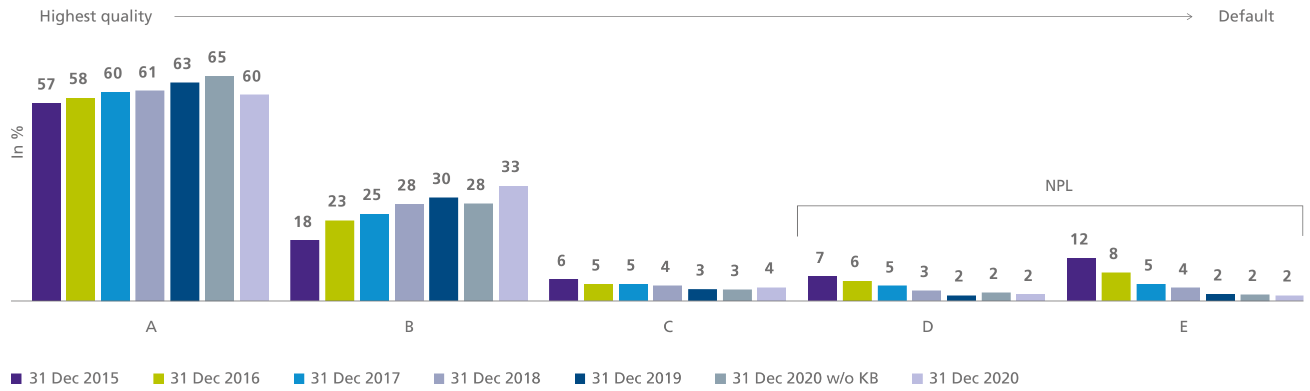
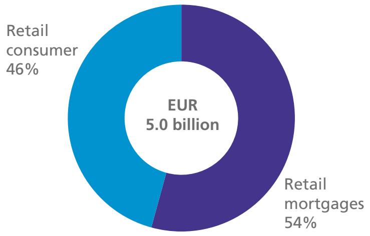


Figure 67: NLB Group structure of the credit portfolio(i) (gross loans) by segment (in EUR million) and rating(ii)

(i) Loan portfolio also includes reserves at CBs and demand deposits at banks.
(ii) Rating A, B and C are performing exposures. Rating A: investment grade clients with high financial stability; Rating B: clients with high ability to repay their obligations, a significant aggravation of the economic environment would cause problems to them; Rating C: performing clients with increased level of risk who may encounter problems with settlement of liabilities in the future; Ratings D and E are NPLs: Default clients (article 178 of CRR), including clients in delay >90days and other clients considered 'unlikely to pay' with delays below 90 days. The numbers may not add up to 100% due to rounding.
(iii) State includes exposures to CBs.

Retail sector after acquisition of KB Banks



Retail sector w/o KB Banks

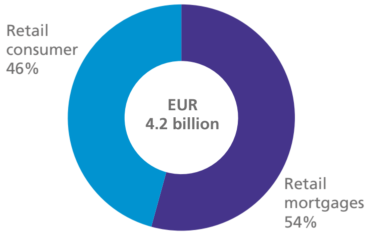


Table 32: Overview of NLB Group loan portfolio by industry as at 31 December 2020

Corporate credit portfolio (in EUR million)

Corporate sector by industry	NLB Group w/o KB	%	NLB Group	%	Δ
Accommodation and food service activities	112.6	2.9%	141.2	2.9%	28.6
Administrative and support service activities	108.5	2.8%	121.8	2.5%	13.3
Agriculture, forestry and fishing	**164.1**	**4.2%**	**288.7**	**5.9%**	**124.6**
Arts, entertainment and recreation	18.1	0.5%	21.0	0.4%	2.9
Construction industry	**267.8**	**6.8%**	**373.8**	**7.6%**	**106.0**
Education	13.5	0.3%	14.1	0.3%	0.6
Electricity, gas, steam and air conditioning	170.9	4.4%	258.1	5.2%	87.2
Finance	150.1	3.8%	167.7	3.4%	17.6
Human health and social work activities	38.9	1.0%	50.0	1.0%	11.1
Information and communication	164.4	4.2%	233.9	4.8%	69.5
Manufacturing	**873.8**	**22.3%**	**986.1**	**20.0%**	**112.3**
Mining and quarrying	32.4	0.8%	80.0	1.6%	47.6
Professional, scientific and techn. act.	148.8	3.8%	171.6	3.5%	22.9
Public admin., defence, compulsory social.	132.8	3.4%	219.4	4.5%	86.5
Real estate activities	182.4	4.7%	221.6	4.5%	39.1
Services	12.1	0.3%	13.9	0.3%	1.9
Transport and storage	555.2	14.2%	592.1	12.0%	36.9
Water supply	28.3	0.7%	41.1	0.8%	12.8
Wholesale and retail trade	**744.5**	**19.0%**	**923.1**	**18.8%**	**178.6**
Other	1.2	0.0%	1.8	0.0%	0.7
Total Corporate sector	**3,920.3**	**100.0%**	**4,921.0**	**100.0%**	**1,000.7**

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 focused on retail and SME segments.

The current structure of credit portfolio (gross loans) consists of 36.7% retail clients, 16.3% large corporate clients, 19.6% SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. As at 31 December 2020, with the 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 share of retail portfolio in the whole credit portfolio is quite substantial with still prevailing segment of mortgage loans.

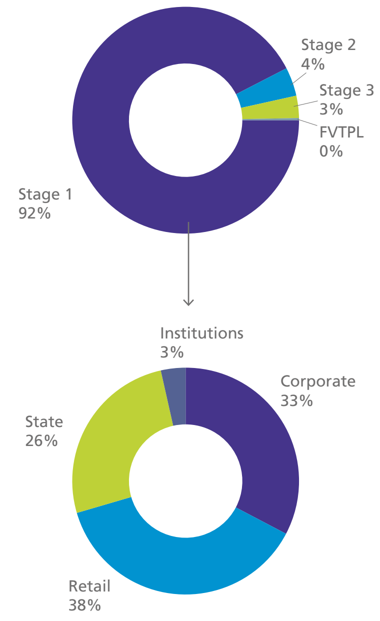


Figure 68: NLB Group loan portfolio (measured at amortised cost) by stages as at 31 December 2020

The majority of the Group's loan portfolio is classified as Stage 1 (92.4%), the remaining portfolio as Stage 2 (4.1%), and Stage 3 and FVTPL (3.5%). Under IFRS 3 rules, all assets of the acquired Komercijalna Banka, Beograd were initially recognised at fair value in the Group financial statements. Respectively all loans were classified either in Stage 1 (performing portfolio) or in Stage 3 (non-performing portfolio). For Stage 3 loans special rules apply, since they are NPLs already at initial recognition and recognised at fair value without any additional credit loss allowances. On this basis, the percentage of Stage 1 exposures increased. Impacts of the COVID-19 pandemic caused moderate credit quality deterioration, namely as an increase of Stage 2 and Stage 3 exposures. The highest increase in Stage 3 exposures arises from the accommodation and food service activities, while an increase in Stage 2 largely refers to manufacturing. An increase in both stages also occurred in the segment of private individuals. Additionally, part of increase of Stage 3 exposures also refers to the acquisition of Komercijalna Banka, Beograd and the changed treatment of excluded interest.

Table 33: NLB Group loan portfolio (measured at amortised cost) by stages as at 31 December 2020

NLB Group after acquisition of KB banks

	Credit portfolio									Provisions and FV changes for credit portfolio					
	Stage1			Stage2			Stage3 & FVTPL			Stage1		Stage2		Stage3 & FVTPL	
(in EUR million)	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
Total NLB Group	**12,650.8**	**92.4%**	**3,703.1**	**560.1**	**4.1%**	**89.0**	**475.7**	**3.5%**	**101.0**	**75.7**	**0.6%**	**40.8**	**7.3%**	**271.9**	**57.2%**
o/w Corporate	4,135.7	84.0%	928.5	426.8	8.7%	59.5	358.6	7.3%	73.0	49.0	1.2%	32.7	7.7%	210.8	58.8%
o/w Retail	4,779.2	95.0%	957.0	133.3	2.7%	29.6	117.1	2.3%	29.6	25.2	0.5%	8.2	6.1%	61.2	52.2%
o/w State	3,290.1	100.0%	1,658.0	-	-	-	-	-	-1.7	1.3	0.0%	-	-	-	-
o/w Institutions	445.8	100.0%	159.6	-	-	-	-	-	-	0.2	0.1%	-	-	--	-

NLB Group w/o KB banks

	Credit portfolio									Provisions and FV changes for credit portfolio					
	Stage1			Stage2			Stage3 & FVTPL			Stage1		Stage2		Stage3 & FVTPL	
(in EUR million)	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
Total NLB Group w/o KB	**10,065.6**	**91.0%**	**1,117.9**	**560.1**	**5.1%**	**89.0**	**435.3**	**3.9%**	**60.6**	**65.3**	**0.6%**	**40.8**	**7.3%**	**271.9**	**62.5%**
o/w Corporate	3,169.6	80.9%	-37.6	426.8	10.9%	59.5	324.0	8.3%	38.4	41.0	1.3%	32.7	7.7%	210.7	65.0%
o/w Retail	3,935.5	94.1%	113.3	133.3	3.2%	29.6	111.4	2.7%	23.9	23.0	0.6%	8.2	6.1%	61.2	54.9%
o/w State	2,661.2	100.0%	1,029.0	-	-	-	-	-	-1.7	1.1	0.0%	-	-	-	-
o/w Institutions	299.4	100.0%	13.2	-	-	-	-	-	-	0.2	0.1%	-	-	-	-

Moratoriums and new financings as a response to COVID-19

Based on the measures taken by the governments in Slovenia and other countries, the Group made moratoriums available to all eligible borrowers for payment of obligations due to COVID-19, which were not treated as a trigger for a significant increase of the credit risk. Nevertheless, all clients requiring the moratorium are closely monitored as their financial situation and identification of credit deterioration will lead to downgrade and will impact the IFRS 9 staging.

The moratorium applies to a large group of obligors predefined on the basis of broad criteria, and envisages only changes to the schedule of payments, either by postponing or suspending the payments of principal amounts, interest or full instalments, for a predefined and limited period of time. Moratoriums were granted for the period between 3 to 12 months, subject to applicable government measures.

In December 2020, after the impact of the second COVID-19 wave, the EBA decided to reactivate its guidelines on legislative and non-legislative moratoria. This reactivation ensured that loans, which had previously not benefitted from payment moratoria, could afterwards also benefit from them. The revised EBA guidelines will apply until 31 March 2021. In some markets where Group members operate, the local government or regulator renewed or prolonged payment moratoriums. However, the Group members shall follow EBA guidelines on moratoria. In accordance with these guidelines, moratoria granted after period defined by EBA, should be classified on a case-by-case basis, evaluating each client's forbearance status.

Table 34: NLB Group COVID-19 Related Transactions (Moratoriums and New Financings); in EUR thousands

	COVID-19 Moratorium						COVID-19 New Financing					Total COVID-19 Related Transactions	
NLB Group member	**Number of clients**	**Exposure**	**Of which: EBA Compliant moratoria**	**Of which: expired by 31 Dec 2020**	**% of Exposure**	**% of Exposure (exc. expired moratoriums)**	**Number of clients**	**Exposure**	**Of which: expired by 31 Dec 2020**	**Of which: subject to public guarantee schemes**	**% of Exposure**	**Exposure**	**Of which: expired by 31 Dec 2020**
NLB, Ljubljana	**3,915.0**	**489,950.9**	**390,262.6**	**152,108.6**	**7.2%**	**5.0%**	**96.0**	**20,766.1**	**0.0**	**12,766.9**	**0.3%**	**510,717.0**	**152,108.6**
Retail	3,553.0	123,330.9	106,749.4	24,613.3	1.8%	1.5%	20.0	396.0	0.0	50.2	0.0%	123,726.9	24,613.3
o/w Housing	1,279.0	79,519.8	69,654.8	14,595.9	1.2%	1.0%	0.0	0.0	0.0	0.0	0.0%	79,519.8	14,595.9
o/w Consumer	2,625.0	43,811.1	37,094.5	10,017.5	0.7%	0.5%	20.0	396.0	0.0	50.2	0.0%	44,207.1	10,017.5
Non-financial corporations	360.0	366,536.3	283,429.6	127,495.2	5.4%	3.5%	76.0	20,370.1	0.0	12,716.8	0.3%	386,906.4	127,495.2
o/w Secured loans	200.0	305,803.8	224,577.6	86,796.2	4.5%	3.2%	25.0	14,067.0	0.0	12,716.8	0.2%	319,870.8	86,796.2
o/w Unsecured loans	202.0	60,732.5	58,852.0	40,699.0	0.9%	0.3%	52.0	6,303.2	0.0	0.0	0.1%	67,035.6	40,699.0
Other	2.0	83.7	83.7	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	83.7	0.0
NLB Banka, Beograd	**39,227.0**	**251,797.6**	**251,797.6**	**251,797.6**	**41.7%**	**0.0%**	**248.0**	**56,935.7**	**12,722.7**	**56,935.7**	**7.3%**	**308,733.4**	**264,520.4**
Retail	38,633.0	159,486.4	159,486.4	159,486.4	26.4%	0.0%	29.0	1,958.7	471.9	1,958.7	0.3%	161,445.0	159,958.3
o/w Housing	825.0	28,645.6	28,645.6	28,645.6	4.7%	0.0%	0.0	0.0	0.0	0.0	0.0%	28,645.6	28,645.6
o/w Consumer	38,159.0	130,840.8	130,840.8	130,840.8	21.7%	0.0%	29.0	1,958.7	471.9	1,958.7	0.3%	132,799.5	131,312.7
Non-financial corporations	592.0	92,294.6	92,294.6	92,294.6	15.3%	0.0%	219.0	54,977.0	12,250.8	54,977.0	7.1%	147,271.7	104,545.4
o/w Secured loans	132.0	41,427.5	41,427.5	41,427.5	6.9%	0.0%	219.0	54,977.0	12,250.8	54,977.0	7.1%	96,404.5	53,678.3
o/w Unsecured loans	508.0	50,867.2	50,867.2	50,867.2	8.4%	0.0%	0.0	0.0	0.0	0.0	0.0%	50,867.2	50,867.2
Other	2.0	16.6	16.6	16.6	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	16.6	16.6
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	**159.0**	**3,615.2**	**0.0**	**3,331.9**	**14.6%**	**1.1%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0%**	**3,615.2**	**3,331.9**
Retail	94.0	1,084.4	0.0	952.2	4.4%	0.5%	0.0	0.0	0.0	0.0	0.0%	1,084.4	952.2
o/w Housing	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.0	0.0
o/w Consumer	94.0	1,084.4	0.0	952.2	4.4%	0.5%	0.0	0.0	0.0	0.0	0.0%	1,084.4	952.2
Non-financial corporations	65.0	2,530.9	0.0	2,379.7	10.2%	0.6%	0.0	0.0	0.0	0.0	0.0%	2,530.9	2,379.7
o/w Secured loans	65.0	2,529.8	0.0	2,378.6	10.2%	0.6%	0.0	0.0	0.0	0.0	0.0%	2,529.8	2,378.6
o/w Unsecured loans	1.0	1.1	0.0	1.1	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	1.1	1.1
Other	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.0	0.0

	COVID-19 Moratorium						COVID-19 New Financing					Total COVID-19 Related Transactions	
NLB Group member	**Number of clients**	**Exposure**	**Of which: EBA Compliant moratoria**	**Of which: expired by 31 Dec 2020**	**% of Exposure**	**% of Exposure (exc. expired moratoriums)**	**Number of clients**	**Exposure**	**Of which: expired by 31 Dec 2020**	**Of which: subject to public guarantee schemes**	**% of Exposure**	**Exposure**	**Of which: expired by 31 Dec 2020**
NLB banka, Podgorica	**7,601.0**	**165,046.9**	**165,046.9**	**165,046.9**	**35.1%**	**0.0%**	**7.0**	**492.4**	**0.0**	**0.0**	**0.1%**	**165,539.3**	**165,046.9**
Retail	7,373.0	118,981.7	118,981.7	118,981.7	25.3%	0.0%	0.0	0.0	0.0	0.0	0.0%	118,981.7	118,981.7
o/w Housing	1,758.0	69,147.7	69,147.7	69,147.7	14.7%	0.0%	0.0	0.0	0.0	0.0	0.0%	69,147.7	69,147.7
o/w Consumer	6,200.0	49,833.9	49,833.9	49,833.9	10.6%	0.0%	0.0	0.0	0.0	0.0	0.0%	49,833.9	49,833.9
Non-financial corporations	226.0	42,853.2	42,853.2	42,853.2	9.1%	0.0%	7.0	492.4	0.0	0.0	0.1%	43,345.6	42,853.2
o/w Secured loans	136.0	36,508.3	36,508.3	36,508.3	7.8%	0.0%	2.0	100.0	0.0	0.0	0.0%	36,608.3	36,508.3
o/w Unsecured loans	130.0	6,344.9	6,344.9	6,344.9	1.4%	0.0%	5.0	392.4	0.0	0.0	0.1%	6,737.3	6,344.9
Other	2.0	3,212.1	3,212.1	3,212.1	0.7%	0.0%	0.0	0.0	0.0	0.0	0.0%	3,212.1	3,212.1
NLB Banka, Banja Luka	**155.0**	**20,946.1**	**8,673.6**	**17,443.6**	**3.6%**	**0.6%**	**36.0**	**2,722.9**	**168.6**	**0.0**	**0.4%**	**23,669.0**	**17,612.2**
Retail	126.0	2,200.7	359.4	1,939.8	0.4%	0.0%	15.0	353.3	14.7	0.0	0.1%	2,554.0	1,954.5
o/w Housing	33.0	1,221.3	217.0	1,075.2	0.2%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,221.3	1,075.2
o/w Consumer	99.0	979.4	142.4	864.7	0.2%	0.0%	15.0	353.3	14.7	0.0	0.1%	1,332.7	879.3
Non-financial corporations	28.0	11,730.5	1,299.2	8,488.8	2.0%	0.6%	21.0	2,369.6	153.9	0.0	0.4%	14,100.0	8,642.7
o/w Secured loans	23.0	11,682.4	1,254.6	8,440.7	2.0%	0.6%	8.0	1,760.1	0.0	0.0	0.3%	13,442.6	8,440.7
o/w Unsecured loans	6.0	48.0	44.6	48.0	0.0%	0.0%	13.0	609.4	153.9	0.0	0.1%	657.5	202.0
Other	1.0	7,015.0	7,015.0	7,015.0	1.2%	0.0%	0.0	0.0	0.0	0.0	0.0%	7,015.0	7,015.0
NLB Banka, Skopje	**76,912.0**	**347,350.6**	**347,350.6**	**292,042.4**	**27.6%**	**4.4%**	**3.0**	**123.9**	**0.0**	**0.0**	**0.0%**	**347,474.5**	**292,042.4**
Retail	76,328.0	282,459.2	282,459.2	236,966.0	22.5%	3.6%	0.0	0.0	0.0	0.0	0.0%	282,459.2	236,966.0
o/w Housing	2,126.0	83,408.3	83,408.3	65,578.9	6.6%	1.4%	0.0	0.0	0.0	0.0	0.0%	83,408.3	65,578.9
o/w Consumer	75,291.0	199,050.9	199,050.9	171,387.0	15.8%	2.2%	0.0	0.0	0.0	0.0	0.0%	199,050.9	171,387.0
Non-financial corporations	583.0	64,884.7	64,884.7	55,069.8	5.2%	0.8%	3.0	123.9	0.0	0.0	0.0%	65,008.7	55,069.8
o/w Secured loans	177.0	50,472.3	50,472.3	42,872.5	4.0%	0.6%	3.0	123.9	0.0	0.0	0.0%	50,596.3	42,872.5
o/w Unsecured loans	443.0	14,412.4	14,412.4	12,197.3	1.2%	0.2%	0.0	0.0	0.0	0.0	0.0%	14,412.4	12,197.3
Other	1.0	6.6	6.6	6.6	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	6.6	6.6
NLB Banka, Sarajevo	**1,431.0**	**35,157.2**	**35,152.3**	**26,799.2**	**6.5%**	**1.5%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0%**	**35,157.2**	**26,799.2**
Retail	1,363.0	12,564.3	12,564.3	11,852.3	2.3%	0.1%	0.0	0.0	0.0	0.0	0.0%	12,564.3	11,852.3
o/w Housing	73.0	1,728.3	1,728.3	1,681.5	0.3%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,728.3	1,681.5
o/w Consumer	1,322.0	10,836.0	10,836.0	10,170.8	2.0%	0.1%	0.0	0.0	0.0	0.0	0.0%	10,836.0	10,170.8
Non-financial corporations	67.0	20,770.3	20,765.4	13,124.3	3.8%	1.4%	0.0	0.0	0.0	0.0	0.0%	20,770.3	13,124.3
o/w Secured loans	33.0	16,027.8	16,027.8	10,105.7	3.0%	1.1%	0.0	0.0	0.0	0.0	0.0%	16,027.8	10,105.7
o/w Unsecured loans	39.0	4,742.5	4,737.6	3,018.5	0.9%	0.3%	0.0	0.0	0.0	0.0	0.0%	4,742.5	3,018.5
Other	1.0	1,822.6	1,822.6	1,822.6	0.3%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,822.6	1,822.6
NLB Banka, Prishtina	**5,883.0**	**249,283.2**	**249,283.2**	**190,121.7**	**32.3%**	**7.7%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0%**	**249,283.2**	**190,121.7**
Retail	4,646.0	49,594.5	49,594.5	48,881.0	6.4%	0.1%	0.0	0.0	0.0	0.0	0.0%	49,594.5	48,881.0
o/w Housing	2,024.0	37,530.7	37,530.7	36,897.2	4.9%	0.1%	0.0	0.0	0.0	0.0	0.0%	37,530.7	36,897.2
o/w Consumer	3,884.0	12,063.8	12,063.8	11,983.9	1.6%	0.0%	0.0	0.0	0.0	0.0	0.0%	12,063.8	11,983.9
Non-financial corporations	1,232.0	199,623.9	199,623.9	141,175.9	25.9%	7.6%	0.0	0.0	0.0	0.0	0.0%	199,623.9	141,175.9
o/w Secured loans	1,218.0	199,536.1	199,536.1	141,088.4	25.9%	7.6%	0.0	0.0	0.0	0.0	0.0%	199,536.1	141,088.4
o/w Unsecured loans	26.0	87.8	87.8	87.6	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	87.8	87.6
Other	5.0	64.7	64.7	64.7	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	64.7	64.7

	COVID-19 Moratorium						COVID-19 New Financing					Total COVID-19 Related Transactions	
NLB Group member	Number of clients	Exposure	Of which: EBA Compliant moratoria	Of which: expired by 31 Dec 2020	% of Exposure	% of Exposure (exc. expired moratoriums)	Number of clients	Exposure	Of which: expired by 31 Dec 2020	Of which: subject to public guarantee schemes	% of Exposure	Exposure	Of which: expired by 31 Dec 2020
Komercijalna Banka, Beograd	**143,880.0**	**798,057.7**	**798,057.7**	**798,057.7**	**34.3%**	**0.0%**	**1,736.0**	**64,893.3**	**20,406.5**	**64,893.3**	**1.9%**	**862,951.0**	**818,464.2**
Retail	141,509.0	542,859.1	542,859.1	542,859.1	23.3%	0.0%	897.0	16,523.3	5,262.1	16,523.3	0.5%	559,382.4	548,121.2
o/w Housing	9,827.0	234,781.0	234,781.0	234,781.0	10.1%	0.0%	0.0	0.0	0.0	0.0	0.0%	234,781.0	234,781.0
o/w Consumer	136,737.0	308,078.1	308,078.1	308,078.1	13.2%	0.0%	897.0	16,523.3	5,262.1	16,523.3	0.5%	324,601.3	313,340.1
Non-financial corporations	2,334.0	254,366.5	254,366.5	254,366.5	10.9%	0.0%	838.0	48,357.3	15,131.7	48,357.3	1.4%	302,723.8	269,498.3
o/w Secured loans	328.0	117,414.8	117,414.8	117,414.8	5.0%	0.0%	813.0	48,119.7	15,131.7	48,119.7	1.4%	165,534.4	132,546.5
o/w Unsecured loans	2,112.0	136,951.8	136,951.8	136,951.8	5.9%	0.0%	26.0	237.6	0.0	237.6	0.0%	137,189.4	136,951.8
Other	37.0	832.0	832.0	832.0	0.0%	0.0%	1.0	12.7	12.7	12.7	0.0%	844.8	844.8
Komercijalna Banka, Podgorica	**935.0**	**41,664.3**	**41,253.6**	**38,050.2**	**34.3%**	**3.0%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0%**	**41,664.3**	**38,050.2**
Retail	783.0	18,398.9	18,361.2	17,656.3	15.1%	0.6%	0.0	0.0	0.0	0.0	0.0%	18,398.9	17,656.3
o/w Housing	271.0	10,594.4	10,594.4	10,406.1	8.7%	0.2%	0.0	0.0	0.0	0.0	0.0%	10,594.4	10,406.1
o/w Consumer	600.0	7,804.5	7,766.8	7,250.2	6.4%	0.5%	0.0	0.0	0.0	0.0	0.0%	7,804.5	7,250.2
Non-financial corporations	152.0	23,265.5	22,892.4	20,394.0	19.1%	2.4%	0.0	0.0	0.0	0.0	0.0%	23,265.5	20,394.0
o/w Secured loans	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.0	0.0
o/w Unsecured loans	152.0	23,265.5	22,892.4	20,394.0	19.1%	2.4%	0.0	0.0	0.0	0.0	0.0%	23,265.5	20,394.0
Other	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.0	0.0
Komercijalna Banka, Banja Luka	**183.0**	**32,073.8**	**0.0**	**27,604.8**	**16.3%**	**2.3%**	**4.0**	**2,976.5**	**1,346.1**	**0.0**	**0.8%**	**35,050.4**	**28,950.8**
Retail	124.0	2,658.1	0.0	2,658.1	1.4%	0.0%	0.0	0.0	0.0	0.0	0.0%	2,658.1	2,658.1
o/w Housing	48.0	1,531.9	0.0	1,531.9	0.8%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,531.9	1,531.9
o/w Consumer	78.0	1,126.1	0.0	1,126.1	0.6%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,126.1	1,126.1
Non-financial corporations	51.0	14,999.0	0.0	10,529.9	7.6%	2.3%	4.0	2,976.5	1,346.1	0.0	0.8%	17,975.6	11,876.0
o/w Secured loans	28.0	7,382.0	0.0	4,303.7	3.8%	1.6%	4.0	2,976.5	1,346.1	0.0	0.8%	10,358.6	5,649.7
o/w Unsecured loans	29.0	7,617.0	0.0	6,226.3	3.9%	0.7%	0.0	0.0	0.0	0.0	0.0%	7,617.0	6,226.3
Other	8.0	14,416.7	0.0	14,416.7	7.3%	0.0%	0.0	0.0	0.0	0.0	0.0%	14,416.7	14,416.7
Total NLB Group	**280,281.0**	**2,434,943.6**	**2,286,878.1**	**1,962,404.6**	**17.8%**	**3.5%**	**2,130.0**	**148,910.9**	**34,644.0**	**134,596.0**	**0.8%**	**2,583,854.5**	**1,997,048.5**

On the Group level EUR 2,434.9 million moratorium have been approved so far, 44.9% to non-financial corporations and 53.9% to households. The amount represents 17.8% of the total gross book value. Moratoria were granted for the period between 3 to 12 months. Moreover, 80.6% of the granted moratoria expired by the 2020 YE, whereas by the end of Q3 2020 already 51.8% of them expired. Since the expiration of moratorium, 93.5% of exposure has performed without any material delays, while non-expired moratoriums were already appropriately reclassified in 2020 based on future expectations. From the non-expired moratoria, 55.2% will expire in the next three months.

In Slovenia EUR 493.6 million moratorium have been approved with outstanding amount of EUR 338.1 million at the 2020 YE which represents less than 4.8% of the total portfolio. Banks in Strategic Foreign Markets have approved EUR 1,941.4 million moratorium, more than half of them by Serbian banks as a result of COVID-19-related measures taken at the state level. A total of 93.1% of the moratoriums approved by strategic banking members of the Group in SEE have already expired by the 2020 YE.

The Group is actively present on SEE markets by financing the existing and new creditworthy clients. Lending growth in the corporate segment remained relatively moderate, especially in the current specific circumstances. Besides that, the COVID-19 situation contributed to a temporary slowdown in the growth of retail segment. Apart from moratoriums, the Group is also providing additional liquidity by granting new loans to creditworthy clients to help with the specific situation due to COVID-19 crisis. The volume of such loans was EUR 20.8 million in the Bank and EUR 128.1 million in other banking members of the Group. EUR 134.6 million of the new COVID-19 loans are subject to public guarantee schemes in Serbia and Slovenia.

New NPLs formation and NPL management

The combination of a high-quality portfolio, COVID-19 legislative options and uncertain macroeconomic conditions led to cumulative new NPLs formation in the amount of EUR 148 million, which is 1.1% of the total portfolio. These figures do not include the newly acquired Komercijalna Banka, Beograd, however, their NPLs as of 2020 YE are included in the Group's NPLs stock. Additionally, the macroeconomic situation across the region, affected by the economic slowdown in the current year, resulted in an increased cost of risk. Its further development refers to a large extent to the economic circumstances caused by COVID-19 pandemic.

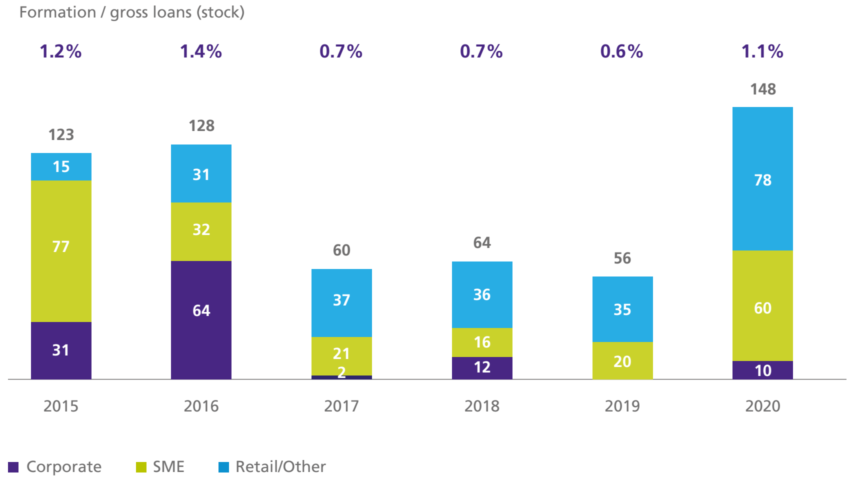


Figure 69: NLB Group gross NPL formation (in EUR million)

Precisely set targets in the Group's NPL Strategy and various proactive workout approaches facilitated the management of the non-performing portfolio. The Group's approach to NPL management puts a strong emphasis on restructuring and use of other active NPL management tools, such as foreclosure of collateral, the sale of claims, and pledged assets. The non-performing credit portfolio stock stopped its multi-year declining trend as a consequence of COVID-19 outbreak. The non-performing credit portfolio stock in the Group increased at 2020 YE in comparison with 2019 YE to EUR 474.7 million (2019 YE: EUR 374.7 million). The increase of NPLs mainly occurred due to the deterioration of asset quality related to the COVID-19 pandemic, changed treatment of accrued interest and acquisition of Komercijalna Banka, Beograd, while different workout measures (namely repayments, collection and recovery from legacy portfolios) positively influenced on the stock of NPLs. The combined result of all the effects lead to 3.5% of NPLs, while the internationally more comparable NPE ratio, based on the EBA methodology, stood at 2.3%. The Group's indicator gross NPL ratio, defined by the EBA, is equal to 4.5% and is below the regulatory defined threshold for establishment of NPL strategy framework.

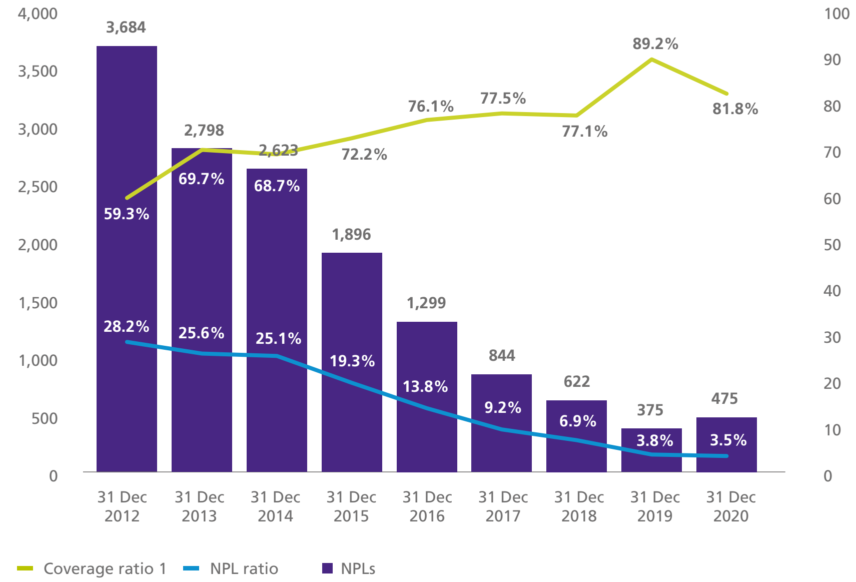


Figure 70: NLB Group NPL, NPL ratio and Coverage ratio[(i)] (in EUR million)

(i) By internal definition.

Table 35: NPL, NPL ratio and Coverage ratio by NLB Group members (in EUR thousands)

NLB Group member	NPL 31 Dec 2020	% NPL 31 Dec 2020	NPL CR 2 31 Dec 2020
NLB, Ljubljana	208,426.1	3.0%	57.9%
NLB Banka, Skopje	63,177.1	5.1%	69.0%
NLB Banka, Podgorica	27,279.5	5.8%	50.9%
NLB Banka, Sarajevo	24,690.8	4.5%	68.9%
NLB Banka, Prishtina	17,518.9	2.3%	81.2%
NLB Banka, Banja Luka	13,702.8	2.3%	63.6%
NLB Banka, Beograd	8,718.3	1.4%	59.8%
Komercijalna Banka, Beograd	35,219.8	1.5%	0.0%
Komercijalna Banka, Banja Luka	1,165.9	0.6%	0.0%
Komercijalna Banka, Podgorica	3,558.9	2.7%	0.0%
Total NLB Group banks	**403,458.1**	**2.9%**	**55.4%**
Total NLB Group	**474,748.9**	**3.5%**	**57.3%**

Due to extensive experience gained in the last few years in dealing with clients with financial difficulties, resulting primarily from legacy portfolios, the Group has developed an extensive knowledge base both in the prevention of financial difficulties for clients, to restructure viable clients in case of need, and to efficiently work out exposures with no realistic recovery prospects. This extensive knowledge base is available throughout the Group, and risk units as well as restructuring and workout teams are properly staffed and have the capacity to deal, if needed, with considerably increased volumes in a professional and efficient manner. Due to this fact, as well as due to implemented early warning tools, and due to efficient analysis and reporting mechanisms, which allows the Group to proactively identify and engage with potentially distressed borrowers, the Group estimates that it is well prepared to deal proactively with potentially distressed debtors also in the context of

COVID-19, while properly differentiating between viable and non-viable clients, in order to minimise the impact on the quality of its credit portfolio.

An important Group's strength is the NPL coverage ratio 1 (coverage of gross NPLs with impairments for all loans), which remains high at 81.8%. Furthermore, the Group's NPL coverage ratio 2 (coverage of gross NPLs with impairments for NPL) stands at 57.3%, which is well above the EU average as published by the EBA (44.9% for Q4 2020). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years. The decrease in coverage indicators in 4Q 2020 was influenced by the special treatment of NPLs from the acquired entities. NPLs of Komercijalna Banka group are initially recognised at fair value, without any additional credit loss allowances.

The Group strives to ensure the best possible collateral for long-term loans, namely mortgages in most cases. Thus, the real-estate mortgage is the most frequent form of loan collateral for corporate and retail clients. In the corporate loans, it is followed by government and corporate guarantees. In retail loans, the other most frequent types of loan collateral are loan insurances by insurance companies and guarantors.

The Group is following the ECB guidelines to banks on NPLs with regards to the evaluation of collateral. The establishment of market values for collateral for NPLs is by means of individual evaluation when NPL status is established. The value of collateral is then regularly monitored on a yearly level and updated by either independent evaluation (over prescribed threshold) or with the use of statistical re-evaluation for smaller values of NPL. For statistical re-evaluation the indexes from the government agency or other relevant official data sources are used. The value of collateral is with statistical approach always updated only downwards, never upwards. Only if the individual appraisal shows a higher value of collateral, the upwards re-evaluation would be performed. If the data from statistics would show significant decline in the real estate market, individual evaluations for such types of real estate would be performed and values corrected accordingly.

Low market risk in the trading book

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 group, 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.

The Group carries its main business activities in euros, and the subsidiary banks, in addition to their domestic currencies, also operate in euros, which is the reporting currency of the Group. The Group's net open FX position from transactional risk is low, and at less than 1.7% of capital. Regarding structural FX positions on a consolidated level, assets and liabilities held in foreign operations are converted into 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 and CET1 capital. By acquiring Komercijalna Banka, Beograd, the Group's structural FX positions increased, resulting in an increase of Group's RWA for market risk.

The Group's exposure to interest rate risk is moderate and arises mainly from banking book positions. In the last three years, the Group recorded the growth of fixed interest rate loans and the long-term banking book securities on the assets side, and the transformation of deposits from term to sight as a result of the low interest rate environment and excessive liquidity.

The Group's interest rate positions were slightly affected by moratoriums during the year 2020, which were mostly short-term, from 3 to 6 months, and consequently not very material. The Group places excess liquidity mainly into banking book securities with fixed IR, while in current negative interest rate environment there is also higher demand for products with fixed IR. The interest rate exposure to interest rate risk remains modest, within the risk appetite limits. If market interest rates would increase, the net interest income of the Group would be positively affected, whereas if they decreased, negative effects would be lower due to zero floor clauses included in a number of loan contracts. When assessing EVE sensitivity, the Group members apply different scenarios. For most members, the worst case regulatory scenario is in the case of increase of IR by 200 bps. From the EVE perspective, the estimated capital sensitivity of 200 bps equals -7.3% of the Group's capital (including acquired Komercijalna Banka group).

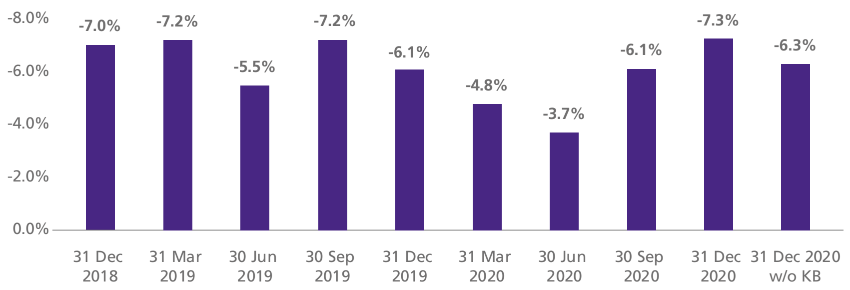


Figure 71: NLB Group's EVE evolution

Robust operational Risk Management

In the area of operational Risk Management, where the Group has established robust operational risk culture, the main qualitative activities refer to the reporting of loss events and identification, assessment, and management of operational risks. On this basis, constant improvement of control activities, processes, and/or organisation are performed. Besides that, the Group also focuses on proactive mitigation, prevention, and minimisation of potential damage. Special attention is dedicated to the stress-testing system, based on a scenario analysis referring to the potential high severity, low frequency events, and modeling data on loss events. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks (such as HR, processes, systems, and external conditions) are regularly monitored, analysed, and reported, with the aim to improve the existing internal controls and enabling reacting on time.

Following the indications of the outbreak of the COVID-19 pandemic 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 continuously offered 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. Special attention was paid to continuous provision of services to clients, their monitoring, health protection measures, and the prevention of cyber fraud.

In addition, the Group was also diligently managing other, non-financial risks, referring to the Group's business model or arising from other external circumstances, within the established ICAAP process.

Incorporating ESG risks

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 be comprehensively integrated into all relevant processes.

Further information on risk management is available in the **Note 6** to the Audited Annual Financial Statements and Pillar 3 Disclosures.

The right support at the right time

Sergej Ivanov
PG MAGI, Serbia

A veterinarian and a great lover of autochthonous breeds of domestic animals, Sergej Ivanov started breeding Balkan donkeys on Stara Planina 15 years ago. He wanted to preserve this breed whose number has greatly decreased due to the extinction of villages in this part of Serbia. On the farm, where the whole family works, he produces donkey's milk, which is extremely healthy, especially for respiratory diseases, and is most similar to mother's milk. The #HelpFrame project, realised in period when a large number of people started to search for natural sources of immunity due to the COVID-19 epidemic, brought him an increase in visits to the website, increased interest and sales of this healthy milk, and ultimately enabled farm improvement by increasing his herd.

IT and Cyber Security

Information Technology

The Group continues to provide its clients with sustainable and efficient services supported through highly reliable and secure technology platforms. The Bank is very actively pursuing a technology transformation programme, where two new large platforms were introduced in 2019. In 2020, a new IT Strategy was introduced including a core banking strategy. The team started delivering on outlined roadmaps. The Group is aiming to centralise and unify governance, applications, and infrastructure. The Bank also introduced effective online collaboration solution and enabled the majority of employees to work from home without interruption to operations. Due to the general cyber security risks increase, special focus was on raising overall level of cyber security resilience.

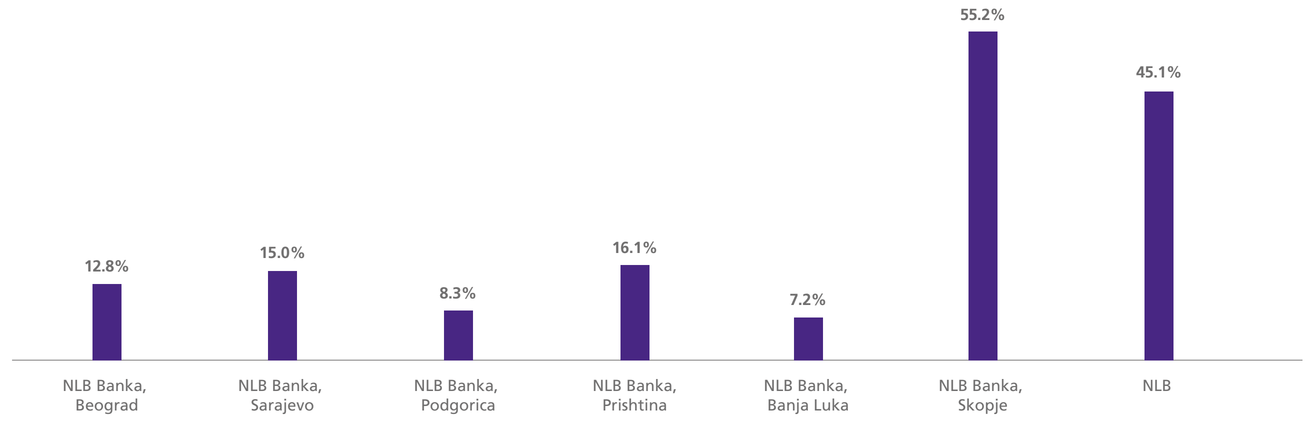


Figure 72: Digital penetration of Group's banks (w/o Komercijalna Banka group)

IT infrastructure and reliability

IT performance is monitored through a set of relevant indicators that are linked to the Balanced Scorecard (BSC) system. The indicators show the high performance of IT operations and successful risk management in this area. The availability of the information system in the Bank is at very high level of 99.92% (2019: 99.93%), and the share of unplanned interruptions is very low, 0.08% (2019: 0.02%). In 2020, the number of days without system/service interruptions were at 78.5% (2019: 83%). Harmonised Service Level Agreements (SLA) are in place with users of the information system, which the Bank managed to fulfil in a very high proportion. High IT operational performance was also recorded in the Group members.

Main IT initiatives

The main focus was the transformation of IT in terms of organisation, processes, people, and technology. IT supported a more agile way of delivery, to better partner with business and thus be more efficient and effective. It also hired new experts in strategic positions.

The approach of delivery was changed with an emphasis on insourcing and keeping strategic knowledge and resources 'in-house.' Also, several initiatives were started, from mainframe to distributed systems, from on-premise to the cloud, from paid to open-source where possible, and moving resources from back-end to front delivery.

Additionally, the ongoing projects were revised with the aim to ensure timely delivery, while the relationships with key vendors were reviewed in order to improve costs.

Application architecture on the Group level was assessed in terms of solutions GAPs/maturity, and as well as the Group's synergy potential which then was included in the Group IT strategy.

Group-wide capabilities were significantly extended (mainly in the Group competence centre in Belgrade, Serbia) for the new digital banking platform, enterprise integration platform, and business process management platform development within the region, and cyber security and infrastructure group. Further developments are also planned in the future.

The Bank achieved several new milestones in the implementation of a Group-wide data management platform which encompasses an enterprise data warehouse, advanced analytics, risk management analytics, profitability, data governance, and consolidated Group regulatory reporting.

In the coming years, the Bank is expected to continue investing in newly adopted technologies to support the business strategy, and to achieve superior client experience in terms of quality, innovation, reliability, and security.

948,645

digital users in the Group.

99.92%

the availability in NLB.

IT Strategy 2020-2024

At the end of the year, a refreshed IT Strategy was adopted which also incorporates the Group dimension.

The **Vision statement** emphasises to build the best digital bank IT team in the SEE region.

The **Mission statement** of the IT Strategy emphasises to enable the best client and employee experiences through reliable, effective, secure, accessible, and scalable IT solutions.

The **Main principles** are to:

- increase customers satisfaction in all segments with new digital omnichannel platform, digitizing customer journeys and interactions (CRM) and operational excellence;
- have an effective IT architecture, which will use cloud solutions and open source software where ever is possible;
- introduce a new way of agile development and DevOps transformation leading to shorter releases cycles, automated testing and less manual tasks;
- ensure the necessary development capacity - hire right talents with the digital skills and looking forward to execute change;
- introduce modern collaboration tools and digitize internal processes;
- leverage investment made in Data platform and treat data as an asset;
- assure IT quality, security, and availability of the systems and applications;
- have a highly motivated, effective and satisfied IT team which will work closely and cooperate with business side.

Cyber security

The Group is giving special focus to cyber security, and consequently assuring confidentiality, integrity, and the availability of data, information, and IT systems that support banking services and products for customers. Cyber security in the Group is constantly tested and upgraded by security assessments, independent reviews, and penetration testing. Cyber security is regularly discussed at the Bank's Information Security Steering Committee, Operational Risk Committee, and Management Board meetings. In 2020, the Security stream in the Bank was additionally enhanced with the Information Technology Asset Management, Document Classification and protection, Web Application Firewalls, Multi Factor Authentication and Mobile Device Management implementation. The Bank will further enhance usage of security tools and roll them out to the Group in the future.

All employees in the Group are also being continually educated about the importance of information/cyber security, as well as social engineering techniques. The Group banks are providing employees and customers with security notifications, especially for the occurrence of threats in the (global) environment with potential impact on the banks' IT systems, services, products, and customers. The Bank is also testing the awareness of its employees with social engineering attack simulations.

Human Resources

HR drives improvements and innovative practices to enable the best possible employee engagement and strong business results. The Group sees investments in its employees as a key change enabler. Acting as a strategic partner to the business, HR is focused on the needs of organisational and cultural development. Due to the COVID-19 pandemic, activities connected to health and safe environment had the highest priority. During the periods of pandemic, on average 43% employees of the Bank worked from home, and safety environment and equipment were provided to employees working at their work place. Development activities were moved mainly to the online environment. Certain programmes were focused at the new reality; remote leadership, MS Teams, health and mental well-being, while others aimed to develop knowledge and skills related to management and sales profiles, lean processes, social learning activities, and implementation of practices to enhance employee efficiency. The Group believes that investments in its employees are crucial for the successful introduction of changes.

Employee Headcount

The Group continued with optimisation of processes and right-sizing its staffing level. In the last five years, the Group reduced the number of employees by 13.5% to 5,807 however, due to the acquisition of Komercijalna Banka, Beograd and its subsidiaries in December, the number of staff at the 2020 YE rose to 8,792.

Table 36: NLB Group headcount by countries as of 31 December 2020 and 2019

Country	31 December 2020	31 December 2019
Slovenia	2,691 (NLB: 2,591, other: 100)	2,750 (NLB: 2,659, other: 91)
Serbia[i]	3,198	494
BiH[i] (Republic of Srpska, Federation of BiH)	1,086	934
Montenegro[i]	467	312
North Macedonia	877	903
Kosovo	463	474
Germany	1	1
Switzerland	2	3
Croatia	7	7
Total (the Group)	**8,792**	**5,878**

[i] Acquisition of Komercijalna Banka, Beograd and its subsidiaries in December 2020.

Due to the COVID-19 pandemic, business operations were organised in a way that all employees, if their job description or other circumstances allowed it, could work from home (remotely). The Group ensured business continuity by performing key business functions and processes intact despite the sudden change in the way banks perform their business. All health and safety environment decisions were made on time and in accordance with the epidemiological circumstances.

'Top Employer'

for the 6th consecutive year.

Strive to Be 'Top Employer'

The Group is continuing to strengthen its HR practises based on feedback from reputable institutions and benchmarks with best-in-class HR practises. The Bank was once again recognised as the 'Top Employer' by the Dutch Top Employer Institute for already the 6th consecutive year. The Bank will continue to ensure an even more stimulating work environment also in the future.

Continuing a longstanding tradition of investing in employees

Caring about our employees is the key value reflected in several activities and opportunities intended for all the employees. The organisational culture is changing by engaging in various fields, integrating the member companies, enabling staff rotation, and changing the work environment, promoting out-of-the-box thinking and personal development. As a result, by changing the behaviour, the organisational culture is being changed.

A crucial part of this process is motivation and engagement of employees, which is constantly being improved. In the H2 2020 engagement on the Group level was measured. A total of 72.3% of employees participated in the survey. An above average percentage of employees (43%) are engaged (loyal and psychologically committed to the organisation).

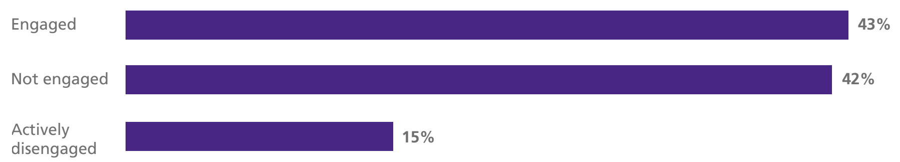


Figure 73: NLB Group Employee Engagement 2020

On average

43%

of NLB's employees worked from home in the periods of pandemic.

8,792

employees in the Group family.

Prepared to Tackle Future Challenges

The Group strives for high quality and compliance with the standards of a modern learning organisation. Various training activities are aimed to raise awareness and encourage employees to embrace changes and 2020 was full of new challenges. Purpose of these activities was to train the employees to organise themselves in new COVID-19-driven circumstances, complete their business objectives, and thus meet their personal expectations by showing social responsibility in interactions with all the stakeholders.

Due to COVID-19, most of the trainings (from March on) were conducted online. The emphasis was on programmes focused on remote work (work from home), distance leadership, physical and mental health, and others. The aim was to improve employee's knowledge about the digitalisation, to explore and understand contemporary tech trends, as well as to adapt to new ways of working and learning in the digital world.

At the end of the year, additional efforts were put in the direction of online learning by laying out the groundwork to enable all employees to have access to 7,000+ courses to cover their needs for development of knowledge and skills.

Well-being & Health

The Group was committed to offering knowledge on good health, creating a work environment that enables quality interpersonal relationships, and promoting activities that enhance the good health and satisfaction of employees.

During the pandemic, emphasis was placed on developing healthy habits which were communicated daily to all employees through internal communication portal NLB Net. Due to the changed work environment, employees adapted to new health and safety measures. The Bank provided all the necessary protective equipment (masks, gloves, disinfectants) and made sure proper social distancing. Remote work and work from home were enabled to the majority of the employees in the Group.

Remuneration system as a motivation for engaged and committed employees

For an employee working in the companies within the Group, salary is composed of a fixed and a variable part. The fixed part of the salary is determined according to the complexity of the work for which the employee has concluded a contract of employment, while the variable amount depends on the employee's performance. Apart from quarterly or half-yearly compensation, the employees are awarded with annual rewards related to the business performance of the bank in which they work. Performance assessment is done by the head of the employee's organisational unit using a top-down approach to evaluate the employee's achievements in relation to goals set for a particular assessment period (quarter or half-year). The goals are set according to the 'SMART' method, meaning that they have to be specific, measurable, achievable, relevant, and time-bound.

Given the extremely difficult environment in 2020, the Bank has taken some measures to award employees who were exposed in this period and gave them an extra workload allowance as additional variable salary.

For employees performing special work, a Remuneration Policy is implemented on the Group level. The policy also contains provisions regarding payment of the variable part and defines the circumstances for subsequent adjustment to the risks that mandatory reduce the deferred variable part of the salary to zero (holdback) or circumstances that potentially reduce the deferred part of the variable salary to zero (clawback).

Due to the aggravated business situation in 2020, the Bank's Management Board decided that, in the period from 1 May 2020 to 31 December 2020, the salary of the Management Board members is reduced by 15% and the salary of employees with service contracts by 10%. The Supervisory Board members also reduced their remuneration by 15% for the period from 1 May till 31 December 2020.

The BoS also 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 systematic risks, and 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 performing special work have been laid down. The macroprudential measure imposed by the BoS Decision will be in force one year (from April 2020 to April 2021). Considering those measures, the Bank was unable to pay out to the employees performing special work the deferred part of variable salary for 2016, neither could pay off the variable part of the salary for 2019 or paid-out its non-deferred part.

Information on sustainability aspect of HR area can be found in the NLB Group Sustainability Report 2020.

Corporate Governance

The corporate governance of the Bank is based on legislation of the RoS, particularly (but not exclusively) the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), the Decision of the BoS on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks, the relevant 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.

Apart from the mentioned binding legal framework, the Bank also follows the Corporate Governance Code for Listed Companies (valid since 1 January 2017). Deviations from the recommendations of the mentioned code are published in the Corporate Governance Statement of NLB, prepared according to Article 70 (paragraph 5) of the Companies Act (ZGD-1) and is part of the Business Report in the NLB Group Annual Report. This statement is also published on www.nlb.si/corporate-governance.

The corporate governance framework of the Bank is designed jointly by the Management Board and the Supervisory Board of the Bank with the Corporate Governance Policy of NLB (November 2020), wherein they commit to and publicly disclose to shareholders, clients, creditors, employees, and other stakeholders as a whole, how they will supervise and manage the Bank, as well as decide which corporate governance code the Bank should follow. The mentioned policy was amended in November 2020 (published on www.nlb.si/corporate-governance), due to the termination of validity of the commitments by the EC as a result of receipt of the state aid in December 2013, changes to the Articles of Association of NLB (Articles of Association), as well as changes of the regulation governing corporate and social responsibility. The Corporate Governance Policy of NLB should be read together with the NLB Group Corporate Governance Policy, in which the corporate governance principles and mechanisms of the Group members (except for NLB) are defined and governed.

In 2020 NLB as the first bank in RoS implemented the decision passed by the Constitutional Court of the RoS regarding participation of employees in the bank's managing bodies. Namely, on 13 June 2019, the Constitutional Court established an inconsistency of the fourth section of the Banking Act (ZBan-2), which excluded workers' participation in the managing bodies of the bank. Therefore, on 15 June 2020, the General Meeting adopted amendments to the Articles of Association, which allow the Workers' Council to appoint four representatives to the Supervisory Board and grant the possibility to appoint a worker director.

The Bank's governing bodies are:

In addition to good and stable business results as a systemic player in the SEE markets, NLB also considers the environmental and social impacts of its business, with the aim of ensuring sustainable development of the Bank and the Group. In 2020, the Bank upgraded the Corporate Social Responsibility (CSR) activities with more consistent adherence to the 2030 Agenda of the UN Sustainable Development, that is the most comprehensive development call to action so far, as it defines 17 concrete goals that should be achieved by 2030. CSR activities in the Bank will gradually be upgraded so that any socially responsible activity will pursue at least one of the 17 UN Sustainable Development Goals and will consequently have a long-term impact on society and the environment.

At the end of September, NLB was the first bank in Slovenia that joined more than 180 banks from all over the world that signed the UN Principles for Responsible Banking. Further information on sustainable development and sustainable banking is incorporated in the NLB Group 2020 Sustainability Report published on the banks web page (www.nlb.si).

The Bank's corporate governance is based on a two-tier system in which the Management Board manages the Bank, while its daily operations are supervised by the Supervisory Board.

More information on the corporate social responsibility and the implementation of sustainability into the Group business model (together with information on the GRI standards) is available in the NLB Group Sustainability Report 2020.

The General Meeting of Shareholders

The General Meeting of Shareholders (General Meeting) is the highest body of the Bank through which shareholders exercise their rights, which include among others: decisions on corporate changes (amendments of the Articles of Association, increase or decrease of share capital) and legal restructuring (mergers, acquisitions); decisions on all statutory issues with respect to appointing and discharging members of the Supervisory Board (representatives of capital) and appointment of an auditor; use of distributable profit; and granting of a discharge from liability to the Management Board and Supervisory Board. Competences of the General Meeting are stipulated in the Companies Act (ZGD-1), the Banking Act (ZBan-2), and the Articles of Association.

The General Meeting met on 15 June 2020 and took note of the NLB Group Annual Report 2019 approved by the Supervisory Board, the Report of the Supervisory Board of NLB on the Results of the Examination of the NLB Group Annual Report 2019, took note of the adopted Internal Audit's Report for 2019 and adopted the Information on the Income of Members of the Management Board and Supervisory Board of NLB for the last year. The shareholders also decided on the allocation of distributable profit for 2019.

The distributable profit for 2019 in the amount of EUR 228,039,879.73, which consisted of net profit for 2019 in the amount of EUR 176,148,615.15 and retained earnings from previous years in the amount of EUR 51,891,264.58 remained undistributed representing the profit carried over, due to the restriction introduced by the BoS on the macroprudential restrictions on the distribution of banks' profits, with the aim to lower the impact and consequences of the COVID-19 epidemaic. The purpose of the measure is to preserve capital so that the banking system can more easily withstand potential losses and continue to provide the economy and citizens with credits.

In continuation, the General Meeting granted discharge to the members of the management and supervisory bodies for the 2019 financial year.

In accordance with the Decision passed by the Constitutional Court of the RoS in June 2019 the General Meeting adopted the proposed amendments to the Articles of Association with regard to participation of workers in the governing bodies of banks. The Amendments to the Articles of Association allow the Works Council to appoint four representatives to the Supervisory Board and grant the possibility to propose the appointment of a worker director. As a result, the Articles of Association were amended also in the article governing the number of members of the Management Board.

Since the mandate of four members of the Supervisory Board expired in 2020, the General Meeting elected members of the Supervisory Board. The terms of office for László Urbán and Alexander Bayr were terminated, while Primož Karpe and David Eric Simon were re-elected for a new term of office. Additionally, Verica Trstenjak was elected as a new member of the Supervisory Board (more information on election of members of the Supervisory Board is in the following sub-chapter on the Supervisory Board).

The General Meeting also adopted a decision that allows the Management Board to convene the General Meeting by electronic means thereby allowing shareholders to participate without a physical presence in the meeting.

All adopted resolutions together with voting results are available to interested parties at the Ljubljana Stock Exchange website SEOnet (https://seonet.ljse.si).

The Supervisory Board

The Supervisory Board of NLB (Supervisory Board) carries out its tasks in compliance with the provisions of the above mentioned laws governing the operations of banks and companies, as well as the Articles of Association. In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Supervisory Board is, among other tasks, responsible for: appointing and dismissing the president and members of the Management Board and deciding on their remuneration, issuing approvals to the Management Board in relation to the Bank's business policy and financial plan, the strategy of the Bank and the Group, organising the internal control system, giving consent to the Audit Plan of the Internal Audit, all financial transactions (e.g. issuance of own securities, and equity stakes in companies and other legal entities), and supervising the performance of the Internal Audit. The Supervisory Board acts in accordance with the highest ethical standards, preventing any conflict of interest.

In 2020, the Bank implemented the Decision of the Constitutional Court with respect to participation of workers in a bank's managing bodies. In accordance with the already mentioned changes to the Articles of Association, adopted on the General Meeting held on 15 June 2020 the Supervisory Board now consists of 12 members, out of which eight are representatives of the capital and four are employee representatives elected and appointed by the Workers' Council of NLB. For four members of the Supervisory Board, the term of office expired in 2020. At the General Meeting held on 15 June 2020, Primož Karpe and David Eric Simon were re-elected for a new term of office, additionally, Verica Trstenjak was elected as a new member of the Supervisory Board.

On 9 June 2020, Worker Council of NLB elected and appointed Petra Kakovič Bizjak, Sergeja Kočar, and Bojana Šteblaj as members of the Supervisory Board – representatives of employees. Their four-year term of office began on the day of the registration of changes to the Articles of Association into the court register (17 June 2020). On 1 September 2020, the Bank received a letter of resignation from Petra Kakovič Bizjak. Her mandate was terminated on 10 September 2020.

On 20 November 2020, the Bank received information that the Workers' Council elected Janja Žabjek Dolinšek as member of the Supervisory Board – and representative of the workers. Her term of office started on 20 November 2020.[13]

Further information about the work and composition of the Supervisory Board is available in the chapter Corporate Governance Statement of NLB.

At 31 December 2020, the Supervisory Board included the following members:

Representatives of capital

Primož Karpe, M.Sc.
Chairman

Andreas Klingen
Deputy Chair

Shrenik Dhirajlal Davda
Member

David Eric Simon
Member

Mark William Lane Richards
Member

Peter Groznik, Ph.D.
Member

Gregor Rok Kastelic
Member

Verica Trstenjak, Ph.D.
Member

Representatives of employees

Sergeja Kočar, M.Sc.
Member

Bojana Šteblaj, M.Sc.
Member

Janja Žabjek Dolinšek, M.Sc.
Member

13. Further developments are available in the chapter Events after 31 December 2020.

Primož Karpe, M.Sc.
Chairman
Term of office: 2016-2020, renewed term 2020-2024

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Chairman)
- Audit Committee (Member)
- Operations and IT (Member)

Membership in management bodies of related or unrelated companies:
- Angler d.o.o. - Director

Andreas Klingen
Deputy Chair
Term of office: 2015-2019, renewed term 2019-2023

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Deputy Chairman)
- Risk Committee (Chairman)

Membership in management bodies of related or unrelated companies:
- None

David Eric Simon
Member
Term of office: 2016-2020, renewed term 2020-2024

Link to CV

Membership in NLB Supervisory Board committees:
- Audit Committee (Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- Jihlavan a.s., President of the Supervisory Board
- Czech Aerospace industries sro, legal representative
- Central Europe Industry Partners a.s., sole Member of the Supervisory Board

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

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- MSIN
- CETIS

Shrenik Dhirajlal Davda
Member
Term of office: 2019-2023

Link to CV

Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Deputy Chairman)
- Remuneration Committee (Member)
- Audit Committee (Member)

Membership in management bodies of related or unrelated companies:
- Managing Director, Meghraj Capital Ltd, Kenya (since 2020)

Mark William Lane Richards
Member
Term of office: 2019-2023

Link to CV

Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Chairman)
- Nomination Committee (Member)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Gregor Rok Kastelic
Member
Term of office: 2019-2023

Link to CV

Membership in NLB Supervisory Board committees:
- Remuneration Committee (Member)
- Audit Committee (Member)

Membership in management bodies of related or unrelated companies:
- Triglav Group, Slovenia, Deputy Chairman of the Supervisory Board (2012-2017)
- SID Banka, Slovenia, Member of the Supervisory Board (2009-2012)
- Komercijalna Banka, Beograd, Serbia, Member of the Supervisory Board (2006)
- NLB Montenegrobanka, Podgorica, Montenegro, Member of the Supervisory Board (2006)
- Komercijalna Banka, Skopje, North Macedonia, Member of the Supervisory Board (2005-2006)
- ABN Amro Bank N.B., Uzbekistan, Member of the Supervisory Board (2004-2006)

Verica Trstenjak, Ph.D.
Member
Term of office: 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Bojana Šteblaj, M.Sc.
Member
Term of office: 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- Operations and IT (Member)

Membership in management bodies of related or unrelated companies:
- None

Sergeja Kočar, M.Sc.
Member
Term of office: 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Janja Žabjek Dolinšek, M.Sc.
Member
Term of office: 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- None

Membership in management bodies of related or unrelated companies:
- None

Committees of the Supervisory Board

The Supervisory Board appoints committees that prepare proposals for resolutions passed by the Supervisory Board, ensures their implementation, and performs other expert tasks. The Bank's Supervisory Board has five collective decision-making and advisory committees, namely:

Audit Committee	Risk Committee	Nomination Committee	Remuneration Committee	Operations and Information Technology (IT) Committe
David Eric Simon President	**Andreas Klingen** President	**Primož Karpe** President	**Gregor Rok Kastelic** President	**Mark William Lane Richards** President
Shrenik Dhirajlal Davda Deputy president	**Peter Groznik** Deputy president	**Andreas Klingen** Deputy president	**Mark William Lane Richards** Deputy president	**Shrenik Dhirajlal Davda** Deputy president
Primož Karpe Member	**Mark William Lane Richards** Member	**Verica Trstenjak** Member	**Shrenik Dhirajlal Davda** Member	**Andreas Klingen** Member
Gregor Rok Kastelic Member	**David Eric Simon** Member	**Peter Groznik** Member	**Peter Groznik** Member	**Primož Karpe** Member
	Gregor Rok Kastelic Member	**Sergeja Kočar** Member	**Sergeja Kočar** Member	**Bojana Šteblaj** Member

Further information about the work and composition of the Committees of the Supervisory Board is available in the chapter Corporate Governance Statement of NLB.

The Management Board

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

At the beginning of 2020, the Management Board consisted of Blaž Brodnjak, CEO & CMO; Archibald Kremser, CFO; Andreas Burkhardt, CRO; and László Pelle, COO. László Pelle and the Supervisory Board agreed on the termination of his office as of 31 January 2020. In order to assure continuation of the function of COO, the Supervisory Board appointed Petr Brunclík as member of the Management Board. Petr Brunclík assumed his function as COO on 18 May 2020, upon receiving a consent by the ECB on 13 May 2020. On 12 November 2020, the Supervisory Board reappointed Blaž Brodnjak as CEO & CMO, Archibald Kremser as CFO, and Andreas Burkhardt as CRO of the Bank for a period of five years from the end of their term on 6 July 2021.

Further information about the work and composition of the Management Board is available in the chapter Corporate Governance Statement of NLB.

At the end of 2020 the composition of the Management Board was as follows:

Blaž Brodnjak
CEO & CMO
Term of office: 2016-2021, renewed term 2021-2026

Link to CV

Other important functions and achievements:
- More than 20 years of experience at managerial positions on all levels of international banking groups.
- Was a chairman or member of the supervisory boards of 13 commercial banks in 6 countries, 3 insurance companies in 3 countries, leading asset management company in Slovenia and multinational production group.

Direct responsibility:
- Strategy and Business Development
- Legal and Secretariat
- Communications
- HR and Organisation Development
- Investment Banking and Custody
- Retail and Private Banking, and Corporate Banking

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Supervisory Board: NLB Banka, Sarajevo NLB Banka, Banja Luka NLB Banka, Skopje
- Member of the Board of Directors: Komercijalna Banka, Beograd (from 30 December 2020)
- President of the Association of Banks in Slovenia (from 1 November 2017)
- President of the Board of Governors: AmCham Slovenia (from 15 September 2020)
- Member of Executive Committee of the Handball Federation of Slovenia

Petr Brunclík
COO
Term of office: 2020-2025

Link to CV

Other important functions and achievements:
- Almost 20 years of diverse banking, business, customer service, process improvement, online, and technology experience.

Direct responsibility:
- IT Architecture
- IT Delivery
- Data Management
- IT Shared Service Centre
- NLB Group IT Security Governance
- IT Infrastructure
- Procurement
- Payment Processing
- Cash Processing
- Financial Markets Processing
- Corporate Banking Processing
- Retail Banking Processing

Membership in management or supervisory bodies of related or unrelated companies:
- None

Andreas Burkhardt
CRO
Term of office: 2016-2021, renewed term 2021-2026

Link to CV

Other important functions and achievements:
- 19 years of experience in the area of banking, especially in the area of Central Europe.

Direct responsibility:
- Internal Audit
- Compliance and Integrity
- Global Risk and Credit Risk – Corporate and Retail
- Workout and Legal Support
- Restructuring

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Board of Directors: NLB Banka, Prishtina NLB Lease&Go (since 15 May 2020)

Archibald Kremser
CFO
Term of office: 2016-2021, renewed term 2021-2026

Link to CV

Other important functions and achievements:
- More than 20 years of experience in the financial services industry in Austria, CEE, and SEE focusing on finance and asset management, strategy and corporate development, as well as performance improvement assignments.

Direct responsibility:
- Financial Accounting
- Controlling
- Financial Markets
- Group Real Estate Management
- Group Steering

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Board of Directors: NLB Banka, Beograd (until 11 December 2020) NLB Banka, Podgorica Komercijalna Banka, Beograd (from 30 December 2020)

Collective decision-making bodies

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

Corporate Credit Committee

Chairman: CRO

The Committee determines credit ratings and makes decisions on the reclassification of clients and approves commercial banking investment transactions and limits that are beyond the competencies of the Directors. The Committee adopts decisions that are outside of the powers of the directors, as well as decisions on investment transactions in commercial banking within the statutory powers in the areas of corporate banking in the Bank (all companies, banks, and financial institutions), operations with clients in intensive care and NPL. As a rule, committee meetings are convened once a week. The Committee has eight members.

Assets and Liabilities Committee of the NLB Group

Chairman: CFO

The Committee monitors conditions in the macroeconomic environment and analyses the balance, changes to and trends in the assets and liabilities of the Bank and the Group companies, drafts resolutions and issues guidelines for achieving the structure of the Bank's and the Group's balance sheet. Committee meetings are generally convened once a month and this Committee has four members.

NLB Operational Risk Committee

Chairman: CRO

The Committee is responsible for monitoring, guiding, and supervising operational risk management in the Bank, and for transferring this methodology to the Group members. As a rule, the Committee meets once every two months. The Committee has fifteen members.

The Change the Bank Committee

Chairman: CEO

The Committee is responsible for adopting decisions related to the development portfolio with the aim of transforming the Bank and decisions related to adopting the development guidelines. As a rule, the Committee meetings are convened once a month. The Committee has four members.

The Group Real Estate Asset Management Committee

Chairman: CFO

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

The Sales Board

Chairman: CMO

The Sales Board adopts decisions on the management of the range of products and services and the relations with the clients in the area of sales. As a rule, Committee meetings are convened once a week. The Committee has eleven members.

NLB Retail Credit Committee

Chairman: The General Manager of Credit Risk – Corporate and Retail

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

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

- Committee for New and Existing Products
- Group Real Estate Asset Management Sub Committee
- Committee for Business IT Architecture
- Data Management Committee
- Anti - Money Laundering Commission

Advisory bodies of the Bank's Management Board

The Watch List Committee

Chairman: CRO

The Watch List Committee is an advisory body which acknowledges the activities related to the clients on the Watch List. As a rule, committee meetings are convened quarterly. The committee has seven members.

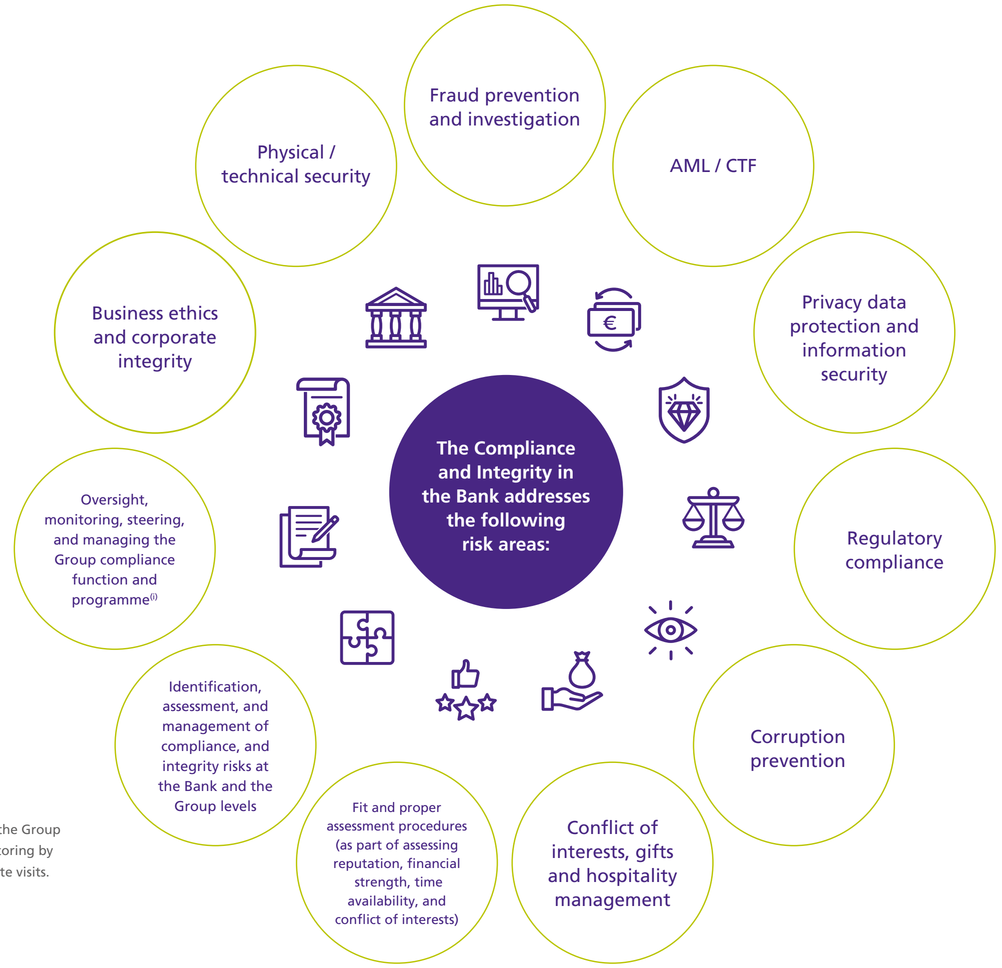
The Risk Committee

Chairman: CRO

The Risk Committee monitors and periodically reviews matters related to risk and commercial risk and prepares materials for the Management Board to obtain decisions. The Committee has eleven members.

Compliance and Integrity

The Group addresses the challenges of high regulation and strict regulatory requirements with a systematic approach to mitigating compliance risks. It is important to ensure that employees and decision-makers know and understand the purpose and objectives of the regulations. The Group is continuously strengthening the compliance function and diligence of its operations.



[i] Established by standards for compliance and integrity for the Group and implementation of monitoring by off-site data analysis and onsite visits.

A Culture of compliance is integrated into the day-to day business of the Bank to support its operations, to contribute to its strong internal control environment, and to ensure that compliance risks are mitigated. In 2020 Compliance and Integrity employed 10 additional colleagues with the aim to further enhance its capability.

Group-wide ethics and integrity standards

Within the framework of the programme of ensuring business compliance, the Group also deals with the ethics and integrity of the organisation. Such a programme encourages employees and other stakeholders to conduct business which is consistent with a strong positive organisational culture. The values of the Group, embedded in the Group Code of Conduct, provide guidance and principles of expected behaviour regarding ethical conduct and require appropriate conduct from all employees at any level of the organisation, including its contractors.

The regime on inside information (MAR)

In line with the Financial Instruments Market Act (ZTFI-1), MAR, and other relevant regulations, the Bank has a system in place on the level of the Bank and its entire Group for managing and publicly disclosing inside information in a manner that enables it to comply with the obligations related to inside information identification and disclosure in accordance with the rules and regulations applicable at any time. Also, the Bank has a system in place implementing the market abuse prevention regime in accordance with MAR to prevent insider trading, market manipulation, and illegal disclosure of inside information.

Preventing Money Laundering and Terrorism Financing

The Bank complies with national regulations on Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF), including the Guidelines of the BoS. The RoS is a member of EU, and thus is subject to the standards of the Financial Action Task Force (FATF) and the European legislation based on them. For the Group, it is of paramount importance to effectively mitigate the risk of money laundering and terrorism financing. This is why rules, procedures, and technology in the area of AML/CTF are the subject of strict and unified policies/standards. The same approach is applied for sanctions and embargo screening. Group AML Team upgraded and introduced further enhancements of Group AML governance in line with directions set by the BoS. The headquarters exercises constant onsite and off-site monitoring of the implementation and execution of standards throughout the Group.

The Bank monitors AML/CTF indicators and whenever necessary transactions are reported to competent national authority, pursuant to AML/CTF legislation. Furthermore, business relationships were terminated where criteria were met. The Bank has adopted additional measures to prevent the onboarding of clients with new types of AML/CTF indicators. Following the 2018 and 2020 increase in the AML/CTF team, the Bank dedicated additional resources to the team.

426

new laws, draft laws, regulations and other information regarding regulatory environment of the Bank reviewed.

10

additional new employees onboarded in Compliance and Integrity.

66

cases investigated.

Information security and personal data protection

The information security area, inter alia, focused on implementation of measures for increasing the level of information/cyber security, as well testing the resilience of systems took place (pen-tests). Furthermore, in line with the plan, several internal assessments/compliance checks were made on the basis of ISO 27001:2013 and ISO 27002:2013 standard, including related to external (service) providers (i.e., data processors and external software providers). Special obligatory e-training for all employees in the area of information security was prepared and was followed by testing of awareness related to social engineering; all as part of prevention measures in this area.

The Bank runs its operations in line with GDPR requirements, including the retention and processing of personal data, dedicated Data Privacy Officer, education, and training of employees. The new Slovenian Personal Data Protection Act (ZVOP-2) was not adopted in 2020 as expected. If necessary, further alignments will be made when the national legislation is in place.

Prevention

An internal periodical survey on Ethics and Compliance was conducted again in 2020 to understand the pulse and perception of these topics among employees. Conclusions were made and decisions for enhancing adopted based on response findings. In combination with assessment of compliance risks (so-called ECRA – Enterprise Compliance Risk Assessment) the management of the Bank and Compliance and Integrity in particular can plan its activities; all with the aim to reduce or mitigate the compliance and integrity risks. As part of compliance programme, Compliance and Integrity is also involved, inter alia, in risk assessments regarding new and changed products, fit and proper assessments for key function holders, outsourcing, and other changes materially affecting the Bank's business.

As a standard Compliance function, several workshops and compulsory e-education on ethics, the prevention of corruption, conflicts of interest, protection of personal data, AML/CTF, Information Security, Physical Security, and other relevant topics related to everyday work were prepared. For all employees, yearly e-trainings are mandatory on subjects such as prevention of insider trading and market manipulation, ethics, anti-corruption, mitigation of conflict of interests, personal data protection, information security, and similar themes. The Group seeks to promote a corporate culture that facilitates compliance, and by continuously raising awareness, for example through communication via its monthly compliance newsletter, detailing not only important regulatory changes, but also current information and case studies on different compliance and ethics topics.

Internal Audit

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

50

planned and extraordinary audits conducted in the Bank.

26

Internal Audit experts.

The highest standards were followed

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

- International Standards for the Professional Practice of Internal Auditing
- Banking Act (ZBan-2) or other relevant laws which regulate the operations of a Group member
- Code of Ethics of an Internal Auditor
- Code of Internal Auditing Principles

Internal Audit is the independent, objective, and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness, and functionality of internal control systems, and the management of the Group operations on an ongoing basis. Internal Audit provided impartial assurance to the Management Board and Supervisory Board on the management of risks in key areas, i.e., cyber security, IT project assurance, retail and corporate moratoria process and control activities, customer data and data quality management, IT organisation and IT outsourcing, RWA calculation for credit and operational risk, credit risk management (early warning system, individual provisioning, ratings and loan collateral management), cash management in branches, and others.

Performed audits

Internal Audit performs its tasks and responsibilities on its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Based on its internal methodology and comprehensive risk analysis for 2020, Internal Audit of NLB conducted 50 audit assignments (out of that four audits on a Group level), four were postponed due to objective reasons. Furthermore, auditors conducted 32 branch inspections, three joint audits with the local auditors and two internal audit quality reviews, both in the Group. Auditors also conducted two unplanned audits and were involved in several strategic projects as advisor. The majority of the recommendations given in 2020 were implemented within the agreed deadlines.

Implementation of uniform rules

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

To know you have someone to rely on

Toni Gerasimovski
TERMONET, North Macedonia

TERMONET is a leading company in the sale of products for a wide range of integrated systems and products for solar power, plumbing, and heating systems. TERMONET is not only aware of the complexity and different demands of the market, they also provide service that transfers technical expertise and know-how with decades of experience. As for many, the past year has been full of challenges and difficulties. Customer interest has been significantly reduced, sales did not even come close to the desired results, and they faced difficulties in day-to-day operations. When they found out about the NLB #HelpFrame project, they recognised an opportunity to improve the situation, and thanks to the project they received support at a time when it was needed the most. Through the ads, they made contacts with clients for future cooperation. Also, the project confirmed their belief that we are stronger together, and that true partners are recognised in a crisis.

Corporate Governance Statements

Statement of Management's Responsibility

In accordance with the provisions of Article 134 of the Financial Instruments Market Act, the Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as at 31 December 2020, and represent the actual and fair financial standing of the Bank and the NLB Group, as well as their operating results in the year that ended 31 December 2020.

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

Ljubljana, 23 March 2021

Management Board of NLB

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Petr Brunclík
COO

Blaž Brodnjak
CEO & CMO

Authorisation to Perform Banking Services

In accordance with the provisions of Article 14 (1st paragraph) of the Regulation on Books of Accounts and Annual Reports of Banks and Savings Banks (Official Gazette of the RS, No. 69/17, 73/19 and 164/20) adopted by the Bank of Slovenia on the basis of the authorisation from Article 93 of the Banking Act (Official Gazette of the RS, no. 25/15 with Amendments, hereinafter 'ZBan-2'), NLB hereby lists all types of financial services which, in accordance with the authorisation of the Bank of Slovenia, took place during the period for which the business report was prepared. NLB has an authorisation to perform banking services pursuant to Article 5 of the Banking Act (ZBan-2). Banking services are the acceptance of deposits and other repayable funds from the public and the granting of credits for its own account.

The bank has an authorisation to perform mutually recognised and additional financial services.

It may perform the following mutually recognised financial services, pursuant to Article 5 of the Banking Act (ZBan-2), namely:

1. accepting deposits and other repayable funds from the public
2. granting of loans, including:
- consumer loans
- mortgage loans
- purchase of receivables with or without recourse (factoring)
- financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting)
4. payment services
5. issuing and managing other payment instruments (e.g., travellers' cheques and bank bills of exchange), insofar as such services are not included in the services referred to in the previous point
6. issuing of guarantees and other sureties
7. trading for own account or for the account of clients:
- in money-market instruments
- in foreign legal tender, including currency exchange transactions
- in standardized futures and options
- in currency and interest-rate instruments
- in transferable securities
8. participation in securities issues and the provision of associated services
9. corporate consultancy regarding capital structure, operational strategy and related matters, and consultancy and services in connection with corporate mergers and acquisitions
10. monetary intermediation on interbank markets
11. advice on portfolio management
12. safekeeping of securities and other related services
13. credit rating services: collecting, analysing and disseminating information regarding creditworthiness
14. leasing of safe deposit boxes
15. investment services and transactions, and ancillary investment services in accordance with the Financial Instruments Market Act (ZTFI)

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

1. brokerage in the sale of insurance policies pursuant to the law governing the insurance industry
4. custodian services according to the law governing investment funds and management companies
5. credit brokerage for consumer and other loans

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

Corporate Governance Statement of NLB

Pursuant to Article 70, paragraph 5, of the Companies Act (ZGD-1)[14] NLB hereby gives the following Corporate Governance Statement as a part of the Business Report of the NLB Group Annual Report 2020.

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Information contained in this point represents a 'Statement of Compliance with the Corporate Governance Code' as defined in the Ljubljana Stock Exchange Rules, dated 27 April 2020 (Article 24).

1.1. REFERENCES TO THE CODE ON CORPORATE GOVERNANCE

Apart from binding legal framework (primarily but not exclusively Companies Act (ZGD-1), Banking Act (ZBan-2), EBA Guidelines), the Bank as a public company, also follows best corporate practice recommendations of the Corporate Governance Code for Listed Companies, adopted by the Ljubljana Stock Exchange and Slovene Directors' Association, adopted on 27 October 2016 (came in force on 1 January 2017). The recommended best corporate governance practices contribute to a transparent and understandable corporate governance system, which promotes both domestic and foreign investor confidence, as well as the confidence of employees, other stakeholders (regulators, suppliers, etc.) and the general public. This code is published on the Ljubljana Stock Exchange's website (http://www.ljse.si). A decision on which code the Bank will follow is made jointly by the Management Board and the Supervisory Board of the Bank by adopting the Corporate Governance Policy of NLB (November 2020).

Compliance with the aforementioned code is explained in the Corporate Governance Statement of NLB on 'comply or explain basis,' in which the Bank provides explanation on deviations or reasoning for non-compliance with certain recommendation. The statement refers to the Bank's system of corporate governance from the beginning to the end of financial year, which also corresponds to the beginning and the end of the calendar year (from 1 January until 31 December). Corporate Governance Statement of NLB is, according to Article 70 (paragraph 5) of the Companies Act (ZGD-1), included in the Business Report of the NLB Group Annual Report (published on (https://www.nlb.si/financial-reports), and is also published on the Bank's website under the chapter on Corporate Governance (https://www.nlb.si/corporate-governance).

NLB strives to increase the level of its business transparency and informs the shareholders and other expert community based on Guidelines on Disclosure for Listed Companies (Ljubljana Stock Exchange, valid from 23 November 2020) on electronic communications system of the Ljubljana Stock Exchange (SEOnet), in line with Rules and Regulation of the Luxembourg Stock Exchange, as well as in line with Rules of the London Stock Exchange through Regulatory News Services (RNS) of the London Stock Exchange.

The Corporate Governance system of the Bank and all relevant information on Bank's management that exceeds the requirements of article 70 of the Companies Act (ZGD-1) are published in the Corporate Governance Policy of NLB (November 2020) and other documents that are communicated to the stakeholders and other interested persons by being published on the NLB's website (http://www.nlb.si/corporate-governance).

14. The Companies Act (ZGD- 1; Official Gazette of the RoS, No. 42/06 and consecutive changes).

2. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

The Bank does not follow (or implements partially) the following recommendations:

Recommendation no. 10.1: In assessing candidate's eligibility for the position of Supervisory Board member, statutory criteria are applied. However, candidates don't have a certificate evidencing their specialised professional competence for membership on a Supervisory Board, such as the Certificate of the Slovenian Directors' Association, or any other relevant certificate. That said, all of the strict conditions have to be fulfilled according to banking legislature.

Recommendation no. 12.2: The Rules of Procedure of the Supervisory Board of NLB do not include the list of all types of transactions for which the Management Board needs prior approval of the Supervisory Board, but refer to Article 24 of the Articles of Association. These rules also do not include the Supervisory Board evaluation, education, and training of the members of the Supervisory Board. These provisions are part of other internal documents or decisions of the managing bodies.

Recommendation no. 12.3: The Rules of Procedure of the Supervisory Board of NLB do not include the scope of topics and timeframe to be respected by the Management Board in its periodic reporting of the Supervisory Board. However, the scope of topics and time frames of periodic reporting to the Supervisory Board are included in annual Action Plan of the Supervisory Board and Articles of Association. Professional services of the Bank take care that timely information is provided to the Supervisory Board.

Recommendation no. 15.3: NLB does not follow this recommendation because the President of the Supervisory Board is at the same time President of the Nominations Committee.

Recommendation no. 17.1: Members of the Supervisory Board don't receive attendance fees, but are entitled to payment for performing their function.

Recommendation no. 25.3: The Bank does not follow the recommendation on rotation of audit companies (at least once every seven years), however, the Bank complies with the Banking Law (ZBan-2) that allows a longer period. Still, the audit firm did replace the audit partner responsible for the audit of NLB and the Group financial statements for year 2020.

Recommendation no. 27.4: NLB draws up its financial calendar which is published on its website (https://www.nlb.si/financial-calendar) and includes the date of the Annual General Meeting, even though it doesn't provide information on the dividend payment date, which is announced in the publication of the Agenda and Proposed Resolutions to be passed at the Annual General Meeting (both documents published on https://www.nlb.si/general-meetings). The dividend payment date is determined based on KDD Operations Rules (Central Securities Clearing Corporation).

Recommendation no. 29.3: NLB does not have a programme of acquisition of own shares (in 2020 NLB didn't buy any own shares and therefore didn't need a programme of acquisition of own shares). Should NLB need to buy its own shares (e.g. for the purpose of paying variable remuneration in the form of own shares to its Identified Staff), it will draw it up.

Recommendation no. 29.9: NLB does not publish the rules of procedure of its bodies (Management Board and Supervisory Board and the General Meeting) on its website. However, each year the Bank discloses the composition, competences, and work of its managing bodies in the 'Corporate Governance Statement of NLB' and publishes it in the NLB Group Annual Report as well on Bank's website.

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

NLB is governed by the provisions of the Banking Act (ZBan-2) and the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks regulating, among other, the Bank's obligation to set up, maintain appropriate internal control, and risk management systems. As a result of this, NLB has developed a steady and reliable internal governance system encompassing the following:

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

3.1. Internal control mechanisms

Suitability of the internal control mechanisms are determined by the independence, quality, and validity of:

- The rules for and controls of the implementation of the Bank's organisational, business, and work procedures (**internal controls**), and
- The internal control functions and departments (**internal control functions**).

3.1.1. Internal Controls

Internal controls should be put in place at all levels of the Bank's organisational structure, especially the levels of commercial, control, and support functions, and at the level of each of the Bank's financial services. In daily operations, the Bank follows the internal act System of Internal Controls, which sets the system of internal controls in NLB and responsibilities for its establishment, continuous performance, and its upgrading. On the organisational level, the Bank established middle-offices and back offices.

In the event of deficiencies, irregularities of breaches identified in the process of implementation of internal controls the breaches are discussed at the Operational Risk Committee and appropriate actions are taken. In the events of intentional breaches of the Bank's rules as defined by the Group Code of Conduct, the events are handled according to the Integrity and Compliance Policy of NLB and NLB Group.

3.1.2. Internal Control Functions

The internal control functions are part of the system of the internal governance in the Bank. Internal control functions include:

a) The Internal Audit Department

The Internal Audit function is organised according to the Charter on the Internal Audit of NLB adopted by the Management Board on 13 November 2018 (and supplemented on 13 August 2019), to which the Supervisory Board of NLB gave its approval (30 November 2018 and 6 September 2019).

The Charter of the Internal Audit of NLB is the umbrella document about the understanding and role of the Internal Audit in the Bank, which defines the purpose, powers, responsibilities, and tasks of the Internal Audit in line with the International Standards for the Professional Practice of Internal Auditing. The mentioned Charter lays down the position of the Internal Audit in the organisation, including the nature of the relationship between the functional responsibility of the Head of the Internal Audit to the supervisory body, grants authorisations to internal auditors for accessing records, employees, premises, and equipment relevant for performing their tasks, and defines the area and activities of the Internal Audit.

The Management Board has set up an independent internal audit function which gives assurances and advice about risk management, internal controls system, and management of the Bank. The mission and the principal task of the Internal Audit is to consolidate and secure the value of the Bank by issuing objective assurances based on risk assessment, with consultancy and deep understanding of the Bank's operations. In addition to that, the Internal Audit carries out regular control of the quality of operation of the other internal audit departments in the Group and takes care of constant development of the internal auditing function.

Pursuant to the provisions of the law, the Bank has organised the internal audit as an independent organisational unit, primary responsible to the Supervisory Board of NLB and secondary to the Management Board of NLB.

The Supervisory Board of NLB must issue its approval of the appointment, remuneration, and dismissal of the Director of the Internal Audit, which ensures their independence and thus the independence of the work of the Internal Audit.

b) The Risk Management Function

The Risk Management Function is organised according to the Charter of the Risk Management Function of NLB adopted by the Management Board on 6 November 2015, in agreement with the Supervisory Board of NLB. The Charter on Functioning of the Risk Management Function of NLB is the framework document on understanding and role of the risk management function; it defines the purpose, validity, and method of operation, as well as the authorisations and responsibilities of the risk management function according to the requirements of the Banking Act (ZBan-2) and the Regulation on Internal Management Arrangements, Management Body, and Internal Capital Adequacy Assessment Process for Banks and Savings Banks.

The risk management function represents an important part of overall management and governance system in the Group. This function in NLB is organised within the Risk stream, covered by the member of the Management Board in charge of risk (CRO). The risk stream covers the following organisational units:

- Global Risk
- Corporate and Retail Credit Analysis Department
- Evaluation and Control
- Restructuring
- Non-Performing Loan Management Department and Recovery

The risk management function is performed by the Global Risk. In accordance with the competences, authorisations, and responsibilities, Global Risk is represented by its General Manager. The Global Risk is in functional and organisational terms separate from other functions where business decisions are adopted and where potential 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 the NLB and at the same time unhindered and independent access to the Supervisory Board of NLB and the Risk Committee of the Supervisory Board of the NLB.

In members of the Group, the risk management function is organised according to the local legislation, taking into account the bases for set-up, organisation, and activities in the area of risk management in the members, as defined in the document 'Risk Management Standards in the NLB Group.' The described standards on risk management provide the members of the Group the bases with which they have to align their organisation, strategic risk-taking guidelines, internal policies, methodologies, and reporting system.

Risk management and control 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, and to ensure a transparent and documented decision-making process that is subject to an appropriate upward and downward flow of information. Business line Risk Management in NLB, encompassing several professional areas, is in charge for 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. In contrast, the primary responsibility for managing the assumed risks in the Group members within centralised set limits lies with each Group member's management board.

The Group puts great emphasis on the risk culture and awareness across the entire Group. The Group's Risk management framework is forward-looking and tailored to its business model and corresponding risk profile.

c) The Compliance, Information Security, and AML/CTF Functions

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

- Anti-money laundering and counter-terrorist financing (separately for NLB and the Group)
- Information security and data protection
- Personal data protection
- Regulatory compliance management
- Prevention of fraud and internal investigations
- Security
- Development of compliance risk methodologies, and setting and monitoring ethics and integrity standards
- Harmonisation of policies and practices within the Group (Competence line Compliance and Integrity)

Compliance and Integrity is an organisational unit of the Bank, placed directly under the Bank's Management Board in the organisational structure. The Bank adopted Integrity and Compliance Policy of the NLB and the NLB Group (Version 1, December 2016), which regulates the method and scope of the activities of the compliance function in the Bank. Separate policies regulate different areas which are organised within the Compliance and Integrity in NLB.

Supervision over compliance of operations is within the competence of the Compliance and Integrity. This enables the Compliance and Integrity to operate independently from other Bank's departments. The director of Compliance and Integrity does not perform any other function at the Bank that could possibly lead to conflict of interests. To ensure his independence, the director reports to the Management Board and to a specific member of the Bank's Management Board responsible for compliance area (including information security and AML/CTF functions), which additionally ensures independence of operation of the Compliance and Integrity.

As information security, AML/CTF and Group AML functions are organised within Compliance and Integrity, CISO, head of AML/CTF area for NLB and head of the Group AML are ensured full independence through equal reporting lines as the director of Compliance and Integrity, and have direct access and separate reporting line to the Bank's Supervisory Board. Following NLB's model, the compliance function has been established in the core members of the Group as well based on the Group standards for compliance and integrity area. Through specific binding standards in the area of compliance and integrity, there is a harmonised system of standards and practices in the area of compliance and integrity in place in the entire NLB Group, in core and non-core members.

3.2. Financial reporting

With the aim of ensuring appropriate financial reporting procedures, the Group pursues the adopted Policy on Accounting Controls. The accounting controls are provided through the operation of the complete accounting function with the purpose of ensuring quality and reliable accounting information, and thereby accurate and timely financial reporting. The principal identified risks in this area are managed with an appropriate system of authorisations, a segregation of duties, compliance with accounting rules, documenting of all business events, a custody system, posting on the day of a business event, in-built control mechanisms in source applications, and archiving pursuant to the laws and internal regulations. Furthermore, the policy precisely defines the primary accounting controls, performed in the scope of analytical bookkeeping, and secondary accounting controls, i.e., checking the efficiency of implementation of primary accounting controls. With an efficient mechanism of controls in the area of accounting reporting, the Group ensures:

- A reliable decision-making and operation support system
- Accurate, complete, and timely accounting data, the resulting accounting, and other reports of the Bank and the Group
- Compliance with legal and other requirements

4. INFORMATION ON POINT 4, PARAGRAPH 5, OF THE ARTICLE 70 OF THE ZGD-1 regarding points 3, 4, 6, 8, and 9 of paragraph 6 in the same article

An explanation regarding significant direct and indirect ownership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions (Point 3 of the sixth paragraph of Article 70 of the ZGD-1)

Significant direct and indirect ownership of the company's securities in terms of achieving a qualifying holding as defined in the Takeovers Act (as at 31 December 2020):

Shareholder	Number of shares	Percentage of shares	Nature of ownership
RoS	5,000,001	25.00	shares
Brandes Investment Partners, L.P.[i]	/	>5 and <10	GDRs
EBRD[i]	/	>5 and <10	GDRs
Schroders plc[i]	/	>5 and <10	GDRs

[i] In the form of GDRs.

More information on the Bank's Share Capital is available on the website: https://www.nlb.si/shares.

An explanation regarding the holders of securities that carry special control rights (Point 4 of the sixth paragraph of Article 70 of the ZGD-1)

The Bank did not issue any securities carrying special controlling rights.

An explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, based on the company's cooperation, the financial rights arising from securities are separated from the rights of ownership of such securities (Point 6 of the sixth paragraph of Article 70 of the ZGD-1)

The shares of the Bank are freely transferable, subject to the provisions of the Articles of Association of the Bank which require the approval of the Supervisory Board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such an acquisition and the shares held by third parties for the account of the acquirer, exceeds a 25% share of the Bank's voting shares. Approval for the transfer of shares is issued by the Supervisory Board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceed the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them for third parties. So, it is not entitled to exercise voting rights from these shares at its sole discretion, while at the same time committing to the Bank that it will not exercise voting rights on the basis of the instructions of an individual third party for whose account it has acquired the shares if, together with the instructions for voting, it does not receive a written guarantee from that person that this person has shares for his own account and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights.

The acquirer who exceeds the share of 25% of the Bank's shares with voting rights, and does not require the issuance of approval for the transfer of shares, or does not receive the approval of the Bank, may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

An explanation of the (i) company's rules on appointment or replacement of members of the management of supervisory bodies, and (ii) changes to company's Articles of Association (Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

The appointment or replacement of members of the management or supervisory bodies

The Management Board of the Bank is comprised of three to seven members, one of whom is appointed President of the Management Board of the Bank, and one member may be a Worker Director. The number of Management Board members is determined by a resolution of the Bank's Supervisory Board. The President and other members of the Management Board are appointed and recalled by the Supervisory Board of the Bank; the President of the Management Board may propose to the Chair of the Supervisory Board of the Bank to appoint or recall an individual member or the remaining members of the Management Board of the Bank. However, it is the Workers' Council of the Bank that may propose to the Supervisory Board of the Bank to appoint or recall a Worker Director.

The President and members of the Management Board shall be appointed for a period of five years and may be re-appointed for another term of office. The President and members of the Management Board may be recalled prior to the expiry of their term of office in accordance with applicable laws and Articles of Association. Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months. A written notice shall be delivered to the Chair of the Supervisory Board of the Bank. The notice term may be shorter than three months if requested by the resigning member of the Management Board of the Bank in his/her notice and is subject to the approval of the Supervisory Board of the Bank.

A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a management board member under the law on banking, and who obtained a licence from the BoS or the ECB – if executing the competences and tasks from Item (e) of paragraph 1 of Article 4 of Regulation (EU) no. 1024/2013 for the performance of the function of a bank's management board member under the law regulating banking. The Bank assesses every candidate following the Bank's Policy governing a Fit & Proper assessment prior to the appointment.

The Supervisory Board of the Bank consists of a total of 12 members, of which eight members represent the interests of shareholders and four members represent the interests of employees. Members representing the interests of shareholders shall be elected and recalled by the Bank's General Meeting from persons proposed by shareholders or the Supervisory Board of the Bank and members representing the interests of employees shall be elected and recalled by the Workers' Council of the Bank. Members of the Supervisory Board representing the interests of shareholders are elected by an ordinary majority of votes cast by shareholders.

The members of the Supervisory Board of the Bank are elected for the period lasting from the day of their election until the end of the Bank's annual general meeting of shareholders, which decides on the use of accumulated profit for the fourth business year since they have been elected, unless otherwise stipulated at the time of appointment of individual members.

The general meeting of the Bank may dismiss an individual or all members of the Supervisory Board (representatives of shareholders) even before the expiration of their term of office. A resolution on a dismissal shall be valid if adopted with at least a three-quarter majority of all votes cast.

The Supervisory Board of the Bank shall at its first meeting after an appointment elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank. A member representing the interests of employees cannot be elected Chair or Deputy Chair of the Supervisory Board of the Bank. All the supervisory board members shall be independent professionals as defined by the Articles of Association.

Amendments to Articles of Association:
A qualified majority of at least 75% of the votes cast by shareholders at the general meeting of the Bank's shareholders is required for the adoption of any amendments of the Articles of Association.

An explanation regarding the authorisation of the members of the management, particularly authorisations to issue or purchase own shares
(Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

The General Meeting of Shareholders of NLB on 10 June 2019 authorised the Management Board for redeeming treasury shares in the period of 36 months from the adoption of the resolution at the General Meeting. Pursuant to the provisions of the Banking Act (ZBan-2), NLB is required to pay out the variable remuneration of certain employees (in part) in NLB's shares. The authorisation is valid for acquiring up to 36,542 NLB treasury shares, while the total percentage of shares acquired on the basis of this authorisation, together with the treasury shares already in possession of NLB, may not exceed 10% of NLB's share capital (2,000,000 shares). When disposing its treasury shares which NLB acquired on the basis of this authorisation, the pre-emptive right of the existing shareholders to acquire shares is excluded in full in case treasury shares are disposed of for the purpose of paying the variable part of remuneration to the employees of NLB in the form of NLB's shares.

5. INFORMATION ON THE WORK AND KEY POWERS OF THE SHAREHOLDERS' MEETING AND OF ITS KEY POWERS, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING

Competences of the Bank's General Meeting are stipulated in the Companies (ZGD-1), Banking Act (ZBan-2) and the Articles of Association. The General Meeting is a body of the Bank through which shareholders exercise their rights, which include among others: decisions on corporate changes (amendments of the Articles of Association, increase or decrease of share capital) and legal restructuring (mergers, acquisitions), adopt decisions on all statutory issues with respect to appointing and discharging members of the Supervisory Board (representatives of shareholders) and appointment of an auditor, distribution decisions (appropriation of distributable profit), and granting of a discharge from liability to the Management and Supervisory Board.

The General Meeting is convened by the Management Board. The General Meeting may be convened by the Supervisory Board in cases where the Management Board fails to convene the General Meeting or where when a convocation is necessary to ensure unhindered operations of the Bank. The Supervisory Board may amend the agenda of the General Meeting convened in line with the Articles of Association.

As a rule, the General Meeting of the Bank shall be convened at the registered office of the Bank, yet it may also be convened at another venue specified by the convenor. The Shareholders' Meeting shall adopt resolutions by simple majority of the votes cast, unless the applicable laws or the Bank's Articles of Association stipulate a larger majority or other conditions.

The shareholders have the right to participate at the general meeting of the Bank, the voting right, pre-emptive right to subscribe for new shares in case of share capital increase, the right to profit participation (dividends) and the right to a share in surplus in the event of liquidation or bankruptcy of the Bank and the right to be informed.

Based on Article 296 of the Companies Act (ZGD-1), NLB informs shareholders on their rights as shareholders in an Information on the Rights of Shareholders that is published among documents for convocation of each General Meeting (i.e., on expansion of the agenda, proposals by shareholders, voting proposals by shareholders, and the shareholders right to be informed).

With recent changes in the Articles of Association at the General Meeting, an amendment was adopted that enables the shareholders to attend the General Meeting without physical presence.

6. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODY AND ITS COMMITTEES

6.1. The Management Board

Composition of the Management Board

The Management Board is the decision-making and representation body of the Bank. It manages the Bank, makes business decisions autonomously and independently, adopts the development strategy, ensures sound and effective risk management, acts with the highest professional integrity, protects business secrets, and is held accountable for the legality of the Bank's operations within the limits set by the relevant regulations.

At the beginning of 2020, the Management Board of the Bank consisted of Blaž Brodnjak, CEO; Archibald Kremser, CFO; Andreas Burkhardt, CRO; and László Pelle, COO. László Pelle and the Supervisory Board agreed on the termination of his office as at 31 January 2020. In order to assure continuation of the function of COO, the Supervisory Board appointed Petr Brunclík as member of the Management Board, who joined NLB on 2 February 2020 in a function of Executive Assistant to the Management Board. He assumed his function as COO on 18 May 2020, upon receiving a consent by the ECB on 13 May 2020. On 12 November 2020, the Supervisory Board reappointed Blaž Brodnjak as the CEO, Archibald Kremser as the CFO, and Andreas Burkhardt as CRO of NLB.

Following the already mentioned decision of the Constitutional Court of the RoS in June 2019, the Bank was required to enable workers participation in its governing bodies. For that purpose, an amendment to its Articles of Association was adopted at General Meeting of Shareholder on 15 June 2020 that enables a right of the Bank's employees to one member of the Management Board (the Worker Director).

Work of the Management Board

After the successfully completed privatisation process of NLB and the fulfilment of the highly limiting commitments to the EC by the end of 2019, the Management Board in 2020 began creating new opportunities for future growth so that the Bank intensified activities on digitalisation and modernisation of processes and services of the entire NLB Group, increasing the range of customer services and the improvement of efficiency. From February 2020, the Management Board took all necessary actions in order to lower the impact and consequences of COVID-19 pandemic. Through the year, the Management Board worked on activities that resulted in purchase of Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd) in December 2020.

Detailed information on the composition and amount of remuneration of the Management Board is contained in Appendices C.1 and C.3 of this statement.

6.2. The Supervisory Board

In accordance with the two-tier governance system, the Bank's Supervisory Board issues approvals to the Management Board related to the Banks' business policy and financial plan, approves the strategy of the Bank and the Group, the internal control system organisation, gives consent to the Annual Plan of the Internal Audit, as well as financial transactions defined in the Articles of Association. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest. The Supervisory Board performs its tasks in accordance with the provisions of the applicable legislation governing the operations of banks and companies, the Bank's Articles of Association, and its Rules of Procedure of the Supervisory Board of NLB. The Supervisory Board may engage legal and other consultants and institutions required by itself or its committees to perform their tasks.

Composition of the Supervisory Board

As the term of office of four members of the Supervisory Board of NLB expired in 2020, the General Meeting of Shareholders on 15 June 2020 adopted the decision to elect new members. Primož Karpe and David Eric Simon were re-elected for a new term of office, while the term of office of László Urbán and Alexander Bayr expired. Additionally, Verica Trstenjak was elected as a member of the Supervisory Board. All three members were appointed for a four-year term, which began on the day of their appointment and shall last until the conclusion of the Annual General Meeting of NLB that decides on the allocation of distributable profit for the fourth financial year after their election, counting the year in which they were appointed as the first one.

At the same General Meeting, the shareholders also adopted amendments to the Articles of Association, which based on Constitutional Court's decision adopted in June 2019, enabled workers' participation in the management bodies. With the mentioned decision, the Constitutional Court annulled the fourth paragraph of Article 33 of the Banking Act (ZBan-2), which stipulated that the provisions of the Law Governing the Participation of Workers in Management with respect to employee representatives in a bank's managing bodies would not apply to banks. In accordance with changes made to the Articles of Association, the Supervisory Board consists of 12 members, out of which eight are representatives of the capital and four are employee representatives (elected and appointed by the Workers' Council of NLB).

In June 2020, the Workers' Council of NLB elected and appointed Petra Kakovič Bizjak, Sergeja Kočar, and Bojana Šteblaj as members of the Supervisory Board of NLB – representatives of employees. Their four-year terms of office began on the day of the registration of the changes to the Articles of Association into the court register (17 June 2020).

On 26 June 2020, members of the Supervisory Board of NLB elected Primož Karpe as Chairman of the Supervisory Board for the second consecutive time, while Andreas Klingen was re-elected as Deputy. At that point, the Supervisory Board of NLB consisted of 11 members, of which eight were representatives of shareholders (in addition to Primož Karpe and Andreas Klingen, members were also Gregor Rok Kastelic, Mark William Lane Richards, Shrenik Dhirajlal Davda, Peter Groznik, David Eric Simon, and Verica Trstenjak) and three were representatives of employees (Petra Kakovič Bizjak, Sergeja Kočar, and Bojana Šteblaj). Due to the changed membership, the Supervisory Board also appointed members to its five committees.

Given the fact that the changed Articles of Association allowed up to four employee representatives to the Supervisory Board of the NLB, the Workers' Council published a call for the election and appointment of one more member – an employee representative. While this process was still ongoing, on 1 September 2020, the Bank received a letter of resignation from Petra Kakovič Bizjak, member of the Supervisory Board – the employee representative. Her mandate was terminated by agreement with the Supervisory Board on 10 September 2020. The procedure for one member of the Supervisory Board – the worker representative was still ongoing at the end of December 2020.

On 20 November 2020, the Bank received information that the Workers' Council elected Janja Žabjek Dolinšek as member of the Supervisory Board – the worker representative. Her term of office started on 20 November 2020 and will run until the conclusion of the Annual General Meeting of NLB that decides on the allocation of distributable profit for the fourth financial year after her election, counting the year in which she was appointed as the first one. Procedure for election of another member of the Supervisory Board – the worker representative was still ongoing at the end of December 2020.

Work of the Supervisory Board

In 2020, the Supervisory Board met at seven regular and 12 correspondence sessions and took note of or adopted the following major decisions:

- Annual NLB Group Report for 2019; Report of the Supervisory Board of NLB on the Results of Examining the Annual NLB Group Report for 2019; Corporate Governance Statement of NLB; Risk Management Statement of NLB; Annual Report of Internal Audit for 2019;
- Corporate Social Responsibility Report for 2019 with a Statement on non-financial operations of the NLB Group for 2019;
- Proposal to convene the regular General Meeting of NLB for 15 June 2020;
- NLB Group Budget 2021 and financial projections 2022-25; Interim Reports on the NLB Group Operations;
- Acquisition of the Komercijalna Banka, Beograd;
- COVID-19 – Initial Credit Risk Impact Analysis; NLB Group wide COVID-19 implications with regulatory and governmental measures;
- NLB Group Risk Appetite; NLB Group Risk Strategy; Regular risk reports for NLB and NLB Group; Regular Risk and Capital Management - Pillar III disclosures, NLB Group Recovery plan 2020; Report on the Top 50 groups of clients by exposure in the NLB Group, Restructuring TOP 20; Management of largest restructuring cases; Overview of the recommendations issued to external providers; Information on status of information security in NLB; Rules on the Relations of NLB and the Audit Committee with the Audit Firm; ILAAP – Internal liquidity adequacy process;
- Internal Audit Plan (2021 & long - term plan), Re-plan of Internal Audit Plan 2020, Overall Opinion of Internal Audit for 2019, Action Plan for the Compliance and Integrity for 2021, Annual Assessment on Risks in the Area of Compliance and Integrity for NLB and NLB Group; Regular periodic reports on Internal Audit; Compliance and Security and on Information Security Assurance in NLB;
- Reports on the Documents received from the BoS and the ECB; Reports on the implementation of the requirements of the BS and ECB and on the implementation of the requirements;
- Achievements of the goals of the Management Board in 2019 and Defined goals of the Management Board for 2020, Management Board Evaluation – Method 360; Fit & Proper list of candidates for members of the Supervisory Board; Fit & Proper Assessment of candidate for the member of the Supervisory Board – Workers Representative; Self-assessment of the employees performing special work; Training Plan for 2020;
- NLB Workers' Council Status Report on workers' cooperation in managing proposed measures;
- Final Monitoring Trustee Report for the Reporting Period July – December 2019;
- Amendments to the Corporate Governance Policy of the NLB; Changes in Rules and Procedures of the Risk Committee; Changes in Rules and Procedures of Operations and IT Committee;
- IT Strategy; CBS Strategy; Data Centre Strategy update; NLB Group Data Management Project; HR status in IT, Information on activities for information security assurance in NLB, Plan for KB, Subsidiaries IT landscape;
- Decisions on concluding legal transactions with MIGA, Washington, establishment of new companies (NLB Cultural Heritage Management Institute), large exposures, sale of receivables, write-offs of claims, divestment of NLB (Vita d.d., company BH-RE d.o.o., Sarajevo), major legal proceedings involving NLB and NLB Group members, approval of transactions with persons in special relations with the Bank, etc.

Composition and the amount of remuneration of the Supervisory Board members is described in the Appendices C.2 and C.4 of this statement.

6.3. The Supervisory Board Committees

All five Committees for the Supervisory Board function as consulting bodies of the Supervisory Board of NLB and discuss the material and proposals of Management Board of NLB for the Supervisory Board meetings related to a particular area. The Supervisory Board has the following committees.

- The Audit Committee
- The Risk Committee
- The Nomination Committee
- The Remuneration Committee
- The Operations and IT Committee

Committees are composed of at least three members of the Supervisory Board. The Works Council can nominate one Supervisory Board member – representative of workers into each committee. The Chair of the Committee may only be appointed from among the members of the Supervisory Board. The term of office of Chair, the Deputy Chair, and members of the Committee should not exceed their term of office as Supervisory Board members.

Composition of the aforementioned Committees in 2020 is described in detail in the Appendix C.2 of this statement.

6.3.1. The Audit Committee of the Supervisory Board of NLB

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

From 1 January 2020, the composition of the committee was as follows: David Eric Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, Shrenik Dhirajlal Davda, and Gregor Rok Kastelic (members). From 26 June 2020, the composition of the committee was as follows: David Eric Simon (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Primož Karpe, Gregor Rok Kastelic, Verica Trstenjak (resigned from Audit Committee function on 18 December 2020) and Petra Kakovič Bizjak (until 20 September 2020) – as members.

The Audit Committee's tasks are defined by law, the Bank's Articles of Association, Rules of Procedure of the Audit Committee of the Supervisory Board of NLB, resolutions of the Supervisory Board, and other regulations from which the Committee especially monitors and prepares proposals of resolutions for the Supervisory Board for the area:

- Accounting and financial reporting
- Internal control and risk management
- Internal audit
- Compliance of operations
- External audit

There were seven regular sessions and three correspondence sessions of the Audit Committee in 2020. Following is a summary of key topics considered by the Audit Committee:

- Confirmation of NLB Group 2019 Annual Report, Overall Opinion of Internal Audit for 2019, Corporate Governance Statement of NLB, Statement on Management of Risk of the NLB, NLB Group Annual CSR Report for 2019;
- Annual Report on the Work of Compliance and Integrity, Annual Assessment on Risks in the Area of Compliance and Integrity;
- Regular interim reports on the operations of the NLB Group, quarterly Internal Audit Reports, Compliance and Integrity Reports, Reports on Information security assurance in NLB;
- Re-plan of Internal Audit Plan 2020, Internal Audit Plan (2021), Work Plan of the Compliance and Integrity for 2021, Regular reports on overdue material recommendations of the Internal Audit, Reports on the documents received from BoS and ECB and on the implementation of the requirements of the BoS and ECB;
- Amendments to the Internal Auditing Manual, Rules on the relations of NLB and the Audit Committee with the audit firm, Audit Committee Self-Evaluation for 2019.

Responsibilities of the committee are defined in Rules of Procedure of the Audit Committee of the Supervisory Board of NLB.

6.3.2. The Risk Committee of the Supervisory Board of NLB

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

From 1 January 2020, the composition of the committee was as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chairman), Peter Groznik, Mark William Lane Richards and David Eric Simon (members). From 26 June 2020, the composition of the committee was as follows: Andreas Klingen (Chairman), Peter Groznik (Deputy Chairman), Mark William Lane Richards, Gregor Rok Kastelic and David Eric Simon (members).

There were five regular sessions of the Risk Committee in 2020. Following is a summary of key topics considered by the Risk Committee:

- Risk report for 2019, a Statement of Management of Risk of the NLB;
- Regular quarterly risk reports of NLB and the NLB Group;
- Risk and Capital Management - Pillar III quarterly disclosures;
- NLB Group Risk Strategy, Amendment to Risk Appetite, NLB Group Risk Appetite, NLB Group Internal Liquidity Adequacy Process (ILAAP), The Internal Capital Adequacy Assessment Process (ICAAP) in NLB Group, NLB Group Non-performing Exposure and Foreclosed Assets Strategy for 2020 -2024, NLB Group Recovery Plan 2020;
- COVID-19 – Initial Credit Risk impact analysis and quarterly information update;
- Quarterly Information on status of information security in NLB;
- Report on Top 50 groups of clients by exposure in the NLB Group;
- Report on Top 20 largest restructuring cases;
- Proposal for the issuance of prior consent of the Supervisory Board of NLB, in accordance with the first paragraph of article 164 of Banking Act (ZBan-2), for a legal transaction based on which the Bank's total exposure to individual client or a group of related clients would reach or exceed 10% of the Bank's eligible capital (or if it increases by each subsequent 5% of the Bank's eligible capital), consents to early repayments and final write-offs;
- Report on the material court proceedings for NLB and NLB Group members;
- Proposed changes in Rules and Procedures of Risk Committee of the Supervisory Board of NLB.

Responsibilities of the committee are defined in Rules of Procedure of the Risk Committee of the Supervisory Board of NLB.

6.3.3. The Nomination Committee of the Supervisory Board of NLB

The Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of the Management Board members; recommends candidates for Supervisory Board members; recommends to the Supervisory Board the dismissal of members of the Management Board and the Supervisory Board (representatives of capital); prepares the content of executive employment contracts for the President and members of the Management Board; evaluates the performance of the Management Board and the Supervisory Board; and assesses the knowledge, skills, and experience of individual members of the Management Board and Supervisory Board and the bodies as a whole.

From 1 January 2020, the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Peter Groznik, and Mark William Lane Richards (members). From 26 June 2020, the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Verica Trstenjak, Peter Groznik, and Sergeja Kočar (members).

There were eight regular sessions and one correspondence session of the Nomination Committee in 2020. Following is a summary of key topics considered by the Nomination Committee:

- Assessment of suitability of the candidates for members of the Supervisory Board of NLB
- NLBs MB evaluation – Method 360
- Proposal for the reappointment of the president and two members of the Management Board of NLB.

Responsibilities of the committee are defined in Rules of Procedure of the Nomination Committee of the Supervisory Board of NLB.

6.3.4. The Remuneration Committee of the Supervisory Board of NLB

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

From 1 January 2020, the composition of the committee was as follows: Alexander Bayer (Chairman), László Urbán (Deputy Chairman), Shrenik Dhirajlal Davda, and Gregor Rok Kastelic (members). From 26 June 2020, the composition of the committee was as follows: Gregor Rok Kastelic (Chairman), Mark William Lane Richards (Deputy Chairman), Shrenik Dhirajlal Davda, Sergeja Kočar and Peter Groznik (members).

There were five sessions of the Remuneration Committee in 2020. Following is a summary of key topics considered by the Remuneration Committee:

- Realisation of goals of Management Board of NLB for 2019 and information on proposed goals for 2020
- Self-assessment of the employees performing special work
- Information on salary raise of the members of the Management Board in NLB Group and senior management in NLB
- Proposal regarding salaries and benefits of the members of the Management Board
- Assessment of performance and proposed variable part of remuneration for directors of Internal Audit, Compliance and Integrity and Global Risk.

Responsibilities of the committee are defined by Rules of Procedure of the Remuneration Committee of the Supervisory Board of NLB.

6.3.5. The Operations and IT Committee of the Supervisory Board of NLB

The Committee monitors and prepares draft resolutions for the Supervisory Board, whereby the main tasks are the following: it monitors the implementation of the IT Strategy, Information Security Strategy, as well as Operations Strategy; it monitors key operations and IT KPI's and service quality indicators; monitors key operations and IT projects and initiatives; monitors operating risks in the area of Operations, IT and Security; monitors the recommendations for ensuring and increasing the level of information/cyber security issued by CISO, addresses the report on potential violations, events and incidents in the area of IT security; and monitors the Target Operating Model implementation in the areas of IT, the Security Operating System, Competence Centre and Operations.

From 1 January 2020, the composition of the committee was as follows: Mark William Lane Richards (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Primož Karpe, Andreas Klingen, and László Urbán (members). From 26 June 2020, the composition of the committee was as follows: Mark William Lane Richards (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Primož Karpe, Andreas Klingen, and Bojana Šteblaj (members).

There were five sessions of the Operations and IT Committee 2020. The Operations and IT Committee took note of:

- IT Strategy, CBS Strategy
- ECB Action plan, ECB recommendations
- NLB Group Data Management Project
- Regular HR status in IT
- Quarterly Information on activities for information security assurance in NLB
- IT Security Dashboard, OPS Dashboard, Business Dashboard
- Subsidiaries IT landscape
- Proposed changes in Rules of Procedures of Operations and IT Committee.

Responsibilities of the committee are defined by Rules of Procedure of the Operations and IT Committee of the Supervisory Board of NLB.

7. DESCRIPTION POLICY ON THE PROVISION OF DIVERSITY OF THE MANAGEMENT BODY AND SENIOR MANAGEMENT

Second version of Policy on the Provision of Diversity of the Management Body and Senior Management was adopted by the General Meeting of Shareholders on 10 June 2019. With the mentioned Policy, NLB sets the framework in the area of diversity of an adequate representation of both genders, with regard to education, range of knowledge, skills and experience, age, gender, and international experience. The Provisions Policy on the Provision of Diversity of the Members of the Supervisory Board was extended on the members of the Management Board, while the goals of the Policy shall also be reasonably applied to the provision of diversity of the senior management.

The Bank implements the principles of this policy through other policies and procedures, namely 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, as well as procedures of the Nomination Committee of the Supervisory Board. Key criteria for selection of candidates were supplemented by criteria that include experience, reputation, management of potential conflict of interests, independence, time availability, and conditions for achieving collective suitability of the Supervisory Board.

In practice, diversity is ensured through the procedures for nominating and appointing members to the management and supervisory bodies. While other criteria of diversity were met, as far as gender criteria is concerned, there were no female representatives in the composition of the Supervisory Board in the first half of 2020. Even though selection process for four new members of the Supervisory Board was open to candidates of both genders, at the regular General Meeting of Shareholders on 15 June 2020, only one female representative was elected as member of the Supervisory Board of NLB. However, with recent changes regarding workers participation in managing bodies of banks, three female worker's representatives were elected to the position by the Workers Council on 17 June 2020. Since one worker's representative resigned, the Workers Council elected another female representative on 20 November 2020 (and after the business year 2020, on 22 January 2021, yet another female representative was selected). Currently, out of 12 members of the Supervisory Board, five representatives are females.

At the beginning of 2020, the Management Board of the Bank consisted of four male representatives. Even though one member resigned from his post, and the selection process was open to both genders, he was replaced with another male representative in May 2020. In 2021, the selection process for a worker's representative in the Management Bord is planned, according to the agreement between the Management Board and the Workers Council that will be open to candidates of both genders.

The diversity policy is reviewed by the Nomination Committee of the Supervisory Board, while the Management Board reviews the diversity policy of the senior management.

Ljubljana, 8 April 2021

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Petr Brunclík
COO

Blaž Brodnjak
CEO & CMO

Table 37: Composition of Management in financial year 2020 (C.1)

Name and Surname	Position held (president, member)	Area of work covered within the Management Board	First appointment to the position	Conclusion of the position/term of office	Citizenship	Year of birth	Qualification	Professional profile	Membership in supervisory bodies in companies not related to the company
Blaž Brodnjak	President	CEO	6 July 2016	5 July 2021[i]	Slovene	1974	MBA	Banking/Finance	Banks' Association of Slovenia AMCham Slovenia Handball Federation of Slovenia
Andreas Burkhardt	Member	CRO	18 September 2013	5 July 2021[i]	German	1971	MBA	Banking/Finance	
Archibald Kremser	Member	CFO	31 July 2013	5 July 2021[i]	Austrian	1971	MBA	Banking/Finance	
Petr Brunclík	Member	COO	18 May 2020	17 May 2025	Czech	1979	MSc	Information technologies and applied informatics	
László Pelle	Member	COO	26 October 2016	31 January 2020	Hungarian	1966	MSc	Banking Operations and IT Management	

[i] On 12 November 2020, the Supervisory Board extended the mandate by a period of five years until 2026.

Table 38: Composition of Supervisory Board and Committees in financial year 2020 (C.2)

Name and Surname	Position held (president, deputy president, member)	First appointment to the position	Conclusion of the position / term of office	Representative of the company's capital structure /employees	Attendance at SB session in regard to the total number of SB session (for example 5/7) applicable on his/her mandate	Gender	Citizenship	Year of birth	Qualification	Professional profile	Independence under Article 23 of the Code (YES/NO)	Existence of conflict of interest, in the business year (YES/NO)	Membership in supervisory bodies in other companies or institutions
Primož Karpe	President	10 February 2016	2024	Representative of the company's capital structure	7/7	male	Slovene	1970	MSc	Banking/Finance	YES	YES	
Andreas Klingen	Deputy President	22 June 2015	2023	Representative of the company's capital structure	6/7	male	German	1964	University Degree	Banking/Finance	YES	NO	Kyrgyz Investment and Credit Bank CISC, Credit Bank of Moscow PJSC, Nepi Rockcastle plc
Alexander Bayr	Member	4 August 2016	15 June 2020	Representative of the company's capital structure	4/4	male	Austrian	1960	University Degree	Banking/Finance	YES	NO	WKBG Bank, Vienna
David Eric Simon	Member	4 August 2016	2024	Representative of the company's capital structure	7/7	male	British	1948	Higher National Diploma in Business Studies	Banking/Finance	YES	NO	Jihlavan a.s., Central Europe Industry Partners a.s.
László Urbán	Member	10 February 2016	15 June 2020	Representative of the company's capital structure	3/4	male	Hungarian	1959	PhD	Banking/Finance	YES	NO	Ukreximbank, Ukraine
Peter Groznik	Member	8 September 2017	2021	Representative of the company's capital structure	7/7	male	Slovene	1971	PhD	Finance, industry, investment banking	YES	NO	MSIN d.o.o., Ljubljana, CETIS d.d., Ljubljana
Mark William Lane Richards	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	British	1966	MSc	Banking/Finance	YES	NO	CIB Bank Egypt, Sheffield Haworth Ltd, Vencap International
Shrenik Dhirajlal Davda	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	British	1960	MSc	Finance	YES	NO	Ukrgasbank, Kyiv, Ukraine, Meghraj Capital Ltd, Kenya
Gregor Rok Kastelic	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	Slovene	1968	MSc	Banking/Finance	YES	NO	
Verica Trstenjak	Member	15 June 2020	2024	Representative of the company's capital structure	3/3	female	Slovene	1962	PhD	Law	YES	NO	EU Agency for Fundamental Rights, Vienna
Petra Kakovič Bizjak	Member	17 June 2020	10 September 2020	Representative of the company's employees	2/2	female	Slovene	1985	University Degree	IT	YES	NO	
Sergeja Kočar	Member	17 June 2020	2024	Representative of the company's employees	3/3	female	Slovene	1968	MSc	Management	YES	NO	
Bojana Šteblaj	Member	17 June 2020	2024	Representative of the company's employees	3/3	female	Slovene	1962	MSc	Management	YES	NO	
Janja Žabjek Dolinšek	Member	20 November 2020	2024	Representative of the company's employees	0/0	female	Slovene	1957	MSc	IT	YES	NO	

Name and Surname	Membership in committees (audit, nominal, income committee, etc.)	First appointment to the position	Conclusion of the position/term of office	President/Member	Attendance at sessions of SB's Committees in regard to the total number of SB's session (applicable on his/her mandate)
László Urbán	Remuneration Committee	6 October 2017	15 June 2020	Member/Deputy President	3/3
Alexander Bayr	Remuneration Committee	1 March 2019	15 June 2020	President	3/3
Shrenik Dhirajlal Davda	Remuneration Committee	28 June 2019	2023	Member	6/6
Gregor Rok Kastelic	Remuneration Committee	28 June 2019	2023	Member/President	6/6
Mark William Lane Richards	Remuneration Committee	26 June 2020	2024	Deputy President	3/3
Peter Groznik	Remuneration Committee	26 June 2020	2024	Member	3/3
Sergeja Kočar	Remuneration Committee	26 June 2020	2024	Member	3/3
Primož Karpe	Nomination Committee	15 April 2016	2024	President	8/8
Andreas Klingen	Nomination Committee	19 February 2016	2023	Deputy President	7/8
Alexander Bayr	Nomination Committee	6 October 2017	15 June 2020	Member	4/4
Peter Groznik	Nomination Committee	6 October 2017	2021	Member	8/8
Mark William Lane Richards	Nomination Committee	28 June 2019	26 June 2020	Member	4/4
Verica Trstenjak	Nomination Committee	26 June 2020	2024	Member	4/4
Sergeja Kočar	Nomination Committee	26 June 2020	2024	Member	4/4
David Eric Simon	Audit Committee	7 April 2016	2024	President	7/7
Alexander Bayr	Audit Committee	26 August 2016	15 June 2020	Deputy President	3/3
Primož Karpe	Audit Committee	15 April 2016	2024	Member	7/7
Shrenik Dhirajlal Davda	Audit Committee	28 June 2019	2023	Member/Deputy President	7/7
Gregor Rok Kastelic	Audit Committee	28 June 2019	2023	Member	7/7
Petra Kakovič Bizjak	Audit Committee	26 June 2020	10 September 2020	Member	1/2
Verica Trstenjak	Audit Committee	26 June 2020	18 December 2020	Member	3/4
Andreas Klingen	Risk Committee	19 February 2016	2023	President	4/5
László Urbán	Risk Committee	26 August 2016	15 June 2020	Deputy President	3/3
Peter Groznik	Risk Committee	06 October 2017	2021	Member/Deputy President	5/5
David Eric Simon	Risk Committee	7 April 2016	2024	Member	5/5
Mark William Lane Richards	Risk Committee	28 June 2019	2023	Member	5/5
Gregor Rok Kastelic	Risk Committee	26 June 2020	2023	Member	2/2
Mark William Lane Richards	Operational and IT Committee	28 June 2019	2023	President	5/5
Shrenik Dhirajlal Davda	Operational and IT Committee	28 June 2019	2023	Deputy President	5/5
László Urbán	Operational and IT Committee	28 June 2019	15 June 2020	Member	3/3
Andreas Klingen	Operational and IT Committee	28 June 2019	2023	Member	4/5
Primož Karpe	Operational and IT Committee	15 April 2016	2024	Member	5/5
Bojana Šteblaj	Operational and IT Committee	26 June 2020	2024	Member	2/2

External member in committees (audit, nominal, income committee, etc.) - The Banking Act (ZBan-2) that came into effect on 13 May 2015 contains provision stipulating that, irrespective of provision of Companies Act (ZGD-1) only members of the Supervisory Board can be appointed to Supervisory committees.

Name and Surname	Attendance at sessions of SB's Committees in regard to the total number of SB's session (for example 5/7)	Gender	Qualification	Year of birth	Professional profile	Membership in supervisory bodies in companies not related to the company
none						

Table 39: Composition and amount of remuneration of the Management Board members in the financial year 2020 (C.3)

Name and Surname	Position held (president/ member)	Fixed income -gross (1)	Variable income - gross: on the basis of quantity criteria	Variable income - gross: on the basis of quality criteria	Variable income - gross: Total (2)	Deferred income (3)	Severance pay (4)	Bonuses (5)	'Draw-back' (6)	Total gross (1+2+3+4+5-6)	Total net(i)
Blaž Brodnjak	President	384,734.20					0.00	2,250.22	0.00	386,984.42	166,906.55
Archibald Kremser	Member	366,483.83					0.00	24,331.19	0.00	390,815.02	169,095.43
Andreas Burkhardt	Member	352,795.83					0.00	17,861.15	0.00	370,656.98	161,243.90
László Pelle	Member	57,623.68					258,750.00	4,343.14	0.00	61,966.82	178,294.80
Petr Brunclík	Member	170,516.86					0.00	20,647.48	0.00	191,164.34	82,200.15

(i) This chart does not include other benefits and cost refunds

Table 40: Composition and amount of remuneration of members of the Supervisory Board and committee members in the financial year 2020 (in EUR) (C.4)

Name and Surname	Position held (president, deputy president, member, external member of a Committee)	Payment for the performance of services - gross per year (1)	Attendance fees for SB and committees - gross per year (2)	Total gross (1+2)	Total net(i)	Travel expenses
Primož Karpe	President	89,583.34		89,583.34	69,427.09	8,234.86
Andreas Klingen	Deputy President	84,000.00		84,000.00	84,000.00	2,690.20
László Urbán	Member	31,875.00		31,875.00	20,997.65	1,455.56
Alexander Bayr	Member	36,000.00		36,000.00	27,900.00	2,799.18
David Eric Simon	Member	75,000.00		75,000.00	49,406.24	6,455.10
Peter Groznik	Member	66,000.00		66,000.00	48,001.76	429.26
Mark William Lane Richards	Member	75,000.00		75,000.00	49,406.24	3,617.40
Shrenik Dhirajlal Davda	Member	66,000.00		66,000.00	43,477.52	3,917.12
Gregor Rok Kastelic	Member	70,625.00		70,625.00	46,524.21	4,239.12
Verica Trstenjak	Member	33,933.34		33,933.34	22,353.60	0.00
Sergeja Kočar	Member	5,661.92		5,661.92	4,117.91	152.70
Bojana Šteblaj	Member	5,255.08		5,255.08	3,822.01	457.20
Janja Žabjek Dolinšek	Member	169.48		169.48	123.26	0.00
Petra Kakovič Bizjak	Member	7,302.20		7,302.20	5,310.88	177.51

(i) After the prepayment of income taxes which is not taken into account in potential subsequent balancing payments of personal income taxes.

Statement of Management of Risk

NLB's Management Board and Supervisory Board provide herewith a concise statement of the Risk Management according to Article 17 of the Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks (*Official Gazette of the 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 epidemic, 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 30th 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 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[15]
- The share of non-performing exposure (NPE %) by EBA 2.3%
- Non-performing loans coverage ratio (NPL CR) 57.3%[16]
- Loan-to-deposit ratio (LTD) 58.8%
- LCR 257.5%
- NSFR 165.7%
- EVE sensitivity[17] (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

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

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

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

Statement of Non-financial Information

The Bank has changed the way it reports Environmental, Social, and Governance (ESG) matters, in order to better respond to its stakeholders needs. In line with Article 70.c of the Companies Act (ZGD-1), the Bank reports on non-financial information separately from the NLB Group Annual Report 2020. The Bank's disclosures of non-financial information are prepared in a form of the NLB Group Sustainability Report 2020, which accompanies the annual report and provides the first efforts in the direction of a data-driven summary of the Bank's sustainability performance. The NLB Group Sustainability Report 2020 is published on the Bank's website.

Further information on sustainability is available in the NLB Group Sustainability Report 2020.

Disclosure on Shares and Shareholders of NLB

1. Information pursuant to the Companies Act (ZGD-1), Article 70, paragraph 6

1.1. Structure of the Bank's share capital

The Bank has issued only ordinary registered no-par value shares, the holders of which have a voting right and the right to participate at the General Meeting of the Bank's shareholders, the pre-emptive right to subscribe for new shares in case of a share capital increase, the right to profit participation (dividends), the right to a share in the surplus in the event of liquidation or bankruptcy of the Bank, and the right to be informed. All shares belong to a single class and are issued in book-entry form.

Information regarding the shareholder structure of NLB (as at 31 December 2020) is available under the title '**Shareholder Structure of NLB**' in the chapter '**Key Highlights**.'

1.2. All restrictions relating to the transfer of shares and the restrictions on voting rights

The shares of the Bank are freely transferable, subject to the provisions of the Articles of Association of the Bank which require the approval of the Supervisory Board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such an acquisition and the shares held by third parties for the account of the acquirer, exceeds the share of 25% of the Bank's voting shares. Approval for the transfer of shares is issued by the Supervisory Board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceeded the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them on the account of third parties, so that it is not entitled to exercise voting rights from these shares at its sole discretion, while at the same time committing to the Bank, it will not exercise voting rights on the basis of the instructions of an individual third party for whose account it has acquired the shares if, together with the instructions for voting, it does not receive a written guarantee from that person that this person has shares on his own account and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights.

The acquirer who exceeds the share of 25% of the Bank's shares with voting rights, and does not require the issuance of approval for the transfer of shares, or does not receive the approval of the Bank, may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

1.3. Qualifying holdings

This information is included in the chapter '**Corporate Governance Statement of NLB**.'

1.4. Securities carrying special controlling rights

This information is included in the chapter '**Corporate Governance Statement of NLB**.'

1.5. The employee share scheme, if used by the company, for shares to which the scheme relates and about the method of exercising control over this scheme, if the controlling rights are not exercised directly by employees

The Remuneration policy for employees performing special work defines the payments with financial instruments according to the applicable banking law (ZBan-2), however, due to the regulatory restrictions imposed by BoS, there was no payout in 2020.

1.6. Explanation regarding restrictions related to voting rights

This information is included in the chapter '**Corporate Governance Statement of NLB**.'

1.7. All agreements among shareholders which are known to the company and could result in restrictions relating to the transfer of securities or voting rights

The Bank is not aware of such agreements.

1.8. The company's rules on the appointment or replacement of management and supervisory board members and changes of the articles of association

This information is included in the chapter '**Corporate Governance Statement of NLB**.'

1.9. Authorisations given to management, particularly authorisations to issue or purchase own shares

This information is included in the chapter '**Corporate Governance Statement of NLB**.'

1.10. All major agreements to which the company is a party and which take effect, are changed or cancelled following a change in control over the company resulting from a bid, as laid down by the Act governing M&A, and the effects of such agreements

There are no major agreements to which the Bank is a party, and which would take effect, be changed, or cancelled following a change in control over the Bank resulting from a bid.

1.11. All agreements between the Bank and its management or supervision bodies or its employees which envisage compensation if, due to a bid as laid down by the Act governing M&A, these persons resign, are dismissed without a well-founded reason, or their employment is terminated
In line with the employment contracts of the members of the Management Board, in case the Supervisory Board recalls a member of the Management Board 'for other business and economic reasons,' such a member of the Management Board of NLB is entitled to compensation for early termination of his term of office. The member of the Management Board shall not be entitled to compensation for early termination of the term of office if he is employed in the Bank or in the Group after the termination of the term of office. In the event of resignation, the member of the Management Board shall not be entitled to any compensation for early discontinuation of the term of office, unless otherwise decided by the Supervisory Board.

2. Number of shares held by members of the Supervisory Board and Management Board

Table 41: Number of shares held by members of Supervisory Board and Management Board (as at 31 December 2020)

	Shares held as at 31 December 2020	
Name of member of Supervisory Board	**Number**	**%**
Primož Karpe	936	0.005%
Andreas Klingen	1,198	0.006%
David Eric Simon[i]	582	0.003%
Peter Groznik[ii]	1,210	0.006%
Gregor Rok Kastelic	—	—
Shrenik Dhirajlal Davda	—	—
Mark William Lane Richards	—	—
Verica Trstenjak	—	—
Sergeja Kočar	—	—
Bojana Šteblaj	—	—
Janja Žabjek Dolinšek	—	—
Name of member of Management Board		
Blaž Brodnjak	1,400	0.007%
Archibald Kremser	691	0.003%
Andreas Burkhardt	451	0.002%
Petr Brunclík	278	0.001%

[i] David Eric Simon holds 2,910 GDRs, which is equal to 582 shares (as 1 share represents 5 GDRs).
[ii] Peter Groznik holds Bank's shares indirectly through a company wholly owned by Peter Groznik.

3. Stock option agreements

The Bank has no stock option agreements in relation with listed shares.

4. Dividend taxation

Withholding tax
A Slovenian payer is required to deduct and withhold the amount of Slovenian corporate or personal income tax from dividend payments made to the certain categories of payees:

- Individuals: 27.5%[18]
- Intermediaries: 27.5%
- Legal entities (other than Intermediaries): 15%

There are some exemptions if dividends are paid to intermediaries and legal entities
For the purposes of Slovenian tax legislation, the GDR depositary will qualify as an intermediary. Therefore, the dividends paid by the custodian to the GDR depositary will be subject to the deduction and withholding of Slovenian tax at the rate of 27.5 per cent. A holder, an owner of a GDR or a beneficial owner will be entitled, if and to the extent applicable, to claim a refund of the withholding tax.

Application of Double Tax Treaties
If the payee is not an intermediary, Slovenian tax authorities may approve the application of a lower tax rate specified in the double tax treaty between the RoS and the country of residence of the payee if the Slovenian payer provides certain information on the payee and a confirmation that the payee is a resident for taxation purposes in such a country, issued by the tax authorities of such a country.

Refund of Withholding Tax
If the Slovenian tax was deducted and withheld at a higher tax rate than it would be paid if a Slovenian payer would make the dividend payment directly to such person as a payee or higher tax rate, than the one specified in the double tax treaty, the payee of the dividend is entitled to the refund of the overpaid tax. The tax refund is enforced by filing a claim to the Financial Administration of the RoS.

Legal persons
Dividends with respect to the shares received by a legal person who is a Slovenian resident are exempt from Slovenian corporate income tax (davek od dohodkov pravnih oseb).

Individuals
The amount of tax withheld from a dividend payment received by an individual constitutes the final amount of Slovenian Personal Income Tax (dohodnina) with respect to such a dividend payment.

18. The tax rate for individuals and intermediaries in amount of 27.5% applies from 1 January 2020 onwards.

Events after the end of the 2020 financial year

In January 2021, the Workers' Council of NLB elected Tadeja Žbontar Rems as member of the Supervisory Board of the Bank - representative of workers. Her term of office shall run from 22 January 2021 and will last until the conclusion of the Annual General Meeting of NLB that decides on the allocation of distributable profit for the fourth financial year after her election, counting the year in which she was appointed as the first one.

In January 2021, international independent the Top Employers Institute awarded the Bank with the prestigious certificate the 'Top Employer' for the 6th consecutive year.

From April 1, 2021, the Bank charges a monthly fee of 0.04% for average monthly balances of customers assets above EUR 250,000 – the sum of balances on NLB Personal Accounts and Packages, NLB Savings Accounts, NLB Gradual Savings and NLB Term Deposits will be taken into account (at savings accounts, gradual savings and term deposits only opened after 27 July 2020 will be considered).

On 10 March 2021 NLB has announced a Takeover Bid in the Republic of Serbia in accordance with applicable Serbian legislation for the acquisition of: (i) all remaining regular shares of Komercijalna Banka, Beograd; ISIN RSKOBBE16946 at the point of publishing not in NLB's ownership (2,820,270 regular shares or 16.77% of this class of shares) at RSD 3,315.47 per one share; and (ii) all priority shares of Komercijalna Banka, Beograd; ISIN RSKOBBE19692 (373,510 priority shares or 100% of this class of shares) at 934.72 RSD per one share. Takeover Bid is open for acceptance ('Bidding Period') for 30 days, beginning from 11 March 2021.

#HelpFrame project

Due to its inherently sustainable nature, #HelpFrame project has become the first NLB Group's ESG project that brings business value to our clients and also to whole NLB Group.

The results of #HelpFrame project exceeded expectations – for the NLB Group and for our clients. So, this is not the end, rather the beginning of new era. The next phase will benefit from the experience and accomplishments achieved along the way and will start in spring 2021.

Bosnia and Herzegovina

76 submitted clients

20 selected clients

1 new client, as focus was on existing ones

Different industries - majority operates in production, sales, education and tourism

Serbia

115 submitted clients

30 selected clients

17 new clients

15 different industries

Highest share from food production, transport and services

Slovenia

171 submitted clients

83 selected clients

43 new clients

37 different industries

Highest share from services, tourism and agriculture

Kosovo

37 submitted clients

20 selected clients

5 new clients

14 different business activities

Mostly services, agriculture and trade

Montenegro

80 submitted clients

20 selected clients

2 new clients

15 different business activities

North Macedonia

223 submitted clients

101 selected clients

6 new clients

Different industries - majority from retail, catering and restaurant services

Financial Report

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Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of the NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at 31 December 2020, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2020 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Credit risk and impairment of loans and advances to customers including impact of COVID-19 related pandemic

The carrying amount of loans and advances to customers at amortized cost amounts to EUR 4.6 billion (or 41% of total assets) at the Bank and EUR 9.6 billion (or 49% of total assets) at the Group as of 31 December 2020. As of 31 December 2020, total provisions of the Bank amounted to EUR 143 million and of the Group to EUR 372 million. The impairment of loans and advances to customers is a highly subjective area due to the level of judgment applied by management in determining credit provisions specifically around expected credit losses, loss given default (LGD) and probability of default (PD) in the case of Stage 1 and Stage 2. The assessment of individual provisions for

We understood and evaluated the processes and control environment for identifying default events within the loan portfolios, as well as the impairment assessment processes for loans.

On a sample basis of performing loans with characteristics that might imply a default event had occurred we assessed if the criteria for determining whether a default event had occurred are fulfilled and therefore whether there was a requirement to calculate an impairment provision using Stage 3 methodology.

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loans and advances to customers in Stage 3, which are determined based on scenarios and their likelihood of happening. Scenarios are based on 'going' and 'gone' assumptions of debt repayment. Those scenarios contain assumptions and estimates related to identification of significant changes in credit risk, impairment triggers, probabilities of scenarios for cash flow forecasts and collateral realization, all containing high level of complexity and subjectivity. The Bank's Stage 3 gross balance of loans and advances to customers was EUR 169 million as of 31 December 2020 (Group: EUR 391 million) and total provisions EUR 105 million (Group: EUR 256 million).

Provisions for loans and advances to customers in Stage 1 and Stage 2 are determined based on complex models and parameters used in those models, such as: lifetime PDs, LGDs, identification of significant changes in credit risk, inclusion of forward-looking elements and segmentation of exposures, which all involve significant management assumptions and estimates. The Bank's Stage 1 and Stage 2 combined gross balance of loans and advances to customers was EUR 4.5 billion (Group: EUR 9.6 billion) as of 31 December 2020 and total provisions EUR 37 million (Group: EUR 115 million).

Additional credit impairment provisions on the Group level in the total amount of EUR 18.3 million were established in 2020 due to changed risk parameters that incorporated the estimated impact of the COVID-19 pandemic.

The Bank and the Group performed IFRS 9 model overlays related to the COVID-19 related pandemic with a significant impact on the PD scenario weights, correction of the forward-looking PD estimates, forward looking LGD estimation, mark-up on the LGD model multiplicator, staging model and other adjustments refer to note 2.13 Allowances for financial assets of the separate and consolidated financial statements.

As provisions for loans and advances to customers are significant to understanding the financial statements as a whole and bear significant judgements, we conclude this to be a significant item for our audit and a key auditing matter. For further information, refer to Note 6.1. Credit risk management of the separate and consolidated financial statements.

For a sample of Stage 3 individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and inquired with the management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

In respect of statistical models that are used for the estimation of credit risk related impairment losses of Stage 1 and Stage 2 exposures, we involved credit risk specialists in evaluation of the model documentation and other related evidence such as models' governance, segmentation policy, expected credit loss estimation process and assessment of their compliance with IFRS 9. We also reviewed changes in risk models implemented in the current period. We evaluated the application of the models through the recalculation for mathematical accuracy of credit risk related impairment losses, allowances and provisions defined by IFRS 9. We have tested the days past due counter and effect on the staging classification of the exposures.

In connection with the COVID-19 related pandemic overlay approach we evaluated, with the involvement of experts, the Bank's and the Group's PD model overlay Scenario weights, forward-looking PD estimates, forward-looking LGD estimation with applied entity specific mark-ups and staging model. We reconciled to publicly available information significant independent variables in overlays model (GDP growth rates and house prices growth), evaluated the staging classification for significant companies in moratorium, recalculated the mathematical accuracy of the calculations made in the overlay approach and assessed specific disclosure relating to COVID-19 related pandemic included in the separate and consolidated financial statements.

We have assessed the adequacy of the Bank's and the Group's disclosures included in Note 6.1. Credit risk management, 5.14. Movements in allowance for the impairment of financial assets and 2.13. Allowances for financial assets of the separate and consolidated financial statements.

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Identification and measurement of the fair value of the assets acquired and liabilities assumed with respect to the acquisition of Komercijalna banka a.d. Beograd

On 30 December 2020, the Bank closed the acquisition of Komercijalna banka a.d. Beograd for an acquisition price of EUR 395 million.

The purchase price allocation was determined during the period, as a result of which EUR 137.9 million in negative goodwill, was recognized in the income statement, as described in Note 5.12.b. Acquisition of Komercijalna banka a.d. Beograd to the financial statements. Note 5.12.b. Acquisition of Komercijalna banka a.d. Beograd also provides details of the accounting methods applied to business combinations.

We deemed the identification and measurement of Komercijalna banka a.d. Beograd to be a key audit matter due to the materiality of the transaction and because it required estimations and judgments from Group management in terms of determining how the purchase price should be allocated into the various assets acquired and liabilities assumed.

As part of our audit of the separate and consolidated financial statements:

We have examined the most important legal documents pertaining to the acquisition of Komercijalna banka a.d. Beograd with a view to identifying the specific clauses impacting the determination and recognition of the purchase price.
We obtained, read and understood the corporate resolutions and administrative authorizations. We have performed audit procedures to obtain evidence of the acquisition-date balances which, as provided for in the terms of acquisition. We assessed the criteria used for recognition of the transaction as a business combination and the determination of the acquisition date and the consideration transferred. We evaluated, with the involvement of valuation experts, the approaches used to determine the fair values of the assets acquired and liabilities assumed, the underlying assumptions and the mathematical accuracy of the calculations made. In particular, we considered the appropriateness of the allocation of the purchase price to the assets acquired and liabilities assumed, as described in note 5.12.b. Acquisition of Komercijalna banka a.d. Beograd to the financial statements. We reviewed the qualitative and quantitative information included in the accompanying notes to the consolidated financial statements. We assessed the adequacy of the disclosures included in Note 5.12.b. Acquisition of Komercijalna banka a.d. Beograd of the separate and the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Information technology (IT) systems and controls over revenue recognition

A significant part of the Bank's and the Group's interest and fee revenue recognition process is reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring that appropriate user access and change management protocols exist and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to interest and fee revenue recognition, a high proportion of the overall audit effort was in this area. Furthermore, the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We therefore consider this to be a key audit matter.

We focused our audit on those IT systems and controls that are significant for the Bank's and the Group's interest and fee revenue recognition processes. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists in our audit procedures. This include among other procedures, testing of IT dependant and application controls specific to interest and fee revenue recognition in the bank's and Group's IT systems. We have tested algorithms used to calculate interest and fee income using banks pricing tables for different products.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

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As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

We assessed the adequacy of the disclosures related to interest and fee revenue included in Notes 2.9. Interest income and expenses, 2.10. Fee and commission income, 4.1. Interest income and expenses and 4.3. Fee and commission income and expenses of the separate and the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and the audit committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process. The supervisory board is responsible to approve the audited annual report.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Bank and the Group at the general meeting of shareholders on 27 June 2018, the president of the supervisory board has signed the audit agreement on 7 September 2018. The agreement was signed for the period of 5 years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 7 years. Primoz Kovačič and Simon Podvinski are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on 11 March 2021.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and its controlled undertakings and we remain independent from the Bank and its controlled undertakings in conducting the audit.

In addition to statutory audit services and services disclosed in the Annual Report and in the separate and consolidated financial statements, no other services which were provided by us to the Bank and its controlled undertakings.

Ljubljana, 23 March 2021

Primož Kovačič
Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 3

Simon Podvinski
Certified auditor

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Report on compliance with the ESEF Regulation

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Report on compliance with the ESEF Regulation

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

We performed a reasonable assurance engagement to verify the compliance of the separate and the consolidated financial statements contained in the annual report of Nova Ljubljanska Banka (»the Bank«), d.d. for the financial year ended 31 December 2020 with the provisions of Commission Delegated Regulation (EU) 2019/815 on a European single electronic format relating to financial statements ("ESEF Regulation"), relevant for the year 2020.

Responsibility of the management

Management of the Bank is responsible for the preparation of the separate and the consolidated financial statements in accordance with the provision of ESEF Regulation, relevant for the year 2020. Management the Bank is responsible for, among other things:

- design, implementation and maintenance of an internal control system relevant to the application of the requirements of the ESEF Regulation,
- the preparation of all financial statements contained in the annual report in the applicable XHTML format and
- selection and use of XBRL labels as required by the ESEF Regulation.

Auditor's Responsibility

Our responsibility is to express a conclusion, on the basis of the audit evidence obtained, whether the separate and the financial statements included in the annual report comply with the requirements of the ESEF Regulation relevant for the year 2020 in all material respects. We performed this reasonable assurance engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (revised) Assurance Engagements, which are not an audit or review of historical financial information ("ISAE 3000"). The nature, timing and extent of procedures selected depend on the auditor's judgment. A reasonable level of assurance is a high level of assurance, however, it does not guarantee that a verification performed in accordance with the above standard will in all cases reveal any significant (non) material non-compliance with the requirements of the ESEF Regulation.

Our independence and quality management

We comply with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standards on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements of the applicable law or regulation

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Summary of work performed

As part of the selected procedures, we performed the following activities:

- we have read the requirements of the ESEF Regulation relevant for the year 2020,
- we got the understanding of the Bank's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and evaluated the risks of material non-compliance with the ESEF Regulation due to fraud or error; and
- Based on this, design and implement procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The goal of our procedures was to assess whether

- the separate and consolidated financial statements, which are included in the annual report, have been prepared in the valid XHTML format,
- the data contained in the consolidated financial statements required by the ESEF Regulation have been tagged and all tagging meets the following requirements:
- the XBRL markup language was used,
- the elements of the basic taxonomy listed in the ESEF Regulation with the closest accounting significance have been used, unless an extension taxonomy element has been created in accordance with Annex IV of the ESEF Regulation,
- the mark-ups are in line with the common rules for tagging under the ESEF Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the separate and the consolidated financial statements of the Bank for the year ended 31 December 2020 included in the annual report are in all material respects prepared in accordance with the requirements of the ESEF Regulation, relevant for the year 2020.

Other information

The separate and the consolidated financial statements presented in electronic format in accordance with the Regulation 2019/815 have been audited in accordance with the auditing rules. The auditor issued the report on 23.03.2021 and expressed an unqualified opinion.

Ljubljana, 23 March 2021

Primož Kovačič
Pooblaščeni revizor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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Revizija, poslovno
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Simon Podvinski
Pooblaščeni revizor

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Statement of management's responsibility

The Management Board hereby confirms its responsibility for preparing the consolidated financial statements of NLB Group and the financial statements of NLB for the year ending on 31 December 2020, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and the Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31 December 2020, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board is also responsible for appropriate accounting practices, the adoption of appropriate measures for safeguarding assets, and the prevention and identification of fraud and other irregularities or illegal acts.

Management Board of NLB

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

Income statement for the annual period ended 31 December

in EUR thousands

		NLB Group		NLB	
	Notes	2020	2019	2020	2019
Interest income, using the effective interest method		347,639	357,412	167,616	175,598
Interest income, not using the effective interest method		7,549	7,406	7,488	7,310
Interest and similar income	4.1.	355,188	364,818	175,104	182,908
Interest and similar expense	4.1.	(55,615)	(46,331)	(36,217)	(24,782)
Net interest income		**299,573**	**318,487**	**138,887**	**158,126**
Dividend income	4.2.	111	208	6,259	71,231
Fee and commission income	4.3.	232,432	234,979	136,691	137,898
Fee and commission expense	4.3.	(62,152)	(64,640)	(32,234)	(33,943)
Net fee and commission income		**170,280**	**170,339**	**104,457**	**103,955**
Gains less losses from financial assets and liabilities not measured as at fair value through profit or loss	4.4.	17,689	4,643	16,970	4,512
Gains less losses from financial assets and liabilities held for trading	4.5.	9,794	10,465	4,741	3,335
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	6,598	18,765	6,815	16,289
Fair value adjustments in hedge accounting	5.5.a)	720	(555)	720	(555)
Foreign exchange translation gains less losses	4.7.	739	706	(1,108)	396
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures		(471)	(111)	-	(1)
Gains less losses on derecognition of non-financial assets		1,300	3,355	12	432
Other net operating income	4.8.	7,549	7,851	5,794	4,544
Administrative expenses	4.9.	(262,226)	(274,014)	(162,613)	(173,098)
Cash contributions to resolution funds and deposit guarantee schemes	4.10.	(16,674)	(16,223)	(7,103)	(7,034)
Depreciation and amortisation	4.11.	(31,715)	(30,964)	(17,848)	(18,046)
Gains less losses from modification of financial assets	4.12.	(3,577)	(182)	-	-
Provisions for credit losses	4.13.	(482)	(312)	599	368
Provisions for other liabilities and charges	4.13.	(8,077)	(11,135)	(7,645)	(5,586)
Impairment of financial assets	4.14.	(61,799)	13,630	(9,633)	16,661
Impairment of non-financial assets	4.14.	(996)	(3,177)	(685)	2,795
Negative goodwill	5.12.b)	137,858	-	-	-
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	5.12.d)	874	4,197	-	-
Gains less losses from non-current assets held for sale	4.15.	10,853	(576)	35,234	(578)
Profit before income tax		**277,921**	**215,397**	**113,853**	**177,746**
Income tax	4.16.	(5,165)	(13,579)	99	(1,597)
Profit for the year		**272,756**	**201,818**	**113,952**	**176,149**
Attributable to owners of the parent		269,707	193,576	113,952	176,149
Attributable to non-controlling interests		3,049	8,242	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.17.	13.5	9.7	5.7	8.8

The notes are an integral part of these financial statements.

Statement of comprehensive income for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group 2020	NLB Group 2019	NLB 2020	NLB 2019
Net profit for the year after tax		**272,756**	**201,818**	**113,952**	**176,149**
Other comprehensive income after tax		**(2,147)**	**19,040**	**3,817**	**4,446**
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans		**878**	**(1,777)**	**700**	**(1,523)**
Fair value changes of equity instruments measured at fair value through other comprehensive income	5.4.c)	**3,809**	**284**	**202**	**213**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(41)**	**1,233**	**-**	**-**
Income tax relating to components of other comprehensive income	5.18.	**(534)**	**(146)**	**(171)**	**104**
Items that have been or may be reclassified subsequently to income statement					
Foreign currency translation		**(703)**	**1,299**	**-**	**-**
Translation gains/(losses) taken to equity		(703)	1,299	-	-
Debt instruments measured at fair value through other comprehensive income		**6,555**	**13,129**	**3,810**	**6,977**
Valuation gains/(losses) taken to equity	5.4.c)	7,733	16,526	7,522	11,202
Transferred to income statement	4.4., 4.14.	(1,178)	(3,397)	(3,712)	(4,225)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(11,026)**	**8,440**	**-**	**-**
Income tax relating to components of other comprehensive income	5.18.	**(1,085)**	**(3,422)**	**(724)**	**(1,325)**
Total comprehensive income for the year after tax		**270,609**	**220,858**	**117,769**	**180,595**
Attributable to owners of the parent		266,907	212,266	117,769	180,595
Attributable to non-controlling interests		3,702	8,592	-	-

The notes are an integral part of these financial statements.

Statement of financial position as at 31 December

in EUR thousands

	Notes	NLB Group 31 Dec 2020	NLB Group 31 Dec 2019	NLB 31 Dec 2020	NLB 31 Dec 2019
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	3,961,812	2,101,346	2,261,533	1,292,211
Financial assets held for trading	5.2.a)	84,855	24,038	18,831	24,085
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	42,393	25,359	35,106	23,287
Financial assets measured at fair value through other comprehensive income	5.4.	3,514,290	2,141,428	1,716,351	1,656,657
Financial assets measured at amortised cost					
- debt securities	5.6.a)	1,503,087	1,653,848	1,277,880	1,485,166
- loans and advances to banks	5.6.b)	197,005	93,403	158,320	144,352
- loans and advances to customers	5.6.c)	9,619,860	7,589,724	4,564,178	4,568,599
- other financial assets	5.6.d)	113,138	97,415	54,503	67,279
Derivatives - hedge accounting	5.5.b)	-	788	-	788
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5.5.c)	13,844	8,991	13,844	8,991
Investments in subsidiaries	5.12.a)	-	-	749,060	351,883
Investments in associates and joint ventures	5.12.c)	7,988	7,499	1,662	1,366
Tangible assets					
Property and equipment	5.8.a)	249,117	195,605	91,675	89,904
Investment property	5.9.	54,842	52,316	8,300	9,303
Intangible assets	5.10.	61,668	39,542	28,105	25,980
Current income tax assets		4,369	6,284	1,923	5,463
Deferred income tax assets	5.17.	31,789	29,500	29,214	29,569
Other assets	5.13.	97,140	63,811	11,664	11,142
Non-current assets held for sale	5.7.a)	8,658	43,191	4,454	5,532
Total assets		**19,565,855**	**14,174,088**	**11,026,603**	**9,801,557**
Financial liabilities held for trading	5.2.b)	15,485	17,903	15,500	17,892
Financial liabilities measured at fair value through profit or loss	5.3.b)	-	7,998	-	7,746
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.15.a)	72,633	42,840	41,635	89,820
- borrowings from banks and central banks	5.15.b)	158,225	170,385	143,464	161,564
- due to customers	5.15.a)	16,397,167	11,612,317	8,850,755	7,760,737
- borrowings from other customers	5.15.b)	91,560	64,458	13	2,537
- subordinated liabilities	5.15.c)	288,321	210,569	288,321	210,569
- other financial liabilities	5.15.d)	207,300	158,484	101,273	98,342
Derivatives - hedge accounting	5.5.b)	61,161	49,507	61,161	49,507
Provisions	5.16.	125,059	88,414	63,790	60,384
Current income tax liabilities		1,002	2,271	-	-
Deferred income tax liabilities	5.17.	4,475	2,833	-	-
Other liabilities	5.19.	20,427	15,212	9,697	9,234
Total liabilities		**17,442,815**	**12,443,191**	**9,575,609**	**8,468,332**
Equity and reserves attributable to owners of the parent					
Share capital	5.20.	200,000	200,000	200,000	200,000
Share premium	5.21.a)	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.21.b)	21,127	26,493	24,102	20,285
Profit reserves	5.21.a)	13,522	13,522	13,522	13,522
Retained earnings		846,762	574,489	341,992	228,040
		1,952,789	**1,685,882**	**1,450,994**	**1,333,225**
Non-controlling interests		170,251	45,015	-	-
Total equity		**2,123,040**	**1,730,897**	**1,450,994**	**1,333,225**
Total liabilities and equity		**19,565,855**	**14,174,088**	**11,026,603**	**9,801,557**

The notes are an integral part of these financial statements.

The Management Board has authorised for issue the financial statements and the accompanying notes.

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Petr Brunclík
COO

Blaž Brodnjak
CEO & CMO

Ljubljana, 23 March 2021

Statement of changes in equity for the annual period ended 31 December

in EUR thousands

			Accumulated other comprehensive income							
NLB Group	Share capital	Share premium	Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Notes	5.20.	5.21.a)	5.21.b)	5.21.b)	5.21.b)	5.21.a)				
Balance as at 1 January 2020	200,000	871,378	47,880	(17,055)	(4,332)	13,522	574,489	1,685,882	45,015	1,730,897
- Net profit for the year	-	-	-	-	-	-	269,707	269,707	3,049	272,756
- Other comprehensive income	-	-	(2,833)	(669)	702	-	-	(2,800)	653	(2,147)
Total comprehensive income after tax	-	-	(2,833)	(669)	702	-	269,707	266,907	3,702	270,609
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	121,534	121,534
Transfer of fair values reserve	-	-	(2,551)	-	(15)	-	2,566	-	-	-
Balance as at 31 December 2020	**200,000**	**871,378**	**42,496**	**(17,724)**	**(3,645)**	**13,522**	**846,762**	**1,952,789**	**170,251**	**2,123,040**

in EUR thousands

			Accumulated other comprehensive income							
NLB Group	Share capital	Share premium	Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Notes	5.20.	5.21.a)	5.21.b)	5.21.b)	5.21.b)	5.21.a)				
Balance as at 1 January 2019	200,000	871,378	28,702	(18,275)	(2,604)	13,522	523,493	1,616,216	41,228	1,657,444
- Net profit for the year	-	-	-	-	-	-	193,576	193,576	8,242	201,818
- Other comprehensive income	-	-	19,178	1,220	(1,708)	-	-	18,690	350	19,040
Total comprehensive income after tax	-	-	19,178	1,220	(1,708)	-	193,576	212,266	8,592	220,858
Dividends paid	-	-	-	-	-	-	(142,600)	(142,600)	(4,805)	(147,405)
Transfer of actuarial gains	-	-	-	-	(20)	-	20	-	-	-
Balance as at 31 December 2019	**200,000**	**871,378**	**47,880**	**(17,055)**	**(4,332)**	**13,522**	**574,489**	**1,685,882**	**45,015**	**1,730,897**

in EUR thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
Notes	5.20.	5.21.a)	5.21.b)	5.21.b)	5.21.a)	5.20.	
Balance as at 1 January 2020	200,000	871,378	24,444	(4,159)	13,522	228,040	1,333,225
- Net profit for the year	-	-	-	-	-	113,952	113,952
- Other comprehensive income	-	-	3,250	567	-	-	3,817
Total comprehensive income after tax	-	-	3,250	567	-	113,952	117,769
Balance as at 31 December 2020	**200,000**	**871,378**	**27,694**	**(3,592)**	**13,522**	**341,992**	**1,450,994**

in EUR thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
Notes	5.20.	5.21.a)	5.21.b)	5.21.b)	5.21.a)	5.20.	
Balance as at 1 January 2019	200,000	871,378	18,620	(2,781)	13,522	194,491	1,295,230
- Net profit for the year	-	-	-	-	-	176,149	176,149
- Other comprehensive income	-	-	5,824	(1,378)	-	-	4,446
Total comprehensive income after tax	-	-	5,824	(1,378)	-	176,149	180,595
Dividends paid	-	-	-	-	-	(142,600)	(142,600)
Balance as at 31 December 2019	**200,000**	**871,378**	**24,444**	**(4,159)**	**13,522**	**228,040**	**1,333,225**

The notes are an integral part of these financial statements.

Statement of cash flows for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group 2020	NLB Group 2019	NLB 2020	NLB 2019
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		372,903	407,372	207,188	228,618
Interest paid		(52,921)	(44,062)	(31,881)	(21,335)
Dividends received		787	2,985	6,261	71,229
Fee and commission receipts		232,607	232,860	133,743	134,530
Fee and commission payments		(65,728)	(68,000)	(32,972)	(34,041)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss		17,993	4,644	17,274	4,513
Net gains/(losses) from financial assets and liabilities held for trading		10,919	10,776	5,634	4,072
Payments to employees and suppliers		(260,301)	(265,572)	(164,600)	(170,530)
Other receipts		13,642	18,378	8,627	7,859
Other payments		(20,629)	(23,126)	(9,490)	(11,375)
Income tax (paid)/received		(6,645)	(34,225)	3,779	(23,283)
Cash flows from operating activities before changes in operating assets and liabilities		**242,627**	**242,030**	**143,563**	**190,257**
(Increases)/decreases in operating assets		**(366,831)**	**(575,987)**	**(105,859)**	**(229,476)**
Net (increase)/decrease in trading assets		1,838	44,214	1,838	44,214
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		(12,667)	29,084	(12,564)	25,948
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		(150,006)	(250,506)	(77,098)	(126,152)
Net (increase)/decrease in loans and receivables measured at amortised cost		(207,260)	(411,170)	(18,357)	(173,964)
Net (increase)/decrease in other assets		1,264	12,391	322	478
Increases/(decreases) in operating liabilities		**1,338,820**	**1,067,045**	**1,044,033**	**679,366**
Net increase/(decrease) in deposits and borrowings measured at amortised cost		1,338,633	1,067,440	1,044,297	679,366
Net increase/(decrease) in other liabilities		187	(395)	(264)	-
Net cash flows from operating activities		**1,214,616**	**733,088**	**1,081,737**	**640,147**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**478,251**	**251,424**	**402,729**	**224,834**
Proceeds from sale of property, equipment, and investment property		5,341	6,556	2,258	3,684
Proceeds from sale of subsidiaries		-	8	-	3,437
Proceeds from non-current assets held for sale		39,078	269	39,078	269
Proceeds from disposals of debt securities measured at amortised cost		433,832	244,591	361,393	217,444
Payments from investing activities		**108,232**	**(500,106)**	**(602,939)**	**(448,106)**
Purchase of property, equipment, and investment property		(27,626)	(19,257)	(15,089)	(10,787)
Purchase of intangible assets		(15,020)	(13,311)	(10,663)	(9,125)
Purchase of subsidiaries, net of cash acquired and increase in subsidiaries' equity	5.12.b)	452,770	-	(397,729)	(1,744)
Increase in associates and joint ventures' equity		(326)	-	(326)	-
Purchase of debt securities measured at amortised cost		(301,566)	(467,538)	(179,132)	(426,450)
Net cash flows from investing activities		**586,483**	**(248,682)**	**(200,210)**	**(223,272)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financing activities		**119,222**	**208,321**	**119,222**	**208,321**
Issue of subordinated debt	5.15.c)	119,222	208,321	119,222	208,321
Payments from financing activities		**(45,000)**	**(162,246)**	**(45,000)**	**(142,600)**
Dividends paid		-	(147,244)	-	(142,600)
Repayments of subordinated debt	5.15.c)	(45,000)	(15,002)	(45,000)	-
Net cash flows from financing activities		**74,222**	**46,075**	**74,222**	**65,721**
Effects of exchange rate changes on cash and cash equivalents		(2,176)	3,693	(2,080)	1,189
Net increase/(decrease) in cash and cash equivalents		**1,875,321**	**530,481**	**955,749**	**482,596**
Cash and cash equivalents at beginning of year		**2,263,267**	**1,729,093**	**1,308,122**	**824,337**
Cash and cash equivalents at end of year		**4,136,412**	**2,263,267**	**2,261,791**	**1,308,122**

The notes are an integral part of these financial statements.

Statement of cash flows for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group 2020	NLB Group 2019	NLB 2020	NLB 2019
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	3,962,686	2,101,871	2,261,791	1,292,345
Loans and advances to banks with original maturity up to three months		146,223	85,369	-	5,770
Debt securities measured at amortised cost with original maturity up to three months		-	10,007	-	10,007
Debt securities measured at fair value through other comprehensive income with original maturity up to three months		27,503	66,020	-	-
Total		**4,136,412**	**2,263,267**	**2,261,791**	**1,308,122**

Notes to the financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB') is a Slovenian joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in nine countries, mainly in Slovenia and the SEE market. Information on NLB Group's structure is disclosed in note 5.12. Information on other related party relationships of NLB Group is provided in note 8.

NLB is incorporated and domiciled in Slovenia. The address of its registered office is Trg Republike 2, Ljubljana. NLB's shares are listed on the Ljubljana Stock Exchange, and the global depositary receipts ('GDR'), representing ordinary shares of NLB, are listed on the London Stock Exchange. Five GDRs represent one share of NLB.

As at 31 December 2020 and as at 31 December 2019, the largest shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share.

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

2. Summary of significant accounting policies

The principal accounting policies adopted for the preparation of the separate and consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, except for changes in accounting policies resulting from the application of new standards or changes to standards.

2.1. Statement of compliance

The principal accounting policies applied in the preparation of the separate and consolidated financial statements were prepared in accordance with the International Financial Accounting Standards (hereinafter: 'the IFRS') as adopted by the European Union (hereinafter: 'EU'). Additional requirements under the national legislation are included where appropriate.

The separate and consolidated financial statements are comprised of the income statement and statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, significant accounting policies, and the notes.

2.2. Basis for presenting the financial statements

The financial statements have been prepared on a going-concern basis, under the historical cost convention as modified by the revaluation of financial assets measured at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss, including all derivative contracts, hedged items in fair value hedge accounting relationships, non-current assets held for sale and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

This document contains both, the separate financial statements of NLB and the consolidated financial statements of NLB Group. Presented accounting policies apply to both sets of financial statements, with exception of policies described in notes 2.4. and 2.5. which apply only to consolidated financial statements and policies described in note 2.6., where differences in accounting treatment for investments in subsidiaries, associated and joint ventures between separate and consolidated financial statements are described. Data relating to separate financial statements is marked 'NLB', while data relating to consolidated financial statements is marked 'NLB Group.'

2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to the changes in presentation in the current year.

Compared to the presentation of the financial statements for the year ended 31 December 2019, the schemes for presentation of the Income Statement changed due to changed schemes prescribed by the Bank of Slovenia. Comparative amounts have been adjusted to reflect these changes in the presentation.

in EUR thousands

31 Dec 2019	NLB Group Old presentation	NLB Group Current presentation	NLB Group Change	NLB Old presentation	NLB Current presentation	NLB Change
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	-	(111)	(111)	-	(1)	(1)
Gains less losses from non-current assets held for sale	(687)	(576)	111	(579)	(578)	1
Cash contributions to resolution funds and deposit guarantee schemes	-	(16.223)	(16.223)	-	(7.034)	(7.034)
Other operating income	16.270	-	(16.270)	8.508	-	(8.508)
Other operating expenses	(28.214)	-	28.214	(12.347)	-	12.347
Other net operating income	-	7.851	7.851	-	4.544	4.544
Administrative expenses	(270.442)	(274.014)	(3.572)	(171.749)	(173.098)	(1.349)

The effects from derecognition of investments in subsidiaries, associates and joint ventures (outside the scope of IFRS 5 measurement requirements) are included in the income statement as a separate item; before changing the schemes, the effects were disclosed under the item titled 'Net gains or losses from non-current assets held for sale.'

Costs associated with cash contributions to resolution funds and deposit guarantee schemes are included in the income statement as a separate item; before changing the schemes, those costs were included under the item 'Other operating expenses.'

Expenses related to taxes, compulsory public levies, membership fees and similar fees are recognised under the item 'Administrative expenses'; before changing those expenses were disclosed under the item 'Other operating expenses.'

'Other operating income' and 'Other operating expenses' are included under the item 'Other net operating income'; before changing the schemes, those items were reported on a separate line item in the income statement.

2.4. Consolidation

In the consolidated financial statements (NLB Group), subsidiaries which are directly or indirectly controlled by NLB have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB Group.

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that the control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary, attributable to interests which NLB does not own, either directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or by the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances, and unrealised gains on transactions between NLB Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest.'

2.5. Business combinations, goodwill and bargain purchases

NLB Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs; and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements and fair value of any pre-existing equity interest in subsidiary. However, this excludes amounts related to the settlement of pre-existing relationships which are recognised in profit or loss. Acquisition-related costs such as advisory, legal, valuation, and similar professional services are also recognised in profit or loss. Transaction costs incurred for issuing equity instruments are deducted from the equity, and all other transaction costs associated with the acquisition are expensed.

Identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

A contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. A contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value at each reporting date and changes in fair value are recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

For each business combination, NLB Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets at the date of acquisition. All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.

Goodwill is measured as the excess of the aggregate of the consideration transferred measured at fair value, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired, as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase (or 'negative goodwill'), is recognised in profit or loss after management reassesses whether it has identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill arising from a business combination is, from the acquisition date, allocated to the Group's cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

The goodwill of associates and joint ventures is included in the carrying value of investments.

In a business combination achieved in stages, NLB Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss.

2.6. Investments in subsidiaries, associates and joint ventures

In the separate financial statements (NLB), investments in subsidiaries, associates and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend has been established.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. These are generally undertakings in which NLB Group holds between 20% and 50% of the voting rights, and over which NLB Group exercises significant influence, but does not have control.

Joint ventures are those entities over whose activities NLB Group has joint control, as established by contractual agreement. In the consolidated financial statements, investments in joint ventures are accounted for using the equity method of accounting.

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.c).

NLB Group's subsidiaries, associates and joint ventures are presented in note 5.12.

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles, and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

Mergers of entities within NLB Group do not affect the consolidated financial statements.

2.8. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e., the functional currency). The financial statements are presented in euros, which is NLB Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency and classified as financial assets and measured at fair value through other comprehensive income are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equity instruments classified as financial assets, measured at fair value through other comprehensive income, are included together with valuation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in the equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

NLB Group entities

The financial statements of all NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

In the consolidated financial statements, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When control over a foreign operation is lost, the previously recognised exchange differences on translations to a different presentation currency are reclassified from other comprehensive income to profit and loss for the year. On the partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified as a non-controlling interest within the equity.

2.9. Interest income and expenses

Interest income and expenses for all financial instruments measured at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate. The effective interest rate method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, interest income is again calculated on a gross basis.

In case of purchased or originated credit-impaired financial assets, credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the purchased or originated credit-impaired financial asset.

2.10. Fee and commission income

Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fee and commission income are recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time. When service is provided over time, consideration is invoiced and due in line with contractual provisions.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement within the line 'Dividend income' when NLB Group's right to receive payment has been established and an inflow of economic benefits is probable. In the consolidated financial statement, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification and measurement

Financial instruments are initially measured at fair value plus or minus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent measurement depends on the classification of the instrument.

Financial assets

All debt financial assets need to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. Measurement categories of financial assets are as follows:

- Financial assets, measured at amortised costs (AC);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets held for trading (FVTPL); and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, they are measured at the amortised cost using the effective interest method and are subject to impairment. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment are recognised in profit or loss. Each of them is presented as separate line item in the income statement. Any gain or loss on derecognition is recognised in profit or loss in line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.'

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment are recognised separately in the income statement. Other net gains and losses are recognised in other comprehensive income, until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement under line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.'

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss. In NLB Group, the most material equity instrument irrevocably designated as FVOCI is investment in National Resolution Fund (note 5.4.a). NLB Group decided to use this presentation alternative due to the fact that the fund was founded based on the law and that its investment strategy is highly regulated, so to assure the safety, low risk and high liquidity of the fund.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

Financial liabilities

Financial liabilities are subsequently measured at the amortised cost or at fair value through profit or loss, when they are held for trading, derivative instruments, or the fair value designation is applied.

Upon initial recognition, financial liability may be irrevocably designated as measured at fair value through profit or loss if that eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or if the liabilities are part of a group of financial instruments which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Changes in the fair value of financial liabilities designated as measured at fair value through profit or loss are recognised in profit or loss, with the exception of movement in the fair value due to changes of NLB Group's own credit risk. Such changes are presented in other comprehensive income with no subsequent reclassification to the income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition of financial liability is recognised in profit or loss. In the event of derecognition of a financial liability measured at amortised cost, gains and losses are recognised in the line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.' Gains and losses on disposals of financial liabilities designated as measured at fair value through profit or loss are also presented separately from those held for trading.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within NLB Group, and is based on observable factors for different portfolios that best reflect how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets or on collection of contractual cash flows); and
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Group can be summarised as follows:

- Loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows;
- Debt securities are divided into three business models:
  - the first group of debt securities presents 'held for trading' category;
  - debt securities in the second group are held under a business model 'held to collect and sale' with the aim of collecting the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves;
  - the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model, and:

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

A review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than *de minimis* exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily measured at FVTPL.

NLB Group reviews the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product and for non-standardised products on a single exposure level. The Group has established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of loan agreements.

Accounting policy for modified financial assets

When contractual cash flows of a financial asset are modified, NLB Group assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows (commercial or client's financial difficulties);
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification is such that it changes the result of the SPPI test.

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. In such cases NLB Group recalculates the gross carrying amount of the financial asset and recognises modification gain or loss in the income statement. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets).

b) Reclassification

Financial assets can be reclassified when and only when NLB Group's business model for managing those assets changes. The reclassification takes place from the start of the reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the presented periods. Financial liabilities shall not be reclassified.

c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

d) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred, and the transfer qualifies for derecognition. A financial liability is derecognised only when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled, or expires.

e) Write-offs

NLB Group writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that there is no reasonable expectation of recovery include default period, quality of collateral, and different stages of enforcement procedures. NLB Group may write off financial assets that are still subject to enforcement activities, but this does not affect its rights in the enforcement procedures. NLB Group still seeks to recover all amounts it is legally entitled to in full. A write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense. Write-offs and recoveries are disclosed in note 5.14.a).

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date.

g) Derivative financial instruments and hedge accounting

Derivative financial instruments – including forward and futures contracts, swaps, and options – are initially recognised in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favourable to NLB Group, and as well within liabilities when the derivative position is unfavourable to NLB Group.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NLB Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. NLB Group and NLB elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting requirements in accordance with IAS 39. However, disclosures that are required by the IFRS 9 related amendments to IFRS 7 'Financial Instruments: Disclosures' are implemented.

At the inception of the transaction, NLB Group documents the relationship between hedged items and hedging instruments, as well as its risk management objective, valuation methodology and strategy for undertaking various hedge transactions. NLB Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The actual results of a hedge must always fall within a range of 80–125%.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in 'Fair value adjustments in Hedge Accounting' in the income statement. Any ineffectiveness from derivatives is recorded in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

If a hedge no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged item for which the effective interest rate method is used is amortised to profit or loss over the remaining period to maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is immediately recognised in the income statement.

Amounts accumulated in equity are recycled as a reclassification from other comprehensive income to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are in consolidated financial statements accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.' Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

2.13. Allowances for financial assets

a) Expected credit losses for collective allowances

IFRS 9 applies an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

In the general model, the allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, expert credit assessment, and incorporation of forward-looking information. In 2020, due to the COVID-19 pandemic, the Group broadened the number of indicators to strengthen the likelihood of detection of significant increase of credit risk for clients with COVID-19 moratoria.

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, models for risk indicators calculation, forward-looking scenarios, and the validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on 12-month period;
- Stage 2 – underperforming portfolio: significant increase in credit risk (SICR) since initial recognition, NLB Group recognises an allowance for lifetime period; and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these defaulted financial assets.

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the new European Banking Authority (EBA) definition of non-performing loans (NPLs) as at 31 December 2020. The Bank uses a unified definition of past due and default exposures; defaulted clients are rated D, DF, or E based on the internal rating system and contains the clients with material delays over 90 days, as well as the clients that were assessed as unlikely to pay. All the facilities of the retail clients obtain a unified credit rating.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition (which is accompanied with the increase of Probability of default (PD) indicator);
- when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment);
- if NLB Group grants the forbearance to the borrower;
- if the facility is placed on the watch list or intensive care list;
- if a retail client obtained COVID-19 moratoria and is placed on the EWS list.

Based on the EBA Guidelines for COVID-19 legislative and non-legislative moratoria, the Bank did not consider COVID-19 moratoria as a forbearance measure if granted before 30 September 2020 or if granted after that date, but the cumulative moratoria period did not exceed 9 months. Nevertheless, any moratoria granted due to the COVID-19 situation not aligned with the legislative or non-legislative standards, was checked for forbearance status on a case-by-case basis. Additionally, the clients who were granted COVID-19 moratoria or new financing on the basis of the COVID-19 circumstances, were analysed as part of the regular credit process using a wide variety of financial and non-financial indicators and were downgraded or placed on the watch list if an increase in credit risk was identified.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

The classification into stages is based on the facility level, nevertheless occurring delays on one facility may trigger the Stage deterioration of other facilities of the same client. When the SICR criteria no longer exist, the facility may be transferred to a more favourable stage subject to the prescribed holding period.

The ECL for Stage 1 financial assets is calculated based on 12-month PDs or shorter period PDs, if the remaining maturity of the financial asset is shorter than 1 year. The 12-month PD already includes the macroeconomic impact effect. Allowances in Stage 1 are designed to reflect expected credit losses that had been incurred in the performing portfolio but have not been identified.

The ECL for Stage 2 financial assets is calculated based on lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that takes into account a number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using a PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of being credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition are recognised as a loss allowance.

The calculation of collective allowances is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). The obtained result for each month is discounted to the present time using the original effective interest rate of the facility. For Stage 1 exposures, the ECL only takes a 12-month period into account, while for Stage 2 or 3 all potential losses until the maturity date are included.

The EAD represents the anticipated outstanding amount owed by the obligor, which is determined as the sum of on-balance exposure and expected future drawings of the off-balance exposure. The drawings are assessed by applying the CCF (credit conversion factor) based on the Bank's historic experience with similar types of facilities.

The PD is the estimation of likelihood of default over a given time horizon. The estimation is performed separately for each unique product group or segment of clients. Through the cycle, the PD is supplemented with the forward-looking aspect using multiple possible scenarios.

The LGD parameter reflects the expected loss the facility will incur in case of the event of default. The LGD value is assessed based on the Bank's historic data on repayments from different types of collateral, as well as other types of repayments such as regular/partial repayments, repayments from legal proceedings, the sale of receivables, and others. Through the cycle, the LGD is supplemented with the forward-looking aspect to reflect the expected changes in the macroeconomic parameters.

Risk parameter calculations are based on the data from each subsidiary, while the calculations and modelling are performed centrally. In the case where the data samples are not sufficiently large, hurdle rates are applied based on the regulatory or other benchmarks.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward-looking information

The Group incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL.

The macroeconomic scenarios used by NLB Group for IFRS 9 are based on existing Group's stress-testing framework. Scenarios under the Stress-testing framework are regularly presented, challenged, and discussed by the Capital Management Group (CMG), the Liquidity Management Group (LMG), respective Committees (ALCO, RICO, and OpRisk Committee), and the Management Board. Scenarios and statistical models are the same for all NLB Group members, local specifics for subsidiaries are captured by the process of scenarios results calibration.

The IFRS 9 scenario framework is based on institutional forecasts (IMAD, EC, IMF, ECB), from which three forward-looking scenarios of macroeconomic development are created (i.e. baseline, optimistic, and severe scenarios). The probability-weighted expected scenario is used as a base for IFRS 9 expected credit losses calculations. Currently, NLB Group applies GDP growth rates for probability of default (PD) estimates and House prices growth for loss given default (LGD) forward-looking projections.

In the situation of the COVID-19 pandemic, NLB Group kept up with the latest institutional projections that kept changing throughout 2020. Due to the extraordinary state of the COVID-19-ridden global economy, the early official forecasts were discarded in favour of the ECB June 2020 projections which were deemed more realistic. In spite of the ever-changing COVID-19 situation, IFRS 9 projections remain in line with NLB Group's economic outlook. We use the ECB baseline, mild, and severe scenarios for Slovenia for the initial period ranging from 2020 to 2022. For the two-year period from 2023 to 2024 we resort to established methodology and use IMF projections. The latter represents the baseline scenario. We use our internally developed deviations from the baseline to obtain the severe and optimistic scenarios. Real estate price growth is estimated on the basis of an internal econometric model, using GDP forecasts as an explanatory variable.

Macroeconomic scenarios for Risk parameters explanatory variables:

			GDP percentage growth 5Y projection				
Risk parameter	Scenario	Scenario weight*	2020	2021	2022	2023	2024
PD	Baseline	60%	-6.50	4.90	3.60	2.80	2.50
	Optimistic	20%	-3.90	6.70	4.60	2.88	2.58
	Adverse	20%	-10.00	0.40	4.00	2.33	1.76
	Weighted average	-	-6.68	5.31	3.88	2.67	2.37

			House prices growth 5Y projection				
Risk parameter	Scenario	Scenario weight*	2020	2021	2022	2023	2024
LGD**	Weighted average	-	-5.20	10.90	8.99	7.36	6.96

* Scenario weights change to 60% - 35% - 5% in year 2021 and return to the original weight partitioning in the following years.

** Weighted average GDP scenario was used in internal econometric model for House prices growth forecasting.

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts. In 2020, due to the changing macroeconomic predictions, a second calculation was performed as at 30 September 2020.

The largest impact on expected credit losses in 2020 is due to the deterioration of the macroeconomic environment due to the COVID-19 crisis. This change in macroeconomic scenarios has an impact on the new values of risk parameters which incorporate the estimated influence of the COVID-19 outbreak.

Due to the COVID-19 crisis NLB Group has introduced a COVID-19 mark-up on LGD (up to 10%). COVID-19 mark-up can be applied by a NLB Group member as a measure of conservativeness or due to the particularities of the local market. The COVID-19 mark-up applied in 2020 has no major impact on the increase of expected credit losses.

Effects of changed risk parameters on the amount of expected credit losses are disclosed in notes 5.14. and 5.16.b).

b) Individual assessment of allowances for impaired financial assets

NLB Group assesses impairments of financial assets separately for all individually significant assets classified in Stage 3. The materiality threshold is set at EUR 0.5 million exposure for legal entities and EUR 0.1 million for private persons on the level of NLB, while the Group members apply lower thresholds applicable to their portfolio size. All other financial assets obtain collective allowances.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the 'going concern' assumption, where the cash flow from operations is considered along with the sale of collateral that is not crucial for future business. In the case of the 'gone concern' principle, the repayments are based on expected cash flows from the sale of collateral. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount of financial assets measured at an amortised cost is reduced through an allowance account and the loss is recognised in the income statement item 'Impairment of financial assets.' If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account, and the gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in the 'Provisions' item and in the income statement in the item 'Provisions for credit losses.'

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at an amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets, or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract under which the contracting parties agree the partial or total repayment of the original debt. Loans with deferral of payment approved in line with the national legislation on intervention measures in response to SARS-CoV-2 (COVID-19) pandemic until 30 September 2020 are not forborne loans. Loans with deferrals of payment, under COVID-19 measures approved after 30 September 2020 are subject of assignment of forbearance status, except in cases, where detailed review and analysis sufficiently justify that the client is not in financial difficulties. If to receivables due from the client the status of restructuring is introduced, the debtor must be classified in the rating group C or lower.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

The accounting treatment of forborne loans depends on the type of restructuring. When NLB Group embarks on a forborne loan via the modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed upon debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group considers the debtor's modified position, the economic expectations, and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (i.e., property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if exposure is no longer considered as impaired or defaulted, if determined amounts were repaid, if one year has passed from the latest of the events defined (introduction of forbearance, classification in the non-performing part, repayment of the last overdue amount, end of the grace period) and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- at least a 2-year probation period has passed since the latest of:
  - the moment of extending the restructuring measures or
  - the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period;
- no exposure, in the probation period, is more than 30 days in default of more than EUR 100.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as is practical in order to reduce exposure (note 6.1.l). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with an IAS 40 Investment property (note 2.20.), and other assets measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets are initially recognised at fair value less costs to sell (realisable value), wherein only the direct costs of sales can be considered. At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.17. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, and the counterparty liability is included in financial liabilities measured at an amortised cost. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Securities purchased under agreements to resell (reverse repos) are recorded as loans to other banks or customers, as appropriate.

In financial statements, the difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest rate method.

2.18. Property and equipment

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less accumulated depreciation and any accumulated impairment loss.

Each year, NLB Group assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as a loss in the income statement.

Items of a largely independent property and equipment which do not generate cash flows are included in the cash-generating unit and later tested for possible impairment.

Depreciation is calculated on a straight-line basis over the assets' estimated useful lives. The following annual depreciation rates were applied:

NLB Group and NLB	in %
Buildings	2 - 5
Leasehold improvements	5 - 25
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

Depreciation does not begin until the assets are available for use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount and are recognised in the income statement.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future economic benefits are recognised in the carrying amount of an asset, and the replaced part, if any, is derecognised.

2.19. Intangible assets

Intangible assets include software licenses, goodwill (note 2.5.), and identifiable intangible assets acquired in a business combination. Intangible assets except goodwill, have a finite useful life and are in the statement of financial position stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write-down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

The identifiable intangible assets acquired in a business combination and recognised separately from goodwill, are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. After initial recognition, intangible assets acquired in a business combination are measured in accordance with IAS 38 Intangible Assets. Additionally identified intangible assets acquired in a business combination in December 2020 (note 5.12.b) relate to core deposits and trade name. Their useful life is assessed to be 5 years.

2.20. Investment properties

Investment properties include buildings held to earn rentals, or to increase the value of a long-term investment, rather than to be used by NLB Group. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in the fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

NLB Group measures an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations at fair value less costs to sell.

During subsequent measurement, certain assets and liabilities of a disposal group that are outside the scope of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g., deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value, and contractual rights under insurance contracts). Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

2.22. Accounting for leases

A lease is a contract, or part of a contract, which creates enforceable rights and obligations and conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Thus, IFRS 16 requires determination whether a contract is, or contains, a lease.

NLB Group as a lessee

NLB Group recognises a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases, except for short-term leases and leases of low-value. Short-term leases are defined as those which at the commencement date have a lease term of 12 months or less without the option to purchase the underlying asset. Leases of underlying assets with a value, when new, lower or equal to EUR 5 thousand are defined as low value leases, and are thus recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets

At the commencement date, NLB Group measures the right-of-use asset at cost, reduced by any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets consists of the amount of lease liabilities recognised, initial direct costs incurred, an estimate of costs to be incurred by the lessee in dismantling, and removing the underlying asset to the condition required by the terms and conditions of the lease and lease payments made at or before the commencement date less any lease incentives received. After the commencement date, NLB Group measures the right-of-use asset using a cost model and recognises depreciation of the right-of-use assets, on a straight-line basis over the lease term, and (separately) interest on the lease liabilities. In the statement of financial position, right-of-use assets are presented in item 'Property and equipment'.

Lease liabilities

At the commencement date, NLB Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments consist of fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, the exercise price of a purchase option if there exists a reasonable certainty for it to be exercised, and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Subsequently (after the commencement date), NLB Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

In the statement of financial position, lease liabilities are presented in item 'Other financial liabilities'.

NLB Group as a lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest rate method. Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

Sale-and-leaseback transactions

NLB Group also enters into sale-and-leaseback transactions (in which NLB Group is primarily a lessor) under which the leased assets are purchased from, and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

Leases recognised in a business combination

In all leases acquired in a business combination, the acquiree is the lessee. For such leases, NLB Group applies the IFRS 16 initial measurement provisions (with exceptions for leases with remaining term of 12 months or less and low value leases) and recognises the acquired lease liability as if the lease contract was a new lease at the acquisition date. The right-of-use asset is measured at an amount equal to the recognised liability. There are no favourable or unfavourable terms of the leases relative to market terms, which would require the adjustment of the right-of-use assets.

2.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks and other demand deposits at banks, debt securities held for trading, loans to banks, and debt securities not held for trading with an original maturity of up to three months. Cash and cash equivalents are disclosed under the cash flow statement.

2.24. Borrowings, deposits, and issued debt securities with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as an interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item 'Other Equity Instruments.'

2.26. Provisions

Provisions are recognised when NLB Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. They are recognised in the amount that is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, NLB Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability.

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts, and other banking facilities.

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.

Financial and non-financial guarantees are initially recognised at fair value, which is normally evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- an ECL provision as set out in note 2.13.

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent undrawn loan commitments to extend credit, uncovered letters of credit, and other commitments.

The nominal contractual value of guarantees, letters of credit, and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. After initial recognition, it is measured at the higher of:

- the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; or
- the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers. This requirement does not apply to contracts accounted for in accordance with IFRS 9.

2.28. Taxes

Income tax expense comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2020 in Slovenia was 19% (2019: 19%).

Current and deferred taxes are recognised in profit or loss, except to the extent that they relate to a business combination or taxes related to effects recognised directly in equity (deferred tax related to the fair value re-measurement of financial assets measured at fair value through other comprehensive income, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income).

Deferred income tax is calculated using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realised, or the liability is settled. At each reporting date, NLB Group reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilised.

Deferred tax assets for temporary differences arising from impairments of investments in subsidiaries, associates and joint ventures are recognised only to the extent that it is probable that:

- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

Slovenian law does not set deadlines by which uncovered tax losses must be utilised.

In the case of business combination deferred tax balances are recognised if related to temporary differences and carry-forwards of an acquiree that exist at the acquisition date or if they arise as a result of the acquisition. Income taxes are measured in accordance with IAS 12 Income Taxes.

A tax on financial services, which means a tax on fees paid for prescribed financial services rendered (financial services, exempt from value added tax (with the exception of securities transactions) and the services of insurance brokers and agents), is paid in Slovenia. The tax rate is 8.5% (2019: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income and expenses relating to fiduciary activities are generally recognised in the income statement when the service has been provided (see also note 2.10.). Fee and commission income charged for this type of service is broken down by items in note 4.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 5.24.

Based on the requirements of Slovenian legislation, NLB Group has, in note 5.24., additionally disclosed the assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

Employee benefits include:

- short-term employee benefits (such as salaries, social security contributions, compensations, and non-monetary benefits);
- retirement indemnity bonuses (post-employment benefits); and
- jubilee long-service benefits (other employment benefits).

Short-term employee benefits are recognised in the period to which they relate and included in the income statement line 'Administrative expenses.' Among others they include the payment of contributions for pension and disability insurance, which according to local legislation (for employer) amount to 8.85% of the gross salaries.

According to legislation, employees retire after 35-40 years of service when, if they fulfil certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB.

These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on the benefit plan's terms and conditions.

Service costs are included in the income statement in the item 'Administrative expenses' as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item 'Interest and similar expenses.' These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. For post-employment benefits, actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item 'Actuarial Gains/(Losses) on Defined Benefit Pensions Plans,' and will not be recycled to the income statement. Actuarial gains and losses that relate to other employment benefits are recognised in the income statement as defined benefit costs. In the statement of financial position, liabilities for short-term employee benefits are included in item 'Other financial liabilities', while liabilities for post-employment benefits and other employment benefits (jubilee long-service benefits) are included in item 'Provisions'.

In the case of a business combination employee benefits are recognised and measured in accordance with IAS 19 Employee Benefits, i.e. not at fair value.

2.31. Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by NLB's shareholders.

Treasury shares

If NLB or another member of NLB Group purchases NLB's shares, the consideration paid is deducted from the total shareholders' equity as treasury shares. If such shares are subsequently sold, any consideration received is included in equity. If NLB's shares are purchased by NLB itself or other NLB Group entities, NLB creates reserves for treasury shares in equity.

Share issue costs

Costs directly attributable to the issue of new shares are recognised in equity as a reduction in the share premium account.

2.32. Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the Management Board, which is the executive body that makes decisions regarding the allocation of resources and assesses the performance of a specific segment.

Transactions between organisational units (OU) are managed under normal operating conditions. Interest income among individual OU in the parent bank (NLB) is allocated using a fund transfer pricing method and shown within the net interest income of each OU. Net non-interest income is allocated to the OU that actually provides the service that generates income. Direct costs are attributed to the segment that is directly related to the provided service and indirect costs (costs which service centres provide for profit centres) are attributed to the segment for which the service is provided, whereas overhead costs are allocated according to general keys. External net income is the net income of NLB Group from the consolidated income statement. Income tax is not allocated between segments (note 7.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Retail Banking in Slovenia, Corporate and Investment Banking in Slovenia, Strategic Foreign Markets, Financial Markets in Slovenia, Non-core members, and Other Activities.

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Allowances for expected credit losses on loans and advances

NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary allowances for ECL. NLB Group creates individual allowances for individually significant financial assets attributed to Stage 3. Such an assignment is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor, and other important facts. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from collateral.

Allowances are assessed collectively for financial assets assigned to Stage 1 or 2, or for financial assets in Stage 3 with exposure below the materiality threshold. The ECL in this group of assets are estimated based on expected value of risk parameters combining the historic movements with the future macroeconomic predictions. The models used to estimate future risk parameters are validated and back-tested on a regular basis to make loss estimations as realistic as possible.

NLB Group performs regular stress-testing as part of the ICAAP process normative approach, where the 3-year budget is tested for adverse circumstances. The selected stress scenario predicts adverse economic circumstances as a result of the COVID-19 pandemic.

In terms of credit risk, the scenario has an unfavourable impact on default rates (transfer of assets from performing to default) and loss rates (expected losses after occurrence of default). Furthermore, a transfer of assets within the performing sub-portfolio to rating classes with worse default probabilities is envisaged. Based on the existing exposures (static balance sheet assumption), additional allowances for expected credit losses are assessed on existing default exposures and new default flows, as well as on the remaining performing portfolio.

The results of the stress scenario for NLB Group shows an increase of credit risk impairments in the first year of stress by EUR 97.7 million, of which EUR 20.4 million applies to the newly acquired Komercijalna banka group (a comparable scenario in 2019: EUR 68.1 million), and an increase in the coverage of the credit portfolio by impairments by 0.71 percentage points (2019: 0.70 percentage points).

b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets) or offer prices (financial liabilities).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable entities, and other frequently used valuation models. These valuation models pretty much reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and the applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading, and financial assets measured at fair value through other comprehensive income.

In year 2020, the volatility of prices on various markets has increased as a result of the spread of COVID-19. Therefore, NLB Group decided to sell some securities with increased credit spreads as part of its strategy to manage the credit risk. Most of these securities were classified as measured at fair value through other comprehensive income (EUR 250,297 thousand at NLB Group and EUR 222,586 thousand at NLB), while EUR 120,131 thousand of sold securities were measured at amortised cost. The total realised gains due to sales of securities amount to EUR 17,815 thousand at NLB Group and EUR 17,096 thousand at NLB (note 4.4).

Due to increased frequency and values of sales of securities measured at amortised cost, NLB Group reassessed whether there has been a change in its business model for managing financial assets. Sales were made due to an increase in the assets' credit risk, and are therefore consistent with a held to collect business model because the credit quality of financial assets is relevant to NLB Group's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such a model.

Furthermore, the sales were made as a response to COVID-19 situation and the increased volume of sales is not expected to persist. It is expected, that future sales volumes will be lower in frequency and value. So, no change in our business model has been made.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with NLB Group's methodology for the valuation of financial instruments. The market exchange rates, interest rates, yield, and volatility curves used in valuations are based on the market snapshot principle. Market data are saved daily at 4 p.m., and later used for the calculation of the fair values (market value, NPV) of financial instruments. NLB Group applies market yield curves for valuation, and fair values are additionally adjusted for credit risk of the counterparty.

The fair value hierarchy of financial instruments is disclosed in note 6.5.

c) Impairment of investments in subsidiaries, associates and joint ventures

The process of identifying and assessing the impairment of investments in subsidiaries, associates and joint ventures is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. The review of impairment represents management's best estimate of the facts and assumptions such as:

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with

- the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio;
- The growth rate in cash flows for the period following the adopted business plan is between 2.9 and 4.4%;
- The target capital adequacy ratio of an individual bank is between 14 and 17%;
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 9.66 and 15.88% (31 December 2019: between 9.66 and 15.18%).

For strategic NLB Group members in 2020 and 2019, there were no indications of impairment for equity investments.

In 2020, NLB impaired equity investments in non-core members in the amount of EUR 582 thousand.

d) Employee benefits

Liabilities for certain employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

	NLB Group		NLB	
	2020	2019	2020	2019
Actuarial assumptions				
Discount factor	0.3% - 4.0%	0.2% - 3.2%	0.3%	0.2%
Wage growth based on inflation, promotions, and wage growth based on past years of service	1.0% - 4.0%	1.8% - 3.7%	2.6% - 3.0%	3.0% - 3.3%
Other assumptions				
Number of employees eligible for benefits	7,996	5,010	2,572	2,608

Sensitivity analysis of significant actuarial assumptions for post-employment benefit

	NLB Group				NLB			
31 Dec 2020	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(4.9)	3.8	5.3	(4.8)	(5.2)	3.4	5.6	(5.3)

The minimum discount rate is considered to be 0%.

Individual analysis is done by changing one assumption for + / - 0.5 percentage points, while all other assumptions stay the same.

The breakdown of actuarial gains and losses for post-employment benefit by causes

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Actuarial gains and losses due to changed financial assumptions	606	(1,425)	473	(1,160)
Actuarial gains and losses due to changes in demographic assumptions	134	(86)	200	(129)
Actuarial gains and losses due to experience	138	(266)	27	(234)
Total actuarial gains and losses for the year	**878**	**(1,777)**	**700**	**(1,523)**

The weighted average duration of liabilities in years

	NLB Group		NLB	
	2020	2019	2020	2019
Post-employment benefit	10.5 - 18.7	10.7 - 19.1	11.1	11.5

e) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2020 are based on profit forecasts and take the expected manner of recovery of the assets into account. Changes in assumptions regarding the likely manner of recovering assets or changes in profit forecasts can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. If NLB profit projections used for estimation of the amount of deferred tax assets which are expected to be reversed in foreseeable future (i.e., within 5 years) would change by 10%, the estimated amount of deferred tax assets would change by approximately EUR 6 million (notes 4.16. and 5.17.).

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: 'the IASB') and the International Financial Reporting Interpretations Committee (hereinafter: 'the IFRIC'), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2020.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2020 that were endorsed by the EU and adopted by NLB Group

- IAS 1 and IAS 8 (amendments) – 'Definition of Material' are effective for annual periods beginning on or after 1 January 2020 (with earlier application permitted) and relate to a revised definition of 'material,' namely: "Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." Three new aspects of the new definition are particularly emphasised and defined – "obscuring," "could reasonably be expected to influence," and "primary users." The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1 Presentation of Financial Statements. The definition of material in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been replaced with a reference to IAS 1, thus the Amendments ensure that the definition of 'material' is consistent across all IFRS Standards. There is no impact on NLB Group's consolidated financial statements.

- 'Amendments to References to the Conceptual Framework in IFRS Standards' are effective for annual periods beginning on or after 1 January 2020. Amendments were issued to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. There is no impact on NLB Group's consolidated financial statements.

- IFRS 3 (amendment) – 'Business Combinations' is effective for annual periods beginning on or after 1 January 2020. It aims to resolve entities' difficulties which arise when determining whether they have acquired a business or a group of assets. Among others, the Amendment clarifies and narrows the definitions of a business and of outputs, provides additional guidance, and illustrative examples. There is no impact on NLB Group's consolidated financial statements.

- Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 (the Phase 1 amendments) issued in September 2019 are effective from 1 January 2020 or later. NLB Group has early adopted the Phase 1 amendments for annual periods beginning on 1 January 2019. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. Meaning, that the IBOR reform should not generally cause hedge accounting to terminate. As indicated in the accounting policies, NLB Group elected, as a policy choice permitted under IFRS 9 Financial Instruments, to continue to apply hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. Additional information about interest rate benchmark reform is provided in note 5.5.d).

- IFRS 16 (amendment) – 'Leases COVID-19-Related Rent Concessions' is effective for annual periods beginning on or after 1 June 2020. The amendment provides lessees with an exemption from assessing whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions, are lease modifications. Lessees that apply the exemption are required to account for COVID-19-related rent concessions as if they were not lease modifications. An entity applying the exemption must disclose this fact, whether the exemption has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the COVID-19 related rent concessions. There is no impact on NLB Group's consolidated financial statements.

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

New and revised accounting standards and interpretations endorsed by the EU that are not mandatory for annual accounting periods beginning on 1 January 2020, were not adopted early by NLB Group. These standards and amendments are not expected to have a material impact on the consolidated financial statements of NLB Group in the future reporting periods and on foreseeable future transactions. NLB Group plans to adopt the accounting standards and amendments listed below for reporting periods commencing on or after the effective date.

- IFRS 4 (amendment) – 'Insurance Contracts' – deferral of IFRS 9' is effective for annual periods beginning on or after 1 January 2021. Currently IFRS 4 requires insurance entities to apply IFRS 9 Financial Instruments from 1 January 2021, and amendments allow them to defer the application of IFRS 9 until the annual period beginning on or after 1 January 2023. The amendment will not impact NLB Group's consolidated financial statements.

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

- IFRS 17 (new standard) – 'Insurance Contracts' is effective for annual periods beginning on or after 1 January 2023. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfilment cash flows, and for revenue to be recognised – as the service is provided over the coverage period. NLB Group does not expect an impact on its consolidated financial statements.

- IAS 1 (amendment and deferral of effective date) – 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' is effective for annual periods beginning on or after 1 January 2023. The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. NLB Group does not expect an impact on its consolidated financial statements.

- IFRS 3 (amendment) – 'Business Combinations – Reference to the Conceptual Framework' is effective for annual periods beginning on or after 1 January 2022. The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Further, the amendments add an exception to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies. The amendments also clarify existing guidance for contingent assets.

- IAS 16 (amendment) – 'Property, Plant and Equipment: Proceeds before Intended Use' is effective for annual periods beginning on or after 1 January 2022. The amendment prohibits the deduction from the cost of an item of property, plant and equipment of any proceeds from the sale of produced items while the assets is being prepared for its intended use. The proceeds from selling such items, and the cost of producing those items, are recognised in profit or loss. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The amendment further requires separate disclosure of the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. It is also necessary to disclose the line item in the statement of comprehensive income where the proceeds are included. NLB Group does not expect an impact on its consolidated financial statements.

- IAS 37 (amendments) – 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract' is effective for annual periods beginning on or after 1 January 2022. The amendments modify the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract.' The costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. NLB Group does not expect an impact on its consolidated financial statements.

- Annual Improvements (amendments) 2018-2020 are effective for annual periods beginning on or after 1 January 2022. The amendments to IFRS 9 clarify which fees and costs should be included in the "10 per cent" test for derecognition of a financial liability. The amendment to IFRS 16 Leases removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives. The amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards permits a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Standards. The amendments to IAS 41 Agriculture remove the requirement to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. NLB Group does not expect an impact on its consolidated financial statements.

- IFRS 9 (amendment), IAS 39 (amendment), IFRS 7 (amendment), IFRS 4 (amendment) and IFRS 16 (amendment) – 'Interest Rate Benchmark Reform – Phase 2' are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. Unlike Phase 1, which focused on issues of the impact of the reform on financial reporting in the period before the replacement of the existing interest rate benchmark with a risk-free interest rate, Phase 2 focused on issues that affect financial reporting when an existing interest rate benchmark is replaced with a risk-free rate. The Phase 2 amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate equivalent to a movement in a market rate of interest. The practical expedient is also required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and therefore, apply IAS 39 Financial Instruments: Recognition and Measurement) and for IFRS 16 Leases, to lease modifications required by the IBOR reform. The amendments permit changes required by the IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. Under IFRS 7 Financial instrument: Disclosures amendments an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates. The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships. NLB Group does not expect material impact on its consolidated financial statements.

3. Changes in subsidiary holdings

Changes in 2020

Capital changes:

- In December 2020, NLB acquired an 83.23% ordinary shareholding in Komercijalna banka a.d. Beograd, which represents 81.42% of total shareholding in the bank.
- In December 2020, NLB acquired 1 ordinary share of Komercijalna banka a.d. Banja Luka which represents a 0.002% share of their capital.
- In December 2020, NLB acquired additional shares of Bankart d.o.o., Ljubljana and thereby increased its ownership from 39.44% to 40.08%.
- An increase in share capital in the form of a debt to equity conversion in the amount of EUR 1,800 thousand in NLB Leasing Podgorica d.o.o. – u likvidaciji.

Other changes:

- In April 2020, NLB established the nonfinancial cultural heritage institute named 'NLB Zavod za upravljanje kulturne dediščine, Ljubljana.'
- In May 2020, NLB established financial company named 'NLB Lease&Go, leasing, d.o.o., Ljubljana.'
- 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 d.d., Ljubljana was completed (note 4.14.).
- In December 2020, BH-RE d.o.o., Sarajevo – beginning of the liquidation procedure entered in the court register.
- In December 2020, NLB sold its subsidiaries NLB Leasing d.o.o., Sarajevo - u likvidaciji and NLB Leasing Podgorica d.o.o., Podgorica - u likvidaciji.

Changes in 2019

Capital changes:

- In January 2019, decrease of share capital in the amount of EUR 3,324 thousand was registered in NLB Leasing d.o.o. Sarajevo. Since March 2019 the company has been formally in liquidation.
- An increase in share capital in the form of a cash contribution in the amount of EUR 1,740 thousand in REAM d.o.o., Podgorica to ensure regular business operations.

Other changes:

- In January 2019, REAM d.o.o., Beograd merged with SR-RE d.o.o., Beograd. In April 2019, SR-RE d.o.o., Beograd was renamed 'REAM d.o.o., Beograd.'
- From 1 January 2019 NLB Srbija d.o.o., Beograd and NLB Crna Gora d.o.o., Podgorica were transferred from core to non-core members.
- In June 2019, Prospera plus d.o.o., Ljubljana – v likvidaciji and NLB Interfinanz Praha s.r.o., Prague – vo likvidaci were liquidated. In accordance with a court order, companies were removed from the court register.
- In June 2019, NLB sold its subsidiary CBS Invest d.o.o., Sarajevo.
- In December 2019 NLB and KBC Insurance NV, in a joint process, agreed to sell their respective stakes in the life insurance company NLB Vita d.d., Ljubljana. As the sale is expected to qualify for recognition as a completed sale within one year from the end of the reporting period, investment in joint venture NLB Vita d.d., Ljubljana was transferred from the line 'Investments in associates and joint ventures' into line 'Non-current assets held for sale.'

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Interest and similar income				
Interest income, using the effective interest method	347,639	357,412	167,616	175,598
Loans and advances to customers at amortised cost	312,695	311,541	140,203	141,345
Securities measured at amortised cost	16,165	23,215	12,736	19,119
Financial assets measured at fair value through other comprehensive income	18,180	20,606	10,704	11,656
Loans and advances to banks measured at amortised cost	386	1,235	3,887	3,065
Deposits with banks and central banks	213	815	86	413
Interest income, not using the effective interest method	7,549	7,406	7,488	7,310
Financial assets held for trading	5,408	6,097	5,408	6,097
Non-trading financial assets mandatorily at fair value through profit or loss	1,800	1,300	1,739	1,204
Derivatives - hedge accounting	-	9	-	9
Other	341	-	341	-
Total	**355,188**	**364,818**	**175,104**	**182,908**
Interest and similar expenses				
Interest expenses, using the effective interest method	41,208	32,072	21,883	10,612
Due to customers	20,541	23,111	3,835	4,317
Borrowings from banks and central banks	880	1,285	774	1,110
Borrowings from other customers	941	940	-	-
Subordinated liabilities	10,040	2,716	10,040	2,271
Deposits from banks and central banks	78	216	27	298
Lease liabilities (note 5.11.a)	294	316	39	38
Interest expenses, not using the effective interest method	14,407	14,259	14,334	14,170
Derivatives - hedge accounting	9,439	8,969	9,439	8,969
Negative interest	8,434	3,488	7,168	2,578
Financial liabilities held for trading	4,789	5,100	4,789	5,100
Interest expenses on defined employee benefits (note 2.30., 5.16.c)	100	184	30	96
Other	79	6	76	5
Total	**55,615**	**46,331**	**36,217**	**24,782**
Net interest income	**299,573**	**318,487**	**138,887**	**158,126**

The item 'Negative interest' includes the interest from deposits with banks and central banks in the amount of EUR 7,178 thousand for NLB Group (2019: EUR 2,970 thousand), and EUR 5,912 thousand for NLB (2019: EUR 2,060 thousand). It also includes interest from deposits with financial organisations in the amount of EUR 411 thousand for NLB Group and NLB (2019: EUR 0) and also interest from securities with a negative yield due to the purchase with a premium in the amount of EUR 845 thousand for NLB Group and NLB (2019: EUR 518 thousand).

Other interest income in the amount of EUR 341 thousand relates to refund of corporate income tax from Italian Tax Authority (note 4.16.).

4.2. Dividend income

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Financial assets measured at fair value through other comprehensive income	83	111	-	-
- related to investments held at the end of reporting period	83	111	-	-
Investments in subsidiaries	-	-	5,561	68,353
Investments in associates and joint ventures	-	-	670	2,781
Non-trading financial assets mandatorily at fair value through profit or loss	28	97	28	97
Total	**111**	**208**	**6,259**	**71,231**

4.3. Fee and commission income and expenses

a) Fee and commission income and expenses relating to activities of NLB Group and NLB

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	63,940	69,423	35,634	39,369
Customer transaction accounts	66,311	60,686	49,566	45,606
Other fee and commission income				
Payments	50,325	54,697	21,109	23,477
Investment funds	19,286	17,621	5,931	5,506
Guarantees	11,781	11,282	7,282	7,192
Agency of insurance products	6,338	6,384	5,241	4,832
Other services	4,639	5,619	3,434	4,141
Total	**222,620**	**225,712**	**128,197**	**130,123**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	46,473	49,685	25,581	28,261
Other fee and commission expenses				
Payments	6,134	6,605	909	875
Insurance for holders of personal accounts and gold cards	1,034	955	760	771
Investment banking	2,272	1,989	524	487
Guarantees	778	114	712	30
Other services	2,528	2,529	817	753
Total	**59,219**	**61,877**	**29,303**	**31,177**
Net fee and commission income related to banking activities	**163,401**	**163,835**	**98,894**	**98,946**

b) Fee and commission income and expenses relating to fiduciary activities

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,583	1,281	1,435	1,227
Management of financial instruments portfolio	1,237	1,513	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	327	256	327	256
Custody and similar services	4,842	4,877	4,909	4,953
Management of clients' account of non-materialised securities	1,797	1,162	1,797	1,162
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	26	178	26	177
Total	**9,812**	**9,267**	**8,494**	**7,775**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	2,876	2,711	2,874	2,714
Fee and commission related to stock exchange and similar organisations	57	52	57	52
Total	**2,933**	**2,763**	**2,931**	**2,766**
Net fee income related to fiduciary activities	**6,879**	**6,504**	**5,563**	**5,009**
Total fee and commission income	**232,432**	**234,979**	**136,691**	**137,898**
Total fee and commission expenses	**62,152**	**64,640**	**32,234**	**33,943**
Total a) and b)	**170,280**	**170,339**	**104,457**	**103,955**

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

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Debt instruments measured at fair value through other comprehensive income				
- gains	5,244	4,528	4,525	4,397
- losses	(178)	(1)	(178)	(1)
Debt instruments measured at amortised cost				
- gains	12,749	116	12,749	116
Financial liabilities measured at amortised cost				
- losses	(126)	-	(126)	-
Total	**17,689**	**4,643**	**16,970**	**4,512**

During 2020, NLB Group and NLB sold securities measured at amortised cost in the amount of EUR 120,131 thousand due to increased credit risk caused by COVID-19 (note 2.33.b).

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

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Foreign exchange trading				
- gains	31,628	24,102	23,022	16,058
- losses	(21,139)	(12,574)	(18,623)	(11,338)
Debt instruments				
- gains	797	1,455	797	1,455
- losses	(392)	(1,459)	(392)	(1,459)
Derivatives				
- currency	(170)	363	867	41
- interest rate	(909)	(1,900)	(909)	(1,900)
- securities	(21)	478	(21)	478
Total	**9,794**	**10,465**	**4,741**	**3,335**

Interest income is included in the income statement line 'Interest and similar income' and interest expense in line 'Interest and similar expense' (note 4.1.).

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

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Equity securities				
- gains	4,003	9,277	3,043	8,061
- losses	(2,656)	(945)	(1,587)	(945)
Debt securities				
- gains	14	6	-	-
- losses	(49)	(66)	-	-
Loans and advances to customers				
- gains	5,286	10,493	5,359	9,173
Total	**6,598**	**18,765**	**6,815**	**16,289**

Interest income is included in the income statement line 'Interest and similar income' (note 4.1.).

4.7. Foreign exchange translation gains less losses

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Financial assets and liabilities not measured as at fair value through profit or loss	836	662	(1,011)	372
Disposal of a subsidiary	-	19	-	-
Financial assets measured at fair value through profit or loss	(131)	39	(131)	39
Other	34	(14)	34	(15)
Total	**739**	**706**	**(1,108)**	**396**

4.8. Other net operating income

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Other operating income				
Income from non-banking services	6,390	6,605	5,595	5,694
- cash transportation	2,994	3,170	2,994	3,170
- operating leases of movable property	1,003	985	470	455
- IT services	438	455	891	863
- other	1,955	1,995	1,240	1,206
Rental income from investment property	2,572	4,124	471	697
Revaluation of investment property to fair value (note 5.9.)	1,006	849	884	11
Sale of investment property	234	361	164	220
Other operating income	2,728	4,331	1,508	1,886
Total	**12,930**	**16,270**	**8,622**	**8,508**
Other operating expenses				
Expenses related to issued service guarantees	1,328	2,477	1,328	2,477
Revaluation of investment property to fair value (note 5.9.)	136	541	87	86
Other operating expenses	3,917	5,401	1,413	1,401
Total	**5,381**	**8,419**	**2,828**	**3,964**
Other net operating income	**7,549**	**7,851**	**5,794**	**4,544**

Other operating expenses mainly include expenses associated with donations, damages, and licences.

4.9. Administrative expenses

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Employee costs				
Gross salaries, compensations, and other short-term benefits	145,878	151,634	90,063	95,934
Defined contribution scheme	10,297	10,484	6,689	6,826
Social security contributions	8,236	8,317	5,546	5,591
Defined benefit expenses (note 5.16.c)	545	741	304	218
Post-employment benefits	423	447	239	54
Other employee benefits	122	294	65	164
Total	**164,956**	**171,176**	**102,602**	**108,569**
Other general and administrative expenses				
Material	4,529	4,562	2,117	1,834
Services	28,136	31,082	18,484	21,402
Intellectual services	10,176	13,516	6,194	9,502
Costs of supervision	3,926	3,494	2,257	1,931
Costs of other services	14,034	14,072	10,033	9,969
Tax expenses	2,688	2,757	1,002	1,027
Membership fees and similar	852	815	337	322
Business travel	399	1,205	136	512
Marketing	8,131	9,625	5,086	5,985
Buildings and equipment	20,996	20,818	11,952	12,189
Electricity	4,045	4,113	2,277	2,230
Rents and leases	1,916	1,899	390	528
Maintainance costs	6,500	6,975	4,714	5,049
Costs of security	3,599	3,669	1,791	1,619
Insurance for tangible assets	930	631	167	240
Other costs related to buildings and equipment	4,006	3,531	2,613	2,523
Technology	21,979	20,466	14,655	13,765
Maintainance of software and hardware	10,184	9,526	7,164	6,740
Licences	7,961	7,061	5,054	4,514
Data assets and subscription costs	1,998	2,096	1,383	1,503
Other technology costs	1,836	1,783	1,054	1,008
Communications	8,259	9,305	5,509	6,002
Postal services	4,027	5,215	3,581	4,001
Telecommunication and internet	2,152	2,002	724	751
Other communication costs	2,080	2,088	1,204	1,250
Other general and administrative costs	1,301	2,203	733	1,491
Total	**97,270**	**102,838**	**60,011**	**64,529**
Total administrative expenses	**262,226**	**274,014**	**162,613**	**173,098**
Number of employees	8,792	5,878	2,591	2,659

Costs of other services include costs for cash transport, archiving services, personal insurance costs, and legal costs and fees.

In the presented years, NLB Group and NLB paid the following expenses related to the services of the statutory auditor:

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
External audit services				
Audit of annual report	542	570	211	211
Other audit services	55	10	55	10
Other non-audit services	42	-	42	-
Total	**639**	**580**	**308**	**221**

Additionally, to the services included in the table above, the statutory auditor performed also some services related to the issue of subordinated instruments in 2020 in the amount of EUR 75 thousand (2019: EUR 330 thousand). These expenses are included in the calculation of the effective interest rate of the issued subordinated instruments.

4.10. Cash contributions to resolution funds and deposit guarantee schemes

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Cash contributions to deposit guarantee schemes	15,022	14,173	5,451	4,984
Cash contributions to resolution funds	1,652	2,050	1,652	2,050
Total	**16,674**	**16,223**	**7,103**	**7,034**

4.11. Depreciation and amortisation

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Amortisation of intangible assets (note 5.10.)	10,112	9,994	6,908	7,348
Depreciation of property and equipment:				
- own property and equipment (note 5.8.b)	17,062	16,393	10,092	9,922
- right-of-use assets (note 5.11.a)	4,541	4,577	848	776
Total	**31,715**	**30,964**	**17,848**	**18,046**

4.12. Gains less losses from modification of financial assets

in EUR thousands

	2020				2019			
NLB Group	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Financial assets modified during the period								
Amortised cost before modification	416,341	27,798	8,756	452,895	734	1,821	3,861	6,416
Net modification gains/(losses)	(3,094)	(357)	(126)	(3,577)	(24)	(49)	(109)	(182)

in EUR thousands

NLB Group	31 Dec 2020	31 Dec 2019
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which loss allowance has changed to 12-month measurement during the period	1,690	-

4.13. Provisions

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Guarantees and commitments (note 5.16.b)	482	312	(599)	(368)
Restructuring provisions (note 5.16.d)	3,500	5,478	3,500	5,500
Provisions for legal risks (note 5.16.e)	4,696	5,696	4,230	191
Other provisions (note 5.16.f)	(119)	(39)	(85)	(105)
Total	**8,559**	**11,447**	**7,046**	**5,218**

4.14. Impairment charge

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	344	63	124	46
Loans and advances to individuals measured at amortised cost (note 5.14.a)	29,007	8,010	13,219	3,772
Loans and advances to legal entities measured at amortised cost (note 5.14.a)	26,019	(23,856)	(4,597)	(21,606)
Debt securities measured at fair value through other comprehensive income (note 5.14.b)	3,888	1,130	635	171
Debt securities measured at amortised cost (note 5.14.b)	547	237	224	293
Other financial assets measured at amortised cost (note 5.14.a)	1,994	786	28	663
Total	**61,799**	**(13,630)**	**9,633**	**(16,661)**
Impairment of investments in subsidiaries, associates and joint ventures				
Investments in subsidiaries	-	-	552	(2,843)
Investments in associates and joint ventures	-	-	30	1
Total	**-**	**-**	**582**	**(2,842)**
Impairment of other assets				
Property and equipment (note 5.8.)	204	171	-	-
Other assets	792	3,006	103	47
Total	**996**	**3,177**	**103**	**47**
Total impairment	**62,795**	**(10,453)**	**10,318**	**(19,456)**

Impairment of financial assets includes EUR 13,447 thousand of 12-month expected credit losses for Stage 1 financial assets, acquired through a business combination (note 5.12.b). Of that EUR 10,434 thousand relates to financial assets measured at amortised cost, EUR 2,932 thousand to financial assets measured at fair value through other comprehensive income, and EUR 81 thousand to cash balances at central banks and other demand deposits at banks.

In 2020, NLB impaired equity investments in non-core subsidiaries and an associate in total amount of EUR 582 thousand (2019: EUR 591 thousand). In 2020 NLB did not release any impairments of equity investments (2019: EUR 3,433 thousand, mainly due to decrease of share capital in non-core subsidiary and consequential repayment of funds to NLB).

Impairments of investments in subsidiaries and associates are included in the segment 'Non-core members.'

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

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Gains less losses on derecognition of subsidiaries, associates and joint ventures	11,006	-	35,454	-
Gains less losses from property and equipment	(153)	(576)	(220)	(578)
Total	**10,853**	**(576)**	**35,234**	**(578)**

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. Effect of sale is included in the segment 'Retail banking in Slovenia.'

4.16. Income tax

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Current income tax	11,972	21,620	4,010	10,153
Income related to previous period	(3,569)	-	(3,569)	-
Deferred income tax (note 5.17.)	(3,238)	(8,041)	(540)	(8,556)
Total	**5,165**	**13,579**	**(99)**	**1,597**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Profit before tax	277,921	215,397	113,853	177,746
Tax calculated at prescribed rate of 19%	52,805	40,925	21,632	33,772
Income not assessable for tax purposes	(26,300)	(3,102)	(4,359)	(13,632)
Expenses not deductible for tax purposes	3,838	3,829	1,662	627
Effect of unrecognised deferred tax assets on impairments of subsidiaries and associates	(9,016)	(2,112)	(8,652)	(2,650)
Tax reliefs	(1,902)	(2,929)	(1,649)	(1,864)
Effect of unrecognised deferred tax assets on tax losses	(4,351)	(8,531)	(4,985)	(9,155)
Effects of different tax rates in other countries	(6,273)	(9,110)	-	-
Changes in recognition and measurement of deferred taxes	-	(8,393)	-	(8,393)
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	114	2,870	114	2,870
Adjustment to tax in respect of prior periods	(3,457)	113	(3,569)	3
Other	(293)	19	(293)	19
Total	**5,165**	**13,579**	**(99)**	**1,597**

Each member of NLB Group (disclosed in note 5.12.) is taxable as required by local tax legislation. Income tax rates within NLB Group range from 9–32%.

A tax rate of 19% was applied in Slovenia in 2020 (2019: 19%).

In 2020 NLB received EUR 3,569 thousand corporate income tax refund and EUR 341 thousand interest from the Italian Tax Authority. The refund is related to the closing of Trieste Branch (officially closed in 2017) and is the consequence of tax non-deductible impairments of financial assets, recognised by the Trieste Branch in the year 2013. The refund procedure started in 2016 and was successfully concluded in 2020.

Non-taxable income of NLB Group mostly relates to the gain from a bargain purchase (negative goodwill) of Komercijalna banka Beograd. Non-taxable income of NLB relates mostly to income from sale of NLB Vita, which is according to Slovenian tax legislation 50% non-taxable and to dividends. NLB excluded from its taxable base EUR 16,841 thousand from NLB Vita sale and EUR 5,947 thousand dividend income in 2020 (2019: EUR 67,605 thousand).

The effect of unrecognised deferred tax assets on impairments of subsidiaries and associates represents mainly a decrease of the tax base of NLB due to utilisation of previously tax non-deductible expenses for impairments of subsidiaries that were divested during the presented years.

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e., within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), a lower range of expected outcomes was considered for the purposes of deferred tax assets calculation.

The estimated amount of deferred tax assets, expected to be reversed in foreseeable future, was not changed in 2020 and stays the same as in 2019, when NLB increased recognised deferred tax assets by EUR 6,739 thousand (included in Changes in recognition and measurement of deferred taxes).

NLB did not recognise deferred tax assets arising from tax losses. NLB recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets reaches the total amount of deferred tax assets, for which a reversal is expected within five years. The deferred tax assets with respect to which simultaneously deferred tax liabilities are recognised are excluded from this calculation (e.g., deferred tax assets for temporary non-deductible expenses for impairment of debt securities measured at fair value through other comprehensive income and deferred tax assets related to fair value hedge accounting).

Other NLB Group members did not recognise deferred tax assets for tax losses as there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised.

The tax authorities may audit operations of NLB Group entities. As a general rule, a tax inspection, which could result in additional tax liability, default interest, and fines for tax, may be initiated at any time within 4 to 6 years from the date of tax statement or from the year in which tax should have been assessed. NLB is not aware of any circumstances that could give rise to a potential material tax liability in this respect.

In 2018, the Financial Administration of the Republic of Slovenia (FURS) granted NLB special tax status for a period of three years. The purpose of the status is to establish cooperation between FURS and the taxpayers, with the aim of encouraging voluntary compliance and reduce administrative burdens on financial supervision. FURS cooperates with NLB and responds quickly to resolve NLB's tax compliance issues, which reduces NLB's tax risks and uncertain tax positions.

The effective tax rate of NLB Group relating to operations in 2020, calculated as a ratio of the tax expense and profit before tax is 1.9% (2019: 6.3%). NLB Group profit before tax includes non-taxable gain from a bargain purchase (negative goodwill) of EUR 137,858 thousand. Without this one-off event, the effective tax rate of NLB Group would be 3.7 %. The effective tax rate for NLB is -0.1% (2019: 0.9%).

4.17. Earnings per share

Earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue, less treasury shares.

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2020	2019	2020	2019
Net profit attributable to the owners of the parent (in EUR thousands)	269,707	193,576	113,952	176,149
Weighted average number of ordinary shares (in thousands)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	13.5	9.7	5.7	8.8
Diluted earnings per share (in EUR per share)	13.5	9.7	5.7	8.8

5. Notes to the statement of financial position

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

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Balances and obligatory reserves with central banks	3,149,775	1,569,753	1,998,297	1,044,255
Cash	507,970	339,897	192,405	164,725
Demand deposits at banks	304,941	192,221	71,089	83,365
	3,962,686	**2,101,871**	**2,261,791**	**1,292,345**
Allowance for impairment	(874)	(525)	(258)	(134)
Total	**3,961,812**	**2,101,346**	**2,261,533**	**1,292,211**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

5.2. Financial instruments held for trading

a) Financial assets held for trading

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Derivatives, excluding hedging instruments				
Swap contracts	13,597	18,169	13,932	18,216
- currency swaps	400	2,056	735	2,103
- interest rate swaps	13,197	16,113	13,197	16,113
Options	786	810	786	810
- interest rate options	-	3	-	3
- securities options	786	807	786	807
Forward contracts	1,666	734	1,663	734
- currency forward	1,666	734	1,663	734
Total derivatives	**16,049**	**19,713**	**16,381**	**19,760**
Securities				
Bonds	68,806	4,325	2,450	4,325
- Republic of Slovenia	-	1,041	-	1,041
- other EU members	-	40	-	40
- Republic of Serbia	66,356	-	-	-
- other non-EU members	2,450	3,244	2,450	3,244
Total securities	**68,806**	**4,325**	**2,450**	**4,325**
Total	**84,855**	**24,038**	**18,831**	**24,085**
- quoted securities	68,806	4,325	2,450	4,325
of these debt instruments	68,806	4,325	2,450	4,325

The notional amounts of derivative financial instruments are disclosed in note 5.23.b).

b) Financial liabilities held for trading

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Derivatives, excluding hedging instruments				
Swap contracts	13,932	17,238	13,947	17,238
- currency swaps	777	1,983	792	1,983
- interest rate swaps	13,155	15,255	13,155	15,255
Options	-	3	-	3
- interest rate options	-	3	-	3
Forward contracts	1,553	662	1,553	651
- currency forward	1,553	662	1,553	651
Total	**15,485**	**17,903**	**15,500**	**17,892**

The notional amounts of derivative financial instruments are disclosed in note 5.23.b).

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

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

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Assets				
Shares	4,171	3,167	4,171	2,716
Investment funds	10,989	5,475	-	-
Bonds	2,157	1,756	-	-
Loans and advances to companies	25,076	14,961	30,935	20,571
Total	**42,393**	**25,359**	**35,106**	**23,287**
- quoted securities	2,157	2,207	-	-
of these equity instruments	-	451	-	-
of these debt instruments	2,157	1,756	-	-
- unquoted securities	15,160	8,191	4,171	2,716
of these equity instruments	15,160	8,191	4,171	2,716

b) Financial liabilities measured at fair value through profit or loss

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Liabilities				
Loans and advances to companies	-	7,998	-	7,746

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

a) Analysis by type of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Bonds	3,260,940	1,913,623	1,598,760	1,509,559
- governments	2,527,240	1,330,137	879,856	930,561
- Republic of Slovenia	417,238	434,168	334,819	362,694
- other EU members	384,474	557,783	370,484	528,359
- Republic of Serbia	1,258,775	84,118	-	9,801
- other non-EU members	466,753	254,068	174,553	29,707
- banks	716,459	561,596	701,663	561,596
- other issuers	17,241	21,890	17,241	17,402
Shares	22,925	4,936	273	259
National Resolution Fund	44,874	44,687	44,874	44,687
Treasury bills	135,102	112,162	72,444	102,152
- Republic of Slovenia	57,531	93,184	45,007	87,170
- other EU members	24,015	14,982	7,011	14,982
- Republic of Serbia	8,483	-	-	-
- other non-EU members	45,073	3,996	20,426	-
Commercial bills	50,449	66,020	-	-
Total	**3,514,290**	**2,141,428**	**1,716,351**	**1,656,657**

Allowance for impairment	(9,482)	(5,597)	(3,141)	(2,512)
- quoted securities	3,307,103	1,952,920	1,671,204	1,611,711
of these equity instruments	703	3,288	-	-
of these debt instruments	3,306,400	1,949,632	1,671,204	1,611,711
- unquoted securities	207,187	188,508	45,147	44,946
of these equity instruments	67,096	46,335	45,147	44,946
of these debt instruments	140,091	142,173	-	-

The credit quality analysis for financial assets and contingent liabilities is disclosed in note 6.1.j) and movements in allowance for the impairment of debt securities in note 5.14.b).

b) Movements of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	2,141,428	1,898,079	1,656,657	1,528,314
Effects of translation of foreign operations to presentation currency	(312)	977	-	-
Acquisition of subsidiaries (note 5.12.b)	1,284,895	-	-	-
Additions	1,856,445	1,958,648	1,045,700	802,625
Disposals and maturity	(1,793,394)	(1,767,198)	(999,844)	(711,020)
Net interest income	17,370	20,142	9,894	11,192
Exchange differences on monetary assets	(10,895)	1,135	(11,007)	1,268
Changes in fair values	18,753	29,645	14,951	24,278
Balance as at 31 December	**3,514,290**	**2,141,428**	**1,716,351**	**1,656,657**

As at 31 December 2020, NLB Group and NLB do not have any equity instruments measured at fair value through other comprehensive income obtained by taking possession of collateral in the statement of financial position (NLB Group 31 December 2019: EUR 3,289 thousand) (note 6.1.l).

Equity investment obtained by taking possession of collateral in amount of EUR 3,289 thousand was during year 2020 converted back to the item 'Financial assets measured at amortised cost' because the conditions of the bankruptcy proceedings were not met. At the time of conversion, NLB Group transferred EUR 1,002 thousand from accumulated other comprehensive income into retained earnings.

In 2020 and 2019, NLB Group and NLB did not realise any gain or loss by selling equity securities measured at fair value through other comprehensive income.

c) Accumulated other comprehensive income related to financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	48,316	28,861	24,444	18,620
Effects of translation of foreign operations to presentation currency	48	29	-	-
Net gains/(losses) from changes in fair value	11,526	16,782	7,724	11,415
Gains/losses transferred to net profit on disposal (note 4.4.)	(5,066)	(4,527)	(4,347)	(4,396)
Impairment (note 4.14.)	3,888	1,130	635	171
Transfer of gains/losses to retained earnings	(1,002)	-	-	-
Deferred income tax (note 5.17.)	(1,486)	(1,859)	(762)	(1,366)
Share of other comprehensive income of associates and joint ventures	(12,574)	7,900	-	-
Balance as at 31 December	**43,650**	**48,316**	**27,694**	**24,444**

- debt securities	39,924	43,933	27,242	24,156
- equity securities	3,726	4,383	452	288

5.5. Derivatives for hedging purposes

NLB Group entities measure exposure to interest rate risk using repricing gap analysis and by calculating the sensitivity of the statement of financial position and off-balance-sheet items in terms of the economic value of equity. The portfolio duration is used as a measure of risk in the management of securities in the banking book.

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e., the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

Hedge accounting rules (fair value and cash flow hedging) were applied in the hedging of interest rate risk using interest rate swaps. These hedge relationships are created in such a way that the characteristics of the hedge instrument and those of the hedged item match (i.e. the principal terms match), while the dollar-offset method is used to regularly measure hedge effectiveness retrospectively. Prospective testing of hedge effectiveness is carried out regularly for macro hedges where the characteristics of both items in the hedge relationship do not fully match by comparing the change in the fair value of both items to the shift in the yield curve.

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the item 'Gains less losses from financial assets and liabilities held for trading.'

Sources of hedge ineffectiveness may arise, but are not limited to the discount rates used for valuation of derivatives at fair value, and notional and timing differences, as well differences in the amortising plan between hedged items and hedging instrument. Hedge effectiveness is assessed monthly, by comparing changes in the fair value of the hedged item that are attributable to a hedged risk with changes in the fair value of the hedging instrument.

a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousands

NLB Group and NLB	2020	2019
Fair value hedge	**720**	**(555)**
Net effects from hedging instruments	(12,348)	(19,482)
- interest rate swap for micro hedge	(7,537)	(12,968)
- interest rate swap for macro hedge	(4,811)	(6,514)
Net effects from hedged items	13,068	18,927
- loans measured at amortised cost - micro hedge	(128)	(153)
- bonds measured at amortised cost - micro hedge	1,116	(257)
- bonds measured at fair value through OCI - micro hedge	7,227	12,864
- loans measured at amortised cost- macro hedge	4,853	6,473

In both of the presented years all fair value hedges were effective, with actual results of the hedge within a range of 80–125%, therefore, no discontinuation of the hedge accounting was required.

As at 31 December 2020 and 2019, NLB Group and NLB had no relationships designated for cash flow hedge accounting or for hedge of a net investment in a foreign operation. NLB Group applied a hedge of a net investment in a foreign operation in years 2011 and 2012, and at that time it recognised a EUR 754 thousand gain on the hedging instrument in other comprehensive income (note 5.21.b). This gain will be included in the consolidated income statement when the foreign operation is disposed of as a part of the gain or loss on the disposal.

b) Notional amounts of interest rate swaps

in EUR thousands

	Notional amount	Fair value	
NLB Group and NLB		Asset	Liability
Fair value hedge			
31 Dec 2020	573,753	-	61,161
31 Dec 2019	561,500	788	49,507

c) Accumulated fair value adjustments arising from the corresponding continuing hedge relationships

The table below presents accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether there has been a change in the hedge designation during the year. The accumulated fair value adjustment is presented in the same line of statement of financial position as a hedged item, except for macro fair value hedges. In such relationships, hedged items are presented in the item 'Financial assets measured at amortised cost,' while the accumulated fair value adjustment is presented in a separate item 'Fair value changes of the hedged items in portfolio hedge of interest rate risk.'

in EUR thousands

	2020		2019	
NLB Group and NLB	Carrying amount of hedged items	Accumulated amount of FV adjustments on the hedged item	Carrying amount of hedged items	Accumulated amount of FV adjustments on the hedged item
Micro fair value hedges	**498,397**	**43,571**	**479,098**	**35,668**
Fixed rate corporate loans measured at AC	2,667	165	3,582	293
Fixed rate bonds measured at AC	117,839	14,182	117,811	13,378
Fixed rate bonds measured at FVOCI	377,891	29,224	357,705	21,997
Macro fair value hedges	**154,050**	**13,844**	**149,198**	**8,991**
Fixed rate retail loans	154,050	13,844	149,198	8,991

d) IBOR reform

NLB Group closely monitors the development of Benchmark Interest Rate Reform and is actively preparing for the changes imposed by the regulation. In 2018, NLB formed a special working group which deals with the preparation for the discontinuation of some important reference interest rates and reports on this to NLB Group ALCO.

NLB Group no longer offers new products that would be tied to reference rates in termination. The exception are products related to EURIBOR, which is not scheduled for discontinuation. Therefore, NLB Group's attention in this phase is focused on the modification of new contractual relationships with customers in which EURIBOR occurs and the amendment of existing contractual relationships with customers in which other benchmarks in termination appear. As regulations in the field of interest rate reform are still changing and as good banking practice has not yet been fully established, NLB Group is preparing proactively and adapting to changing circumstances.

Next to the timeline and industry building blocks, NLB Group's key focus areas remain:

- Developing new products strategy,
- Managing legacy portfolio,
- Executing operational infrastructure changes,
- Mitigating customer and conduct risk, and
- Performing contract identification and change.

NLB as a supervised entity, is required to comply with the Benchmark regulation and, as a user of benchmarks, must produce and maintain a robust written plan setting out the actions NLB would take in the event that a benchmark materially changes or ceases to be provided. NLB has prepared a plan, which sets out an inexhaustive/summary action list, and will continue to closely follow market standards to identify alternative benchmarks that could be referenced in substitute of existing benchmarks.

The Article 28(2) of Regulation (EU) 2016/1011 requires EU supervised entity users of a benchmark to nominate in their contingency plans suitable benchmark alternative(s). The inclusion of robust and suitable fallback mechanisms in contractual documentation is also expected. NLB identified potential €STR-based fallbacks for EURIBOR, in line with the current market consensus on those fallbacks and intends to proceed with the activities for inclusion on EURIBOR fallbacks into all new EURIBOR-based contracts.

In the next step, the Bank is expected to include fallback provisions also in legacy contracts with clear focus on LIBOR exposures first. The exact timing depends on regulatory development as the amendment of the interest rate benchmark reform is still in the legislative process.

NLB Group planned activities for implementation of fallback provisions in legacy IBOR contracts with clients are as follows:

- review of outstanding IBOR referencing loans,
- identification of alternative reference rate to be used for loan portfolio,
- analysis of how the alternative reference rate will be calculated and how to calculate any economic difference between IBORs and the selected alternative reference rates,
- consideration of IT system accommodation with alternative reference rates,
- documentation of the transition of the loans.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by the IBOR reform, analysed on an interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure NLB Group manages through hedging relationships.

in EUR thousands

	2020		2019	
	Nominal amount (in EUR thousands)	Weighted average maturity (years)	Nominal amount (in EUR thousands)	Weighted average maturity (years)
Interest rate swaps				
EURIBOR (3 months)	186,471	5.18	186,472	6.23
EURIBOR (6 months)	374,254	7.83	375,028	8.95
USD LIBOR (6 months)	13,028	1.99	-	-

As it can be seen from the table, the majority of long term derivatives in hedging relationships are exposed to EURIBOR, therefore, the uncertainty arising from interest rate benchmark reform derives mainly from derivatives with longer maturities, when a change of EURIBOR could be expected. As at 31 December 2020, derivatives with remaining maturity of five or more years amount to EUR 310,730 thousand (31 December 2019: EUR 441,189 thousand).

5.6. Financial assets measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Debt securities	1,503,087	1,653,848	1,277,880	1,485,166
Loans and advances to banks	197,005	93,403	158,320	144,352
Loans and advances to customers	9,619,860	7,589,724	4,564,178	4,568,599
Other financial assets	113,138	97,415	54,503	67,279
Total	**11,433,090**	**9,434,390**	**6,054,881**	**6,265,396**

The credit quality analysis for financial assets and contingent liabilities is disclosed in note 6.1.j).

a) Debt securities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Government	1,173,718	1,285,540	953,881	1,115,335
Companies	86,946	81,350	79,732	81,350
Banks	220,988	264,323	220,988	264,323
Financial organisation	25,120	25,775	25,120	25,775
	1,506,772	**1,656,988**	**1,279,721**	**1,486,783**
Allowance for impairment (note 5.14.b)	(3,685)	(3,140)	(1,841)	(1,617)
Total	**1,503,087**	**1,653,848**	**1,277,880**	**1,485,166**

b) Loans and advances to banks

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans	9,809	2,213	95,070	81,633
Time deposits	128,074	91,076	63,405	62,651
Reverse sale and repurchase agreements	59,263	-	-	-
Purchased receivables	-	209	-	209
	197,146	**93,498**	**158,475**	**144,493**
Allowance for impairment (note 5.14.a)	(141)	(95)	(155)	(141)
Total	**197,005**	**93,403**	**158,320**	**144,352**

c) Loans and advances to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans	9,490,734	7,408,374	4,501,991	4,446,843
Overdrafts	322,622	328,947	152,487	179,381
Finance lease receivables (note 5.11.b)	49,517	49,017	-	-
Credit card business	125,725	122,730	52,156	60,688
Called guarantees	3,542	3,100	916	452
	9,992,140	**7,912,168**	**4,707,550**	**4,687,364**
Allowance for impairment (note 5.14.a)	(372,280)	(322,444)	(143,372)	(118,765)
Total	**9,619,860**	**7,589,724**	**4,564,178**	**4,568,599**

Analysis of loans and advances to customers by sector

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Government	368,400	271,389	170,742	182,582
Financial organisations	158,871	100,054	177,198	131,442
Companies	4,159,496	3,280,246	1,838,468	1,901,950
Individuals	4,933,093	3,938,035	2,377,770	2,352,625
Total	**9,619,860**	**7,589,724**	**4,564,178**	**4,568,599**

d) Other financial assets

Analysis by type of other financial assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Receivables in the course of collection and other temporary accounts	32,484	28,697	15,906	25,825
Credit card receivables	20,260	18,497	11,383	12,194
Debtors	6,316	6,360	1,307	1,525
Fees and commissions	6,563	5,315	2,871	3,524
Receivables to brokerage firms and others for the sale of securities and custody services	611	612	610	610
Accrued income	1,327	515	1,296	529
Dividends	-	46	-	46
Prepayments	447	38	-	-
Other financial assets	50,683	42,241	22,460	24,867
	118,691	**102,321**	**55,833**	**69,120**
Allowance for impairment (note 5.14.a)	(5,553)	(4,906)	(1,330)	(1,841)
Total	**113,138**	**97,415**	**54,503**	**67,279**

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, claims in enforcement procedures, claims for sold securities and trust services, claims from refunds, paid duties, and legal costs.

Analysis of other financial assets by sector

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Banks	35,431	21,749	8,069	14,994
Government	41,576	25,500	22,537	24,905
Financial organisations	14,488	10,810	7,257	6,920
Companies	3,912	3,857	580	1,506
Individuals	17,731	35,499	16,060	18,954
Total	**113,138**	**97,415**	**54,503**	**67,279**

e) Movement of called non-financial guarantees

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	1,859	683	365	548
Effects of translation of foreign operations to presentation currency	(2)	2	-	-
Called guarantees	2,376	1,828	2,261	278
Paid guarantees	(1,932)	(397)	(1,723)	(204)
Write-offs	(463)	(257)	(463)	(257)
Balance as at 31 December	**1,838**	**1,859**	**440**	**365**

5.7. Non-current assets held for sale

a) Analysis by type of non-current assets held for sale

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Property and equipment	8,658	4,308	4,454	2,123
Investment in joint venture	-	38,883	-	3,409
Total non-current assets held for sale	**8,658**	**43,191**	**4,454**	**5,532**

Item 'Property and equipment' includes business premises and assets received as collateral that are in the process of being sold.

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 (note 3.). 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. The investment in NLB Vita as at 31 December 2019 and effect of sale in year 2020 are included in the segment 'Retail banking in Slovenia.'

b) Analysis of movements of non-current assets held for sale

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	43,191	4,349	5,532	1,720
Effects of translation of foreign operations to presentation currency	(3)	21	-	-
Acquisition of subsidiaries (note 5.12.b)	1,969	-	-	-
Additions	89	-	-	-
Transfer from/(to) property and equipment (note 5.8.)	2,779	1,328	2,626	1,249
Transfer from/(to) other assets	-	85	-	-
Transfer from investments in associates and joint ventures	-	38,883	-	3,409
Transfer from/(to) investment property (note 5.9.)	(17)	(550)	-	-
Disposals	(39,089)	(320)	(3,484)	(248)
Valuation	(261)	(605)	(220)	(598)
Balance as at 31 December	**8,658**	**43,191**	**4,454**	**5,532**

5.8. Property and equipment

a) Analysis by type

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Own property and equipment	223,598	179,060	88,495	87,120
Right-of-use assets (note 5.11.)	25,519	16,545	3,180	2,784
Total	**249,117**	**195,605**	**91,675**	**89,904**

b) Movement of own property and equipment

in EUR thousands

	NLB Group					NLB				
	Land & Buildings	Computers	Other equipment		Total	Land & Buildings	Computers	Other equipment		Total
			for own use	in operating lease				for own use	in operating lease	
Cost										
Balance as at 1 January 2020	313,168	70,744	95,673	6,186	485,771	198,313	44,635	51,628	5,441	300,017
Effects of translation of foreign operations to presentation currency	(101)	(20)	(40)	-	(161)	-	-	-	-	-
Acquisition of subsidiaries (note 5.12.b)	40,173	1,773	3,249	-	45,195	-	-	-	-	-
Additions	5,888	10,254	6,945	1,255	24,342	5,299	5,378	3,356	104	14,137
Disposals	(5,843)	(961)	(6,955)	(3,132)	(16,891)	(13)	(433)	(5,629)	(2,031)	(8,106)
Impairment (note 4.14.)	(43)	-	-	-	(43)	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(756)	-	-	-	(756)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(6,717)	-	-	-	(6,717)	(6,556)	-	-	-	(6,556)
Disposal of subsidiary (note 3.)	-	(61)	(34)	-	(95)	-	-	-	-	-
Balance as at 31 December 2020	**345,769**	**81,729**	**98,838**	**4,309**	**530,645**	**197,043**	**49,580**	**49,355**	**3,514**	**299,492**
Depreciation and impairment										
Balance as at 1 January 2020	173,763	48,808	79,515	4,625	306,711	135,328	29,440	43,762	4,367	212,897
Effects of translation of foreign operations to presentation currency	(25)	(17)	(40)	-	(82)	-	-	-	-	-
Disposals	(2,427)	(948)	(6,651)	(2,349)	(12,375)	-	(431)	(5,600)	(2,031)	(8,062)
Depreciation (note 4.11.)	6,271	6,040	4,103	648	17,062	3,945	3,896	1,782	469	10,092
Impairment (note 4.14.)	161	-	-	-	161	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(401)	-	-	-	(401)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(3,938)	-	-	-	(3,938)	(3,930)	-	-	-	(3,930)
Disposal of subsidiary (note 3.)	-	(61)	(30)	-	(91)	-	-	-	-	-
Balance as at 31 December 2020	**173,404**	**53,822**	**76,897**	**2,924**	**307,047**	**135,343**	**32,905**	**39,944**	**2,805**	**210,997**
Net carrying value										
Balance as at 31 December 2020	**172,365**	**27,907**	**21,941**	**1,385**	**223,598**	**61,700**	**16,675**	**9,411**	**709**	**88,495**
Balance as at 1 January 2020	**139,405**	**21,936**	**16,158**	**1,561**	**179,060**	**62,985**	**15,195**	**7,866**	**1,074**	**87,120**

in EUR thousands

	NLB Group					NLB				
	Land & Buildings	Computers	Other equipment		Total	Land & Buildings	Computers	Other equipment		Total
			for own use	in operating lease				for own use	in operating lease	
Cost										
Balance as at 1 January 2019	312,458	64,026	99,521	6,804	482,809	198,180	41,813	55,414	5,208	300,615
Effects of translation of foreign operations to presentation currency	222	56	122	-	400	-	-	-	-	-
Additions	4,561	11,453	4,732	363	21,109	2,952	6,251	1,851	363	11,417
Disposals	(700)	(4,751)	(8,361)	(981)	(14,793)	-	(3,429)	(5,637)	(130)	(9,196)
Transfer to/from investment property (note 5.9.)	(473)	-	-	-	(473)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(2,900)	-	-	-	(2,900)	(2,819)	-	-	-	(2,819)
Disposal of subsidiary (note 3.)	-	(40)	(341)	-	(381)	-	-	-	-	-
Balance as at 31 December 2019	**313,168**	**70,744**	**95,673**	**6,186**	**485,771**	**198,313**	**44,635**	**51,628**	**5,441**	**300,017**
Depreciation and impairment										
Balance as at 1 January 2019	168,665	47,427	84,843	4,470	305,405	132,296	29,646	47,818	3,921	213,681
Effects of translation of foreign operations to presentation currency	80	44	108	-	232	-	-	-	-	-
Disposals	(241)	(4,738)	(7,604)	(604)	(13,187)	(1)	(3,422)	(5,631)	(82)	(9,136)
Depreciation (note 4.11.)	7,010	6,115	2,509	759	16,393	4,603	3,216	1,575	528	9,922
Impairment (note 4.14.)	171	-	-	-	171	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(350)	-	-	-	(350)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(1,572)	-	-	-	(1,572)	(1,570)	-	-	-	(1,570)
Disposal of subsidiary (note 3.)	-	(40)	(341)	-	(381)	-	-	-	-	-
Balance as at 31 December 2019	**173,763**	**48,808**	**79,515**	**4,625**	**306,711**	**135,328**	**29,440**	**43,762**	**4,367**	**212,897**
Net carrying value										
Balance as at 31 December 2019	**139,405**	**21,936**	**16,158**	**1,561**	**179,060**	**62,985**	**15,195**	**7,866**	**1,074**	**87,120**
Balance as at 1 January 2019	**143,793**	**16,599**	**14,678**	**2,334**	**177,404**	**65,884**	**12,167**	**7,596**	**1,287**	**86,934**

As at 31 December 2020, the value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 13,268 thousand (31 December 2019: EUR 1,440 thousand), and in NLB to EUR 7 thousand (31 December 2019: EUR 7 thousand) (note 6.1.l).

5.9. Investment property

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	52,316	58,644	9,303	12,026
Effects of translation of foreign operations to presentation currency	(24)	84	-	-
Acquisition of subsidiaries (note 5.12.b)	19,643	-	-	-
Additions	717	1,024	-	923
Disposals	(2,493)	(8,417)	(2,031)	(3,571)
Transfer from/(to) property and equipment (note 5.8.)	355	123	-	-
Transfer from/(to) non-current assets held for sale (note 5.7.)	17	550	-	-
Transfer from/(to) other assets	(16,559)	-	231	-
Net valuation to fair value (note 4.8.)	870	308	797	(75)
Balance as at 31 December	**54,842**	**52,316**	**8,300**	**9,303**

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 36,130 thousand (31 December 2019: EUR 32,465 thousand), and in NLB amounted to EUR 4,079 thousand (31 December 2019: EUR 3,464 thousand) (note 6.1.l).

Operating expenses arising from investment properties:

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Leased to others	1,157	1,135	383	456
Not leased to others	242	235	194	175
Total	**1,399**	**1,370**	**577**	**631**

5.10. Intangible assets

in EUR thousands

	NLB Group				NLB
	Software licenses	Other intangible assets	Goodwill	Total	Software licenses
Cost					
Balance as at 1 January 2020	228,692	-	32,336	261,028	192,581
Effects of translation of foreign operations to presentation currency	(34)	-	-	(34)	-
Acquisition of subsidiaries (note 5.12.b)	4,921	13,200	-	18,121	-
Additions	14,150	-	-	14,150	9,033
Write-offs	(844)	-	-	(844)	-
Disposal of subsidiary (note 3.)	(198)	-	-	(198)	-
Balance as at 31 December 2020	**246,687**	**13,200**	**32,336**	**292,223**	**201,614**
Amortisation and impairment					
Balance as at 1 January 2020	192,679	-	28,807	221,486	166,601
Effects of translation of foreign operations to presentation currency	(22)	-	-	(22)	-
Amortisation (note 4.11.)	10,112	-	-	10,112	6,908
Write-offs	(826)	-	-	(826)	-
Disposal of subsidiary (note 3.)	(195)	-	-	(195)	-
Balance as at 31 December 2020	**201,748**	**-**	**28,807**	**230,555**	**173,509**
Net carrying value					
Balance as at 31 December 2020	**44,939**	**13,200**	**3,529**	**61,668**	**28,105**
Balance as at 1 January 2020	**36,013**	**-**	**3,529**	**39,542**	**25,980**

Other intangible assets in the amount of EUR 13,200 thousand represent additionally identified intangible assets in a business combination, namely core deposits and trade name (note 5.12.b). Useful life is assessed to be 5 years.

in EUR thousands

	NLB Group			NLB
	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2019	214,343	32,336	246,679	182,708
Effects of translation of foreign operations to presentation currency	109	-	109	-
Additions	14,534	-	14,534	9,937
Write-offs	(69)	-	(69)	(64)
Disposal of subsidiary	(225)	-	(225)	-
Balance as at 31 December 2019	**228,692**	**32,336**	**261,028**	**192,581**
Amortisation and impairment				
Balance as at 1 January 2019	182,904	28,807	211,711	159,317
Effects of translation of foreign operations to presentation currency	75	-	75	-
Amortisation (note 4.11.)	9,994	-	9,994	7,348
Write-offs	(69)	-	(69)	(64)
Disposal of subsidiary	(225)	-	(225)	-
Balance as at 31 December 2019	**192,679**	**28,807**	**221,486**	**166,601**
Net carrying value				
Balance as at 31 December 2019	**36,013**	**3,529**	**39,542**	**25,980**
Balance as at 1 January 2019	**31,439**	**3,529**	**34,968**	**23,391**

5.11. Leases

a) NLB Group as a lessee

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Right-of-use assets				
Land and buildings	22,758	13,481	2,240	1,691
Vehicles	959	1,256	912	1,049
Furniture and equipment	1,802	1,808	28	44
Total	**25,519**	**16,545**	**3,180**	**2,784**
Lease liabilities	**26,359**	**16,713**	**3,212**	**2,784**

In the statement of financial position, right-of-use assets are included in the item 'Property and equipment' and lease liabilities are included in the item 'Other financial liabilities.'

Additions to the right-of-use assets during 2020 in NLB Group amounted to EUR 4,736 thousand (2019: EUR 3,650 thousand) and in NLB EUR 1.808 thousand (2019: EUR 1,114 thousand). Due to the acquisition of subsidiaries in 2020, the right-of-use assets in NLB Group increased by EUR 9,576 thousand.

The income statement shows the following amounts relating to leases:

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Depreciation of right-of-use assets (note 4.11.)				
Land and buildings	3,299	3,446	441	425
Vehicles	571	522	391	349
Furniture and equipment	671	609	16	2
Total	**4,541**	**4,577**	**848**	**776**

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Interest expenses on lease liabilities (note 4.1.)	(294)	(316)	(39)	(38)
Expenses relating to short-term leases (included in administrative expenses)	(719)	(506)	(266)	(375)
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	(771)	(787)	(151)	(151)
Income from sub-leasing right-of-use assets (included in other operating income)	92	114	-	-

The total cash outflow for leases in 2020 in NLB Group was EUR 4,865 thousand (2019: EUR 4,914 thousand) and in NLB EUR 897 thousand (2019: EUR 752 thousand).

NLB Group leases various offices, branches, vehicles, and other equipment used in its business. Rental contracts for offices and branches generally have lease terms between 5 to 20 years, while some contracts are made for indefinite periods. Contracts for indefinite periods are included in measurement of the liability in accordance with planning projections. Normally, a lease term between 3 and 5 years is assumed, with the exemption of business premises on strategic locations where management assesses a different (longer) lease term. Vehicles and other equipment generally have lease terms between 1 to 5 years. There are several lease contracts that include extension and termination options. These options are negotiated by management to align with the Group's business needs. Lease payments to be made under reasonably certain extension options are included in measurement of the liability.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NLB Group also has certain leases of other equipment with lease term of 12 months or less, and equipment with low value. For these leases, NLB Group applies the short-term lease and lease of low-value assets recognition exemptions. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

For calculation of the net present value of the future lease payments, NLB Group applies the internal transfer price for retail deposits as a discount rate.

NLB Group and NLB do not have expenses relating to variable payments and gains or losses arising from sale and leaseback transactions.

A maturity analysis of lease liabilities is disclosed in note 6.3.f).

b) NLB Group as a lessor

Finance and operating leases of motor vehicles and operating leases of business premises and POS terminals represent the majority of agreements in which NLB Group acts as a lessor.

Most of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). Most of the finance lease agreements are concluded for a non-cancellable period of between 48 and 60 months. By paying the last instalment at the end of the contract, the leasing object becomes the lessee's property. The financial leasing receivables are secured by the object of financing. NLB Group does not have finance lease contracts with variable payments.

The investment properties are leased to lessee under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or rate. The investment properties generally have lease terms between 2 to 10 years. Some contracts are made for indefinite period.

As at 31 December 2020, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 884 thousand (as at 31 December 2019 EUR 4,505 thousand).

Finance leases
Loans and advances to customers in NLB Group include finance lease receivables.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

in EUR thousands

NLB Group	2020	2019
Less than one year	23,287	25,351
One to two years	11,506	13,119
Two to three years	7,734	7,317
Three to four years	5,159	3,632
Four to five years	3,243	1,758
More than five years	2,719	1,860
Total undiscounted lease receivable	**53,648**	**53,037**
Unearned finance income	(4,131)	(4,020)
Net investment in the lease	**49,517**	**49,017**

During 2020, NLB Group recognised interest income on lease receivables in the amount of EUR 1,957 thousand (2019: EUR 3,776 thousand).

Operating lease
A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Less than one year	3,082	1,855	399	405
One to two years	1,863	1,447	364	392
Two to three years	1,497	1,200	341	315
Three to four years	1,411	484	333	293
Four to five years	1,308	445	331	285
More than five years	1,759	697	243	326
Total	**10,920**	**6,128**	**2,011**	**2,016**

NLB Group realised rental income arising from: investment properties in the amount of EUR 2,572 thousand (2019: EUR 4,124 thousand); and movable property in the amount of EUR 1,003 thousand (2019: EUR 985 thousand). NLB realised rental income arising from: investment properties in the amount of EUR 471 thousand (2019: EUR 697 thousand); and movable property in the amount of EUR 470 thousand (2019: EUR 455 thousand) (note 4.8.).

5.12. Investments in subsidiaries, associates and joint ventures
a) Analysis by type of investment in subsidiaries

in EUR thousands

NLB	31 Dec 2020	31 Dec 2019
Banks	671,880	277,160
Other financial organisations	21,819	18,819
Enterprises	55,361	55,904
Total	**749,060**	**351,883**

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2020:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2020	Profit/(loss) for 2020	NLB's shareholding %	NLB's voting rights %	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	North Macedonia	229,777	19,222	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	68,556	1,387	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	99,872	10,122	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	98,335	13,334	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	89,808	5,895	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Serbia	74,205	2,598	99.997	99.997	99.997	99.997
Komercijalna banka a.d. Belgrade	Banking	Serbia	609,943	(9,050)	81.42	83.23	81.42	83.23
Komercijalna banka a.d. Banja Luka	Banking	Bosnia and Herzegovina	31,045	(1,309)	0.002	0.002	100	100
Komercijalna banka a.d. Podgorica	Banking	Montenegro	20,689	(1,224)	-	-	100	100
KomBank Invest a.d. Belgrade	Finance	Serbia	1,342	-	-	-	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	10,487	5,490	100	100	100	100
NLB Lease&Go, leasing d.o.o., Ljubljana	Finance	Slovenia	1,938	(1,062)	100	100	100	100
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	378	368	100	100	100	100
Non-core members								
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Slovenia	17,568	720	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	1,346	(996)	-	-	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Serbia	5,940	19	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	17,025	(204)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	20,870	353	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,409	(127)	-	-	100	100
BH-RE d.o.o., Sarajevo - u likvidaciji	Real estate	Bosnia and Herzegovina	7	(14)	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	1,652	(166)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Serbia	1,762	(145)	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Serbia	820	8	100	100	100	100
S-REAM d.o.o, Ljubljana	Real estate	Slovenia	1,349	(236)	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	2,108	92	-	-	100	100
NLB Srbija d.o.o., Belgrade	Real estate	Serbia	32,046	1,149	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Montenegro	755	139	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	10,783	986	100	100	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Serbia	3	(3)	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	1,732	(432)	100	100	100	100

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2019:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2019	Profit/(loss) for 2019	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	North Macedonia	209,664	32,877	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	67,532	7,565	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	88,745	17,101	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	84,927	19,545	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	81,499	9,047	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Serbia	72,954	4,142	99.997	99.997	99.997	99.997
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	10,509	5,512	100	100	100	100
Non-core members								
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Slovenia	16,786	1,332	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	2,373	(502)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Montenegro	(1,558)	(1,662)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Serbia	5,930	430	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Bosnia and Herzegovina	632	(365)	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	17,618	480	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	20,518	141	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,556	(161)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Bosnia and Herzegovina	18	(13)	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	1,818	(89)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Serbia	1,912	(267)	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Serbia	814	(57)	100	100	100	100
S-REAM d.o.o, Ljubljana	Real estate	Slovenia	1,585	(168)	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	2,045	458	-	-	100	100
NLB Srbija d.o.o., Belgrade	Real estate	Serbia	30,933	557	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Montenegro	615	165	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	9,817	2,302	100	100	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Serbia	(21)	(1)	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	2,164	(275)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2020 and 2019 are presented in note 3.

Data of subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousands

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2020	2019	2020	2019
Non-controlling interest in equity in %	13.03	13.03	18.79	18.79
Non-controlling interest's voting rights in %	13.03	13.03	18.79	18.79
Income statement and statement of comprehensive income				
Revenues	81,673	84,105	47,699	45,066
Profit/(loss) for the year	**19,222**	**32,877**	**13,334**	**19,545**
Attributable to non-controlling interest	2,505	4,284	2,505	3,673
Other comprehensive income	898	1,092	74	1,025
Total comprehensive income	**20,120**	**33,969**	**13,408**	**20,570**
Attributable to non-controlling interest	2,622	4,426	2,519	3,865
Paid dividends to non-controlling interest	-	3,139	-	1,396
Statement of financial position				
Current assets	690,387	668,866	443,289	379,090
Non-current assets	895,265	793,433	435,775	421,995
Current liabilities	1,176,539	1,049,358	689,776	597,505
Non-current liabilities	179,336	203,277	90,953	118,653
Equity	**229,777**	**209,664**	**98,335**	**84,927**
Attributable to non-controlling interest	29,940	27,319	18,477	15,958

Beside NLB Banka, Skopje and NLB Banka, Prishtina also Komercijalna banka is a subsidiary with significant non-controlling interest, with non-controlling interest in equity of 18.58% and non-controlling interest in voting rights of 16.77%. Since the acquisition was concluded on 30 December 2020, only 12-month expected credit losses in the amount of EUR 13,447 thousand and attributable deferred taxes in the amount of EUR 1,864 thousand are included in NLB Group's income statement for 2020. Loss attributable to non-controlling interest amounts to EUR 2,149 thousand and gain attributable to non-controling interest recognised in other comprehensive income amounts to EUR 463 thousand. Equity attributable to non-controlling interest as at 31 December 2020 amounts to EUR 119,848 thousand.

b) Acquisition of Komercijalna banka a.d. Beograd

On 30 December 2020 NLB acquired an 83.23% ordinary shareholding in Komercijalna banka a.d. Beograd, which represents 81.42% of total shareholding in Komercijalna banka a.d. Beograd. The acquired bank has three subsidiaries:

Subsidiaries	Komercijalna banka Beograd's ownership	NLB's direct ownership
Komercijalna banka a.d. Podgorica, Montenegro	100%	-
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.998%	0.002%
Investment Management Company KomBank Invest a.d. Belgrade, Serbia	100%	-

Serbia has long been a strategically important market for NLB Group in the context of the strategy to be the leading international bank headquartered in and focused on the SEE region. Whilst in all countries of Group's operations NLB has a top three market position, in Serbia (the largest market by population) it was, until the execution of this transaction, sub-scale.

As a result of the transaction, NLB became the third largest banking group in Serbia with the acquisition of Komercijalna banka increasing NLB's market share from approximately 2% by total assets to over 12% as at 30 September 2020. The business operations of NLB Group in Serbia will be (besides the Slovenian market) the largest and most important one, adding more than 800,000 active retail customers and the largest distribution network in the country of 203 branches to NLB's existing operations.

Purchase consideration amounted to EUR 394,718 thousand and was fully paid in cash. There are no contingent consideration arrangements.

At acquisition date cash in acquired entities amounted to EUR 847,488 thousand, therefore net inflow of cash amounted to EUR 452,770 thousand (included in statement of cash flows within payments from investing activities).

The assets and liabilities recognised as a result of the acquisition are as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	836,408
Financial assets held for trading	66,356
Non-trading financial assets mandatorily at fair value through profit or loss	5,628
Financial assets measured at fair value through other comprehensive income (note 5.4.b)	1,284,895
Financial assets measured at amortised cost	
- debt securities	7,214
- loans and advances to banks	46,981
- loans and advances to customers	1,877,349
- other financial assets	23,250
Tangible assets	
Property and equipment (notes 5.8.b and 5.11.a)	54,771
Investment property (note 5.9.)	19,643
Intangible assets (note 5.10.)	18,121
Current income tax assets	153
Deferred income tax assets	1,125
Other assets	17,604
Non-current assets held for sale (note 5.7.b)	1,969
Total assets	**4,261,467**
Financial liabilities measured at amortised cost	
- deposits from banks and central banks	35,895
- borrowings from banks and central banks	8,788
- due to customers	3,443,478
- borrowings from other customers	29,295
- other financial liabilities	49,072
Provisions (note 5.16.)	34,537
Current income tax liabilities	4
Deferred income tax liabilities	2,112
Other liabilities	4,176
Total liabilities	**3,607,357**
Net identifiable assets acquired (100%)	**654,110**
Less: non-controlling interests	(121,534)
Net assets acquired (NLB Group share)	**532,576**
Consideration given	394,718
Bargain purchase (negative goodwill)	**137,858**

NLB Group recognises non-controlling interests in Komercijalna banka Beograd at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition of Komercijalna banka Beograd resulted in a gain from a bargain purchase (negative goodwill) in the amount of EUR 137,858 thousand, which is recognised in income statement under line item 'Negative goodwill.' The main reasons for negative goodwill are current market conditions, when banks are generally valued below their net book values.

As a result of the acquisition, NLB Group's off-balance sheet liabilities increased by EUR 377,361 thousand:

	in EUR thousands
Short-term guarantees	19,431
- financial	15,437
- non-financial	3,994
Long-term guarantees	88,123
- financial	34,467
- non-financial	53,656
Commitments to extend credit	266,832
Letters of credit	1,440
Other	1,535
Total	**377,361**

In 2020, acquisition-related costs amounted to EUR 1,643 thousand and are included within administrative expenses (2019: EUR 3,305 thousand).

NLB obtained all the necessary information for measuring fair values, therefore no amounts were measured and recognised on a provisional basis.

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Assets acquired	Valuation technique
Performing loans	*Discounted cash flow approach:* Since these are performing loans, it was assumed that they would be repaid by future cash flows in accordance with amortisation schedules. Credit risk was considered for loans which are classified in Stage 2 in Komercijalna banka's local financial statements, by reducing future cash flows accordingly. Also prepayment risk was estimated for two retail products namely cash loans and housing loans which have the longest maturity. As a discount rate, average weighted interest rate for new transactions in the market for the same products, currency and clients (sector) were used. The source was Serbian central bank (NBS) statistical database, which provided a history of interest rates data by various products, currencies, maturities, type of interest rates and size of customer for new loans.
Non-performing loans	*Discounted cash flow approach:* Since these are non-performing loans, it could generally not be assumed that they would be repaid with cash flows from client's regular business. Instead, gone concern principle was used, taking into account liquidation value of collateral as expected cash flows. Appropriate haircuts for age of valuations, type of collateral, type of location and type of real estate were used to estimate the liquidation value of collateral, which was then discounted for a period of 4 years, with the required yield of 20%. Only exceptionally, also cash flows from regular business were considered, also discounted with the required yield of 20%.
Debt securities	For debt securities classified in Level 1 of fair value hierarchy, fair values were determined by an observable market price in an active market for an identical asset. For valuing debt securities in Level 2, income approach was used, based on the estimation of future cash flows discounted to the present value. The input parameters used in the income approach were the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).
Real estate	Three approaches were used for estimating the value of real estate - the income capitalisation approach, the sale comparison approach and the residual land value approach. Each views the valuation from different perspectives and considers data from different market sources. The most suitable approach depends on the characteristics and use of individual real estate. *The income capitalization approach*: Values property by the amount of income – cash flow that it can potentially generate. The value of the property is derived by converting the expected income generated from a property into a present value estimate using market capitalization rate. This method is commonly used for valuing income-generating properties. *The sale comparison approach*: Values property by comparing similar properties that have been sold recently. This approach is sometimes referred to as the 'direct sales comparison approach.' The reliability of an indication found by this method depends on the quality of comparable data found in the marketplace and application of adequate adjustments for individually appraised real estate. When sale transactions are not available, the direct sales comparison approach is not applicable. *Residual land value approach:* is a method for calculating the value of development land. It is performed by subtracting from the total value of a development project, all costs associated with the development project, including profit but excluding the cost of the land. It is applicable only for development/construction land.
Core deposits	Acquired core deposit accounts typically provide a low-cost source of funds to the buyer. To replace these established, low-cost deposit accounts in a timely manner, the buyer's alternative would be to utilize higher-cost funds at current market rates. Core deposits value is measured by the present value of the difference, or spread, between the core deposit's ongoing cost and the cost of a market alternative replacement.
Trade name	The trade name was valued by applying the relief-from-royalty method under the income approach. This method is based upon the application of an appropriate royalty rate on the respective revenues to estimate the Fair Value for the trade name. This method assumes that, by virtue of having ownership of the trade name rather than licensing one for use.

Liabilities acquired	Valuation technique
Deposits	*Discounted cash flow approach:* Aggregated future cash flows were discounted by applying market interest rates for term deposits. Future cash flows were grouped into 11 groups according to the type of client and currency. As a discount rate, average weighted interest rate for new transactions in the market in 2020 was applied.

The fair value of acquired loans and advances to customers is EUR 1,877,349 thousand, of which EUR 1,836,970 thousand relates to performing portfolio and EUR 40,379 thousand to non-performing portfolio. The latter was recognised as purchased or originated credit impaired financial assets (POCI). The gross contractual amount for performing loans and advances to customers is EUR 1,827,721 thousand and for this exposure 12-month expected credit losses in the amount of EUR 10,349 thousand were recognised through the income statement. The gross contractual amount for non-performing loans and advances to customers is EUR 149,654 thousand, and it is expected that approximately EUR 75 million of the contractual cash flows will not be collected.

Since the transaction was closed on 30 December 2020, only 12-month expected credit losses for Stage 1 financial assets in the amount of EUR 13,447 thousand and attributable deferred taxes in the amount of EUR 1,864 thousand are included in NLB Group income statement. If the acquisition has occurred on 1 January 2020, management estimates that consolidated revenue (excluding negative goodwill) would have been between EUR 750 and 760 million and consolidated profit for the year would have been between EUR 260 and 265 million. The exact result is difficult to assess due to some changed circumstances during the year, especially the COVID-19 pandemic.

c) Analysis by type of investment in associates and joint ventures

in EUR thousands

	NLB Group		NLB	
Carrying amount of the NLB Group's interest	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Other financial organisations	7,988	7,499	1,382	1,056
Enterprises	-	-	280	310
Total	**7,988**	**7,499**	**1,662**	**1,366**

In 2020, NLB sold its 50% stake in the share capital of NLB Vita (note 4.15.), which was in 2019 reclassified to non-current assets held for sale.

NLB Group's associates

			2020		2019	
	Nature of Business	Country of Incorporation	Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Slovenia	40.08	40.08	39.44	39.44
ARG - Nepremičnine d.o.o., Horjul	Real estate	Slovenia	75.00	75.00	75.00	75.00

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

The carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

in EUR thousands

	2020	2019
Carrying amount of the NLB Group's interest	**7,988**	**7,499**
NLB Group's share of:		
- Profit for the year	874	1,036
- Other comprehensive income	(41)	(81)
- Total comprehensive income	**833**	**955**

In 2020, NLB Group did not recognise a share of profit of an associate in the amount of EUR 21 thousand (31 December 2019: EUR 5 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2020 amounted to EUR 2,274 thousand (31 December 2019: EUR 2,295 thousand).

NLB Group's joint ventures

			2020	2019
	Nature of Business	Country of Incorporation	Voting rights%	Voting rights%
NLB Vita d.d., Ljubljana	Insurance	Slovenia	-	50
Prvi Faktor Group, Ljubljana	Finance	Slovenia	50	50

In 2020, NLB Group did not recognise a share of loss of a joint venture in the amount of EUR 243 thousand (31 December 2019: unrecognised loss EUR 199 thousand).

Cumulative unrecognised share of losses of a joint venture as at 31 December 2020 amounted to EUR 14,946 thousand (31 December 2019: EUR 14,704 thousand).

d) Movements of investments in associates and joint ventures

in EUR thousands

NLB Group	2020	2019
Balance as at 1 January	7,499	37,147
Increase in capital share	326	-
Share of results before tax	1,036	5,051
Share of tax	(162)	(854)
Net gains/(losses) recognised in other comprehensive income	(41)	7,819
Dividends received	(670)	(2,781)
Transfer to non-current assets held for sale (note 5.7.b)	-	(38,883)
Balance as at 31 December	**7,988**	**7,499**

5.13. Other assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Assets, received as collateral (note 6.1.l)	76,017	51,322	4,926	5,292
Deferred expenses	9,157	6,005	5,976	4,935
Inventories	7,858	2,513	180	378
Claim for taxes and other dues	2,949	2,021	467	435
Prepayments	1,159	1,950	115	102
Total	**97,140**	**63,811**	**11,664**	**11,142**

Assets, received as collateral on NLB Group in the amount of EUR 75,151 thousand (31 December 2019: EUR 50,467 thousand), and on NLB in the amount of EUR 4,926 thousand (31 December 2019: EUR 5,292 thousand) consisting of real estate (note 6.1.l).

5.14. Movements in allowance for the impairment of financial assets

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

in EUR thousands

NLB Group	Balance as at 1 Jan 2020	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange and other movements	Disposal of subsidiary	Balance as at 31 Dec 2020	Repayments of written-off receivables
12-month expected credit losses										
Loans and advances to individuals	21,613	(22)	12,806	(9,062)	(1)	(290)	-	-	**25,044**	-
Loans and advances to legal entities	35,210	(10)	5,004	7,865	(6)	1,582	(18)	(11)	**49,616**	-
Other financial assets	177	(1)	63	80	(22)	(21)	-	-	**276**	-
Lifetime ECL not credit-impaired										
Loans and advances to individuals	6,103	(3)	(11,149)	7,250	(3)	5,925	28	-	**8,151**	-
Loans and advances to legal entities	27,076	(2)	(8,675)	4,955	(4)	9,334	(2)	-	**32,682**	-
Other financial assets	27	1	(17)	(143)	(4)	166	-	-	**30**	-
Lifetime ECL credit-impaired										
Loans and advances to individuals	47,737	(22)	(1,610)	29,353	(20,159)	1,689	4,317	-	**61,305**	5,858
Loans and advances to legal entities	184,800	67	3,624	11,750	(31,254)	98	27,584	(1,046)	**195,623**	9,565
Other financial assets	4,702	(9)	(46)	2,395	(2,258)	16	485	(38)	**5,247**	499
Of which: Purchased credit-impaired financial assets										
Loans and advances to legal entities	1,887	-	-	(568)	-	-	-	-	**1,319**	-
Other financial assets	3	-	-	1	-	-	-	-	**4**	-

Column Increases/(Decreases) includes also 12-month expected credit losses recognised at acquisition of Komercijalna banka in the amount of EUR 2,150 thousand for Loans and advances to individuals, in the amount of EUR 8,198 thousand for Loans and advances to legal entities and in the amount of EUR 54 thousand for Other financial assets (notes 4.14. and 5.12.b.).

in EUR thousands

NLB Group	Balance as at 1 Jan 2019	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange and other movements	Disposal of subsidiary	Balance as at 31 Dec 2019	Repayments of written-off receivables
12-month expected credit losses										
Loans and advances to individuals	17,162	50	11,754	(7,474)	-	120	1	-	**21,613**	-
Loans and advances to legal entities	24,416	18	9,598	4,184	(197)	(2,825)	16	-	**35,210**	-
Other financial assets	182	2	20	11	(31)	(7)	-	-	**177**	-
Lifetime ECL not credit-impaired										
Loans and advances to individuals	8,263	1	(8,321)	3,980	(3)	2,182	1	-	**6,103**	-
Loans and advances to legal entities	27,274	22	(1,317)	(1,369)	(38)	2,510	(6)	-	**27,076**	-
Other financial assets	58	(1)	(63)	24	(2)	11	-	-	**27**	-
Lifetime ECL credit-impaired										
Loans and advances to individuals	59,054	189	(3,433)	13,661	(21,117)	(638)	21	-	**47,737**	3,821
Loans and advances to legal entities	317,524	1,000	(8,281)	(12,839)	(112,266)	(18)	(320)	-	**184,800**	13,499
Other financial assets	7,956	(3)	43	795	(2,073)	8	(4)	(2,020)	**4,702**	56
Of which: Purchased credit-impaired financial assets										
Loans and advances to legal entities	2,184	-	-	(298)	-	-	1	-	**1,887**	-
Other financial assets	1	-	-	2	-	-	-	-	**3**	-

in EUR thousands

NLB	Balance as at 1 Jan 2020	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020	Repayments of written-off receivables
12-month expected credit losses								
Loans and advances to individuals	7,195	6,107	(6,509)	(1)	2,181	-	**8,973**	-
Loans and advances to legal entities	13,670	3,254	(3,356)	(6)	3,285	(28)	**16,819**	-
Other financial assets	55	68	(22)	(2)	(25)	(1)	**73**	-
Lifetime ECL not credit-impaired								
Loans and advances to individuals	1,396	(4,953)	3,422	(3)	2,491	(2)	**2,351**	-
Loans and advances to legal entities	9,792	(3,261)	(2,516)	(4)	4,925	-	**8,936**	-
Other financial assets	9	(1)	(7)	-	1	-	**2**	-
Lifetime ECL credit-impaired								
Loans and advances to individuals	15,576	(1,154)	14,318	(6,227)	(365)	707	**22,855**	2,319
Loans and advances to legal entities	71,277	7	(2,677)	(7,159)	(119)	22,264	**83,593**	4,139
Other financial assets	1,777	(67)	411	(864)	(2)	-	**1,255**	328
Of which: Purchased credit-impaired financial assets								
Loans and advances to legal entities	1,856	-	(537)	-	-	-	**1,319**	-
Other financial assets	3	-	1	-	-	-	**4**	-

in EUR thousands

NLB	Balance as at 1 Jan 2019	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2019	Repayments of written-off receivables
12-month expected credit losses								
Loans and advances to individuals	6,355	3,991	(2,377)	-	(775)	1	**7,195**	-
Loans and advances to legal entities	10,511	2,036	728	(5)	380	20	**13,670**	-
Other financial assets	27	15	25	(4)	(8)	-	**55**	-
Lifetime ECL not credit-impaired								
Loans and advances to individuals	1,255	(2,875)	1,854	(3)	1,164	1	**1,396**	-
Loans and advances to legal entities	11,405	6,433	(8,882)	(34)	870	-	**9,792**	-
Other financial assets	6	(2)	4	-	1	-	**9**	-
Lifetime ECL credit-impaired								
Loans and advances to individuals	18,347	(1,116)	5,833	(6,962)	(545)	19	**15,576**	1,382
Loans and advances to legal entities	154,763	(8,469)	(7,892)	(66,998)	(139)	12	**71,277**	6,671
Other financial assets	1,855	(13)	659	(722)	(2)	-	**1,777**	16
Of which: Purchased credit-impaired financial assets								
Loans and advances to legal entities	2,145	-	(290)	-	-	1	**1,856**	-
Other financial assets	1	-	2	-	-	-	**3**	-

The contractual amount outstanding on financial assets that were written off during the year ending 31 December 2020 and that are still subject to enforcement activity for NLB Group amounted to EUR 42,738 thousand (31 December 2019: EUR 142,593 thousand), and for NLB amounted to EUR 9,773 thousand (31 December 2019: EUR 92,882 thousand), of which EUR 4,162 thousand in NLB Group (31 December 2019: EUR 42,811 thousand) and EUR 2,537 thousand in NLB (31 December 2019: EUR 41,747 thousand) represents interest receivables that have not been recognised in the income statement prior to the write-off.

b) Movements in allowance for the impairment of debt securities

in EUR thousands

NLB Group	Balance as at 1 Jan 2020	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020
12-month expected credit losses							
Debt securities measured at amortised cost	3,140	(2)	-	343	204	-	**3,685**
Debt securities measured at fair value through other comprehensive income	4,757	2	-	4,156	(253)	(6)	**8,656**
Lifetime ECL not credit-impaired							
Debt securities measured at fair value through other comprehensive income	42	-	-	(6)	(9)	1	**28**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	-	-	-	-	-	**798**

Column Increases/(Decreases) includes also 12-month expected credit losses recognised at acquisition of Komercijalna banka in the amount of EUR 32 thousand for Debt securities measured at amortised cost and in the amount of EUR 2,932 thousand for Debt securities measured at fair value through other comprehensive income (notes 4.14. and 5.12.b.).

in EUR thousands

NLB Group	Balance as at 1 Jan 2019	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2019
12-month expected credit losses							
Debt securities measured at amortised cost	2,898	4	-	292	(55)	1	**3,140**
Debt securities measured at fair value through other comprehensive income	3,597	(4)	19	1,332	(188)	1	**4,757**
Lifetime ECL not credit-impaired							
Debt securities measured at fair value through other comprehensive income	75	-	(19)	(24)	10	-	**42**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	-	-	-	-	-	**798**

in EUR thousands

NLB	Balance as at 1 Jan 2020	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020
12-month expected credit losses					
Debt securities measured at amortised cost	1,617	16	208	-	**1,841**
Debt securities measured at fair value through other comprehensive income	1,714	626	9	(6)	**2,343**
Lifetime ECL credit-impaired					
Debt securities measured at fair value through other comprehensive income	798	-	-	-	**798**

in EUR thousands

NLB	Balance as at 1 Jan 2019	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2019
12-month expected credit losses					
Debt securities measured at amortised cost	1,323	342	(49)	1	**1,617**
Debt securities measured at fair value through other comprehensive income	1,541	182	(11)	2	**1,714**
Lifetime ECL credit-impaired					
Debt securities measured at fair value through other comprehensive income	798	-	-	-	**798**

c) Explanation of how significant changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance

In year 2020, the gross carrying amount of debt securities measured at amortised cost decreased by EUR 150,216 thousand for NLB Group (2019: increased by EUR 225,128 thousand) and decreased by EUR 207,062 thousand for NLB (2019: increased by EUR 210,482 thousand). Since they are all classified in Stage 1, the impact on the balance of loss allowance was not material. At the NLB Group level it increased by EUR 545 thousand (2019: increased by EUR 242 thousand) and at the NLB level increased by EUR 224 thousand (2019: increased by EUR 294 thousand). Debt securities measured at fair value through other comprehensive income increased only by EUR 59,493 thousand for NLB (2019: increased by EUR 128,129 thousand), while for NLB Group they increased by EUR 1,354,686 thousand (2020: increased by EUR 242,787), mainly due to acquisition of Komercijalna banka Beograd. Consequently, loss allowance for NLB increased only by EUR 629 thousand for NLB (2019: increased by EUR 173 thousand), while for NLB Group it increased by EUR 3,885 thousand (2019: increased by EUR 1,127 thousand).

Changes in the gross carrying amount of loans to banks did not cause significant changes in the loss allowance. For NLB Group, the gross carrying amount of loans to banks increased by EUR 103,648 thousand (2019: decreased by EUR 25,324 thousand) and loss allowance increased by EUR 46 thousand (2019: decreased by EUR 31 thousand), while at the NLB level the gross carrying amount increased by EUR 13,982 thousand (2019: increased by EUR 34,119 thousand) and loss allowance increased by EUR 14 thousand (2019: increased by EUR 64 thousand). Increase of gross carrying amount due to acquisition of subsidiaries was EUR 46,981 thousand.

The loss allowance for other financial assets in year 2020 moved in line with gross carrying amount and increased by EUR 647 thousand at NLB Group level, while at the NLB level it decreased by EUR 511 thousand. In year 2019, the decrease of loss allowance for other financial assets for NLB Group in the amount of EUR 3,290 thousand was mainly caused by a decrease of carrying amount due to disposal of subsidiary (EUR 2,020 thousand) and write-offs (EUR 2,106 thousand). At the NLB level, the loss allowance for other financial assets decreased only by EUR 47 thousand.

In year 2020, the biggest change in loss allowance was recognised for loans and advances to customers, as it increased by EUR 49,836 thousand at the NLB Group level (EUR 19,047 thousand relating to individuals and EUR 30,789 thousand to legal entities), and EUR 24,607 thousand at the NLB level (EUR 10,012 thousand relating to individuals and EUR 14,595 thousand to legal entities). The main reasons for this increase are changed risk parameters, which increased loss allowance by EUR 18,338 thousand at NLB Group level (EUR 7,324 thousand individuals and EUR 11,014 thousand legal entities) and by EUR 12,398 thousand at NLB level (EUR 4,307 thousand individuals and 8,091 thousand legal entities) and an increase of the gross carrying amount. At the NLB Group level, the gross carrying amount increased by EUR 2,079,972 thousand (EUR 1,014,105 thousand individuals and EUR 1,065,867 thousand legal entities), mainly due to acquisition of subsidiaries, while at the NLB level it increased by EUR 20,186 thousand (increase of loans to individuals by EUR 35,157 thousand and decrease of loans to legal entities for EUR 14,971 thousand).

Acquisition of subsidiaries (note 5.12.b) contributed EUR 1,877,349 thousand to the gross carrying amount of loans and advances to customers on NLB Group level, of which EUR 849,428 thousand relates to individuals and EUR 1,027,921 thousand to legal entities. For the performing part of this portfolio, 12-month expected credit losses in the amount of EUR 10,349 thousand were recognised.

The gross carrying amount also increased due to changed presentation of excluded interest. NLB Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. Part of the contractually due interest for Stage 3 exposures that is not included in the income statement (so-called 'excluded interest') has been in previous periods presented as a decrease of gross carrying amount of financial assets. In year 2020, the Bank of Slovenia changed the instructions for reporting of monetary financial institutions and regards excluded interest as part of gross carrying amount, even if not recognised in the income statement. Therefore, NLB Group changed the presentation as at 31 December 2020 and increased gross carrying amount and impairments for EUR 33,990 thousand on the Group level and EUR 25,112 thousand on the NLB level (of which EUR 4,347 thousand at NLB Group level and EUR 705 thousand at NLB level relates to loans and advances to individuals measured at amortised cost and EUR 27,389 thousand at NLB Group level and EUR 22,284 thousand at NLB level to loans and advances to legal entities measured at amortised cost). This increased the NPE ratio in accordance with the EBA methodology by 0.15 percentage points for NLB Group and by 0.20 percentage points for NLB. Comparative information has not been adjusted in this respect.

The table below illustrates how changes in the gross carrying amount of loans and advances to customers in year 2020 contributed to changes in the loss allowance.

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2020	7,092,324	471,017	348,827	7,912,168	4,350,549	189,426	147,389	4,687,364
Effects of translation of foreign operations to presentation currency	(2,427)	(198)	(126)	(2,751)	-	-	-	-
Acquisition of subsidiaries (note 5.12.b)	1,836,970	-	40,379	1,877,349	-	-	-	-
Transfers	(258,846)	153,780	105,066	-	(151,114)	113,827	37,287	-
Increases/(Decreases)	334,625	(64,104)	(39,581)	230,940	81,181	(44,558)	(22,784)	13,839
Write-offs	(7)	(7)	(51,413)	(51,427)	(7)	(7)	(13,386)	(13,400)
Foreign exchange	(2,151)	(90)	(57)	(2,298)	(2,946)	(178)	(118)	(3,242)
Excluded interest	-	30	31,706	31,736	-	-	22,989	22,989
Modification losses (note 4.12.)	(3,094)	(357)	(126)	(3,577)	-	-	-	-
Balance as at 31 December 2020	**8,997,394**	**560,071**	**434,675**	**9,992,140**	**4,277,663**	**258,510**	**171,377**	**4,707,550**

In year 2019, loss allowance for loans and advances to other customers decreased by EUR 131,123 at the NLB Group level, and EUR 83,794 at the NLB level, regardless of the fact that the gross carrying amount increased by EUR 333,968 thousand for NLB Group and EUR 33,328 thousand for NLB. The most decreases in gross carrying amounts were realised in Stages 2 and 3 with lifetime expected credit losses, while increases were realised in Stage 1 with only 12-month expected credit losses. The table below illustrates how changes in the gross carrying amount of loans and advances to customers in year 2019 contributed to changes in the loss allowance.

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2019	6,426,820	577,935	573,445	7,578,200	4,146,744	208,191	299,101	4,654,036
Effects of translation of foreign operations to presentation currency	4,896	587	2,110	7,593	-	-	-	-
Transfers	(6,887)	(17,381)	24,268	-	(12,370)	9,872	2,498	-
Increases/(Decreases)	666,201	(90,126)	(116,619)	459,456	213,446	(28,728)	(80,394)	104,324
Write-offs	(197)	(41)	(133,383)	(133,621)	(5)	(37)	(73,960)	(74,002)
Foreign exchange	1,515	92	(885)	722	2,734	128	144	3,006
Modification losses (note 4.12.)	(24)	(49)	(109)	(182)	-	-	-	-
Balance as at 31 December 2019	**7,092,324**	**471,017**	**348,827**	**7,912,168**	**4,350,549**	**189,426**	**147,389**	**4,687,364**

5.15. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at the amortised cost

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Deposits from banks and central banks	72,633	42,840	41,635	89,820
Borrowings from banks and central banks	158,225	170,385	143,464	161,564
Due to customers	16,397,167	11,612,317	8,850,755	7,760,737
Borrowings from other customers	91,560	64,458	13	2,537
Subordinated liabilities	288,321	210,569	288,321	210,569
Other financial liabilities	207,300	158,484	101,273	98,342
Total	**17,215,206**	**12,259,053**	**9,425,461**	**8,323,569**

a) Deposits from banks and central banks and amounts due to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Deposit on demand				
- banks and central banks	52,250	31,298	41,635	86,366
- other customers	13,633,889	9,463,888	8,128,950	6,917,810
- governments	307,082	214,472	86,276	69,855
- financial organisations	192,224	134,735	137,204	114,836
- companies	3,223,612	2,212,002	1,551,952	1,352,522
- individuals	9,910,971	6,902,679	6,353,518	5,380,597
Other deposits				
- banks and central banks	20,383	11,542	-	3,454
- other customers	2,763,278	2,148,429	721,805	842,927
- governments	117,428	42,909	35,515	31,027
- financial organisations	134,716	126,156	34,474	32,147
- companies	398,595	299,094	192,955	175,368
- individuals	2,112,539	1,680,270	458,861	604,385
Total	**16,469,800**	**11,655,157**	**8,892,390**	**7,850,557**

b) Borrowings from banks and central banks and other customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans				
- banks and central banks	158,225	170,385	143,464	161,564
- other customers	91,560	64,458	13	2,537
- governments	20,183	16,657	-	-
- financial organisations	70,956	44,157	-	-
- companies	421	3,644	13	2,537
Total	**249,785**	**234,843**	**143,477**	**164,101**

As at 31 December 2020, NLB Group and NLB had EUR 140,713 thousand in undrawn borrowings (31 December 2019: EUR 344,687 thousand).

c) Subordinated liabilities

in EUR thousands

				NLB Group and NLB			
				31 Dec 2020		31 Dec 2019	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated bonds							
	EUR	06.05.2029	4.2% to 06.05.2024, thereafter 5Y MS + 4.159% p.a.	45,867	45,000	45,826	45,000
	EUR	19.11.2029	3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a.	119,480	120,000	119,376	120,000
	EUR	05.02.2030	3.4% to 05.02.2025, thereafter 5Y MS + 3.658% p.a.	122,974	120,000	-	-
Subordinated loans							
	EUR	20.09.2029	3.826% to 20.09.2024, thereafter 5Y IRS + 4.21% p.a.	-	-	45,367	45,000
Total				**288,321**	**285,000**	**210,569**	**210,000**

All issued subordinated bonds represent non-convertible Tier 2 instruments (note 5.22.). In the event of bankruptcy or liquidation of the issuer, obligations arising from Tier 2 instruments shall be repaid:

a) after repayment of all unsubordinated obligations of the Issuer as well as at all subordinated obligations (if any) which are expressed to rank in priority to Tier 2 instruments;

b) with the same priority (*pari passu*) as, and proportionally with the obligations arising from other instruments which qualify as Tier 2 instruments or have the same priority of repayment as the Tier 2 instruments;

c) in priority to the obligations arising from shares or other instruments which qualify as Common Equity Tier 1 capital instruments or additional Tier 1 instruments or have the same priority of repayment as these instruments.

In September 2019, NLB entered into a loan agreement relating to a EUR 45 million of subordinated loan intended for the inclusion into additional capital to strengthen and optimise its capital structure. NLB may, according to valid legislation, only include the loan in calculation of additional capital after obtaining approval from the ECB. As such, approval had not been granted by 23 December 2019, and it was not reasonably expected to be granted in the near future, NLB announced the prepayment of the loan, which was exercised in January 2020.

Movement of subordinated liabilities

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	210,569	15,050	210,569	-
Effects of translation of foreign operations to presentation currency	-	6	-	-
Cash flow items:	67,383	192,807	67,383	208,321
- new issued subordinated liabilities	119,222	208,321	119,222	208,321
- repayments of subordinated liabilities	(45,000)	(15,002)	(45,000)	-
- repayments of interest	(6,839)	(512)	(6,839)	-
Non-Cash flow items:	10,369	2,706	10,369	2,248
- accrued interest	10,243	2,818	10,243	2,374
- other	126	(112)	126	(126)
Balance as at 31 December	**288,321**	**210,569**	**288,321**	**210,569**

d) Other financial liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Items in the course of payment	46,395	24,124	4,412	4,960
Debit or credit card payables	22,883	24,092	20,135	20,014
Suppliers	20,993	21,600	15,768	16,259
Lease liabilities (note 5.11.a)	26,359	16,713	3,212	2,784
Accrued expenses	21,314	17,848	10,635	10,481
Accrued salaries	19,068	13,011	9,807	9,666
Unused annual leave	6,137	3,784	2,497	2,455
Fees and commissions	1,100	1,736	967	1,660
Liabilities to brokerage firms and others for securities purchase and custody services	2,459	433	2,443	181
Other financial liabilities	40,592	35,143	31,397	29,882
Total	**207,300**	**158,484**	**101,273**	**98,342**

Other financial liabilities mainly include liabilities to insurance companies, received warranties, obligation for purchase of securities, and trust services.

5.16. Provisions

a) Analysis by type of provisions

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Provisions for guarantees and commitments (note 5.23.a)	42,174	39,421	28,543	29,163
Stage 1	15,796	12,909	7,510	6,145
Stage 2	2,767	2,444	732	653
Stage 3	23,611	24,068	20,301	22,365
Employee benefit provisions	20,707	17,704	14,220	14,743
Restructuring provisions	15,565	14,500	15,354	14,182
Provisions for legal risks	46,602	16,627	5,673	2,211
Other provisions	11	162	-	85
Total	**125,059**	**88,414**	**63,790**	**60,384**

Provisions for guarantees and commitments represent expected credit losses in accordance with IFRS 9, employee benefits are recognised in accordance with IAS 19, while all other provisions are recognised according to IAS 37.

Legal risks

Provisions for legal risks are formed based on expectations regarding the probable outcome of legal disputes. As at 31 December 2020, NLB Group was involved in 39 (31 December 2019: 31) legal disputes with material claims against Group members in the total amount of EUR 292,098 thousand, excluding accrued interest (31 December 2019: EUR 340,492 thousand). As at 31 December 2020, NLB was involved in 18 (31 December 2019: 16) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 179,996 thousand (31 December 2019: EUR 177,075 thousand).

In connection with legal risks, the largest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 168 million (as per 31 December 2020). Due to the fact the proceedings had been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any such obligations. Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay of all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in the Memorandum of Understanding to stay all of the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in six claims (as explained below in detail) in favour of the plaintiff. In three of those cases, NLB filed a constitutional suit after extraordinary legal measure of NLB with the Supreme Court of the Republic of Croatia was not successful, and in three NLB filed an extraordinary legal measure with the Supreme Court of the Republic of Croatia.

Contrary to the decisions of the court described above in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. The extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by the Supreme Court on 16 June 2015.

In the other cases, with respect to which court procedures described above are pending, final court decisions have not yet been issued.

The table below summarises the amounts according to final court decisions (not including penalty interest).

Date of the ruling	Plaintiff	Principal amount	Costs of the proceedings	Measures taken by NLB
May 2015	PBZ	254.76 EUR	15,781.25 HRK	Constitutional suit against the final judgement, as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 21 May 2018.
April 2018	PBZ	222,426.39 EUR	253,283.37 HRK	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.
September 2017	ZaBa	492,430.53 EUR	748,583.75 HRK	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.
November 2017	PBZ	220,115.98 EUR	688,268.12 HRK	NLB challenged the judgments with the extraordinary legal measure (revision) on the Supreme Count of the Republic of Croatia and later, if necessary, will challenge the judgments with all other available remedies of the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of NLB.
December 2018	PBZ	375,938.42 EUR	679,926.08 HRK	
March 2019	PBZ	9,185,141.76 USD	3,198,760.00 HRK	NLB challenged the judgment with the extraordinary legal measure (revision) on the Supreme Count of the Republic of Croatia and later, if necessary, will challenge the judgment with all other available remedies of the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of NLB.

The NLB Shareholders' Meeting provided the Management Board of NLB with instructions how to act in the event of existing or potential new final decisions by Croatian courts against LB and NLB regarding the transferred foreign currency deposits, especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies and regarding the management of the property from that perspective.

On 19 July 2018, the National Assembly of the Republic of Slovenia passed the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: 'the ZVKNNLB') which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, hereinafter: 'the Fund'), shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, that is the principle amount, accrued interest, expenses of court, attorney's expenses and other expenses of the plaintiff, and expenses related to enforcement with the accrued interest, and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings. There shall be no compensation for any voluntarily made payments by NLB. In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB (which was concluded on 14 August 2018), NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits, and use against court decisions that are disadvantageous for NLB, all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement. In the aforementioned case from May 2015, the Succession Fund of the Republic of Slovenia has already compensated the sums recovered from NLB by enforcement.

All procedures relating to the receivables of PBZ and ZaBa, as well as NLB's view on this matter were also discussed with the ECB as the supervisor of both Croatian banks.

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

Regardless of the negative judgement, in the financial statements NLB Group did not recognise the negative impact due to protection provided by the ZVKNNLB. For final judgements, NLB Group recognised the liabilities and related assets which currently amount to approximately EUR 21 million. They are included within other financial assets (note 5.6.d) and other financial liabilities (note 5.15.d).

b) Movements in provisions for guarantees and commitments

in EUR thousands

NLB Group	Balance as at 1 Jan 2020	Effects of translation of foreign operations to presentation currency	Acquisition of subsidiaries	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020
12-month expected credit losses								
Guarantees and commitments	12,909	(4)	1,049	659	1,863	(676)	(4)	**15,796**
Lifetime ECL not credit-impaired								
Guarantees and commitments	2,444	(5)	-	(300)	(99)	727	-	**2,767**
Lifetime ECL credit-impaired								
Guarantees and commitments	24,068	1	1,249	(359)	(1,293)	(40)	(15)	**23,611**
Of which: Purchased credit-impaired								
Guarantees and commitments	1,984	-	1,249	-	1,838	-	(14)	**5,057**

in EUR thousands

NLB Group	Balance as at 1 Jan 2019	Effects of translation of foreign operations to presentation currency	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2019
12-month expected credit losses							
Guarantees and commitments	9,044	8	2,318	2,596	(1,058)	1	**12,909**
Lifetime ECL not credit-impaired							
Guarantees and commitments	3,264	1	(1,721)	655	245	-	**2,444**
Lifetime ECL credit-impaired							
Guarantees and commitments	26,774	3	(597)	(2,114)	(12)	14	**24,068**
Of which: Purchased credit-impaired							
Guarantees and commitments	688	-	-	1,296	-	-	**1,984**

in EUR thousands

NLB	Balance as at 1 Jan 2020	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020
12-month expected credit losses						
Guarantees and commitments	6,145	193	947	228	(3)	**7,510**
Lifetime ECL not credit-impaired						
Guarantees and commitments	653	136	(418)	363	(2)	**732**
Lifetime ECL credit-impaired						
Guarantees and commitments	22,365	(329)	(1,622)	(97)	(16)	**20,301**
Of which: Purchased credit-impaired						
Guarantees and commitments	1,984	-	1,838	-	(14)	**3,808**

in EUR thousands

NLB	Balance as at 1 Jan 2019	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2019
12-month expected credit losses						
Guarantees and commitments	4,071	513	2,223	(663)	1	**6,145**
Lifetime ECL not credit-impaired						
Guarantees and commitments	821	(261)	28	65	-	**653**
Lifetime ECL credit-impaired						
Guarantees and commitments	24,624	(252)	(2,013)	(8)	14	**22,365**
Of which: Purchased credit-impaired						
Guarantees and commitments	688	-	1,296	-	-	**1,984**

c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousands

	NLB Group		NLB	
	2020	**2019**	**2020**	**2019**
Balance as at 1 January	15,320	13,157	13,165	11,588
Effects of translation of foreign operations to presentation currency	(2)	2	-	-
Acquisition of subsidiaries (note 5.12.b)	3,374	-	-	-
Additional provisions (note 4.9.)	983	1,155	672	724
Provisions released (note 4.9.)	(560)	(708)	(433)	(670)
Interest expenses (note 4.1.)	76	147	27	85
Utilised during year (payments)	(151)	(210)	(36)	(85)
Actuarial gains and losses	(878)	1,777	(700)	1,523
Balance as at 31 December	**18,162**	**15,320**	**12,695**	**13,165**

Other employee benefits

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	2,384	2,247	1,578	1,570
Effects of translation of foreign operations to presentation currency	(1)	2	-	-
Acquisition of subsidiaries (note 5.12.b)	179	-	-	-
Additional provisions (note 4.9.)	234	329	103	164
Provisions released (note 4.9.)	(112)	(35)	(38)	-
Interest expenses (note 4.1.)	24	37	3	11
Utilised during year	(163)	(196)	(121)	(167)
Balance as at 31 December	**2,545**	**2,384**	**1,525**	**1,578**

Other employee benefits include NLB Group's obligations for jubilee long-service benefits.

d) Movements in restructuring provisions

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	14,500	12,363	14,182	11,942
Effects of translation of foreign operations to presentation currency	(1)	-	-	-
Disposal of subsidiaries	(50)	-	-	-
Additional provisions (note 4.13.)	3,500	5,523	3,500	5,500
Provisions released (note 4.13.)	-	(45)	-	-
Utilised during year	(2,384)	(3,341)	(2,328)	(3,260)
Balance as at 31 December	**15,565**	**14,500**	**15,354**	**14,182**

NLB Group has adopted a business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with a focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in fewer employees in the coming years.

e) Movements in provisions for legal risks

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	16,627	13,076	2,211	2,180
Effects of translation of foreign operations to presentation currency	(8)	24	-	-
Acquisition of subsidiaries (note 5.12.b)	28,686	-	-	-
Disposal of subsidiaries	(119)	-	-	-
Additional provisions (note 4.13.)	6,355	5,837	4,411	251
Provisions released (note 4.13.)	(1,659)	(141)	(181)	(60)
Utilised during year	(3,280)	(2,168)	(768)	(160)
Exchange differences	-	(1)	-	-
Balance as at 31 December	**46,602**	**16,627**	**5,673**	**2,211**

f) Movements in other provisions

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 January	162	209	85	198
Additional provisions (note 4.13.)	34	66	-	-
Provisions released (note 4.13.)	(153)	(105)	(85)	(105)
Utilised during year	(32)	(8)	-	(8)
Balance as at 31 December	**11**	**162**	**-**	**85**

5.17. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Deferred income tax assets				
Valuation of financial instruments and capital investments	37,729	36,286	37,650	36,244
Impairment of financial assets	3,190	910	947	784
Provisions for liabilities and charges	8,489	4,109	3,138	3,196
Depreciation and valuation of non-financial assets	4,063	1,087	140	154
Fair value adjustments of financial assets measured at amortised cost	938	-	-	-
Tax reliefs	1,179	-	-	-
Other	111	-	-	-
Total deferred income tax assets	**55,699**	**42,392**	**41,875**	**40,378**
Deferred income tax liabilities				
Valuation of financial instruments	21,023	11,159	11,871	10,131
Depreciation and valuation of non-financial assets	1,515	1,296	193	201
Impairment of financial assets	3,271	3,270	597	477
Fair value adjustments of financial assets measured at amortised cost	592	-	-	-
Other	1,984	-	-	-
Total deferred income tax liabilities	**28,385**	**15,725**	**12,661**	**10,809**
Net deferred income tax assets	**31,789**	**29,500**	**29,214**	**29,569**
Net deferred income tax liabilities	**(4,475)**	**(2,833)**	**-**	**-**

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Included in the income statement	**3,238**	**8,041**	**540**	**8,556**
- valuation of financial instruments and capital investments	308	8,305	308	8,305
- impairment of financial assets	3,108	100	163	87
- provisions for liabilities and charges	54	293	75	136
- depreciation and valuation of non-financial assets	(336)	(657)	(6)	28
- other	104	-	-	-
Included in other comprehensive income	**(1,619)**	**(1,714)**	**(895)**	**(1,221)**
- valuation and impairment of financial assets measured at fair value through other comprehensive income	(1,486)	(1,859)	(762)	(1,366)
- actuarial assumptions and experience	(133)	145	(133)	145

Tax loss on which NLB did not recognize deferred tax assets, as at 31 December 2020 amounts to EUR 922,898 thousand (31 December 2019: 949,136 thousand). Slovenian tax law does not set deadlines by which uncovered tax losses must be utilised, but the use of tax loss is limited to 50% of the actual tax base. Impairments of investments in non-strategic capital investments, where deferred tax assets are not recognised as they exceed the total amount of deferred tax assets for which a reversal is expected within five years, amounts to EUR 242,861 thousand (2019: EUR 291,357 thousand).

In addition to NLB, Komercijalna banka Beograd also has a significant amount of tax loss for which no deferred tax assets are recognised. This tax loss expires in 2021 and as at 31 December 2020 amounts to EUR 73,898 thousand.

NLB Group did not recognise deferred tax assets on temporary differences arising from the impairments of investments in subsidiaries and associates where it is not probable that the temporary difference will reverse in the foreseeable future. This temporary differences amounts to EUR 347,040 thousand as at 31 December 2020 (31 December 2019: EUR 322,077 thousand).

b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousands

NLB Group	Provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment of financial assets	Tax relief	Fair value adjustments of financial assets measured at amortised cost	Other	Total
Balance as at 1 January 2019	3,671	25,834	1,627	905	-	-	-	32,037
Effects of translation of foreign operations to presentation currency	-	-	2	-	-	-	-	2
(Charged)/credited to profit and loss	293	8,190	(542)	5	-	-	-	7,946
(Charged)/credited to other comprehensive income	145	2,262	-	-	-	-	-	2,407
Balance as at 31 December 2019	**4,109**	**36,286**	**1,087**	**910**	**-**	**-**	**-**	**42,392**
Effects of translation of foreign operations to presentation currency	4	-	-	2	-	-	-	6
(Charged)/credited to profit and loss	54	188	(156)	2,247	-	-	104	2,437
(Charged)/credited to other comprehensive income	(133)	1,240	-	-	-	-	-	1,107
Acquisition of subsidiaries	4,455	15	3,132	31	1,179	938	7	9,757
Balance as at 31 December 2020	**8,489**	**37,729**	**4,063**	**3,190**	**1,179**	**938**	**111**	**55,699**

in EUR thousands

NLB	Provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment of financial assets	Total
Balance as at 1 January 2019	2,915	25,747	157	697	29,516
(Charged)/credited to profit and loss	136	8,190	(3)	87	8,410
(Charged)/credited to other comprehensive income	145	2,307	-	-	2,452
Balance as at 31 December 2019	**3,196**	**36,244**	**154**	**784**	**40,378**
(Charged)/credited to profit and loss	75	188	(14)	163	412
(Charged)/credited to other comprehensive income	(133)	1,218	-	-	1,085
Balance as at 31 December 2020	**3,138**	**37,650**	**140**	**947**	**41,875**

Deferred income tax liabilities

in EUR thousands

NLB Group	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Fair value adjustments of financial assets measured at amortised cost	Total
Balance as at 1 January 2019	3,305	7,205	1,179	-	-	11,689
Effects of translation of foreign operations to presentation currency	6	2	2	-	-	10
Charged/(credited) to profit and loss	(95)	(115)	115	-	-	(95)
Charged/(credited) to other comprehensive income	54	4,067	-	-	-	4,121
Balance as at 31 December 2019	**3,270**	**11,159**	**1,296**	**-**	**-**	**15,725**
Effects of translation of foreign operations to presentation currency	(7)	-	(2)	-	-	(9)
Charged/(credited) to profit and loss	(861)	(120)	180	-	-	(801)
Charged/(credited)to other comprehensive income	696	2,030	-	-	-	2,726
Acquisition of subsidiaries	173	7,954	41	1,984	592	10,744
Balance as at 31 December 2020	**3,271**	**21,023**	**1,515**	**1,984**	**592**	**28,385**

in EUR thousands

NLB	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1 January 2019	444	6,606	232	7,282
Charged/(credited) to profit and loss	-	(115)	(31)	(146)
Charged/(credited) to other comprehensive income	33	3,640	-	3,673
Balance as at 31 December 2019	**477**	**10,131**	**201**	**10,809**
Charged/(credited) to profit and loss	-	(120)	(8)	(128)
Charged/(credited) to other comprehensive income	120	1,860	-	1,980
Balance as at 31 December 2020	**597**	**11,871**	**193**	**12,661**

5.18. Income tax relating to components of other comprehensive income

in EUR thousands

	NLB Group			NLB		
2020	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	878	(133)	745	700	(133)	567
Financial assets measured at fair value through other comprehensive income	10,364	(1,486)	8,878	4,012	(762)	3,250
Share of associates and joint ventures	(11,067)	-	(11,067)	-	-	-
Total	**175**	**(1,619)**	**(1,444)**	**4,712**	**(895)**	**3,817**

in EUR thousands

	NLB Group			NLB		
2019	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	(1,777)	145	(1,632)	(1,523)	145	(1,378)
Financial assets measured at fair value through other comprehensive income	13,413	(1,859)	11,554	7,190	(1,366)	5,824
Share of associates and joint ventures	9,673	(1,854)	7,819	-	-	-
Total	**21,309**	**(3,568)**	**17,741**	**5,667**	**(1,221)**	**4,446**

5.19. Other liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Deferred income	12,364	9,012	5,391	6,142
Taxes payable	5,009	4,209	4,107	3,039
Payments received in advance	2,195	1,991	199	53
Other liabilities	859	-	-	-
Total	**20,427**	**15,212**	**9,697**	**9,234**

5.20. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change in 2020. It is comprised of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31 December 2020, the major shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share.

The book value of a NLB share on a consolidated level as at 31 December 2020 was EUR 97.6 (31 December 2019: EUR 84.3), and on solo level was EUR 72.5 (31 December 2019: EUR 66.7). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2020 amounts to EUR 341,992 thousand (31 December 2019: EUR 228,040 thousand), consists of NLB net profit for 2020 in the amount of EUR 113,952 thousand (2019: EUR 176,149 thousand), and retained earnings from previous years in the amount of EUR 228,040 thousand. Its allocation will be subject to a decision by the Bank's General Assembly. The proposal for the General Assembly will be prepared by the Management and the Supervisory Board, considering restrictions imposed by the regulators, Group's risk appetite, target capital adequacy at Group's level and actual prevailing capital position at the time of the proposal.

The shares give to their holders the right to vote at the NLB's meeting of shareholders where, as a rule, each share entitles its holder to one vote. Nevertheless, a shareholder who acquires shares which, together with the shares already held by such shareholder or by a third person on behalf of such shareholder, represent more than 25% of the NLB's share capital, may only exercise its voting rights under such shares if NLB's Supervisory Board approves such an acquisition. The Supervisory Board's approval may only be rejected if, following such an acquisition, such a person would hold shares representing more than 25% of NLB's issued share capital plus one share. The approval shall be considered given if not expressly rejected in 20 days. No such approval is necessary in respect of the shares acquired by a person on behalf of third persons provided that such a person is not entitled to exercise the voting rights arising out of such shares at its own discretion and undertakes to NLB that it will not exercise the voting rights based on voting instructions unless such voting instructions are accompanied with a confirmation that the person giving such instructions is the beneficial owner of the shares in respect of which votes are to be exercised and does not hold in the aggregate, directly or indirectly 25% or more NLB shares with voting rights.

The shares also give their holders the right to be informed, as well as the pre-emptive right to subscribe for new shares on a pro rata basis in case of a share capital increase, the right to a pro-rata share of remaining assets in case of bankruptcy or liquidation or NLB and the right to receive a dividend. In 2020, NLB did not pay any dividends for previous year (2019: 7.13 EUR per share, which decreased retained earnings for EUR 142,600 thousand).

As at 31 December 2020 and 31 December 2019, NLB holds no own shares. In June 2019, the General Assembly of NLB authorised the Management Board that in the period of 36 months from the adoption of the shareholders' resolution, it can buy own shares of the Bank for the payment of variable remuneration to certain employees as required by the Banking Act and other relevant regulations. When disposing of own shares which NLB acquires on the basis of this authorisation, the pre-emptive right of the existing shareholders to acquire shares is completely excluded, provided that own shares are disposed of for the purpose of paying variable remuneration to employees of NLB in the form of NLB shares.

5.21. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2020 and 31 December 2019 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2020 and 31 December 2019, profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2020, NLB recorded a net profit in the amount of EUR 113,952 thousand (2019: net profit EUR 176,149 thousand) which is included in the retained earnings as at 31 December 2020.

b) Accumulated other comprehensive income

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Financial assets measured at fair value through other comprehensive income - debt securities	38,852	45,040	27,242	24,156
Financial assets measured at fair value through other comprehensive income - equity securities	3,644	2,840	452	288
Actuarial defined benefit pension plans	(4,399)	(5,086)	(3,592)	(4,159)
Foreign currency translation	(17,724)	(17,055)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Total	**21,127**	**26,493**	**24,102**	**20,285**

5.22. Capital adequacy ratios

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	552,146	358,648	228,040	51,891
Profit eligible - from current year	63,635	35,000	21,658	8,166
Accumulated other comprehensive income	21,588	14,364	24,102	20,285
Other reserves	13,522	13,522	13,522	13,522
Minority interest	71,562	-	-	-
Prudential filters: Additional Valuation Adjustments (AVA)	(3,632)	(2,194)	(1,755)	(1,701)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(33,222)	(36,013)	(9,914)	(25,980)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,753,448**	**1,451,176**	**1,347,031**	**1,137,561**
Minority interest	14,614	-	-	-
Additional Tier 1 capital	14,614	-	-	-
TIER 1 CAPITAL	**1,768,062**	**1,451,176**	**1,347,031**	**1,137,561**
Capital instruments and subordinated loans eligible as Tier 2 capital	284,595	44,595	284,595	44,595
Minority interest	12,806	-	-	-
TIER 2 CAPITAL	**297,401**	**44,595**	**284,595**	**44,595**
TOTAL CAPITAL	**2,065,463**	**1,495,771**	**1,631,626**	**1,182,156**
RWA for credit risk	10,222,923	7,720,232	4,805,127	4,344,829
RWA for market risks	1,250,563	523,050	657,088	274,025
RWA for credit valuation adjustment risk	200	663	200	663
RWA for operational risk	947,342	941,594	566,385	605,581
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,421,028**	**9,185,539**	**6,028,800**	**5,225,098**
Common Equity Tier 1 Ratio	14.1%	15.8%	22.3%	21.8%
Tier 1 Ratio	14.2%	15.8%	22.3%	21.8%
Total Capital Ratio	16.6%	16.3%	27.1%	22.6%

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, NLB must meet other requirements and recommendations that are imposed by the supervisory institutions or by the legislation:

- The 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): a 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 is a recommendation, and 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).

NLB's overall capital requirement on the consolidated level

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

The Overall Capital Requirement (OCR) amounted to 14.25% for NLB 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%.

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

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. On 25 March 2020, NLB obtained ECB permission for its inclusion in the capital, so the instrument is included in capital as at 31 March 2020.

On 4 March 2020, the Bank also obtained ECB permission to include in the capital subordinated Tier 2 notes issued in November 2019 in the amount of EUR 120 million. All the existing subordinated Tier 2 instruments in total amount of EUR 284.6 million are therefore included in the capital.

Non-controlling interest (minority capital) was included in the capital - as at June 2020 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 the acquisition of Komercijalna banka Beograd). In addition, risk mitigation contracts to reduce RWA on consolidated basis were concluded with MIGA in the total amount of up to EUR 303.1 million and became effective as at 31 July 2020.

The capital of NLB and NLB Group at the end of year 2020 remains strong in accordance with risk appetite orientations, at a level which covers all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the P2G.

As at 31 December 2020, NLB Group capital ratios on a consolidated basis stand at:

- 14.1% CET1 ratio,
- 14.2% Tier 1 ratio,
- 16.6% Total Capital ratio.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

As at 31 December 2020, the Total Capital Ratio for 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 acquisition of Komercijalna banka Beograd. 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 a minority interest in the capital calculation from June 2020 onwards (EUR 99.0 million as at 31 December 2020).

The RWA for credit risk in 2020 increased by EUR 2,502.7 million, 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 banking members. CRR 'Quick Fix' brought more favourable treatment of SME exposures (changes of prescribed SME supporting factor) and temporary treatment of public debt issued in the currency of another Member State. Furthermore, inclusion of Serbia on the list of third countries whose supervisory and regulatory requirements are considered equivalent as EEA countries contributed significantly to RWA reduction at the beginning of 2020 (EUR 100.0 million). Due to changed treatment of intangible assets, which were previously deducted from capital in whole and now are partially included in RWA, RWA increased by EUR 24.9 million.

The increase in RWA for market risks and CVA (EUR 727.1 million YoY) is also mainly due to completion of the acquisition process of Komercijalna banka Beograd. The increase in the RWA for operating 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.

The most important goal of internal capital adequacy assessment process (ICAAP) in NLB Group, set up in accordance with ECB Guidelines, is ensuring adequate capital and sustainability on ongoing basis. The purpose of this process is to have in place sound, effective, and comprehensive strategies and processes to assess and maintain capital on an ongoing basis, as well the adequate distribution of internal capital for covering the nature and level of the risks to which NLB Group is or might be exposed. In addition, NLB Group gives strong emphasis on its integration into the overall risk management system in order to assure proactive support for informed decision-making.

From an economic perspective, NLB Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. A normative perspective is a multiyear forward-looking assessment of NLB Group which shows its ability to fulfil all of its capital-related regulatory and supervisory requirements and risk appetite of NLB Group. Within these capital constraints, NLB Group defines its management buffers in the Risk appetite above the regulatory and supervisory requirement and internal capital needs that allow it to sustainably follow its business strategy. A normative perspective includes several stress scenarios which are integrated into NLB Group's annual business plan review and budgeting process.

5.23. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Short-term guarantees	222,440	210,469	122,136	112,461
- financial	119,309	111,526	61,322	58,920
- non-financial	103,131	98,943	60,814	53,541
Long-term guarantees	904,002	705,989	567,532	502,012
- financial	359,787	272,071	196,681	171,989
- non-financial	544,215	433,918	370,851	330,023
Commitments to extend credit	1,816,441	1,346,012	1,306,791	1,072,458
Letters of credit	21,794	22,871	2,256	6,243
Other	10,293	8,742	5,865	14,106
	2,974,970	**2,294,083**	**2,004,580**	**1,707,280**
Provisions (note 5.16.b)	(42,174)	(39,421)	(28,543)	(29,163)
Total	**2,932,796**	**2,254,662**	**1,976,037**	**1,678,117**

Fee income from all issued non-financial guarantees amounted to EUR 4,910 thousand (2019: EUR 4,801 thousand) in NLB Group, and to EUR 4,397 thousand (2019: EUR 4,375 thousand) in NLB.

Besides the instruments presented in the table above, NLB Group and NLB enter also into contracts related to guarantee lines. When the contract is signed, bank and a client agree on all conditions for issuing guarantees. Nevertheless, NLB Group can discontinue issuing guarantees if the client's conditions worsen. As at 31 December 2020 unused guarantee lines at the NLB Group level amount to EUR 307,093 thousand (31 December 2019: EUR 307,199 thousand), and at the NLB level EUR 236,542 thousand (31 December 2019: EUR 247,485 thousand).

b) Analysis of derivative financial instruments by notional amounts

in EUR thousands

	NLB Group				NLB			
	31 Dec 2020		31 Dec 2019		31 Dec 2020		31 Dec 2019	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	99,420	1,425,765	42,736	1,706,073	78,413	1,425,765	52,299	1,706,073
- currency swaps	99,420	6,068	42,736	69,328	78,413	6,068	52,299	69,328
- interest rate swaps	-	1,419,697	-	1,636,745	-	1,419,697	-	1,636,745
Options	12,811	27,000	12,864	28,875	12,811	27,000	12,864	28,875
- interest rate options	-	27,000	-	28,875	-	27,000	-	28,875
- securities options	12,811	-	12,864	-	12,811	-	12,864	-
Forward contracts	91,309	41,423	108,640	28,298	93,846	41,423	107,936	28,298
- currency forward	91,309	41,423	108,640	28,298	93,846	41,423	107,936	28,298
Total	**203,540**	**1,494,188**	**164,240**	**1,763,246**	**185,070**	**1,494,188**	**173,099**	**1,763,246**
	1,697,728		**1,927,486**		**1,679,258**		**1,936,345**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 573,753 thousand (31 December 2019: EUR 561,500 thousand) (note 5.5.b). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2. and 5.5.

c) Capital commitments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Capital commitments for purchase of:				
- property and equipment	2,433	7,286	2,429	7,201
- intangible assets	9,566	2,122	9,403	2,084
Total	**11,999**	**9,408**	**11,832**	**9,285**

5.24. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Fiduciary activities	25,713,799	24,495,725	24,466,910	23,259,665
Settlement and other services	971,600	1,012,492	907,132	980,964
Total	**26,685,399**	**25,508,217**	**25,374,042**	**24,240,629**

Fiduciary activities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Assets				
Clearing or transaction account claims for client assets	**25,633,706**	**24,431,766**	**24,396,203**	**23,202,008**
- from financial instruments	25,630,244	24,431,355	24,392,773	23,201,641
- receipt, processing, and execution of orders	9,194,539	9,574,811	8,502,331	8,930,064
- management of financial instruments portfolio	528,206	522,263	-	-
- custody services	15,907,499	14,334,281	15,890,442	14,271,577
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	49	124	17	80
- to other settlement systems and institutions for bought financial instrument (debtors)	3,413	287	3,413	287
Clients' money	**80,094**	**63,959**	**70,707**	**57,657**
- at settlement account for client assets	42,029	28,250	32,642	21,948
- at bank transaction accounts	38,065	35,709	38,065	35,709
Liabilities				
Clearing or transaction liabilities for client assets	**25,713,799**	**24,495,725**	**24,466,910**	**23,259,665**
- to client from cash and financial instruments	25,707,581	24,492,746	24,461,033	23,258,161
- receipt, processing, and execution of orders	9,230,406	9,606,633	8,538,198	8,961,886
- management of financial instruments portfolio	537,283	527,134	-	-
- custody services	15,939,892	14,358,979	15,922,835	14,296,275
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	72	83	72	83
- to other settlement systems and institutions for bought financial instrument (creditors)	5,755	2,514	5,414	1,039
- to bank or settlement bank account for fees and costs, etc.	391	382	391	382

Fee income for funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Fiduciary activities (note 4.3.b)	9,812	9,267	8,494	7,775
Settlement and other services	925	1,435	864	1,185
Total	**10,737**	**10,702**	**9,358**	**8,960**

6. Risk management

Risk management in NLB Group is implemented in accordance with the set strategic guidelines, established internal policies and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and relevant good banking practices. In addition, the Group is constantly enhancing and complementing the existing approaches, methodologies, and processes in all risk management segments with the aim to proactively and comprehensively support decision-making.

Managing risks and capital efficiently is crucial for NLB Group sustained long-term profitable operations. Robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group. NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group.

NLB Group's Risk management framework supports business decision-making on strategic and operating levels, comprehensive steering, proactive risk management and mitigation by incorporating:

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

NLB Group uses the 'three lines of defence framework' as an important element of its internal governance, whereby Risk management function acts as a second line of defence. Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

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

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

NLB Group plans a prudent risk profile and optimal capital usage, representing an important element of its business strategy and related mid-term financial targets. The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks – a diversified credit portfolio, adequate credit portfolio quality, the sustainable costs of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards an adequate liquidity position on an ongoing basis. 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 fundamental orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such a risk must not significantly impact its operations. On this basis, changes of control activities, processes, and/or organisation were performed. Besides the Group also focuses on proactive mitigation, prevention, and minimisation of potential damage. 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, NLB Group pursues the goals of low to moderate exposure. The tolerance for other risk types is low and focuses on minimising their possible impacts on NLB Group's entire operations. 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.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy. Within these frameworks, the Group monitors a range of risk metrics, including internal capital allocation, in order to assure Group's risk profile is in line with its risk appetite. The usage 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 banking subsidiaries within NLB Group adapted a corresponding approach to monitor and manage their target risk profiles.

NLB Group established a comprehensive stress-testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Robust and uniform stress-testing programme includes all material types of risk and relevant stress scenario analysis, according to the vulnerability of the Group's business model. It is integrated into Risk appetite, ICAAP, ILAAP, Recovery Plan, and budgeting process to support proactive management of the Group's risk profile, namely the capital and liquidity positions on a forward-looking perspective. In addition, the Group also performs reverse stress tests with the aim to test its maximum recovery capacity. Other partial risk assessments are covered by the sensitivity analysis, based on relevant stressed risk parameters, and integrated into the process of setting a risk management limit system.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, representing a secondary source of repayment with the aim of efficient credit risk management and optimal capital consumption. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in NLB Group are described in more relevant details in the section Credit risk management. When hedging market risks, namely interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

b) Risk management structure and organisation

NLB Group's corporate governance framework is 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), 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 provide cohesive risk management governance in NLB Group.

NLB Group established three lines of a defence framework with the aim of managing risks effectively. The three lines of defence concept provides a clear division of activities and defines roles and responsibilities for risk management at different levels within the Group. Risk management in the Group acts as a second line of defence, accountable for appropriate managing, assessing, monitoring, and reporting of risks in the Bank as the main entity in Slovenia, and as the competence centre in charge of nine banking members and other non-core subsidiaries which are in the controlled wind-out. As at 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.

Overall, the organisation and delineation of competencies in NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in NLB Group is managed within the Risk management business-line, which is a specialised business-line encompassing several professional areas, for which the Global Risk Department, the Corporate and the Retail Credit Analysis Department, and the Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The Risk management business line is in charge of formulating and controlling the risk management policies of NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the NLB Group, monitoring NLB Group's risk exposures, and preparing external and internal reports.

All members of NLB Group, which are included in the financial statements of NLB Group, report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board, adopt appropriate measures.

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

Risk monitoring in NLB Group members is operating within an independent and/or separate organisational unit. This way, monitoring of risks is established on the basis of standardised and systemic risk management approaches. This monitoring enables a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk appetite, risk management strategy and policies of NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and the Operational Risk Committee), which report to the Supervisory Board (the Risk Committee of the Supervisory Board or Board of Directors).

c) 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 member complies with the ECB regulation, while NLB 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), Decision (CRR), NLB Group applies the standardised approach to credit and market risk, and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

Across the Group, risks are assessed, monitored, managed, or mitigated in a uniform manner, as defined in the Group's Risk management standards, considering also the specifics of the markets in which individual NLB Group members operate. For the purposes of measuring exposure to credit risk, liquidity risk, interest rate risk in the banking book, valuation risk, operational risk, market risk, and non-financial risks, in addition to the prescribed regulations, NLB 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 group, the harmonisation process in the area of risk management is underway.

As for risk reporting, NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies based on common methodologies for measuring exposure to risks, uniform database 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.

d) Data and IT system

Risk data are calculated and stored in 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.

e) Main emphasis of risk management in 2020

Efficient managing of risks and capital remains crucial for NLB Group to sustain long-term profitable operations. The Group further enhanced the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively, and prudently. Risk identification in a very early stage, its efficient managing, and the corresponding mitigation processes represent essential steps in such a system. The business and operating environment relevant for NLB Group operations is changing with trends, such as: changing customer behaviour, emerging new technologies and competitors, sustainable financing, and increasing new regulatory requirements. With that in mind, the risk management framework is continuously adapting with the aim to detect and manage new potential emerging risks.

The Group gives special focus on the inclusion of risk analysis into the decision-making process on strategic and operating levels, diversification in order to avoid a large concentration, optimal usage of internal capital, appropriate risk-adjusted pricing, regular education/trainings at all levels of management, and the assurance of overall compliance with internal policies/rules and relevant regulations.

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. Nevertheless, the rating structure of credit portfolio remained relatively stable, as well its structure stayed diversified. 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 the average income of private individuals. From the beginning of the COVID-19 pandemic NLB Group has complied with EBA guidelines on payment moratoria regarding forborne exposures, namely by frequently performing the assessment of borrowers and ensuring effective early warning systems. In contrast, the Group faced growing excess liquidity, impacts of the pandemic did not cause any material liquidity outflows. Following the indications of the outbreak of 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. 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 risk management and executing mitigation measures if needed.

As at 30 December 2020, the acquisition of Komercijalna banka Beograd was completed. NLB Group, including Komercijalna banka group, concluded the year 2020 as self-funded, with strong liquidity and a solid capital position, demonstrating the Group's financial resilience. The acquired Komercijalna banka group has similar business model to the existing NLB Group, and respectively its impact on the Group's risk profile was moderate. The harmonisation in the area of the Group's risk management framework and uniform data flow, based on Group's Risk management Standards, is underway.

6.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the European Central Bank or Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities function in accordance with NLB Group's risk management standards to enable 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's 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 NLB Group and NLB.

  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 IFRS 9), 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-19-related transactions has been initiated. The Bank monitors COVID-19-related moratoria in terms of the type of moratoria (legislative, non-legislative, or private), 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. 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 NLB 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. In addition, a single name concentration add-on is based on the Granularity adjustment methodology and an industry concentration add-on is estimated based on the HHI concentration indexes.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, and at the collective level for the rest of the portfolio.

An individual review is performed for material Stage 3 financial assets which have been rated as non-performing based on the information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised.

Collective ECL allowances are made for the remainder of the portfolio, which is not assessed on an individual basis. Based on IFRS 9 requirements, financial assets measured at amortised cost are attributed to the appropriate stage based on the estimated increase of credit risk of a single exposure since initial recognition. The stage of financial assets determines whether a 12-month or lifetime ECL must be considered. The ECL calculation is based on the forward-looking probability of default (PD) and loss given default (LGD), which are calculated using historic data and statistical modelling, as well as predicted macroeconomic parameters. For the off-balance financial assets, the probability of the redemption of guarantees is considered when creating collective provisions. The models used to estimate future risk parameters are validated and back-tested on a regular basis to make loss estimations as realistic as possible.

b) Main emphasis in 2020

In the process of constantly complementing and enhancing credit risk management, NLB Group focuses on taking moderate risks, and at the same time ensuring an optimal return considering the risks assumed. Preserving high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market in the region, financing existing and new creditworthy clients. To further enhance existing risk management tools, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in credit risk assessment in line with best banking practises, while at the same time enabling faster responsiveness towards clients.

Lending growth in the corporate segment remained relatively moderate, especially in the current specific circumstances. Besides that, the COVID-19 situation contributed to a temporary slowdown in the growth of retail segment. As at 30 December 2020, with acquisition of Komercijalna banka, 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 share of retail portfolio in the whole credit portfolio is quite substantial with still prevailing segment of mortgage loans.

Starting in March 2020, the rise of the COVID-19 pandemic in Europe (including the Bank strategic markets) give rise to new legislation in most countries of SE Europe, encouraging granting of moratoria to clients (both retail and corporate) effected by the pandemic. In the markets where the Bank is positioned, different types of regulation were approved (opt-in/opt-out principles). Furthermore, during the year when the pandemic progressed, some governments decided for a second or even third package of legislation, requiring the banks to prolong or grant new moratoria to its existing clients. NLB Group followed the legislative rules in each market and provided moratoria to a material part of the portfolio, however, at the end of 2020 the grace periods have expired for a large part of the facilities.

At the same time, the Bank places great effort to appropriately monitor the clients in need of moratoria. Based on the EBA Guidelines for COVID-19 legislative and non-legislative moratoria, the Bank did not consider COVID-19 moratoria as a forbearance measure if granted before 30 September 2020 or if granted after that date, but the cumulative moratoria period did not exceed nine months. Nevertheless, any moratoria granted due to the COVID-19 situation not aligned with the legislative or non-legislative standards, was checked for forbearance status on case-by-case basis. Additionally, the clients who were granted COVID-19 moratoria or new financing on the basis of the COVID-19 circumstances, were analysed as part of the regular credit process using a wide variety of financial and non-financial indicators and were downgraded or placed on the watch list if increase in credit risk was identified.

In addition to moratoria, the governments in Serbia and Slovenia provide public guarantee schemes for new financing of clients whose business has been severely damaged due to the COVID-19 pandemic. The guarantee covers the financing up to 30% in Serbia and in the range of 70-80% in Slovenia. Nevertheless, the decision of granting such loans is left to the discretion of each individual bank, and so the regular client review is performed in line with the bank lending standards.

In 2020, the NLB Group reviewed IFRS 9 provisioning on an ongoing basis by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and related future impacts.

The COVID-19 pandemic had some negative impacts on the existing loan portfolio quality and new loan generation. Nevertheless, the Group's credit portfolio quality remained solid with quite stable rating structure and diversified portfolio. Great emphasis was placed on intensive and proactive handling of problematic customers and early warning system for detecting increased credit risk at a very early stage. The stock of NPE volume moderately increased, mainly as a result of COVID-19 impacts and acquisition of Komercijalna banka group, while further reduction resulted from active workout activities. Reduction of NPLs on the Group level remained a strong focus in 2020. As at 31 December 2020 the share of non-performing exposure by EBA methodology in NLB Group was 2.8% (comparable to 2.7% at the end of 2019). Moreover, the coverage ratio remains high at 57.3%, which is well above the EU average published by the EBA (45.3% in 4Q 2020).

c) Maximum exposure to credit risk

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Cash, cash balances at central banks, and other demand deposits at banks	3,961,812	2,101,346	2,261,533	1,292,211
Financial assets held for trading	84,855	24,038	18,831	24,085
Non-trading financial assets mandatorily at fair value through profit or loss	27,233	16,717	30,935	20,571
Financial assets at fair value through other comprehensive income	3,446,491	2,091,805	1,671,204	1,611,711
Financial assets at amortised cost				
Debt securities	1,503,087	1,653,848	1,277,880	1,485,166
Loans to government	368,400	271,389	170,742	182,582
Loans to banks	197,005	93,403	158,320	144,352
Loans to financial organisations	158,871	100,054	177,198	131,442
Loans to individuals	4,933,093	3,938,035	2,377,770	2,352,625
Loans to other customers	4,159,496	3,280,246	1,838,468	1,901,950
Other financial assets	113,138	97,415	54,503	67,279
Derivatives - hedge accounting	-	788	-	788
Total net financial assets	**18,953,481**	**13,669,084**	**10,037,384**	**9,214,762**
Guarantees	1,126,442	916,458	689,668	614,473
Financial guarantees	479,096	383,597	258,003	230,909
Non-financial guarantees	647,346	532,861	431,665	383,564
Loan commitments	1,816,441	1,346,012	1,306,791	1,072,458
Other potential liabilities	32,087	31,613	8,121	20,349
Total contingent liabilities	**2,974,970**	**2,294,083**	**2,004,580**	**1,707,280**
Total maximum exposure to credit risk	**21,928,451**	**15,963,167**	**12,041,964**	**10,922,042**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and contingent liabilities. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

d) Collateral from financial assets that are credit-impaired

in EUR thousands

	NLB Group			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2020	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets at amortised cost				
Loans to individuals	33,375	132,532	20,822	5,922
Loans to other customers	78,426	532,990	45,161	55,545
Other financial assets	149	2,338	1,478	89
Total	**111,950**	**667,860**	**67,461**	**61,556**

in EUR thousands

	NLB Group			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2019	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets at amortised cost				
Loans to government	3,219	6,405	1,273	-
Loans to individuals	26,984	88,119	12,786	9,161
Loans to other customers	45,571	274,472	26,457	66,348
Other financial assets	177	4,055	992	93
Total	**75,951**	**373,051**	**41,508**	**75,602**

in EUR thousands

	NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2020	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets at amortised cost				
Loans to individuals	17,359	45,756	11,431	2,672
Loans to other customers	30,058	116,073	6,081	20,757
Other financial assets	7	448	70	44
Total	**47,424**	**162,277**	**17,582**	**23,473**

in EUR thousands

	NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2019	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets at amortised cost				
Loans to government	3,219	6,405	-	-
Loans to individuals	18,101	42,505	6,948	1,954
Loans to other customers	21,683	94,608	10,585	22,802
Other financial assets	9	1,519	352	39
Total	**43,012**	**145,037**	**17,885**	**24,795**

e) Collateral from loans mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group			
	Fully/over collateralised financial assets			
	31 Dec 2020		31 Dec 2019	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Loans mandatorily at fair value through profit or loss	25,076	47,725	14,961	28,981

in EUR thousands

	NLB			
	Fully/over collateralised financial assets			
	31 Dec 2020		31 Dec 2019	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Loans mandatorily at fair value through profit or loss	30,935	45,407	20,571	25,085

f) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by NLB Group members in accordance with regulatory requirements. The master document regulating loan collateral in the NLB Group is the Loan Collateral Policy in NLB d.d. and NLB Group. The Policy has been adopted by the Management Board of NLB Group. The Policy represents the basic principles that NLB Group's employees must take into account 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.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities, and real-estate mortgages (the real estate must be, beside other criteria, located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral, as well (e.g., 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, NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

g) The processes for valuing collateral

In compliance with relevant regulations, NLB 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 NLB 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 of 30 to 70%, depending on the type of real estate and location, and for movables they range between 50 and 100%, depending on the type of movable.

The market value of financial instruments held by NLB 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 and 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 NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all possessing the necessary licences. NLB 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, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity, etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. If real estate, movable property, and financial instruments serve as collateral, NLB 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.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to 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).

h) The main types of collateral taken by the NLB Group

NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in the case of a debtor (borrower) defaulting on their contractual obligations to sell a specific property to recover claims, keep specific non-cash property or cash, or reduce or offset the amount of exposure against the counterparty's debt to the Bank.

NLB 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 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) and are, according to the bank assessment, suitable for insurance of investments.
- A pledge of an equity stake: non-marketable capital shares with a credit rating of at least B are adequate.
- A 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 d.d. Ljubljana – a 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.

NLB 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, individuals 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. Slovene 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.

NLB 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.

i) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines, and are prescribed in the Business Rules.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral from which payment can be realistically expected if it is liquidated, is considered.

NLB Group has the largest concentration of collaterals arising from mortgages on real estate, which is a relatively reliable and quality type of collateral; however, among others due to the falling real estate market prices in recent history, the Bank closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value, which are expected to be achieved in a sale (expected payment from collateral). 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 consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans based on pledged securities and equity shares in NLB. Deviations from the Rules are subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined regarding the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price.

Collateral consisting of the sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Credit quality analysis for financial assets and contingent liabilities

in EUR thousands

31 Dec 2020	NLB Group					NLB				
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities at amortised cost										
A	1,118,700	-	-	-	1,118,700	1,118,700	-	-	-	1,118,700
B	388,072	-	-	-	388,072	161,021	-	-	-	161,021
Loss allowance	(3,685)	-	-	-	(3,685)	(1,841)	-	-	-	(1,841)
Carrying amount	1,503,087	-	-	-	1,503,087	1,277,880	-	-	-	1,277,880
Loans and advances to banks at amortised cost										
A	67,862	-	-	-	67,862	158,475	-	-	-	158,475
B	128,784	-	-	-	128,784	-	-	-	-	-
C	500	-	-	-	500	-	-	-	-	-
Loss allowance	(141)	-	-	-	(141)	(155)	-	-	-	(155)
Carrying amount	197,005	-	-	-	197,005	158,320	-	-	-	158,320
Loans and advances to customers at amortised cost										
A	5,809,837	76,453	-	-	5,886,290	3,110,739	42,762	-	-	3,153,501
B	2,964,808	198,112	-	-	3,162,920	1,132,586	111,683	-	-	1,244,269
C	222,630	285,588	-	-	508,218	34,338	104,065	-	-	138,403
D and E	-	-	390,921	43,791	434,712	-	-	169,036	2,341	171,377
Loss allowance	(74,518)	(40,834)	(255,603)	(1,325)	(372,280)	(25,637)	(11,287)	(105,129)	(1,319)	(143,372)
Carrying amount	8,922,757	519,319	135,318	42,466	9,619,860	4,252,026	247,223	63,907	1,022	4,564,178
Other financial assets at amortised cost										
A	64,691	28	-	-	64,719	48,994	1	-	-	48,995
B	46,382	55	-	-	46,437	5,386	28	-	-	5,414
C	223	438	-	-	661	56	36	-	-	92
D and E	-	-	5,655	1,219	6,874	-	-	1,324	8	1,332
Loss allowance	(276)	(30)	(5,243)	(4)	(5,553)	(73)	(2)	(1,251)	(4)	(1,330)
Carrying amount	111,020	491	412	1,215	113,138	54,363	63	73	4	54,503
Debt instruments at fair value through other comprehensive income										
A	1,596,443	-	-	-	1,596,443	1,447,706	-	-	-	1,447,706
B	1,849,818	230	-	-	1,850,048	223,498	-	-	-	223,498
Loss allowance	(8,656)	(28)	(798)	-	(9,482)	(2,343)	-	(798)	-	(3,141)
Contingent liabilities										
A	1,285,492	843	-	-	1,286,335	984,496	238	-	-	984,734
B	1,490,929	53,326	-	-	1,544,255	889,669	41,654	-	-	931,323
C	48,329	49,781	-	-	98,110	22,253	31,363	-	-	53,616
D and E	-	-	31,474	14,796	46,270	-	-	27,855	7,052	34,907
Loss allowance	(15,796)	(2,767)	(18,554)	(5,057)	(42,174)	(7,510)	(732)	(16,493)	(3,808)	(28,543)
Carrying amount	2,808,954	101,183	12,920	9,739	2,932,796	1,888,908	72,523	11,362	3,244	1,976,037

in EUR thousands

31 Dec 2019	NLB Group					NLB				
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities at amortised cost										
A	1,316,405	-	-	-	1,316,405	1,316,405	-	-	-	1,316,405
B	340,583	-	-	-	340,583	170,378	-	-	-	170,378
Loss allowance	(3,140)	-	-	-	(3,140)	(1,617)	-	-	-	(1,617)
Carrying amount	1,653,848	-	-	-	1,653,848	1,485,166	-	-	-	1,485,166
Loans and advances to banks at amortised cost										
A	68,270	-	-	-	68,270	144,392	-	-	-	144,392
B	24,728	-	-	-	24,728	101	-	-	-	101
C	500	-	-	-	500	-	-	-	-	-
Loss allowance	(95)	-	-	-	(95)	(141)	-	-	-	(141)
Carrying amount	93,403	-	-	-	93,403	144,352	-	-	-	144,352
Loans and advances to customers at amortised cost										
A	4,887,014	47,299	-	-	4,934,313	3,173,430	10,940	-	-	3,184,370
B	2,180,375	132,989	-	-	2,313,364	1,155,231	38,324	-	-	1,193,555
C	24,935	290,729	-	-	315,664	21,888	140,162	-	-	162,050
D and E	-	-	344,050	4,777	348,827	-	-	143,605	3,784	147,389
Loss allowance	(56,728)	(33,179)	(230,650)	(1,887)	(322,444)	(20,724)	(11,188)	(84,997)	(1,856)	(118,765)
Carrying amount	7,035,596	437,838	113,400	2,890	7,589,724	4,329,825	178,238	58,608	1,928	4,568,599
Other financial assets at amortised cost										
A	71,271	33	-	-	71,304	59,971	6	-	-	59,977
B	24,439	49	-	-	24,488	6,720	18	-	-	6,738
C	192	466	-	-	658	179	88	-	-	267
D and E	-	-	5,855	16	5,871	-	-	2,129	9	2,138
Loss allowance	(177)	(27)	(4,699)	(3)	(4,906)	(55)	(9)	(1,774)	(3)	(1,841)
Carrying amount	95,725	521	1,156	13	97,415	66,815	103	355	6	67,279
Debt instruments at fair value through other comprehensive income										
A	1,631,116	-	-	-	1,631,116	1,504,437	-	-	-	1,504,437
B	460,427	262	-	-	460,689	107,274	-	-	-	107,274
Loss allowance	(4,757)	(42)	(798)	-	(5,597)	(1,714)	-	(798)	-	(2,512)
Contingent liabilities										
A	982,227	3,442	-	-	985,669	782,113	806	-	-	782,919
B	1,108,696	43,620	-	-	1,152,316	781,518	20,201	-	-	801,719
C	17,348	65,554	-	-	82,902	11,580	41,422	-	-	53,002
D and E	-	-	66,252	6,944	73,196	-	-	62,696	6,944	69,640
Loss allowance	(12,909)	(2,444)	(22,084)	(1,984)	(39,421)	(6,145)	(653)	(20,381)	(1,984)	(29,163)
Carrying amount	2,095,362	110,172	44,168	4,960	2,254,662	1,569,066	61,776	42,315	4,960	1,678,117

The NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices, as well as Bank of Slovenia regulations, and ECB and EBA guidelines and requirements. The aligned rating methodology is used across the entire NLB Group. It includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients.

The Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high coverage of financial liabilities with free cash flow. The Rating Group A is considered as investment grade classification.

The Rating Group B (BBB to B rating classes) includes clients with a low credit risk, starting one notch lower than 'A' rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements, and have sufficient cash flow to settle their obligations, but may be more sensitive to changes in the industry or the economy. The Rating Group B classification is an investment grade for BBB, and an 'invest with care' for BB and B.

The Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. CCC rated clients are financed by the Bank only in the case when such support brings more positive effects for the Bank; however, the Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

The Rating Groups D (D and DF rating classes) and E represent non-performing clients that are treated as defaulted. D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

In 2020, NLB Group applied a new default definition based on the EBA guidelines, where the materiality threshold for delays is determined in absolute and relative terms (EUR 100 for retail and EUR 500 for non-retail segment and 1% of the total exposure on the client level). At the same time, the assessment of rating for private individuals was improved by establishing a common rating on the client level.

A standard corporate rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 7 million. Materially important clients are submitted to the NLB Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

k) Forborne loans

in EUR thousands

NLB Group

	All forborne exposures				Impairment, provisions and value adjustments		
			Non - performing				
31 Dec 2020	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**303,802**	**55,354**	**223,376**	**248,448**	**(5,761)**	**(141,372)**	**142,714**
Governments	1,342	1,050	292	292	(5)	(292)	-
Other financial organisations	2,425	50	2,375	2,375	-	(2,375)	50
Non-financial organisations	254,947	33,882	195,993	221,065	(4,739)	(129,550)	114,395
Households	45,088	20,372	24,716	24,716	(1,017)	(9,155)	28,269
Debt instruments other than held for trading	**303,802**	**55,354**	**223,376**	**248,448**	**(5,761)**	**(141,372)**	**142,714**
Loan commitments given	**1,586**	**942**	**644**	**644**	**(4)**	**(37)**	**1,332**
Total exposures with forbearance measures	**305,388**	**56,296**	**224,020**	**249,092**	**(5,765)**	**(141,409)**	**144,046**

in EUR thousands

NLB Group

	All forborne exposures				Impairment, provisions and value adjustments		
			Non - performing				
31 Dec 2019	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**278,449**	**65,090**	**213,359**	**213,359**	**(4,940)**	**(139,455)**	**130,954**
Governments	5,945	-	5,945	5,945	-	(2,725)	3,219
Other financial organisations	1,959	24	1,935	1,935	-	(1,935)	24
Non-financial organisations	237,588	53,970	183,618	183,618	(4,464)	(128,327)	104,518
Households	32,957	11,096	21,861	21,861	(476)	(6,468)	23,193
Debt instruments other than held for trading	**278,449**	**65,090**	**213,359**	**213,359**	**(4,940)**	**(139,455)**	**130,954**
Loan commitments given	**2,414**	**1,520**	**894**	**894**	**(7)**	**(835)**	**1,309**
Total exposures with forbearance measures	**280,863**	**66,610**	**214,253**	**214,253**	**(4,947)**	**(140,290)**	**132,263**

in EUR thousands

NLB

	All forborne exposures				Impairment, provisions and value adjustments		
			Non - performing				
31 Dec 2020	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**148,251**	**21,976**	**103,287**	**126,275**	**(1,522)**	**(73,298)**	**76,210**
Other financial organisations	2,397	22	2,375	2,375	-	(2,375)	22
Non-financial organisations	117,671	9,522	85,161	108,149	(742)	(66,055)	58,447
Households	28,183	12,432	15,751	15,751	(780)	(4,868)	17,741
Debt instruments other than held for trading	**148,251**	**21,976**	**103,287**	**126,275**	**(1,522)**	**(73,298)**	**76,210**
Loan commitments given	**1,560**	**920**	**640**	**640**	**(2)**	**(35)**	**1,332**
Total exposures with forbearance measures	**149,811**	**22,896**	**103,927**	**126,915**	**(1,524)**	**(73,333)**	**77,542**

in EUR thousands

31 Dec 2019	NLB All forborne exposures Gross carrying amount	Performing	Non - performing Impaired	Defaulted	Impairment, provisions and value adjustments Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**168,852**	**45,830**	**123,022**	**123,022**	**(2,910)**	**(69,783)**	**92,366**
Governments	5,627	-	5,627	5,627	-	(2,407)	3,219
Other financial organisations	1,959	24	1,935	1,935	-	(1,935)	24
Non-financial organisations	137,872	37,670	100,202	100,202	(2,610)	(62,157)	71,389
Households	23,394	8,136	15,258	15,258	(300)	(3,284)	17,734
Debt instruments other than held for trading	**168,852**	**45,830**	**123,022**	**123,022**	**(2,910)**	**(69,783)**	**92,366**
Loan commitments given	**2,389**	**1,495**	**894**	**894**	**(7)**	**(835)**	**1,283**
Total exposures with forbearance measures	**171,241**	**47,325**	**123,916**	**123,916**	**(2,917)**	**(70,618)**	**93,649**

Forborne exposures of debt instruments by periods of forbearance

in EUR thousands

	NLB Group			
31 Dec 2020	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	13,455	9,963	1,858	24,317
Non-performing exposures	32,950	1,786	7,140	65,200
Total exposures with forbearance measures	**46,405**	**11,749**	**8,998**	**89,517**
31 Dec 2019				
Performing exposures	5,745	3,819	8,166	42,420
Non-performing exposures	3,759	1,286	1,967	70,114
Total exposures with forbearance measures	**9,504**	**5,105**	**10,133**	**112,534**

in EUR thousands

	NLB			
31 Dec 2020	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	8,304	931	1,398	9,821
Non-performing exposures	3,969	942	5,513	42,553
Total exposures with forbearance measures	**12,273**	**1,873**	**6,911**	**52,374**
31 Dec 2019				
Performing exposures	3,298	309	5,083	34,230
Non-performing exposures	3,129	967	722	48,421
Total exposures with forbearance measures	**6,427**	**1,276**	**5,805**	**82,651**

The main forbearance measurements used by NLB Group and NLB are: deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims, and others, either as a single forbearance measurement or as a combination of those.

l) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Nature of assets	**Net value**		**Net value**	
Equity securities measured at fair value through OCI (note 5.4.b)	-	3,289	-	-
Investment property (note 5.9.)	36,130	32,465	4,079	3,464
Property and equipment (note 5.8.)	13,268	1,440	7	7
Investments in subsidiaries and associates	-	-	2,412	2,442
Real estates (note 5.13.)	75,151	50,467	4,926	5,292
Other assets (note 5.13.)	866	855	-	-
Total	**125,415**	**88,516**	**11,424**	**11,205**

m) Analysis of loans and advances by industry sectors

in EUR thousands

NLB Group	31 Dec 2020				31 Dec 2019			
Industry sector	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**
Banks	197,146	(141)	197,005	1.98	93,498	(95)	93,403	1.20
Finance	116,593	(3,126)	113,467	1.14	93,479	(2,763)	90,716	1.16
Electricity, gas, and water	298,612	(6,971)	291,641	2.93	178,504	(4,352)	174,152	2.23
Construction industry	361,494	(27,548)	333,946	3.35	236,394	(29,669)	206,725	2.65
Heavy industry	952,671	(44,446)	908,225	9.12	857,269	(42,368)	814,901	10.45
Education	13,883	(1,111)	12,772	0.13	10,762	(559)	10,203	0.13
Agriculture, forestry, and fishing	91,780	(7,023)	84,757	0.85	61,261	(6,770)	54,491	0.70
Public sector	301,205	(5,737)	295,468	2.97	184,435	(4,533)	179,902	2.31
Individuals	5,027,648	(94,555)	4,933,093	49.55	4,013,488	(75,453)	3,938,035	50.52
Mining	79,662	(1,230)	78,432	0.79	18,441	(1,596)	16,845	0.22
Entrepreneurs	314,276	(7,268)	307,008	3.08	151,217	(3,609)	147,608	1.89
Services	725,020	(71,133)	653,887	6.57	599,180	(55,871)	543,309	6.97
Transport and communications	811,517	(25,029)	786,488	7.90	745,260	(18,099)	727,161	9.33
Trade industry	874,235	(75,309)	798,926	8.03	752,835	(75,264)	677,571	8.69
Health care and social security	48,620	(1,794)	46,826	0.47	24,604	(1,538)	23,066	0.30
Other financial assets	118,691	(5,553)	113,138	1.14	102,321	(4,906)	97,415	1.25
Total	**10,333,053**	**(377,974)**	**9,955,079**	**100.00**	**8,122,948**	**(327,445)**	**7,795,503**	**100.00**

in EUR thousands

NLB	31 Dec 2020				31 Dec 2019			
Industry sector	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**
Banks	158,475	(155)	158,320	3.29	144,493	(141)	144,352	3.01
Finance	135,040	(4,405)	130,635	2.72	125,521	(3,441)	122,080	2.54
Electricity, gas, and water	157,515	(2,892)	154,623	3.22	138,587	(2,497)	136,090	2.83
Construction industry	63,025	(8,463)	54,562	1.13	67,427	(11,545)	55,882	1.16
Heavy industry	519,880	(14,445)	505,435	10.51	557,861	(13,994)	543,867	11.33
Education	5,197	(38)	5,159	0.11	6,078	(56)	6,022	0.13
Agriculture, forestry, and fishing	15,099	(865)	14,234	0.30	14,714	(809)	13,905	0.29
Public sector	95,930	(1,793)	94,137	1.96	92,924	(1,689)	91,235	1.90
Individuals	2,411,949	(34,179)	2,377,770	49.46	2,376,791	(24,166)	2,352,625	49.00
Mining	8,580	(74)	8,506	0.18	6,495	(47)	6,448	0.13
Entrepreneurs	52,216	(3,014)	49,202	1.02	49,732	(1,604)	48,128	1.00
Services	454,154	(44,827)	409,327	8.51	398,059	(29,139)	368,920	7.68
Transport and communications	589,269	(4,965)	584,304	12.15	645,791	(3,822)	641,969	13.37
Trade industry	204,343	(22,190)	182,153	3.79	217,068	(24,849)	192,219	4.00
Health care and social security	26,288	(1,222)	25,066	0.52	10,887	(1,107)	9,780	0.20
Other financial assets	55,833	(1,330)	54,503	1.13	69,120	(1,841)	67,279	1.40
Total	**4,952,793**	**(144,857)**	**4,807,936**	**100.00**	**4,921,548**	**(120,747)**	**4,800,801**	**100.00**

n) Analysis of net loans and advances by geographical sectors

in EUR thousands

	NLB Group		NLB	
Country	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Slovenia	4,360,051	4,405,416	4,354,155	4,401,362
Serbia	2,146,793	454,299	134,303	103,458
Other European Union members	157,557	180,385	73,252	100,261
Other countries	3,290,678	2,755,403	246,226	195,720
Total	**9,955,079**	**7,795,503**	**4,807,936**	**4,800,801**

o) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousands

31 Dec 2020	NLB Group					NLB			
Country	**Financial assets measured at amortised cost**	**Financial assets held for trading**	**Financial assets measured at fair value through OCI**	**Non-trading financial assets mandatorily at FV through profit or loss**	**Derivative financial instruments**	**Financial assets measured at amortised cost**	**Financial assets held for trading**	**Financial assets measured at fair value through OCI**	**Derivative financial instruments**
Slovenia	305,697	-	484,875	-	14,498	305,697	-	389,932	14,498
Other members of European Union	930,258	-	978,504	111	672	930,258	-	932,714	672
- Austria	78,720	-	73,959	-	-	78,720	-	59,163	-
- Belgium	121,657	-	78,858	-	-	121,657	-	57,167	-
- Bulgaria	36,910	-	3,255	-	-	36,910	-	3,255	-
- Czech Republic	1,025	-	16,420	-	-	1,025	-	16,420	-
- Denmark	-	-	15,976	-	-	-	-	15,976	-
- Finland	38,515	-	81,905	-	-	38,515	-	80,827	-
- France	151,981	-	155,580	-	80	151,981	-	149,673	80
- Germany	63,155	-	104,967	-	120	63,155	-	104,967	120
- Hungary	20,907	-	9,924	-	-	20,907	-	9,924	-
- Ireland	45,576	-	36,464	-	-	45,576	-	34,146	-
- Italy	7,088	-	11,048	111	-	7,088	-	11,048	-
- Latvia	22,112	-	749	-	-	22,112	-	749	-
- Lithuania	11,626	-	18,385	-	-	11,626	-	18,385	-
- Luxembourg	71,821	-	37,853	-	-	71,821	-	37,853	-
- Netherlands	50,409	-	133,360	-	90	50,409	-	133,360	90
- Poland	26,432	-	17,023	-	-	26,432	-	17,023	-
- Portugal	45,937	-	19,377	-	-	45,937	-	19,377	-
- Romania	23,600	-	5,599	-	-	23,600	-	5,599	-
- Slovakia	21,662	-	36,350	-	-	21,662	-	36,350	-
- Spain	66,622	-	53,201	-	-	66,622	-	53,201	-
- Sweden	8,072	-	59,424	-	-	8,072	-	59,424	-
- Other	16,431	-	8,827	-	382	16,431	-	8,827	382
United States of America	9,786	2,450	79,543	2,046	-	9,786	2,450	56,742	-
Other countries	257,346	66,356	1,903,569	-	879	32,139	-	291,816	1,211
- North Macedonia	204,455	-	143,059	-	7	-	-	56,433	-
- Montenegro	20,386	-	18,649	-	-	6,816	-	3,134	-
- Serbia	7,182	66,356	1,267,258	-	30	-	-	-	365
- Kosovo	-	-	75,223	-	786	-	-	-	786
- Bosnia and Herzegovina	-	-	167,131	-	-	-	-	-	4
- Albania	-	-	30,548	-	-	-	-	30,548	-
- Canada	14,037	-	27,514	-	-	14,037	-	27,514	-
- Great Britain	-	-	104,493	-	56	-	-	104,493	56
- Iceland	4,993	-	8,988	-	-	4,993	-	8,988	-
- Norway	6,293	-	20,526	-	-	6,293	-	20,526	-
- Other	-	-	40,180	-	-	-	-	40,180	-
Total	**1,503,087**	**68,806**	**3,446,491**	**2,157**	**16,049**	**1,277,880**	**2,450**	**1,671,204**	**16,381**

Other members of the European Union included in the item 'Other' are Malta, Cyprus, Greece and Croatia.

Other members of the 'Other countries' in the item 'Other' are Israel, Kazakhstan and Russia.

in EUR thousands

31 Dec 2019	NLB Group					NLB			
Country	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at FV through profit or loss	Derivative financial instruments	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Derivative financial instruments
Slovenia	417,611	1,041	535,160	-	13,278	417,611	1,041	457,671	13,278
Other members of European Union	976,304	40	1,103,666	1,391	6,416	976,304	40	1,074,241	6,416
- Austria	79,096	-	34,066	-	-	79,096	-	34,066	-
- Belgium	124,649	-	62,276	-	16	124,649	-	57,515	16
- Bulgaria	35,880	-	3,301	-	-	35,880	-	3,301	-
- Czech Republic	1,024	-	19,180	-	-	1,024	-	19,180	-
- Denmark	-	-	18,288	-	-	-	-	18,288	-
- Finland	41,312	-	80,712	625	-	41,312	-	79,645	-
- France	164,488	10	234,174	-	622	164,488	10	223,049	622
- Germany	120,107	10	91,484	302	426	120,107	10	88,479	426
- Great Britain	1,193	-	79,053	-	4,941	1,193	-	79,053	4,941
- Hungary	27,252	-	1,841	-	-	27,252	-	1,841	-
- Ireland	40,754	10	56,834	-	-	40,754	10	51,425	-
- Italy	8,720	-	15,463	109	-	8,720	-	15,463	-
- Latvia	13,534	-	12,123	-	-	13,534	-	12,123	-
- Lithuania	9,082	-	24,654	-	-	9,082	-	24,654	-
- Luxembourg	78,891	-	48,042	355	-	78,891	-	48,042	-
- Netherlands	50,642	-	99,586	-	3	50,642	-	99,586	3
- Poland	13,873	-	43,741	-	-	13,873	-	43,741	-
- Portugal	44,704	-	22,863	-	-	44,704	-	22,863	-
- Romania	18,161	-	5,239	-	-	18,161	-	5,239	-
- Slovakia	21,721	-	42,630	-	-	21,721	-	42,630	-
- Spain	63,600	10	51,105	-	-	63,600	10	47,047	-
- Sweden	8,091	-	42,029	-	-	8,091	-	42,029	-
- Other	9,530	-	14,982	-	408	9,530	-	14,982	408
United States of America	46,724	3,244	36,442	-	-	46,724	3,244	16,678	-
Other countries	213,209	-	416,537	365	807	44,527	-	63,121	854
- North Macedonia	141,909	-	99,914	-	-	-	-	-	2
- Montenegro	26,773	-	24,852	-	-	-	-	3,271	-
- Serbia	-	-	84,118	-	-	-	-	9,801	45
- Kosovo	-	-	70,140	-	807	-	-	-	807
- Bosnia and Herzegovina	-	-	87,464	-	-	-	-	-	-
- Canada	14,052	-	29,156	-	-	14,052	-	29,156	-
- Iceland	5,070	-	-	-	-	5,070	-	-	-
- Norway	6,304	-	17,706	-	-	6,304	-	17,706	-
- Other	19,101	-	3,187	365	-	19,101	-	3,187	-
Total	**1,653,848**	**4,325**	**2,091,805**	**1,756**	**20,501**	**1,485,166**	**4,325**	**1,611,711**	**20,548**

Other members of the European Union included in the item 'Other' are Cyprus and Croatia.

Other members of the 'Other countries' in the item 'Other' are Australia and Russia.

p) Internal rating of derivatives counterparties

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	in %		in %	
A	73.56	74.14	73.75	74.27
B	15.35	16.34	15.24	16.26
C	10.90	9.52	10.82	9.47
D and E	0.19	0.00	0.19	0.00
Total	**100.00**	**100.00**	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

r) Debt securities in NLB's and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousands

31 Dec 2020	NLB Group					NLB				
Internal rating	**A**	**B**	**C**	**D**	**Total**	**A**	**B**	**C**	**D**	**Total**
Financial assets measured at fair value through other comprehensive income	-	14,796	-	-	14,796	-	-	-	-	-
Financial assets measured at amortised cost										
- loans and advances to banks	-	-	-	-	-	67,128	-	-	-	67,128
- loans and advances to customers	-	-	-	-	-	-	-	5,858	-	5,858
Total	**-**	**14,796**	**-**	**-**	**14,796**	**67,128**	**-**	**5,858**	**-**	**72,986**

in EUR thousands

31 Dec 2019	NLB Group					NLB				
Internal rating	**A**	**B**	**C**	**D**	**Total**	**A**	**B**	**C**	**D**	**Total**
Financial assets measured at amortised cost										
- debt securities	523	-	-	-	523	523	-	-	-	523
- loans and advances to banks	-	-	-	-	-	67,167	-	-	-	67,167
- loans and advances to customers	-	-	-	-	-	-	-	5,915	-	5,915
Total	**523**	**-**	**-**	**-**	**523**	**67,690**	**-**	**5,915**	**-**	**73,605**

s) Presentation of net financial instruments by measurement category

in EUR thousands

31 Dec 2020	NLB Group Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Financial leases	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	3,961,812	-	3,961,812
Securities	68,806	17,317	3,514,290	1,503,087	-	5,103,500
- Bonds	68,806	2,157	3,260,940	1,480,478	-	4,812,381
- Shares	-	4,171	67,799	-	-	71,970
- Commercial bills	-	-	50,449	-	-	50,449
- Treasury bills	-	-	135,102	22,609	-	157,711
- Investment funds	-	10,989	-	-	-	10,989
Derivatives	16,049	-	-	-	-	16,049
Loans and receivables	-	25,076	-	9,768,232	48,633	9,841,941
- Loans to government	-	-	-	365,339	3,061	368,400
- Loans to banks	-	-	-	197,005	-	197,005
- Loans to financial organisations	-	-	-	158,845	26	158,871
- Loans to individuals	-	-	-	4,913,793	19,300	4,933,093
- Loans to other customers	-	25,076	-	4,133,250	26,246	4,184,572
Other financial assets	-	-	-	113,138	-	113,138
Total financial assets	**84,855**	**42,393**	**3,514,290**	**15,346,269**	**48,633**	**19,036,440**

in EUR thousands

31 Dec 2019	NLB Group Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Financial leases	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	2,101,346	-	-	2,101,346
Securities	4,325	10,398	2,141,428	1,653,848	-	-	3,809,999
- Bonds	4,325	1,756	1,913,623	1,617,272	-	-	3,536,976
- Shares	-	3,167	49,623	-	-	-	52,790
- Commercial bills	-	-	66,020	28,013	-	-	94,033
- Treasury bills	-	-	112,162	8,563	-	-	120,725
- Investment funds	-	5,475	-	-	-	-	5,475
Derivatives	19,713	-	-	-	-	788	20,501
Loans and receivables	-	14,961	-	7,638,615	44,512	-	7,698,088
- Loans to government	-	-	-	267,796	3,593	-	271,389
- Loans to banks	-	-	-	93,403	-	-	93,403
- Loans to financial organisations	-	-	-	100,010	44	-	100,054
- Loans to individuals	-	-	-	3,914,839	23,196	-	3,938,035
- Loans to other customers	-	14,961	-	3,262,567	17,679	-	3,295,207
Other financial assets	-	-	-	97,415	-	-	97,415
Total financial assets	**24,038**	**25,359**	**2,141,428**	**11,491,224**	**44,512**	**788**	**13,727,349**

in EUR thousands

31 Dec 2020	NLB Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	2,261,533	2,261,533
Securities	2,450	4,171	1,716,351	1,277,880	3,000,852
- Bonds	2,450	-	1,598,760	1,277,880	2,879,090
- Shares	-	4,171	45,147	-	49,318
- Treasury bills	-	-	72,444	-	72,444
Derivatives	16,381	-	-	-	16,381
Loans and receivables	-	30,935	-	4,722,498	4,753,433
- Loans to government	-	-	-	170,742	170,742
- Loans to banks	-	-	-	158,320	158,320
- Loans to financial organisations	-	-	-	177,198	177,198
- Loans to individuals	-	-	-	2,377,770	2,377,770
- Loans to other customers	-	30,935	-	1,838,468	1,869,403
Other financial assets	-	-	-	54,503	54,503
Total financial assets	**18,831**	**35,106**	**1,716,351**	**8,316,414**	**10,086,702**

in EUR thousands

31 Dec 2019	NLB Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,292,211	-	1,292,211
Securities	4,325	2,716	1,656,657	1,485,166	-	3,148,864
- Bonds	4,325	-	1,509,559	1,457,153	-	2,971,037
- Shares	-	2,716	44,946	-	-	47,662
- Commercial bills	-	-	-	28,013	-	28,013
- Treasury bills	-	-	102,152	-	-	102,152
Derivatives	19,760	-	-	-	788	20,548
Loans and receivables	-	20,571	-	4,712,951	-	4,733,522
- Loans to government	-	-	-	182,582	-	182,582
- Loans to banks	-	-	-	144,352	-	144,352
- Loans to financial organisations	-	-	-	131,442	-	131,442
- Loans to individuals	-	-	-	2,352,625	-	2,352,625
- Loans to other customers	-	20,571	-	1,901,950	-	1,922,521
Other financial assets	-	-	-	67,279	-	67,279
Total financial assets	**24,085**	**23,287**	**1,656,657**	**7,557,607**	**788**	**9,262,424**

As at 31 December 2020 and 31 December 2019, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities, and financial liabilities measured at fair value through profit or loss, were carried at amortised cost.

6.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices), or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the Bank's committee ALCO. Global Risk also monitors and manages exposure to market risks separately for the banking and trading books. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The Bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress-testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress-testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low to medium exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading with financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted.

For monitoring and managing NLB Group's exposure to market risks uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the Bank. The Bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress-testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board of the Bank and in accordance to the adopted policy of managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the income statement. FX exposures in banking book result from core banking business activities.

Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with the parent Bank's guidelines and standards, as well as local regulatory requirements. Policies are confirmed by either the local Management Board or Supervisory Board. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

NLB Group banks follow the guidelines for managing FX lending in NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks, and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. FX positions are managed on the currency level so that they are always within the limits.

Regarding structural FX positions on a consolidation level, assets, and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the reporting date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect shareholder's equity and CET1 capital. NLB Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group (ALCO), and quarterly on the consolidated level.

a) Analysis of financial instruments by currency exposure

in EUR thousands

	NLB Group				
31 Dec 2020	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	3,017,875	46,572	101,712	795,653	3,961,812
Financial assets held for trading	40,910	2,450	-	41,495	84,855
Non-trading financial assets mandatorily at fair value through profit or loss	32,104	4,579	-	5,710	42,393
Financial assets measured at fair value through other comprehensive income	2,395,335	206,985	14,796	897,174	3,514,290
Financial assets measured at amortised cost					
- debt securities	1,285,569	11,408	-	206,110	1,503,087
- loans and advances to banks	74,422	47,796	11,065	63,722	197,005
- loans and advances to customers	7,816,698	36,337	49,276	1,717,549	9,619,860
- other financial assets	52,010	20,445	41	40,642	113,138
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	-	-	-	13,844
Total financial assets	**14,728,767**	**376,572**	**176,890**	**3,768,055**	**19,050,284**
Financial liabilities					
Financial liabilities held for trading	15,485	-	-	-	15,485
Derivatives - hedge accounting	61,161	-	-	-	61,161
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	28,242	7,668	5,574	31,149	72,633
- borrowings from banks and central banks	140,358	11,889	5,978	-	158,225
- due to customers	13,228,655	328,533	161,887	2,678,092	16,397,167
- borrowings from other customers	91,560	-	-	-	91,560
- subordinated liabilities	288,321	-	-	-	288,321
- other financial liabilities	123,362	23,139	1,836	58,963	207,300
Total financial liabilities	**13,977,144**	**371,229**	**175,275**	**2,768,204**	**17,291,852**
Net on-balance sheet financial position	**751,623**	**5,343**	**1,615**	**999,851**	**1,758,432**
Derivative financial instruments	30,748	651	(2,303)	(43,314)	(14,218)
Net financial position	**782,371**	**5,994**	**(688)**	**956,537**	**1,744,214**
31 Dec 2019					
Total financial assets	**11,460,626**	**260,127**	**105,818**	**1,909,769**	**13,736,340**
Total financial liabilities	**10,487,637**	**232,710**	**91,618**	**1,522,496**	**12,334,461**
Net on-balance sheet financial position	**972,989**	**27,417**	**14,200**	**387,273**	**1,401,879**
Derivative financial instruments	16,442	(14,336)	(4,232)	(7,707)	(9,833)
Net financial position	**989,431**	**13,081**	**9,968**	**379,566**	**1,392,046**

in EUR thousands

31 Dec 2020	NLB EUR	USD	CHF	Other	Total
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	2,188,898	11,345	14,042	47,248	2,261,533
Financial assets held for trading	16,381	2,450	-	-	18,831
Non-trading financial assets mandatorily at fair value through profit or loss	30,527	4,579	-	-	35,106
Financial assets measured at fair value through other comprehensive income	1,589,855	96,888	-	29,608	1,716,351
Financial assets measured at amortised cost					
- debt securities	1,266,472	11,408	-	-	1,277,880
- loans and advances to banks	158,215	105	-	-	158,320
- loans and advances to customers	4,482,044	31,245	49,111	1,778	4,564,178
- other financial assets	34,136	19,751		616	54,503
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	-	-	-	13,844
Total financial assets	**9,780,372**	**177,771**	**63,153**	**79,250**	**10,100,546**
Financial liabilities					
Financial liabilities held for trading	15,500	-	-	-	15,500
Derivatives - hedge accounting	61,161	-	-	-	61,161
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5,945	9,675	6,456	19,559	41,635
- borrowings from banks and central banks	8,635,809	129,809	47,542	37,595	8,850,755
- due to customers	125,597	11,889	5,978	-	143,464
- borrowings from other customers	13	-	-	-	13
- subordinated liabilities	288,321	-	-	-	288,321
- other financial liabilities	79,721	19,908	39	1,605	101,273
Total financial liabilities	**9,212,067**	**171,281**	**60,015**	**58,759**	**9,502,122**
Net on-balance sheet financial position	**568,305**	**6,490**	**3,138**	**20,491**	**598,424**
Derivative financial instruments	4,136	(2,491)	(3,299)	(12,169)	(13,823)
Net financial position	**572,441**	**3,999**	**(161)**	**8,322**	**584,601**
31 Dec 2019					
Total financial assets	**8,957,777**	**176,516**	**66,028**	**71,094**	**9,271,415**
Total financial liabilities	**8,142,363**	**142,395**	**61,999**	**51,957**	**8,398,714**
Net on-balance sheet financial position	**815,414**	**34,121**	**4,029**	**19,137**	**872,701**
Derivative financial instruments	21,804	(21,784)	(2,760)	(7,168)	(9,908)
Net financial position	**837,218**	**12,337**	**1,269**	**11,969**	**862,793**

b) FX sensitivity analysis

Scenarios	NLB Group and NLB 31 Dec 2020	31 Dec 2019
USD	+/-7%	+/-4%
CHF	+/-4%	+/-3%
CZK	+/-8%	+/-3%
RSD	+/-1%	+/-2%
MKD	+/-3%	+/-2%
JPY	+/-8%	+/-5%
AUD	+/-10%	+/-5%
HUF	+/-9%	+/-4%
HRK	+/-2%	+/-1%
BAM	+/-0%	+/-0%

in EUR thousands

	NLB Group		NLB	
31 Dec 2020	**Effects on income statement**	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
Appreciation of				
USD	(345)	-	(97)	(11)
CHF	(293)	231	(32)	-
CZK	(4)	-	(4)	-
RSD	9	7,096	22	-
MKD	4	7,663	19	-
Other	85	91	89	-
Effects on comprehensive income	**(544)**	**15,081**	**(3)**	**(11)**
Depreciation of				
USD	295	-	83	10
CHF	270	(213)	29	-
CZK	3	-	3	-
RSD	(9)	(6,959)	(22)	-
MKD	(4)	(7,151)	(18)	-
Other	(68)	(89)	(70)	-
Effects on comprehensive income	**487**	**(14,412)**	**5**	**10**

in EUR thousands

31 Dec 2019	NLB Group		NLB	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	340	-	298	(11)
CHF	(218)	164	8	-
CZK	1	-	1	-
RSD	11	2,083	14	-
MKD	3	4,310	13	-
Other	78	237	80	-
Effects on comprehensive income	**215**	**6,794**	**414**	**(11)**
Depreciation of				
USD	(314)	-	(276)	10
CHF	204	(154)	(7)	-
CZK	(1)	-	(1)	-
RSD	(10)	(2,009)	(13)	-
MKD	(3)	(4,132)	(12)	-
Other	(71)	(236)	(73)	-
Effects on comprehensive income	**(195)**	**(6,531)**	**(382)**	**10**

6.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines low total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, a monitored period of 250 business days, a 10-day holding position period).

6.2.3. Interest rate risk

Interest rate risk is the risk to NLB Group's capital and profit or loss arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking book according to regulatory standards. It takes into account the positions in each currency. Interest rate risk management in NLB Group is adopted in accordance with the risk appetite and risk strategy, based on general Basel standards on interest rate management in the banking book (IRRB; hereinafter: 'Standards') and final European Banking Authority guidelines.

In the trading book interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The interest rate risk in the banking book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, and limit systems. NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method (Basis Point Value), which measures the extent to which the economic value of the banking book would change if interest rates changes according to the scenario.
- Sensitivity of net interest income – using EaR method (Earnings at Risk), which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in the level and shape of interest rate yield curve, including all significant sources of risk, taking into account behavioural and modelling assumptions. Part of non-maturing deposits, which is considered as a core part is allocated long-term by using replicating portfolio. Optionality risk is mainly derived from behavioural options, reflected in prepayments and withdrawals, and embedded options such as caps and floors. Moreover, considering 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 interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in the Group's interest rate risk management model.

NLB Group also manages interest rates 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. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded an increased volume of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight.

Each member of NLB Group is responsible for its own interest rate risk policy, which includes the limit system and is in line with the parent Bank's guidelines and standards, as well as with the local regulatory requirements. NLB regularly monitors the interest rate risk exposure of each individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported weekly in the case of NLB by the Global Risk Department, while positions are managed by Financial Markets and the monthly Group level. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level.

a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual repricing or residual maturity.

in EUR thousands

31 Dec 2020	NLB Group							
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	3,961,812	1,255,642	2,706,170	2,706,170	-	-	-	-
Financial assets held for trading	84,855	16,049	68,806	15,170	-	44,775	8,861	-
Non-trading financial assets mandatorily at fair value through profit or loss	42,393	15,160	27,233	709	11,192	13,879	1,171	282
Financial assets measured at fair value through other comprehensive income	3,514,290	67,799	3,446,491	193,663	89,570	408,497	2,008,154	746,607
Financial assets measured at amortised cost								
- debt securities	1,503,087	-	1,503,087	76,716	45,405	76,178	695,030	609,758
- loans and advances to banks	197,005	8,643	188,362	148,527	36,127	3,708	-	-
- loans and advances to customers	9,619,860	69,958	9,549,902	2,328,747	1,383,720	2,781,228	2,106,629	949,578
- other financial assets	113,138	113,138	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	13,844	-	-	-	-	-	-
Total financial assets	**19,050,284**	**1,560,233**	**17,490,051**	**5,469,702**	**1,566,014**	**3,328,265**	**4,819,845**	**2,306,225**
Financial liabilities								
Financial liabilities held for trading	15,485	15,485	-	-	-	-	-	-
Derivatives - hedge accounting	61,161	61,161	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	72,633	1,103	71,530	51,534	19,610	163	223	-
- borrowings from banks and central banks	158,225	-	158,225	2,777	8,043	134,364	13,041	-
- due to customers	16,397,167	102,981	16,294,186	14,106,104	419,267	1,071,490	686,051	11,274
- borrowings from other customers	91,560	-	91,560	18,581	3,868	7,064	26,329	35,718
- subordinated liabilities	288,321	-	288,321	-	3,690	1,759	282,872	-
- other financial liabilities	207,300	207,270	30	5	-	11	14	-
Total financial liabilities	**17,291,852**	**388,000**	**16,903,852**	**14,179,001**	**454,478**	**1,214,851**	**1,008,530**	**46,992**
Total interest repricing gap				**(8,709,299)**	**1,111,536**	**2,113,414**	**3,811,315**	**2,259,233**

in EUR thousands

31 Dec 2019	NLB Group Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	2,101,346	644,013	1,457,333	1,457,333	-	-	-	-
Financial assets held for trading	24,038	19,713	4,325	1,040	21	37	-	3,227
Non-trading financial assets mandatorily at fair value through profit or loss	25,359	8,642	16,717	7,165	3,760	1,728	3,781	283
Financial assets measured at fair value through other comprehensive income	2,141,428	49,623	2,091,805	112,049	238,266	177,088	996,792	567,610
Financial assets measured at amortised cost								
- debt securities	1,653,848	-	1,653,848	100,245	106,742	103,961	561,810	781,090
- loans and advances to banks	93,403	533	92,870	65,918	23,860	2,188	902	2
- loans and advances to customers	7,589,724	71,720	7,518,004	1,653,925	1,281,613	2,443,003	1,415,059	724,404
- other financial assets	97,415	97,415	-	-	-	-	-	-
Derivatives - hedge accounting	788	788	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	8,991	8,991	-	-	-	-	-	-
Total financial assets	**13,736,340**	**901,438**	**12,834,902**	**3,397,675**	**1,654,262**	**2,728,005**	**2,978,344**	**2,076,616**
Financial liabilities								
Financial liabilities held for trading	17,903	17,903	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	7,998	7,998	-	-	-	-	-	-
Derivatives - hedge accounting	49,507	49,507	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	42,840	805	42,035	34,576	2,552	4,907	-	-
- borrowings from banks and central banks	170,385	-	170,385	2,845	5,559	146,993	14,838	150
- due to customers	11,612,317	79,124	11,533,193	9,837,184	356,977	856,938	479,620	2,474
- borrowings from other customers	64,458	-	64,458	1,287	2,011	7,322	24,395	29,443
- subordinated liabilities	210,569	-	210,569	45,367	-	1,754	163,448	-
- other financial liabilities	158,484	158,438	46	6	-	11	29	-
Total financial liabilities	**12,334,461**	**313,775**	**12,020,686**	**9,921,265**	**367,099**	**1,017,925**	**682,330**	**32,067**
Total interest repricing gap				**(6,523,590)**	**1,287,163**	**1,710,080**	**2,296,014**	**2,044,549**

in EUR thousands

31 Dec 2020	NLB Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	2,261,533	192,405	2,069,128	2,069,128	-	-	-	-
Financial assets held for trading	18,831	16,381	2,450	-	-	1	2,449	-
Non-trading financial assets mandatorily at fair value through profit or loss	35,106	4,171	30,935	1,515	14,900	14,112	126	282
Financial assets measured at fair value through other comprehensive income	1,716,351	45,147	1,671,204	91,312	19,936	185,583	867,674	506,699
Financial assets measured at amortised cost								
- debt securities	1,277,880	-	1,277,880	66,893	13,792	41,502	556,444	599,249
- loans and advances to banks	158,320	3	158,317	7,363	22,824	109,853	3,274	15,003
- loans and advances to customers	4,564,178	42,747	4,521,431	1,061,961	933,029	1,503,250	508,354	514,837
- other financial assets	54,503	54,503	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	13,844	-	-	-	-	-	-
Total financial assets	**10,100,546**	**369,201**	**9,731,345**	**3,298,172**	**1,004,481**	**1,854,301**	**1,938,321**	**1,636,070**
Financial liabilities								
Financial liabilities held for trading	15,500	15,500	-	-	-	-	-	-
Derivatives - hedge accounting	61,161	61,161	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	41,635	-	41,635	41,635	-	-	-	-
- borrowings from banks and central banks	143,464	-	143,464	85	2,816	128,674	11,889	-
- due to customers	8,850,755	-	8,850,755	8,449,271	159,095	175,979	65,690	720
- borrowings from other customers	13	-	13	-	-	13	-	-
- subordinated liabilities	288,321	-	288,321	-	3,690	1,759	282,872	-
- other financial liabilities	101,273	101,243	30	5	-	11	14	-
Total financial liabilities	**9,502,122**	**177,904**	**9,324,218**	**8,490,996**	**165,601**	**306,436**	**360,465**	**720**
Total interest repricing gap				**(5,192,824)**	**838,880**	**1,547,865**	**1,577,856**	**1,635,350**

in EUR thousands

31 Dec 2019	NLB							
	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,292,211	164,725	1,127,486	1,127,486	-	-	-	-
Financial assets held for trading	24,085	19,760	4,325	1,040	21	37	-	3,227
Non-trading financial assets mandatorily at fair value through profit or loss	23,287	2,716	20,571	7,845	6,610	2,821	3,012	283
Financial assets measured at fair value through other comprehensive income	1,656,657	44,946	1,611,711	25,798	186,222	115,877	795,629	488,185
Financial assets measured at amortised cost								
- debt securities	1,485,166	-	1,485,166	97,672	73,519	84,662	453,767	775,546
- loans and advances to banks	144,352	18	144,334	15,880	12,010	97,210	4,124	15,110
- loans and advances to customers	4,568,599	49,123	4,519,476	1,086,078	1,022,248	1,557,001	440,464	413,685
- other financial assets	67,279	67,279	-	-	-	-	-	-
Derivatives - hedge accounting	788	788	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	8,991	8,991	-	-	-	-	-	-
Total financial assets	**9,271,415**	**358,346**	**8,913,069**	**2,361,799**	**1,300,630**	**1,857,608**	**1,696,996**	**1,696,036**
Financial liabilities								
Financial liabilities held for trading	17,892	17,892	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	7,746	7,746	-	-	-	-	-	-
Derivatives - hedge accounting	49,507	49,507	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	89,820	-	89,820	89,820	-	-	-	-
- borrowings from banks and central banks	161,564	-	161,564	85	5,559	142,871	13,049	-
- due to customers	7,760,737	-	7,760,737	7,233,733	194,230	256,289	74,580	1,905
- borrowings from other customers	2,537	-	2,537	-	-	32	2,505	-
- subordinated liabilities	210,569	-	210,569	45,367	-	1,754	163,448	-
- other financial liabilities	98,342	98,296	46	6	-	11	29	-
Total financial liabilities	**8,398,714**	**173,441**	**8,225,273**	**7,369,011**	**199,789**	**400,957**	**253,611**	**1,905**
Total interest repricing gap				**(5,007,212)**	**1,100,841**	**1,456,651**	**1,443,385**	**1,694,131**

Cash flows are presented by taking into account their contractual maturity and according to the amortisation schedule. Financial instruments without maturity such as sight deposits and financial instruments with expired maturity such as non-performing loans are presented in the first gap irrespective of their behavioural characteristics and the Bank's expectations. For the purpose of risk management, the Bank use different cash flow modelling techniques.

b) A net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity for the horizon of the next 12 months assumes a sudden parallel interest rate shock down by 50 basis points for EUR, USD, and CHF currencies, while for all other significant currencies a 100 basis points sudden parallel interest rate shock down is implied. The analysis assumes that the positions used remain unchanged.

The assessment of the impact of a change in interest rates of 50/100 basis points on the amount of net interest income of the banking book position:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Net interest income sensitivity	13,852	14,689	7,493	8,488
Net interest income sensitivity - as % of Equity	0.78%	1.01%	0.55%	0.75%

The values in the table are calculated on short-term interest rate gaps, where the applied parallel interest rate shock down by 50/100 basis points represents a realistic and practical scenario. The calculations of the sensitivity of net interest income are implemented in technological support.

The 'EVE' (Economic Value of Equity) method is a measure of the sensitivity of changes in market interest rates on the economic value of financial instruments. The EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates at least under the six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations are considering behavioural and automatic options, as well as the allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Interest risk in banking book - EVE	128,370	88,355	82,116	71,979
Interest risk in banking book - EVE as % of Equity	7.27%	6.09%	5.98%	6.33%

The applied sudden parallel interest rate shock up is by 200 basis points, which represents a "worst case" scenario for NLB Group. The calculation takes into the account allocation of the core part of non-maturing deposits and other behavioural assumptions.

Exposure to the interest rate risk of the banking book mainly arises from investments in long-term debt securities and loans with fixed interest rate, as well as from transformation of term to sight deposits due to low interest rate environment. Long-term interest positions of other members in NLB Group, of which present a majority of their exposure to interest-rate risk (an economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

6.3. Liquidity risk

Liquidity risk is the risk that NLB Group is unable to meet all its actual and potential payments or collateral posting obligations, as well as the risk that NLB Group is unable to fund the growth of assets at reasonable prices, or only at excessive cost.

There are two types of risk:

- Funding liquidity risk is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available. Eventually, this will affect the Group's daily operations or its financial conditions.
- Market Liquidity risk is a risk that the Group cannot sell an asset on time at a reasonable price due to insufficient market depth (insufficient supply and demand) or market disruptions. Market risk includes the sensitivity in liquidity value of a portfolio due to changes in the applicable haircuts and market value.

Liquidity risk is defined as an important risk type for NLB Group, and one which must be managed carefully. NLB Group has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. NLB Group formulated a set of liquidity risk metrics and limits to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding, and holding a solid liquidity buffer, the NLB Group maintains a sound and robust liquidity position, even under severely adverse conditions.

The Management Board approves the Liquidity Risk Management Policy, which outlines the key principles for the Bank's liquidity management. ALCO receives a regular report on the liquidity position and the performance against approved limits and targets. ALCO oversees the development of the Bank's funding and liquidity position and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group always maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in three stages:

- Current exposure and compliance with the limits,
- Forward-looking and stress-testing,
- Liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:

- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios;
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- preparing dynamic projections of liquidity taking several cash-flow scenarios of the Bank into account; and
- preparing proposals for establishing additional financial assets as collateral for sources of funding.

Overall assessment of the liquidity position of NLB Group is assessed in the Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB/central bank or on the market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance.

Within regular liquidity stress-testing NLB Group regularly prepares a static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account to ensure monitoring over the liquidity position of each NLB Group member.

The Group manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and
- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

The Group members have defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is under strict monitoring by NLB as a parent bank. Reporting to NLB by all Group members is performed daily. Global Risk gives guidelines and defines minimal standards for Group members regarding liquidity risk management in NLB Group Risk Management Standards. Each Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO, and to local Assets and Liabilities Committees.

The year 2020 was largely influenced by the COVID-19 pandemic, which was also reflected in the liquidity risk management of NLB Group. Greater emphasis was placed on improving the quality and monitoring of daily data, including daily monitoring of movements in loans and deposits, as well as daily calculations of the LCR indicator. Especially in the first half of the year, the intensity of liquidity reporting increased significantly, both internally, to ALCO of the NLB Group, as well as at the request of the regulator. In addition to regular monthly reporting, weekly and daily reporting to the Management Board was also introduced, while the regulator introduced several new reports, with an emphasis on monitoring daily liquidity. The second half of the year, and especially the end of 2020, was marked by the acquisition of the Komercijalna banka group on 30 December 2020, which required many coordination activities, which will continue next year. The liquidity risk of the NLB Group has not changed significantly due to the acquisition of the Komercijalna banka group, as it continues to maintain a favourable liquidity position.

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves are comprised of cash, the settlement account at the central bank, sight deposits and term deposits at banks, and debt securities and loans eligible as collateral for the Eurosystem's liquidity providing operations, on the basis of which the Bank may generate the requisite liquidity at any time. The available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The minimum amount of liquidity reserves is determined on the basis of the methodology pertaining to liquidity risk stress tests. The amount represents the survival of a severe stress over a period of three months in a combined stress scenario.

The structure of liquidity reserves is shown in the following table.

Liquid assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Liquid assets				
Cash, cash balances at central banks, and other demand deposits at banks	3,961,812	2,101,346	2,261,533	1,292,211
Time deposits at banks	128,074	91,076	63,405	62,651
Trading book securities	68,806	4,325	2,450	4,325
Banking book securities	5,008,841	3,745,653	2,949,084	3,096,877
ECB eligible loans	582,986	545,247	582,986	545,247
Total liquid assets	**9,750,519**	**6,487,647**	**5,859,458**	**5,001,311**

As at 31 December 2020, 81.8% (31 December 2019: 78.9%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 8.4% (31 December 2019: 7.8%) were senior unsecured bonds. With the acquisition of Komercijalna banka group, the structure of liquid assets did not change significantly, while the amount of liquid assets increased by EUR 2,226,951 thousand.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial Markets' banking book and the Policy for Managing Domestic (Slovenian) Corporate Debt Securities in Large Corporates, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the general terms about execution of monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. As such, these ECB credit claims are included among liquidity reserves.

Members of NLB Group manage their liquid assets on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

b) Encumbered assets

in EUR thousands

	NLB Group				NLB			
2020	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	991,649	-	2,462,193	-	102,458	-	1,966,670	-
Equity instruments	708	708	82,251	80,949	-	-	49,318	49,318
Debt securities	52,336	55,519	4,968,205	5,017,867	52,336	55,519	2,899,198	2,951,975
Loans and advances other than loans on demand	80,204	-	9,874,875	-	72,943	-	4,734,993	-
Other assets	-	-	1,053,435	-	-	-	1,148,687	-
Total	**1,124,897**		**18,440,959**		**227,737**		**10,798,866**	

in EUR thousands

2019	NLB Group Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	NLB Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	443,953	-	1,317,496	-	86,302	-	1,041,184	-
Equity instruments	-	-	58,265	58,265	-	-	47,662	47,662
Debt securities	50,944	57,697	3,700,790	3,755,463	50,944	57,697	3,050,258	3,101,857
Loans and advances other than loans on demand	71,105	-	7,724,398	-	64,711	-	4,736,090	-
Other assets	-	-	807,137	-	-	-	724,406	-
Total	**566,002**		**13,608,086**		**201,957**		**9,599,600**	

c) Collateral received – unencumbered

The nominal amount of collateral received, or own debt securities issued not available for encumbrance are shown in the table below:

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Equity instruments	268,249	197,157	198,874	176,532
Debt securities	10,438	-	-	-
Loans and advances other than loans on demand	146,750	111,726	20,165	20,249
Other assets	10,679,630	7,361,858	3,809,244	3,703,078
Total	**11,105,067**	**7,670,741**	**4,028,283**	**3,899,859**

d) Source of encumbrance

in EUR thousands

	NLB Group				NLB			
	2020		2019		2020		2019	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	76,187	91,250	65,056	78,174	76,187	91,250	65,056	78,174
Deposits	5,978	12,055	8,955	14,553	5,978	12,055	8,955	14,553
Other sources of encumbrance	3,875	1,021,592	4,107	473,274	-	124,433	-	109,230
Total	**86,040**	**1,124,897**	**78,118**	**566,001**	**82,165**	**227,738**	**74,011**	**201,957**

As at 31 December 2020, NLB Group and NLB had a large share of unencumbered assets. Other sources of encumbrance mostly relate to the obligatory reserve. On the NLB Group level, the amount of encumbered assets equalled EUR 1,125 million (31 December 2019: EUR 566 million), relating to the deposit guarantee scheme and to secure funding received from international financial organisations.

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousands

31 Dec 2020	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	52,434	19,813	558	491	-	73,296
- borrowings from banks and central banks	666	727	18,146	130,821	10,273	160,633
- due to customers	14,111,895	379,127	1,080,487	848,237	19,059	16,438,805
- borrowings from other customers	1,041	2,899	9,719	43,382	39,743	96,784
- subordinated liabilities	-	4,426	6,803	41,400	328,352	380,981
- other financial liabilities	137,463	8,762	14,402	42,917	3,756	207,300
Credit risk related commitments	563,821	226,551	703,691	408,880	424,681	2,327,624
Non-financial guarantees	25,177	67,127	154,766	334,078	66,198	647,346
Total	**14,892,497**	**709,432**	**1,988,572**	**1,850,206**	**892,062**	**20,332,769**
Total financial assets	**5,228,895**	**651,541**	**2,434,589**	**7,867,386**	**4,621,083**	**20,803,494**

in EUR thousands

31 Dec 2019	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	129	96	7,773	-	7,998
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	34,762	3,171	4,728	179	-	42,840
- borrowings from banks and central banks	829	713	20,183	132,649	19,175	173,549
- due to customers	9,748,905	310,184	923,914	646,400	11,446	11,640,849
- borrowings from other customers	547	2,384	6,592	29,818	28,387	67,728
- subordinated liabilities	45,447	-	6,801	25,080	194,798	272,126
- other financial liabilities	99,576	7,984	13,629	34,037	3,258	158,484
Credit risk related commitments	519,894	141,560	542,244	291,615	265,909	1,761,222
Non-financial guarantees	26,319	47,942	146,477	244,240	67,883	532,861
Total	**10,476,279**	**514,067**	**1,664,664**	**1,411,791**	**590,856**	**14,657,657**
Total financial assets	**3,089,393**	**766,986**	**1,897,395**	**5,418,262**	**3,864,711**	**15,036,747**

in EUR thousands

31 Dec 2020	NLB					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,635	-	-	-	-	41,635
- borrowings from banks and central banks	85	704	13,547	121,751	9,561	145,648
- due to customers	8,412,546	108,942	184,159	143,115	4,775	8,853,537
- borrowings from other customers	-	-	13	-	-	13
- subordinated liabilities	-	4,426	6,803	41,400	328,352	380,981
- other financial liabilities	70,217	6,134	582	23,813	527	101,273
Credit risk related commitments	478,872	143,562	418,866	261,282	270,333	1,572,915
Non-financial guarantees	18,203	41,599	90,299	245,158	36,406	431,665
Total	**9,021,558**	**305,367**	**714,269**	**836,519**	**649,954**	**11,527,667**
Total financial assets	**2,800,273**	**217,309**	**1,008,108**	**3,878,926**	**2,904,506**	**10,809,122**

in EUR thousands

31 Dec 2019	NLB					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	-	-	7,746	-	7,746
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	89,820	-	-	-	-	89,820
- borrowings from banks and central banks	85	713	17,004	128,181	18,537	164,520
- due to customers	7,192,671	138,709	274,599	148,107	10,017	7,764,103
- borrowings from other customers	-	-	32	2,505	-	2,537
- subordinated liabilities	45,447	-	6,801	25,080	194,798	272,126
- other financial liabilities	63,098	6,403	3,053	25,707	81	98,342
Credit risk related commitments	462,738	112,337	357,075	198,855	192,711	1,323,716
Non-financial guarantees	19,401	37,667	92,882	197,417	36,197	383,564
Total	**7,873,260**	**295,829**	**751,446**	**733,598**	**452,341**	**10,106,474**
Total financial assets	**1,835,982**	**455,148**	**1,027,315**	**3,627,280**	**3,080,579**	**10,026,304**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

f) An analysis of the statement of financial position by residual contractual maturity

in EUR thousands

31 Dec 2020	NLB Group					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	3,961,812	-	-	-	-	3,961,812
Financial assets held for trading	16,046	15,173	1	47,223	6,412	84,855
Non-trading financial assets mandatorily at fair value through profit or loss	6,067	120	24,954	1,171	10,081	42,393
Financial assets measured at fair value through other comprehensive income	352,474	57,055	337,298	1,960,192	807,271	3,514,290
Financial assets measured at amortised cost						
- debt securities	74,540	47,087	76,672	695,030	609,758	1,503,087
- loans and advances to banks	154,686	36,706	4,375	1,238	-	197,005
- loans and advances to customers	538,078	421,665	1,733,251	4,252,968	2,673,898	9,619,860
- other financial assets	80,692	8,319	3,380	20,597	150	113,138
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	885	12,959	13,844
Non-current assets held for sale	-	-	8,658	-	-	8,658
Property and equipment	-	-	-	78,847	170,270	249,117
Investment property	-	-	-	41,501	13,341	54,842
Intangible assets	-	-	-	32,274	29,394	61,668
Investments in associates and joint ventures	-	-	-	-	7,988	7,988
Current income tax assets	1,656	22	2,691	-	-	4,369
Deferred income tax assets	327	-	-	28,759	2,703	31,789
Other assets	24,548	9,109	54,992	8,337	154	97,140
Total assets	**5,210,926**	**595,256**	**2,246,272**	**7,169,022**	**4,344,379**	**19,565,855**
Financial liabilities held for trading	15,485	-	-	-	-	15,485
Derivatives - hedge accounting	61,161	-	-	-	-	61,161
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	52,434	19,813	163	223	-	72,633
- borrowings from banks and central banks	658	717	17,468	129,215	10,167	158,225
- due to customers	14,109,959	375,751	1,069,785	825,076	16,596	16,397,167
- borrowings from other customers	977	2,731	9,120	41,072	37,660	91,560
- subordinated liabilities	-	3,690	1,759	-	282,872	288,321
- other financial liabilities	136,371	7,703	9,552	25,970	1,345	180,941
- lease liabilities	1,092	1,059	4,850	16,947	2,411	26,359
Provisions	8,507	1,183	32,785	79,159	3,425	125,059
Current income tax liabilities	644	358	-	-	-	1,002
Deferred income tax liabilities	763	-	-	3,301	411	4,475
Other liabilities	9,467	412	2,690	1,521	6,337	20,427
Total liabilities	**14,397,518**	**413,417**	**1,148,172**	**1,122,484**	**361,224**	**17,442,815**
Credit risk related commitments	563,821	226,551	703,691	408,880	424,681	2,327,624
Non-financial guarantees	25,177	67,127	154,766	334,078	66,198	647,346
Total liabilities and credit-related commitments	**14,986,516**	**707,095**	**2,006,629**	**1,865,442**	**852,103**	**20,417,785**

in EUR thousands

NLB Group						
31 Dec 2019	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Cash, cash balances at central banks, and other demand deposits at banks	2,101,346	-	-	-	-	2,101,346
Financial assets held for trading	20,753	21	37	-	3,227	24,038
Non-trading financial assets mandatorily at fair value through profit or loss	600	461	2,428	12,945	8,925	25,359
Financial assets measured at fair value through other comprehensive income	246,264	220,646	157,256	956,226	561,036	2,141,428
Financial assets measured at amortised cost						
- debt securities	74,571	108,115	127,645	562,425	781,092	1,653,848
- loans and advances to banks	63,799	24,393	2,764	2,440	7	93,403
- loans and advances to customers	487,218	367,641	1,420,888	3,185,043	2,128,934	7,589,724
- other financial assets	73,005	1,012	912	22,486	-	97,415
Derivatives - hedge accounting	788	-	-	-	-	788
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	903	8,088	8,991
Non-current assets held for sale	-	-	43,191	-	-	43,191
Property and equipment	-	-	-	28,441	167,164	195,605
Investment property	-	-	-	40,760	11,556	52,316
Intangible assets	-	-	-	11,147	28,395	39,542
Investments in associates and joint ventures	-	-	-	-	7,499	7,499
Current income tax assets	202	29	6,053	-	-	6,284
Deferred income tax assets	-	-	-	29,419	81	29,500
Other assets	18,684	8,282	29,249	7,596	-	63,811
Total assets	**3,087,230**	**730,600**	**1,790,423**	**4,859,831**	**3,706,004**	**14,174,088**
Financial liabilities held for trading	17,903	-	-	-	-	17,903
Financial liabilities measured at fair value through profit or loss	-	129	96	7,773	-	7,998
Derivatives - hedge accounting	49,507	-	-	-	-	49,507
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	34,762	3,171	4,728	179	-	42,840
- borrowings from banks and central banks	815	705	19,393	130,528	18,944	170,385
- due to customers	9,747,598	307,696	913,343	632,382	11,298	11,612,317
- borrowings from other customers	485	2,202	5,980	27,547	28,244	64,458
- subordinated liabilities	45,367	-	1,754	-	163,448	210,569
- other financial liabilities	99,205	7,300	11,001	24,265	-	141,771
- lease liabilities	371	684	2,628	9,772	3,258	16,713
Provisions	10,559	641	32,464	42,888	1,862	88,414
Current income tax liabilities	1,798	473	-	-	-	2,271
Deferred income tax liabilities	-	-	-	2,478	355	2,833
Other liabilities	8,653	544	1,397	4,000	618	15,212
Total liabilities	**10,017,023**	**323,545**	**992,784**	**881,812**	**228,027**	**12,443,191**
Credit risk related commitments	519,894	141,560	542,244	291,615	265,909	1,761,222
Non-financial guarantees	26,319	47,942	146,477	244,240	67,883	532,861
Total liabilities and credit-related commitments	**10,563,236**	**513,047**	**1,681,505**	**1,417,667**	**561,819**	**14,737,274**

in EUR thousands

NLB						
31 Dec 2020	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Cash, cash balances at central banks, and other demand deposits at banks	2,261,533	-	-	-	-	2,261,533
Financial assets held for trading	16,381	-	1	2,449	-	18,831
Non-trading financial assets mandatorily at fair value through profit or loss	526	158	26,084	3,885	4,453	35,106
Financial assets measured at fair value through other comprehensive income	91,312	19,936	185,583	867,674	551,846	1,716,351
Financial assets measured at amortised cost						
- debt securities	66,893	13,792	41,502	556,444	599,249	1,277,880
- loans and advances to banks	392	22,824	50,274	28,990	55,840	158,320
- loans and advances to customers	322,669	141,946	609,404	2,029,791	1,460,368	4,564,178
- other financial assets	33,661	218	40	20,584	-	54,503
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	885	12,959	13,844
Non-current assets held for sale	-	-	4,454	-	-	4,454
Property and equipment	-	-	-	22,173	69,502	91,675
Investment property	-	-	-	8,300	-	8,300
Intangible assets	-	-	-	13,058	15,047	28,105
Investments in subsidiaries, associates and joint ventures	-	-	1,719	65,140	683,863	750,722
Current income tax assets	-	-	1,923	-	-	1,923
Deferred income tax assets	-	-	-	29,214	-	29,214
Other assets	6,558	-	5,106	-	-	11,664
Total assets	**2,799,925**	**198,874**	**926,090**	**3,648,587**	**3,453,127**	**11,026,603**
Financial liabilities held for trading	15,500	-	-	-	-	15,500
Derivatives - hedge accounting	61,161	-	-	-	-	61,161
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,635	-	-	-	-	41,635
- borrowings from banks and central banks	85	704	12,948	120,260	9,467	143,464
- due to customers	8,412,510	108,772	183,709	141,077	4,687	8,850,755
- borrowings from other customers	-	-	13	-	-	13
- subordinated liabilities	-	3,690	1,759	-	282,872	288,321
- other financial liabilities	70,144	6,006	-	21,899	12	98,061
- lease liabilities	73	128	582	1,914	515	3,212
Provisions	495	669	19,463	41,533	1,630	63,790
Other liabilities	5,064	94	421	1,487	2,631	9,697
Total liabilities	**8,606,667**	**120,063**	**218,895**	**328,170**	**301,814**	**9,575,609**
Credit risk related commitments	478,872	143,562	418,866	261,282	270,333	1,572,915
Non-financial guarantees	18,203	41,599	90,299	245,158	36,406	431,665
Total liabilities and credit-related commitments	**9,103,742**	**305,224**	**728,060**	**834,610**	**608,553**	**11,580,189**

in EUR thousands

31 Dec 2019	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,292,211	-	-	-	-	1,292,211
Financial assets held for trading	20,800	21	37	3,227	-	24,085
Non-trading financial assets mandatorily at fair value through profit or loss	365	144	785	18,994	2,999	23,287
Financial assets measured at fair value through other comprehensive income	25,798	186,222	115,877	795,629	533,131	1,656,657
Financial assets measured at amortised cost						
- debt securities	74,400	73,519	107,934	453,767	775,546	1,485,166
- loans and advances to banks	8,925	12,011	48,149	8,358	66,909	144,352
- loans and advances to customers	360,469	162,053	659,576	1,937,129	1,449,372	4,568,599
- other financial assets	43,901	314	600	22,464	-	67,279
Derivatives - hedge accounting	788	-	-	-	-	788
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	903	8,088	8,991
Non-current assets held for sale	-	-	5,532	-	-	5,532
Property and equipment	-	-	-	19,637	70,267	89,904
Investment property	-	-	-	9,303	-	9,303
Intangible assets	-	-	-	10,199	15,781	25,980
Investments in subsidiaries, associates and joint ventures	-	-	1,719	65,170	286,360	353,249
Current income tax assets	-	23	5,440	-	-	5,463
Deferred income tax assets	-	-	-	29,569	-	29,569
Other assets	5,472	-	5,670	-	-	11,142
Total assets	**1,833,129**	**434,307**	**951,319**	**3,374,349**	**3,208,453**	**9,801,557**
Financial liabilities held for trading	17,892	-	-	-	-	17,892
Financial liabilities measured at fair value through profit or loss	-	-	-	7,746	-	7,746
Derivatives - hedge accounting	49,507	-	-	-	-	49,507
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	89,820	-	-	-	-	89,820
- borrowings from banks and central banks	85	705	16,296	126,165	18,313	161,564
- due to customers	7,192,603	138,492	273,855	145,898	9,889	7,760,737
- borrowings from other customers	-	-	32	2,505	-	2,537
- subordinated liabilities	45,367	-	1,754	-	163,448	210,569
- other financial liabilities	63,067	6,269	2,452	23,770	-	95,558
- lease liabilities	31	134	601	1,937	81	2,784
Provisions	231	309	22,313	37,531	-	60,384
Other liabilities	3,949	333	334	4,000	618	9,234
Total liabilities	**7,462,552**	**146,242**	**317,637**	**349,552**	**192,349**	**8,468,332**
Credit risk related commitments	462,738	112,337	357,075	198,855	192,711	1,323,716
Non-financial guarantees	19,401	37,667	92,882	197,417	36,197	383,564
Total liabilities and credit-related commitments	**7,944,691**	**296,246**	**767,594**	**745,824**	**421,257**	**10,175,612**

g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousands

31 Dec 2020	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(24,456)	(28,334)	(65,976)	(13,817)	-	(132,583)
- Inflow	24,494	28,368	66,041	13,828	-	132,731
- Swaps						
- Outflow	(20,709)	(49,105)	(36,055)	-	-	(105,869)
- Inflow	20,297	49,112	36,034	-	-	105,443
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(692)	(2,962)	(11,378)	(42,239)	(18,643)	(75,914)
- Inflow	73	718	4,394	8,777	2,348	16,310
Total outflow	**(45,857)**	**(80,401)**	**(113,409)**	**(56,056)**	**(18,643)**	**(314,366)**
Total inflow	**44,864**	**78,198**	**106,469**	**22,605**	**2,348**	**254,484**

in EUR thousands

31 Dec 2019	NLB Group Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(28,609)	(79,443)	(7,913)	(20,868)	-	(136,833)
- Inflow	28,636	79,494	7,919	20,886	-	136,935
- Swaps						
- Outflow	(34,425)	(3,893)	(73,630)	-	-	(111,948)
- Inflow	34,370	3,897	73,797	-	-	112,064
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,170)	(2,772)	(12,146)	(44,445)	(23,811)	(84,344)
- Inflow	94	1,024	6,359	15,742	14,139	37,358
- Caps and floors						
- Outflow	-	-	-	(4)	-	(4)
- Inflow	-	-	-	4	-	4
Total outflow	**(64,204)**	**(86,108)**	**(93,689)**	**(65,317)**	**(23,811)**	**(333,129)**
Total inflow	**63,100**	**84,415**	**88,075**	**36,632**	**14,139**	**286,361**

in EUR thousands

31 Dec 2020	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(23,685)	(31,650)	(65,976)	(13,817)	-	(135,128)
- Inflow	23,715	31,685	66,041	13,828	-	135,269
- Swaps						
- Outflow	(24,874)	(53,580)	(6,063)	-	-	(84,517)
- Inflow	24,821	53,592	6,068	-	-	84,481
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(692)	(2,962)	(11,378)	(42,239)	(18,643)	(75,914)
- Inflow	73	718	4,394	8,777	2,348	16,310
Total outflow	**(49,251)**	**(88,192)**	**(83,417)**	**(56,056)**	**(18,643)**	**(295,559)**
Total inflow	**48,609**	**85,995**	**76,503**	**22,605**	**2,348**	**236,060**

in EUR thousands

31 Dec 2019	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(27,908)	(79,443)	(7,913)	(20,868)	-	(136,132)
- Inflow	27,935	79,494	7,919	20,886	-	136,234
- Swaps						
- Outflow	(36,436)	(7,021)	(78,099)	-	-	(121,556)
- Inflow	36,380	7,019	78,228	-	-	121,627
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,170)	(2,772)	(12,146)	(44,445)	(23,811)	(84,344)
- Inflow	94	1,024	6,359	15,742	14,139	37,358
- Caps and floors						
- Outflow	-	-	-	(4)	-	(4)
- Inflow	-	-	-	4	-	4
Total outflow	**(65,514)**	**(89,236)**	**(98,158)**	**(65,317)**	**(23,811)**	**(342,036)**
Total inflow	**64,409**	**87,537**	**92,506**	**36,632**	**14,139**	**295,223**

6.4. Management of non-financial risks

a) Operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The risk is also gradually decreasing due to the reduced complexity of operations in NLB Group, with disinvestment process of non-core activities and optimisation of internal processes. 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, takes 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 an 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 the 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 analyses are made based on experience and knowledge of experts from various critical areas.

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

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and the undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the Business Continuity Management System. The basis for modernising the business continuity plans is the regular annual Business Impact Analysis (BIA). On its basis, the adequacy of the plans for office buildings HR plans and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2020 just four manual procedures and an IT test were carried out at NLB (no evacuation test because of the COVID-19 pandemic). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except non-core members which are in the process of liquidation). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary.

For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2020, visits of NLB Group banking subsidiaries were suspended due to COVID-19 situation, nevertheless all preventive and response measures with regard to business continuity were sent to the members with the purpose to help and act in the uniform way.

With regards to IT failures, the Bank successfully used the IT plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

Following the indications of the outbreak of COVID-19 in Slovenia and SEE, NLB Group has taken measures to protect its customers and employees, such as (but not limited to) ensuring the relevant safety conditions and making sure that the services offered by the Group are provided without any disruption. The NLB Group continuously offered necessary services to clients, especially through digital channels (mobile banking, video calls and telebanking), which the NLB Group continues to develop at an accelerated pace. A Crisis Management Team was activated in the Bank and other banking members with full engagement of the Management Board members. Special attention was paid to continuous provision of services to clients, their monitoring, health protection measures and prevention of cyber fraud.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk, and profitability risk

Risks not included in the regulatory capital requirements (standardised approach) but have or might have an important influence on the risk profile of NLB Group, are regularly assessed, monitored, and managed. In addition, they are integrated into internal capital adequacy assessment process (ICAAP). NLB Group established internal methodologies for identifying and assessing specific types of risk, referring to the Group's business model or arising from other external circumstances. If a certain risk is assessed as a materially important risk, relevant disposable preventive and mitigation measures are applied, including regular monitoring of their effectiveness. On this basis, internal capital is considered and its consumption regularly monitored.

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

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

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e., prices) or indirectly (i.e., derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, is Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds, and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

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

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

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

in EUR thousands

	NLB Group				NLB			
31 Dec 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	2,450	81,619	786	84,855	2,450	15,595	786	18,831
Debt instruments	2,450	66,356	-	68,806	2,450	-	-	2,450
Derivatives	-	15,263	786	16,049	-	15,595	786	16,381
Financial assets measured at fair value through other comprehensive income	2,068,317	1,444,146	1,827	3,514,290	1,663,619	52,458	274	1,716,351
Debt instruments	2,060,346	1,385,245	900	3,446,491	1,663,619	7,585	-	1,671,204
Equity instruments	7,971	58,901	927	67,799	-	44,873	274	45,147
Non-trading financial assets mandatorily at fair value through profit and loss	13,146	-	29,247	42,393	-	7,947	27,159	35,106
Debt instruments	2,157	-	-	2,157	-	-	-	-
Equity instruments	10,989	-	4,171	15,160	-	-	4,171	4,171
Loans	-	-	25,076	25,076	-	7,947	22,988	30,935
Financial liabilities								
Financial instruments held for trading	-	15,485	-	15,485	-	15,500	-	15,500
Derivatives	-	15,485	-	15,485	-	15,500	-	15,500
Derivatives - hedge accounting	-	61,161	-	61,161	-	61,161	-	61,161
Non-financial assets								
Investment properties	-	22,632	32,210	54,842	-	8,300	-	8,300
Non-current assets held for sale	-	8,658	-	8,658	-	4,454	-	4,454
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	-	3,897	-	3,897	-	-	-	-
Recoverable amount of investments in subsidiaries, associates and joint ventures	-	-	-	-	-	280	4,670	4,950

in EUR thousands

31 Dec 2019	NLB Group Level 1	NLB Group Level 2	NLB Group Level 3	NLB Group Total fair value	NLB Level 1	NLB Level 2	NLB Level 3	NLB Total fair value
Financial assets								
Financial instruments held for trading	4,325	18,906	807	24,038	4,325	18,953	807	24,085
Debt instruments	4,325	-	-	4,325	4,325	-	-	4,325
Derivatives	-	18,906	807	19,713	-	18,953	807	19,760
Derivatives - hedge accounting	-	788	-	788	-	788	-	788
Financial assets measured at fair value through other comprehensive income	1,847,901	289,418	4,109	2,141,428	1,603,904	52,494	259	1,656,657
Debt instruments	1,847,739	244,066	-	2,091,805	1,603,904	7,807	-	1,611,711
Equity instruments	162	45,352	4,109	49,623	-	44,687	259	44,946
Non-trading financial assets mandatorily at fair value through profit and loss	7,682	-	17,677	25,359	-	7,516	15,771	23,287
Debt instruments	1,756	-	-	1,756	-	-	-	-
Equity instruments	5,926	-	2,716	8,642	-	-	2,716	2,716
Loans	-	-	14,961	14,961	-	7,516	13,055	20,571
Financial liabilities								
Financial instruments held for trading	-	17,903	-	17,903	-	17,892	-	17,892
Derivatives	-	17,903	-	17,903	-	17,892	-	17,892
Derivatives - hedge accounting	-	49,507	-	49,507	-	49,507	-	49,507
Financial liabilities measured at fair value through profit or loss	-	-	7,998	7,998	-	-	7,746	7,746
Non-financial assets								
Investment properties	-	23,383	28,933	52,316	-	9,303	-	9,303
Non-current assets held for sale	-	43,191	-	43,191	-	5,532	-	5,532
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	-	4,299	-	4,299	-	-	-	-
Recoverable amount of investments in subsidiaries, associates and joint ventures	-	-	-	-	-	310	5,222	5,532

b) Significant transfers of financial instruments between levels of valuation

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

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

For 2020 and 2019, neither NLB Group nor NLB had any significant transfers between levels of valuation of financial instruments measured at fair value in financial statements.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valued by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return; and
- the National Resolution Fund.

Non-financial assets on Level 2 of the fair value hierarchy at NLB Group and NLB include investment properties.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

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

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

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

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

- equities: mainly financial equities that are not quoted on active markets;
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (the Garman and Kohlhagen model, binomial model, and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Bloomberg information system; and
- non-performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return. In defining the expected cash flows for non-performing loans, the value of collateral and other pay off estimates can be used.

Non-financial assets on Level 3 of the fair value hierarchy at NLB Group include investment properties.

NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in first bullet: the income, market, and cost approaches.

NLB Group selects valuation model and values of unobservable input data within a reasonable possible range, but uses model and input data that other market participants would use.

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

Movements of financial assets and liabilities at Level 3

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss			Financial liabilities measured at fair value through profit or loss
NLB Group	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**	**Total financial assets**	**Loans and other financial liabilities**
Balance as at 1 January 2019	329	-	3,960	1,923	23,800	30,012	4,190
Effects of translation of foreign operations to presentation currency	-	-	106	-	-	106	-
Valuation:							
- through profit or loss	478	-	-	7,128	14,291	21,897	3,798
- recognised in other comprehensive income	-	-	43	-	-	43	-
Exchange differences	-	-	-	-	-	-	10
Increases	-	-	-	-	7,147	7,147	-
Decreases	-	-	-	(6,935)	(30,277)	(37,212)	-
Transfers to Level 3	-	-	-	600	-	600	-
Balance as at 31 December 2019	**807**	**-**	**4,109**	**2,716**	**14,961**	**22,593**	**7,998**
Effects of translation of foreign operations to presentation currency	-	-	53	-	-	53	-
Acquisition of subsidiaries	-	900	85	-	-	985	-
Valuation:							
- through profit or loss	(21)	-	-	1,642	(2,720)	(1,099)	(8,006)
- recognised in other comprehensive income	-	-	21	-	-	21	-
Exchange differences				(187)	(48)	(235)	8
Increases	-	-	-	-	20,399	20,399	-
Decreases	-	-	(3,341)	-	(7,516)	(10,857)	-
Balance as at 31 December 2020	**786**	**900**	**927**	**4,171**	**25,076**	**31,860**	**-**

in EUR thousands

NLB	Financial instruments held for trading Derivatives	Financial assets measured at fair value through OCI Equity instruments	Non-trading financial assets mandatorily at fair value through profit or loss Equity instruments	 Loans and other financial assets	Total financial assets	Financial liabilities measured at fair value through profit or loss Loans and other financial liabilities
Balance as at 1 January 2019	329	248	1,923	21,596	24,096	3,981
Valuation:						
- through profit or loss	478	-	7,128	13,346	20,952	3,755
- recognised in other comprehensive income	-	11	-	-	11	-
Exchange differences	-	-	-	-	-	10
Increases	-	-	-	7,146	7,146	-
Decreases	-	-	(6,935)	(29,033)	(35,968)	-
Transfers to Level 3	-	-	600	-	600	-
Balance as at 31 December 2019	**807**	**259**	**2,716**	**13,055**	**16,837**	**7,746**
Valuation:						
- through profit or loss	(21)	-	1,642	(2,831)	(1,210)	(7,754)
- recognised in other comprehensive income	-	15	-	-	15	-
Exchange differences	-	-	(187)	(48)	(235)	8
Increases	-	-	-	19,833	19,833	-
Decreases	-	-	-	(7,021)	(7,021)	-
Balance as at 31 December 2020	**786**	**274**	**4,171**	**22,988**	**28,219**	**-**

NLB Group and NLB recognise the effects from valuation of trading instruments in income statement line 'Gains less losses from financial assets and liabilities held for trading,' effects from valuation of non-trading equity instruments and loans mandatorily measured at fair value through profit or loss in income statement line 'Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss,' and effects from valuation of financial assets measured at fair value through other comprehensive income in the accumulated other comprehensive income item 'Financial assets measured at fair value through other comprehensive income.'

In 2020 and in 2019, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December:

in EUR thousands

NLB Group 2020	Financial assets held for trading Derivatives	Financial assets measured at fair value through OCI Equity instruments	Non-trading financial assets mandatorily at fair value through profit or loss Equity instruments	 Loans and other financial assets	Financial liabilities measured at fair value through profit or loss Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(21)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	1,642	(2,720)	8,006
Foreign exchange translation gains less losses	-	-	(187)	(48)	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	21	-	-	-

in EUR thousands

NLB Group 2019	Financial assets held for trading Derivatives	Financial assets measured at fair value through OCI Equity instruments	Non-trading financial assets mandatorily at fair value through profit or loss Equity instruments	 Loans and other financial assets	Financial liabilities measured at fair value through profit or loss Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	478	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	845	14,291	(3,798)
Foreign exchange translation gains less losses	-	-	-	-	(10)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	43	-	-	-

in EUR thousands

NLB 2020	Financial assets held for trading Derivatives	Financial assets measured at fair value through OCI Equity instruments	Non-trading financial assets mandatorily at fair value through profit or loss Equity instruments	 Loans and other financial assets	Financial liabilities measured at fair value through profit or loss Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(21)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	1,642	(2,831)	7,754
Foreign exchange translation gains less losses	-	-	(187)	(48)	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	15	-	-	-

in EUR thousands

NLB 2019	Financial assets held for trading Derivatives	Financial assets measured at fair value through OCI Equity instruments	Non-trading financial assets mandatorily at fair value through profit or loss Equity instruments	 Loans and other financial assets	Financial liabilities measured at fair value through profit or loss Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	478	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	845	13,346	(3,755)
Foreign exchange translation gains less losses	-	-	-	-	(10)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	11	-	-	-

Movements of non-financial assets at Level 3

in EUR thousands

	NLB Group	
Investment property	**2020**	**2019**
Balance as at 1 January	28,933	32,208
Effects of translation of foreign operations to presentation currency	(24)	84
Acquisition of subsidiaries (note 5.12.b)	19,643	-
Additions	609	-
Disposals	(189)	(4,188)
Transfer from/(to) property and equipment	(62)	(363)
Transfer from/(to) non-current assets held for sale	17	550
Transfer from/(to) other assets	(16,790)	-
Net valuation to fair value	73	642
Balance as at 31 December	**32,210**	**28,933**

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

Financial instruments not measured at fair value are not managed on a fair value basis. For these instruments fair values are calculated for disclosure purposes only and do not impact NLB Group statement of financial position or income statement.

The table below shows estimated fair values of financial instruments not measured at fair value in the statement of financial position.

in EUR thousands

	NLB Group				NLB			
	31 Dec 2020		31 Dec 2019		31 Dec 2020		31 Dec 2019	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets measured at amortised cost								
- debt securities	1,503,087	1,563,103	1,653,848	1,715,350	1,277,880	1,333,840	1,485,166	1,543,518
- loans and advances to banks	197,005	197,220	93,403	93,503	158,320	165,966	144,352	150,520
- loans and advances to customers	9,619,860	9,873,137	7,589,724	7,775,128	4,564,178	4,674,069	4,568,599	4,713,622
- other financial assets	113,138	113,138	97,415	97,415	54,503	54,503	67,279	67,279
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	72,633	72,648	42,840	42,690	41,635	41,635	89,820	89,820
- borrowings from banks and central banks	158,225	155,673	170,385	178,374	143,464	140,702	161,564	169,312
- due to customers	16,397,167	16,414,382	11,612,317	11,630,157	8,850,755	8,860,267	7,760,737	7,768,365
- borrowings from other customers	91,560	93,020	64,458	63,868	13	13	2,537	2,548
- subordinated liabilities	288,321	281,001	210,569	211,889	288,321	281,001	210,569	211,889
- other financial liabilities	207,300	207,300	158,484	158,484	101,273	101,273	98,342	98,342

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing market interest rates for instruments with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings

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

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

Other financial assets and liabilities

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

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

in EUR thousands

	NLB Group				NLB			
31 Dec 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets measured at amortised cost								
- debt securities	1,267,437	288,484	7,182	1,563,103	1,254,337	79,503	-	1,333,840
- loans and advances to banks	-	197,220	-	197,220	-	165,966	-	165,966
- loans and advances to customers	-	9,873,137	-	9,873,137	-	4,674,069	-	4,674,069
- other financial assets	-	113,138	-	113,138	-	54,503	-	54,503
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	72,648	-	72,648	-	41,635	-	41,635
- borrowings from banks and central banks	-	155,673	-	155,673	-	140,702	-	140,702
- due to customers	-	16,414,382	-	16,414,382	-	8,860,267	-	8,860,267
- borrowings from other customers	-	93,020	-	93,020	-	13	-	13
- subordinated liabilities	234,629	46,372	-	281,001	234,629	46,372	-	281,001
- other financial liabilities	-	207,300	-	207,300	-	101,273	-	101,273

in EUR thousands

	NLB Group				NLB			
31 Dec 2019	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets measured at amortised cost								
- debt securities	1,464,677	250,673	-	1,715,350	1,437,771	105,747	-	1,543,518
- loans and advances to banks	-	93,503	-	93,503	-	150,520	-	150,520
- loans and advances to customers	-	7,775,128	-	7,775,128	-	4,713,622	-	4,713,622
- other financial assets	-	97,415	-	97,415	-	67,279	-	67,279
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	42,690	-	42,690	-	89,820	-	89,820
- borrowings from banks and central banks	-	178,374	-	178,374	-	169,312	-	169,312
- due to customers	-	11,630,157	-	11,630,157	-	7,768,365	-	7,768,365
- borrowings from other customers	-	63,868	-	63,868	-	2,548	-	2,548
- subordinated liabilities	166,349	45,540	-	211,889	166,349	45,540	-	211,889
- other financial liabilities	-	158,484	-	158,484	-	98,342	-	98,342

6.6. Offsetting financial assets and financial liabilities

NLB Group has entered into bilateral foreign exchange netting arrangements with certain banks and corporates. Cash flows from such transactions that are due on the same day in the same currency, are settled on a net basis, i.e. a single cash flow for each currency. The settlement of all interest rates derivatives is also carried out by netting of both legs of transaction. Assets and liabilities related to these netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In 2013, NLB Group also novated certain standardised derivatives (some interest rate swaps) to a clearing house or central counterparty. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

All derivatives are conducted under the conditions of signed Master Agreements (MA), with international banks ISDA MA is in place along with CSA annex and for corporates domestic MA is in place, which enable daily evaluation and exchange of margining.

in EUR thousands

	NLB Group			
31 Dec 2020	Amounts not set off in the statement of financial position			
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	15,820	608	594	14,618
Derivatives - liabilities	76,646	608	74,861	1,177

in EUR thousands

	NLB Group			
31 Dec 2019	Amounts not set off in the statement of financial position			
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	19,695	4,061	16	15,618
Derivatives - liabilities	67,399	4,061	59,657	3,681

in EUR thousands

	NLB			
31 Dec 2020	Amounts not set off in the statement of financial position			
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	16,189	623	594	14,972
Derivatives - liabilities	76,661	623	74,861	1,177

in EUR thousands

	NLB			
31 Dec 2019	Amounts not set off in the statement of financial position			
Financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Impact of master netting agreements**	**Financial instruments collateral**	**Net amount**
Derivatives - assets	19,742	4,061	16	15,665
Derivatives - liabilities	67,399	4,061	59,657	3,681

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

7. Analysis by segment for NLB Group

a) Segments

in EUR thousands

	NLB Group							
2020	**Retail Banking in Slovenia**	**Corporate and Investment Banking in Slovenia**	**Strategic Foreign Markets**	**Financial Markets in Slovenia**	**Non-Core Members**	**Other activities**	**Unallocated**	**Total**
Total net income	170,358	75,185	209,091	39,633	5,445	7,958	-	507,670
Net income from external customers	184,758	81,124	213,881	12,713	4,537	7,472	-	504,484
Intersegment net income	(14,400)	(5,939)	(4,790)	26,921	908	486	-	3,186
Net interest income	81,395	34,007	159,261	23,471	1,199	240	-	299,573
Net interest income from external customers	96,357	40,873	163,255	(3,126)	2,012	203	-	299,573
Intersegment net interest income	(14,962)	(6,866)	(3,994)	26,598	(813)	37	-	-
Administrative expenses	(102,089)	(37,878)	(94,862)	(6,972)	(11,848)	(11,047)	-	(264,696)
Depreciation and amortisation	(12,043)	(3,911)	(14,162)	(619)	(1,011)	(685)	-	(32,431)
Reportable segment profit/(loss) before impairment and provision charge	56,226	33,396	100,067	32,042	(7,414)	(3,774)	-	210,543
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	874	-	-	-	-	-	-	874
Negative goodwill	-	-	137,858	-	-	-	-	137,858
Impairment and provisions charge	(15,069)	8,982	(59,084)	(1,267)	2,854	(7,770)	-	(71,354)
Profit/(loss) before income tax	42,031	42,378	178,841	30,775	(4,560)	(11,544)	-	277,921
Owners of the parent	42,031	42,378	175,792	30,775	(4,560)	(11,544)	-	274,872
Non-controlling interests	-	-	3,049	-	-	-	-	3,049
Income tax	-	-	-	-	-	-	(5,165)	(5,165)
Profit for the year								**269,707**
Reportable segment assets	2,545,714	2,043,324	9,346,255	5,218,038	131,204	273,332	-	19,557,867
Investments in associates and joint ventures	7,988	-	-	-	-	-	-	7,988
Reportable segment liabilities	7,367,145	1,519,067	7,879,089	557,402	4,571	115,540	-	17,442,815
Additions to non-current assets	15,679	6,047	13,517	418	695	2,941	-	39,298

in EUR thousands

2019	Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Unallocated	Total
	NLB Group							
Total net income	165,689	80,236	212,072	35,612	11,484	14,051	-	519,143
Net income from external customers	172,730	85,002	214,841	19,227	11,382	13,991	-	517,172
Intersegment net income	(7,041)	(4,766)	(2,769)	16,385	102	60	-	1,971
Net interest income	87,409	37,264	157,543	33,604	2,740	(73)	-	318,487
Net interest income from external customers	94,829	41,348	160,463	17,703	4,277	(133)	-	318,487
Intersegment net interest income	(7,420)	(4,084)	(2,920)	15,901	(1,537)	60	-	-
Administrative expenses	(106,454)	(40,518)	(94,912)	(6,888)	(13,170)	(13,400)	-	(275,342)
Depreciation and amortisation	(11,546)	(3,937)	(12,931)	(621)	(1,300)	(1,271)	-	(31,607)
Reportable segment profit/(loss) before impairment and provision charge	47,689	35,780	104,229	28,103	(2,986)	(621)	-	212,194
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	4,197	-	-	-	-	-	-	4,197
Impairment and provisions charge	(4,382)	21,043	(11,295)	(475)	(108)	(5,776)	-	(994)
Profit/(loss) before income tax	47,504	56,823	92,934	27,628	(3,094)	(6,397)	-	215,397
Owners of the parent	47,504	56,823	84,692	27,628	(3,094)	(6,397)	-	207,155
Non-controlling interests	-	-	8,242	-	-	-	-	8,242
Income tax	-	-	-	-	-	-	(13,579)	(13,579)
Profit for the year								**193,576**
Reportable segment assets	2,551,708	2,042,200	4,731,350	4,412,561	169,456	259,314	-	14,166,589
Investments in associates and joint ventures	7,499	-	-	-	-	-	-	7,499
Reportable segment liabilities	6,464,417	1,341,878	4,043,172	465,168	8,791	119,766	-	12,443,191
Additions to non-current assets	13,310	4,618	13,994	342	291	4,111	-	36,667

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results. NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

The business activities of NLB are divided into several segments. Interest income and expenses are reallocated between segments on the basis of fund transfer prices (FTP). Other NLB Group members are, based on their business activity, included in only one segment except NLB Lease&Go which is according to its business activities divided into two segments.

The segments of NLB Group are divided into core and non-core segments.

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals and asset management (NLB Skladi), and part of new subsidiary NLB Lease&Go that includes operations with retail clients as well as the contribution to the result of the associated company Bankart (in 2019 also of the joint venture NLB Vita and in 2020 realised a gain on sale of this investment).
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Investment Banking and Custody, Restructuring and Workout and part of the new subsidiary NLB Lease&Go that includes operations with corporate clients.
- Strategic Foreign Markets, which consist of the operations of strategic Group banks in the strategic markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia). As a result of the acquisition of Komercijalna banka Beograd at the end of the year 2020, NLB Group acquired three banks: Komercijalna banka Beograd, Komercijalna banka Podgorica, and Komercijalna banka Banja Luka, as well as an investment fund company KomBank Invest Beograd.
- Financial Markets in Slovenia include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).
- Other accounts for the categories whose operating results cannot be allocated to specific segments as well as a new subsidiary 'The NLB Cultural Heritage Management Institute.'

Non-Core Members include the operations of non-core Group members, namely REAM and leasing entities (with the exception of NLB Lease&Go), NLB Srbija and NLB Crna Gora.

Data for 2019 are adjusted to changed schemes prescribed by the Bank of Slovenia (relocation of some items from the other net operating income to other general and administrative expenses), so there might be changes in previously reported numbers (note 2.3.).

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

b) Geographical information

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

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Slovenia	322,128	332,511	290,376	297,134	93,362	114,711	(1,154)	(2,821)
South East Europe	265,600	266,923	214,486	218,126	184,266	100,034	(3,963)	(10,692)
North Macedonia	81,710	84,134	64,466	66,701	21,008	36,216	(1,566)	(3,211)
Serbia	35,240	33,578	28,046	26,143	130,912	4,997	1,323	(172)
Montenegro	31,291	33,121	25,033	28,321	2,741	8,353	(426)	(1,909)
Croatia	42	63	454	799	(1,019)	(105)	(12)	(100)
Bosnia and Herzegovina	69,616	70,975	57,079	58,945	15,776	28,738	(1,572)	(2,857)
Kosovo	47,701	45,052	39,408	37,217	14,848	21,835	(1,710)	(2,443)
Western Europe	3	571	(378)	1,911	293	665	(48)	(66)
Germany	2	7	80	55	(433)	(276)	-	-
Switzerland	1	564	(458)	1,856	726	941	(48)	(66)
Czech Republic	-	-	-	1	-	(13)	-	-
Total	**587,731**	**600,005**	**504,484**	**517,172**	**277,921**	**215,397**	**(5,165)**	**(13,579)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income.

The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, the effect on the derecognition of assets, net operating income, and gain less losses from non-current assets held for sale.

in EUR thousands

	Non-current assets		Total assets		Number of employees	
NLB Group	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Slovenia	153,671	151,934	10,142,675	9,350,558	2,691	2,750
South East Europe	219,886	142,870	9,411,671	4,811,617	6,098	3,124
North Macedonia	37,181	34,971	1,576,941	1,448,179	877	903
Serbia	109,167	25,549	4,587,600	639,351	3,198	494
Montenegro	17,934	30,089	709,797	533,849	467	312
Croatia	381	2,045	4,390	12,497	7	7
Bosnia and Herzegovina	39,576	34,246	1,654,026	1,381,718	1,086	934
Kosovo	15,647	15,970	878,917	796,023	463	474
Western Europe	58	158	11,509	11,913	3	4
Germany	58	152	1,648	1,787	1	1
Switzerland	-	6	9,861	10,126	2	3
Total	**373,615**	**294,962**	**19,565,855**	**14,174,088**	**8,792**	**5,878**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Slovenia	341,092	415,437	328,302	372,613	120,806	185,857	(1,221)	(2,926)
South East Europe	265,889	267,546	211,337	216,145	44,271	99,862	(3,949)	(10,635)
North Macedonia	81,673	84,105	62,658	65,151	20,788	36,088	(1,566)	(3,211)
Serbia	35,318	33,798	28,386	26,869	(6,761)	4,919	1,337	(115)
Montenegro	31,376	33,381	24,356	28,236	187	8,368	(426)	(1,909)
Croatia	145	142	468	772	(1,019)	(105)	(12)	(100)
Bosnia and Herzegovina	69,678	71,054	56,791	58,264	16,032	28,604	(1,572)	(2,857)
Kosovo	47,699	45,066	38,678	36,853	15,044	21,988	(1,710)	(2,443)
Western Europe	335	1,688	(144)	2,886	588	2,033	(34)	(6)
Germany	2	2	81	56	(432)	(275)	-	-
Switzerland	333	1,686	(225)	2,830	1,020	2,308	(34)	(6)
Czech Republic	-	-	-	1	-	(13)	-	-
Total	**607,316**	**684,671**	**539,495**	**591,645**	**165,665**	**287,739**	**(5,204)**	**(13,567)**

8. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel, or their family members have control, joint control, or a significant influence; a major shareholder of NLB with significant influence, subsidiaries, associates and joint ventures.

Related-party transactions with Management Board and other key management personnel, their family members and companies these related parties have control, joint control, or significant influence

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousands

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
NLB Group and NLB	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Loans issued								
Balance at 1 January	2,119	1,903	520	347	130	231	248	413
Increase	1,476	1,192	184	492	90	245	109	43
Decrease	(1,311)	(976)	(260)	(319)	(220)	(346)	(52)	(208)
Balance at 31 December	**2,284**	**2,119**	**444**	**520**	**-**	**130**	**305**	**248**
Interest income	40	41	8	8	1	3	7	5
Deposits received								
Balance at 1 January	1,579	1,732	871	447	193	102	198	341
Increase	1,392	1,367	826	1,175	207	265	277	158
Decrease	(1,361)	(1,520)	(741)	(751)	(264)	(174)	(152)	(301)
Balance at 31 December	**1,610**	**1,579**	**956**	**871**	**136**	**193**	**323**	**198**
Interest expense	(4)	(4)	-	-	-	-	-	-
Other financial assets	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities	**2,759**	**2,759**	**-**	**-**	**8**	**4**	**-**	**-**
Guarantees issued and credit commitments	**242**	**246**	**78**	**82**	**6**	**91**	**33**	**18**
Fee income	15	11	7	6	101	5	1	2
Other income	16	20	-	-	-	-	-	-
Other expenses	(11)	(8)	-	-	(76)	(54)	-	-

Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

Members of the Management Board are entitled to a contractual gross salary considering the limitations of the Slovenian legislation (Zban-2). The applicable Remuneration Policy for the Employees Performing special job in NLB d.d. regulates the remuneration of the members of the Management Board or employee performing special work and refers to the period to which the variable part of the salary for performance relates.

The members of the Management Board under the contract shall be entitled to a variable portion of the performance remuneration on the basis of NLB Group's financial objectives, financial objectives targeted in an area which is within the competence of each member of the Management Board and on the basis of the personal objectives of the member of the Management Board of the Bank. The objectives and criteria of each member of the Management Board shall be determined each year by the Supervisory Board of the Bank at the time of adoption of the Bank's annual business plan.

The variable portion of performance receipts for a given financial year may not exceed eight average gross monthly salaries of a member of the Management Board in the financial year. The members of the Management Board shall be entitled to a variable part of the performance benefit only in proportional part to the actual period of employment (duration of the term of office) of the Bank during the period to which the variable part of the performance benefit relates.

The non-deferred part of variable remuneration is paid no later than three months after the adoption of the Annual Report of NLB d.d. for the business year to which the variable remuneration relates. Variable remuneration part of payment of an employee performing special work is awarded and paid in cash, provided that the amount does not exceed EUR 50 thousand for each financial year, and if this is permissible in accordance with the relevant regulation.

If the variable remuneration part of payment of an employee performing special work exceeds EUR 50 thousand for each financial year and if this is permissible in accordance with the relevant regulation, then at least 50% of the variable remuneration must consist of instruments. The employee performing special job may only transfer such instruments with the Bank's approval which cannot be issued before the expiry of two years after the acquisition. The latter applies to both – the non-deferred and deferred part of the variable remuneration.

The deferred part of the variable part of the salary must be deferred for a period of at least three and at most five years of the day on which the non-deferred part of such variable remuneration is paid, according to the legislation (ZBan-2).

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders and are in full compliance with the applicable recommendations of corporate governance.

The table below shows payments in presented periods.

in EUR thousands

	Management Board		Other key management personnel		Supervisory Board	
NLB Group and NLB	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Short-term benefits	1,401	1,676	5,501	5,064	649	357
Cost refunds	4	4	95	86	34	85
Long-term bonuses:						
- severance pay	259	-	108	-	-	-
- other benefits	4	6	49	72	-	-
- variable part of payments	-	162	-	1,316	-	-
Total	**1,668**	**1,848**	**5,753**	**6,538**	**683**	**442**

Short-term benefits include:

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

The reimbursement of cost comprises food allowances and travel expenses.

Payments to individual members of the Management Board

in EUR

Member		**2020**	**2019**
Blaž Brodnjak 01.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	384,734	433,882
	- benefits and other short-term bonuses	2,250	2,173
	Costs refunds	1,304	1,016
	Long-term bonuses:		
	- other benefits	940	1,409
	- variable part of payments	-	45,497
	Total	**389,228**	**483,977**
Andreas Burkhardt 18.09.2013	Short-term benefits:		
	- gross salary and holiday allowance	352,796	397,291
	- benefits and other short-term bonuses	17,861	18,515
	Costs refunds	1,212	1,047
	Long-term bonuses:		
	- other benefits	940	1,409
	- variable part of payments	-	45,497
	Total	**372,809**	**463,759**
Archibald Kremser 31.07.2013	Short-term benefits:		
	- gross salary and holiday allowance	366,484	412,973
	- benefits and other short-term bonuses	24,331	25,393
	Costs refunds	1,248	1,028
	Long-term bonuses:		
	- other benefits	940	1,409
	- variable part of payments	-	45,497
	Total	**393,003**	**486,300**
Petr Brunclík 18.05.2020	Short-term benefits:		
	- gross salary and holiday allowance	170,517	-
	- benefits and other short-term bonuses	20,647	-
	Costs refunds	710	-
	Long-term bonuses:		
	- other benefits	705	-
	- variable part of payments	-	-
	Total	**192,579**	**-**
László Pelle 26.10.2016 - 31.01.2020	Short-term benefits:		
	- gross salary and holiday allowance	57,624	355,473
	- benefits and other short-term bonuses	4,343	30,364
	Costs refunds	129	1,261
	Long-term bonuses:		
	- severance payments	258,750	-
	- other benefits	117	1,409
	- variable part of payments	-	25,000
	Total	**320,963**	**413,507**

Payments to individual members of the Supervisory Board

in EUR

Member		2020	2019
Andreas Klingen 22.06.2015	Session fees	-	5,940
	Annual compensation	84,000	41,136
	Costs refunds	2,690	17,200
Primož Karpe 11.02.2016	Session fees	-	7,260
	Annual compensation	89,583	48,980
	Costs refunds	8,235	9,698
David Eric Simon 04.08.2016	Session fees	-	6,380
	Annual compensation	75,000	36,994
	Costs refunds	6,455	16,770
Peter Groznik 08.09.2017	Session fees	-	5,720
	Annual compensation	66,000	32,214
	Costs refunds	429	4,056
Gregor Rok Kastelic 10.06.2019	Session fees	-	1,980
	Annual compensation	70,625	21,901
	Costs refunds	4,239	4,406
Shrenik Dhirajlal Davda 10.06.2019	Session fees	-	2,200
	Annual compensation	66,000	23,072
	Costs refunds	3,917	6,136
Mark William Lane Richards 10.06.2019	Session fees	-	2,200
	Annual compensation	75,000	26,008
	Costs refunds	3,617	4,119
Verica Trstenjak 15.06.2020	Session fees	-	-
	Annual compensation	33,933	-
	Costs refunds	-	-
Sergeja Kočar 17.06.2020	Session fees	-	-
	Annual compensation	5,662	-
	Costs refunds	153	-
Bojana Šteblaj 17.06.2020	Session fees	-	-
	Annual compensation	5,255	-
	Costs refunds	457	-
Janja Žabjek Dolinšek 20.11.2020	Session fees	-	-
	Annual compensation	169	-
	Costs refunds	-	-
Petra Kakovič Bizjak 17.06.2020 - 10.09.2020	Session fees	-	-
	Annual compensation	7,302	-
	Costs refunds	178	-

in EUR

Member		2020	2019
László Zoltan Urbán 11.02.2016 - 15.06.2020	Session fees	-	5,445
	Annual compensation	31,875	33,384
	Costs refunds	1,456	6,759
Alexander Bayr 04.08.2016 - 15.06.2020	Session fees	-	6,765
	Annual compensation	36,000	38,758
	Costs refunds	2,799	15,992
Simona Kozjek 08.09.2017 - 28.02.2019	Session fees	-	935
	Annual compensation	-	3,750
	Costs refunds	-	-
Vida Šeme Hočevar 08.09.2017 - 28.02.2019	Session fees	-	1,155
	Annual compensation	-	5,000
	Costs refunds	-	22

Related-party transactions with subsidiaries, associates and joint ventures

in EUR thousands

	NLB Group			
	Associates		Joint ventures	
	2020	2019	2020	2019
Loans issued				
Balance at 1 January	1,066	1,176	1,205	2,981
Increase	165	112	11	37
Decrease	(125)	(222)	(365)	(1,813)
Balance at 31 December	**1,106**	**1,066**	**851**	**1,205**
Interest income	32	34	11	21
Impairment	27	21	(23)	66
Deposits received				
Balance at 1 January	842	722	8,455	4,424
Effects of translation of foreign operations to presentation currency	-	-	(3)	17
Increase	4,461	1,920	90,966	92,618
Decrease	(1,330)	(1,800)	(95,984)	(88,604)
Balance at 31 December	**3,973**	**842**	**3,434**	**8,455**
Interest expense	-	-	(62)	(66)
Other financial assets	**19**	**18**	**1**	**539**
Other financial liabilities	**596**	**1,294**	**-**	**250**
Guarantees issued and credit commitments	**38**	**31**	**21**	**26**
Fee income	15	9	983	4,985
Fee expense	(13,977)	(14,101)	(952)	(2,138)
Other income	177	192	144	134
Other expense	(699)	(545)	(37)	(23)

in EUR thousands

	NLB					
	Subsidiaries		Associates		Joint ventures	
	2020	2019	2020	2019	2020	2019
Loans issued						
Balance at 1 January	160,634	187,744	1,066	1,176	1,174	2,940
Increase	98,221	95,047	165	112	10	35
Decrease	(89,679)	(122,157)	(125)	(222)	(333)	(1,801)
Balance at 31 December	**169,176**	**160,634**	**1,106**	**1,066**	**851**	**1,174**
Interest income	5,007	4,694	32	34	10	19
Impairment	(1,835)	1,461	27	21	(23)	66
Deposits						
Balance at 1 January	70,469	56,784	-	-	-	-
Increase	658,253	376,939	-	-	-	-
Decrease	(659,336)	(363,254)	-	-	-	-
Balance at 31 December	**69,386**	**70,469**	**-**	**-**	**-**	**-**
Interest income	21	34	-	-	-	-
Impairment	4	(12)	-	-	-	-
Deposits received						
Balance at 1 January	80,806	40,313	842	722	5,418	2,588
Increase	7,934,453	13,862,854	4,461	1,920	86,850	82,911
Decrease	(7,995,844)	(13,822,361)	(1,330)	(1,800)	(91,984)	(80,081)
Balance at 31 December	**19,415**	**80,806**	**3,973**	**842**	**284**	**5,418**
Interest expense	(21)	(228)	-	-	-	-
Derivatives						
Fair value	354	47	-	-	-	-
Contractual amount	12,424	9,743	-	-	-	-
Other financial assets	**948**	**984**	**19**	**18**	**1**	**539**
Other financial liabilities	**800**	**235**	**480**	**1,174**	**-**	**116**
Guarantees issued and credit commitments	**55,068**	**32,727**	**38**	**31**	**21**	**26**
Income/(expense) provisions for guaranties and commitments	(53)	(461)	-	-	-	-
Received loan commitments and financial guarantees	**6,692**	**3,297**	**-**	**-**	**-**	**-**
Fee income	6,857	6,276	15	9	925	4,847
Fee expense	(25)	(19)	(11,140)	(11,918)	(332)	(771)
Other income	780	533	177	192	144	133
Other expense	(1,065)	(443)	(664)	(542)	(37)	(23)
Gains less losses on derecognition of financial assets/liabilities held for trading	1,208	(225)	-	-	-	-
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	436	(419)	-	-	-	-

Related-party transactions with major shareholder with significant influence

The volumes of related party transactions with major shareholder are as follows:

in EUR thousands

	NLB Group		NLB	
	Shareholder		Shareholder	
	2020	2019	2020	2019
Loans issued				
Balance at 1 January	28,206	79,156	28,206	76,374
Increase	1,607	3,320	1,607	3,270
Decrease	(6,594)	(54,270)	(6,594)	(51,438)
Balance at 31 December	**23,219**	**28,206**	**23,219**	**28,206**
Interest income	720	1,563	720	1,513
Investments in securities				
Balance at 1 January	850,965	908,263	778,088	855,872
Increase	866,414	767,386	758,140	630,949
Decrease	(1,026,883)	(836,044)	(940,974)	(720,857)
Valuation	1,372	11,360	1,869	12,124
Balance at 31 December	**691,868**	**850,965**	**597,123**	**778,088**
Interest income	8,219	13,014	8,681	14,047
Other financial assets	**807**	**651**	**807**	**651**
Other financial liabilities	**6**	**22**	**6**	**22**
Guarantees issued and credit commitments	**1,241**	**1,168**	**1,241**	**1,168**
Fee income	194	144	194	144
Fee expense	(30)	(35)	(30)	(35)
Other income	206	181	206	181
Other expense	(6)	(5)	(6)	(5)
Gains less losses on derecognition of financial assets/liabilities not classified at FVPL	14,660	2,809	14,660	2,809
Gains less losses on derecognition of financial assets/liabilities held for trading	43	(360)	43	(360)

NLB Group and NLB disclose all transactions with the major shareholder with significant influence. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousands

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2020	2019	2020	2019
Loans	-	57,113	-	1
Borrowings, deposits and business accounts	-	179,309	-	2

in EUR thousands

NLB Group and NLB	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2020	2019	2020	2019
Loans	516,058	582,081	6	6
Debt securities measured at amortised cost	76,396	78,014	1	1
Borrowings, deposits and business accounts	70,006	115,500	1	2

in EUR thousands

NLB Group and NLB	Effects in income statement during the year	
	2020	2019
Interest income from loans	3,669	3,175
Fees and commissions income	27	175
Interest income from debt securities measured at amortised cost	1,166	2,139
Interest expense from borrowings, deposits, and business accounts	(290)	(849)

9. Events after the reporting date

NLB published Takeover Bid for acquisition of all remaining regular shares of Komercijalna banka Beograd (i.e. 2,820,270 regular shares or 16.77% of this class of shares) at RSD 3,315.47 per one share and all priority shares of Komercijalna banka (i.e 373,510 priority shares or 100% of this class of shares) at RSD 934.72 per one share. Takeover bid is open for acceptance for 30 days, beginning from 11 March 2021.

Alternative Performance Indicators

The Bank has chosen to present these APIs, either because they are in common use within the industry or because they are commonly used by investors and as such useful for disclosure. The APIs are used internally to monitor and manage operations of the Bank and the Group, and are not considered to be directly comparable with similar KPIs presented by other companies. The Bank's APIs are described below together with definitions.

Cost of risk - Calculated as the ratio between credit impairments and provisions annualized from the income statement and average net loans to customers.

Table 42: NLB Group cost of risk calculation

(in EUR million and bps)

	NLB Group	
	2020[iii]	2019
Numerator		
Credit impairments and provisions[i]	47.6	-14.5
Denominator		
Average net loans to customers[ii]	7,696.1	7,339.4
Cost of risk	**62**	**-20**

[i] NLB internal information. Credit impairments and provisions are annualized, calculated as all established and released impairments on loans and provisions for off balance (from income statement) in the period divided by number of months for reporting period and multiplied by 12. The net established Credit impairments and provisions are shown with a positive sign, net released Credit impairments and provisions are shown with a negative sign.
[ii] NLB internal information. Average net loans to customers are calculated as sum of balance of previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).
[iii] NLB Group (w/o Komercijalna Banka group).

Cost to income ratio (CIR) - Indicator of cost efficiency, calculated as the ratio between total costs and total net operating income.

Table 43a: NLB Group and NLB CIR calculation

(in EUR million and %)

	NLB Group			NLB		
	2020	2019	2018	2020	2019	2018
Numerator						
Total costs	293.9	305.0	292.3	180.5	191.1	180.3
Denominator						
Total net operating income	504.5	517.2	496.9	311.7	354.7	324.8
Cost to income ratio (CIR)	**58.3%**	**59.0%**	**58.8%**	**57.9%**	**53.9%**	**55.5%**

CIR is adjusted for 2018 and 2019 to changed schemes prescribed by the BoS.

Table 43b: NLB Group's banking subsidiaries CIR calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Numerator												
Total cost	26.5	26.8	13.9	13.5	15.1	14.8	12.3	11.8	13.6	13.8	20.4	19.8
Denominator												
Total net operating income	62.7	65.2	30.1	30.7	26.7	27.6	38.7	36.9	24.3	26.6	26.6	25.2
Cost to income ratio (CIR)	**42.3%**	**41.2%**	**46.1%**	**44.1%**	**56.5%**	**53.6%**	**31.8%**	**32.0%**	**56.0%**	**51.9%**	**76.4%**	**78.6%**

CIR is adjusted for 2019 to changed schemes prescribed by the BoS.

FVTPL - Financial assets measured mandatorily at fair value through profit or loss (FVTPL) are not classified into stages and are therefore shown separately (before deduction of fair value for credit risk; loans with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding).

IFRS 9 classification into stages for loan portfolio:

IFRS 9 requires an expected loss model, where an allowance for the expected credit losses (ECL) are formed. Loans measured at amortised costs (AC) are classified into the following stages (before deduction of loan loss allowances):

Stage 1 – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period;

Stage 2 – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period;

Stage 3 – An impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition on default is harmonised with EBA guidelines.

A significant increase in credit risk is assumed: when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition; when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment); if NLB Group expects to grant the client forbearance or if the client is placed on the watch list.

The remaining minor part (0.30 per cent. December 2020; 0.27 per cent. December 2019) represents FVTPL. Classification into stages is calculated in internal data source, by which the NLB Group measures the loan portfolio quality and is also published in Business Report of Annual and Interim Reports.

Table 44a: NLB Group Stage 1 calculation

(in EUR million and %)

	NLB Group		
	2020	2019	2018
Numerator			
Total (AC) loans in Stage 1	12,650.8	8,947.7	7,816.7
Denominator			
Total gross loans and advances	13,686.6	9,793.5	9,017.2
IFRS 9 classification into Stage 1	**92.4%**	**91.4%**	**86.7%**

Table 44b: NLB Group (w/o Komercijalna Banka group) Stage 1 calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Total (AC) loans in Stage 1	10,065.6
Denominator	
Total gross loans and advances	11,061.0
IFRS 9 classification into Stage 1	**91.0%**

Table 44c: NLB Group Stage 2 calculation

(in EUR million and %)

	NLB Group		
	2020	2019	2018
Numerator			
Total (AC) loans in Stage 2	560.1	471.1	577.9
Denominator			
Total gross loans and advances	13,686.6	9,793.5	9,017.2
IFRS 9 classification into Stage 2	**4.1%**	**4.8%**	**6.4%**

Table 44d: NLB Group (w/o Komercijalna Banka group) Stage 2 calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Total (AC) loans in Stage 2	560.1
Denominator	
Total gross loans and advances	11,061.0
IFRS 9 classification into Stage 2	**5.1%**

Table 44e: NLB Group Stage 3 calculation

(in EUR million and %)

	NLB Group		
	2020	2019	2018
Numerator			
Total (AC) loans in Stage 3	475.7	348.6	573.3
Denominator			
Total gross loans and advances	13,686.6	9,793.5	9,017.2
IFRS 9 classification into Stage 3	**3.5%**	**3.6%**	**6.4%**

Table 44f: NLB Group (w/o Komercijalna Banka group) Stage 3 calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Total (AC) loans in Stage 3	435.3
Denominator	
Total gross loans and advances	11,061.0
IFRS 9 classification into Stage 3	**3.9%**

Table 44g: NLB Group and NLB Group (w/o Komercijalna Banka group) Stage 1 in the Corporate segment calculation

(in EUR million and %)

	NLB Group	NLB Group (w/o Komercijalna Banka group)
	2020	2020
Numerator		
Total (AC) loans in Stage 1 to Corporates	4,135.7	3,169.6
Denominator		
Total gross loans to Corporates	4,921.0	3,920.3
Corporates - IFRS 9 classification into Stage 1	**84.0%**	**80.9%**

Table 44h: NLB Group and NLB Group (w/o Komercijalna Banka group) Stage 2 in the Corporate segment calculation

(in EUR million and %)

	NLB Group	NLB Group (w/o Komercijalna Banka group)
	2020	2020
Numerator		
Total (AC) loans in Stage 2 to Corporates	426.8	426.8
Denominator		
Total gross loans to Corporates	4,921.0	3,920.3
Corporates - IFRS 9 classification into Stage 2	**8.7%**	**10.9%**

Table 44i: NLB Group and NLB Group (w/o Komercijalna Banka group) Stage 3 in the Corporate segment calculation

(in EUR million and %)

	NLB Group	NLB Group (w/o Komercijalna Banka group)
	2020	2020
Numerator		
Total (AC) loans in Stage 3 to Corporates	358.6	324.0
Denominator		
Total gross loans to Corporates	4,921.0	3,920.3
Corporates - IFRS 9 classification into Stage 3	**7.3%**	**8.3%**

Table 44j: NLB Group and NLB Group (w/o Komercijalna Banka group) Stage 1 in the Retail segment calculation

(in EUR million and %)

	NLB Group	NLB Group (w/o Komercijalna Banka group)
	2020	**2020**
Numerator		
Total (AC) loans in Stage 1 to Retail	4,779.2	3,935.5
Denominator		
Total gross loans to Retail	5,029.7	4,180.2
Retail - IFRS 9 classification into Stage 1	**95.0%**	**94.1%**

Table 44k: NLB Group and NLB Group (w/o Komercijalna Banka group) Stage 2 in the Retail segment calculation

(in EUR million and %)

	NLB Group	NLB Group (w/o Komercijalna Banka group)
	2020	**2020**
Numerator		
Total (AC) loans in Stage 2 to Retail	133.3	133.3
Denominator		
Total gross loans to Retail	5,029.7	4,180.2
Retail - IFRS 9 classification into Stage 2	**2.7%**	**3.2%**

Table 44l: NLB Group and NLB Group (w/o Komercijalna Banka group) Stage 3 in the Retail segment calculation

(in EUR million and %)

	NLB Group	NLB Group (w/o Komercijalna Banka group)
	2020	**2020**
Numerator		
Total (AC) loans in Stage 3 to Retail	117.1	111.4
Denominator		
Total gross loans to Retail	5,029.7	4,180.2
Retail - IFRS 9 classification into Stage 3	**2.3%**	**2.7%**

Liquidity coverage ratio - LCR refers to high liquid assets held by the financial institution to cover its net liquidity outflows over a 30-calendar day stress period.

The LCR requires financial institutions to maintain a sufficient reserve of high-quality liquid assets (HQLA) to withstand a crisis that puts their cash flows under pressure. The assets to hold must equal to or greater than their net cash outflow over a 30-calendar-day stress period (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III guidelines. Below presented calculations are based on internal data sources.

Table 45a: NLB Group LCR calculation

(in EUR million and %)

	NLB Group												
	31 Dec 2020	**30 Nov 2020**	**31 Oct 2020**	**30 Sep 2020**	**31 Aug 2020**	**31 Jul 2020**	**30 Jun 2020**	**31 May 2020**	**30 Apr 2020**	**31 Mar 2020**	**29 Feb 2020**	**31 Jan 2020**	**31 Dec 2019**
Numerator													
Stock of HQLA	5,003.0	4,849.5	4,746.2	4,710.4	4,730.0	4,726.0	4,737.7	4,449.6	4,292.4	3,974.2	3,901.5	3,799.7	3,985.0
Denominator													
Net liquidity outflow	1,943.1	1,586.9	1,555.4	1,553.9	1,569.3	1,616.3	1,594.0	1,439.9	1,457.0	1,308.0	1,231.2	1,092.4	1,226.4
LCR	**257.5%**	**305.6%**	**305.1%**	**303.1%**	**301.4%**	**292.4%**	**297.2%**	**309.0%**	**294.6%**	**303.8%**	**316.9%**	**347.8%**	**324.9%**

Based on the EC's Delegated Act on LCR.

Table 45b: NLB Group (w/o Komercijalna Banka group) LCR calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	31 Dec 2020
Numerator	
Stock of HQLA	4,703.5
Denominator	
Net liquidity outflow	1,642.1
LCR	**286.4%**

Based on the EC's Delegated Act on LCR.

Net loan to deposit ratio (LTD) – Calculated as the ratio between net loans to customers and deposits from customers. There is no regulatory defined limitation on the LTD, however the aim of this measure is to restrict extensive growth of the loan portfolio.

Table 46a: NLB Group and NLB LTD calculation

(in EUR million and %)

	NLB Group			NLB		
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2018**
Numerator						
Net loans to customers	9,644.9	7,604.7	7,148.4	4,595.1	4,589.2	4,478.1
Denominator						
Deposits from customers	16,397.2	11,612.3	10,464.0	8,850.8	7,760.7	7,033.4
Net loan to deposit ratio (LTD)	**58.8%**	**65.5%**	**68.3%**	**51.9%**	**59.1%**	**63.7%**

Table 46b: NLB Group's banking subsidiaries LTD calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Numerator												
Net loans to customers	956.9	915.1	430.7	411.7	399.2	399.3	559.2	540.1	367.3	346.3	472.2	412.0
Denominator												
Deposits from customers	1,288.8	1,175.6	633.5	618.1	521.6	515.2	748.3	685.4	431.7	436.5	496.3	437.3
Net loan to deposit ratio (LTD)	**74.2%**	**77.8%**	**68.0%**	**66.6%**	**76.5%**	**77.5%**	**74.7%**	**78.8%**	**85.1%**	**79.3%**	**95.1%**	**94.2%**

Net interest margin on the basis of interest bearing assets – Calculated as the ratio between net interest income annualized and average interest bearing assets.

Table 47a: NLB Group net interest margin on the basis of interest bearing assets calculation

(in EUR million and %)

	NLB Group				
	1-12 2020	1-9 2020	1-6 2020	1-3 2020	1-12 2019
Numerator					
Net interest income[i]	299.6	299.9	301.8	311.2	318.5
Denominator					
Average interest bearing assets[ii]	14,492.7	14,009.2	13,791.1	13,560.3	12,845.9
Net interest margin on interest bearing assets	**2.07%**	**2.14%**	**2.19%**	**2.29%**	**2.48%**

[i] Net interest income is annualized, calculated as sum of interest income and interest expenses in the period divided by number of days in the period and multiplied by number of days in the year.
[ii] NLB internal information. Average interest bearing assets for the NLB Group and SEE banking members are calculated as the sum of balance of previous year end (31 December) and monthly balances of the last day of each month from January to reporting month t divided by (t+1). Average interest bearing assets for NLB are calculated as sum of balance of the previous year end (31 December) and daily balances in the period (from 1 January to day d – last day in reporting month) divided by (d+1).

Table 47b: NLB Group (w/o Komercijalna Banka group) net interest margin on the basis of interest bearing assets calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	1-12 2020
Numerator	
Net interest income[i]	299.6
Denominator	
Average interest bearing assets[ii]	14,187.6
Net interest margin on interest bearing assets	**2.11%**

[i][ii] Please refer to notes under Table 47a.

Table 47c: NLB Group member banks in SEE total net interest margin on the basis of interest bearing assets calculation

(in EUR million and %)

	NLB Group member banks in SEE				
	1-12 2020	1-9 2020	1-6 2020	1-3 2020	1-12 2019
Numerator					
Net interest income[i]	159.3	159.1	158.0	160.1	157.5
Denominator					
Average interest bearing assets[ii]	4,782.3	4,744.2	4,694.1	4,669.5	4,390.9
Net interest margin on interest bearing assets	**3.33%**	**3.35%**	**3.37%**	**3.43%**	**3.59%**

[i][ii] Please refer to notes under Table 47a.

Table 47d: NLB net interest margin on the basis of interest bearing assets calculation

(in EUR million and %)

	NLB				
	1-12 2020	1-9 2020	1-6 2020	1-3 2020	1-12 2019
Numerator					
Net interest income[i]	138.9	139.4	142.4	149.5	158.1
Denominator					
Average interest bearing assets[ii]	9,620.4	9,455.8	9,270.4	9,078.1	8,537.9
Net interest margin on interest bearing assets	**1.44%**	**1.47%**	**1.54%**	**1.65%**	**1.85%**

[i][ii] Please refer to notes under Table 47a.

Table 47e: NLB Group's banking subsidiaries net interest margin on the basis of interest bearing assets calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	1-12 2020	1-12 2019	1-12 2020	1-12 2019	1-12 2020	1-12 2019	1-12 2020	1-12 2019	1-12 2020	1-12 2019	1-12 2020	1-12 2019
Numerator												
Net interest income[i]	48.1	49.0	18.6	18.5	17.8	18.0	32.3	31.0	20.6	20.3	21.8	20.7
Denominator												
Average interest bearing assets[ii]	1,453.0	1,338.5	756.7	738.9	611.9	608.1	817.7	715.8	499.9	475.2	643.1	514.4
Net interest margin on interest bearing assets	**3.3%**	**3.7%**	**2.5%**	**2.5%**	**2.9%**	**3.0%**	**3.9%**	**4.3%**	**4.1%**	**4.3%**	**3.4%**	**4.0%**

[i][ii] Please refer to notes under Table 47a.

Net interest margin on total assets - Calculated as ratio between net interest income annualized and average total assets.

Table 48: NLB Group and NLB net interest margin on total assets calculation

(in EUR million and %)

	NLB Group			NLB		
	1-12 2020	1-12 2019	1-12 2018	1-12 2020	1-12 2019	1-12 2018
Numerator						
Net interest income[(i)]	299.6	318.5	312.9	138.9	158.1	158.0
Denominator						
Average total assets[(ii)]	15,086.4	13,311.7	12,515.5	10,336.2	9,206.3	8,870.9
Net interest margin on total assets	**2.0%**	**2.4%**	**2.5%**	**1.3%**	**1.7%**	**1.8%**

[(i)] Net interest income is annualized, calculated as sum of interest income and interest expenses in the period divided by number of days in the period and multiplied by number of days in the year.
[(ii)] NLB internal information. Average total assets for the NLB Group are calculated as sum of balance of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1). Average total assets for NLB are calculated as sum of total assets of the previous year end (31 December) and daily balances in the period (from 1 January to day d – last day in reporting month) divided by (d+1).

NPE - NPE includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses). Non-performing exposures measured by fair value loans through P&L (FVTPL) are taken into account at fair value increased by amount of negative fair changes for credit risk.

NPE per cent. (on-balance and off-balance) / Classified on-balance and off-balance exposures - NPE per cent. in accordance with EBA methodology: NPE as a percentage of all exposures to clients in Finrep18, before deduction of allowances for the expected credit losses; ratio in gross terms.

Where Non-Performing Exposure includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses). Share of NPEs is calculated on the basis of internal data source, by which the NLB Group monitors the portfolio quality. Below presented calculations are based on internal data sources.

Table 49a: NLB and NLB Group NPE calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	235.1	221.0	384.7	513.0	432.7	674.8
Denominator						
Total on-balance and off-balance exposures in Finrep18	12,223.1	11,087.8	9,763.5	22,042.3	16,228.5	14,410.5
NPE per cent.	**1.9%**	**2.0%**	**3.9%**	**2.3%**	**2.7%**	**4.7%**

Table 49b: NLB Group (w/o Komercijalna Banka group) NPE calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Total Non-Performing on-balance and off-balance Exposure in Finrep18	464.8
Denominator	
Total on-balance and off-balance exposures in Finrep18	17,738.6
NPE per cent.	**2.6%**

NPL - Non-performing loans include loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

NPL per cent. - Share of non-performing loans in total loans: non-performing loans as a percentage of total loans to clients before deduction of loan loss allowances; ratio in gross terms. Where non-performing loans are defined as loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances). Share of non-performing loans is calculated on the basis of internal data source, by which the NLB Group monitors the loan portfolio quality.

Table 50a: NLB NPL calculation

(in EUR million and %)

	NLB		
	2020	2019	2018
Numerator			
Total Non-Performing Loans	208.4	169.5	342.9
Denominator			
Total gross loans	6,980.8	5,989.9	5,455.5
NPL per cent.	**3.0%**	**2.8%**	**6.3%**

Table 50b: NLB Group NPL calculation

(in EUR million and %)

	NLB Group								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Numerator									
Total Non-Performing Loans	474.7	374.7	622.3	844.5	1,299.2	1,895.5	2,623.4	2,797.7	3,683.6
Denominator									
Total gross loans	13,686.6	9,793.5	9,017.2	9,130.4	9,443.7	9,829.2	10,432.6	10,936.6	13,083.8
NPL per cent.	**3.5%**	**3.8%**	**6.9%**	**9.2%**	**13.8%**	**19.3%**	**25.1%**	**25.6%**	**28.2%**

Table 50c: NLB Group (w/o Komercijalna Banka group) NPL calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Total Non-Performing Loans	434.8
Denominator	
Total gross loans	11,061.0
NPL per cent.	**3.9%**

Table 50d: NLB Group's banking subsidiaries NPL calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Numerator												
Total Non-Performing Loans	63.2	48.3	13.7	7.6	24.7	18.6	17.5	10.9	27.3	18.1	8.7	8.0
Denominator												
Total gross loans	1,239.1	1,147.1	590.2	598.0	553.4	563.8	768.2	714.4	470.0	455.3	605.5	512.9
NPL per cent.	**5.1%**	**4.2%**	**2.3%**	**1.3%**	**4.5%**	**3.3%**	**2.3%**	**1.5%**	**5.8%**	**4.0%**	**1.4%**	**1.6%**

Table 50e: Komercijalna Banka group NPL calculation

(in EUR million and %)

	Komercijalna Banka, Beograd	Komercijalna Banka, Banja Luka	Komercijalna Banka, Podgorica
		2020	
Numerator			
Total Non-Performing Loans	35.2	1.2	3.6
Denominator			
Total gross loans	2,315.1	198.4	130.0
NPL per cent.	**1.5%**	**0.6%**	**2.7%**

NPL coverage ratio 1 - The coverage of the gross non-performing loans portfolio with loan loss allowances on the entire loan portfolio - loan impairment in respect of non-performing loans. It shows the level of credit provisions that the entity has already absorbed into its profit and loss accounts in respect of the total of impaired loans. NPL coverage ratio 1 is calculated on the basis of internal data source, by which the NLB Group monitors the quality of loan portfolio.

Table 51a: NLB NPL coverage ratio 1 calculation

(in EUR million and %)

	NLB		
	2020	2019	2018
Numerator			
Loan loss allowances entire loan portfolio	158.4	129.2	225.8
Denominator			
Total Non-Performing Loans	208.4	169.5	342.9
NPL coverage ratio 1 (NPL CR 1)	**76.0%**	**76.2%**	**65.8%**

Table 51b: NLB Group NPL coverage ratio 1 calculation

(in EUR million and %)

	NLB Group								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Numerator									
Loan loss allowances entire loan portfolio	388.4	334.2	479.6	654.8	988.7	1,368.1	1,801.8	1,948.9	2,184.1
Denominator									
Total Non-Performing Loans	474.7	374.7	622.3	844.5	1,299.2	1,895.5	2,623.4	2,797.7	3,683.6
NPL coverage ratio 1 (NPL CR 1)	**81.8%**	**89.2%**	**77.1%**	**77.5%**	**76.1%**	**72.2%**	**68.7%**	**69.7%**	**59.3%**

Table 51c: NLB Group (w/o Komercijalna Banka group) NPL coverage ratio 1 calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Loan loss allowances entire loan portfolio	378.0
Denominator	
Total Non-Performing Loans	434.8
NPL coverage ratio 1 (NPL CR 1)	**86.9%**

NPL coverage ratio 2 - The coverage of the gross non-performing loans portfolio with loan loss allowances on the non-performing loans portfolio. NPL coverage ratio 2 is calculated on the basis of internal data source, by which the NLB Group monitors the loan portfolio quality.

Table 52a: NLB and NLB Group NPL coverage ratio 2 calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Loan loss allowances non-performing loan portfolio	120.7	96.2	195.8	272.1	243.7	402.0
Denominator						
Total Non-Performing Loans	208.4	169.5	342.9	474.7	374.7	622.3
NPL coverage ratio 2 (NPL CR 2)	**57.9%**	**56.7%**	**57.1%**	**57.3%**	**65.0%**	**64.6%**

Table 52b: NLB Group (w/o Komercijalna Banka group) NPL coverage ratio 2 calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Loan loss allowances non-performing loan portfolio	272.0
Denominator	
Total Non-Performing Loans	434.8
NPL coverage ratio 2 (NPL CR 2)	**62.6%**

Table 52c: NLB Group's banking subsidiaries NPL coverage ratio 2 calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Numerator												
Loan loss allowances non-performing loan portfolio	43.6	33.7	8.7	6.0	17.0	15.4	14.2	9.4	13.9	9.9	5.2	3.8
Denominator												
Total Non-Performing Loans	63.2	48.3	13.7	7.6	24.7	18.6	17.5	10.9	27.3	18.1	8.7	8.0
NPL coverage ratio 2 (NPL CR 2)	**69.0%**	**69.7%**	**63.6%**	**78.8%**	**68.9%**	**82.9%**	**81.2%**	**86.0%**	**50.9%**	**54.8%**	**59.8%**	**47.1%**

Table 52d: Komercijalna Banka group NPL coverage ratio 2 calculation

(in EUR million and %)

	Komercijalna Banka, Beograd	Komercijalna Banka, Banja Luka	Komercijalna Banka, Podgorica
		2020	
Numerator			
Loan loss allowances non-performing loan portfolio	0.0	0.0	0.0
Denominator			
Total Non-Performing Loans	35.2	1.2	3.6
NPL coverage ratio 2 (NPL CR 2)	**0.0%**	**0.0%**	**0.0%**

Net NPL Ratio - Share of net non-performing loans in total net loans: non-performing loans after deduction of loss allowances on the non-performing loans portfolio as a percentage of total loans to clients after deduction of loan loss allowances; ratio in net terms. Below presented calculations are based on internal data sources.

Table 53: NLB and NLB Group Net NPL Ratio calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Net volume of non-performing loans	87.8	73.3	147.1	202.7	131.0	220.2
Denominator						
Total Net Loans	6,822.4	5,860.7	5,229.7	13,298.2	9,459.2	8,537.5
Net NPL ratio per cent. (%Net NPL)	**1.3%**	**1.3%**	**2.8%**	**1.5%**	**1.4%**	**2.6%**

Received collaterals for NPLs / NPL – The coverage of the gross non-performing loans portfolio with collateral for non-performing loans. The collateral market value is used for this calculation. Below presented calculations are based on internal data sources.

Table 54: NLB and NLB Group Received collaterals for NPLs / NPL calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Gross volume of Non-Performing Loans covered by collaterals	137.2	122.1	243.8	288.1	249.7	419.3
Denominator						
Total Non-Performing Loans	208.4	169.5	342.9	474.7	374.7	622.3
Received collaterals for NPLs / NPL	**65.8%**	**72.0%**	**71.1%**	**60.7%**	**66.6%**	**67.4%**

Non-performing loans and advances (EBA def.) - Non-performing loans include loans and advances in accordance with EBA Methodology that are classified as to D and E, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

Gross NPL ratio (EBA def.) - The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). For the purpose of this calculation, loans and advances classified as held for sale, cash balances at CBs and other demand deposits are excluded both from the denominator and from the numerator. Below presented calculations are based on internal data sources.

Table 55: NLB and NLB Group Gross NPL ratio (EBA def.) calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits	199.1	164.3	328.4	466.0	372.9	613.9
Denominator						
Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits	4,958.8	4,923.3	4,840.6	10,340.6	8,127.5	7,811.0
Gross NPL ratio per cent. (% NPL)	**4.0%**	**3.3%**	**6.8%**	**4.5%**	**4.6%**	**7.9%**

Gross NPL ratio (EBA def.) (BoS) - The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). Cash balances at CBs and other demand deposits are included in the calculation. The indicator for the banking sector in the EU is published quarterly by the EBA in the Risk dashboard. Below presented calculations are based on internal data sources.

Table 56: NLB and NLB Group Gross NPL ratio (EBA def.) (BoS) calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Gross volume of Non-Performing Loans and advances	199.1	164.3	328.4	466.0	372.9	613.9
Denominator						
Gross volume of Loans and advances in Finrep18	7,028.2	6,050.9	5,482.4	13,795.3	9,888.1	9,087.0
Gross NPL ratio per cent. (% NPL)	**2.8%**	**2.7%**	**6.0%**	**3.4%**	**3.8%**	**6.8%**

NPL coverage ratio (EBA def.) - The NPL coverage ratio is the ratio of the amount of accumulated impairment, negative changes in fair value due to credit risk to the non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). Loans and advances classified as held for sale, cash balances at CBs and other demand deposits are excluded both from the denominator and from the numerator.

Table 57: NLB and NLB Group NPL coverage ratio (EBA def.) calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances[i]	110.1	91.2	180.7	265.3	240.4	391.2
Denominator						
Gross volume of Non-Performing loans and advances[i]	199.1	164.3	328.4	466.0	372.9	613.9
NPL coverage ratio per cent. (% CR)	**55.3%**	**55.5%**	**55.0%**	**56.9%**	**64.5%**	**63.7%**

[i] Without loans and advances classified as held for sale, cash balances at CBs and other demand deposits.

NPL coverage ratio (EBA def.) (BoS) – The NPL coverage ratio is the ratio of the amount of accumulated impairment, negative changes in fair value due to credit risk to the non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). Cash balances at CBs and other demand deposits are included in the calculation.

Table 58: NLB and NLB Group NPL coverage ratio (EBA def.) (BoS) calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances	110.1	91.2	180.7	265.3	240.4	391.2
Denominator						
Gross volume of Non-Performing loans and advances	199.1	164.3	328.4	466.0	372.9	613.9
NPL coverage ratio per cent. (% CR)	**55.3%**	**55.5%**	**55.0%**	**56.9%**	**64.5%**	**63.7%**

Collaterals received / NPL (EBA def.) - The NPL collateral ratio is the ratio of the collateral received for non-performing loans and advances to the gross carrying amount of collateralized non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). The calculation is provided on single loan basis. The NPLs where the amount of collateral received exceeds the net non-performing of each loan exposure are the subject of calculation.

Table 59: NLB and NLB Group NPL coverage ratio (EBA def.) calculation

(in EUR million and %)

	NLB			NLB Group		
	2020	2019	2018	2020	2019	2018
Numerator						
Volume of collateral received up to the carrying amount of each loan or advance	38.6	12.9	23.4	61.3	23.9	46.4
Denominator						
Gross volume of collateralized Non-Performing loans and advances	88.8	38.2	58.7	144.6	67.4	112.5
NPL coverage ratio per cent. (% CR)	**43.5%**	**33.6%**	**39.9%**	**42.4%**	**35.4%**	**41.2%**

Net stable funding ratio (NSFR) - The net stable funding ratio is a liquidity risk standard requiring financial institutions to hold enough stable funding to cover the duration of their long-term assets.

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding, and is based on the current Basel Committee guidelines. This ratio should be equal to at least 100% on an on-going basis. 'Available stable funding' is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance-sheet (OBS) exposures. Below presented calculations are based on internal data sources.

Table 60: NLB Group NSFR calculation

(in EUR million and %)

	NLB Group	
	31 Dec 2020	31 Dec 2019
Numerator		
Amount of available stable funding	16,514.6	11,957.9
Denominator		
Amount of required stable funding	9,966.8	7,495.5
NSFR	**165.7%**	**159.5%**

EVE (Economic Value of Equity) method is a measure of sensitivity of changes in market interest rates on the economic value of financial instruments. EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates at least under the six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations are taking into account behavioural and automatic options as well as allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 bps on the economic value of the banking book position:

Table 61: NLB Group EVE calculation

(in EUR thousands and %)

	NLB Group									
	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020 w/o KB
Numerator										
Interest risk in banking book – EVE	-128,370	-88,355	-102,397	-105,256	-77,841	-102,319	-68,129	-59,547	-98,185	-110,838
Denominator										
Equity (Tier I)	1,765,000	1,451,176	1,458,318	1,460,078	1,425,298	1,424,020	1,426,936	1,616,921	1,622,945	1,765,000
EVE as % of Equity	**-7.3%**	**-6.1%**	**-7.0%**	**-7.2%**	**-5.5%**	**-7.2%**	**-4.8%**	**-3.7%**	**-6.1%**	**-6.3%**

Operational business margin (OBM) – Calculated as the ratio between operational business net income annualized and average assets.

Table 62: NLB Group and NLB OBM calculation

(in EUR million and %)

	NLB Group			NLB		
	2020	2019	2018	2020	2019	2018
Numerator						
Operational business net income[i]	490.3	502.1	484.0	257.7	268.6	262.2
Denominator						
Average total equity[ii]	15,086.2	13,311.7	12,515.5	10,336.3	9,215.3	8,847.4
OBM	**3.2%**	**3.8%**	**3.9%**	**2.5%**	**2.9%**	**3.0%**

[i] Operational business net income is annualized, calculated as operational business income in the period divided by the number of months for the reporting period and multiplied by 12. Operational business income consists of net interest income (excluding interest expenses from subordinated securities), net fees and commissions and net gains and losses from financial assets and liabilities held for trading that derive from foreign exchange trading.

[ii] NLB internal information. Average total assets is calculated as a sum of balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Return on equity before tax (ROE b.t.) – Calculated as the ratio between result before tax annualized and average total equity (including non-controlling interests).

Table 63: NLB Group and NLB ROE b.t. calculation

(in EUR million and %)

	NLB Group			NLB		
	2020	2019	2018	2020	2019	2018
Numerator						
Result before tax[i]	277.9	215.4	233.3	113.9	177.7	177.5
Denominator						
Average total equity[ii]	1,808.1	1,700.7	1,768.7	1,384.6	1,328.7	1,426.8
ROE b.t.	**15.4%**	**12.7%**	**13.2%**	**8.2%**	**13.4%**	**12.4%**

[i] Result before tax is annualized, calculated as result before tax in the period divided by number of months for reporting period and multiplied by 12.

[ii] NLB internal information. Average total equity (including non-controlling interests) is calculated as sum of balance as at end of previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Return on equity after tax (ROE a.t.) – Calculated as the ratio between result after tax annualized and average equity.

Table 64a: NLB Group and NLB ROE a.t. calculation

(in EUR million and %)

	NLB Group			NLB		
	2020	2019	2018	2020	2019	2018
Numerator						
Result after tax[i]	269.7	193.6	203.6	114.0	176.1	165.3
Denominator						
Average equity[ii]	1,751.2	1,658.0	1,729.9	1,384.6	1,328.7	1,426.8
ROE a.t.	**15.4%**	**11.7%**	**11.8%**	**8.2%**	**13.3%**	**11.6%**

[i] Result after tax is annualized, calculated as result after tax in the period divided by number of months for reporting period and multiplied by 12.

[ii] NLB internal information. Average equity is calculated as sum of balance as at end of previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Table 64b: NLB Group (w/o Komercijalna Banka group) ROE a.t. calculation

(in EUR million and %)

	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Result after tax[i]	141.3
Denominator	
Average equity[ii]	1,741.1
ROE a.t.	**8.1%**

[i][ii] Please refer to notes under Table 64a.

Table 64c: NLB Group's banking subsidiaries ROE a.t. calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Numerator												
Result after tax[i]	19.2	32.9	10.1	17.1	5.9	9.0	13.3	19.5	1.4	7.6	2.6	4.1
Denominator												
Average equity[ii]	219.4	202.8	93.3	86.1	84.3	80.5	92.1	78.0	68.2	67.6	74.2	69.8
ROE a.t.	**8.8%**	**16.2%**	**10.8%**	**19.9%**	**7.0%**	**11.2%**	**14.5%**	**25.1%**	**2.0%**	**11.2%**	**3.5%**	**5.9%**

[i][ii] Please refer to notes under Table 64a.

Return on assets (ROA b.t.) – Calculated as the ratio between result before tax annualized and average total assets.

Table 65: NLB Group and NLB ROA b.t. calculation

(in EUR million and %)

	NLB Group			NLB		
	2020	2019	2018	2020	2019	2018
Numerator						
Result before tax[i]	277.9	215.4	233.3	113.9	177.7	177.5
Denominator						
Average total assets[ii]	15,086.2	13,311.7	12,515.5	10,336.3	9,215.3	8,847.4
ROA b.t.	**1.8%**	**1.6%**	**1.9%**	**1.1%**	**1.9%**	**2.0%**

[i] Result before tax is annualized, calculated as result before tax in the period divided by number of months for reporting period and multiplied by 12.
[ii] NLB internal information. Average total assets is calculated as sum of balance as at end of previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Return on assets (ROA a.t.) – Calculated as the ratio between result after tax annualized and average total assets.

Table 66a: NLB Group and NLB ROA a.t. calculation

(in EUR million and %)

	NLB Group			NLB		
	2020	2019	2018	2020	2019	2018
Numerator						
Result after tax[i]	269.7	193.6	203.6	114.0	176.1	165.3
Denominator						
Average total assets[ii]	15,086.2	13,311.7	12,515.5	10,336.3	9,215.3	8,847.4
ROA a.t.	**1.8%**	**1.5%**	**1.6%**	**1.1%**	**1.9%**	**1.9%**

[i] Result after tax is annualized, calculated as result after tax in the period divided by number of months for reporting period and multiplied by 12.
[ii] NLB internal information. Average total assets is calculated as sum of balance as at end of previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Table 66b: NLB Group's banking subsidiaries ROA a.t. calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Numerator												
Result after tax[i]	19.2	32.9	10.1	17.1	5.9	9.0	13.3	19.5	1.4	7.6	2.6	4.1
Denominator												
Average total assets[ii]	1,507.2	1,377.1	784.9	759.3	639.3	620.0	824.9	720.6	541.0	520.3	662.8	537.1
ROA a.t.	**1.3%**	**2.4%**	**1.3%**	**2.3%**	**0.9%**	**1.5%**	**1.6%**	**2.7%**	**0.3%**	**1.5%**	**0.4%**	**0.8%**

[i][ii] Please refer to notes under Table 66a.

Total capital ratio (TCR) - Total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

Table 67a: NLB Group and NLB TCR calculation

(in EUR million and %)

	NLB Group			NLB		
	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2020	31 Dec 2019	31 Dec 2018
Numerator						
Total capital (Own funds)	2,065.5	1,495.8	1,453.4	1,631.6	1,182.2	1,208.3
Denominator						
Total risk exposure Amount (Total RWA)	12,421.0	9,185.5	8,677.6	6,028.8	5,225.1	5,023.6
Total capital ratio	**16.6%**	**16.3%**	**16.7%**	**27.1%**	**22.6%**	**24.1%**

Table 67b: NLB Group's banking subsidiaries TCR calculation

(in EUR million and %)

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Numerator												
Total capital	190.6	188.4	78.4	70.1	74.7	68.9	103.2	98.2	52.1	46.1	84.5	81.1
Denominator												
Total risk exposure Amount (Total RWA)	1,212.5	1,149.2	452.3	439.9	416.4	431.1	579.7	599.1	321.5	308.1	443.1	416.3
Total capital ratio	**15.7%**	**16.4%**	**17.3%**	**15.9%**	**17.9%**	**16.0%**	**17.8%**	**16.4%**	**16.2%**	**15.0%**	**19.1%**	**19.5%**

NLB Group Chart

Nova Ljubljanska banka d.d., Ljubljana

Core members

Banks
Foreign countries

- NLB Banka, Beograd 99.997% / 99.997%
- NLB Banka, Sarajevo 97.35% / 97.35%
- NLB Banka, Podgorica 99.83% / 99.83%
- NLB Banka, Prishtina 81.21% / 81.21%
- NLB Banka, Banja Luka 99.85% / 99.85%
- NLB Banka, Skopje 86.97% / 86.97%
- Komercijalna Banka, Beograd 83.23% / 83.23%
  - Komercijalna Banka, Banja Luka(iii) 99.998% / 100%
  - Komercijalna Banka, Podgorica 100% / 100%
  - Kombank INvest, Beograd 100% / 100%

Financial institutions
Slovenia

- NLB Skladi, Ljubljana 100% / 100%
- NLB Lease&Go, Ljubljana 100% / 100%

Companies
Slovenia

- Bankart, Ljubljana(ii) 40.08% / 40.08%
- NLB Cultural Heritage Management Institute 100% / 100%

Non-core members

Financial institutions
Slovenia

- NLB Leasing, Ljubljana in liquidation 100% / 100%
  - Optima Leasing, Zagreb in liquidation 100% / 100%
- Prvi faktor, Ljubljana in liquidation 50% / 50%
  - Prvi faktor, Beograd in liquidation(i) 90% / 95%
  - Prvi faktor, Sarajevo in liquidation 100% / 100%
  - Prvi faktor, Zagreb in liquidation 100% / 100%

Foreign countries

- NLB InterFinanz, Zürich in liquidation 100% / 100%
  - NLB InterFinanz, Beograd in liquidation 100% / 100%
- NLB Leasing, Beograd in liquidation 100% / 100%
- LHB AG, Frankfurt 100% / 100%

Companies
Slovenia

- PRO-REM, Ljubljana in liquidation 100% / 100%
  - BH-RE, Sarajevo in liquidation 100% / 100%
  - OL Nekretnine, Zagreb in liquidation 100% / 100%
- S-REAM, Ljubljana 100% / 100%
  - REAM, Zagreb 100% / 100%
- ARG-Nepremičnine, Horjul 75% / 75%

Foreign countries

- REAM, Beograd 100% / 100%
- REAM, Podgorica 100% / 100%
- Tara Hotel, Budva 12.71% / 100%
- SPV 2, Beograd 100% / 100%
- NLB Srbija, Beograd 100% / 100%
- NLB Crna Gora, Podgorica 100% / 100%

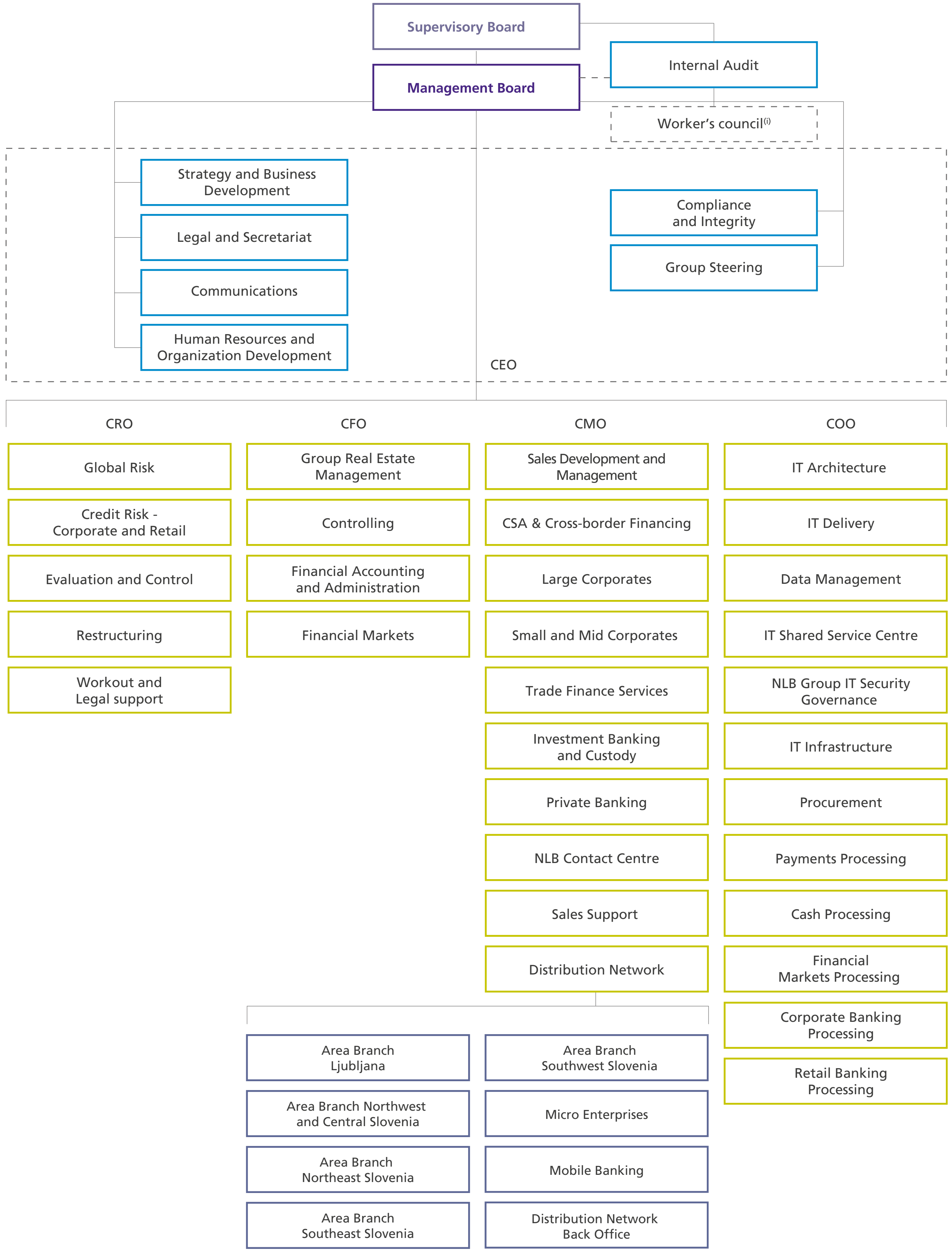
The chart shows voting rights shares. The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).

Subsidiary Associate Joint venture

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

(i) 90% direct ownership Prvi Faktor, Ljubljana in liquidation, 5% NLB, 5% SID banka d.d.
(ii) Abanka merged into Nova KBM, which currently has a 29.22% share in Bankart. This is over the 25% threshold set in the Founding agreement - no shareholder other than NLB can have more than 25% capital share in Bankart.
(iii) 99.998% direct ownership Komercijalna Banka, Beograd, 0.002% NLB.

Organisational Structure of NLB



Understanding of the tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit is taken into account in accordance to the definitions of the (currently valid) Banking Act - Zban-2.
[1] Worker's Council is independent organisational unit with no subordinate or superior organisational units and it operates in accordance with ZSDU.

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21. Till 4 January 2021.
22. Till 4 January 2021.
23. Goran Babić is a Member of the Management Board from 1 January 2021.
24. Vlastimir Vuković is a President of the Management Board from 4 February 2021. Dejan Janjatović is a Member of the Management Board from 4 February 2021.
25. Till 4 February 2021.
26. Till 4 February 2021.
27. Till 22 March 2021.
28. Till 31 March 2021.
29. Martin Mavrić is a Member of the Management Board from 23 March 2021.
30. Till 22 March 2021.
31. Claus-Peter Martin Mueller is a Director from 1 January 2021.

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32. France Zupan and Iztok Zupanc are liquidators from 1 March 2021.
33. Vjekoslav Budimir is liquidator from 1 March 2021.

Definitions and Glossary of Selected Terms

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
ALMM	Additional Liquidity Monitoring Metrics
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
BCM	Business Continuity Management
BIA	Business Impact Analysis
BiH	Bosnia and Herzegovina
BMR	Benchmarks Regulation
BoS	Bank of Slovenia
bps	Basis Points
CAGR	Compound Annual Growth Rate
CB	Central Bank
CBR	Combined Buffer Requirement
CEE	Central Eastern Europe
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost-to-Income Ratio
CMO	Chief Marketing Officer
COO	Chief Operating Officer
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSD	Central Security Depository
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustments
DGS	Deposit Guarantee Scheme
DPS	Dividends Per Share
DWH	Data Warehouse
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECL	Expected Credit Losses
EEA	European Economic Area
EPS	Earnings Per Share
E&S	Environmental and Social
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System
EU	European Union
EVE	Economic Value of Equity
EVS	European Valuation Standards
EWS	Early Warning System
FATCA	Foreign Account Tax Compliance Act
FDI	Foreign Direct Investments
FTP	Fund Transfer Pricing
FVTPL	Fair Value Loans Through Profit or Loss
FX	Foreign Exchange
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GDR	Global Depositary Receipts
HR	Human Resources
HQLA	High Quality Liquid Assets
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
IVS	International Valuation Standards
JV	Joint Venture
KB	Komercijalna banka
KDD	Central Securities Clearing Corporation
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTD	Loan-to-Deposit Ratio
M&A	Mergers and Acquisitions
MAR	Market Abuse Regulation
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation Rules
MIGA	Multilateral Investment Guarantee Agency (part of the World Bank Group)
MREL	Minimum Requirement of Own Funds and Eligible Liabilities
NLB or the Bank	NLB d.d.
NLB Skladi	NLB Assets Management
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
NSFR	Net stable funding ratio
OCR	Overall Capital Requirement
P2R	Pillar 2 Requirements
p.p.	Percentage point(s)
POCI	Purchased or originated credit impaired
POS	Point of Sale
PD	Probability of Default
PSD2	Payments Services Directive
REAM	Real Estate Asset Management
RICS	Royal Institution of Chartered Surveyors
ROA	Return on Assets
ROE	Return on Equity
RoS	Republic of Slovenia
RWA	Risk Weighted Assets
SEE	South Eastern Europe
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SSM	Single Supervisory Mechanism
TCR	Total Capital Ratio
The Group	NLB Group
TLOF	Total Liabilities and Own Funds
TLTRO	Targeted Longer-Term Refinancing Operations
TREA	Total Risk Exposure Amount
TSCR	Total SREP Capital Requirement
UN	United Nations
UN SDG	United Nations Sustainability Development Goals
ZBan-2	Slovenian Banking Act
ZGD-1	The Companies Act
ZTFI-1	Financial Instruments Market Act
ZVOP-2	The Slovenian Personal Data Protection Act

NLB Group
For whatever may come.

This is Our Home

NLB d.d., Ljubljana
nlb.si

Text: NLB d.d.
Production: Gigodesign, Taktik
Photographs: Primož Korošec, Archive NLB

Ljubljana, April 2021