NLB Group

# Locally & Regionally

Annual Report 2019

NLB Group

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# Strategic Members Overview

| | | Slovenia | | | North Macedonia | Bosnia and Herzegovina | | Kosovo | Montenegro | Serbia |
|---|---|---|---|---|---|---|---|---|---|---|
| | **NLB Group** | **NLB, Ljubljana** | NLB Vita, Ljubljana | NLB Skladi, Ljubljana | **NLB Banka, Skopje** | **NLB Banka, Banja Luka** | **NLB Banka, Sarajevo** | **NLB Banka, Prishtina** | **NLB Banka, Podgorica** | **NLB Banka, Beograd** |
| **Market position in 2019** | | | | | | | | | | |
| Branches | 318 | 93 | | | 52 | 53 | 38 | 35 | 19 | 28 |
| Active clients | 1,855,132 | 680,031 | | | 401,748 | 218,455 | 134,256 | 215,633 | 65,517 | 139,492 |
| Total assets (in EUR million) | 14,174 | 9,802 | 550[1] | 1,514[2] | 1,462 | 773 | 638 | 801 | 548 | 614 |
| Net loans to customers (in EUR million) | 7,605 | 4,589 | | | 915 | 412 | 399 | 540 | 346 | 412 |
| Deposits from customers (in EUR million) | 11,612 | 7,761 | | | 1,176 | 618 | 515 | 685 | 437 | 437 |
| Result after tax (in EUR million) | 193.6 | 176.1 | 9.0 | 5.5 | 32.9 | 17.1 | 9.0 | 19.5 | 7.6 | 4.1 |
| Market share by total assets | | 23.8% | 15.6%[3] | 34.0%[4] | 16.0%[5] | 18.8%[6] | 5.3%[7] | 17.6% | 11.9% | 1.7%[8] |
| **Macroeconomic indicators for 2019** | | | | | | | | | | |
| GDP (real growth in %) | | | 2.4 | | 3.3 | 2.7 | | 4.1 | 3.2 | 3.7 |
| Average inflation (in %) | | | 1.7 | | 0.8 | 0.9 | | 2.7 | 0.4 | 1.9 |
| Unemployment rate (in %) | | | 4.6 | | 17.5 | 33.1 | | 25.3 | 14.7 | 10.7 |
| Current account of the balance of payments (as a % of GDP) | | | 5.6 | | -0.9 | -4.7 | | -3.9 | -16.0 | -6.3 |
| Budget deficit/surplus (as a % of GDP) | | | 0.5 | | -2.1 | 1.0 | | -1.1 | -2.6 | -0.1 |

1. Assets of covered funds without own resources.
2. Assets under management.
3. Market share in traditional life insurance.
4. Market share of assets under management in mutual funds.
5. Market share in North Macedonia as at 30 September 2019.
6. Market share in the Republic of Srpska as at 30 September 2019.
7. Market share in the Federation of BiH as at 30 September 2019.
8. Market share in Serbia as at 30 September 2019.

Chapter 1

# Key Highlights

### Overview of NLB Group

The Group is the largest banking and financial group in Slovenia with a strategic focus on selected markets in SEE. It covers markets with a population of approximately 17 million people. The Group is comprised of NLB as the main entity in Slovenia and as parent company to its six subsidiary banks in SEE, several companies for ancillary services (asset management, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down. NLB is a publicly listed company. The Group's largest shareholder is the RoS with 25% + one share ownership.

### The largest banking and financial group in Slovenia

NLB is the largest bank in Slovenia, with 93 branches, 680,031 active clients, and a 23.8% market share by total assets.

A very strong retail deposit-taking franchise with a 30.5% market share measured by deposits from customers.

The market leader across banking products and innovative solutions, and a leading provider of asset management and bankassurance products.

The rating of NLB was improved by Standard and Poor's: an upgrade from BB+ to BBB- (outlook: stable). Two rating agencies affirmed the ratings of NLB; Fitch: BB+ (outlook: stable) and Moody's: Baa2 (outlook: positive).

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

SEE markets are still recording solid GDP growth, and exceeding the Eurozone average. Domestic consumption in these markets is robust and the penetration of financial products is significantly below European average.

NLB is present in five SEE countries (North Macedonia, Kosovo, two subsidiaries in BiH, Montenegro and Serbia). Some of the Group banks are market leaders, in four out of six markets, the market share exceeds 10%.

All subsidiary banks in the region are well integrated in the Group, profitable, highly liquid, well-capitalised, largely self-funded, therefore well placed to benefit from the growth rates present in the region.

The Group has a strong network of 225 branches and 1.18 million active clients in SEE only (excluding NLB).

Steps towards strengthening of Group's position in Serbia were taken when in December 2019 the Bank was selected as the preferred bidder for the potential acquisition of the Republic of Serbia's shareholding in Komercijalna Banka a.d. Beograd, while on 26 February 2020 the Bank entered into a share purchase agreement with the Republic of Serbia for the acquisition of an 83.23% ordinary shareholding in Komercijalna Banka a.d. Beograd.

### Stable and profitable operations

Profitable for six-consecutive years in a row, with the highest Group profit before impairments and provisions (EUR 212.2 million) in 2019.

Revenue evolution is driven by a stable net interest margin and increasing fee income. The structure has changed in favour of retail loans, reflecting in higher interest income.

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

Continuous cost containment efforts.

ROE a.t. of 11.7% and a solid total capital ratio of 16.3%.

Negative cost of risk due to a stable macroeconomic environment and positive results from active NPL collection.

### Self-funded and well-capitalised

Very strong liquidity position, well diversified structure of liquidity reserves. The results of the 2019 ECB Liquidity stress test showed the Group holds sufficient liquidity reserves to cover extreme circumstances. Vast majority of funding sourced from low priced retail deposits (majority of which are sight deposits).

Low LTD of 65.5% derives from deposit inflows exceeding loan growth.

A solid total capital ratio of 16.3%. CET 1 ratio of 15.8% is above the EU average as published by the EBA (end of Q3 2019: 14.6%), reflecting strong capital basis and supportive of further stable dividend pay-outs.

### Constant improvement of asset quality

Positive asset quality trend continued. Very stable credit portfolio quality with increasing Stage 1 exposures. Strategic healthy growth in the retail segment. Consistent, very low new NPLs formation (2019: 0.6% of gross loan portfolio, which equals EUR 55.8 million).

NPE ratio as defined by EBA was additionally reduced from 4.6% in 2018 to 2.7% in 2019 (EU average: 2.5% at the end of Q3 2019), with a strong NPL coverage ratio 2[9] standing at 65%, highly above EU average (end of Q3 2019: 44.6%).

A comprehensive organic and inorganic NPE reduction strategy. Great emphasis on intensive and proactive handling of problematic customers in a very early stage.

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

### Strategic orientation

In November 2019, the Group approved a new, comprehensive five-year strategy aimed at protecting and strengthening its market position in its home region, and actively participating in the growth and consolidation of the market. It also reaffirmed the Group's mission and vision, which clearly defines its identity and SEE as its focus – its home region.

Since successful digitalisation requires competitive IT infrastructure and capabilities, the Group will continue to invest significantly in these areas.

Following the successful conclusion of the privatisation and the lifting of all restrictions from the commitments made by the RoS to the EC, the Bank will finally be able to start operating with its full potential at home and in the SEE market.

9. NPL coverage ratio 2: the coverage of the gross NPL portfolio with loan loss allowances on the NPL portfolio.

## Medium-term strategic and financial targets

**Table 1: Market performance and targets (mid-term strategic and financial targets)**

| | Performance in 2019 | Mid-term target |
|---|---|---|
| Net interest margin** | 2.48% | > 2.7% |
| LTD | 65.5% | < 95% |
| Total capital ratio | 16.3% | 16.25%* |
| CIR | 58.7% | ~ 50% |
| Cost of risk | -20 bps | < 90 bps |
| NPE ratio | 2.7% | < 4% |
| ROE a.t. | 11.7% | ~ 12.0% |
| Dividend pay-out | 70% | ~ 70% |

* Target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.
** Calculated on the basis of average interest bearing assets.

## Key performance indicators

### Table 2: Key financial indicators for NLB Group and NLB

| | 2019 | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | NLB Group | NLB | NLB Group | NLB | NLB Group | NLB |
| **Income statement data (in EUR million)** | | | | | | |
| Net interest income | 318 | 158 | 313 | 158 | 309 | 159 |
| Net non-interest income | 195 | 195 | 180 | 165 | 178 | 171 |
| Total costs | -301 | -190 | -289 | -179 | -285 | -176 |
| Result before impairments and provisions | 212 | 164 | 205 | 144 | 203 | 154 |
| Impairments and provisions | -1 | 14 | 23 | 33 | 30 | 31 |
| Gains less losses from capital investments in subsidiaries, associates, and joint ventures | 4 | - | 5 | - | 5 | - |
| Result before tax | 215 | 178 | 233 | 177 | 237 | 185 |
| Result of non-controlling interests | 8 | - | 8 | - | 8 | - |
| Result after tax | 194 | 176 | 204 | 165 | 225 | 189 |
| **Financial position statement data (in EUR million)** | | | | | | |
| Total assets | 14,174 | 9,802 | 12,740 | 8,811 | 12,238 | 8,713 |
| Gross loans to customers | 7,938 | 4,718 | 7,627 | 4,704 | 7,641 | 4,987 |
| Impairments and deviations from FV | -334 | -129 | -479 | -226 | -647 | -317 |
| Net loans to customers | 7,605 | 4,589 | 7,148 | 4,478 | 6,994 | 4,670 |
| Financial Assets | 3,830 | 3,169 | 3,399 | 2,869 | 2,963 | 2,460 |
| Deposits from customers | 11,612 | 7,761 | 10,464 | 7,033 | 9,879 | 6,812 |
| Equity | 1,686 | 1,333 | 1,616 | 1,295 | 1,654 | 1,381 |
| Non-controlling interests | 45 | - | 41 | - | 35 | - |
| Total off-balance sheet items | 4,222 | 3,644 | 3,996 | 3,473 | 3,880 | 3,389 |
| **Key financial indicators** | | | | | | |
| **a) Capital adequacy** | | | | | | |
| Total capital ratio* | 16.3% | 22.6% | 16.7% | 24.1% | 15.9% | 21.8% |
| Tier 1 ratio* | 15.8% | 21.8% | 16.7% | 24.1% | 15.9% | 21.8% |
| CET 1 ratio* | 15.8% | 21.8% | 16.7% | 24.1% | 15.9% | 21.8% |
| Total RWA (in EUR million) | 9,186 | 5,225 | 8,678 | 5,024 | 8,546 | 5,234 |
| RWA / Total assets | 64.8% | 53.3% | 68.1% | 57.0% | 69.8% | 60.1% |
| **b) Asset quality** | | | | | | |
| NPL coverage ratio 1 (coverage of gross non-performing loans with impairments for all loans) | 89.2% | 76.2% | 77.1% | 65.8% | 77.5% | 67.8% |
| NPL coverage ratio 2 (coverage of gross non-performing loans with impairments for non-performing loans) | 65.0% | 56.7% | 64.6% | 57.1% | 62.2% | 56.0% |
| NPL coverage ratio (EBA definition)** | 64.5% | 55.5% | 63.7% | 55.0% | - | - |
| NPL volume (in EUR million) | 375 | 169 | 622 | 343 | 844 | 478 |
| NPL ratio (internal def.; NPL / Total loans) | 3.8% | 2.8% | 6.9% | 6.3% | 9.2% | 8.1% |
| Net NPL ratio (internal def.; net NPL / Total net loans) | 1.4% | 1.3% | 2.6% | 2.8% | 3.8% | 3.8% |
| NPL ratio (EBA definition)** | 4.6% | 3.3% | 7.9% | 6.8% | - | - |
| NPE ratio (EBA definition) | 2.7% | 2.0% | 4.7% | 3.9% | 6.7% | 5.8% |
| Received collaterals / NPE | 66.6% | 72.0% | 67.4% | 71.1% | 66.5% | 70.0% |
| NPL Collateral received / NPL (EBA definition) | 35.4% | 33.6% | 41.2% | 39.9% | - | - |

| | 2019 | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | NLB Group | NLB | NLB Group | NLB | NLB Group | NLB |
| Credit impairments and provisions / RWA | -0.1% | -0.3% | -0.3% | -0.6% | -0.5% | -0.8% |
| **c) Profitability** | | | | | | |
| Net interest margin*** | 2.4% | 1.7% | 2.5% | 1.8% | 2.6% | 1.8% |
| Financial intermediation margin | 3.9% | 3.8% | 3.9% | 3.7% | 4.1% | 3.8% |
| ROE b.t. | 12.7% | 13.4% | 13.2% | 12.4% | 14.8% | 14.1% |
| ROA b.t. | 1.6% | 1.9% | 1.9% | 2.0% | 2.0% | 2.1% |
| ROE a.t. | 11.7% | 13.3% | 11.8% | 11.6% | 14.4% | 14.4% |
| ROA a.t. | 1.5% | 1.9% | 1.6% | 1.9% | 1.9% | 2.2% |
| **d) Business costs** | | | | | | |
| Operating costs / Average total assets | 2.3% | 2.1% | 2.3% | 2.0% | 2.4% | 2.0% |
| CIR | 58.7% | 53.7% | 58.5% | 55.3% | 58.4% | 53.3% |
| Total costs / RWA | 3.3% | 3.6% | 3.3% | 3.6% | 3.3% | 3.4% |
| Total costs / Total assets | 2.1% | 1.9% | 2.3% | 2.0% | 2.3% | 2.0% |
| **e) Liquidity** | | | | | | |
| Liquidity assets / Short-term financial liabilities to non-banking sector | 54.7% | 63.8% | 54.1% | 48.2% | 54.5% | 61.6% |
| Liquidity assets / Average total assets | 44.7% | 52.1% | 38.0% | 42.5% | 41.4% | 46.6% |
| **f) Other** | | | | | | |
| Market share in terms of total assets | - | 23.8% | - | 22.7% | - | 23.0% |
| LTD | 65.5% | 59.1% | 68.3% | 63.7% | 70.8% | 68.6% |
| Total revenues / RWA | 5.6% | 6.8% | 5.7% | 6.4% | 5.7% | 6.3% |
| **Key indicators per share** | | | | | | |
| Shareholders**** | - | 2,100 | - | 1,716 | - | 1 |
| 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) | 84.3 | 66.7 | 80.8 | 64.8 | 82.7 | 69.1 |
| **International credit ratings** | | | | | | |
| S&P | BBB- | | BB+ | | BB | |
| Fitch | BB+ | | BB+ | | BB | |
| Moody's***** | Baa2 | | Baa2 | | Ba1 | |
| **Employees** | | | | | | |
| Number of employees | 5,878 | 2,659 | 5,887 | 2,690 | 6,029 | 2,789 |

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

* 31 Dec 2018 includes 1H 2018 result (EUR 109 million). 31 Dec 2019 includes EUR 35 million of 2019 result.

** Disclosure of this indicator is required since 31 Dec 2019.

*** Calculated on the basis of average total assets.

**** 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.

***** Unsolicited rating.

### Table 3: Information on the LCR* (in thousand EUR)

| | Q1 2019 (Jan - Mar) | | Q2 2019 (Apr - Jun) | | Q3 2019 (Jul - Sep) | | Q4 2019 (Oct - Dec) | |
|---|---|---|---|---|---|---|---|---|
| | NLB Group | NLB | NLB Group | NLB | NLB Group | NLB | NLB Group | NLB |
| Liquidity Coverage Ratio (LCR) | 345% | 397% | 356% | 412% | 355% | 410% | 341% | 389% |
| High Quality Liquid Assets (HQLA) | 2,957,708 | 2,760,435 | 3,105,974 | 2,897,806 | 3,223,801 | 2,998,890 | 3,386,824 | 3,144,193 |
| Net Liquidity Outflows | 861,677 | 700,855 | 875,421 | 709,125 | 913,087 | 736,886 | 996,379 | 811,172 |

* Table 3 illustrates the values and data for each of the four calendar quarters (January-March, April-June, July-September, October-December). They are calculated as a simple average of observations on the last calendar day of each month for a period of 12 months before the end of each quarter.

### Table 4: NLB share information

| Share information | 31 December 2019 |
|---|---|
| Total numbers of shares issued | 20,000,000 |
| Highest closing price (in 2019) | EUR 65.00 |
| Lowest closing price (in 2019) | EUR 54.00 |
| Closing price as at 30 December 2019* | EUR 62.00 |
| NLB Group book value per share | EUR 84.3 |
| NLB Group earnings per share (EPS) | EUR 9.7 |
| Price / NLB Group book value (P/B) | 0.73 |
| Dividend per share (for the previous business year) | EUR 7.13 |
| Market capitalisation as at 30 December 2019* | EUR 1,240,000,000 |

* No market on 31 December 2019.

# Key Events


**February**

The Bank was awarded the Top Employer Certificate for the fourth consecutive year by an independent Dutch institute (Top Employers Institute).

The Bank disclosed a new decision on implementing a prudential requirement from the ECB, which has been effective since 1 March, resulting in a total SREP capital requirement (TSCR) of 11.25%, which includes the minimum own funds of 8% (Pillar 1 Requirement) and the own funds requirement of 3.25% (Pillar 2 Requirement) to be held in the excess of the minimum own funds requirement on the consolidated level. With this decision, the ECB has decreased the Pillar 2 Requirement from 3.5% to 3.25% of CET1. This decision, together with the applicable CBR, results in the OCR of 14.75%.

**May**

The Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million. The fixed coupon of the notes during the first five years is 4.2% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS, and the fixed margin as defined at the issuance of the notes (i.e., 4.159% p.a). The notes with ticker NLB27 and ISIN code SI0022103855 were, as at 8 May, admitted for trading on the regulated market of the Ljubljana Stock Exchange, bond segment.

The Bank received the decision of the BoS relating to the MREL requirement, which amounts to 17.93% of TLOF at the sub-consolidated level of the NLB Resolution Group. The transition period to reach the MREL requirement is 30 June 2023, and from that date it shall be met at all times.

Standard and Poor's raised NLB's credit rating by one notch to BBB- from BB+, a move that takes it to the investment grade. The outlook is stable. The Bank's other credit ratings are BB+ (stable outlook) by Fitch, and Baa2 (positive outlook) by Moody's.

**June**

At the 33rd General Meeting of the Bank, the shareholders elected four new members of the Supervisory Board of NLB: Mark William Lane Richards, Shrenik Dhirajlal Davda, Andreas Klingen, and Gregor Rok Kastelic. All have been appointed for a four-year term.

Dividends in the amount of EUR 142,600,000.00 (EUR 7.13 gross per share) were paid out to the shareholders in line with the decision taken at the 33rd General Meeting of the Bank.

The privatisation process of NLB was successfully completed by way of an accelerated bookbuilding of the remaining 10 per cent of the RoS's stake in the NLB's share capital minus 1 share. After the completion, the RoS remains the largest shareholder of NLB, owning the 25 per cent stake plus one share. Following this, almost all of the restrictions from the commitments made by the RoS to the EC have been lifted.

**July**

NLB announced that three Group members received the Euromoney Excellence Awards. NLB received the award as the best Slovenian Bank and recognition as the best transformation in the SEE region, NLB Banka, Podgorica received the award as the best bank in Montenegro, and NLB Banka, Skopje as the best bank in North Macedonia.

EC COMMITMENTS
LY PROFIT SEPTEMBER UPDATED STRATEGY FULFILLED DECEMBER
PRESTIGIOUS AWARDS MSCI FRONTIER MARKETS PREFERRED BIDDER FOR KB
AUGUST OCTOBER NOVEMBER

**September**

The Supervisory Board of NLB met at its 57th meeting to discuss the Group operations in the first six months of the year. It took note of the key elements of the new NLB Group strategy and approved the establishment of a new leasing company.

NLB entered into a bilateral agreement to raise EUR 45 million of subordinated Tier 2 debt to strengthen and optimise the capital structure.

**October**

The 34th General Meeting of Shareholders was held in which a decision was adopted on the remuneration of the members of the NLB Supervisory Board and its committees.

Supervisory Board of NLB and Management Board member of NLB László Pelle, COO, agreed on the early termination of his mandate. Mr. Pelle led the area of operational business (COO) until 31 January 2020, so that the Bank could continue to operate as usual.

**November**

The Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million. The fixed coupon of the notes during the first five years is 3.65% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as provided at the issuance of the notes (i.e., 3.833% p.a). The notes with ISIN code XS2080776607 and rated BB by S&P rating agency were admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange on 19 November.

On 27 November MSCI included NLB's shares in MSCI Slovenia and MSCI Frontier Markets.

On 28 November, the Bank announced that it has received new decision establishing prudential requirement from ECB, which is applicable from 1 January 2020, leading to total SREP capital requirement (TSCR) of 10.75%, that includes minimum own funds of 8% (Pillar 1 Requirement) and own funds requirement of 2.75% (Pillar 2 Requirement; current Pillar 2 Requirement was reduced from 3.25% to 2.75%) to be held in excess of the minimum own funds requirement on a consolidated level. This decision, together with the applicable CBR, leads to OCR of 14.25%.

On 29 November the Supervisory board of NLB appointed Petr Brunclík as member of the Management Board, with a five-year term of office from the day he receives consent by the ECB. He will assume the function of COO and will be responsible for the IT, operations, procurement, and corporate real estate management. Petr Brunclík has almost 20 years of diverse banking, business, customer service, process improvement, online, and technology experience.

**December**

On 27 December NLB and KBC Insurance NV agreed to sell their respective stakes in the 50/50 life insurance joint venture NLB Vita to Sava Re, parent company of the Sava Insurance Group. By doing that, it is NLB's opinion that it has fulfilled its last commitment towards the EC, in connection with the state aid procedings.

The Bank was selected as the preferred bidder for the potential acquisition of the Republic of Serbia's shareholding in Komercijalna Banka a.d. Beograd.

## 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 5: NLB's main shareholders as at 31 December 2019***

| Shareholder | Number of shares | Percentage of shares |
|---|---|---|
| Bank of New York Mellon on behalf of the GDR holders** | 12,464,548 | 62.32 |
| *of which Brandes Investment Partners, L.P. **** | / | >5 and <10 |
| *of which EBRD**** | / | >5 and <10 |
| *of which Schroders plc**** | / | >5 and <10 |
| Republic of Slovenia (RoS) | 5,000,001 | 25.00 |
| Other shareholders | 2,535,451 | 12.68 |
| **Total** | **20,000,000** | **100.00** |

* 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 ten or more percent of the Bank's shares.

** 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.

*** 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)**


**Figure 1: Ljubljana Stock Exchange (Shares)**


**Figure 2: London Stock Exchange (GDRs)**

## NLB's Market capitalisation

**Table 6: Market capitalisation**

| | Symbol | Market capitalisation as at 30 December 2019* |
|---|---|---|
| Ljubljana Stock Exchange (Shares) | NLBR | EUR 1,240,000,000 |

* No market on 31 December 2019.

### Indexes

FTSE Frontier Index: NLB (GDR) has been added to the FTSE Frontiers Index effective as at 27 November 2018.

SBITOP Index: SBITOP index of the Ljubljana Stock Exchange also includes the stock of NLB as at 12 December 2018.

MSCI Frontier Index: NLB's shares have been included in MSCI Slovenia and MSCI Frontier Markets as at 27 November 2019.

### 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, including a roadshow, 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 on a timely basis.

Since the listing in November 2018, four analysts released research reports about the Group. The Bank's share was covered by analysts from JP Morgan, Deutsche Bank, Wood & Company, and Citi. In 2019 the bank's share was covered with two additional research reports, by InterCapital and Raiffesien Centrobank.

Chapter 2

# Macroeconomic Environment

## Global and European Economy

The global economic growth diminished in 2019 with 2.6% growth, after already moderated growth in 2018 (+3.2%), whereas the Euro area slowdown was even more noticeable with 1.2% growth in 2019, down from 1.9% in 2018. Trade uncertainties and trade wars, along with matured growth cycles, were making further pressure on the cooling global economic momentum. Industrial production declined in many economies, pushing it into a contraction territory, whereas overall growth remained focused on the service sector. This economic slowdown forced CBs to consider further stimulus. The Federal Reserve System (FED) dropped the target range for its federal funds rate to 1.50% to 1.75%, while the ECB announced its new stimulus package with a cut in the deposit facility rate down to -0.50% and mitigating measures for banks (more generous TLTRO conditions and a tiered deposit rate system), along with the restart of open-ended quantitative easing (QE) or the net asset purchase programme (APP) at a monthly pace of EUR 20 billion. The ECB also called for active fiscal policy.

The global economic momentum is set to remain solid in 2020. Weaker economic growth in developed countries and China ought to be counterbalanced by a stronger growth in other emerging countries. The key risks for the global economic outlook are further trade uncertainties and the continuation of the trade war between the US and China, possible trade escalation between the US and the EU, as well as possible further social unrest and the growing impact of the climate changes. The next determinant will be the 11-month transition period (until the end of 2020) in which the UK will negotiate its future trade deal with the EU. If failing to do so, the hard Brexit with its negative consequences will follow. A volatile environment and a weaker global growth could further restrain exports and investment activity in the Euro area. Nonetheless, a modest growth in the Euro area should be underpinned with a solid private consumption along with tight labour market and higher wages. This scenario can hold only in the case that the coronavirus outbreak in China will not have destructive global long-lasting effects. Consensus Forecast from FocusEconomics predicts global growth at 2.6% in 2020 and 2.8% in 2021, while in the Euro area it is expected a growth of 1.0% in 2020 and 1.2% in 2021.

## Economy in the Group's region

The economic growth in the Group's region slightly decreased on average, reducing from 3.9% in 2018 to an estimated 3.2% in 2019. The consumer prices decreased as well from 1.7% on average in 2018 to 1.4%

2.6%
global economic growth in 2019

1.2%
economic growth in the Euro-area in 2019

2.4%
economic growth in Slovenia in 2019

3.2%
economic growth in the Group's region in 2019

**Table 7: Movement of key macroeconomic indicators in the Euro area and NLB Group region**

| | GDP (real growth in %) | | | | | Average inflation (in %) | | | | | Unemployment rate (in %) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017 | 2018 | 2019 | 2020 | 2021 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Euro area | 2.7 | 1.9 | 1.2 | 1.0 | 1.2 | 1.5 | 1.8 | 1.2 | 1.3 | 1.4 | 9.1 | 8.2 | 7.6 | 7.5 | 7.5 |
| Slovenia | 4.8 | 4.1 | 2.4 | 2.6 | 2.7 | 1.6 | 1.9 | 1.7 | 1.7 | 1.9 | 6.6 | 5.1 | 4.6 | 4.3 | 4.2 |
| BiH | 3.0 | 3.4 | 2.7 | 2.7 | 3.0 | 0.8 | 1.4 | 0.9 | 1.4 | 1.7 | 38.4 | 36.0 | 33.1 | 31.0 | 29.0 |
| Montenegro | 4.7 | 5.1 | 3.2 | 2.8 | 2.9 | 2.4 | 2.6 | 0.4 | 1.5 | 1.7 | 16.1 | 15.2 | 14.7 | 14.3 | 14.2 |
| N. Macedonia | 1.1 | 2.7 | 3.3 | 3.2 | 3.3 | 1.4 | 1.4 | 0.8 | 1.4 | 1.9 | 22.4 | 20.7 | 17.5 | 16.8 | 16.1 |
| Serbia | 2.0 | 4.4 | 3.7 | 3.5 | 3.5 | 3.2 | 2.0 | 1.9 | 2.1 | 2.3 | 13.5 | 12.7 | 10.7 | 10.1 | 9.4 |
| Kosovo | 4.2 | 3.8 | 4.1 | 3.9 | 3.9 | 1.5 | 1.1 | 2.7 | 1.8 | 1.9 | 30.5 | 29.5 | 25.3 | 26.0 | 25.3 |

Source: Statistical offices, FocusEconomics
Note: Registered unemployment data used for BiH; Consensus Forecasts are highlighted in grey.

**Table 8: 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) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017 | 2018 | 2019 | 2020 | 2021 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Euro area | 3.1 | 3.1 | 2.7 | 2.8 | 2.6 | -0.9 | -0.5 | -0.8 | -1.0 | -1.1 | 87.8 | 85.9 | 85.1 | 84.4 | 83.1 |
| Slovenia | 6.1 | 5.7 | 5.6 | 5.2 | 4.9 | 0.0 | 0.8 | 0.5 | 0.3 | 0.3 | 74.1 | 70.4 | 66.9 | 64.0 | 61.1 |
| BiH | -4.2 | -3.6 | -4.7 | -4.7 | -4.6 | 2.6 | 2.3 | 1.0 | 0.7 | 0.6 | 39.2 | 34.3 | 33.3 | 31.7 | 31.3 |
| Montenegro | -16.1 | -17.0 | -16.0 | -15.3 | -14.3 | -5.5 | -3.6 | -2.6 | -0.2 | 1.0 | 64.2 | 70.1 | 72.3 | 69.2 | 64.9 |
| N. Macedonia | -1.1 | -0.1 | -0.9 | -1.2 | -1.3 | -2.7 | -1.8 | -2.1 | -2.4 | -2.4 | 39.4 | 40.6 | 40.4 | 42.0 | 42.4 |
| Serbia | -5.2 | -5.2 | -6.3 | -5.9 | -5.7 | 1.1 | 0.6 | -0.1 | -0.4 | -0.5 | 59.3 | 53.7 | 51.9 | 49.4 | 47.5 |
| Kosovo | -5.4 | -7.6 | -3.9 | -7.8 | -7.8 | -1.1 | -2.6 | -1.1 | -2.9 | -2.7 | 16.2 | 17.1 | 16.9 | 19.7 | 21.6 |

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

in 2019. The highest annual increase of economic growth was registered by North Macedonia, growing from 2.7% to 3.3%, while the highest decrease was registered by Montenegro, falling from 5.1% to a still solid 3.2%. Slovenia followed closely with a decrease from 4.1% to 2.4%. The fiscal balance as a percentage of GDP was positive again in Slovenia and BiH, whereas in other countries, it was negative. The current account balance as a percentage of GDP was negative in all the countries except in Slovenia.

In **Slovenia**, the economic growth, decreased throughout 2019, while the European slowdown diminished the exports to EU member states and the stumbled EU automotive sector weakened the industrial production. On the other hand, a strong domestic demand with robust private consumption, diminished unemployment, rising wages, and solid fixed investment and public spending, underpinned the growth, which remained well above the Euro area. In **BiH**, the growth slowed during the 2019. Industrial production dropped in H2 2019, among ongoing manufacturing sector weakness, while exports fell sharply, on the other hand, unemployment diminished in the same period. In **Montenegro**, the economic momentum accelerated in the H2 2019. Robust growth was supported with a surge in fixed investment and a strong tourism contribution, whereas household spending moderated. In **North Macedonia**, an improving investor confidence after resolved political dispute with neighbouring Greece, contributed to increased economic growth in H2 2019. Additionally, tourism sector and construction strengthened, while the external sector dragged on growth. In **Serbia**, the economic growth enhanced in H2 2019, underpinned with increased private consumption and public spending,

**Table 9: Movement of key banking systems indicators in the NLB Group region, 2019**

| | Corporate loans | | Household loans | | Corporate deposits | | Household deposits | | Net interest margin | | NPL | | CAR / TCR | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | in mn EUR | Δ % YoY | in mn EUR | Δ % YoY | in mn EUR | Δ % YoY | in mn EUR | Δ % YoY | 2018, in % | 2019, in % | in % | Δ pp YoY | in % | Δ pp YoY |
| Slovenia | 8,877 | 4.8 | 10,703 | 6.2 | 6,758 | -0.4 | 20,365 | 8.7 | 1.8 | 1.8 | 2.9 | -2.7 | 18.2* | 0.1 |
| BiH | 4,612 | 4.6 | 5,100 | 7.9 | 2,072 | 8.8 | 6,770 | 9.0 | 3.0 | 2.8* | 7.7* | -1.7 | 18.1* | 2.6 |
| Montenegro | 1,075 | 4.2 | 1,358 | 8.6 | 1,049 | -4.6 | 1,317 | -0.8 | 4.3 | 4.5* | 4.7* | -2.0 | 19.5** | 2.3 |
| N. Macedonia | 2,731 | 1.9 | 2,797 | 10.5 | 1,820 | 14.6 | 4,433 | 7.9 | 3.2 | 2.9* | 5.0* | 0.0 | 16.9* | 0.6 |
| Serbia | 9,889 | 8.2 | 9,457 | 9.9 | 7,603 | 4.5 | 13,255 | 12.5 | 5.2 | 4.9 | 5.2 | -0.2 | 23.2** | 0.0 |
| Kosovo | 1,917 | 9.8 | 1,103 | 10.4 | 837 | 24.1 | 2,650 | 11.5 | 5.3 | 5.4 | 2.0 | -0.7 | 15.9 | -1.1 |

Source: Statistical offices, Central banks, NLB
Note: Net interest margin calculated on interest-bearing assets.
*Data in Q3 2019.
**Data in Q2 2019.

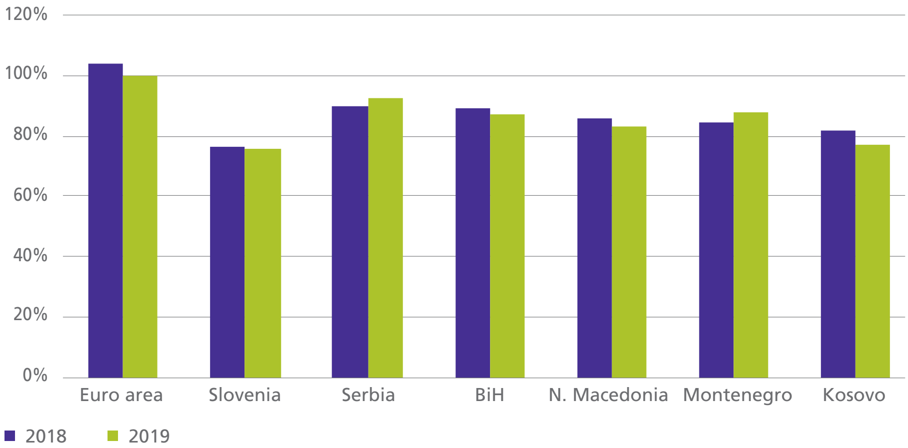
fixed investment and an improving business climate. In **Kosovo**, the economic growth boosted as well in H2 2019 on already solid H1 2019. Private consumption, public spending and remittances, all contributed to a strong growth in 2019.

The growth is set to moderate in **Slovenia** in 2020 on a continued slowdown in external sector and weakening domestic activity, as FocusEconomics reports. Reduced absorption of EU funds and lower public spending are set to drag on overall domestic demand. Private consumption should remain solid, supported by higher wages. In **BiH**, the growth is expected to remain stable in 2020. The end of the political deadlock should improve the business climate. In **Montenegro**, the economy seems to be weakening in 2020 but remain solid. The slowdown in private consumption should be buffered with a recovery in the industrial sector, an improving labour market and strong tourism. In **North Macedonia**, the growth is projected to remain robust in 2020. Private consumption with looser fiscal policy and strong investment ought to support the growth. In **Serbia**, strong economic growth should continue in 2020 as well, reinforced by fiscal stimulus and record-high FDI inflows, consumer spending and a rebound in industrial output. In **Kosovo**, the economic momentum is anticipated to weaken slightly but remained solid as momentum in Europe wanes and drags on exports. Regional political tensions also continue to weigh on prospects.

The economic growth in the **NLB Group's region** will moderate to around 3% in 2020. Weaker economic growth in the Euro area is decreasing the exports, nevertheless, solid fundamentals underpinned with robust private consumption, diminishing unemployment, still solid fiscal support, strong tourism sector and remittances, should all support a solid growth in 2020. The key risks are, beside the global risks, regional trade protectionism and political tensions, particularly between Kosovo and Serbia, and political stalemates, like in BiH or Kosovo. Postponed or vetoed EU entry talks, can be on the other hand, at least partially compensated with the creation of so called 'mini-Schengen' agreement, which would guarantee the freedom of movement of goods, services, people and capital in the region.

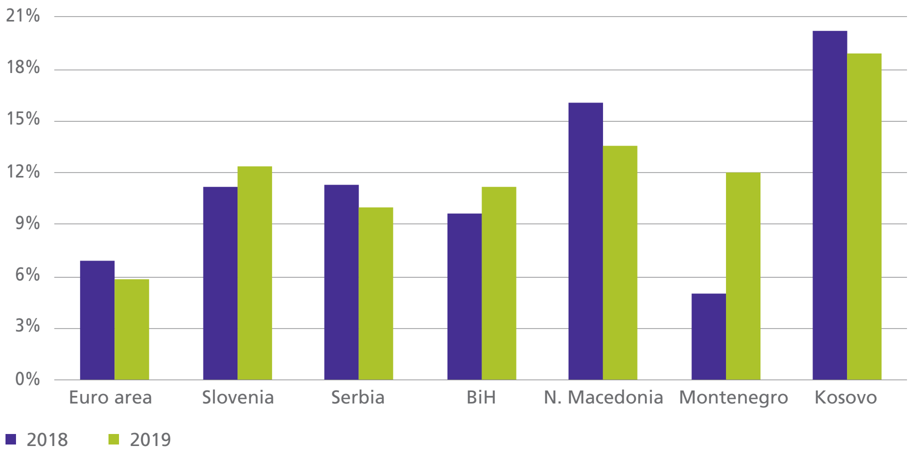
### Banking System in the Group's region

The banking systems in the Group's region improved in 2019. The highest corporate loans growth was recorded in Kosovo (+9.8% annually) and Serbia (8.2% annually), while North Macedonia's annual growth was more moderate with 1.9%, on the other side. The highest surge of household loans was registered by Kosovo, North Macedonia and Serbia, with around 10% annual growth, whereas other countries recorded solid 6% to 8% annual growth. Kosovo presented the highest increase in corporate deposits annual growth with 24.1%, while Montenegro and Slovenia registered a negative growth of -4.6% and -0.4%, respectively. Household deposits growth remains solid in the whole Group region, growing from 8% to 12% annually, with an exception of Montenegro with negative annual growth of -0.8%. The net interest margin was the highest in Kosovo and Serbia with around 5%. Slovenia's net interest margin remained at moderate 1.8%, due to the constraints imposed by the ECB interest rate policy. The NPL ratio as a measure of the quality of bank loan portfolio improved in the entire Group's regional banking systems, with Slovenia leading these improvements by 2.7 p.p. annually. The capital adequacy



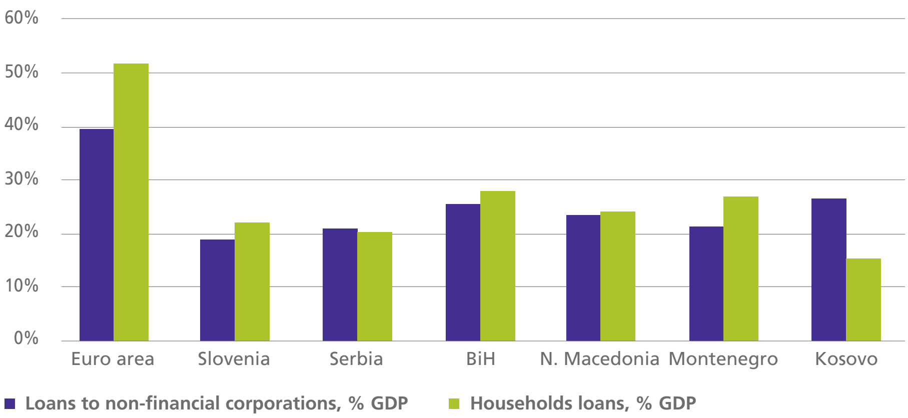

Source: ECB, National central banks, NLB
Note: Q2 2019 data for Serbia.

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




Source: ECB, National central banks
Note: Return on average equity (ROAE) used for BiH and Kosovo; Q2 2019 data for Serbia; Q3 2019 data for Euro area, BiH, N. Macedonia and Montenegro.

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




Source: ECB, National central banks, NLB
Note: Q3 2019 annualized data.

**Figure 5: Loans to non-financial corporations and households' loans in the Euro area and the NLB Group region in 2019**

of the banking systems remained at solid levels. It improved in almost all the countries of the Group, except in Kosovo where slightly decreased.

The LTD ratio increased only in Serbia and Montenegro, while the ROE ratio increased in Slovenia, BiH and Montenegro, whereas in Serbia, North Macedonia and Kosovo, it declined.

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 EMU area. Banking system in the Group's region is expected to remain its positive outlook in 2020. Solid economic growth is projected to outperform the rigid Euro area, even though there are signs of moderating momentum. We can expect, that the growth potential for the loans will remain strong. All three expenditures components of the GDP will continue to underpin a solid GDP growth in the Group's region of operation, which can be supported by credit financing. Private consumption as the strongest part of the GDP is forecasted to increase in all the countries of the Group's region in 2020, from 2.8% in BiH and Montenegro up to 3.5% in Serbia, and with the average growth of 3%. Forecasted fixed investment growth and government consumption growth for 2020 will continue to support the overall economic growth in all the countries as well.

PROFESSIONAL
PURCHASE OF RECEIVABLES
NLB TELEDOM
318 BRANCHES
REGIONAL PROJECTS
DIGITAL
CONTACT CENTRE
MOBILE WALLET NLB PAY
UP TO DATE
5.800+ EMPLOYEES
STRATEGY
KNOWLEDGE
TOP EMPLOYER
24/7
STOCK MARKET
FINANCIAL ADVICE
EXCELLENCE
BEST SERVICE
ENTREPRENEURSHIP
INTEGRITY
QUALITY OF LIFE
MOBILE BANKERS
WIN-WIN
PROFESSIONAL GROWTH
TRUST
ASSETS

# Business Report

Chapter 3

# Statement by the Management Board of NLB

Dear Stakeholders,

The end of the decade brought a breakthrough for NLB Group. With the sale of the remaining 10% minus 1 share of the Republic of Slovenia's stake in the Bank in June 2019, we completed the privatisation process, and with the sale of the 50% stake in the life insurance company NLB Vita in December 2019, we delivered on the last of the severe restrictions imposed on NLB by the EC. This enabled us not only to start operating and competing on the market with our full potential, but to ultimately also bring into focus and leverage our main comparative advantage – that the niche region in which we operate is our home.

The Group is the only international universal banking group that is present in Slovenia, and with retail operations in all of the markets of former Yugoslavia from the Western Balkans.[10] We are also the only one headquartered here, and the only one with an exclusive strategic interest in this region. We bring added-value to clients on our markets, because we speak the languages, understand local specifics and mentality, as well as share a common past and values. Therefore, not only the head, but also the heart of the Group are situated here, making our approach to this region truly one of a strategic systemic partner.

This role is even more important because of the relatively limited interest of global players in the region, which consequentially offers many business opportunities. We also feel a responsibility to develop and distribute state of the art financial services to the citizens and businesses living and acting here. Some of them, for example cross-border lending, we have already begun addressing; and we expect to add others shortly, such as leasing and regional trade and supply chain finance. We are also seeking opportunities in the international syndicated loans market, residential real-estate, infrastructural and other project financing, as well as replicating and deploying market leading bankassurance and asset management services from Slovenia to other SEE markets. For the first time since the imposition of EU restrictions in December 2013, NLB can now address potential acquisition options within consolidation processes in the banking sectors in SEE, including potentially entering new markets such as Albania and at some point Croatia. Up until now, some of our subsidiaries have been partially addressing some of the above opportunities, while now we can and will apply the capacity of the entire Group.

An enormous step in this direction was taken in February of 2020 with the signing of the SPA between the Republic of Serbia and NLB to acquire 83.23% of shares in Komercijalna Banka a.d. Beograd, the fourth largest bank in Serbia. The closing of the deal is subject to approvals from various regulatory authorities and is expected in six to nine months after signing. Nevertheless, the signing alone was an extremely important milestone on our way to position NLB Group as a top three banking institution, with at least a 10% market share in terms of total assets in all the markets of our presence with retail operations. With that, the regional platform for the promotion of and support to trade within the region has been put in place. We are proponents of ideas on opening borders for goods, services, and capital, but especially for talents to freely move and create within the region.

The results of our region-oriented focus speak for themselves. In 2019, the Group continued its trend of stable and profitable business operations, recording a net profit of EUR 193.6 million, with all SEE subsidiary banks reporting profits and contributing a substantial 39% to the Group result. It is especially encouraging that in the volatile macroeconomic and regulatory environment, the recurring results have shown a solid trend and the profit before provisions and impairments increased by 4% YoY.

10. Croatia being the only exception.

The parent company NLB also achieved other very important milestones. The first anniversary of its shares having been admitted to trading on the Ljubljana and London Stock Exchanges was proudly celebrated by opening trading in London in November 2019. Rating agencies acknowledged our efforts and results by upgrading Bank's credit ratings and outlooks. We confidently returned to international capital markets by successfully completing two issuances of subordinated Tier 2 bonds supported by an international and regional investor base (one transaction being self-arranged). Finally, we were able to prove our strong performance and potential by paying out dividends in the amount of EUR 7.13 gross per share and EUR 142.6 million in total, providing a 13.84% yield to the price of the IPO in November 2018. We remain committed to continuously improving and growing our business, and with that further justifying the demonstrated trust to deliver on the expectations of our shareholders also in the future.

However, as an institution of systemic importance on the regional level, we are not only interested in strictly business topics. We are not merely a universal financial group, nor are we a simple sum of numbers, balance sheets, and financial results that create added-value for our stakeholders and contribute to economic development. We are people who know and understand the industry in which we work, who develop innovative, customer-oriented products and services, who feel close to the environment and the region where we live, and who want to contribute to a better quality of life. We are unique in our region, since for us SEE is not just a spot on a map. This is our home.

We aim to achieve our goal of improving the quality of life in the region by employing our knowledge and customer-oriented services to deliver relevant universal financial solutions to our clients whenever and wherever they need us. However, we have also been impacting the quality of life through a wide range of our socially responsible pursuits in the fields of environmental protection, sustainability, humanitarian activities, and culture, while in the virtual era we promote youth sports and a healthy lifestyle. Above all, we invest in the knowledge and well-being of our employees. We believe that a satisfied and an effective employee is one who can balance its personal and business lives, and one who knows that his or her potential is recognised and meaningfully deployed. Keeping this in mind, we take great care to nurture, mentor, and develop our employees to leverage their talents, while supporting them on their path, recognising their needs and the needs of the Group to build our future success story together.

Overall, we can really be proud of what NLB Group has achieved in recent years, but the challenges that lay before us are not negligible. Tense political circumstances and frictions along with an economic slowdown, disruption from tech companies, an ever tightening and limiting regulatory framework, and pending consolidation of the banking sector in the region create uncertain business circumstances. With in-depth knowledge and understanding of the environment, and focused, yet decisive efforts, the business can thrive, nevertheless. This is something that we firmly believe and have defined in our new business strategy that focuses on further strengthening our market position in our niche home region with continuing extensive digitalisation based on real client needs, efficiency of our operations, and a relevant, impactful social responsibility programme. We are convinced that together with all our stakeholders we can achieve something extraordinary and meaningful. Why? Because we are creating and caring for our home. For us, as noted above, it is not just a spot on the map – home is where people who matter the most are, where we feel good and where we face challenges confidently, enthusiastically, and passionately. Where we make sure that we are ready and have answers – for whatever may come.

**Management Board of NLB**

**Archibald Kremser**
Member of the
Management Board

A. Burkhardt

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

Archibald Kremser
**Member of the Management Board**

Andreas Burkhardt
**Member of the Management Board**

Blaž Brodnjak
**President & CEO**

Petr Brunclík
**Member of the Management Board***

*Appointed by the Supervisory Board of NLB on 29 November 2019; Mr. Brunclík is waiting for the relevant consent by the ECB to assume the office of the Management Board member.

Chapter 4

# Statement by the Supervisory Board of NLB

To Our Shareholders,

The traditional banking business model is beset on all sides by the challengers of growth, whether in the form of the persistence of an extremely low Euro interest margin environment, or in the form of fast developing new competitive models eating into several banking revenue streams, or even in the form of adverse regulatory costs and ever-increasing complexity of doing business.

But I believe that the single biggest challenge and obstacle for growth of the traditional universal bank is the mindset of complacency. That said, we, members of the Supervisory Board, believe it is our duty to help to steer, monitor, and supervise the Group to overcome every challenge and obstacle for growth the Bank faces and will face on the market, and to put special and utmost focus on our talent development, to our employees. To the talent which stands at the beginning and at the heart of the value creation chain in our banking group, a chain that simply has to deliver a significant added value to our clients, good and consistent results to our shareholders, widespread positive effects to our society, and an impactful contribution to the environment in which we operate. Needless to say, we believe the employees of the Group should never be complacent.

The strategy and the plan for the Group have been outlined and are clear: the Group has approved a new, comprehensive five-year strategy aimed at protecting and strengthening its market position in its home region, and one that actively participates in the growth and consolidation of the market. It also reaffirmed the Group's mission and vision, which clearly defines its identity and SEE as its focus – its home region. The Group's strategic focus has remained unchanged. We will remain and further strengthen our unique banking play proposition with a rock-solid balance sheet, self-funded and growing subsidiaries, and with the predominantly stable deposit-based financed assets.

As a regional specialist, the Group needs to capitalize on the newly opened opportunities that lie ahead of us. More specifically, following the successful conclusion of the privatization, the Group will finally be able to start operating with its full potential at home and across the SEE market. Without limitations, the Group will provide leasing, factoring, and all other forms of local and cross-border project financing, and will invest even more intensively in digitalisation, the development of new channels, and rigorous pursuit of the highest level of customer experience. We should and we will capture some of those favourable growth tailwinds in this otherwise challenging and competitive business environment.

I am not only proud of what the Group has delivered to all of its key constituencies (shareholders, clients, employees, and society) in 2019, I am once more looking into the future of the Group with high expectations, and backing them with the firm belief that it will deliver on its promises.

### 2019 business developments

The economic growth in the Group's region moderated slightly in 2019 from the peak back in 2018. Trade uncertainties, along with matured growth cycles, exerted further pressure on the cooling global economic momentum. Weaker economic growth in the euro area and more specifically the industrial production, which was pushed into a contraction territory, decreased the exports. Nonetheless, solid fundamentals underpinned with robust private consumption, diminished unemployment, a strong tourism sector and remittances, all supported robust growth in 2019 which was well above the euro area average.

After a successfully completed first phase of privatisation in November 2018, the second phase of privatisation of the Bank was completed in June 2019, as required by the commitments given by the RoS to the EC upon the recapitalisation of the Bank in December 2013. With the second phase of privatisation of the Bank completed, and the conclusion of the Agreement on the Sale and Purchase of Shares of the subsidiary insurance company NLB Vita d.d. in December 2019, we believe that the commitments given to the EC have been fulfilled. In this respect, the Bank is still expecting the last semi-annual report from the Monitoring Trustee. Despite certain restraints and limitations caused by the EC commitments (the prohibition of cross-border financing that caused higher liquidity that costs money, and the restraints on ROE and new acquisitions), the NLB Group has been able to generate solid results and favourable trends in the areas of asset leverage, balance sheet management, cross selling, cost control, and the cost of risk.

Primož Karpe
**Chairman of the Supervisory Board**

### 2019 brought important changes, but nothing distorted the positive direction in which NLB Group is moving

For the financial year 2019, the Group continued its trend of stable and profitable business operations, with the annual net operating income growth reaching EUR 513.6 million, for the first time surpassing the EUR 500 million benchmark behind a 4% growth rate.

The result before impairments and provisions grew by 4% and also reached a record level of EUR 212.2 million. Group's net profit for the period amounted to EUR 193.6 million and the Bank reached a net profit in the amount of EUR 176.1 million. 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 total capital adequacy ratio reaching 16.3%, which is above the regulatory requirements.

The overall risk appetite profile of the Group continues to exemplify a conservative mentality. The trend of improving the quality of the Group loan portfolio has continued and the NPL ratio decreased to 3.8%.

The Group, therefore, successfully continues with its activities to achieve the set medium-term financial targets.

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

In accordance with the two-tier governance system, the Bank's Supervisory Board issues approvals to the Management Board related to the Bank's business policy and financial plan, approves the strategy of the Bank and the Group, organises the internal control system, draws up the audit plan of Internal Audit, discusses the findings of the regulators, checks the annual reports and other financial reports, and formulates a written report for the General Meeting of the Bank, gives consent to certain financial transactions (e.g. issuing of own securities and equity stakes in companies and other legal entities), and supervises the work of Internal Audit and Compliance and Integrity.

From 1 January 2019 and until 28 February 2019, the Supervisory Board of NLB consisted of eight members, namely: Primož Karpe – Chairman, Andreas Klingen – Deputy Chairman, and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik. Two members of the Supervisory Board submitted their resignation statements on 30 November 2018 with a three-month notice, as a result of changed EC commitments that the RoS submitted to the EC in 2018, which required independence of all members of the Supervisory Board.

Despite full awareness of the European bank average, in terms of female participation at the level of key governing bodies, and even though the selection process for four new members of the Supervisory Board was open to candidates of both genders, female representatives unfortunately did not participate in the selection process.

Therefore, at the General Meeting on 10 June 2019, three members of the Supervisory Board were elected (Mark William Lane Richards, Shrenik Dhirajlal Davda, and Gregor Rok Kastelic), whereas one member's term of office was renewed (Andreas Klingen). On 28 June 2019, the Supervisory Board of NLB met for the first time with all nine members, as defined by the Articles of Association of NLB. At this meeting, the Supervisory Board also allocated members to its existing committees (Audit, Risk, Remuneration, and Nomination) and established a new committee for Operations & IT.

With respect to the issue of diversity, the second version of the Policy on the Provision of Diversity of the Management Body and Senior Management was adopted at the 33rd General Meeting of Shareholders on 10 June 2019, extending requirements on diversity not only to the Supervisory Board members and members of the Management Board, but to members of senior management as well. Other key amendments to the policy include the determination of policy objectives, and the way in which these objectives are achieved, while at the same time the policy specifies its implementation and reporting.

The Supervisory Board is composed of nine representatives, whose qualifications, work, age, and the fields of work differ. The Supervisory Board members are from 47 to 72 years old. Their knowledge is versatile and covers various fields, including banking and investment banking, private equity, insurance, and the manufacturing sector. Throughout their careers, they have managed and supervised many companies and corporations.

While members of the Supervisory Board have proper and complementary knowledge, experience, and skills to perform their duties, they all have different professional, national, and educational backgrounds. The Supervisory Board represents a balanced, complementary team of experts focused on the effectiveness of performing its core functions. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, which was confirmed by the positive Fit&Proper assessment completed in March 2019. This provides the assurance that they can carry out their supervisory roles in a responsible manner and make decisions that benefit the Bank and add value to the Group. The delivery of critical and assertive opinions has been and will remain at the core of our decision-making principles, through the expected engaged participation of all the members at all times.

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

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

The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflict of interest. Throughout the year, Supervisory Board members took precautionary measures to avoid any conflicts of interest that might have influenced their decisions. The Supervisory Board actively managed the conflicts of interest of its members and gave consent to its members to assume positions on Supervisory Boards of non-related companies.

Year 2019 was a busy year from a corporate governance perspective, with the Supervisory Board holding seven regular, 10 correspondence, and one extraordinary session. The Supervisory Board received expert assistance from its five operational committees (Audit, Risk, Nomination, Remuneration, and Operations and IT). The committees of the Supervisory Board met at its four to six regular meetings and discussed topics and adopted decisions from the areas that they are in charge of (with the exception of the newly established Operations and IT Committee that met at two regular sessions).

The Supervisory Board approved achievements of the Management Board goals and proposed new goals for the Management Board, appointed a new Chief Operations Officer (COO), adopted decisions on succession planning for members of the Management Board, the Supervisory Board self-assessment report, and acknowledged the candidates for members of the Supervisory Board.

Through the year it acknowledged regular reports on documents received from the regulator(s), namely the BoS and ECB, and on the implementation of the requirements, adopted regular quarterly reports on State Aid, adopted changes to the Corporate Governance Policy of the NLB, acknowledged amendments to the Corporate Governance Policy of the NLB Group, and adopted amendments to the internal acts. The Supervisory Board also adopted decisions (or acknowledgements) on the establishment of new companies, cross-border financing, and international syndicated financing, large exposures, sale of receivables, claim write-offs, divestment of the Group companies, legal proceedings involving the Bank and the Group members, transactions with persons in special relations with the Bank, etc.

In addition to good performance, the Group has an important socially responsible mission, as it wishes to contribute to a better quality of life of the community at large. In the area of Corporate and Social Responsibility, we perceive the responsibility to our clients, employees, and the society at large as a mission. The areas of social responsibility include numerous humanitarian projects, mentorship, support for the professional athletes and sports for young people, the protection of cultural heritage, the promotion of entrepreneurship, taking good care of employees, environmental protection, and compliance and integrity.

Our commitment to develop and maintain excellent HR practices and development programs for employees has for the fifth consecutive year, awarded to our Bank the acclaimed 'Top Employer Slovenia' certificate. NLB became the first Slovenian company – and the only bank – to receive this prestigious international certificate in 2016, and since then it has been upgrading its employee management practices year after year. The Bank shares its knowledge and experience with other companies of the Group because it is our desire and ambition that other members also receive this certificate.

Pursuant to the second paragraph of Article 282 of the Companies Act (ZGD-1), the Supervisory Board has compiled this written statement to the NLB Group Annual Report 2019 with the aim of accurately and authentically presenting the activities of the Supervisory Board during the year.

Based on Articles 272 and 281 a) of the Companies Act (ZGD-1) and stipulations of this statement, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of the Bank and the Group in 2019 within its competences, thus adequately supervising the management and operations of the Bank and the Group and overseeing the Bank's Internal Audit.

## Review and approval of NLB Group Annual Report 2019

The Management Board of NLB submitted the NLB Group Annual Report 2019 to the Supervisory Board, 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. 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 at 31 December 2019, and their financial performance and cash flows for that year in accordance with the International Financial Reporting Standards 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.

In accordance with Article 34 of the Articles of Association of NLB, the Supervisory Board verified the submitted Annual Report, and shall prepare a report for the General Meeting of Shareholders. The Supervisory Board had no objections to the report of the audit company Ernst & Young, Ljubljana. Following a careful examination of the NLB Group Annual Report 2019, the Supervisory Board had no objections, and unanimously approved it.

Yours truly,

**Supervisory Board of NLB**

**Primož Karpe**
Chairman of the
Supervisory Board

Chapter 5

# Strategy

In November 2019, the Group approved its new, comprehensive five-year strategy aimed at protecting and strengthening its market position in its home region, and to actively participate in the growth and consolidation of the market. The new strategy defines the Group's focus as further extensive digitalisation, significant increase of client centricity, and cost efficiency. It also reaffirmed the Group's mission and vision, which clearly defines its identity and SEE as its focus – its home region.

## Good foundations for a new period

As a geographical niche player, the Group has great foundations to build on: deeply rooted, strong market positions in a highly fragmented region; positive brand perception at subsidiaries; good recent performance; acknowledged innovations (digital); and plentiful untapped potential to be exploited in various market segments and operations.

Following the successful restructuring, privatisation, and restored profitability, key restrictions related to EC commitments were finally eliminated. While the market growth projections have recently experienced a significant slow-down (or even downturn), new challenges and opportunities emerged. Given the new circumstances, the Bank's new, updated strategy aims to identify, detail, and operationalise the future path for the entire Group for the next years.

## New Vision and Mission

Within the Group strategy, new vision and mission statements were defined, as set out below.

The foundations of the new Vision are:

- Together we will take care of the financial needs of our clients and will impact the quality of life in our region.
- By 2025, NLB Group will be a systemic provider of client relevant universal financial services in all target markets.
- We will improve the quality of life in our home region.

The foundations of the new Mission are:

- We strive to improve and develop our home together for present and future generations.
- We are from this region, therefore we understand its business environment, customs and, most of all, its people. With our commitment, knowledge, and our innovative solutions, we take superior care for our customers and create a better life, a better future for us all.
- Welcome to our home.

## Strategic focus areas

The Bank is striving to protect and strengthen its market position as a systemic player in its home region, and actively participate in the growth and expected consolidation of the market. As a leading player, the Bank would like to best serve its clients' financial needs. In retail banking, the Bank is striving to get closer to its clients through anchor products and by offering personalised digital services (e.g. omni-channel, marketplace) to suit their lifestyle. In corporate banking, the Bank is looking to cover more complex, cross-boarder needs of clients and find entry points to suit all the clients' needs.

The Bank would like to strengthen its core, to increase its profitability through a more customer-centric approach. Additionally, the Bank is planning to accelerate growth through entering/expanding its presence into selected adjacencies (e.g. leasing, bancassurance) and diversify the services on a horizontal level. The Bank is simultaneously seeking additional opportunities (within consolidation processes in the banking sectors in the SEE), which are not part of the current strategic plan due to the high level of uncertainty.

The Group is continuing to direct comprehensive strategic efforts toward digital transformation. The Bank is striving to simplify, automate, and digitise processes to minimise costs. On the cost side, the focus on digitalisation should bring better customer service, a higher level of process efficiency, and therefore additional labour cost savings. Since successful digitalisation requires competitive IT infrastructure and capabilities, the Group will continue to invest significantly in these areas. The focus will be mainly on improving the speed of IT deliveries by adopting agile principles, to implement the best online experience for customers in the SEE, and enhance capabilities for processing data, modelling, and relevance of services to clients.

### Comprehensive transformation plan

The Bank has elaborated a comprehensive, detailed program plan to reach set targets. Projects and initiatives were identified, also channelling all major running change efforts into one overarching strategic transformation program.

The cornerstone of the new strategy is strengthening customer centricity by establishing a 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 puts effort on increasing operational efficiency and cost management, and on improving the utilisation of the Group's capital. Simultaneously, overall operational capabilities will be strengthened through improving human capital, optimising IT, digitalising internal processes, and leveraging information capital.

In order to drive transformation, a new change management platform was also set up.

### Brexit impact on the Group's performance

As the Group operations are only related to the SEE region, the estimation is that Brexit will not have any significant impact on the Group's business performance.

### Sustainable development vision

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

The Group is in the process of developing the Environmental Social and Governance Strategy (ESG) and setting concrete ESG commitments and targets.

### Post EC commitments

In June, the privatisation process of the Bank was successfully completed. With the sale of the remaining 10 percent minus 1 share of the Bank, almost all of the restrictions from the commitments made by the RoS to the EC when granting state aid in 2013 have been lifted. The RoS will remain the largest shareholder of the Bank, owning a 25 per cent stake plus 1 share. The final commitment to the EC in connection with the state aid proceedings was satisfied with the sale of the Bank's stake (50%) in the Slovenian life insurance company NLB Vita in December.

The Bank will finally be able to start operating with its full potential in SEE, the Group's home region – countries where the Group is present with banking subsidiaries. As a regional specialist, the Group will be able to seek opportunities to strengthen its position as a systemic player in all the markets. Without limitations, the Bank will again be able to provide leasing, factoring, and all other forms of local and cross-border project financing, and to invest even more intensively in digitalisation, the development of new channels, and the highest level of customer experience.

The efforts by the Bank to establish a new leasing company have already been made aiming at complementing product range with state-of-the-art leasing solutions focusing on mobility in Slovenia and subsequently across the home region.

### Mid-term targets

The measures and potentials outlined in the above strategy confirmed the already published mid-term targets for the 2020 to 2023 period:

- Net interest margin > 2.7%
- LTD < 95%
- Total capital ratio 16.25%[11]
- CIR ~ 50%
- Cost of risk < 90 bps
- NPE ratio < 4%
- ROE ~ 12%
- Dividend pay-out (as a percentage of the Group profits) ~ 70%

11. Target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.

The Group is pursuing a range of activities to achieve its strategic financial objectives. The environment has visibly changed, especially in the eurozone, given the adverse interest rate outlook and possible further decreases of the ECB deposit rates. The main ambition is that despite deteriorating market conditions, the Bank is committed to reaching the mid-term targets set for NLB.

The indicated mid-term targets are only targets, and not profit forecasts. The targets constitute forward-looking statements which are subject to a number of risk factors and are not guarantees of future financial performance.

### Dividend policy

The payment of dividends by the Bank will depend on a number of factors, including the Bank's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, and future prospects.

As at 31 December 2019, the Group had CET1 ratio of 15.8% which includes the part of 2019 net profit of EUR 35 million. The Bank also optimized the Group capital structure by issuing a Tier 2 instruments in 2019; one instruments was already recognized in the capital as at 31 December 2019.

The Bank's future intention is to distribute dividends in excess of the Group's target total capital ratio. The said ratio currently amounts to 16.25%, this, however, is under revision to reflect the new (lower) capital requirement (TSCR) that is applicable as at 1 January 2020. The Bank's dividend policy envisages yearly distribution of dividends in the approximate amount of 70% of the Group's result, while fulfilling all regulatory requirements including Pillar 2 Guidance.

Given the Bank's successful bid for Komercijalna Banka a.d. Beograd, the dividend payment for the financial year 2019 will be subjected to the timely implementation of pending capital measures (we refer to details disclosed in our presentation of 26 February 2020) and synchronised with the closing process.

Any potential further acquisitions (e.g. market entry Albania) will be subjected to the same strict criteria of being earnings per share (EPS) accretive and value-creating for our shareholders. Clearly, potential targets – if any – are expected to be significantly smaller in size compared to Komercijalna Banka a.d. Beograd.

Distributable profit as at 31 December 2019 amounts to EUR 228,040 thousand.

### Risk Factors

The risk factors affecting the business outlook are (among others): the economy's sensitivity to a potential slowdown in the eurozone, the worsened interest rate outlook, regulatory and tax measures impacting the banks, and geopolitical uncertainties.

Economic momentum in the region where the Group operates is gradually slowing down as a consequence of the global and eurozone economic slowdown, nevertheless it remains favourable. The economic growth of the Group's region remains solid. In addition to that, structural imbalances and the economic slowdown in this region might decrease consumer spending and industrial production and increase unemployment. Further consolidation of the banking sector in Slovenia may have an impact on the market competition.

Such circumstances could have an adverse impact on the Group's current operating results and related profitability, although no material impact is currently anticipated. Potential negative impacts could primarily be caused by the unfavourable low interest rate environment, lower interest margins, further deterioration of macroeconomic circumstances, and instability in financial markets.

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

- GDP trends
- Growth of loans in the banking sector
- Economic sentiment
- Unemployment
- Consumer confidence
- Construction sentiment
- FX rates
- Interest rate development and related future forecasts
- Other relevant market indicators

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

Risk management actions that might be used by the Group are determined by different internal policies, and are applied when necessary. Moreover, selection and application of mitigation measures follow 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 2020

The macro outlook suggests that the countries where the Group operates are likely to experience growth at around three percent, if supported by loose monetary conditions, fiscal easing and solid domestic demand. The public debt as percentage of GDP in all those markets are below the EU average, accompanied by low household indebtedness and solid savings performance.

Considering these circumstances, continued loan growth is expected in all geographies where the Group is present, save for the retail market in Slovenia where new regulatory lending restrictions have been put in place by end 2019. Margins are expected to be under further pressure as observed in 2019, with business in retail lending being more resilient compared to corporate lending. The Group continues to strive for increasing margins over time by emphasising higher margin activities and pursuing new opportunities such as leasing. Losses in rate revenues will be partially mitigated by further emphasis on fee income.

While it is too early to conclude, more challenges to grow revenues in retail business in Slovenia are expected given the new imposed lending restrictions. Strategic foreign markets should grow at a similar pace as in 2019. It needs to be emphasised that in the past years net non-interest income included non-recurring components which are by nature unpredictable.

Costs are expected to continue growing in 2020 at the same pace as in 2019 but are expected to plateau thereafter. The reasons for that are the continuation of spending on IT upgrades, strategy implementation, and labour cost inflation observed throughout the region. Mitigants for further rises in costs are ongoing strategic efforts to re-dimension the physical footprint of the Bank, as well as continue efforts for operational process excellence.

The cost of risk is expected to continue to normalise but should stay at a reasonably low level. The asset quality is stable, and no material deterioration is foreseen.

The Bank is currently in the process of a potential acquisition of Komercijalna banka in Serbia (SPA signed, closing process pending). As the timing and actual outcome of the transaction is still subject of regulatory and anti-trust approvals in multiple jurisdictions, any potential effects are not included in the outlook.

Potential negative impacts from the coronavirus (COVID-19) outbreak and spread are not included in the outlook.

Chapter 6

# Overview of Financial Performance

**The Group achieved a profit for the sixth consecutive year in the amount of EUR 193.6 million, down 5% from the year before (2018: EUR 203.6 million). The strong result reflects business growth with increasing interest income at a stable margin, growing net fee and commission income, and the negative cost of risk.**

This result is based on the following key drivers:

- A strong positive performance in the Bank with the year-end result of EUR 176.1 million. All Group subsidiary banks in the SEE contributed an important part to the consolidated net profit of the Group (39%, i.e., EUR 74.8 million).
- A very solid performance in the total net operating income based on higher net interest income predominantly due to loan volume growth, lower interest expenses, and higher net fee and commission income.
- Continued loan growth, especially in Strategic Foreign Markets (8% YoY) and Retail Banking in Slovenia (7% YoY).
- A strong total capital ratio of 16.3% while ROE a.t. stood at 11.7%.
- Continued solid performance with negative cost of risk, due to release of impairments and provisions.
- NPLs further reduced due to successful forbearance measures and a supportive macroeconomic environment with the Group's indicator Gross NPL ratio (defined by the EBA), decreased to 4.6% (2018: 7.9%); NPE ratio (defined by the EBA) dropped to 2.7%, 2.0 p.p. drop YoY.
- Liquid assets portfolio amounted to EUR 6,488 million (46% of total assets).

### Strong result achieved in all Core segments[12] of the Group

The Core segments achieved a result before tax of EUR 218.5 million. Strategic Foreign Markets contributed the largest share to result before tax in the amount of EUR 92.9 million, followed by the segment of Corporate and Investment Banking in Slovenia with EUR 56.8 million, Retail Banking in Slovenia with EUR 47.5 million, and Financial Markets in Slovenia with EUR 27.6 million. The Other segment recorded a loss before tax in the amount of EUR 6.4 million, mostly due to establishment of HR provisions for reorganization (EUR 5.5 million).

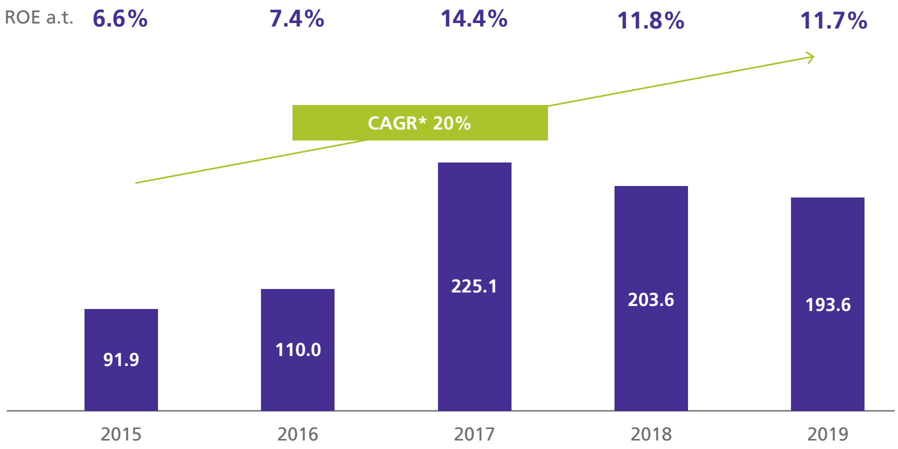
Strategic Foreign Markets achieved the highest net interest income in the amount of EUR 157.5 million, followed by Retail Banking in Slovenia and Corporate and Investment Banking in Slovenia, with EUR 87.4 million and EUR 37.3 million, respectively. Financial Markets in Slovenia contributed EUR 33.6 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 78.2 million, followed by Strategic Foreign Markets and Corporate and Investment Banking in Slovenia, EUR 52.9 million and EUR 43.0 million, respectively.

### Non-core Members: Slightly negative result of operations due to continuing divestments

Total assets of Non-core Members decreased by EUR 94.2 million. The segment realised a loss before tax of EUR 3.1 million, which is in line with the restructuring plan.

12. From 2019, some shifts in the reporting of business segments have been applied (see p. 55). Core segments include Retail Banking in Slovenia, Corporate and Investment Banking in Slovenia, Strategic Foreign Markets, Financial markets in Slovenia and the Other segment.




* Compound Annual Growth Rate.

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

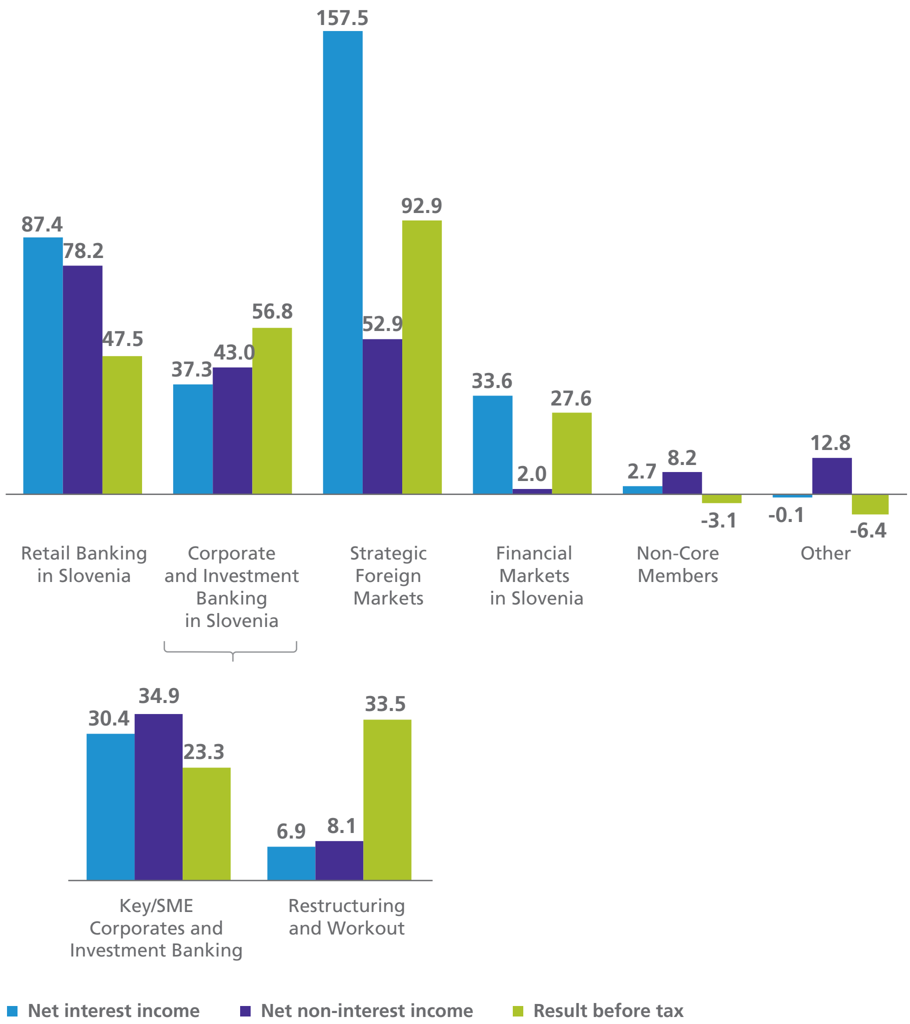



**Figure 7: Segment results of NLB Group (in EUR million)**

## Income statement

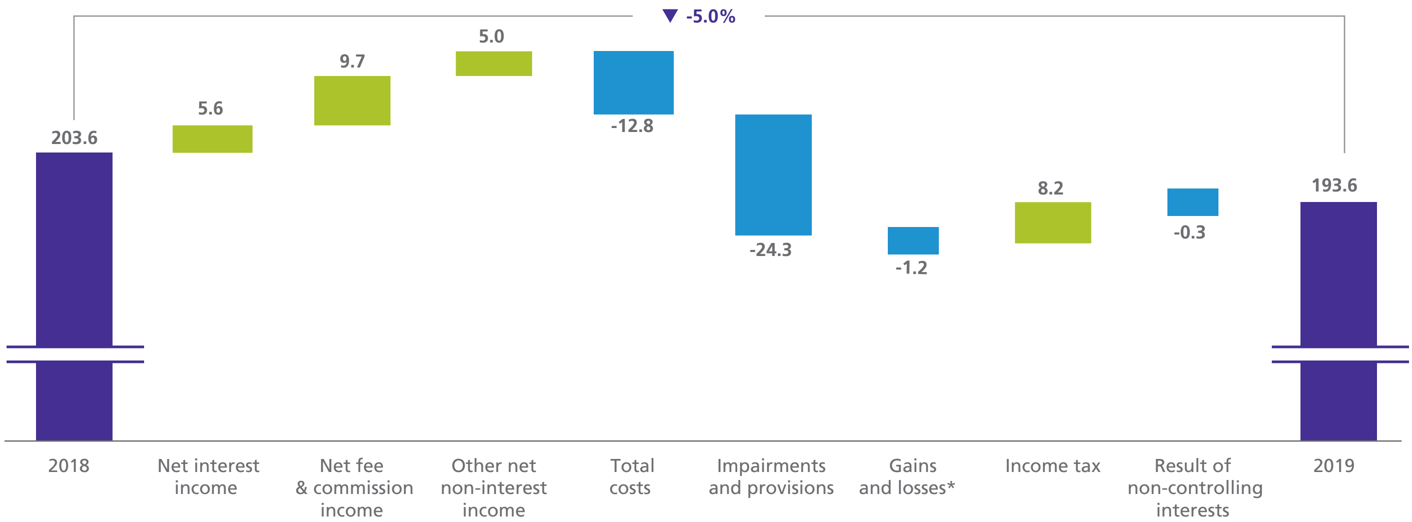
### Table 10: Income statement of NLB Group and NLB

in EUR million

| | NLB Group | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change YoY | | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Change QoQ | |
| Net interest income | 318.5 | 312.9 | 5.6 | 2% | 79.7 | 79.8 | 79.7 | 79.4 | 81.0 | -0.1 | 0% |
| Net fee and commission income | 170.3 | 160.6 | 9.7 | 6% | 43.5 | 44.6 | 42.1 | 40.1 | 40.7 | -1.2 | -3% |
| Dividend income | 0.2 | 0.1 | 0.1 | 76% | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 55% |
| Net income from financial transactions | 33.8 | 14.7 | 19.1 | 130% | 5.8 | 5.1 | 10.7 | 12.3 | 3.1 | 0.7 | 14% |
| Net other income | -9.3 | 4.9 | -14.2 | - | -0.1 | -2.1 | -9.0 | 2.0 | -0.5 | 2.0 | 94% |
| Net non-interest income | 195.1 | 180.4 | 14.8 | 8% | 49.2 | 47.6 | 43.9 | 54.4 | 43.3 | 1.6 | 3% |
| **Total net operating income** | **513.6** | **493.3** | **20.3** | **4%** | **128.9** | **127.4** | **123.6** | **133.8** | **124.3** | **1.5** | **1%** |
| Employee costs | -171.2 | -165.1 | -6.1 | -4% | -48.0 | -41.8 | -41.4 | -40.1 | -43.2 | -6.2 | -15% |
| Other general and administrative expenses | -99.3 | -96.3 | -3.0 | -3% | -31.4 | -23.3 | -23.4 | -21.2 | -28.4 | -8.1 | -35% |
| Depreciation and amortisation | -31.0 | -27.2 | -3.7 | -14% | -7.7 | -7.9 | -7.7 | -7.7 | -6.7 | 0.3 | 3% |
| **Total costs** | **-301.4** | **-288.7** | **-12.8** | **-4%** | **-87.0** | **-73.0** | **-72.4** | **-69.0** | **-78.3** | **-14.0** | **-19%** |
| **Result before impairments and provisions** | **212.2** | **204.6** | **7.6** | **4%** | **41.9** | **54.4** | **51.2** | **64.8** | **46.0** | **-12.5** | **-23%** |
| Impairments and provisions for credit risk | 13.3 | 30.2 | -16.9 | -56% | -2.3 | 16.4 | -4.0 | 3.3 | 7.0 | -18.7 | - |
| Other impairments and provisions | -14.3 | -6.9 | -7.4 | -107% | -8.4 | -1.1 | -0.8 | -3.9 | -2.7 | -7.3 | - |
| Impairments and provisions | -1.0 | 23.3 | -24.3 | - | -10.7 | 15.2 | -4.9 | -0.6 | 4.3 | -26.0 | - |
| Gains less losses from capital investments in subsidiaries, associates, and joint ventures | 4.2 | 5.4 | -1.2 | -23% | 0.0 | 1.6 | 1.4 | 1.1 | 1.3 | -1.6 | -97% |
| **Result before tax** | **215.4** | **233.3** | **-17.9** | **-8%** | **31.2** | **71.2** | **47.7** | **65.3** | **51.7** | **-40.1** | **-56%** |
| Income tax | -13.6 | -21.8 | 8.2 | 38% | 2.2 | -0.9 | -9.5 | -5.4 | -5.1 | 3.1 | - |
| Result of non-controlling interests | 8.2 | 7.9 | 0.3 | 4% | 2.0 | 2.4 | 1.8 | 2.0 | 1.2 | -0.4 | -15% |
| **Result after tax** | **193.6** | **203.6** | **-10.1** | **-5%** | **31.3** | **67.9** | **36.4** | **57.9** | **45.3** | **-36.6** | **-54%** |

in EUR million

| | NLB | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change YoY | | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Change QoQ | |
| Net interest income | 158.1 | 158.0 | 0.1 | 0% | 39.1 | 39.4 | 39.9 | 39.8 | 40.5 | -0.2 | -1% |
| Net fee and commission income | 104.0 | 100.2 | 3.8 | 4% | 25.9 | 27.0 | 25.9 | 25.2 | 24.8 | -1.1 | -4% |
| Dividend income | 71.2 | 49.7 | 21.5 | 43% | 0.0 | 1.3 | 65.5 | 4.4 | 0.0 | -1.3 | -99% |
| Net income from financial transactions | 24.0 | 8.4 | 15.5 | 184% | 2.6 | 2.7 | 8.5 | 10.1 | 1.5 | -0.1 | -3% |
| Net other income | -4.0 | 7.1 | -11.1 | - | 1.1 | -0.7 | -6.0 | 1.6 | 1.6 | 1.8 | - |
| Net non-interest income | 195.2 | 165.4 | 29.8 | 18% | 29.6 | 30.2 | 94.0 | 41.4 | 27.9 | -0.7 | -2% |
| **Total net operating income** | **353.3** | **323.4** | **29.9** | **9%** | **68.7** | **69.6** | **133.8** | **81.2** | **68.3** | **-0.9** | **-1%** |
| Employee costs | -108.6 | -103.8 | -4.7 | -5% | -31.2 | -26.3 | -26.2 | -25.0 | -27.6 | -4.9 | -19% |
| Other general and administrative expenses | -63.2 | -57.6 | -5.6 | -10% | -21.4 | -14.8 | -14.2 | -12.7 | -17.7 | -6.6 | -45% |
| Depreciation and amortisation | -18.0 | -17.5 | -0.5 | -3% | -4.6 | -4.7 | -4.4 | -4.3 | -4.4 | 0.0 | 1% |
| **Total costs** | **-189.8** | **-179.0** | **-10.8** | **-6%** | **-57.2** | **-45.8** | **-44.8** | **-42.0** | **-49.8** | **-11.5** | **-25%** |
| **Result before impairments and provisions** | **163.5** | **144.4** | **19.0** | **13%** | **11.5** | **23.8** | **89.0** | **39.2** | **18.6** | **-12.4** | **-52%** |
| Impairments and provisions for credit risk | 17.1 | 29.8 | -12.8 | -43% | 2.2 | 14.1 | -2.0 | 2.8 | 11.7 | -11.8 | -84% |
| Other impairments and provisions | -2.8 | 3.2 | -6.1 | - | -6.2 | 0.0 | 0.1 | 3.3 | 3.2 | -6.2 | - |
| Impairments and provisions | 14.2 | 33.1 | -18.8 | -57% | -4.0 | 14.0 | -1.9 | 6.1 | 14.8 | -18.0 | - |
| **Result before tax** | **177.7** | **177.5** | **0.2** | **0%** | **7.4** | **37.9** | **87.1** | **45.3** | **33.4** | **-30.4** | **-80%** |
| Income tax | -1.6 | -12.2 | 10.6 | 87% | 5.7 | 2.6 | -6.8 | -3.1 | -2.7 | 3.2 | 124% |
| **Result after tax** | **176.1** | **165.3** | **10.8** | **7%** | **13.2** | **40.4** | **80.4** | **42.2** | **30.7** | **-27.2** | **-67%** |




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

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

### Result reflects business growth with increasing net interest and fee and commission income

The Group generated EUR 193.6 million of profit after tax, EUR 10.1 million or 5% less YoY.

The Group's result was based on the following key drivers and YoY evolution:

- Net interest income higher by EUR 5.6 million (2%), mainly due to loan volume growth, especially in the segments Strategic Foreign Markets and Retail Banking in Slovenia, and lower interest expenses due to a decrease in average deposit rates in the Bank and also in most of the Group banking subsidiaries in SEE.

- Net fee and commission income higher by EUR 9.7 million or 6%, mainly from the retail segment in the Bank and in the Group banking subsidiaries in SEE. Most of the foreign banks recorded an increase in number of customers.

- Total costs higher by EUR 12.8 million or 4%, mostly due to higher employee (adjustments on management board and senior management post-privatisation compensation), technology (mainly licenses), and consulting and supervision costs.

- EUR 1.0 million of net provisions and impairments were established in 2019, while EUR 23.3 million were released in 2018. The release of impairments and provision for credit risk amounted to EUR 13.3 million (EUR 30.2 million in 2018). The establishment of other impairments and provisions in the amount of EUR 14.3 million, mostly HR provisions for reorganisation in the Bank (EUR 5.5 million), while on the Group level provisions for pending legal disputes (EUR 5.7 million) and impairments of non-financial assets (EUR 3.2 million).

- Income tax was EUR 8.2 million lower, mainly due to increase of recognized deferred tax assets (DTA) (based on stable results and profit projection in the Bank, estimated 5 years DTA utilization increased).

- Net non-interest income was positively impacted by non-recurring income as a partial repayment of a larger exposure measured at fair value through profit and loss and active management of banking book securities in the amount of EUR 4.5 million.

- In 2019, positive one-off effect from the revaluation of a non-core equity stake was realized in the amount of EUR 6.3 million in Q2 (sale of this stake in Q4); whereas in the same period of 2018, the net non-interest income was positively impacted by the sale of NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million and negatively impacted by the sale of a 28.13% minority stake in Skupna pokojninska družba in the amount of EUR 0.5 million.

Despite a competitive market environment and strong competition, all banks in the Group improved result before impairments and provisions.

The result of the Bank increased by 7% YoY to EUR 176.1 million from EUR 165.3 million achieved in 2018. The main drivers were EUR 21.5 million higher dividend income, EUR 15.5 million higher net profit from financial operations (mainly due to revaluation of a non-core equity stake and partial repayment of a larger exposure measured at fair value through profit and loss), EUR 10.6 million lower income tax, and EUR 10.8 million higher costs.

Lower profit compared to the previous year was recorded in NLB Banka, Skopje due to a one-off effect of the sale of NLB Nov penziski fond, Skopje which had a positive impact on 2018 profit, and in NLB Banka, Podgorica and NLB Banka, Beograd due to established provisions for pending legal disputes. A significant increase in result was achieved in NLB Banka, Prishtina primarily due to growth in loan portfolio and therefore increase of net interest income as well as net fee and commission income.

Profit before impairments and provisions of the Group totalled EUR 212.2 million, which is EUR 7.6 million or 4% higher YoY. Material negative effect relates to regulatory expenses in the amount of EUR 16.2 million, of which EUR 14.2 million to DGS and EUR 2.0 million to SRF. Recurring profit before impairments and provisions was stable in first three quarters of 2019, while the drop in last quarter relates to higher costs, which was partially compensated by higher net fee and commission income.

## Net interest income

Net interest income of the Group accounted for 62% of the Group's total net revenues, increasing by 2% YoY to EUR 318.5 million, due to an increase of interest income in most of the banks of the Group, supported by loan book growth. Higher interest expenses in Q3 and Q4 were due to new subordinated Tier 2 instruments raised by the Bank, while interest expenses for customer deposits were decreasing.

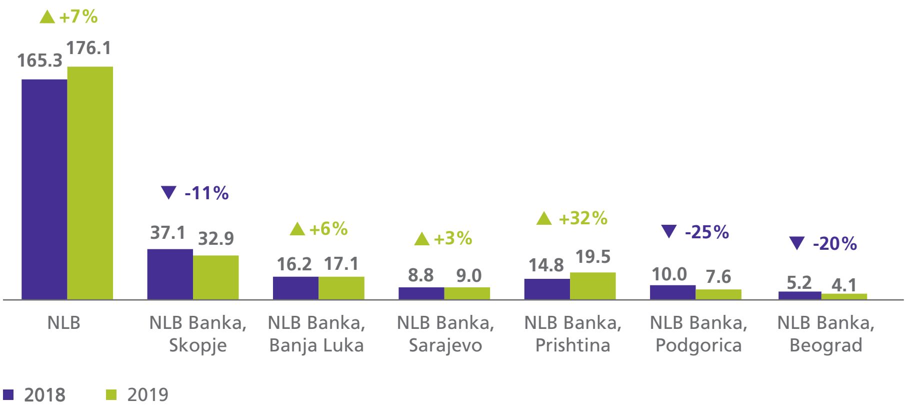
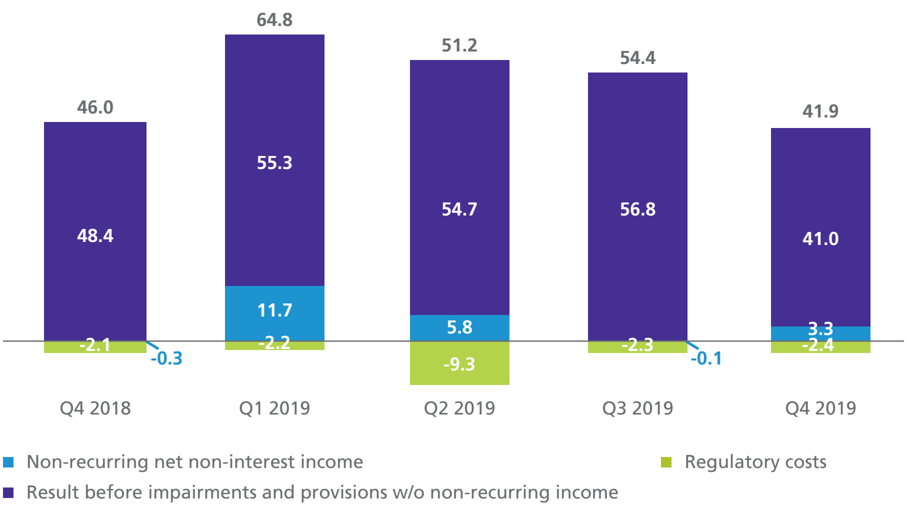



Figure 9: Profit after tax of NLB Group banks (on a stand-alone basis, in EUR million)




* From June 2019 on, different presentation of non-recurring items is in use.

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

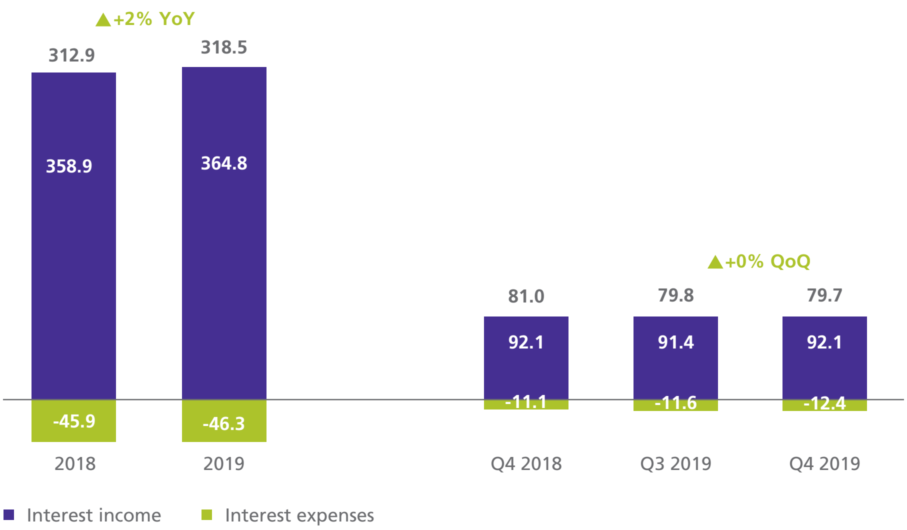



Figure 11: Net interest income of NLB Group (in EUR million)

Net interest income was negatively affected by lower interest rates on assets, which was over compensated by higher loan volume growth. Slight positive effects derived also on deposit side from active management of deposit pricing despite the increase of deposit volume.

Net interest margin in the Group decreased 0.08 p.p. YoY and amounted to 2.48%. The interest margin for the Bank and the Group banking members in SEE decreased YoY, and amounted to 1.85% and 3.59%, respectively.

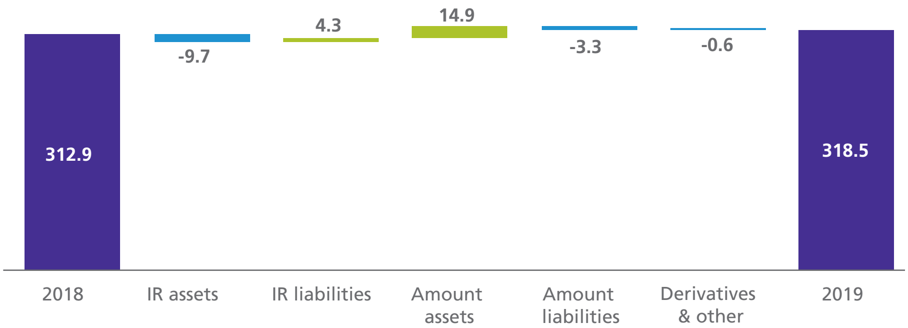
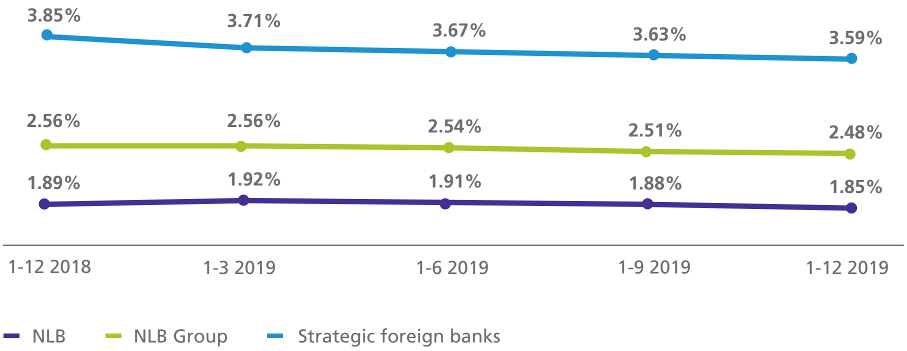



Figure 12: Effects on net interest income change (in EUR million) – evolution YoY




* Interest margin data for the Group and Strategic foreign banks for 2018 are adjusted to the new methodology (calculation based on the number of days for the period).

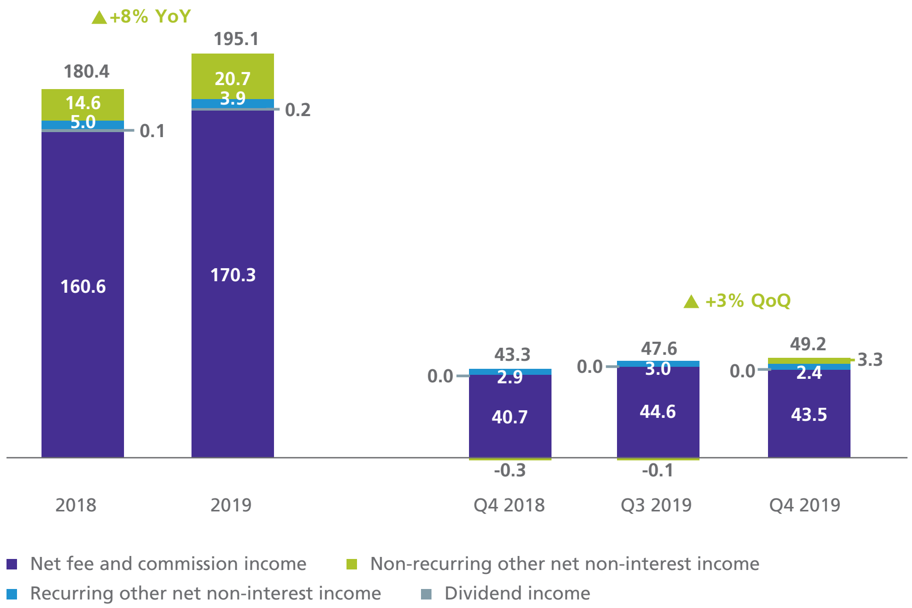
Figure 13: Net interest margin[13] of NLB Group (in %)

### Net non-interest income

Net non-interest income reached EUR 195.1 million and increased by EUR 14.8 million or 8% YoY. The YoY dynamic was influenced by the following factors:

- Net fee and commission income higher by EUR 9.7 million or 6% YoY, mainly from the retail segment in the Bank and in the Group banking subsidiaries in SEE. Most of the foreign banks recorded an increase in number of customers.
- Recurring other net non-interest income amounted to EUR 3.9 million (EUR -1.2 million YoY) and was mainly affected by the regulatory costs (SRF and DGS) in the total amount of EUR 16.2 million and higher net gains from FX trading.
- Net non-interest income was positively impacted by non-recurring income as a partial repayment of a larger exposure measured at fair value through profit and loss and active management of banking book securities in the amount of EUR 4.5 million.

13. Calculated on the basis of average interest bearing assets.




* From June 2019 on, different presentation of non-recurring items is in use.

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

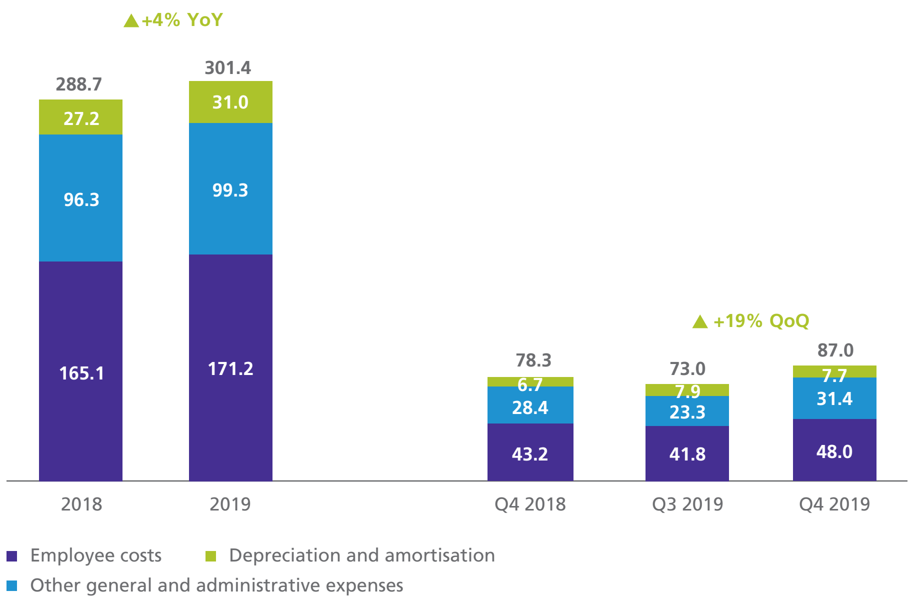



**Figure 15: Total costs of NLB Group (in EUR million)**

- In 2019, a positive one-off effect from revaluation of a non-core equity stake was realised in the amount of EUR 6.3 million in Q2 (sale of this stake in Q4); whereas in the same period of 2018, the net non-interest income was positively impacted by the sale of NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million and negatively impacted by the sale of 28.13% minority stake in Skupna pokojninska družba in the amount of EUR 0.5 million.

### Operating costs

Total costs amounted to EUR 301.4 million (of which EUR 1.6 million were comprised of non-recurring costs related to restructuring, as well as EUR 3.0 million of performance rewards paid in December) and are thus by EUR 12.8 million or 4% higher YoY. The increase was mostly due to higher employee costs in the amount of EUR 6.1 million (mainly adjustments on management board and senior management post-privatisation compensation) and other general and administrative costs (licences, consulting and supervision).

CIR stood at 58.7%, a 0.2 p.p. increase YoY.

### Establishment of net impairments and provisions

In 2019, the Group established EUR 1.0 million of net impairments and provisions, while in 2018 EUR 23.3 million were released.

Impairments and provisions for credit risk were net released in the amount of EUR 13.3 million and the cost of risk was negative, -20 bps (in 2018 -43 bps).

Other impairments and provisions in 2019 were net established in the amount of EUR 14.3 million, mostly HR provisions for reorganisation in the Bank (EUR 5.5 million), while on the Group level provisions for pending legal disputes (EUR 5.7 million) and impairments of non-financial assets (EUR 3.2 million).

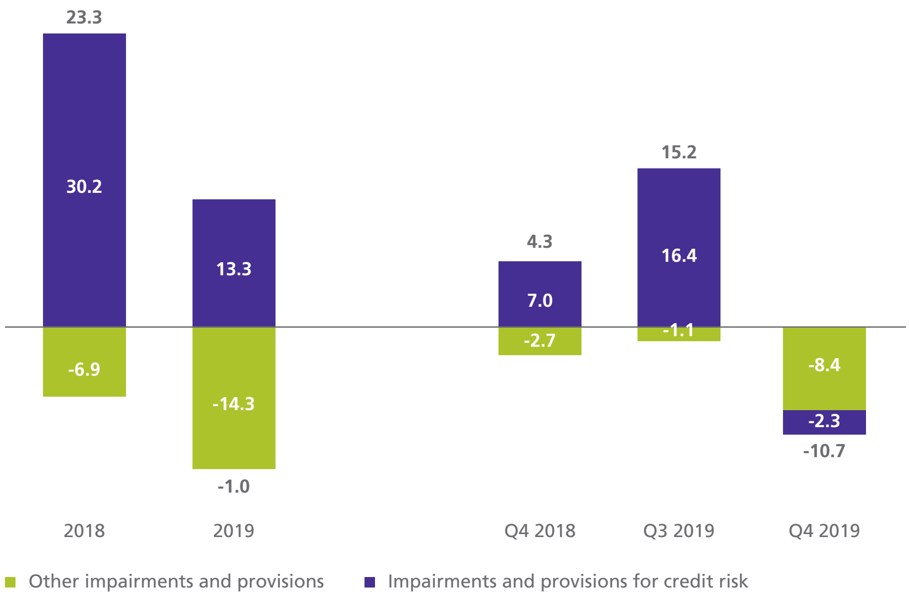



Figure 16: NLB Group impairments and provisions (in EUR million)

### Asset quality

Positive asset quality trend continued in 2019. The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities in the SEE region. Preserving a high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The portfolio quality in 2019 was very stable with increasing Stage 1 exposures and a reduction of NPL loans, which are below the Slovenian average. The high percentage of the Stage 1 loan portfolio is a result of a cautious lending policy. Respectively, the volume of Stage 2 loans is quite limited, the majority of their decrease in the past year occurred due to positive resolving of exposures in this stage. The efforts led to cumulatively very low new NPLs formation in the amount of EUR 55.8 million, which represents 0.6% of the total portfolio.

Gross NPL formation has been low since 2015.

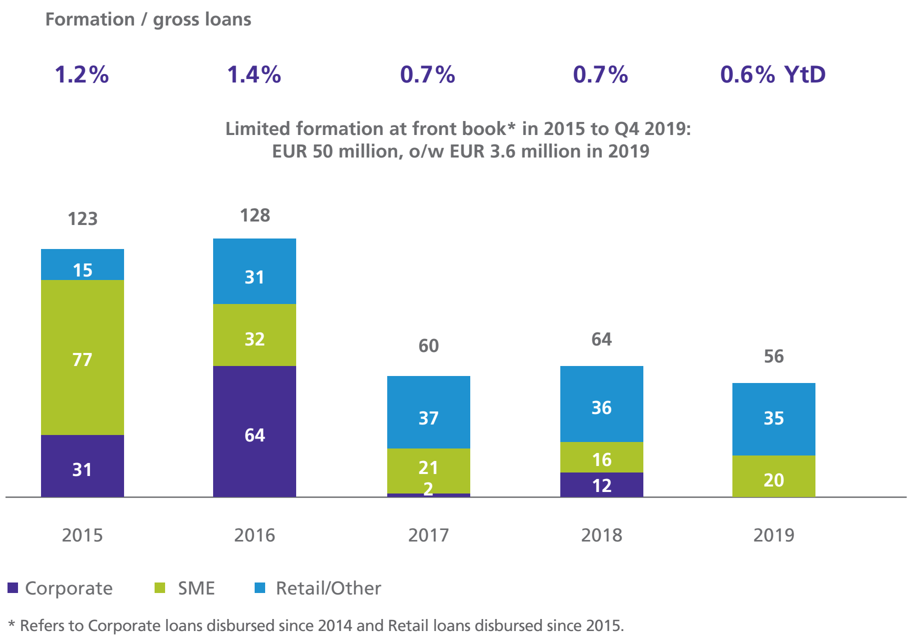



Figure 17: NLB Group gross NPL formation (in EUR million)

## Statement of financial position

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

in EUR million

| | NLB Group | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | Change YoY | | 31 Dec 2019 | 30 Sep 2019 | 30 Jun 2019 | 31 Mar 2019 | 31 Dec 2018 | Change QoQ | |
| **ASSETS** | | | | | | | | | | | |
| Cash, cash balances at central banks, and other demand deposits at banks | 2,101.3 | 1,588.3 | 513.0 | 32% | 2,101.3 | 1,531.4 | 1,460.7 | 1,589.0 | 1,588.3 | 570.0 | 37% |
| Loans to banks | 93.4 | 118.7 | -25.3 | -21% | 93.4 | 90.3 | 108.1 | 108.9 | 118.7 | 3.1 | 3% |
| Loans to customers | 7,604.7 | 7,148.4 | 456.3 | 6% | 7,604.7 | 7,496.0 | 7,280.8 | 7,264.3 | 7,148.4 | 108.7 | 1% |
| Gross loans | 7,938.3 | 7,627.5 | 310.8 | 4% | 7,938.3 | 7,905.1 | 7,721.1 | 7,719.0 | 7,627.5 | 33.2 | 0% |
| - Corporate | 3,646.3 | 3,540.4 | 105.8 | 3% | 3,646.3 | 3,661.5 | 3,565.7 | 3,593.1 | 3,540.4 | -15.2 | 0% |
| - Individuals | 4,013.5 | 3,726.5 | 287.0 | 8% | 4,013.5 | 3,931.5 | 3,842.1 | 3,780.7 | 3,726.5 | 82.0 | 2% |
| - State | 278.6 | 360.5 | -82.0 | -23% | 278.6 | 312.1 | 313.3 | 345.2 | 360.5 | -33.5 | -11% |
| Impairments and valuation of loans to customers | -333.6 | -479.0 | 145.4 | 30% | -333.6 | -409.0 | -440.2 | -454.7 | -479.0 | 75.4 | 18% |
| Financial assets | 3,829.7 | 3,399.2 | 430.5 | 13% | 3,829.7 | 3,841.4 | 3,787.4 | 3,608.0 | 3,399.2 | -11.7 | 0% |
| - Trading book | 24.0 | 63.6 | -39.6 | -62% | 24.0 | 87.6 | 116.9 | 38.4 | 63.6 | -63.5 | -73% |
| - Non-trading book | 3,805.7 | 3,335.6 | 470.0 | 14% | 3,805.7 | 3,753.9 | 3,670.5 | 3,569.6 | 3,335.6 | 51.8 | 1% |
| Investments in subsidiaries, associates, and joint ventures | 7.5 | 37.1 | -29.6 | -80% | 7.5 | 7.5 | 42.3 | 42.9 | 37.1 | 0.0 | -1% |
| Property and equipment, investment property | 247.9 | 236.0 | 11.9 | 5% | 247.9 | 247.5 | 251.6 | 252.2 | 236.0 | 0.5 | 0% |
| Intangible assets | 39.5 | 35.0 | 4.6 | 13% | 39.5 | 35.7 | 33.5 | 33.2 | 35.0 | 3.9 | 11% |
| Other assets | 250.0 | 177.1 | 72.8 | 41% | 250.0 | 239.8 | 199.9 | 167.3 | 177.1 | 10.2 | 4% |
| **TOTAL ASSETS** | **14,174.1** | **12,740.0** | **1,434.1** | **11%** | **14,174.1** | **13,489.5** | **13,164.4** | **13,065.8** | **12,740.0** | **684.5** | **5%** |
| **LIABILITIES** | | | | | | | | | | | |
| Deposits from customers | 11,612.3 | 10,464.0 | 1,148.3 | 11% | 11,612.3 | 11,038.2 | 10,753.5 | 10,675.8 | 10,464.0 | 574.1 | 5% |
| - Corporate | 2,772.0 | 2,337.3 | 434.7 | 19% | 2,772.0 | 2,429.9 | 2,294.6 | 2,255.3 | 2,337.3 | 342.1 | 14% |
| - Individuals | 8,582.9 | 7,865.6 | 717.3 | 9% | 8,582.9 | 8,330.2 | 8,178.9 | 8,017.4 | 7,865.6 | 252.7 | 3% |
| - State | 257.4 | 261.1 | -3.7 | -1% | 257.4 | 278.0 | 280.0 | 403.1 | 261.1 | -20.7 | -7% |
| Deposits form banks and central banks | 42.8 | 26.8 | 16.1 | 60% | 42.8 | 56.3 | 44.8 | 24.6 | 26.8 | -13.5 | -24% |
| Borrowings | 234.8 | 320.3 | -85.4 | -27% | 234.8 | 242.7 | 306.8 | 317.4 | 320.3 | -7.9 | -3% |
| Other liabilities | 342.6 | 256.5 | 86.1 | 34% | 342.6 | 357.6 | 386.8 | 305.7 | 256.5 | -15.0 | -4% |
| Subordinated liabilities | 210.6 | 15.1 | 195.5 | - | 210.6 | 90.3 | 44.9 | 15.3 | 15.1 | 120.3 | 133% |
| Equity | 1,685.9 | 1,616.2 | 69.7 | 4% | 1,685.9 | 1,661.5 | 1,587.4 | 1,683.8 | 1,616.2 | 24.4 | 1% |
| Non-controlling interests | 45.0 | 41.2 | 3.8 | 9% | 45.0 | 42.9 | 40.3 | 43.2 | 41.2 | 2.1 | 5% |
| **TOTAL LIABILITIES AND EQUITY** | **14,174.1** | **12,740.0** | **1,434.1** | **11%** | **14,174.1** | **13,489.5** | **13,164.4** | **13,065.8** | **12,740.0** | **684.6** | **5%** |

in EUR million

| | NLB | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | Change YoY | | 31 Dec 2019 | 30 Sep 2019 | 30 Jun 2019 | 31 Mar 2019 | 31 Dec 2018 | Change QoQ | |
| **ASSETS** | | | | | | | | | | | |
| Cash, cash balances at central banks, and other demand deposits at banks | 1,292.2 | 795.1 | 497.1 | 63% | 1,292.2 | 712.7 | 757.6 | 877.6 | 795.1 | 579.5 | 81% |
| Loans to banks | 144.4 | 110.3 | 34.1 | 31% | 144.4 | 147.9 | 130.4 | 94.0 | 110.3 | -3.5 | -2% |
| Loans to customers | 4,589.2 | 4,478.1 | 111.1 | 2% | 4,589.2 | 4,602.7 | 4,463.0 | 4,531.3 | 4,478.1 | -13.5 | 0% |
| Gross loans | 4,718.0 | 4,703.7 | 14.4 | 0% | 4,718.0 | 4,781.4 | 4,654.5 | 4,734.2 | 4,703.7 | -63.4 | -1% |
| - Corporate | 2,154.5 | 2,190.3 | -35.8 | -2% | 2,154.5 | 2,225.4 | 2,137.0 | 2,202.9 | 2,190.3 | -70.9 | -3% |
| - Individuals | 2,376.8 | 2,241.6 | 135.2 | 6% | 2,376.8 | 2,339.7 | 2,286.9 | 2,267.8 | 2,241.6 | 37.1 | 2% |
| - State | 186.8 | 271.7 | -85.0 | -31% | 186.8 | 216.4 | 230.6 | 263.5 | 271.7 | -29.6 | -14% |
| Impairments and valuation of loans to customers | -128.9 | -225.6 | 96.7 | 43% | -128.9 | -178.8 | -191.5 | -202.9 | -225.6 | 49.9 | 28% |
| Financial assets | 3,168.6 | 2,869.4 | 299.2 | 10% | 3,168.6 | 3,198.5 | 3,158.1 | 3,013.5 | 2,869.4 | -29.9 | -1% |
| - Trading book | 24.1 | 63.6 | -39.5 | -62% | 24.1 | 87.6 | 117.0 | 38.3 | 63.6 | -63.5 | -73% |
| - Non-trading book | 3,144.5 | 2,805.8 | 338.7 | 12% | 3,144.5 | 3,110.9 | 3,041.1 | 2,975.2 | 2,805.8 | 33.6 | 1% |
| Investments in subsidiaries, associates, and joint ventures | 353.2 | 355.5 | -2.3 | -1% | 353.2 | 355.5 | 355.5 | 355.5 | 355.5 | -2.3 | -1% |
| Property and equipment, investment property | 89.9 | 86.9 | 3.0 | 3% | 89.9 | 87.6 | 88.9 | 88.1 | 86.9 | 2.3 | 3% |
| Intangible assets | 26.0 | 23.4 | 2.6 | 11% | 26.0 | 24.0 | 22.6 | 22.1 | 23.4 | 1.9 | 8% |
| Other assets | 138.1 | 92.3 | 45.8 | 50% | 138.1 | 160.5 | 166.8 | 106.1 | 92.3 | -22.4 | -14% |
| **TOTAL ASSETS** | **9,801.6** | **8,811.0** | **990.5** | **11%** | **9,801.6** | **9,289.4** | **9,143.0** | **9,088.2** | **8,811.0** | **512.2** | **6%** |
| **LIABILITIES** | | | | | | | | | | | |
| Deposits from customers | 7,760.7 | 7,033.4 | 727.3 | 10% | 7,760.7 | 7,344.0 | 7,210.0 | 7,217.6 | 7,033.4 | 416.7 | 6% |
| - Corporate | 1,674.9 | 1,392.2 | 282.7 | 20% | 1,674.9 | 1,379.4 | 1,318.6 | 1,334.0 | 1,392.2 | 295.5 | 21% |
| - Individuals | 5,985.0 | 5,522.1 | 462.8 | 8% | 5,985.0 | 5,854.5 | 5,764.2 | 5,645.4 | 5,522.1 | 130.5 | 2% |
| - State | 100.9 | 119.1 | -18.2 | -15% | 100.9 | 110.1 | 127.2 | 238.3 | 119.1 | -9.2 | -8% |
| Deposits form banks and central banks | 89.8 | 48.9 | 40.9 | 84% | 89.8 | 85.5 | 71.4 | 66.0 | 48.9 | 4.3 | 5% |
| Borrowings | 164.1 | 248.3 | -84.2 | -34% | 164.1 | 173.8 | 238.9 | 247.7 | 248.3 | -9.7 | -6% |
| Other liabilities | 243.1 | 185.2 | 57.9 | 31% | 243.1 | 267.7 | 289.8 | 214.7 | 185.2 | -24.6 | -9% |
| Subordinated liabilities | 210.6 | 0.0 | 210.6 | - | 210.6 | 90.3 | 44.9 | 0.0 | 0.0 | 120.3 | 133% |
| Equity | 1,333.2 | 1,295.2 | 38.0 | 3% | 1,333.2 | 1,328.1 | 1,288.0 | 1,342.2 | 1,295.2 | 5.1 | 0% |
| **TOTAL LIABILITIES AND EQUITY** | **9,801.6** | **8,811.0** | **990.5** | **11%** | **9,801.6** | **9,289.4** | **9,143.0** | **9,088.2** | **8,811.0** | **512.2** | **6%** |

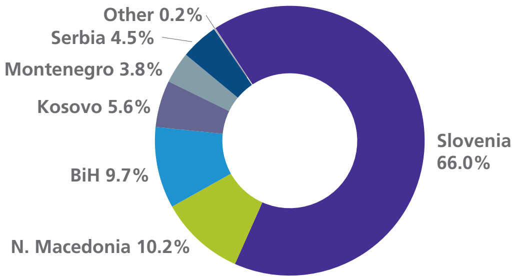
Total assets of the Group increased to EUR 14,174.1 million, mainly due to the continued inflows of deposits, which were placed mainly in liquidity reserves and partially in loans to customers.

### Assets

66% of the total assets are booked in Slovenia, while the vast majority of the remaining assets (34%) are booked in SEE countries.

The Group recorded growth in gross loan to customers (EUR 310.8 million or 4% YoY), in gross loans to individuals (EUR 287.0 million or 8% YoY) and to corporate (EUR 105.8 million or 3% YoY), while gross loans to state recorded a decrease (EUR 82.0 million or 23% YoY).

Key business activities recorded an 8% increase of gross loans to customers YoY to EUR 7,559.6 million. A YoY increase of gross loans to customers was recorded in all segments of Key business activities, Strategic Foreign Markets (EUR 229.4 million), Retail Banking in Slovenia (EUR 166.8 million, of which a EUR 38.1 million increase relates to the transfer of micro clients from the Corporate and Investment Banking in Slovenia segment), and the Key/SME Corporates (EUR 143.9 million).




* Geographical analysis based on the booking entity location.

**Figure 18: NLB Group total assets by booking entity (in %)***

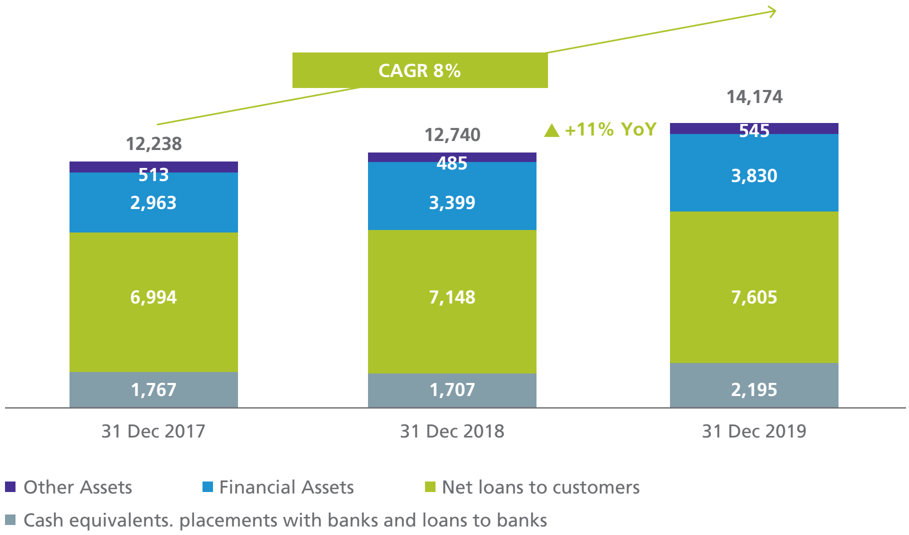
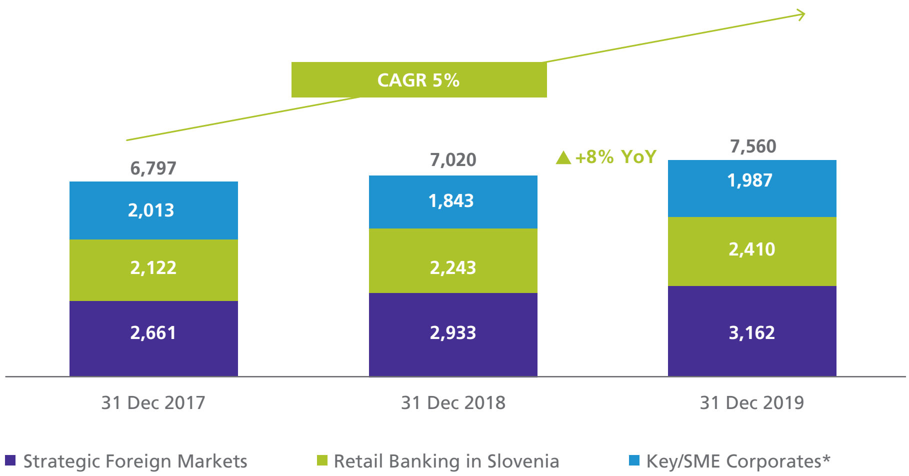
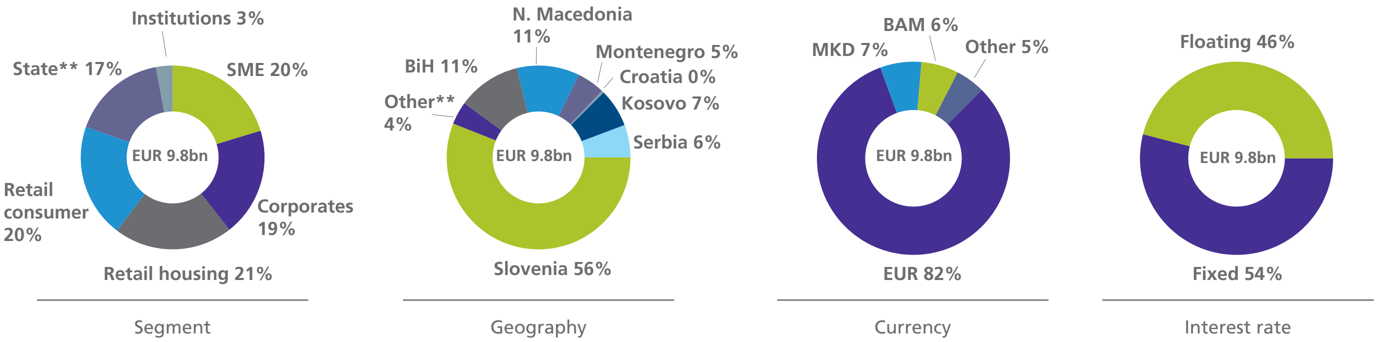



**Figure 19: Total assets of NLB Group (in EUR million) – structure**




* Including Gross loans to Corporate and to State.

**Figure 20: NLB Group gross loans to customers by Key business activities (in EUR million)**




* Loan portfolio also includes advances to banks and CBs.
** State includes exposures to CBs.
*** The largest part represent EU members.

**Figure 21: Loan portfolio* by segment, geography, currency, and rate type**

The loan portfolio of the Group is well diversified, and there are no large concentrations in any specific client segment or industry. 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, half of the loan portfolio is linked to the fixed interest rate, and the rest to floating rate (mostly to the Euribor reference rate).

### Liabilities

Total liabilities of the Group increased and amounted to EUR 12,443.2 million. The Group's funding base is dominated by customer deposits accounting for 82% in which sight deposits prevail (81%, compared to 79% as at year-end 2018). The majority of customer deposits (74%) were from individuals. 67% of deposits were collected in Slovenia, and the rest in the Group banking members in SEE.

Deposits from customers increased by 11% YoY and amounted to EUR 11,612.3 million. The increase derives mostly from deposits from individuals (EUR 717.3 million or 9%), while corporate deposit increase (19% YoY) was to a large extent related to a one-off event at the end of 2019.

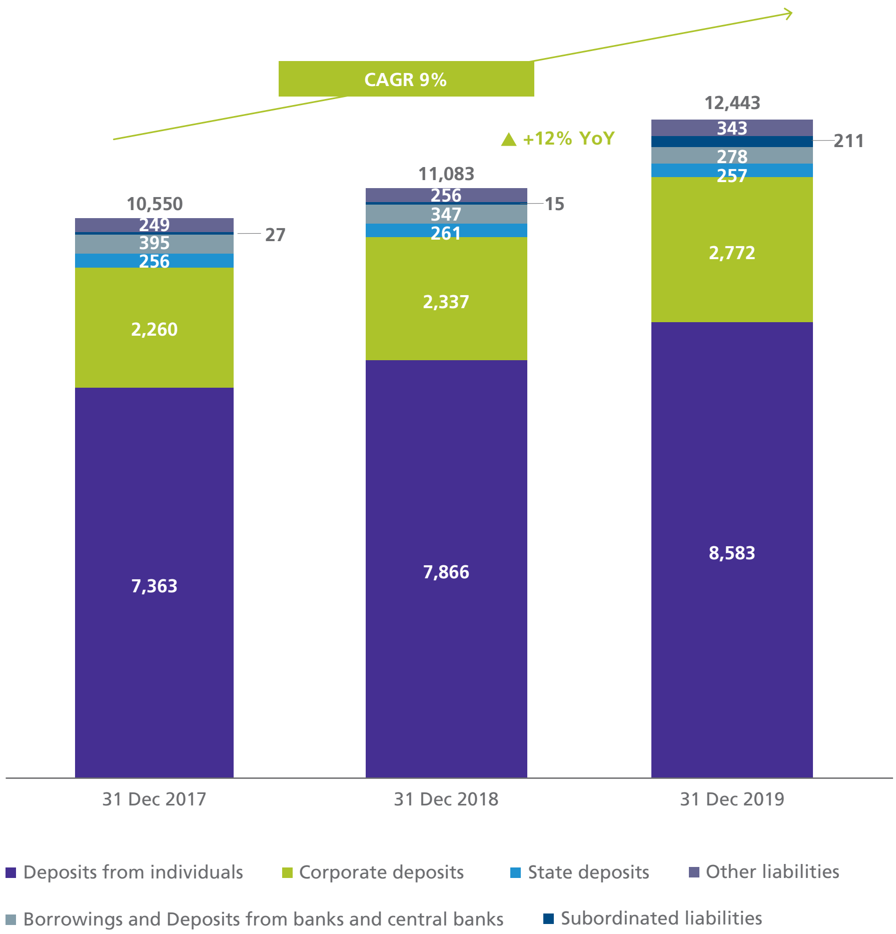



**Figure 22: Total liabilities of NLB Group – structure (in EUR million)**

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 210.6 million (carrying amount) of wholesale funding (subordinated Tier 2 instruments) to strenghten and optimise the capital position. Two Group banking subsidiaries have, due to their solid liquidity position, early prepaid two subordinated instruments in a total amount of EUR 15 million.

The LTD ratio was 65.5% at the Group level; a decrease of 2.8 p.p. YoY as a result of increased deposits, which was partially neutralized by growing, but still moderate demand for loan. As a result of the low interest rate environment, the maturity of deposits continue to shorten, while loans maturities are lengthening. That increases the maturity mismatch between investments and funding.

### Capital and capital adequacy

The Overall Capital Requirement (OCR) amounted to 14.75% for the Bank on a consolidated basis, consisting of:

- 11.25% TSCR (8% Pillar 1 Requirement and 3.25% 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 2019 was raised to 14.75%, due to the gradual phase-in of the Capital Conservation Buffer as prescribed by the law and introduction of the O-SII Buffer. In contrast, the Pillar 2 Requirement decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment. Pillar 2 Guidance (P2G) amounts to 1.0% of CET1.

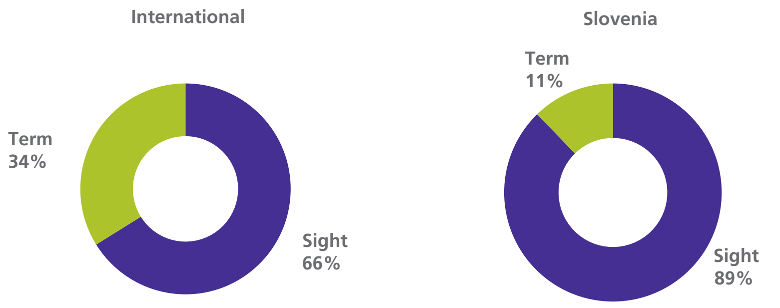



Figure 23: Deposits from customers by type

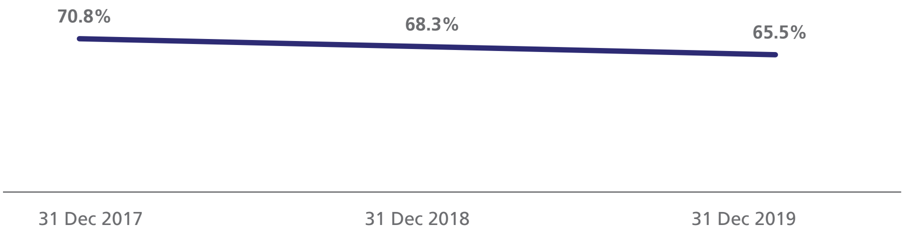



Figure 24: LTD ratio movement

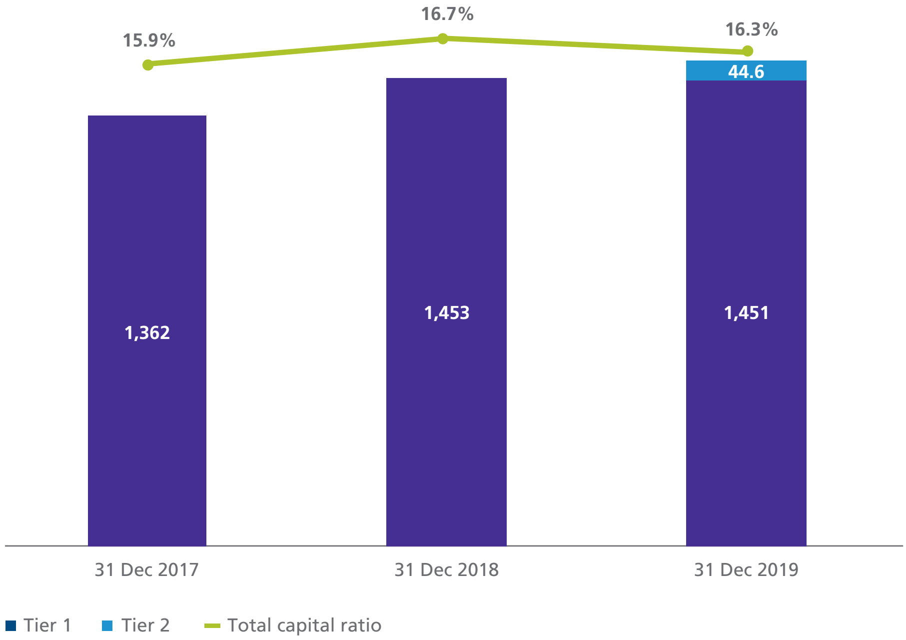



Figure 25: NLB Group capital (in EUR million) and total capital ratio (in %)

**Table 12: NLB Group Capital Requirements and buffers**

| | | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Pillar 1 (P1R) | CET1 | 4.5% | 4.5% | 4.5% |
| | AT1 | 1.5% | 1.5% | 1.5% |
| | Tier 2 | 2.0% | 2.0% | 2.0% |
| Pillar 2 (P2R) | CET1 | 2.75% | 3.25% | 3.5% |
| Total SREP Capital Requirement (TSCR) | CET1 | 7.25% | 7.75% | 8.0% |
| | Tier 1 | 8.75% | 9.25% | 9.5% |
| | Total Capital | 10.75% | 11.25% | 11.5% |
| Combined Buffer requirement (CBR) | | | | |
| Conservation buffer | CET1 | 2.5% | 2.5% | 1.875% |
| O-SII buffer | CET1 | 1.0% | 1.0% | 0.0% |
| Countercyclical buffer | CET1 | 0.0% | 0.0% | 0.0% |
| Overall capital requirement (OCR) = MDA threshold | CET1 | 10.75% | 11.25% | 9.875% |
| | Tier 1 | 12.25% | 12.75% | 11.375% |
| | Total Capital | 14.25% | 14.75% | 13.375% |
| Pillar 2 Guidance (P2G) | CET1 | 1.0% | 1.0% | 1.5% |
| OCR + P2G | CET1 | 11.75% | 12.25% | 11.375% |

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.

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

To strengthen and optimise the capital structure, the Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million on 6 May 2019; the instrument has been included in the capital since 30 June 2019. In addition to that, on 19 November 2019, the bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million, which were subject to the BoS/ECB approval process and therefore not included in the capital as of 31 December 2019.[14]

On 17 September 2019, the Bank entered into a loan agreement to raise EUR 45 million of subordinated Tier 2 debt. As the Bank had not obtained the ECB's approval to count the Tier 2 loan towards its capital by the end of 2019 and was not reasonably expected to receive it in the near future, the Bank exercised early repayment of the loan on 17 January 2020.

As at 31 December 2019, the total capital ratio for the Group stood at 16.3% (or 0.5 p.p. lower than at the end of 2018), and for NLB at 22.6% (or 1.4 p.p. lower than at the end of 2018). The Tier 1 ratio and CET1 ratio (15.8% or 0.9 p.p. lower than at the end of 2018) differs from the total capital ratio due to the subordinated Tier 2 notes issuance conducted in May. The lower NLB Group capital adequacy compared to the end of 2018 derives from higher RWA YoY (EUR 507.9 million for the Group). In June 2019, NLB paid out dividends in the total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. Total capital increased by EUR 42.4 million, mainly due to inclusion of the Tier 2 notes (EUR 44.6 million).

The RWA for credit risk increased by EUR 540.6 million YoY, mainly in the Corporate and Retail segment[15] in the amount of EUR 397.3 million due to loan growth. The decrease in RWA for market risks and CVA (EUR -20.8 million) is mainly the result of more closed positions in domestic currencies of non-euro subsidiary banks. The decrease in the RWA for operating risks (EUR -11.9 million) arose from the lower 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.

14. For further developments see chapter Events after the end of the 2019 financial year.
15. Based on COREP segmentation.

**Table 13: Total risk exposure for NLB Group (in EUR million)**

| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2017 | Change YoY |
|---|---|---|---|---|
| **Total risk exposure amount (RWA)** | **9,186** | **8,678** | **8,546** | **5.9%** |
| RWA for credit risk | 7,720 | 7,180 | 7,096 | 7.5% |
| RWA for market risks + CVA | 524 | 544 | 501 | -3.8% |
| RWA for operational risk | 942 | 953 | 949 | -1.2% |

## Liquidity position

The Group liquidity remains strong, with high level of liquid assets in total assets (46%) that is reflected in the LCR ratio standing at 325%, compared to 361% as at 31 December 2018. The Group holds a comfortable liquidity position at both the Group and subsidiary bank levels, standing well above the targeted risk appetite limit.

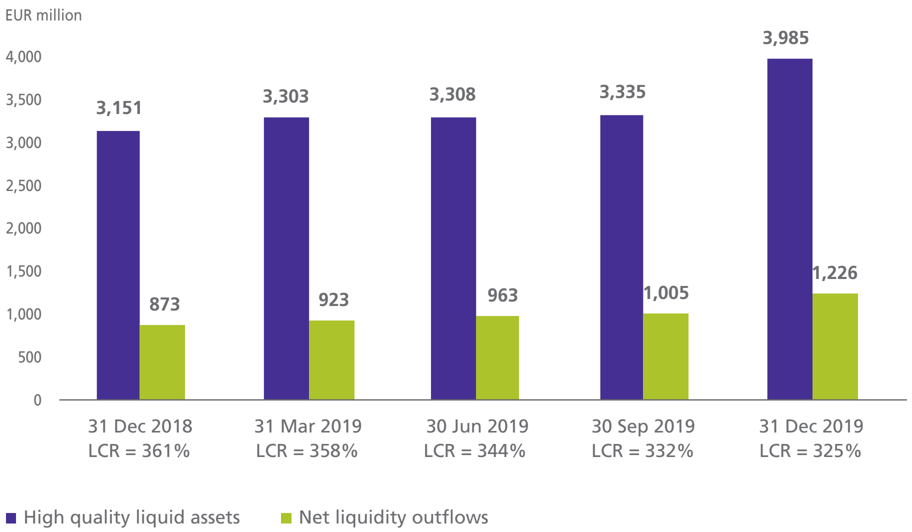



**Figure 26: LCR quarterly dynamic of NLB Group**

Chapter 7

# Regulatory Environment

During 2019, more than 200 changes in the EU and Slovenian regulatory environment were adopted and the most relevant and material effects on the Bank and the Group are the following.

Regulatory development regarding Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (BMR), which introduced a common framework to ensure the accuracy and integrity of indices used as benchmarks (e.g. EURIBOR, LIBOR) in financial instruments and financial contracts, or to measure the performance of investment funds in the Union, included Belgian Financial Services and Market Authority (FSMA) authorisation of European Money Markets Institute (EMMI) as the administrator of EURIBOR under the BMR. Consequently, EURIBOR is now considered BMR-compliant and was added to the European Securities and Markets Authority (ESMA) benchmark register. The Bank is thus also able to use EURIBOR after the end of the applicable BMR transitional period. The Working Group on Euro Risk-Free Rates, established to identify and recommend risk-free rates that could serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the Euro area, such as the euro overnight index average (EONIA) and the euro interbank offered rate (EURIBOR), published several reports, inter alia, fallback arrangements for users of the Euro short-term rate (€STR) and the introduction of €STR-based fallbacks for EURIBOR. In November 2019, the working group also published a report with high-level recommendations for fallback provisions in contracts that use a reference to EURIBOR. The ECB decided to develop a €STR to reflect the wholesale euro unsecured overnight borrowing costs of Euro area banks. The €STR was published for the first time on 2 October 2019. Accordingly, the Bank took action to include new circumstances in the appropriate documentation and processes.

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons regarding the processing of personal data and on the free movement of such data, and repealing Directive 95/46 /EC (GDPR) was published already in May 2016 and was applicable from May 2018. The Bank ran several implementation activities to ensure that its business and personal data protection system were aligned with the GDPR requirements. The new Slovenian Personal Data Protection Act (ZVOP-2), regulating additional requirements on the protection of personal data, was not adopted in 2019 and a new proposal was prepared by the Government, which means additional implementation activities are expected in 2020 when ZVOP-2 will be adopted (depending on final wording of the new law, setting additional requirements to the ones set by GDPR).

In February 2019, the EBA published the revised Guidelines on Outsourcing Arrangements that reviewed the existing CEBS Guidelines on outsourcing published in 2006. The aim of the Guidelines is to specify which arrangements with third parties are to be considered as outsourcing. The Guidelines differentiate between the requirements on critical and important outsourcing arrangements and other outsourcing arrangements. The new Guidelines, which are consistent with the requirements on outsourcing under the Payments Services Directive (PSD2), the Markets in Financial Instruments Directive (MiFID II), and the Commission's Delegated Regulation (EU) 2017/565, aim at ensuring that institutions can apply a single framework on outsourcing for all their banking, investment, and payment activities and services.

Also in February 2019, the Slovenian national assembly passed the Act Amending the Insurance Act, which transposes the Directive 2016/97 on the distribution of insurance products (IDD) into Slovenian law and regulates the concepts relating to the distribution of insurance products. The Bank ran several implementation activities to ensure compliance with the new requirements.

In May 2019, the Ministry of Economic Development and Technology published the proposal of the amended Companies Act that transposes the Directive (EU) 2017/828 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement into the Slovenian legislation. The proposed amendments will include provisions regarding the exercise of shareholders' rights (the rights and obligations arising from shares in relation to the company, provision of information, and instructions for exercising rights, processing of personal data of shareholders, etc.). The act is expected to be adopted by the end of 2020.

Furthermore, in June 2019 the banking reform package was adopted which further implements material elements of the Basel III framework. The key changes introduced by the banking reform package which was proposed in 2018 consists of the following two regulations and two directives: the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012; the Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures; the Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC and the Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms.

The Bank is subject to these capital adequacy and liquidity rules imposed by the EU (including the Capital Requirements Directive 2013/36/EU as amended by Directive 2019/878 'CRD V' and the Regulation (EU) No 575/2013 as amended, replaced, or supplemented from time to time (including as amended by Regulation 876/2019 'CRR2')), which govern the activities in which banks may engage and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. Despite the fact that the majority of the new provisions apply from June 2021, the Bank started its implementation activities to ensure the timely implementation of CRR2 provisions. The national legislation regulating further rules set under the CRD V (i.e., Zakon o bančništvu, the Banking Act) and BRRD 2 (Zakon o reševanju in prisilnem prenehanju bank; ZRPPB) is expected to be adopted in December 2020.

The Payment Services, Services of Issuing Electronic Money, and Payment Systems Act (Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih) (the 'Payments Act') transposing European-wide PSD2 requirements, came into force on 22 February 2018. Regulatory Technical Standards on strong customer authentication and secure communication under PSD2 were published in the EU's Official Journal on 13 March 2018, and fully applied from 14 September 2019. Compliance with the Payments Act and the Regulatory Technical Standards required major changes of the Bank's IT systems.

To minimise the effects of excessive lending to consumers, the BoS adopted the Regulation on macroprudential restrictions on household lending, which entered into force on 1 November 2019. The aim of the measure is to mitigate and prevent excessive credit growth and leverage. The regulation sets out two binding macroprudential instruments: a cap on the ratio of the annual debt servicing costs to the consumer's annual income (DSTI) when the loan agreement is concluded, and limits on maturity. The regulation also sets out a non-binding macroprudential instrument, which is a recommendation regarding a cap on the ratio of the amount of a credit agreement for residential real-estate to the value of the real-estate pledged as collateral (LTV) when the credit agreement is concluded. Through these two macroprudential instruments, the BoS applied binding minimum credit standards to housing loans and consumer loans, and at the same time repealed pre-existing non-binding macroprudential instruments.

In November 2019, the Ministry of Finance published a proposal of the amendment to the Anti-Money Laundering and Terrorist Financing Act, which is necessary to transpose the Directive (EU) 2018/843 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing into the Slovenian legislation. This Directive (the so-called 5th Anti-Money Laundering Directive) aims not only to detect and investigate money laundering, but also to prevent it from occurring. The key changes to the Directive (EU) 2015/849 involve broadening access to information on beneficial ownership and improving transparency in the ownership of companies and trusts, addressing risks linked to prepaid cards and virtual currencies, cooperation between financial intelligence units and improved checks on transactions involving high-risk third countries, as well as improved identification of customers and verification of customer's identity.

The new Prospectus Regulation (Regulation (EU) 2017/1129) was published in the Official Journal of the EU 30 June 2017 and entered into force on 20 July 2017. The Regulation has from 21 July 2019 essentially repealed and replaced the Prospectus Directive (EU Directive 2003/71/EC) and all related level 2 measures, and as an EU regulation, is directly effective across all EU member states without any requirement for implementation into national law. Additional national implementing acts will be adopted regarding certain provisions related to, among others, the scope and exemption of the new regime, the designation of competent authorities, their powers, and the sanctioning regime.

Chapter 8

# Segment Analysis

Segments of the 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, as well as the results of the jointly-controlled company NLB Vita and the associated company Bankart.
- Corporate and Investment Banking in Slovenia, which includes banking with Key corporate clients, SMEs, Investment Banking, and Restructuring and workout.
- Strategic Foreign Markets, which include the operations of strategic Group banks in strategic markets (BiH, Montenegro, Kosovo, North Macedonia, and Serbia).
- 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 include for the Banks categories whose operating results cannot be allocated to specific segments.

Non-core Members include the operations of non-core Group members according to the EC commitments, REAM entities, NLB Srbija and NLB Crna Gora.

From 2019, some shifts in the reporting of business segments have been applied, following the completion of the restructuring process imposed by the EC and also reflecting strategic streamlining of business operations within the corporate segment as follows:

- The results from Investment Banking and Custody services have been transferred from Financial Markets in Slovenia to the enlarged Corporate and Investment Banking in Slovenia.
- Micro clients in Slovenia have been transferred from Corporate and Investment Banking in Slovenia to Retail Banking in Slovenia.
- Corporate exposures previously reported in Non-Core markets and activities have been transferred to Corporate and Investment Banking in Slovenia given that special reporting requirements from the EC commitments have ceased to apply. The remaining segment has been renamed to Non-Core members and contains non-core subsidiaries mostly in liquidation.
- Further, the SPVs established for NPLs from banks in Serbia and Montenegro (NLB Srbija, and NLB Crna Gora), have been transferred from Strategic Foreign Markets to Non-Core members.

Due to the new methodology, the segment results for 2019 are not directly comparable to the segment results from the previous year. The table below presents the estimated effects due to the segment changes for the full year 2018.

**Table 14: Estimated effects of the segment methodology changes for 2018**

| in EUR million | Retail banking in Slovenia | Corporate and Investment banking in Slovenia | Strategic foreign markets | Financial markets in Slovenia | Non-core members | Other |
|---|---|---|---|---|---|---|
| Net interest income | 3.1 | 1.8 | 0.5 | -0.3 | -5.1 | |
| Net non-interest income | 4.6 | 2.3 | -1.8 | -8.2 | 3.2 | |
| Total costs* | -6.1 | -4.4 | 1.4 | 6.1 | 3.0 | no effects |
| Impairments and provisions* | -0.9 | 6.6 | 1.4 | 0.0 | -7.1 | |
| Result before tax | 0.7 | 6.3 | 1.5 | -2.4 | -6.1 | |
| Total assets | 37.1 | -9.5 | -43.5 | 47.9 | -32.1 | |
| Gross loans to customers | 38.1 | 111.8 | -69.0 | -0.1 | -80.8 | no effects |
| Deposit from customers | 188.1 | -107.6 | 0.0 | -71.0 | -9.6 | |

*negative value=increase, positive value=decrease

Chapter 9

# Retail Banking in Slovenia

**The Bank maintains a leading position in retail banking, which is proven by market share in loans and deposits. The vast branch network is supported by digital solutions and an offer of comprehensive products and services, preparing the Bank for future challenges. The Bank is committed to enhancing customer experience, and so standardised services are being simplified, and the Bank is available to customers through various channels 24/7. Personal interactions in branches are focused on more complex transactions and advisory services.**

The segment achieved profit before tax in the amount of EUR 47.5 million, or 16% higher YoY, due to higher net interest and net non-interest income.

Net interest income was 10% higher YoY due to higher interest rates and growth in volume of gross loans in the amount of EUR 166.8 million YoY, of which EUR 38.1 million increase relates to the transfer of micro clients from the Corporate and Investment Banking in Slovenia segment. The production of new consumer loans amounted to EUR 368.6 million (EUR 336.2 million in 2018), which led to an increase of balance of EUR 89.3 million YoY. Housing loans increased by EUR 50.5 million YoY. The share of consumer loans in all gross loans increased to 29% (from 27% at the end 2018).

The segment recorded EUR 78.2 million of net non-interest income, EUR 11.1 million (17%) increase YoY; EUR 8.8 million due to an increase in net fee and commission income, of which EUR 0.5 million increase is related to mutual funds and EUR 0.6 million to bancassurance business. The effect of the transfer of micro clients from Corporate and Investment Banking in Slovenia to Retail Banking in Slovenia segment is assessed to amount to EUR 4.6 million.

Considering the effect of the change in segment presentation (approximately EUR 6.1 million) the total costs were EUR 10.6 million higher YoY.

The presentation of the increase in deposits from customers YoY (EUR 641.7 million) is mostly due to an increase in demand deposits from retail clients and transfer of micro clients from the Corporate and Investment Banking in Slovenia segment (EUR 188.1 million).

### Clients

728,691
clients in total

644,003
active clients

472,409
payroll clients*

4,924
new clients joined the Bank in 2019

*payroll or/and pension

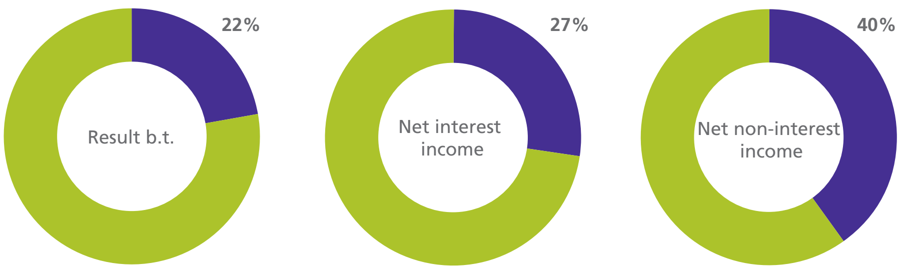
### Digital services

43.8%
digital users

228,557
mobile bank users

74.3%
contactless payments

## Contribution to NLB Group




■ **Retail banking in Slovenia**

**Figure 27: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

## Highlights:

- **Klikin and NLB Klik were ranked first among mobile or online banks in Slovenia.**
- **NLB Pay mobile wallet with digitised Maestro, Mastercard, and Visa cards enabling paying, cash withdrawal, and cards' management.**
- **Largest player in private banking.**
- **NLB Skladi, is the largest mutual funds company on the Slovenian market with a market share over 34%, also implemented a mobile application for easy and simple review of saved funds.**

**Table 15: Performance of the Retail Banking in Slovenia segment**

in EUR million consolidated

| | 2019 | 2018 | Change YoY | |
|---|---|---|---|---|
| Net interest income | 87.4 | 79.3 | 8.1 | 10% |
| Net non-interest income | 78.2 | 67.1 | 11.1 | 17% |
| o/w Net fee and commmission income | 81.9 | 73.2 | 8.8 | 12% |
| **Total net operating income** | **165.6** | **146.4** | **19.2** | **13%** |
| Total costs | -117.9 | -107.3 | -10.6 | -10% |
| **Result before impairments and provisions** | **47.7** | **39.1** | **8.6** | **22%** |
| Impairments and provisions | -4.4 | -3.7 | -0.7 | -19% |
| Net gains from investments in subsidiaries, associates, and JVs' | 4.2 | 5.4 | -1.2 | -23% |
| **Result before tax** | **47.5** | **40.9** | **6.6** | **16%** |
| | **31 Dec 2019** | **31 Dec 2018** | **Change YoY** | |
| Net loans to customers | 2,385.1 | 2,217.4 | 167.7 | 8% |
| Gross loans to customers | 2,410.2 | 2,243.4 | 166.8 | 7% |
| Housing loans | 1,425.0 | 1,374.6 | 50.5 | 4% |
| *Interest rate on housing loans* | 2.54% | 2.50% | 0.04 p.p. | |
| Consumer loans | 688.3 | 599.0 | 89.3 | 15% |
| *Interest rate on consumer loans* | 6.33% | 5.88% | 0.45 p.p. | |
| Other | 296.9 | 269.9 | 27.0 | 10% |
| Deposits from customers | 6,456.2 | 5,814.5 | 641.7 | 11% |
| *Interest rate on deposits* | 0.05% | 0.08% | -0.03 p.p. | |
| Non-performing loans (gross) | 40.8 | 43.0 | -2.2 | -5% |
| | **2019** | **2018** | **Change YoY** | |
| Cost of risk (in bps) | 19 | 17 | 2 | |
| CIR | 71.2% | 73.3% | -2.1 p.p. | |
| Interest margin | 2.04% | 2.02% | 0.02 p.p. | |

Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year.

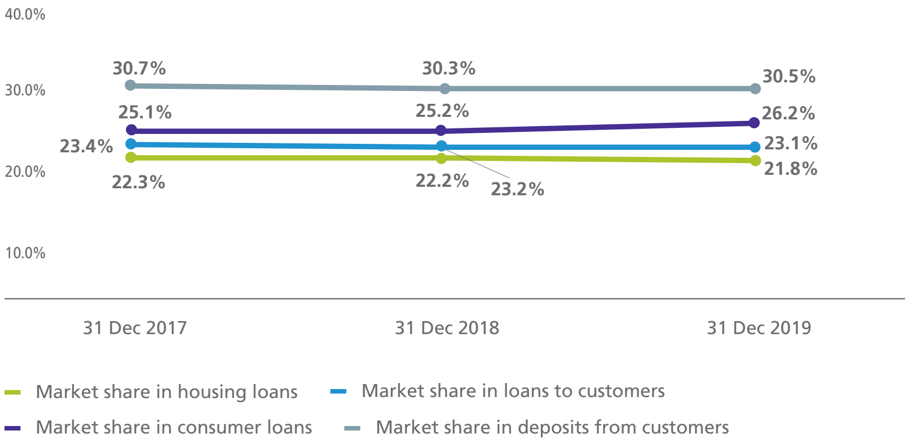



Figure 28: NLB's market share in retail banking in Slovenia

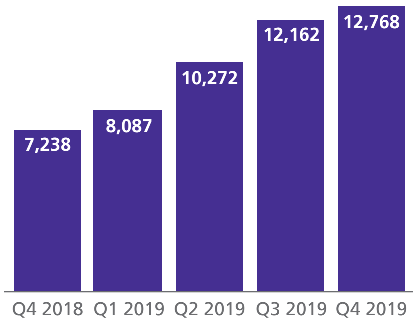



Figure 29: Use of the video call functionality (no. of contacts)

### Market leader in retail banking in Slovenia

The Bank's main sales channel remains the largest branch network in Slovenia with 93 branches, and is supported with the largest ATM network (551 or a 35.7% market share in Slovenia) of which 327 are contactless (59.3% of the Bank's ATM network). In addition to intensive digitalisation efforts, the branch offices are being refurbished to enhance customers' experience. In 2019, the Bank finished the refurbishment (complete or partial) of seven branch offices.

Digital sales channels are gaining prominence, and the Bank is a market leader in providing customers opportunities to do business. The Bank can be reached through the NLB Contact Centre 24/7, the largest and only 24/7 bank contact centre in Slovenia that has been operating for 25 years, being able to advise customers on banking products, and concluding certain banking transactions. NLB is the only bank in Slovenia to offer video call service 24/7. This service has already been available for two years. With video call, the digital experience is getting closer to the classic branch office, which can also be noticed in the large pickup (119% increase YoY) in the use of this channel. The Bank has also adapted the video call for users with a hearing disability by the presence of an interpreter, which makes it easier to perform basic banking services and enables them to be more involved in the hearing world.

### Cards and payment solutions

The mobile wallet, NLB Pay, enables clients with digitised Maestro, Mastercard, and Visa cards to make payments at POS terminals and to withdraw cash from contactless ATMs in and outside Slovenia. Beside cash withdrawal, NLB Pay also enables checking of a user's balance of the remaining limit of Maestro, MasterCard, and Visa cards. The user can also define the limitations on ATMs and e-commerce usage and usage outside Slovenia. With these upgrades of the application, the Bank ensures even greater user experience and increases the safety of the cards' operations. Almost 13 thousand users have already downloaded the app, and in 2019 carried out over 350 thousand transactions (a 151% increase YoY) in a total volume of over EUR 8 million (182% increase YoY) with more than 20 thousand digitised cards. NLB Pay is also being implemented in other Group banks.

Payments with contactless and digitised cards is even faster and easier with the limit of a single payment without a PIN being increased from EUR 15 to EUR 25 with no effect on the safety of the payments.

The Bank's card market share represents 27.2% (2018: 28.3%) of the Slovenian market. Individuals' debit and credit card volumes of payment transactions represented a total of EUR 2,269 million (2018: EUR 2,078 million), and cash withdrawals in the total of EUR 2,556 million (2018: EUR 2,531 million).

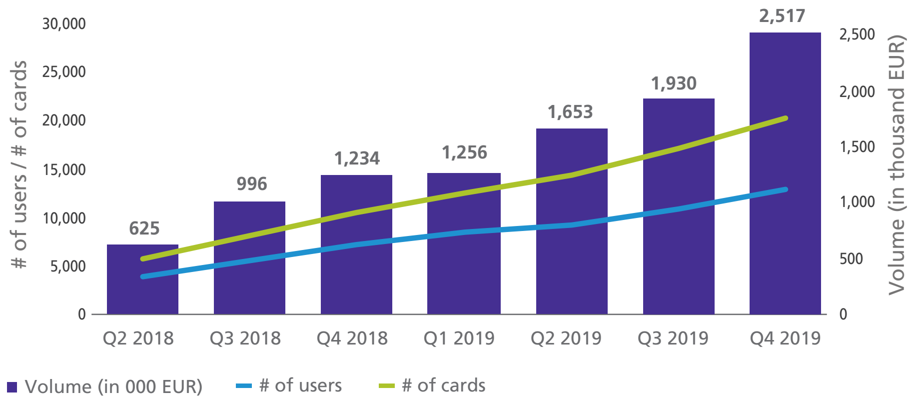



Figure 30: NLB Pay in numbers

### Private banking

Private banking has the leading position among private banking providers in Slovenia, with an increasing number of clients (6% YoY) and assets under management (21% YoY).

### Enchancing the banking experience of the clients

The Bank is the leader in the Slovenian market because of the knowledge, experience, and understanding of customers' needs with many solutions, thus paving the way for new customers and changing customer habits. The Bank provides customers the right solutions at the right time and place, thus meeting their needs. Customers' experience is also elevated to higher levels with experienced and well-trained personal advisors. Every year the expertise and level of service is confirmed by the customer satisfaction index, especially in the satisfaction of attitudes toward customers and user experience, which also includes digital services (2019 Valicon Client Satisfaction Survey).

Most of the customers already have the packages providing them with transparent, modern and simple daily banking services. The Bank also strongly encourages the clients to use paperless solutions with e-statements being available to all clients free of charge from Q1 2019 on.

The overview of the costs the customers incur by using banking services have been greatly simplified with the introduction of banking packages, namely, clients know exactly what services their package contains and how much they will pay for them. This information is even clearer and transparent with the implementation of annual statement with an overview of costs.

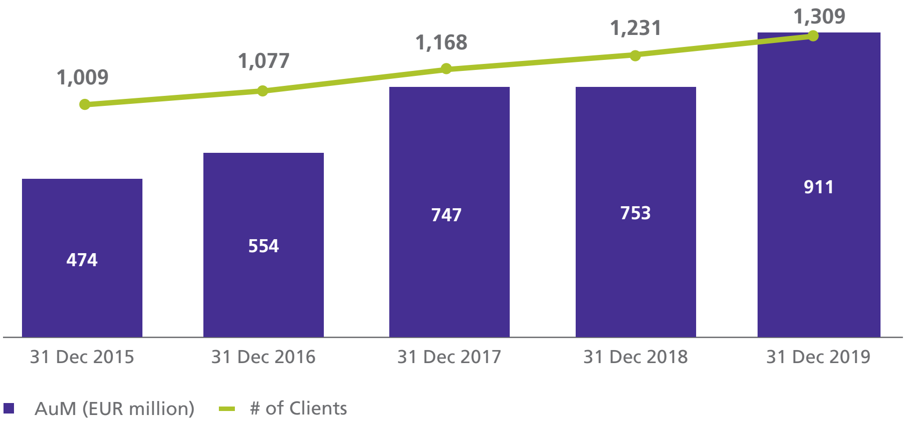



**Figure 31: Assets under management and the number of private banking clients**


**Figure 32: Satisfaction with the attitude towards customers**

## Moving to digital

Digitalisation trends place the emphasis on the use of mobile phones, which is why the Bank focuses on improving the user experience through mobile devices. The total number of mobile bank Klikin users increased by 28% YoY (to 35.4% of the Bank's customers), thus quickly becoming a preferred way to conduct banking business with the Bank.

According to the analysis of an independent market evaluation (mBančništvo v Sloveniji 2019, performed by E-laborat), the Bank remained the most digitally developed bank in Slovenia with a focus on user-friendly business, and with the online bank NLB Klik and the mobile bank Klikin ranking first among comparative banks in Slovenia.

## Ancillary businesses complementing banking products

NLB Skladi, the largest asset and mutual funds management company in Slovenia, increased its market share to 34.02% (31 December 2018: 32.11%), and was also ranked first in the amount of net-inflows (EUR 87.6 million) in an environment where some of other asset management companies experienced net outflows. Total assets under management were EUR 1,513.8 million (31 December 2018: EUR 1,215 million) of which EUR 1,023.8 million consisted of mutual funds (31 December 2018: EUR 792.8 million) and EUR 490.0 million in the discretionary portfolio (31 December 2018: EUR 422.5 million). In July 2019, a new mobile application was implemented which makes it possible to easily and safely view the balances of saved funds, view the history of payments, simulate potential tax liabilities, have access to publications, and edit personal information.

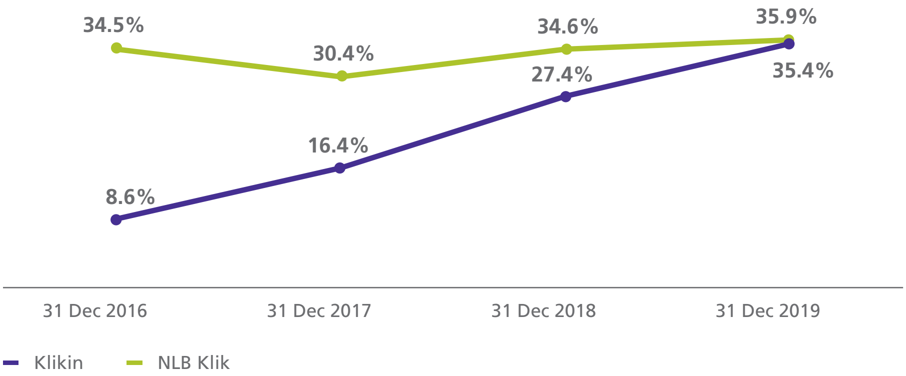



**Figure 33: Online and mobile banking penetration**

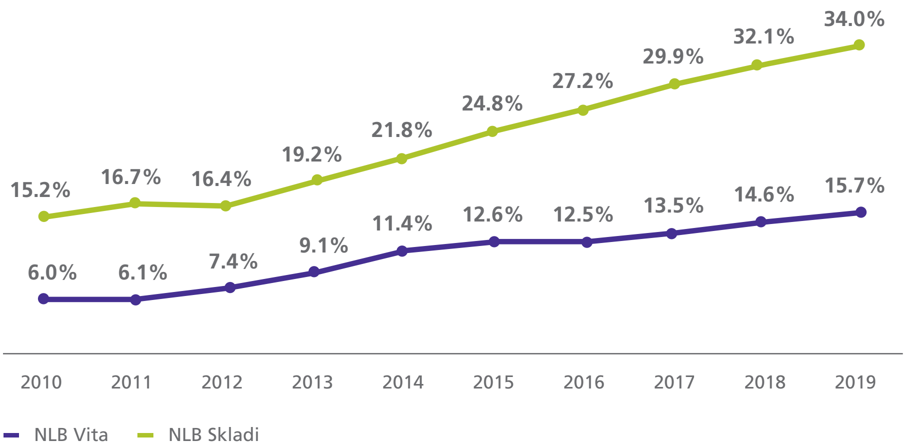



**Figure 34: NLB Skladi and NLB Vita (traditional life products) market share evolution**

NLB Vita[16] was ranked third among classic life insurance companies in Slovenia, with an increased market share excluding pension companies of 15.7% (31 December 2018: 14.6%). The company charged EUR 84.6 million in gross written premiums (a 10% increase YoY; 2018: EUR 76.9 million), of which EUR 80.4 million was in life insurance (2018: EUR 73.1 million), with an estimated balance sheet of EUR 557 million (31 December 2018: EUR 459 million).

In cooperation with the insurance company GENERALI Zavarovalnica d.d., the Bank provides non-life insurance products to the Bank's clients, including car and home insurance. In 2019, 12.5% more polices were acquired YoY. The gross written premium amounted to EUR 3.88 million (2018: EUR 3.38 million), representing a 15% increase YoY.

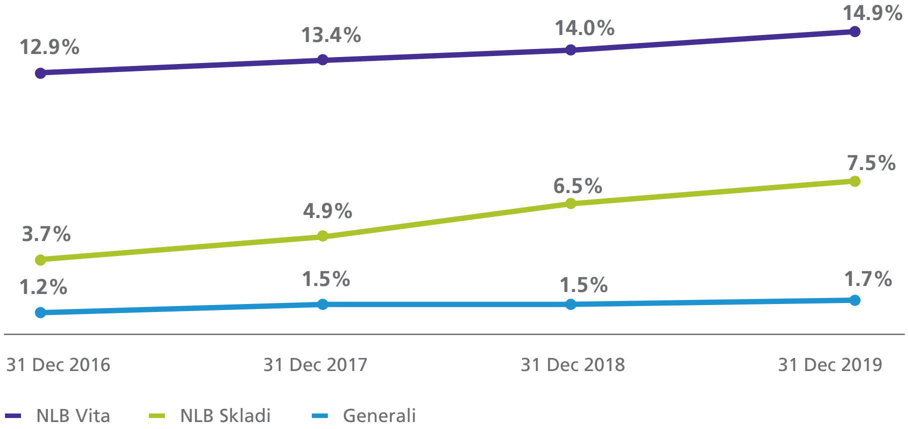



**Figure 35: Customers' penetration of ancillary business**

35.7%
ATMs market share

EUR 1,513.8 million
of NLB Skladi's assets under management

16. NLB sold the company on 27 December 2019 within the efforts to satisfy commitments imposed by the EC.

Chapter 10

# Corporate and Investment Banking in Slovenia

The Bank's strategic focus remained the development of relevant solutions through a genuine understanding of the clients' needs. With this developing partnership relationship, the Bank is a reliable partner to all corporate segments, not only in Slovenia, but also in the wider NLB Group home region – the region where the Group operates through its banking subsidiaries. The Bank offers a full spectrum of financial services to its clients, including lending, cash management, payment services, trade finance, as well as capital markets advisory services, and continues to provide support by using traditional and digital solutions.

The segment realised profit before tax in amount EUR 56.8 million, 6% decrease YoY.

Net interest income decreased EUR 5.3 million YoY, mostly due to decrease in balances in restructuring and workout loans and partialy because of lower interest margins. EUR 89.9 million increase of gross loans to customers was affected by the change in segment presentation in net amount of EUR 111.8 million (EUR 149.8 million due to transfer from NLB Non-Core and EUR -38.1 million from the transfer of micro clients to Retail Banking in Slovenia). Key and SME clients recorded the growth in gross loans mostly due to production of new long-term loans, especially in H2 2019.

The gross loans to state recorded a decrease of EUR 32.5 million YoY.

Net fee and commission income increased EUR 2.5 million YoY, of which most represents the effect of the change in segment presentation (positive effects of EUR 6.2 million and EUR 0.8 million due to inclusion of Investment Banking and previously non-core corporate exposures in this segment, respectively, and negative effect of EUR -4.8 million due to the transfer of micro clients to Retail Banking in Slovenia segment).

Total costs increased EUR 1.5 million YoY, mostly due to the change in segment presentation (EUR 4.4 million).

Impairments and provisions were released in the amount of EUR 21.0 million as a result of successful restructuring and sale of pledged real-estate.

**Corporate clients**

44,075
clients in total

36,028
active clients

1,121
new clients joined the Bank in 2019

**Investment Banking**

EUR 285 million
of syndicated loans

EUR 980 million
buy and sell orders

EUR 778 million
FX spot deals

EUR 14.8 billion
assets under custody

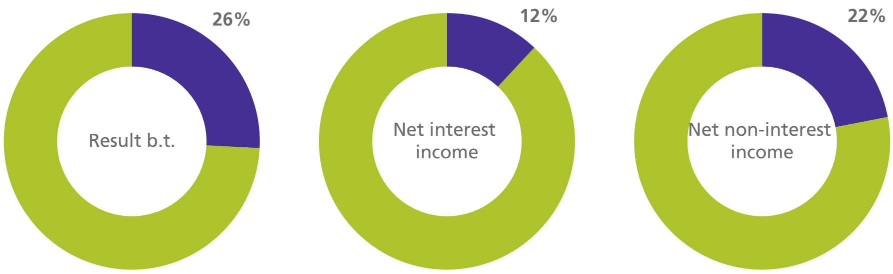
**Digital services**

36,482
digital users

20,921
mobile bank users

36.6%
market coverage with POS terminals

## Contribution to NLB Group




■ Corporate and Investment Banking in Slovenia

**Figure 36: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

## Highlights:

- The Bank actively exploits cross-border opportunities.
- The new online application for purchase of receivables (NLB *Odkup terjatev*) simplifies access to short-term financial sources.
- Increased presence on debt capital markets by arranging over EUR 400 million of securities issues for Slovenian issuers on domestic and international markets.

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

in EUR million consolidated

| | 2019 | 2018 | Change YoY | |
|---|---|---|---|---|
| Net interest income | 37.3 | 42.5 | -5.3 | -12% |
| Net non-interest income | 43.0 | 34.1 | 8.8 | 26% |
| o/w Net fee and commmission income | 32.4 | 29.9 | 2.5 | 8% |
| **Total net operating income** | **80.2** | **76.7** | **3.6** | **5%** |
| Total costs | -44.4 | -43.0 | -1.5 | -3% |
| **Result before impairments and provisions** | **35.8** | **33.7** | **2.1** | **6%** |
| Impairments and provisions | 21.0 | 26.6 | -5.6 | -21% |
| **Result before tax** | **56.8** | **60.4** | **-3.5** | **-6%** |
| | **31 Dec 2019** | **31 Dec 2018** | **Change YoY** | |
| Net loans to customers | 2,049.6 | 1,950.4 | 99.2 | 5% |
| Gross loans to customers | 2,150.9 | 2,061.0 | 89.9 | 4% |
| Corporate | 1,976.8 | 1,854.4 | 122.4 | 7% |
| Key/SMECorporates | 1,819.3 | 1,643.2 | 176.1 | 11% |
| *Interest rate on Key/SME Corporates loans* | 1.82% | 1.88% | -0.06 p.p. | |
| *Investment banking** | 0.1 | 0.1 | - | |
| Restructuring and Workout | 157.4 | 211.2 | -53.8 | -25% |
| State | 173.6 | 206.1 | -32.5 | -16% |
| *Interest rate on State loans* | 1.88% | 1.69% | 0.19 p.p. | |
| Deposits from customers | 1,299.1 | 1,120.8 | 178.3 | 16% |
| *Interest rate on deposits* | 0.07% | 0.07% | 0.00 p.p. | |
| Non-performing loans (gross) | 128.7 | 179.7 | -51.1 | -28% |
| | **2019** | **2018** | **Change YoY** | |
| Cost of risk (in bps) | -103 | -135 | 32 | |
| CIR | 55.4% | 56.0% | -0.6 p.p. | |
| Interest margin | 2.20% | 2.61% | -0.41 p.p. | |

Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year.
*Investment Banking was shown as separate part of this segment before 2019. Profit before tax of Investment Banking for year 2018 in amount EUR 2.4 million.

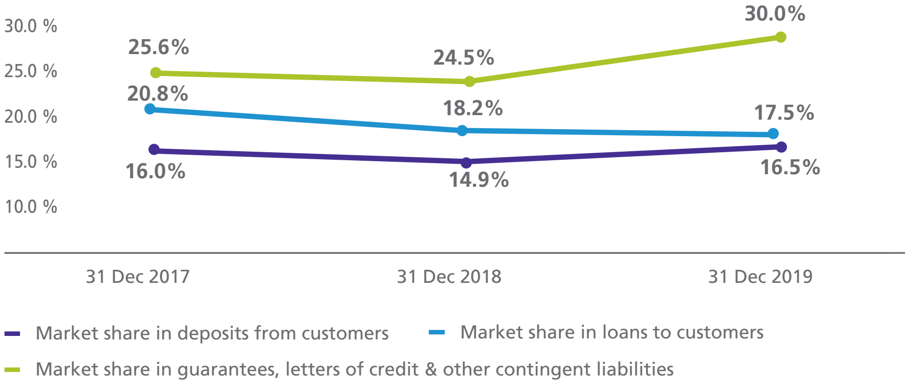



**Figure 37: NLB's market share in corporate banking in Slovenia**

## Market leader focusing on customers' needs

The Bank is 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.

The Bank is focused on the small and mid enterprises segment, and actively exploits business opportunities in SEE in the large corporate segment. After several years of key corporates portfolio decline, mainly due to EC Committments, in 2019 an increase of the loan portfolio was recorded, based also on transactions in cross-border lending. One of the Bank's key objectives remains quality before quantity, and personal engagement with customers to understand their opportunities and risks.

The Bank offers a full spectrum of financial services to its clients, including lending, cash management, payment services, as well as capital markets advisory services.

The Bank is also recognisable in the field of trade finance supporting export economy in international markets. It provides a wide range of trade finance products where special attention is given to letter of guarantees by which the Bank supports major infrastructure projects in Slovenia and the wider home region. For exporters 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. The stronger market position reflects an active advisory approach to the Group customers.

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.

The Bank is available to its clients via various traditional and digital channels, where less complex transactions are being handled with the use of e- and m-banking apps.

The Bank has been organising business educational meetings with the companies for the sixth consecutive year. How we will do business and work in the future was the topic of the 2019 meeting, where the Bank brought together companies and leading experts in Slovenia to jointly find solutions for the business challenges they face in their daily operations.

## International corporate business opportunities in home region and across the EEA

The Bank concluded several transactions (in the total amount of EUR 126 million) in SEE. With those facilities, the Bank and respective Group members further solidified their position as key regional banking partner in its home region with a complete range of corporate and investment banking services.

In addition to the home region financing, the Bank's opportunity is also participation in selective syndication loan facilities across the EEA.

## Digitalisation of product offering

A fully digitised and user-friendly online application for the purchase of receivables (NLB *Odkup terjatev*) was made available to companies. It offers quick and simple access to short-term financial sources without additional borrowing.

The number of Klikpro users also continued to grow with a 21% YoY increase. This digital channel and the functionalities it offers, including Express Loan and Express Overdraft up to EUR 30,000 with no additional documentation, collateral, or required visits to the bank's office, are well accepted by the clients. In accordance with the European PSD2 Regulation, which among others also stipulates further enhancement of the security for clients when executing payment services, the NLB Proklik and Klikpro applications were upgraded.

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. NLB Pay also enables installment payments.

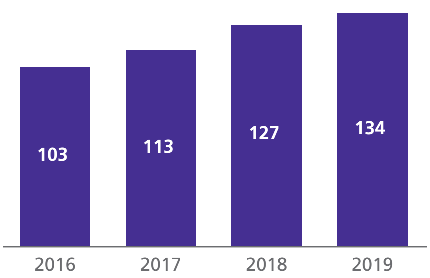



**Figure 38: Transaction volume of NLB business cards (in EUR million)**

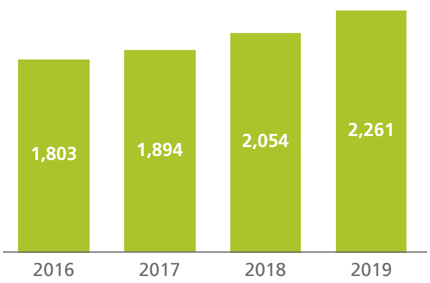



**Figure 39: Transaction volume at NLB POS (in EUR million)**

### Investment banking and securities services

The Bank arranged, as a lead manager, EUR 444 million worth of issuance in debt instruments for Slovenian clients, which were placed with domestic and international investors. The Bank, acting as a mandated lead arranger, organised syndicated loans in a total amount of EUR 285 million. The Bank was active in M&A and other financial advisory engagements, where as the sole financial advisor it successfully organised several takeover bids. Within the scope of brokerage services, the Bank executed clients' buy and sell orders in a total amount of EUR 980 million (2018: EUR 954 million), while in the area of dealing in financial instruments the Bank executed FX spot deals in a total amount of EUR 778 million (2018: EUR 855.6 million) and for EUR 310 million (2018: EUR 434 million) worth of deals with derivatives.

In custody services for Slovenian and international investors, the Bank remains the leading provider of such services in Slovenia. The total value of assets under custody, together with the fund administration services is EUR 14.8 billion (2018: EUR 15.9 billion).

### Payments, cards, and merchants acquiring drive resilient corporate fee income

The Bank maintains its position in business cards, and increased its business volume growing 5% YoY in a challenging business environment, including new technologies (e.g. mobile payments) implemented by fintechs. Key initiatives remain pay-later payment cards with an installment functionality, and the introduction of the mobile payment solution NLB Pay.

The Bank is a leader in merchant-acquiring by accepting Visa, MasterCard, Maestro, and Karanta cards, and being the first Slovenian bank with a 100% contactless POS network, with a 36.6% market share in merchants acquiring.

Chapter 11

# Strategic Foreign Markets

The core part of the Group in foreign markets consists of six banks. They are locally recognised as important financial institutions and/or market leaders in segments or innovation. They have a stable market position and have earned a strong reputation. Improvements in efficiency, gradual progress on innovation, and successful implementation of group-wide initiatives have led to continuous and profitable growth in regular business. The market shares of subsidiary banks exceed 10% in four out of six markets. The core members of the Group in foreign markets, key profit generation units, posted a profit before tax of EUR 92.9 million. The contribution to the Group results before tax of the Strategic Foreign Markets was 43%. The total net operating income of all banks amounted to EUR 210.4 million. This is the result of strong growth in loan production, especially in the retail segment with the double-digit growth rates recorded in four out of six banks, improved cost efficiency, and commitments to client-centric digital solutions, talent management, and active engagement in social responsibility initiatives.

The year was successful for all bank members of the Group in foreign markets – all of them posted a profit before tax in the total amount of EUR 92.9 million (2018: EUR 99.7 million), including the result of minority shareholders. The 7% decrease YoY was due to a one-off effect of the sale of NLB Nov penziski fond, Skopje in Q1 2018.

The increase of net interest income by EUR 7.4 million YoY was recorded on behalf of the higher volume (EUR 229.4 million increase of gross loans to customers YoY), despite the decreasing trend of interest margins.

Net non-interest income decreased by EUR 11.0 million YoY, mostly due to a one-off positive effect of the sale of NLB Nov penziski fond, Skopje in Q1 2018. The regular part of revenues – net fee and commission income increased by EUR 4.9 million or 10% YoY.

The total costs increased by EUR 6.2 million YoY, despite EUR 1.4 million decrease due to the change in the segment presentation.

Net impairments and provisions were established in the amount of EUR 11.3 million in 2019 (of which EUR 4.9 million of impairments and provisions for credit risk and EUR 3.1 million due to provisions for pending legal disputes in NLB Banka, Podgorica), while in 2018 were established in the amount of EUR 14.3 million.

Gross loans to customers increased by EUR 229.4 million YoY due to an increase in gross loans in most subsidiary banks, whereas the largest increases were recorded in NLB Banka, Beograd (EUR 91.7 million) and NLB Banka, Prishtina (EUR 73.2 million). The high increase was negatively affected by the change in segment presentation (EUR -69.0 million).

CIR amounted to 50.5%, a YoY increase of 3.7 p.p.

The subsidiary banks continued following the strategic direction of organic growth in the local markets. It was a result of high growth and generally positive macroeconomic factors in the region on one side, and internal business factors like operational and service excellence on the other. Focusing on clients and achieving a positive customer experience were a part of the focal point of the banks' activities. Active engagement in social responsibility activities in the Group further strengthened the relationship with the employees, clients, and the community.

The introduction of modern technologies enabled the launching of several new products that were well perceived by clients. This also increased operational excellence, contributing a fair share to the improved customer perception. After the EC commitments were fulfilled and the ban on financing foreign clients lifted as at 1 January 2019, cross-border lending transactions were successfully reactivated. The Bank and the Group members regained the position to offer higher value credit facilities and project financing to reputable clients in the region, which has been recognised as a good opportunity to deploy funds in today's banking sector that is dominated by excess liquidity.

## Contribution to NLB Group

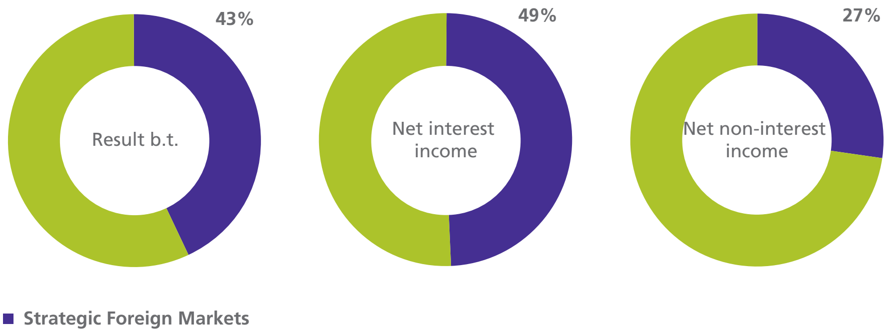



**Figure 40: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

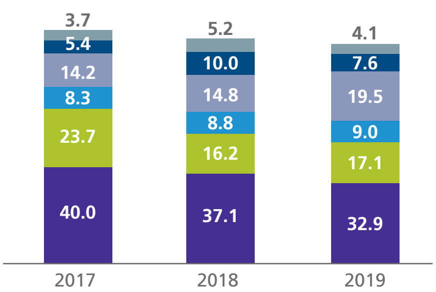
**Table 17: Results of the Strategic Foreign Markets segment**

in EUR million consolidated

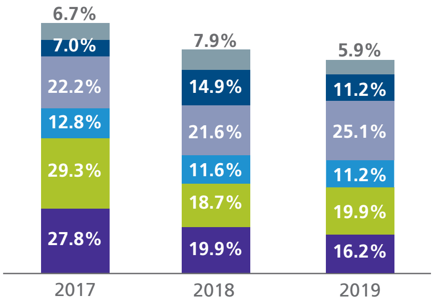
| | 2019 | 2018 | Change YoY | |
|---|---|---|---|---|
| Net interest income | 157.5 | 150.1 | 7.4 | 5% |
| Net non-interest income | 52.9 | 63.9 | -11.0 | -17% |
| o/w Net fee and commmission income | 55.0 | 50.1 | 4.9 | 10% |
| **Total net operating income** | **210.4** | **214.0** | **-3.6** | **-2%** |
| Total costs | -106.2 | -100.0 | -6.2 | -6% |
| **Result before impairments and provisions** | **104.2** | **114.0** | **-9.8** | **-9%** |
| Impairments and provisions | -11.3 | -14.3 | 3.0 | 21% |
| **Result before tax** | **92.9** | **99.7** | **-6.8** | **-7%** |
| o/w Result of minority shareholders | 8.2 | 7.9 | 0.3 | 4% |
| | **31 Dec 2019** | **31 Dec 2018** | **Change YoY** | |
| Net loans to customers | 3,024.6 | 2,718.0 | 306.6 | 11% |
| Gross loans to customers | 3,162.1 | 2,932.7 | 229.4 | 8% |
| Individuals | 1,603.8 | 1,438.1 | 165.7 | 12% |
| *Interest rate on retail loans* | 6.71% | 7.09% | -0.38 p.p. | |
| *Corporate* | 1,470.3 | 1,405.0 | 65.3 | 5% |
| *Interest rate on corporate loans* | 4.49% | 4.92% | -0.43 p.p. | |
| State | 88.0 | 89.6 | -1.7 | -2% |
| *Interest rate on state loans* | 4.00% | 4.33% | -0.32 p.p. | |
| Deposits from customers | 3,856.7 | 3,438.1 | 418.6 | 12% |
| *Interest rate on deposits* | 0.53% | 0.61% | -0.09 p.p. | |
| Non-performing loans (gross) | 111.6 | 219.9 | -108.3 | -49 % |
| | **2019** | **2018** | **Change YoY** | |
| Cost of risk (in bps) | 17 | 35 | -18 | |
| CIR | 50.5% | 46.7% | 3.7 p.p. | |
| Interest margin | 3.59% | 3.85% | -0.26 p.p. | |

Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year.

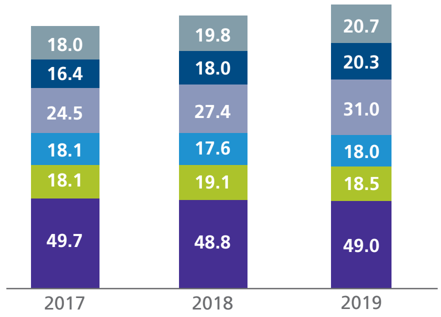
Result a.t. (in EUR million)



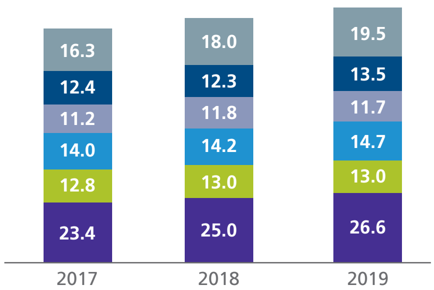

ROE a.t. (in%)



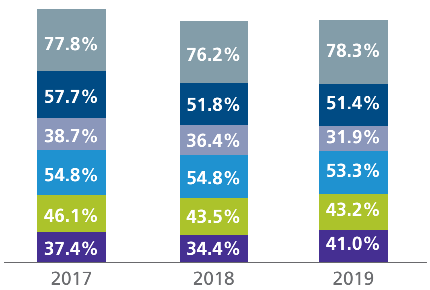

Net interest income (in EUR million)



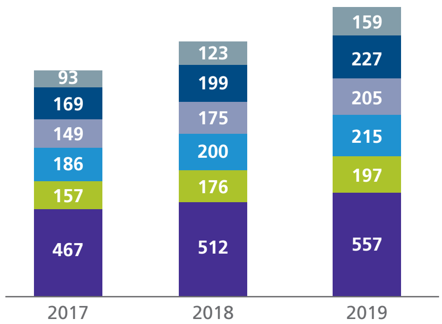

Total costs (in EUR million)



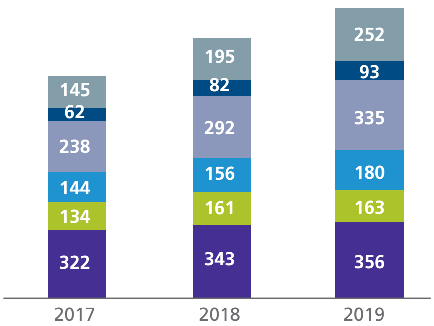

CIR (in%)




Net loans to individuals (in EUR million)




Net loans to corporate (in EUR million)




- NLB Banka, Beograd
- NLB Banka, Podgorica
- NLB Banka, Prishtina
- NLB Banka, Sarajevo
- NLB Banka, Banja Luka
- NLB Banka, Skopje

**Figure 41: Strategic Foreign Markets (banking members) performance overview**

# NLB Banka, Skopje

The bank is the 3rd largest bank in North Macedonia, with a 16.0% market share in total assets (as at 30 September 2019). It provides banking services to customers through a branch network of 52 branches, 172 ATMs, platforms for online and mobile banking, credit intermediaries, and a contact centre. On its local market, the bank is in the group of systemically important banks.

The predominant strength of the bank is in the retail segment. However, the bank provides a full range of financial services to retail and corporate clients. It is the market leader in the introduction of mass sale digital platforms used by third parties (credit intermediaries) and the distribution of life insurance products. By promoting the first NLB Banking Assistant 24/7, the bank became the first bank in the country to be available through Viber, and remained the leader in innovations by upgrading of NLB mKlik and NLB Pay mobile wallet with new functionalities. The 'Think Green' campaign encouraged its clients to use e-banking statements.

The main opportunities the bank foresees are the growth of loans, deposits, and payment services, with a focus on high-yield retail market products, and expanding the offer of non-banking products focused on bancassurance. On the corporate side, the bank tends to introduce new loan products and cross-sale packages, industry specific offers, and offers for start-up companies with a combined range of financial products, and building a strong regional brand through active participation in cross-border cooperation among the Group members. Mobile and electronic banking is expected to become a significant sales channel.

### Financial performance

The bank realised profit after tax in the amount of EUR 32.9 million (2018: EUR 37.1 million), and profit before impairments and provisions in the amount of EUR 38.3 million (2018: EUR 47.7 million with included capital gain from the sale of NLB Nov Penziski Fond, Skopje in the amount of EUR 8.5 million). This one-off in 2018 was also reflected in ROE a.t., which decreased to 16.2% (2018: 19.9%) and CIR, which increased to 41.0% (2018: 34.4%). Total capital ratio remained stable at 16.4% (2018: 16.7%). The result was driven by strong retail lending, card operations, payment services, and the sale of insurance products. The total assets of the bank rose by 8%, with a 7% growth in net loans to customers, and a 9% growth in deposits from customers. The NPL ratio was further reduced to 4.2% (2018: 5.1%).

### Retail banking

Retail banking recorded growth in gross loans (8%) and deposits (7%). The retail loan portfolio was dominated by consumer loans (55% of gross retail loans), while housing loans occupied 33% of gross retail loans. The interest margin in the retail segment is still high, but under significant pressure coming from competition offering lower interest rates and lower collateral requirements. Growth in gross retail loans was recorded, mainly due to an increase of housing loans volume (14%). The key drivers of income growth were new loans production and card operations.

The main focus was on intensifying credit activities directly or through loan intermediaries and mass-sale platforms, meeting customer preferences, supporting traditional housing loans, and offering non-banking services. The bank invested in technical support for digital services.

## Macroeconomic Snapshot

In North Macedonia, an improving investor confidence after resolved political dispute with neighbouring Greece, contributed to increased economic growth in H2 2019. Additionally, tourism sector and construction strengthened, while the external sector dragged on growth.

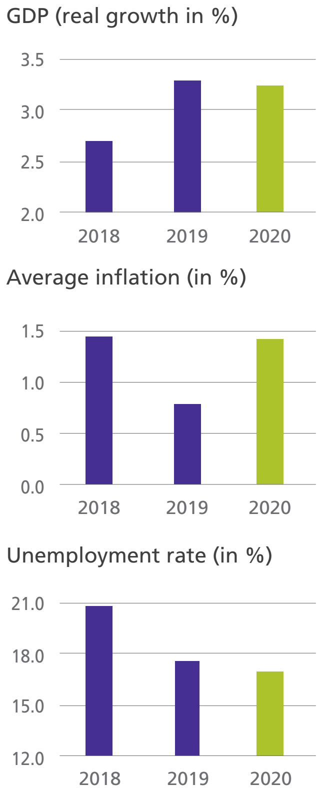



**Figure 42: GDP growth, Inflation, Unemployment**

## Outlook

The growth is projected to remain robust in 2020. Private consumption with looser fiscal policy and strong investment ought to support the growth.

## Contribution to NLB Group

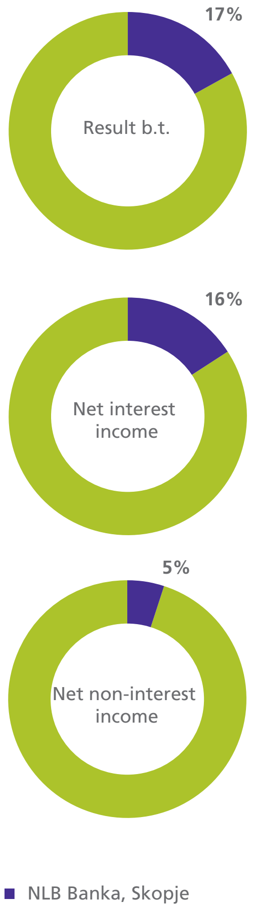



Figure 43: Contribution to NLB Group (result b.t., net interest income, net non-interest income)

Table 18: Key performance indicators of NLB Banka, Skopje***

in EUR thousands

| Key performance indicators | 2019 | 2018 | Change YoY |
|---|---|---|---|
| Net interest income | 49,022 | 48,781 | 0.5% |
| Net non-interest income | 15,868 | 23,972 | -33.8% |
| Total costs | -26,578 | -25,049 | -6.1% |
| Impairments and provisions | -2,224 | -6,796 | 67.3% |
| Result before tax | 36,088 | 40,908 | -11.8% |
| Result after tax | 32,877 | 37,068 | -11.3% |
| **Financial position statement indicators** | | | |
| Total assets | 1,462,306 | 1,350,054 | 8.3% |
| Net loans to customers | 915,149 | 858,592 | 6.6% |
| Gross loans to customers | 969,213 | 918,140 | 5.6% |
| Deposits from customers | 1,175,612 | 1,076,154 | 9.2% |
| Equity | 209,664 | 199,808 | 4.9% |
| **Key financial indicators** | | | |
| Total capital ratio | 16.4% | 16.7% | -0.3 p.p. |
| Interest margin* | 3.7% | 4.0% | -0.3 p.p. |
| ROE a.t. | 16.2% | 19.9% | -3.7 p.p. |
| ROA a.t. | 2.4% | 3.0% | -0.6 p.p. |
| CIR | 41.0% | 34.4% | 6.5 p.p. |
| NPL volume | 48,311 | 55,967 | -13.7% |
| NPL ratio (internal def.: NPL/Total loans) | 4.2% | 5.1% | -0.9 p.p. |
| Market share by total assets** | 16.0% | 16.3% | -0.3 p.p. |
| LTD | 77.8% | 79.8% | -1.9 p.p. |

* Interest margin for 2018 is adjusted to the new methodology (calculation based on number of days in the period).
** Data for 2019 as at 30 September 2019.
*** Data on a stand-alone basis as included in the consolidated financial statements of the Group.

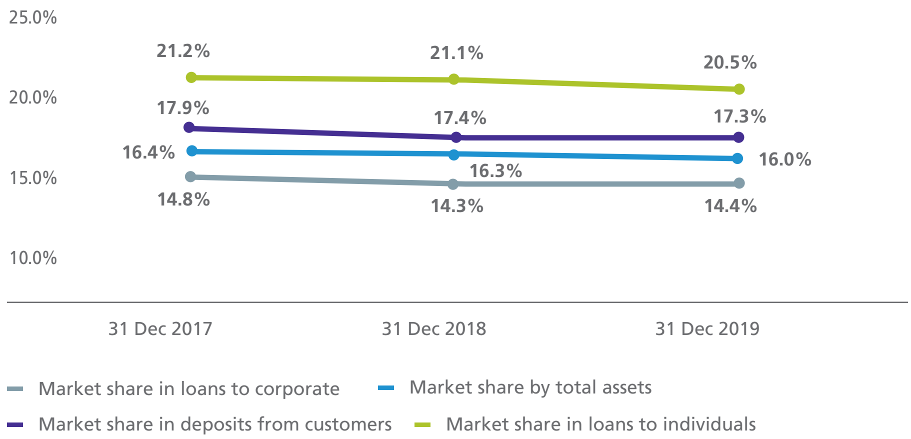



Figure 44: 3-year market share evolution*

* Market share data for 2019 as at 30 September 2019.

### Corporate banking

Corporate banking recorded growth in gross loans (3%) and deposits (16%). The loan portfolio was dominated by SMEs. Growth in gross loans was recorded mainly due to an increase of loans to large corporates. The key drivers of income growth were expanding loan and card operations business.

The bank had a market share of 14.4% in corporate gross loans, continued to foster a supportive business climate for SMEs and offered reliable service to corporates that included an offer of tailor-made packages to serve the needs of different segments of legal entities and expansion of the services with the introduction of new types of credit lines.

An example of solidifying the position of a regional banking partner, the Group successfully supported an important technological project on the local market that involved upgrading, rebuilding, and reconstruction of the manufacturing facility.

### Awards

The bank won the prestigious Bank of the Year award in North Macedonia by the financial magazine *The Banker* for the 10th time. It was also named Best Bank in North Macedonia for 2018 by *Euromoney London*, and Best Bank in North Macedonia at the Europe Banking Awards by the financial magazine *EMEA*, for the third year in a row. Dedication to its employees, the bank was recognised with the 'People-oriented Company' plaque by the Macedonian Human Resources Association.

### Role in society

The bank was actively engaged in different corporate and social responsibility activities which further strengthened the relationship with the employees, clients, prospective clients, and the community. On the occasion of the savings month, a charity event and educational activities for the children were organised throughout the branches as well as in the NLB Gallery of the bank. Numerous sports events were supported and donations were given for sport clubs and talented individuals, including sport activities where the bank's employees participated. At the end of the year, the bank organised a New Year's charity action to collect gifts for the children of women – victims of domestic violence, housed in ESE – Association for Emancipation, Solidarity, and Equality of Women.

# NLB Banka, Banja Luka

The bank is the 3rd largest bank in the Republic of Srpska, with a 18.8% market share in total assets (as at 30 September 2019). It provides banking services to customers through a broad branch network of 53 branches and 74 ATMs.

The predominant strength of the bank are its market position in the corporate and retail segments, and a very strong deposit base. The bank is focused on the modernisation of sales channels and services providing improvements of electronic and mobile banking services. To improve client interaction and presentation of services, the bank modernised its web page and improved its presence on the most commonly used social networks.

The main opportunities the bank foresees are in the strengthening of consumer lending, improvement of processes, and further development of digital channels.

### Financial performance

The bank realised profit after tax in the amount of EUR 17.1 million (2018: EUR 16.2 million), and profit before impairments and provisions in the amount of EUR 17.2 million (2018: EUR 17.0 million). ROE a.t. increased to 19.9% (2018: 18.7%) and CIR improved to 43.2% (2018: 43.5%). Total capital ratio also increased to 15.9% (2018: 15.6%). The main driver of the result was net interest income, while the bank recorded a 6% YoY growth in net non-interest income deriving predominantly from payment and card transactions. Net non-interest income represents 38.5% of total income, the highest among NLB banking subsidiaries. The total assets of the bank rose by 7%, with a 7% growth in net loans to customers, and in a 7% growth in deposits from customers, respectively. The bank successfully resolved several NPL cases and further reduced the NPL ratio to 1.3% (2018: 3.2%).

### Retail banking

Retail banking recorded growth in gross loans (11%) and deposits (8%). The retail loan portfolio was dominated by housing loans (50% of gross retail loans), while consumer loans occupied 44% of gross retail loans. Growth in gross retail loans was recorded, mainly due to growth in consumer loans (13%) and housing loans (11%). The key drivers of income growth were new loan production and card operations.

The main focus remains cross-selling among corporate and retail. The bank was especially successful in cooperation with local real-estate investors who promoted the bank as a creditor. The bank supplemented its offer with the introduction of bankassurance products expanding the bank's product range.

The bank successfully finished the card processor migration to accommodate faster client service development and synergies on the Group level. In addition, 92% of the bank's ATM network has been modernised.

### Corporate banking

Corporate banking recorded growth in deposits (8%), while gross loans to corporate remained approximately the same YoY. The loan portfolio was dominated by the industries of services and trade. The key drivers of income growth were new loan production and cross-selling.

The bank strengthened cooperation with NLB Banka, Sarajevo, resulting in increased exposure and income generation from the joint financing of clients on the BiH market. Additionally, the bank was active in the cross-boarder financing activities in cooperation with NLB to provide financing for the large local company.

## Macroeconomic Snapshot

In BiH, the growth slowed during the 2019. Industrial production dropped in H2 2019, among ongoing manufacturing sector weakness, while exports fell sharply, on the other hand, unemployment diminished in the same period.

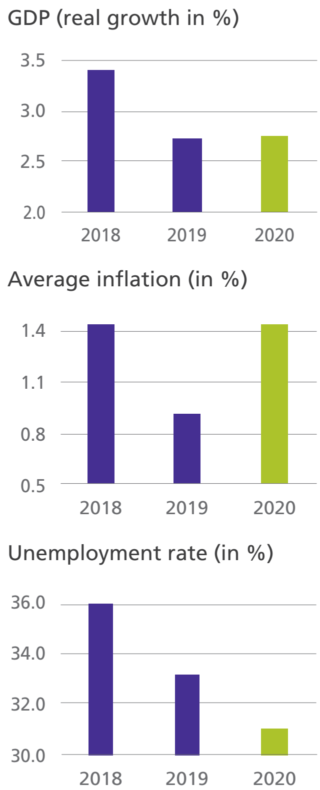



**Figure 45: GDP growth, Inflation, Unemployment**

## Outlook

The growth is expected to remain stable in 2020. The end of the political deadlock should improve the business climate.

## Contribution to NLB Group

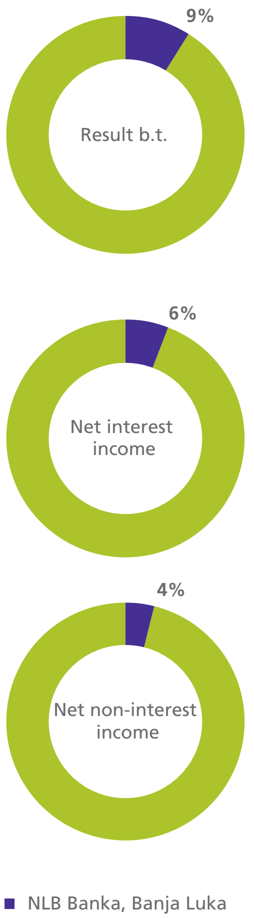



**Figure 46: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

**Table 19: Key performance indicators of NLB Banka, Banja Luka*****

in EUR thousands

| Key performance indicators | 2019 | 2018 | Change YoY |
|---|---|---|---|
| Net interest income | 18,547 | 19,057 | -2.7% |
| Net non-interest income | 11,606 | 10,939 | 6.1% |
| Total costs | -13,018 | -13,046 | 0.2% |
| Impairments and provisions | 1,535 | 1,387 | 10.7% |
| Result before tax | 18,670 | 18,337 | 1.8% |
| Result after tax | 17,101 | 16,184 | 5.7% |
| **Financial position statement indicators** | | | |
| Total assets | 773,410 | 720,509 | 7.3% |
| Net loans to customers | 411,739 | 384,806 | 7.0% |
| Gross loans to customers | 426,844 | 408,312 | 4.5% |
| Deposits from customers | 618,095 | 575,775 | 7.4% |
| Equity | 88,745 | 87,218 | 1.8% |
| **Key financial indicators** | | | |
| Total capital ratio | 15.9% | 15.6% | 0.4 p.p. |
| Interest margin* | 2.5% | 2.8% | -0.3 p.p. |
| ROE a.t. | 19.9% | 18.7% | 1.2 p.p. |
| ROA a.t. | 2.3% | 2.3% | -0.1 p.p. |
| CIR | 43.2% | 43.5% | -0.3 p.p. |
| NPL volume | 7,620 | 19,199 | -60.3% |
| NPL ratio (internal def.: NPL/Total loans) | 1.3% | 3.2% | -1.9 p.p. |
| Market share by total assets** | 18.8% | 18.3% | 0.5 p.p. |
| LTD | 66.6% | 66.8% | -0.2 p.p. |

* Interest margin for 2018 is adjusted to the new methodology (calculation based on number of days in the period).
** Data for 2019 as at 30 September 2019.
*** Data on a stand-alone basis as included in the consolidated financial statements of the Group.

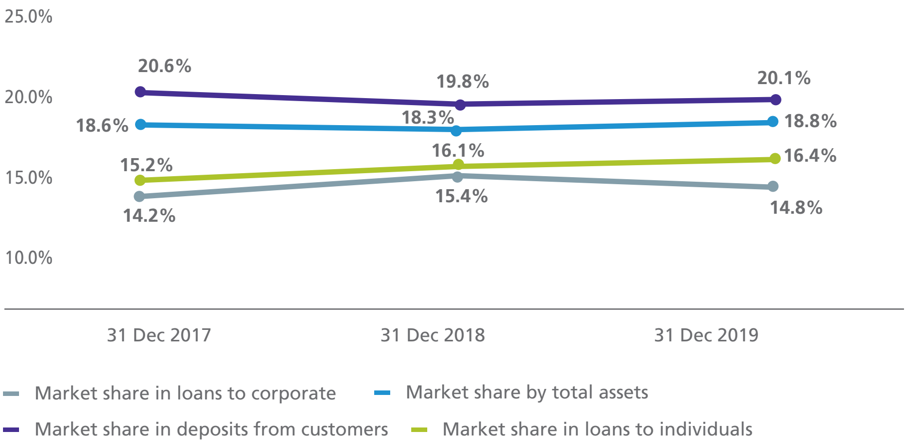



**Figure 47: 3-year market share evolution***

* Market share data for 2019 as at 30 September 2019.

### Awards

The bank was awarded the Golden BAM award for the highest ROE and ROA among banks in BiH for 2018 by financial and business magazine *Banks & Business in BiH*.

### Role in society

The bank remains an active member of social community by engaging and donating to local communities. Activities were predominately aimed at young people by promoting savings and enabling young graduates to gain their first work experience after their studies. The bank is also a long-term sponsor for local sport events and promotes activities that have a broader social impact on local society.

# NLB Banka, Sarajevo

The bank is the 6th largest bank in the Federation of BiH, with a 5.3% market share in total assets (as at 30 September 2019). It provides a variety of banking services to customers through a broad branch network of 38 branches and 83 ATMs.

The predominant strength of the bank is in consumer lending and the development of innovative retail products largely contributing to a high share of net non-interest income (35%). With new headquarters in Sarajevo opened in October 2019, the focus on the clients's was additionally strengthened. Improving customer experience was achieved as well with the introduction of new digital products and solutions.

The main opportunities forseen by the bank are in the segments of SME loans, retail housing loans, and bankassurance products.

### Financial performance

The bank realised the highest ever profit after tax in the amount of EUR 9.0 million (2018: EUR 8.8 million), and profit before impairments and provisions in the amount of EUR 12.8 million (2018: EUR 11.7 million) in spite of the strong competition and declining interest rates on the market, and with improved cost efficiency (CIR of 53.3%; 2018: 54.8%). The bank had total capital ratio at 16.0% (2018: 16.4%) and paid out dividends after more than 10 years. The bank recorded a strong 15% YoY growth in net non-interest income, especially from payments, card business, and bankassurance. Total assets of the bank rose by 8%, with 11% growth in net loans to customers, and 9% growth in deposits from customers. The NPL ratio was further reduced to 3.3% (2018: 5.7%).

### Retail banking

Retail banking recorded growth in gross loans (7%) and deposits (7%). The retail loan portfolio was dominated by consumer loans (80% of gross retail loans), while housing loans occupied 14% of gross retail loans. Growth in gross retail loans was recorded, mainly due to increase of consumer loans and credit cards. The key driver of income growth was focusing on highly profitable products (overdrafts, credit cards).

The bank introduced a fast cash loan 'NLB Keš kredit' through an online loan application on its website, and offers a card that enables purchasing in installments via SMS message on all POS in the country and abroad. As one of the first banks in the market, it introduced a mobile wallet solution - NLB Pay service for its clients.

### Corporate banking

The corporate banking segment recorded growth in gross loans (7%) and deposits (6%). The growth in gross loans was recorded despite significant loan repayments by clients before maturity. The key drivers of income growth were increased loan volumes, service fee repricing, and an increase in the trade finance business.

The bank strengthened cooperation with NLB Banka, Banja Luka in the corporate segment, resulting in increased exposure and income generation from the joint financing of clients on the BiH market.

## Macroeconomic Snapshot

In BiH, the growth slowed during the 2019. Industrial production dropped in H2 2019, among ongoing manufacturing sector weakness, while exports fell sharply, on the other hand, unemployment diminished in the same period.

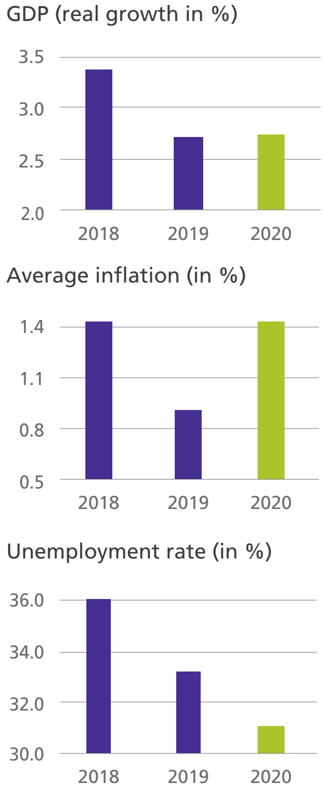



**Figure 48: GDP growth, Inflation, Unemployment**

## Outlook

The growth is expected to remain stable in 2020. The end of the political deadlock should improve the business climate.

## Contribution to NLB Group

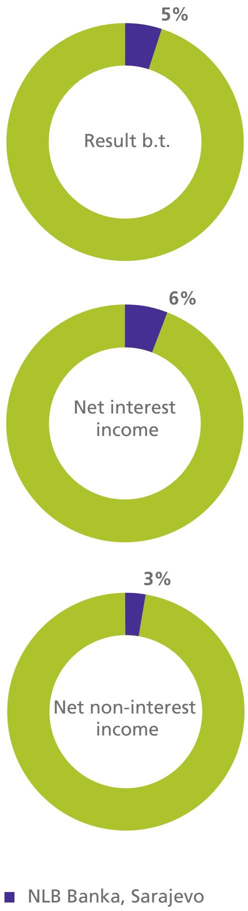



**Figure 49: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

**Table 20: Key performance indicators of NLB Banka, Sarajevo*****

in EUR thousands

| Key performance indicators | 2019 | 2018 | Change YoY |
|---|---|---|---|
| Net interest income | 17,962 | 17,586 | 2.1% |
| Net non-interest income | 9,513 | 8,271 | 15.0% |
| Total costs | -14,654 | -14,170 | -3.4% |
| Impairments and provisions | -2,486 | -1,965 | -26.5% |
| Result before tax | 10,335 | 9,722 | 6.3% |
| Result after tax | 9,047 | 8,757 | 3.3% |
| **Financial position statement indicators** | | | |
| Total assets | 637,739 | 592,166 | 7.7% |
| Net loans to customers | 399,299 | 359,499 | 11.1% |
| Gross loans to customers | 420,236 | 391,567 | 7.3% |
| Deposits from customers | 515,230 | 472,297 | 9.1% |
| Equity | 81,499 | 80,174 | 1.7% |
| **Key financial indicators** | | | |
| Total capital ratio | 16.0% | 16.4% | -0.4 p.p. |
| Interest margin* | 3.0% | 3.2% | -0.2 p.p. |
| ROE a.t. | 11.2% | 11.6% | -0.3 p.p. |
| ROA a.t. | 1.5% | 1.6% | -0.1 p.p. |
| CIR | 53.3% | 54.8% | -1.5 p.p. |
| NPL volume | 18,582 | 30,805 | -39.7% |
| NPL ratio (internal def.: NPL/Total loans) | 3.3% | 5.7% | -2.4 p.p. |
| Market share by total assets** | 5.3% | 5.2% | 0.1 p.p. |
| LTD | 77.5% | 76.1% | 1.4 p.p. |

* Interest margin for 2018 is adjusted to the new methodology (calculation based on number of days in the period).
** Data for 2019 as at 30 September 2019.
*** Data on a stand-alone basis as included in the consolidated financial statements of the Group.

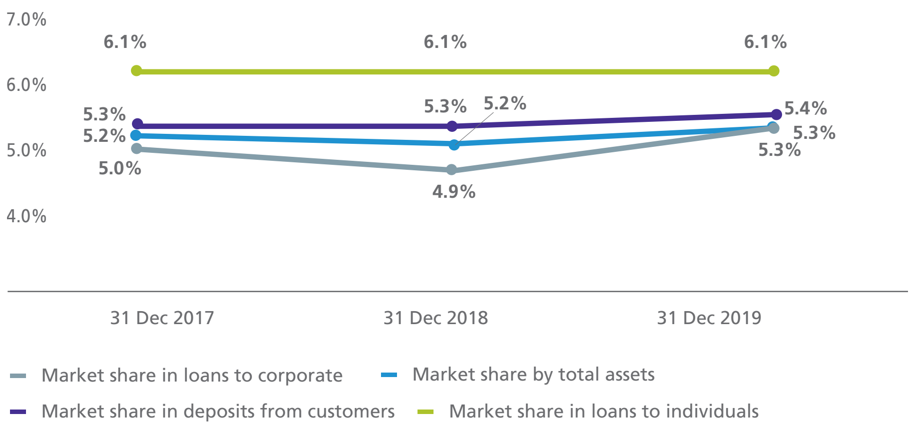



**Figure 50: 3-year market share evolution***

* Market share data for 2019 as at 30 September 2019.

## Awards

Among 350 nominated companies, NLB Banka, Sarajevo was elected as one of the top 10 employers in BiH and the second most desirable employer in the BiH financial sector. The Bank's CEO Lidija Žigić received a Golden BAM award for the most successful woman manager in the banking sector by financial and business magazine *Banks & Business in BIH*.

## Role in society

The bank hosted the Entrepreneurship Academy for its clients and employees, which was prepared in cooperation with EFSE and Deloitte. Furthermore, the Business Forum was organised together with NLB Banka, Banja Luka for more than 200 clients from across the country with strong media coverage.

Engagement of the bank was visible in more than 50 corporate and social responsibility initiatives, actively participating in various humanitarian projects, sponsorships, and donations such as sponsoring the Sarajevo Marketing Summit, the first festival 'Live Stage,' the regional IT conference 'Tech Cruise,' the project 'Clean the Earth in One Day Tuzla,' and more. Donations were mainly given in support of health improvement, as well as the education and promotion of young people.

# NLB Banka, Prishtina

The bank is the 3rd largest bank in Kosovo with a 17.6% market share in total assets. It provides a variety of banking services to customers through a broad branch network of 35 branches and 71 ATMs. In its local market the bank is the market leader, and had the highest growth in 2019.

The predominant strength of the bank is in providing a full spectrum of financial services to retail and corporate clients, and being a market leader in innovations on the local banking sector. In 2019, the bank was the first bank on the local market to introduce the digital wallet mobile phone application NLB Pay. The improved customers' experience in using electronic banking services resulted in an increased number of e-banking users by 12.7%.

The bank sees the main opportunities for the future growth in the areas of the corporate segment, development of agro segment, cross-selling, and further upgrading clients' experience.

### Financial performance

The bank had the best financial year since its establishment by realising profit after tax in the amount of EUR 19.5 million (2018: EUR 14.8 million), and profit before impairments and provisions in the amount of EUR 25.1 million (2018: EUR 20.6 million). ROE a.t. was 25.1% (2018: 21.6%), while CIR further improved to group-wide lowest 31.9% (2018: 36.4%). Total capital ratio strengthened to 16.4% (2018: 14.6%). The result was mainly driven by the increase of the business volumes. The total assets of the bank rose by 20%, the main factors were the amount of net loans to customers and deposits from customers. The NPL ratio was further reduced to 1.5% (2018: 2.4%).

### Retail banking

Retail banking recorded growth in gross loans (16%) and deposits (13%). The retail loan portfolio was dominated by housing loans (65% of gross retail loans), while consumer loans occupied 26% of gross retail loans. Growth in gross retail loans was recorded, mainly due to the increased volume of housing loans (22% growth). The key drivers of income growth were the housing loans.

The growth in retail was mainly driven by several partnership agreements with construction and trade companies to finance its products. New cards were also introduced (Master Debit Card replacing all Visa debit products) and new packages that increased non-interest income.

### Corporate banking

Corporate banking recorded growth in gross loans (14%) and deposits (27%), which was mainly due to cross-selling of products through existing corporate clients targeting new retail and SME clients as well. The key drivers of income growth were loans for fixed assets and overdrafts.

The bank offered fast, safe, and reliable execution of payments, and competitive pricing led to an increased number of payments contributing to the non-interest income growth. Cooperation on the Group level resulted in the financing of the construction of a major locally recognised project contributing largely to clean energy production from renewable sources.

## Macroeconomic Snapshot

In Kosovo, the economic growth boosted as well in H2 2019 on already solid H1 2019. Private consumption, public spending and remittances, all contributed to a strong growth in 2019.

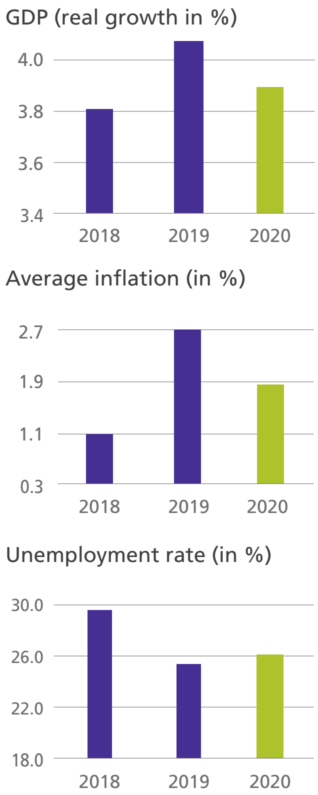



**Figure 51: GDP growth, Inflation, Unemployment**

## Outlook

The economic momentum is anticipated to weaken slightly but remained solid as momentum in Europe wanes and drags on exports. Regional political tensions also continue to weigh on prospects.

## Contribution to NLB Group

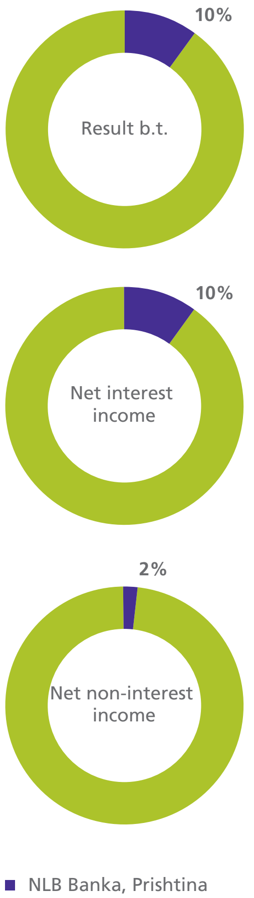



**Figure 52: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

**Table 21: Key performance indicators of NLB Banka, Prishtina****

in EUR thousands

| Key performance indicators | 2019 | 2018 | Change YoY |
|---|---|---|---|
| Net interest income | 31,014 | 27,372 | 13.3% |
| Net non-interest income | 5,774 | 5,034 | 14.7% |
| Total costs | -11,731 | -11,801 | 0.6% |
| Impairments and provisions | -3,069 | -3,792 | 19.1% |
| Result before tax | 21,988 | 16,813 | 30.8% |
| Result after tax | 19,545 | 14,836 | 31.7% |
| **Financial position statement indicators** | | | |
| Total assets | 801,085 | 668,127 | 19.9% |
| Net loans to customers | 540,073 | 466,854 | 15.7% |
| Gross loans to customers | 567,103 | 493,950 | 14.8% |
| Deposits from customers | 685,385 | 585,851 | 17.0% |
| Equity | 84,927 | 71,786 | 18.3% |
| **Key financial indicators** | | | |
| Total capital ratio | 16.4% | 14.6% | 1.8 p.p. |
| Interest margin* | 4.3% | 4.4% | -0.1 p.p. |
| ROE a.t. | 25.1% | 21.6% | 3.5 p.p. |
| ROA a.t. | 2.7% | 2.4% | 0.3 p.p. |
| CIR | 31.9% | 36.4% | -4.5 p.p. |
| NPL volume | 10,939 | 14,362 | -23.8% |
| NPL ratio (internal def.: NPL/Total loans) | 1.5% | 2.4% | -0.9 p.p. |
| Market share by total assets | 17.6% | 16.8% | 0.8 p.p. |
| LTD | 78.8% | 79.7% | -0.9 p.p. |

* Interest margin for 2018 is adjusted to the new methodology (calculation based on number of days in the period).
** Data on a stand-alone basis as included in the consolidated financial statements of the Group.

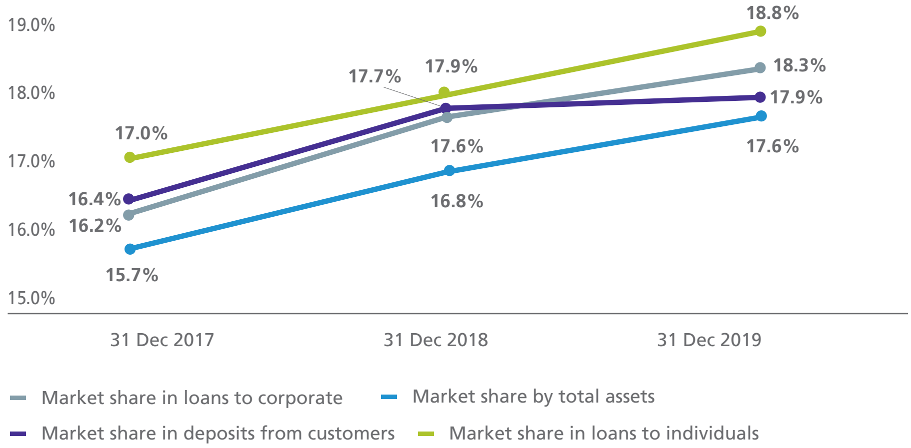



**Figure 53: 3-year market share evolution**

### Awards

EBRD awarded NLB Banka, Prishtina again for its performance under the EBRD's Trade Facilitation Program (TFP) as the 'Most Active Bank in Kosovo.'

Mastercard Direct Services awarded NLB Banka, Prishtina with the 'MCDS Market Shaker Award' for launching the NLB Pay – a digital wallet and mobile phone application that supports all Mastercard cards.

### Role in society

The Bank has entered into a cooperation with educational institutions for the admission of students for internships, as well as individual agreements based on student requests.

Additionally, the bank supported philanthropic goals including donations aimed at welfare, sports, and education.

# NLB Banka, Podgorica

The bank is the 3rd largest bank in Montenegro, with a 11.9% market share in total assets. It provides banking services to customers through a branch network of 19 branches and 64 ATMs. In its local market, the bank is categorised as one of the systemically important banks.

The predominant strength of the bank is seen in the segment of retail housing and consumer loans, where the bank is an important player on the local market. The corporate segment was also given a higher client focus through digitalisation. One of the most successful retail products launch in the year 2019 was the consumer loan NLB Super Fast Cash Loan. The bank also opened the first 'cashless' branch in Podgorica.

The main opportunities for the future are: the SME segment in tourism, the improvement of customer support through new packages in cooperation with insurance companies, and the improvement of client experience in all segments through innovative product offerings supported by modern e-channels and experienced sales staff able to advise customers' decisions.

### Financial performance

The bank realised profit after tax in the amount of EUR 7.6 million (2018: EUR 10.0 million) and profit before impairments and provisions in the amount of EUR 12.8 million (2018: EUR 11.5 million). ROE a.t. was 11.2% (2018: 14.9%), while CIR improved to 51.4% (2018: 51.8%). Total capital ratio was 15.0% (2018: 16.2%). The result was driven by the double digit growth of the retail loan portfolio being the main net interest income driver. The total assets of the bank rose by 12%, mainly due to growth in net loans to customers. The NPL ratio was further reduced to 4.0% (2018: 5.2%).

### Retail banking

Retail banking recorded growth in gross loans (14%) and deposits (10%). The retail loan portfolio was dominated by housing loans (54% of gross retail loans); while consumer loans occupied 43% of gross retail loans. Growth in gross retail loans was recorded, mainly due to an increase in housing loans volume. The key drivers of income growth were new loan production and payments business.

The bank implemented the five-minute decision-making process in branches or via Viber in the case of a NLB Super Fast Cash Loan, a type of consumer loan that proved particularly popular with younger Montenegro's retail borrowers. The first cashless branch on the local market was opened offering clients a different experience in financial management.

### Corporate banking

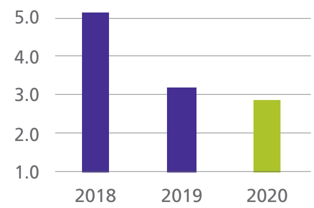
Corporate banking recorded growth in gross loans (12%) and deposits (16%). The loan portfolio was dominated by large corporates. Growth in gross loans was recorded, mainly due to an increase of loans to the dominating segment. The key drivers of income growth were expanding loans' volume and a better collection of NPLs.

The bank coordinated the first joint cross-border financing with NLB for a real-estate development project proving the Group's ability to become a key regional banking partner.

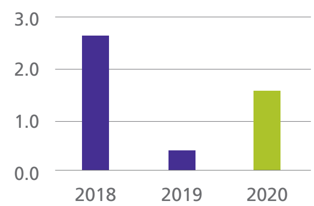
## Macroeconomic Snapshot

In Montenegro, the economic momentum accelerated in the H2 2019. Robust growth was supported with a surge in fixed investment and a strong tourism contribution, whereas household spending moderated.

GDP (real growth in %)




Average inflation (in %)




Unemployment rate (in %)

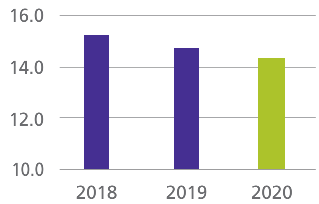



**Figure 54: GDP growth, Inflation, Unemployment**

## Outlook

The economy seems to be weakening in 2020 but remain solid. The slowdown in private consumption should be buffered with a recovery in the industrial sector, an improving labour market and strong tourism.

## Contribution to NLB Group

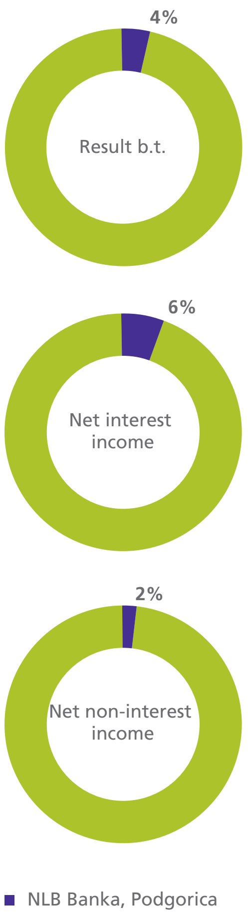



Figure 55: Contribution to NLB Group (result b.t., net interest income, net non-interest income)

Table 22: Key performance indicators of NLB Banka, Podgorica**

in EUR thousands

| Key performance indicators | 2019 | 2018 | Change YoY |
|---|---|---|---|
| Net interest income | 20,276 | 18,047 | 12.4% |
| Net non-interest income | 5,985 | 5,771 | 3.7% |
| Total costs | -13,489 | -12,340 | -9.3% |
| Impairments and provisions | -3,808 | -1,267 | - |
| Result before tax | 8,964 | 10,211 | -12.2% |
| Result after tax | 7,565 | 10,033 | -24.6% |
| **Financial position statement indicators** | | | |
| Total assets | 548,483 | 489,283 | 12.1% |
| Net loans to customers | 346,299 | 310,692 | 11.5% |
| Gross loans to customers | 359,180 | 323,914 | 10.9% |
| Deposits from customers | 436,545 | 391,750 | 11.4% |
| Equity | 67,532 | 68,937 | -2.0% |
| **Key financial indicators** | | | |
| Total capital ratio | 15.0% | 16.2% | -1.3 p.p. |
| Interest margin* | 4.3% | 4.1% | 0.2 p.p. |
| ROE a.t. | 11.2% | 14.9% | -3.7 p.p. |
| ROA a.t. | 1.5% | 2.1% | -0.7 p.p. |
| CIR | 51.4% | 51.8% | -0.4 p.p. |
| NPL volume | 18,129 | 20,627 | -12.1% |
| NPL ratio (internal def.: NPL/Total loans) | 4.0% | 5.2% | -1.2 p.p. |
| Market share by total assets | 11.9% | 11.1% | 0.8 p.p. |
| LTD | 79.3% | 79.3% | 0.0 p.p. |

* Interest margin for 2018 is adjusted to the new methodology (calculation based on number of days in the period).
** Data on a stand-alone basis as included in the consolidated financial statements of the Group.

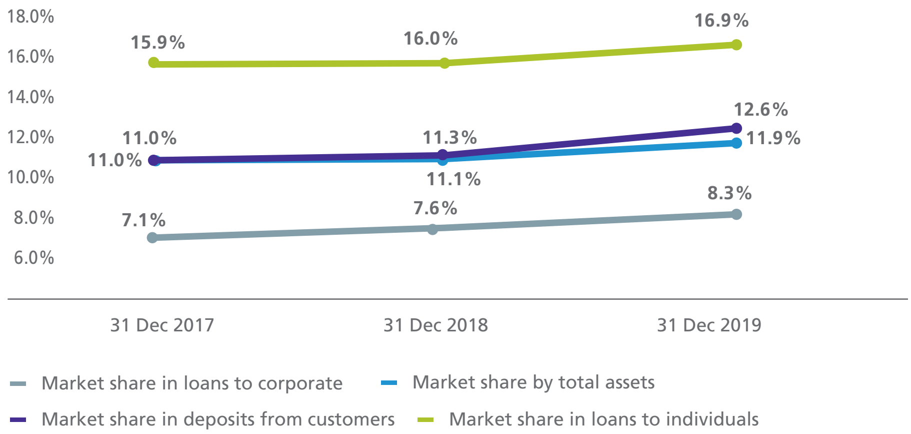



Figure 56: 3-year market share evolution

### Awards

The bank was awarded as the best bank in Montenegro for 2019 by Euromoney due to achievements relating to growth,  efficiency, and progress on innovation.

### Role in society

The bank carries out its socially responsible activities through donations approved primarily for organisations of social importance, and those registered for community assistance and charity work.

In December, the bank held the NLB Business Forum, 'Women in Business; The New Value of the Montenegrin Economy,' which was aimed at boosting an important dialogue about women's entrepreneurship, and contributing to creating a more favorable environment for its development.

# NLB Banka, Beograd

The bank is the 16th largest bank in Serbia, with a 1.7% market share in total assets (data as at 30 September 2019). It provides banking services to customers through a branch network of 28 branches and 63 ATMs.

The predominant strength of the bank is agro business, the segment of the market where it controls 13% (2018: 12.6%) of the market.

The main opportunities lie in the large companies segment, cross-selling, and improving client experience, as well as in the continuation of very successful work in the agro segment. The local market has promising potential, therefore the bank focuses on trade finance, a client experience upgrade, renewed branch formats, improved e- and m-banking solutions, factoring, supply chain finance, and bankassurance.

### Financial performance

The bank realised profit after tax in the amount of EUR 4.1 million (2018: EUR 5.2 million) and profit before impairments and provisions in the amount of EUR 5.4 million (2018: EUR 5.6 million). ROE a.t. was 5.9% (2018: 7.9%), while CIR increased to 78.3% (2018: 76.2%), and total capital ratio increased to 19.5% (2018: 16.7%). The result was mainly driven by the increase of business volume and the low cost of risk. The total assets of the bank rose by 27%, the main factor was new loan production. NPL ratio was further reduced to 1.6% (2018: 2.4%).

### Retail banking

Retail banking recorded growth in gross loans (29%) and deposits (36%). The retail loan portfolio was dominated by consumer loans (76% of gross retail loans), while housing loans occupied 22% of gross retail loans. Local currency (RSD) loans occupied 78% of the loan portfolio, while deposits were mostly (81%) in FX. The interest margin in the retail segment is still high, but under significant pressure by competitors. Growth in gross retail loans was recorded, mainly due to very high growth in housing loans (72%), with consumer loans strongly contributing to increased nominal figures. The key drivers of income growth were new loans production and repricing initiatives on current accounts.

To diversify the product mix, the bank continued to focus on housing loans as a product (increase of share from 16.1% to 21.6%), a market segment with good prospects, and opportunities for cross-selling.

### Corporate banking

Corporate banking recorded growth in gross loans (28%) and deposits (16%). EUR loans occupied 96% of the loan portfolio, while deposits prevailed (72%) in local currency (RSD). Higher demand for FX loans is a consequence of lower nominal interest rates, therefore the portion of RSD loans in the new production decreased compared to the previous period. Growth in gross loans was recorded, mainly due to new production of loans to SMEs. The key drivers of income growth were new loans production and guarantees.

## Macroeconomic Snapshot

In Serbia, the economic growth enhanced in H2 2019, underpinned with increased private consumption and public spending, fixed investment and an improving business climate.

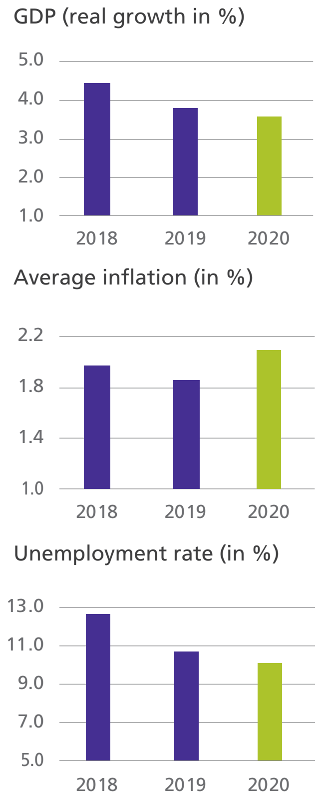



**Figure 57: GDP growth, Inflation, Unemployment**

## Outlook

Strong economic growth should continue in 2020 as well, reinforced by fiscal stimulus and record-high FDI inflows, consumer spending and a rebound in industrial output.

## Contribution to NLB Group

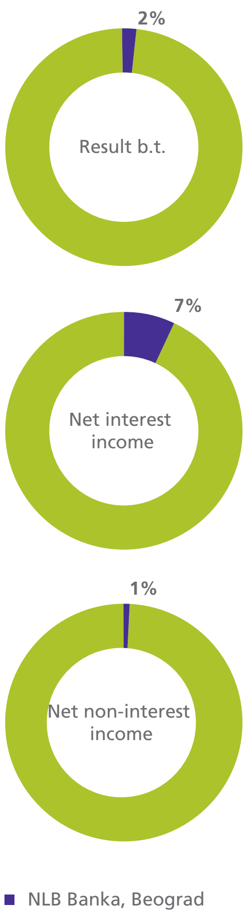



**Figure 58: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

**Table 23: Key performance indicators of NLB Banka, Beograd*****

in EUR thousands

| Key performance indicators | 2019 | 2018 | Change YoY |
|---|---|---|---|
| Net interest income | 20,722 | 19,764 | 4.8% |
| Net non-interest income | 4,141 | 3,832 | 8.1% |
| Total costs | -19,471 | -17,981 | -8.3% |
| Impairments and provisions | -1,254 | -377 | - |
| Result before tax | 4,138 | 5,238 | -21.0% |
| Result after tax | 4,142 | 5,202 | -20.4% |
| **Financial position statement indicators** | | | |
| Total assets | 614,268 | 484,492 | 26.8% |
| Net loans to customers | 412,046 | 318,792 | 29.3% |
| Gross loans to customers | 419,521 | 327,847 | 28.0% |
| Deposits from customers | 437,268 | 352,940 | 23.9% |
| Equity | 72,954 | 67,686 | 7.8% |
| **Key financial indicators** | | | |
| Total capital ratio | 19.5% | 16.7% | 2.8 p.p. |
| Interest margin* | 4.0% | 4.9% | -0.9 p.p. |
| ROE a.t. | 5.9% | 7.9% | -2.0 p.p. |
| ROA a.t. | 0.8% | 1.2% | -0.5 p.p. |
| CIR | 78.3% | 76.2% | 2.1 p.p. |
| NPL volume | 8,004 | 9,884 | -19.0% |
| NPL ratio (internal def.: NPL/Total loans) | 1.6% | 2.4% | -0.9 p.p. |
| Market share by total assets** | 1.7% | 1.5% | 0.2 p.p. |
| LTD | 94.2% | 90.3% | 3.9 p.p. |

* Interest margin for 2018 is adjusted to the new methodology (calculation based on number of days in the period).
** Data for 2019 as at 30 September 2019.
*** Data on a stand-alone basis as included in the consolidated financial statements of the Group.

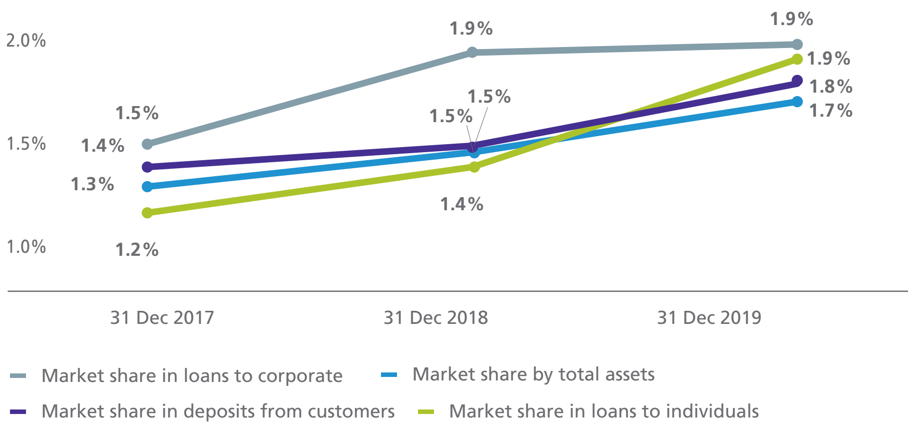



**Figure 59: 3-year market share evolution***

* Market share data for 2019 as at 30 September 2019.

The bank was for the second consecutive year the market leader in loans to farmers subsidised by the Serbian Ministry of Agriculture (a 23% share in total new production of such loans in the banking sector).

The bank proved to be a valuable partner in the project finance transaction conducted on the Group cross-border level.

### Role in society

For the 8th year in a row the bank organised the 'NLB Organic Competition,' a landmark project which recognises and awards the best organic production projects, and supports environmental protection and sustainable development. The bank also supported agribusiness by sponsoring agricultural events in Serbia. The bank continued its program in the NLB Gallery started in 2017 within which young artists can exhibit. In the domain of socially responsible business, the bank devotes special attention to humanitarian actions and made several donations to hospitals, schools, kindergartens, and others.

Chapter 12

# Financial Markets

**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 contribute to the Group's funding, and were conducted with the aim of achieving diversification and fulfilling regulatory requirements.**

The segment includes income generated by the liquidity reserves, as well as the surplus from fund transfer pricing to other business segments in Slovenia. Financial Markets in Slovenia recorded a profit before tax of EUR 27.6 million, 15% increase YoY, despite negative effect of EUR -2.4 million recorded due to the change in segment presentation.

Net interest income is EUR 2.1 million higher YoY, mostly due to higher volumes, since the yields on securities decreased YoY.

Higher net non-interest income, EUR 3.1 million YoY, is mostly due to active management of banking book securities, which positively affected the net income from financial transactions, mostly in Q1 2019.

Increase in balances with the CB (EUR 469.1 million YoY) due to high inflow of deposits (one-off item). Increase in banking book securities (EUR 338.3 million YoY) due to a surplus in liquidity.

### The Group's ALM

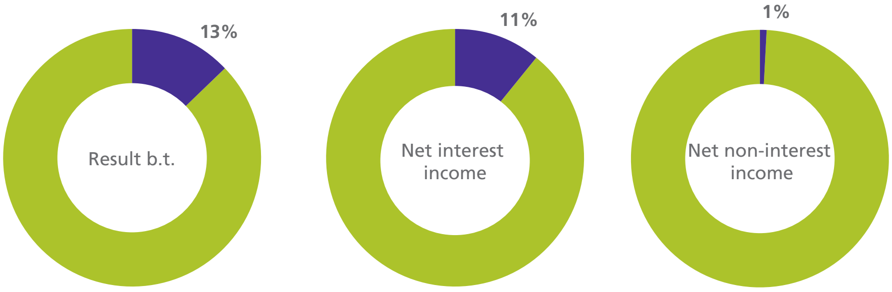
The purpose of the Group ALM process is to manage the Group's balance sheet with respect to the interest rate, currency, and liquidity risk considering the macroeconomic environment and financial markets development. Monitoring and management of the Group's exposure to market risk is decentralised. Uniform guidelines and limits for each type of risk are set for individual Group members. The methodologies are in line with regulatory requirements on an individual and consolidated level, while reporting to the 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 low interest rate environment and 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 mostly in the form of sight deposits and savings accounts. The Group manages interest rate positions and stabilises its interest margin by actively adjusting pricing policy, whereas for managing interest rate risk exposure the Group also uses 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.

## Contribution to NLB Group




■ Financial Markets

**Figure 60: Contribution to NLB Group (result b.t., net interest income, net non-interest income)**

## Highlights:

- **Optimisation of asset management of the Bank and the banking subsidiaries.**
- **Well diversified banking book portfolio from geographical and asset class perspective.**
- **In 2019 Bank issued two Tier 2 subordinated bonds in aggregate amount of EUR 165 million.**

**Table 24: Performance of the Financial Markets in Slovenia segment**

in EUR million consolidated

| | 2019 | 2018 | Change YoY | |
|---|---|---|---|---|
| Net interest income | 33.6 | 31.4 | 2.1 | 7% |
| Net non-interest income | 2.0 | -1.1 | 3.1 | - |
| **Total net operating income** | **35.6** | **30.3** | **5.3** | **17%** |
| Total costs | -7.5 | -6.5 | -1.0 | -15% |
| **Result before impairments and provisions** | **28.1** | **23.8** | **4.3** | **18%** |
| Impairments and provisions | -0.5 | 0.2 | -0.7 | - |
| **Result before tax** | **27.6** | **24.0** | **3.6** | **15%** |
| | **31 Dec 2019** | **31 Dec 2018** | **Change YoY** | |
| Balances with Central banks | 1,044.1 | 575.0 | 469.1 | 82% |
| Banking book securities | 3,093.6 | 2,755.2 | 338.3 | 12% |
| *Interest rate on banking book securities* | 1.03% | 1.25% | -0.22 p.p. | |
| Wholesale funding* | 161.6 | 244.1 | -82.6 | -34% |
| *Interest rate on wholesale funding** | 0.50% | 0.50% | 0.00 p.p. | |
| Subordinated liabilities | 210.6 | | - | |
| *Interest rate on subordinated liabilities* | 4.03% | | - | |

The segment Financial Markets in Slovenia was in the previous reports shown without Investment Banking, so the results of this segment for 2019 are directly comparable to its results from the previous year.
* Item includes only borrowings, till 30 June 2019 it included also deposits from banks.

46%
liquid assets (% of total assets)

75%
government securities in the Group's banking book portfolio

4.09 years
average maturity of the Group's banking book portfolio

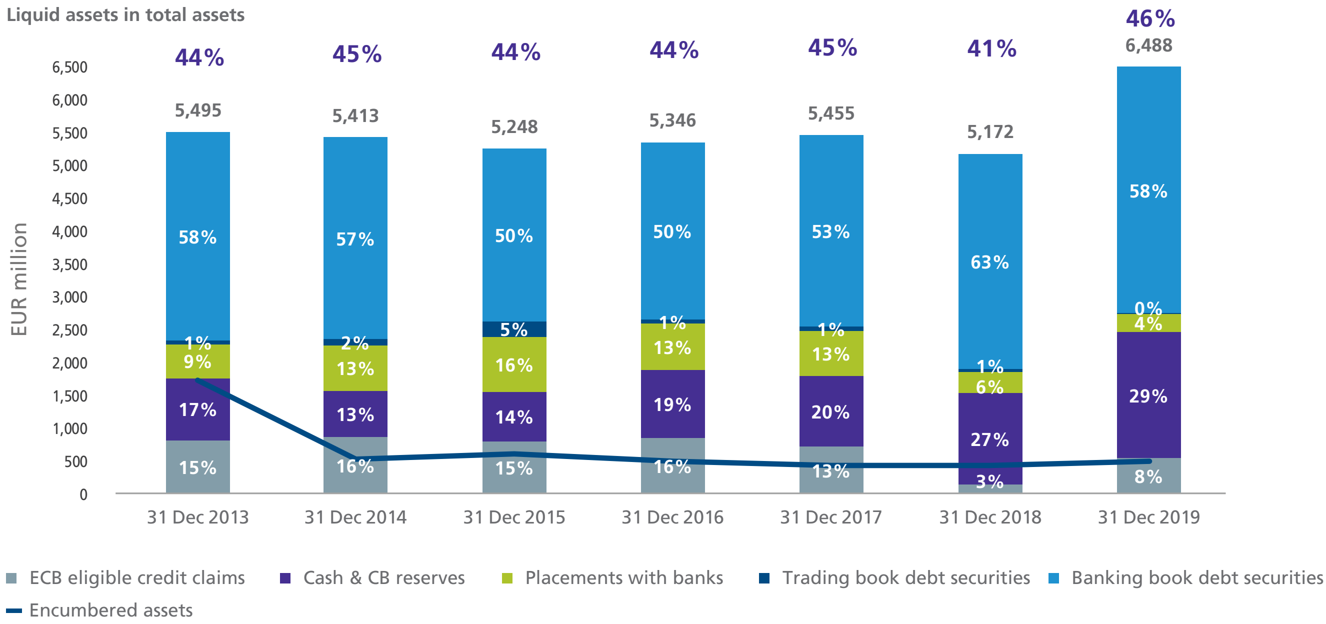


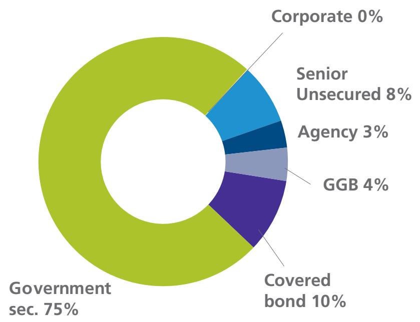

**Figure 61: Evolution of NLB Group liquid assets structure (in EUR million)**

## 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 Group's liquid assets as at year-end were comprised of a cash equivalent (EUR 2,192 million), a debt securities portfolio (EUR 3,750 million), and credit claims eligible for CB secured funding operations (EUR 545 million). The liquid assets portfolio represents 46% of total assets corresponding to EUR 6,488 million (2018: 41%). A small part of liquid assets (EUR 486 million) was encumbered for operational and regulatory purposes.



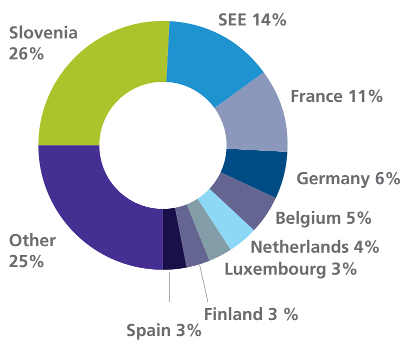




**Figure 62: Banking book portfolio of NLB Group by asset class and geographical structure as at 31 December 2019**

**Table 25: Maturity profile of NLB Group's banking book securities as at 31 December 2019**

in EUR million

| | 2020 | 2021-2022 | 2023-2024 | 2025+ | Total |
|---|---|---|---|---|---|
| Domestic securities (the Group strategic markets) | 402.6 | 361.2 | 184.8 | 539.1 | 1,487.7 |
| Slovenia | 215.6 | 178.0 | 65.2 | 494.0 | 952.8 |
| Other SEE | 187.0 | 183.2 | 119.6 | 45.1 | 534.9 |
| International securities | 394.5 | 356.7 | 725.4 | 781.0 | 2,257.6 |
| **Total** | **797.1** | **717.9** | **910.2** | **1,320.1** | **3,745.2** |

Liquidity reserves represent liquid assets which are not encumbered and can provide funding of the future core growth.

Banking book debt securities constituted 58% 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.

The average maturity of banking book securities was approximately 4.09 years in 2019 (4.15 years in 2018).

The average yield on the Group's securities was 1.2% (1.4% in 2018).

### 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 210.6 million (carrying amount) of wholesale funding (subordinated Tier 2 instruments) to strenghten and optimise the capital position. Two Group banking subsidiaries have, due to their solid liquidity position, early prepaid two subordinated instruments in a total amount of EUR 15 million.

Chapter 13

# Non-Core Members

## Highlights:

- **Positive contribution to the Bank's results and resolving NPL or the off-balance sheet level.**
- **A decrease in total costs, which were reduced by as much as 23% YoY to the level of EUR 14.0 million (2018: EUR 18.2 million).**
- **Some significant client exposures in different countries in the region were resolved.**

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 individual assets, the collection or restructuring of individual assets, and active management of real-estate assets.

The segment recorded EUR 3.5 million decrease of net operating income, which included a transfer of the NLB non-core part to Corporate and Investment Banking segment (approximately EUR -3.3 million) and a transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets (EUR 1.3 million); effect on net non-interest income from contractual penalty (EUR 1.3 million) in Q1 2019.

Decrease in total costs, EUR 4.3 million YoY, was realized primarily due to positive effect of divestment of non-strategic Group members and a transfer of NLB non-core part to Corporate and Investment Banking segment (approximately EUR 4.4 million) and negative effect of transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets (EUR 1.4 million).

A substantial decrease in total assets of the segment YoY (EUR 94.2 million, of which EUR 32.1 million due to the change in segment presentation), which is in line with the divestment strategy of the Non-Core segment.

The wind-down of the Non-Core segment in 2019 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

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

Non-core loan exposures decreased in line with the planned dynamic. The bank resolved several significant exposures in BiH, Croatia, Montenegro, Italy, and Czech Republic, thus contributing to NPL and other off-balance wind-down process with a positive effect on P&L.

### Divestment of non-core Group members

Non-core Group members operating in leasing, factoring/trade finance and real-estate are in the process of being wound-down, with new business being suspended in all of them. The decrease of the cumulative non-core subsidiaries' portfolio remains ongoing through regular repayments and collection measures. During 2015 – 2019 a liquidation process was initiated in almost all non-core subsidiaries. The liquidation process has been running with thoughtful cost management and well established collection procedures leading to a successful divesture in 2019 of several non-core subsidiaries such as Prospera Plus d.o.o., Ljubljana – v likvidaciji, NLB InterFinanz Praha s.r.o. Praha v likvidaci and CBSinvest d.o.o., Sarajevo.

### Sale of NLB's equity participations

The Bank has continued divesting its non-core equity participations, and consequently, by the end of the year the overall asset volume of equity participations is at EUR 0.31 million (2018: EUR 0.99 million).

**Table 26: Results of the Non-Core Members segment**

in EUR million consolidated

| | 2019 | 2018 | Change YoY | |
|---|---|---|---|---|
| Net interest income | 2.7 | 9.3 | -6.6 | -71% |
| Net non-interest income | 8.2 | 5.2 | 3.0 | 59% |
| **Total net operating income** | **11.0** | **14.5** | **-3.5** | **-24%** |
| Total costs | -14.0 | -18.2 | 4.3 | 23% |
| **Result before impairments and provisions** | **-3.0** | **-3.7** | **0.7** | **19%** |
| Impairments and provisions | -0.1 | 11.9 | -12.0 | - |
| **Result before tax** | **-3.1** | **8.2** | **-11.3** | **-** |
| | **31 Dec 2019** | **31 Dec 2018** | **Change YoY** | |
| **Segment assets** | **169.5** | **263.7** | **-94.2** | **-36%** |
| Net loans to customers | 67.4 | 160.9 | -93.5 | -58% |
| Gross loans to customers | 137.2 | 288.6 | -151.4 | -52% |
| Investment property and property & equipment received for repayment of loans | 75.6 | 68.5 | 7.0 | 10% |
| Other assets | 26.5 | 34.3 | -7.8 | -23% |
| Deposits from customers | 0.0 | 9.6 | -9.6 | - |
| Non-performing loans (gross) | 93.6 | 179.7 | -86.1 | -48% |
| | **2019** | **2018** | **Change YoY** | |
| Cost of risk (in bps) | -218 | -705 | 487 | |
| CIR | 127.2% | 125.5% | 1.7 p.p. | |

Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year.

### 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 of this management team is to ensure value-preserving strategies for the management of real-estate, respectively the collateral value of NPL claims by either temporarily repossessing real-estate or ensuring a value-preserving divestment process of the real-estate or a claim.
From 2015 to 2019, the team executed or supported real-estate transactions with a total sales value of over EUR 154.2 million, and directly or indirectly contributed to a EUR 471.18 million of NPL reduction, including EUR 63.23 million in 2019 alone.

Over

EUR 151.4 million

reduction of gross loans to foreign clients in 2019

Over

EUR 30.62 million

the total sales value of real-estate transactions executed or supported by the real-estate team in 2019

Chapter 14

# Processing Operations and IT

## Processing operations

**By ensuring high quality services and support to the Group's operations, the Bank is regarded as the most trusted payment and cash supply service provider in Slovenia. Facing higher/emerging customer demands and a rapidly changing environment, the Group is constantly challenged to retain its role and current market position in this area in the future.**

### Payment processing

The Group retained its role as an important player on the payments market not only in Slovenia, but also in the Group's home region – a region where the Group is present with banking subsidiaries. The total number of payment transactions exceeded 156 million, which in terms of total value means more than EUR 284 billion.

In terms of fees from payments and cash operations, the Group gained more than EUR 55 million.

The competition on the payments market is continuously increasing, simultaneously users of payment services require more and more flexibility from their providers. Therefore, provision of a positive user experience stays on the top of the list of the Bank's priorities. Accordingly, the Bank successfully introduced instant payments, i.e., payments which are executed in only few seconds. At the same time, the Bank also adhered to the Slovenian instant payments scheme called 'Flik,' as it is expected that instant payments will soon become the prevailing payment instrument.

The Bank also improved user experience in the area of international payments, as the Global Payments Innovation (GPI) service was introduced that enables higher transparency of costs, faster payment execution, and easier tracking of international payment transactions.

Special attention was also dedicated to the security of electronic and mobile payments and their respective payments processing. With fulfilment of PSD2 requirements, an important step forward was made in the direction of even more efficient fraud prevention, and provision of the higher protection of payments users.

With all mentioned activities, the Bank is strengthening its role as a reliable and trustworthy provider of payments services. This is also confirmed in its high market share, which the Bank has successfully retained in recent years.

### Cash supply and processing services

Cash services are an important part of the Bank's product line which aims to satisfy customers' needs. The Bank is successfully pursuing the goal of standardisation and unification of services on the Group level, which is one of the key tasks in the future as well. On all markets where the Group is present, cash supply services are provided with their own capacities for the needs of the Group. However, on two markets (Slovenia and North Macedonia) all-round cash supply services for several other commercial banks are performed. In the home region, the Group banks provide cash supply services for 873 bank branches and 1,272 ATMs in total, including the Group banks and other banks branches and ATMs.

Know-how, own application support for cash supply operations, and high-performance technology enables the Group to further automate operations, especially in the countries with the highest volumes of such business (Slovenia and North Macedonia).

One of the most important goals in the recent period is to ensure a high level of ATM network performance, establishing even better control over ATMs' operations, and the systematic reduction of errors.

## Information Technology

The Group continues to provide its clients with sustainable and satisfactory 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. The Group is actively managing centralisation activities of regional governance, and is pursuing gradual standardisation of applications and infrastructure.

### Highlights:

- The availability of the information systems is at an extraordinary high level (99.93%).
- The Bank is introducing key new platforms from world-leading providers in digital banking, integration, and data management.
- Cyber security capabilities are continuously monitored and strengthened to provide safe and robust services.

24.6%
Payment services market share by the Bank

2,145
Total cash points supplied by the Group

873
Bank branches supplied by the Group

1,272
ATMs supplied by the 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 is at an very high level of 99.93% (2018: 99.90%), and the share of unplanned interruptions is very low, 0.02% (2018: 0.04%). In 2019, the number of days without system/service interruptions were at 83% (2018: 81%). With users of the information system, harmonised Service Level Agreements (SLA) are in place, which the Bank managed to fulfill in a very high proportion. The Group is constantly striving to improve IT processes to maintain at least the 3rd maturity level (COBIT). High IT operational performance is also recorded in the Group members.

### Main IT initiatives

The main focus of the year has been oriented at the implementation and delivery of new technological platforms that will enhance customer insight capabilities and foster a greater level of their engagement through a smart digital channels approach. The first deliverables on digital banking and integration platforms are already in production, thus proving their operational capabilities and improvements of development velocity. New platforms are centralising channel management which holistically supports banks implementation of the PSD2 initiative, and will enable further pursuit of innovative solutions. The Bank has also achieved several milestones in the implementation of a group wide Data Management platform which encompasses an enterprise data warehouse, Big Data, advanced analytics, risk management analytics, profitability, data governance, and consolidated regulatory reporting.

In addition to the transformation initiative, the Bank has further optimised the automated decision-making for loan origination by small enterprises, and the improved efficiency of collections that has newly developed automation of set-off clauses. Efficient corporate relationship management has been improved with a comprehensive relationship overview. Important digitalisation efforts have been achieved in the supply chain finance platform that is already gaining traction with corporate clients.

Successful implementation of testing automation not only improves the quality of the software, but also provides an important milestone towards achieving continuous development and testing processes. Internal efficiencies have been achieved with a new document management solution and digital support for meeting management. The Bank has also launched a new HR solution to facilitate the increase of employee engagement and supports their training and acquisition of new competences. The introduction of this modern project portfolio management tool is increasing the efficiency of transformation and project management.

The Group is also setting strong expectations for improving business outputs by launching a Robotic Process Automation (RPA) pilot. The technology overhaul is also well underway in the Group's subsidiary banks. In 2019, standardised interfaces to Core banking systems of several Group's subsidiary banks were successfully implemented – which improves the integration capabilities for any group-wide application roll-out. The Group has further expanded the scope of the Group Competence Centre to five additional areas, and has invested in the standardisation of several larger elements of infrastructure.

In the coming years, the Bank will 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.

### Cyber security

The Group is giving special interest 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 applications, network and IT infrastructure 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 2019, the Security Operations Centre (SOC) was enhanced using an external expert forensic service for incident handling and response, threat intelligence, and emergency response. Additional resources were recruited in the area of cyber security. Several vulnerability mitigation actions were successfully complemented and corresponding protective measures implemented in order to raise the overall level on cyber security resilience.

All employees in the Group are also being continually educated about the importance of information/cyber security, as well 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.

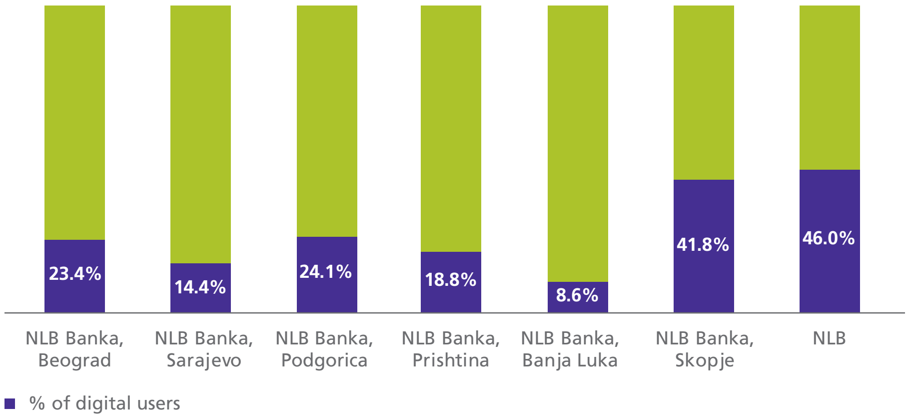



**Figure 63: Digital penetration per Group's subsidiary banks**

Chapter 15

# Risk Management

## Highlights:

- **The negative cost of risk in the last three years, due to favourable macroeconomic conditions, prudent credit policy principles, and proactive NPL management.**
- **The positive asset quality trend continued. The Group reached strategic healthy growth in the retail portfolio, which increased by 20.5 p.p. in the last three years.**

Self-funded strong liquidity and a solid capital position continued in 2019, demonstrating the Group's financial resilience. Efficient managing 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 six banking subsidiaries. Furthermore, it is also responsible for several ancillary services companies and non-core subsidiaries which are in a controlled wind-down.

The Group's credit portfolio quality remained very solid and improved further with a stable rating structure and portfolio diversification. The Group experienced healthy lending growth and the negative cost of risk, resulting from stable macroeconomic environment, prudent new financing, and active management of NPLs. The stock of NPE volume further decreased, as a result of successful restructuring of some major exposures and the recovery of NPLs, and closely approached the average EU banking level (44.6% for Q3 2019). In addition, the coverage ratio remains high above the EU average, enabling further NPE reduction without significant influence on the cost of risk in the years ahead. Positive trends have been recorded in almost the whole SEE region, even though economic growth slowed slightly – that said, it still remained relatively high, including further increased emerging uncertainties in the international environment.

In the continued negative interest rate environment in 2019, the Group faced growing excess liquidity, whereby 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.

### 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 all Group members, where the Group subsidiaries operating outside Slovenia are compliant with the rules set by the local regulators. Across the Group, assessments are made and risks managed in the Group in a uniform manner, and take into account the specifics of the markets in which individual Group members operate in line with the Group's risk management standards.

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.

The Group puts great emphasis on the risk culture and awareness across the entire Group. The main risk principles are set forth by the Group's Risk Appetite and Risk 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.

### Proactive risk management in 2019

The MREL requirement for the Group is based on the Multiple Point of Entry (MPE) approach. 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). On 17 May, the Bank received a decision by the BoS relating to the MREL requirement, which is 17.93% of TLOF at the sub-consolidated level of the NLB Resolution Group. The transition period to reach the MREL requirement is until 30 June 2023, and from that date onwards it is required to be met at all times. The Group made the implementation of MREL requirement as part of its risk appetite and the MREL requirement is regularly monitored.

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 the established ICAAP process under normal and stressed conditions. As at 31 December, the Group had a very solid capital position and total capital ratio of 16.3%, which does not yet include EUR 120 million of Tier 2 capital, which the Group successfully issued on international capital markets on 19 November 2019.[17] The CET1 ratio, representing the capital of highest quality, stood at 15.8%, which is above the EU average as published by the EBA (14.4% for Q3 2019). As at 31 December 2019, the Group had already met the fully-loaded regulatory requirements applicable in the year 2020 (including new SREP requirement). Moreover, enhanced overall corporate governance led to a lower Pillar 2 Requirement (P2R) in the last two years, which decreased from 3.5% in 2018 to 2.75% applicable in 2020, while Pillar 2 Guidance remains at low level of 1% both in 2019 and 2020.

Maintaining a solid level and structure of liquidity represents the next very important risk target. The Group holds a very strong liquidity position at the Group and individual subsidiary bank levels, which are well above the risk appetite with the LCR of 325% and the unencumbered eligible reserves in the amount of EUR 6,002 million. Even in the event the stress scenario would be realised, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank levels predominately entails customer deposits, namely in the retail segment, representing a very stable and constantly growing base.

17. For further developments see chapter Events after the end of the 2019 financial year.

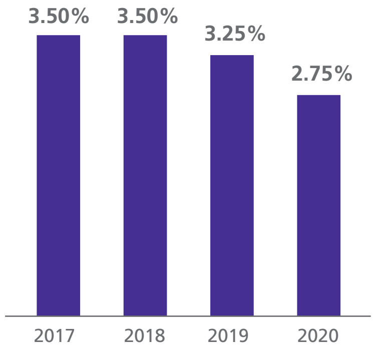



**Figure 64: NLB Group's Pillar 2 Requirement evolution**

A very comfortable level of LTD at 65.5% gives the Group the potential for further customer loan placements. The Group was included in the 2019 ECB Liquidity stress test exercise. The final results of the stress test showed that even in a very unfavourable (extreme) scenario, defined by the ECB, the Group held sufficient liquidity reserves.

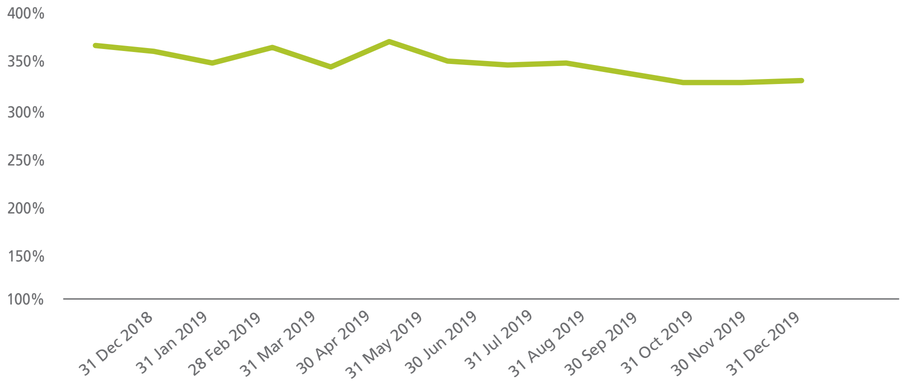


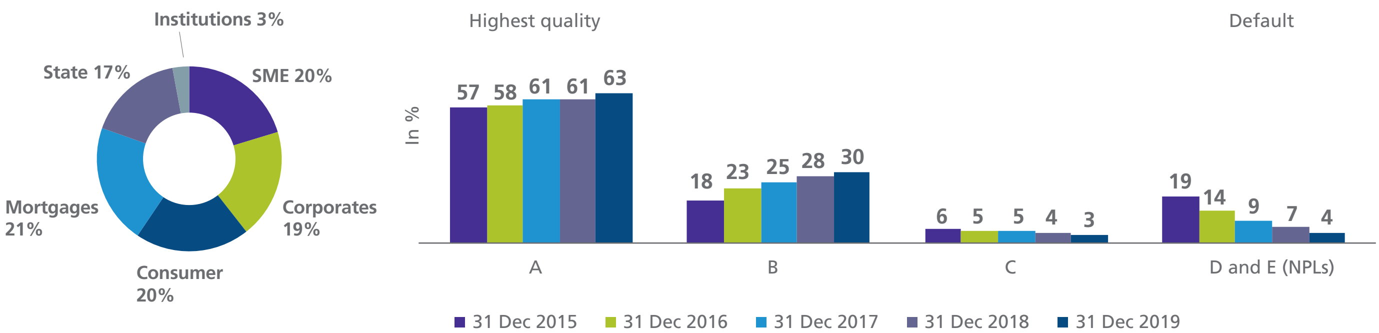

**Figure 65: NLB Group's LCR**

Preserving a high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. Great emphasis is also placed on intensive and proactive handling of problematic customers, changes in the credit process, and the early warning system for detecting an increased credit risk at a very early stage. The restructuring approaches are focused on the early detection of clients with potential financial difficulties and their proactive treatment. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance the existing risk management tools, while at the same time enabling faster responsiveness towards clients.

The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized, and small enterprise segments. Moreover, on the corporate segment the Bank established cooperation with selected corporate clients (through different types of lending or investments instruments). All other banking members in the SEE region, where the Group is present, are universal banks mainly focused on the retail and medium-sized and small enterprises segments. Their primary goal is to provide comprehensive services to clients by taking into account prudent risk management principles. The current structure of credit portfolio (gross loans) consists of 41% of retail clients, 19% of large corporate clients, 20% of SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. In comparison with the previous year, the credit portfolio structure has changed in favour of retail loans. There is no large concentration in any specific industry or client segment.

The majority of the Group's loan portfolio is classified as Stage 1 (91.4%), a relatively small portion as Stage 2 (4.8%), and Stage 3 (3.6%). Loans in stages from 1 to 3 are booked at an amortised cost, while the remaining minor part (0.3%) represents fair value loans through P&L (FVPL). The portfolio quality was very stable with increasing Stage 1 exposures and a reduction of NPL loans, which are below the Slovenian average. The high percentage of Stage 1 loan portfolio is the result of a cautious lending policy, while the volume of Stage 2 loans is quite limited, this decrease occurred due to the positive resolving of exposures in this stage.

The Group is actively present on the market in the SEE region, financing existing and new creditworthy clients. The successful deleveraging of companies and new investment projects in Slovenia have had a




Gross exposures include also reserves at CBs and demand deposits at banks.

**Figure 66: NLB Group structure of the credit portfolio (gross loans and advances) by segment and by rating**

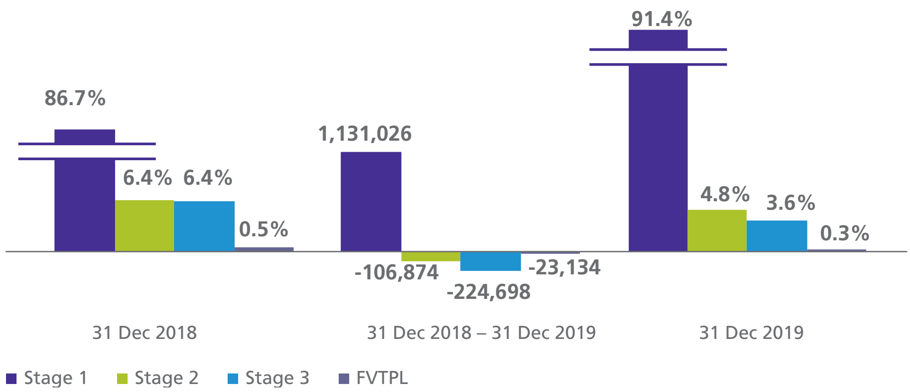



**Figure 67: NLB Group loan portfolio (valued at amortized cost) by stages**

positive influence on the approval of new loans, but nevertheless lending growth in the corporate segment remained relatively moderate. In the retail segment, especially in the consumer loan segment, positive trends were recorded throughout the region. The low unemployment rate and relatively high wage growth reflected in the increased household consumption alongside with the increasing residential real-estate prices.

In November 2019, BoS adopted the Regulation on macroprudential restrictions on household lending, which introduced a binding macro-prudential measure in the area of retail lending by determining the maximum disposable amount of consumer or housing loans in relation to the borrower's income (DSTI), related limitation on consumer loan's maturity, and the maximum level of derogations referring to these limitations on a single bank level. The new regulation may have a negative impact on the demand for retail lending products in Slovenia, namely in segment of long-term consumer loans.

Efforts led to cumulatively very low new NPL formation in the amount of EUR 55.8 million, which represents 0.6% of the total portfolio. In addition, a stable macroeconomic environment across the region resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and below mid-term strategic orientations.

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 of corporate and retail clients. In corporate loans, it is followed by government and corporate guarantees. In retail loans, the other most frequent loan collateral types are insurance companies and guarantors.

A strong focus on further reduction of NPLs on the Group level remained in 2019. Precisely set targets in the Group's NPL Strategy, an active workout and positive macroeconomic trends supported a further substantial reduction in the volume of the non-performing portfolio. The active approach to NPL management gives strong emphasis on restructuring, and use of other NPL management tools such as foreclosure of collateral, the sale of claims, and pledged assets. The existing non-performing credit portfolio stock in the Group was reduced from EUR 622 million to EUR 375 million YoY, and the reduction exceeded the set targets. The combined result of all of the effects resulted in a lower share of NPLs from 6.9% to 3.8% YoY, while the internationally more comparable NPE ratio based on the EBA methodology dropped from 4.7% to 2.7% YoY. In addition, the Group's indicator Gross NPL ratio, defined by EBA, decreased to 4.6%, and thus moved below the regulatory defined threshold for establishment of a NPL strategy framework.

An important Group strength is the NPL coverage ratio 1, which remains high at 89.2%. Furthermore, the Group's NPL coverage ratio 2 stands at 65.0%, which is well above the EU average as published by the EBA (44.6% for Q3 2019). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years. Moreover, it proves that past reduction was done on average without a negative impact to the profit and loss account.

Regarding market risks, 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. The Bank maintains a small trading portfolio, mainly to monitor market signals in the global markets. As such, it does not constitute a material risk to the Group's operations and its tolerance for interest rate and credit spread risk is very low.

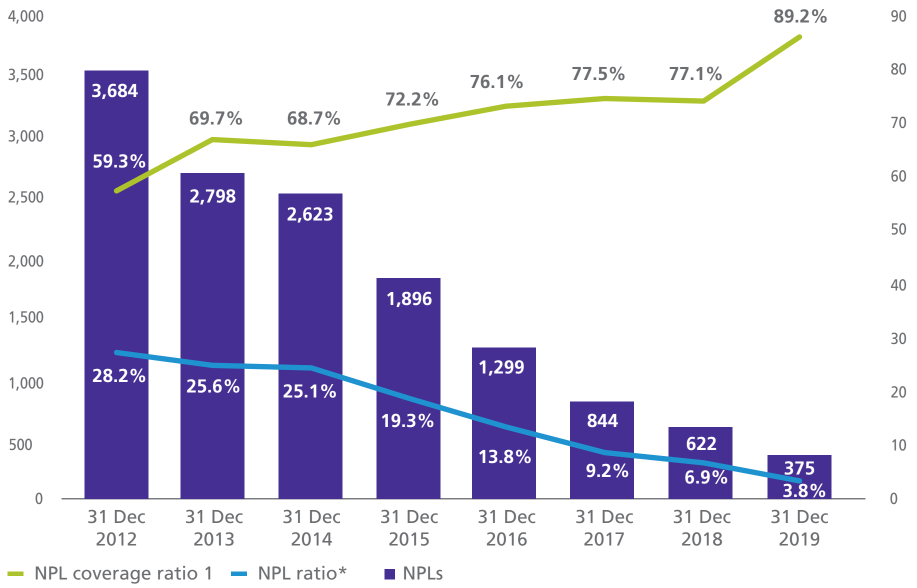
The Group carries its main business activities in euros, and the subsidiary banks, in addition to their domestic currencies, also operate in euros, which is the reporting currency of the Group. The Group's net open FX position from transactional risk is low, and at less than 2% of capital. Regarding 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.

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 manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose purpose is to maintain adequate liquidity reserves, and at the same time it also contributes to the stability of the interest rate margin. In addition, for interest rate risk management, the Group also uses plain vanilla derivative financial instruments such as interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements.

The net interest income sensitivity of the Group would amount to EUR 15.4 million if market interest rates increase by 50 bps, whereas if they decreased, the exposure would be lower due to zero floor clauses included in the loan contracts (EUR 14.7 million). From an EVE perspective, the capital sensitivity of 200 bps equals 6.1% of the Group's capital.

In the area of operational risk management, where the Group has established a robust operational risk culture, the main qualitative activities refer to the reporting of loss events and identification, assessment, and the management of operational risks. On this basis, constant improvement of control activities, processes, and/or organisation is performed. In 2019, additional efforts were made with regard to proactive mitigation, prevention, and minimisation of potential damage in the future. Special attention was dedicated to the stress-testing system,




* By internal definition.

**Figure 68: NLB Group NPL, NPL ratio and Coverage ratio**

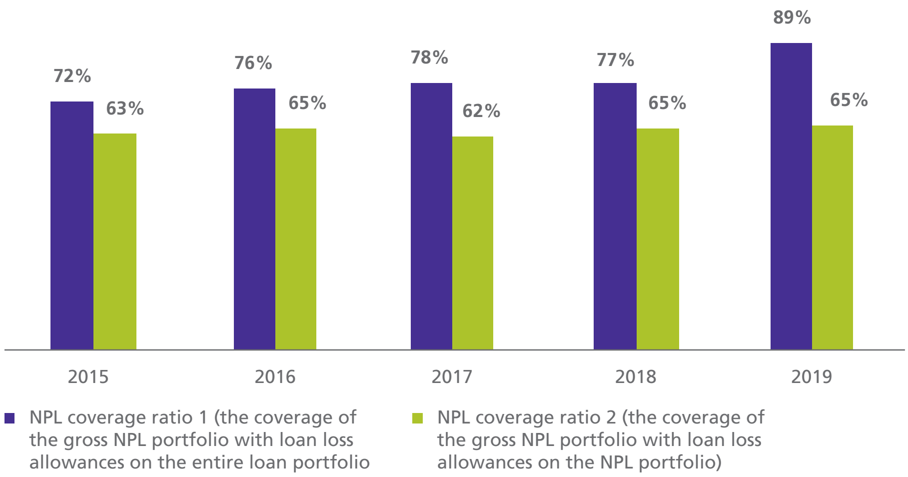



**Figure 69: NLB Group Coverage ratio and NPL Coverage ratio**

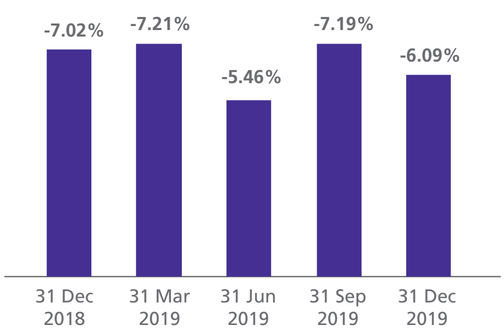



**Figure 70: NLB Group's EVE evolution**

based on a scenario analysis referring to the potential high severity, low frequency events, and modelling 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) were additionally enhanced. Their upgrade facilitates more detailed information for the more effective planning of measures and operational risk management, improves the existing internal controls, and enables reacting on time when necessary.

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. The uniform stress testing programme, which includes internally-developed models, stress scenarios, and sensitivity analysis, was further enhanced. Such stress testing framework is the subject of a regular internal validation cycle and related procedures where substantial progress in 2019 was made. The goal of the Group is to have a strong validation governance process and controls over applied selected risk approaches and internal models.

Further information on risk management is available in the Note 6.0 to the Audited Annual Financial Statements and Pillar 3 Disclosures.

325%

The Group LCR

65%

The Group NPL Coverage ratio

-20 bps

The Group Cost of Risk was negative

Chapter 16

# Human Resources

HR drive 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 has been focusing on the need for organisational and cultural development. In 2019, all employees were involved in targeted development, with the focus mainly on 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.

## On a path toward more efficient organisation

In the past few years, the Group made substantial progress in improving its HR management function by implementing performance management, promotional schemes, remuneration schemes, organisational culture, and target development for key groups of employees. HR's top priority remained changing the organisational culture, and innovative practices are constantly being implemented. The Group also decided to form a common leadership brand, with carefully defined leadership behaviours needed to drive business changes in the future.

In recent years, the Group undertook efforts to gradually optimise and right-size its staffing level in line with the current organisational structure. In the last five years the Group has reduced the number of employees by 13.6% (925 employees, 434 in the Bank alone) and concluded several major reorganisations. With the comprehensive HR strategy, the Group's business needs were profoundly analysed and workforce planning schemes formed. Accordingly, talent career activities were carried out throughout the Group, aiming to support future business needs.

To continue with the upgrading of HR processes and improving qualitative analytics, a new IT tool was introduced in the Bank that supports crucial HR processes (i.e., core HR data, performance management, recruiting, learning and development, talent management, and career development). In the coming years, the same IT tool will be integrated throughout the Group.

## Proud to be recognised as an attractive 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

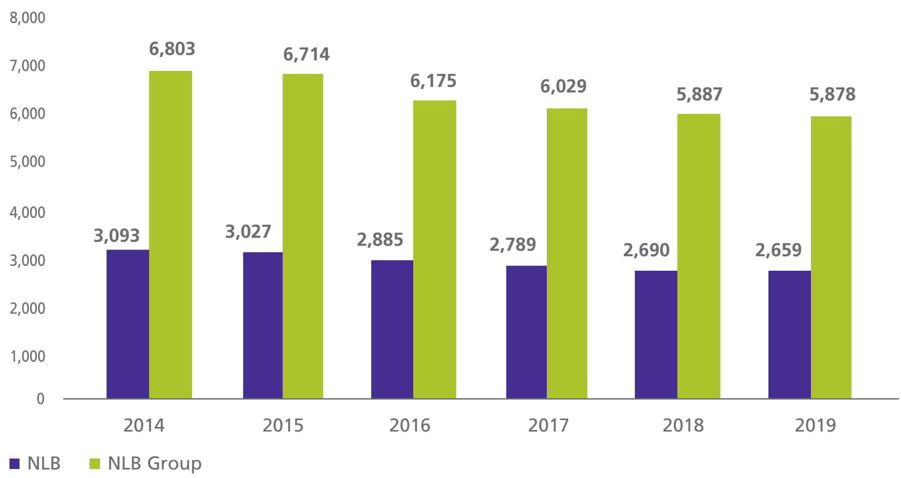



Figure 71: Reduction of the number of employees in NLB Group

**Table 27: NLB Group employees by countries**

| Country | Number of employees (as at 31 December 2019) |
|---|---|
| Slovenia* | 2,750 (NLB: 2,659, other: 91) |
| Serbia | 494 |
| BiH (Republic of Srpska, Federation of BiH) | 934 |
| Montenegro | 312 |
| North Macedonia | 903 |
| Kosovo | 474 |
| Germany | 1 |
| Switzerland | 3 |
| Croatia | 7 |
| **Total (the Group)** | **5,878** |

* Without Bankart, Prvi Faktor, NLB Vita.

once again recognised as 'Top Employer' by Top Employer Institute, for already the 5th consecutive year. NLB Banka, Sarajevo was awarded as second best employer in the financial sector. NLB Banka, Skopje was highly recognised for being a people-oriented bank, where the bank was awarded with the corporate badge 'People-oriented company' by the Macedonian HR Association.

### Continuing a longstanding tradition of investing in employees

Caring about the employees is the key value reflected in several activities and opportunities intended for all of 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, and by changing our behaviour we are changing the organisational culture.

### Knowledge for whatever may come

The Group strives for high quality and compliance with the standards of a modern learning organisation. Various training activities are aimed to rise awareness and encourage employees to embrace changes. The objective of these activities is to train the employees to reach their business targets, and thus meet their personal expectations by showing social responsibility in interaction with all the stakeholders.

Diverse training courses are organised for employees to obtain new skills and expertise. Employees from different management levels, from leadership talents to directors, are involved in the development of leadership skills. Skills are developed as modules where the contents are upgraded accordingly. The Group started developing a joint leadership brand to promote and develop constructive leadership behaviours. Its purpose is to define key leadership behaviours that will clearly represent a NLB leader at all levels throughout the Group.

Development of the Group talents followed career development plans set for individual employees. Some Group member companies also identified new talents in 2019 and prepared development plans for them.

Special attention is being paid to new recruits who undergo specially designed training courses in their first year to gain the knowledge they need to meet expectations in their knew roles. With the onboarding programme they are helped with the integration into the new environment and more connected to new co-workers.

34.6
hours of education per employee in 2019

465
new hires of significant group members in 2019

5,878
employees in the Group

Apart from standard learning methods, a lot of internal training is performed in the workplace – through mentorship, coaching, exchanging experience with co-workers, as well as staff rotation in other departments or member companies. These are all efficient forms of social learning.

The Group supports all employees and their leaders in organising different forms of informal socialising to improve the organisational climate, engagement, and workplace well-being.

The aim of the Group is to carry out the majority of training programmes internally with knowledge transfer. Everyone is involved in the knowledge transfer process; experts from individual fields take the role of internal lecturers, mentors, or coaches.

### Health is a major value

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.

All banks take great care and follow a healthy programme covering the key elements of well-being: physical, emotional, and psychological. This way all employees are encouraged to regularly attend various organised activities: the Group's joint sports games twice a year, workshops on a healthy lifestyle, healthy food, exercising, stress management in the workplace, special sports events, and health checks.

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

For employees working in the companies within the Group, one's 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 assessments are 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.

For employees performing special work, a new remuneration policy has been designed and implemented on the Group level. Major changes relate to defining the categories of employees and introducing criteria needed for placing employees into the relevant category. For a controlling or supervisory function, the increased importance of influencing risk management is recognised, where more categories of employees are involved in and their remuneration model differentiate from other employees performing special work.

The remuneration policy defines the circumstances for subsequent adjustment of payments to the risks that mandatorily reduce the deferred variable part of the salary to zero (holdback), or circumstances that potentially reduce the deferred part of the variable part of the salary to zero (clawback).

Chapter 17

# Corporate Governance

**The corporate governance of the Bank is based on applicable legislation of the RoS, particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), the Decision 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, from the date when the first phase of the privatisation of the Bank was completed (14 November 2018), the Bank was a publicly listed company which also follows the Corporate Governance Code for Listed Companies (October 2016). Deviations from the recommendations of the code are published in the Corporate Governance Statement of NLB, which is part of the Business Report in the NLB Group Annual Report, as well as on the Bank's website: https://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 (March 2019, published on the website: https://www.nlb.si/corporate-governance), 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. The Management and Supervisory Boards also decide on which corporate governance code the Bank should follow. The mentioned policy 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 compliance with Slovenian legislation, the Bank has a two-tier system under which the relationships between individual bodies are founded on a mutual division of rights and responsibilities, as defined by the Bank's Articles of Association (published on https://www.nlb.si/corporate-governance). According to Articles of Association, the Bank's corporate governance bodies are as follows: the General Meeting, the Supervisory Board, and the Management Board.

### 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 and appointment of an auditor; distribution decisions (appropriation of distributable profit); and granting of a discharge from liability to the Management and Supervisory Boards. 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 is convened by the Management Board at least once a year. It may be convened by the Supervisory Board in cases stipulated by Articles of Association. The notice of convocation of the General Meeting must be published no fewer than 30 days before the date of the General Meeting.

During 2019 the General Meeting of the Bank met twice, namely:

Shareholders of the Bank gathered on 10 June 2019 at the 33rd General Meeting, the first after the successfully concluded public offering of shares on 14 November

2018 when the Bank became a joint-stock company with dispersed domestic and international ownership. On the meeting, shareholders acknowledged the adopted NLB Group Annual Report 2018, the report of the Supervisory Board on the results of the review of the Annual Report, and the information on the remuneration of the members of the Management and Supervisory Boards for the previous year. In addition, the shareholders decided on the allocation of the accumulated profit for 2018, and granted a discharge from liability to the Management and Supervisory Boards for the 2018 business year. They decided to allocate EUR 142,600,000.00 of the total EUR 194,491,264.58 of accumulated profit as at 31 December 2018, which means EUR 7.13 gross per share. The remaining portion of EUR 51,891,264.58 remains undistributed and represents retained earnings.

The General Meeting elected four new members of the Supervisory Board, namely: Mark William Lane Richards, Shrenik Dhirajlal Davda, Gregor Rok Kastelic, and Andreas Klingen (whose term of office expired). All four were appointed to a four-year term starting on the day of appointment until the end of the Bank's Annual General Meeting decision on the use of accumulated profit for the fourth business year since their election, the first year being the business year during which they were appointed. In the selection process, the amendments to Article 20 of the Articles of Association (adopted on the General Meeting dated 12 October 2018) were followed, regulating the appointment and membership of the Supervisory Board members in accordance with the EC's decision binding the RoS to appoint only independent experts to the Supervisory Board.

The General Meeting also authorised the Management Board for redeeming own shares and the exclusion of the preemptive right of the existing shareholders in the disposal of own 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) and other relevant regulations, the Bank 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 own shares, while the total percentage of shares acquired on the basis of this authorisation, together with the own shares already in possession of the Bank, may not exceed 10% of the Bank's share capital (2,000,000 shares).

The General Meeting also acknowledged the adopted Internal Audit's Report for 2018 and the opinion of the Supervisory Board, adopted the Policy on the provision of diversity of the management body and senior management, and adopted the Policy on the selection of suitable candidates for members of the Supervisory Board.

On 21 October 2019, the shareholders of the Bank gathered at the 34th General Meeting and confirmed the proposed increase of the remuneration for the members of the Supervisory Board and its committees, which was also based on market levels and the remuneration of peers and competitors.

Due to the fact that with the completed first phase of the privatisation of the Bank on 14 November 2018, the Bank became a publicly listed company. The Bank respects, recommendations of the Corporate Governance Code for Listed Companies, as well as the Guidelines on Disclosure for Listed Companies (Ljubljana Stock Exchange). In order to assure equal treatment of shareholders convocations and counterproposals of the Bank's General Meetings are available on the Bank's website (www.nlb.si) and published in the SEOnet system of the Ljubljana Stock Exchange, on RNS (Regulatory News Service) on the London Stock Exchange, and the AJPES (Agency of the RoS for Public Legal Records and Related Services) website. Materials with the proposed resolutions and explanations, as well as other materials, are available to the shareholders at the registered seat of the Bank. On the mentioned Bank's website, NLB publishes information on the cost of the particular General Meeting, as well.

### Group's Corporate Governance

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

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

The Group is governed:

- In accordance with fundamental corporate rules through various bodies of the Group members:
  - By voting at general meetings of the Group members
  - By exercising supervision through the supervisory bodies of the Group members
  - With proposals for appointing the management of the Group members
  - With proposals for appointing representatives of the Bank to supervisory bodies
  - Through participation of Bank's representatives in various committees and commissions of the Group members
- Through mechanisms that ensure efficient business monitoring and governance, such as:
  - Harmonisation of operations in accordance with the so-called 'competence line principle'
  - Group Management Board Meetings, Group Leadership meetings, Group ALCO meetings, etc.
  - Development activities carried out via cross-functional working groups, group projects, competence centres, centres of excellence, etc.
  - Through additional supervision of the Group members carried out by control functions (risk management, audit, compliance) and external supervising authorities (ECB, local regulators, external auditors)

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

In line with strategic aspirations, the concept of 'country managers' was fully introduced with the main goal to support and steer the Group members, as well as to be a strong link between Group members and the Bank. They also facilitate best practice sharing on different levels. 'Stream coordinators' were introduced at the end of 2018 to: address the facilitation of more in-depth knowledge of competence lines and greater integration between streams and the Group members; the increasing transmission of current information, needs, and other requirements from the Group members; and the exploitation of synergies at the Group level and coordination of regional projects.

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

## Supervisory Board

The Supervisory Board performed supervision of the management of the Bank and its duty of diligent and prudent conduct in line with powers defined in the Companies Act (ZGD-1) and supplemented by provisions of the Article 48 of the Banking Act (ZBan-2), other regulations, and internal rules of the Bank (the Articles of Association and Rules of Procedures of the Supervisory Board). The Supervisory Board issues approvals to the Management Board related to the Banks' business policy and financial plan, and approves the strategy of the Bank and the Group, the internal control system organisation, the Annual Plan of the Internal Audit, and issues approvals to all financial transactions for which they are required to give consent. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest.

In accordance with the Articles of Association, the Supervisory Board consists of nine members appointed by the General Meeting. Until 28 February 2019, the Supervisory Board consisted of eight members, namely: Primož Karpe - Chairman, Andreas Klingen - Deputy Chairman, and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik. Two members of the Supervisory Board submitted their resignation statements on 30 November 2018 with a three-month notice, as a result of changed EC commitments that the RoS submitted to the EC in 2018, which required independence of all members of the Supervisory Board. After the expiration of the notice period on the 28 February 2019, the Supervisory Board continued to work with full powers.

Therefore, at the General Meeting on 10 June 2019 four members of Supervisory Board were appointed (Mark William Lane Richards, Shrenik Dhirajlal Davda and Gregor Rok Kastelic), whereas one member's term of office was renewed (Andreas Klingen). On 28 June 2019, the Supervisory Board met for the first time with all nine members, as defined by the Articles of Association. At the mentioned meeting the Supervisory Board also allocated members to its existing committees (Audit, Risk, Remuneration and Nomination) and established a new committee for Operations & IT.

At the beginning of July 2019, all members of the Supervisory Board signed Statements on the Independence of Members of the Supervisory Board in which they all declared themselves independent. The statements are published on the Bank's web page: https://www.nlb.si/corporate-governance.

In 2019, the Supervisory Board met at seven regular, 10 correspondence, and one extraordinary session and considered the following key topics:

- Adopted NLB Group Budget 2020 and acknowledged the financial projections for 2021-2024
- Adopted the Corporate Governance Statement of NLB and adopted the Risk Management Statement of NLB
- Approved the NLB Group Annual Report 2018, and adopted the Report of the Supervisory Board of NLB on the results of examining the NLB Group Annual Report 2018, adopted the Annual Report of Internal Audit for 2018 for the General Meeting of shareholders
- Approved the Annual Corporate Social Responsibility Report for 2018, and approved the Statement on non-financial operations of the NLB Group for 2018
- Approved the proposal to convene the regular General Meeting of NLB for 10 June 2019, as well as the proposal to convene the extraordinary General Shareholders' Meeting of NLB for 21 October 2019
- Approved Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) and Risk Appetite Reports, Pillar III Disclosures for the NLB Group for 2018, capital optimisation activity for NLB and NLB Group in 2019, NLB Group NPLs wind-down strategy, report on the Top 50 groups of clients by exposure in the NLB Group, on the write-off of receivables from the off-balance sheet record
- Approved the Annual Plan of the Internal Audit, the Annual Report of the Compliance and Integrity, Interim Reports on the operations of the NLB Group, amendments to the Internal Audit Charter of NLB, the regular annual Assessment on Risks in the Area of Compliance and Integrity, and acknowledged itself on the Internal Audit's Comprehensive Opinion 2018
- Approved achievements of the goals of the Management Board in 2018 and approved goals for the Management Board for 2019, appointed a new COO, adopted decisions on succession planning for members of the Management Board, report on self-assessment of the Supervisory Board, acknowledged itself about candidates for members of the Supervisory Board
- Acknowledged the presentation of IT, acknowledged IT performance indicators
- Adopted regular quarterly reports on State Aid – Status Reports, and adopted the Report on Risks relating to the Unfinished Procedures before the EC regarding the State Aid

**Members of the Supervisory Board (from left to right):**
**László Urbán, Ph.D., Primož Karpe, MSc (Chairman), Alexander Bayr, Mag, Gregor Rok Kastelic, Mark William Lane Richards, Shrenik Dhirajlal Davda, Peter Groznik, Ph.D. and David Eric Simon.**

* Andreas Klingen (Deputy Chair) is not on the photo.

- Acknowledged the regular reports on documents received from the regulator(s) BoS and the ECB, and on the implementation of the requirements
- Acknowledged the status report on the implementation of the activities concerning investor relations
- Adopted amendments to the Rules of Procedure of the Risk Committee of the Supervisory Board of NLB, the Rules of Procedure of the Audit Committee of the Supervisory Board of NLB, adopted changes to the Corporate Governance Policy of the NLB, acknowledged amendments to the Corporate Governance Policy of NLB Group, approved the Rules on Inside Information; approved the Policy on the Selection of Suitable Candidates for Members of the Management Board of the Bank
- Adopted decisions (or acknowledgements) on the establishment of new companies, cross-border financing and international syndicated financing, large exposures, sale of receivables, write-offs of claims, divestment of the Group companies, legal proceedings involving NLB and the Group members, transactions with persons in special relations with the Bank, etc.

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

**Primož Karpe, MSc**
**Chairman of the Supervisory Board**
Term of office: 2016-2020

Education:

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

Career:

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

Other important positions and achievements:

- Co-founder and a partner in an independent, highly successful regionally focused private equity fund, which made its name by investing in the anti-cyclical sectors of healthcare provision, well-known food brands and pharma packaging
- Mentor of several prospective regional start-ups and equity fundraising specialist
- Advisory board member at regional VC and regional buyout funds
- EBRD's Team Coordinator for the IPO pre-listing programme
- Extensive working experience with the large institutional and Gov't investors, including US AID (DAI) as the independent contractor.

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 of the Supervisory Board**

Term of office: 2015-2019, renewed term 2019-2023

Education:

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

Career:

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

Other important functions and achievements:

- Independent Non-Executive Director Nepi Rockcastle plc, (since April 2019)
- Member of Supervisory Board of Kyrgyz Investment and Credit Bank CISC (since December 2016)
- Member of Supervisory Board of Credit Bank of Moscow PJSC (since November 2016)
- Member of the Board of Directors of Komercialna banka Beograd a.d. (November 2014 - November 2018)
- Member of Supervisory Boards of Banks in Central and Eastern Europe and CIS (2005-2013)

Membership in NLB Supervisory Board committees:

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

Membership in management bodies of related or unrelated companies:

- None

### Alexander Bayr, Mag

**Member of the Supervisory Board**

Term of office: 2016-2020

Education:

- Faculty of Economics in Innsbruck (1985)

Career:

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

Other important functions and achievements:

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

Membership in NLB Supervisory Board committees:

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

Membership in management bodies of related or unrelated companies:

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

### David Eric Simon

**Member of the Supervisory Board**

Term of office: 2016-2020

Education:

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

Career:

- Chief Restructuring Officer and Advisor to the General Manager, Czech Export Bank a.s. (2013-2014)

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

Other important functions and achievements:

- Primary expertise in credit, restructuring, and NPL

Membership in the NLB Supervisory Board Committees:

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

Membership in management bodies of related or unrelated companies:

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

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

Education:

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

Career:

- Member of the Supervisory Board of Ukreximbank in Ukraine (since November 2019)
- Adjunct Professor at Central European University Business School (2012-2017)
- Member of the Supervisory Board at EBRD (2010-2011)
- CFO and Member of the Board of Directors at OTP Bank (2007-2009)
- Director, General Secretariat at National Bank of Hungary (2005-2006)
- Vice President, Business Planning Director at Citigroup, New York (2000-2005)
- Deputy CEO and member of the Board of Directors at Postabank, Hungary (1998-2000)
- Director of Planning and Chief Economist at ABN-AMRO Bank, Hungary (1996-1998)

Other important functions and achievements:

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

Membership in NLB Supervisory Board committees:

- Risk Committee (Deputy Chairman)
- Remuneration Committee (Deputy Chairman)
- Operations and IT Committee (Member)

Membership in management bodies of related or unrelated companies:

- None

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

Education:

- Doctor of Science - Kelley School of Business, Indiana University Bloomington, US (2003)
- Master of Business Sciences - Kelley School of Business, Indiana University Bloomington, US (2001)

- Bachelor of Economics, Finance - Faculty of Economics, University of Ljubljana (1996)

Career:

- President of the Managing Board - CETIS Group (since September 2019)
- Director- MSIN, investment and consulting company (since March 2019)
- Owner and Director - NorthGrant, svetovanje d.o.o., Ljubljana (2017-2019)
- Member of the Management Board - Gorenje d.d. (2012-2017)
- Owner and Director - NorthGrant, svetovanje d.o.o., Ljubljana (2010-2012)
- President of the Management Board - KD Skladi d.o.o., Ljubljana (2009-2010)
- Director of Investment Department - KD, NPD by 2008, KD Skladi and KD Holding from 2008 to 2009 (2005-2009)

Membership in the NLB Supervisory Board committees:

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

Membership in management bodies of related or unrelated companies:

- MSIN
- CETIS

**Shrenik Dhirajlal Davda**
**Member of the Supervisory Board**
Term of office: 2019-2023

Education:

- Masters of Business Administration, INSEAD. Fontainebleau, France
- Bachelor of Laws, London School of Economics & Political Science. London, UK

Career:

- Chairman of the Supervisory Board, Ukrgasbank. Kyiv, Ukraine (since 2015)
- Partner, NECP LLP. London, UK (since 2013)
- CEO, Gryphon Emerging Markets Ltd. London, UK (2011-2013)
- Adviser, Blackfish Capital Ltd. London, UK (2010-2011)
- Director, Deutsche Bank Ltd. London, UK (2007-2010)
- Co-Founder, New Europe Capital Partners Ltd. London, UK
- IB Head Baltics, Balkans, Ukraine, JP Morgan Ltd. London, UK (1989-2005)
- Manager, Gulf International Bank Ltd London, UK (1982-1987)

Membership in the 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:

- None

**Mark William Lane Richards**
**Member of the Supervisory Board**
Term of office: 2019-2023

Education:

- Oxford University: M.A Modern History and Economics 1st class (1984-1987)
- London Business School: Accelerated Management Programme (1995)
- Chartered Institute of Bankers: Associate (1990)

Career:

- Non Executive Director, and Chair of the Risk Committee, CIB Bank Egypt (since 2014)
- Non Executive Director, Sheffield Haworth Ltd (London-based Financial services global Executive Search firm) (since 2016)
- Non Executive Director: Vencap International (UK based Venture Capital focused investment firm) (since 2019)
- Chief Executive IPGL Ltd. (Financial services focused single family office) (2016-2018)
- Partner and Head of Financial Services, Actis Private Equity (a major emerging markets focused private equity firm) (2005-2016)
- Barclays Bank Plc. Senior Executive Roles included Director Group corporate development, Strategy Director, and CFO International Offshore Banking, originally a Corporate Banker (1987-2005)

Membership in the 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 of the Supervisory Board**
Term of office: 2019-2023

Education:

- International MBA, South Carolina University, US
- Bachelor of Economics, University of Ljubljana, Slovenia

Career:

- Managing Director, Head of Emerging Europe, Corporate Finance, ING Bank, London (since 2010)
- Managing Director, Co-Head of Private Equity Division, Silkroutefinancial (UK) Ltd, London (2009-2010)
- Executive Director, Financial Institutions Team, Morgan Stanley, London (2006-2008)
- Principal Banker, Financial Institutions Team, EBRD, London (2003-2006)
- Senior Associate, CEEMEA Investment Banking Team, Schroder Salomon Smith Barney, London (1999-2002)
- Senior Equity Analyst, CAIB Investmentbank, London (1995-1999)

Membership in the 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)
- SIB Banka, Slovenia, Member of the Supervisory Board (2009-2012)
- Komercijalna banka AD Belgrade, Serbia, Member of the Supervisory Board (2006)
- NLB Montenegrobanka AD Podgorica, Montenegro, Member of the Supervisory Board (2006)
- Komercijalna banka AD Skopje, Macedonia, Member of the Supervisory Board (2005-2006)
- ABN Amro Bank N.B., Uzbekistan, Member of the Supervisory Board (2004-2006)

## Committees of the Bank's Supervisory Board

The supervisory Board appoints committees that prepare proposals for resolutions passed by the Supervisory Board, ensures their implementation, and performs other expert tasks. From 28 June 2019 the Bank's Supervisory Board had five collective decision-making and advisory committees, namely:

- The Audit Committee
- The Risk Committee
- The Nomination Committee
- The Remuneration Committee, and
- The Operations and Information Technology (IT) Committee

### The Audit Committee

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 2019, the composition of the committee was as follows: David Eric Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, and Vida Šeme Hočevar (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, 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).

There were five regular sessions and four correspondence sessions of the Audit Committee in 2019. The following is a summary of key topics considered by the Audit Committee:

- Annual Report of Internal Audit for 2018 for the General Meeting of shareholders
- Annual plan of the Internal Audit and Compliance
- Regular interim reports on the operations of the NLB Group, Internal Audit's report, Report on the work of the Compliance and Integrity for 2018
- Amendments to the Internal Audit Charter of NLB
- Regular reports on overdue recommendations of the Internal Audit
- Regular annual Assessment on Risks in the Area of Compliance and Integrity
- Reports on the documents received from BoS and ECB and on the implementation of the requirements of the BoS and ECB
- Approval of the NLB Group Annual Report and approval of the Corporate Social Responsibility Report for 2018
- Information on cooperation with the external auditor in auditing the NLB Group Annual Report, in particular by means of exchanging briefings on major audit-related issues

**The Risk Committee**

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 2019, the composition of the committee was as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chairman), Simona Kozjek, Peter Groznik, and David Eric Simon (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, 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).

There were five regular sessions of the Risk Committee in 2019. The following is a summary of key topics considered by the Risk Committee:

- Regular quarterly risk reports in NLB and the NLB Group
- ICAAP and ILAAP Manual and Statement on Liquidity Adequacy and regular ILAAP, ICAAP reports
- Pillar III Disclosures of the Basel Standards for the NLB Group for 2018
- Risk Appetite Reports
- Approved updated version of the Risk Appetite of the NLB Group and capital optimisation activity
- NLB Group NPLs wind-down strategy
- Report on the Top 50 groups of clients by exposure in the NLB Group
- Report on the Top 20 largest exposures to clients in restructuring procedures
- Proposal for the issuance of prior consent of the Supervisory Board of NLB, in accordance with the first paragraph of article 164 of the 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)

**The Nomination Committee**

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

From 1 January 2019, the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Vida Šeme Hočevar, and Peter Groznik (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, 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).

There were five regular sessions of the Nomination Committee in 2019. The following is a summary of key topics considered by the Nomination Committee:

- Assessment of the collective suitability of members of the Supervisory Board (Fit&Proper)
- Regular annual suitability assessment of the Management Board and Supervisory Board
- Selection of the Management Board member responsible for IT and operations (COO)
- Presentation of the proposed new candidates to the Supervisory Board
- Assessment of the suitability of the candidates for members of the Supervisory Board of NLB
- Amendments to the Rules of Procedure of the Nomination Committee of the Supervisory Board of NLB
- Amendments for the Policy on the selection of suitable candidates for members of the Supervisory Board of the bank; amendments for the Policy on the selection of suitable candidates for members of the Management Board of the bank; amendments to the Policy on the provision of diversity of the management body and senior management

**The Remuneration Committee**

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

From 1 January 2019, the composition of the committee was as follows: Vida Šeme Hočevar (Chairwoman), Simona Kozjek (Deputy Chairwoman), Primož Karpe, and László Urbán (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, the composition of the committee was as follows: Alexander Bayr (Chairman), László Urbán (Deputy Chairman), Shrenik Dhirajlal Davda, and Gregor Rok Kastelic (members).

There were four sessions of the Remuneration Committee in 2019. The following is a summary of key topics considered by the Remuneration Committee:

- Realisation of the goals of the Management Board of NLB for 2018 and information on approved goals for 2019
- Assessment of the performance and the proposed variable part of remuneration for directors of Internal Audit, Compliance and Integrity and Global Risk
- Proposed amendments to the Policy on Remuneration for the Employees Performing Special Work

**The Operations and IT Committee**

The Committee shall monitor and prepare draft resolutions for the Supervisory Board, whereby the tasks it mainly performs are the following: monitor the implementation of the IT Strategy, Information Security Strategy, and Operations Strategy; monitor key operations and IT KPI's and service quality indicators; monitor key operations and IT projects and initiatives; monitor operating risks in the area of Operations, IT and Security; monitor the recommendations for ensuring and increasing the level of information/cyber security, issued by CISO, address the report on potential violations, events and incidents in the area of IT security; and monitor the Target Operating Model implementation in the areas of IT, the Security Operating System, Competence Centre and Operations.

On the session of the Supervisory Board dated 28 June 2019, a decision to establish a new committee for Operations and IT was adopted. The Supervisory Board also adopted a decision on the composition of the committee, which was as follows: Mark William Lane Richards (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Primož Karpe, Andreas Klingen, and László Urbán (members).

There were two sessions of the Operations and IT Committee 2019. The Operations and IT Committee acknowledged itself by presenting:

- IT performance indicators
- Top 5 IT priorities
- Presentation of IT and Operations (Priorities Dashboard)

### Management Board of the Bank

The Management Board of the Bank leads, represents, and acts on behalf of the Bank, independently and at its own discretion, as provided for by the law and the Bank's Articles of Association. In accordance with the Articles of Association, the Supervisory Board may appoint (and recall) three to six members (a president and up to five members) to the Management Board. The President and members are appointed for a term of five years and may be reappointed or dismissed early in accordance with the law and the Articles of Association. The selection is not only based on the legal conditions, but also the internal acts and the recommended national and European good practice guidelines. Every member has to fit the professional profile prepared before the selection procedure.

In 2019, the Management Board of the Bank consisted of Blaž Brodnjak (a member since 1 December 2012, Deputy President since 5 February 2016, and President, CEO and CMO since 6 July 2016, with a new five-year term of office as at 6 July 2016); and members Archibald Kremser, acting as CFO (since 31 July 2013 and with a new five-year term of office as at 6 July 2016); Andreas Burkhardt acting as CRO (since 18 September 2013 and with a new five-year term of office as at 6 July 2016); and László Pelle acting as COO (since 26 October 2016). The five-year term of office of the President of the Management Board, Blaž Brodnjak, and the members of the Management Board, Archibald Kremser, and Andreas Burkhardt expire on 6 July 2021.

On 30 October 2019, the Supervisory Board of NLB and László Pelle, member of the Management Board and COO, agreed on the termination of his office in effect on 31 January 2020. On 29 November 2019, the Supervisory Board appointed Petr Brunclík as member of the Management Board, with a five-year term of office from the day he receives consent by the ECB. He will assume the function of COO and will be responsible for the IT, operations, procurement, and corporate real-estate management departments. The new COO is joining the Bank during its intense digital and IT transformation, as well as numerous challenges being set forth to the banking sector by various fintech companies, and continuing calls to improve customer experience.

Petr Brunclík has almost 20 years of diverse banking, business, customer service, process improvement, online, and technology experience. He majored in information technologies and applied informatics at the University of Economics in Prague. Before joining NLB, he gained extensive experience as a Chief IT and Operations Officer (CIO & COO) at the Home Credit Philippines (from June 2017), which is a part of the Home Credit Group, an international consumer finance provider, with a leading presence across 11 countries in CEE, Asia, and North America.

In June 2019, SSH completed the second phase of the privatisation of NLB, and the commitment given to the EC (as amended in August 2018) has been fulfilled in that respect. Through the year, the Management Board devoted considerable efforts toward digitalisation, streamlining, and the modernisation of processes and services of the Bank, and thus enabled the entire Group to progress in technological development, digitalisation, and new opportunities for future growth.

The remuneration of the members of the Management Board is determined in their respective employment contracts. The variable part of their remuneration is also subject to the Remuneration Policy for Employees Performing Special Work (November 2019). The remuneration policy defines the rules and criteria for the adjustment of variable remuneration to performance and risks prior to awarding of variable remuneration and the rules and criteria for the use of malus in relation to the deferred part of variable remuneration and clawback. Employment contracts of the members of the Management Board also determine other rights of the members of the Management Board in accordance with the Rules on determining other rights under management employment contracts or other regulations of the Bank (October 2016).

In 2019, the Bank did not pay variable remuneration in the form of NLB shares to any member of the Management Board, nor do stock option plans and comparable financial instruments make up the majority of the variable remuneration of any member of the Management Board. In relation to the payment of variable remuneration in own shares, the Bank complies with the Banking Act (ZBan-2) and the Guidelines of the BoS dated 22 November 2016, concerning the application of the principle of proportionality in the implementation of remuneration policies (BoS Guidelines). Considering that the Bank shares are listed on a regulated market and based on point 7 of the first paragraph of Article 170 of the Banking Act (ZBan-2), which is based on the Directive 2013/36/EU of the European Parliament and of the Council, at least 50% of the variable remuneration of (among other) each member of the NLB Management Board shall comprise ordinary shares of NLB. The said requirement applies to both the non-deferred and the deferred part of variable remuneration (which is different from recommendations 21.4 and 21.6 which provide that variable remuneration awarded in shares should not be paid out for at least three years after the award). When the variable remuneration of an individual Identified Staff in a particular year does not exceed EUR 50,000, the BoS Guidelines allow for an exception from the requirement that a part of variable remuneration has to be paid in own shares of the bank. As the said threshold was not exceeded, in 2019 NLB did not pay variable remuneration to any of the members of Management Board in the form of shares.

More information on remuneration policies is contained in the Human Resources chapter and in Disclosures Under Pillar III of the Basel Standards. Concrete amounts of remuneration of the Management Board members for 2019 are described in the chapter Corporate Governance Statements and in Financial Statements (Related-party transactions).

In a decision dated 13 June 2019, the Constitutional Court of the RoS repealed Article 33(4) of the Banking Act (ZBan-2), which provided for an exception for banks regarding employee participation in the governance of a company pursuant to the Worker Participation in Management Act (ZSDU). Following the mentioned decision of the Constitutional Court, the Bank is required to enable workers participation in its governing bodies. For that purpose, the Bank and its worker's council concluded an agreement dated 28 November 2019 according to which the Bank is to prepare and submit at its regular 2020 General Meeting an amendment to its Articles of Association that enable a right of the Bank's employees to nominate up to one third of the Bank's Supervisory Board members. It was additionally agreed that the worker's council will not exercise its right to nominate a labour director of the Bank Management Board before the end of August 2021. Provided that the change of the Articles of Association is adopted, the Bank's employees organised in a worker's council will have an option to participate in the Bank's governance. Nevertheless, the decision to exercise that right rests with the worker's council alone.

## Blaž Brodnjak

**President & CEO**

Term of office: 2016-2021

**Education:**

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

**Career:**

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

**Other important functions and achievements:**

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

**Direct responsibility:**

- Strategy and Business Development
- Legal and Secretariat
- Communication
- 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 Supervisory Board:
  NLB Vita, Ljubljana
- President of the Association of Banks in Slovenia (from 1 November 2017)
- Member  of the Board of Governors:
  AmCham Slovenia

## Andreas Burkhardt

**Member of the Management Board**

Term of office: 2016-2021

### Education:

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

### Career:

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

### Other important functions and achievements:

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

### Direct responsibility:

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

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

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

## Archibald Kremser

**Member of the Management Board**

Term of office: 2016-2021

**Education:**

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

**Career:**

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

**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 Asset Management
- Procurement and Corporate Real Estate Management
- Group Steering

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

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

## László Pelle

**Member of the Management Board**

Term of office: 2016-2021; early termination as of 31 January 2020

**Education and training:**

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

**Career:**

- COO of NLB (2016-31 January 2020)
- COO, responsible for IT, operations, premises, and procurement services in ERSTE Bank Zrt., Hungary (2009-2015)
- COO, HSBC CEE (PL, CZ, SK, HU), responsible for regional operations of HSBC Premier in CEE. Roll-out of regional platform for OneBank IT and Operations. HSBC CEE, Czech Republic (2007-2009)
- Operations and Technology Director, Corporate and Consumer Bank, responsible for the management of overall operations, IT processes, and client services. Started Citi Shared Service Centre in Budapest in Citibank Rt, Budapest, Hungary (2002-2007)
- Operations and Technology Director, Consumer Bank, responsible for operations and technology. Set up of the initial banking infrastructure for credit cards and consumer banking in Citibank Handlowy Warszawie, Poland (1997-2002)
- Regional Business Planning and Analysis Manager for Card Products, heading the business planning and analysis function (Pacific & CEEMEA countries) in Citibank N.A. Asia Pacific CEEMEA Regional Office, Singapore (1996-1997)
- Card Operations Manager, Systems Development and Application Support, started up the retail bank and card product platforms (Diners Club) in Citibank Budapest Rt, Global Consumer Bank, Hungary (1994-1996)
- Head of Card Department, Project Leader of VISA implementation, initiated VISA card programme in Hungary. Rolled-out ATM and POS networks in branches of Postabank and Savings Bank Corporation, Hungary (1992-1994)

**Other important functions and achievements:**

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

**Direct responsibility:**

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

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

## Collective decision-making bodies

Different committees, commissions, boards, and working bodies may be appointed by the Management Board of the Bank for execution of individual tasks within powers of the Management Board of the Bank. The key collective decision-making and advisory bodies of the Management Board are:

### The Corporate Credit Committee

The Corporate Credit Committee determines credit ratings and makes decisions on the reclassification of clients, and approves commercial banking investment transactions and limits that are beyond the competencies of the 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. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

### The NLB Group Assets and Liabilities Committee

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

### The NLB Group Real-Estate Asset Management Committee

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

### The Change the Bank Committee

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

### The Sales Board

The Sales Board adopts decisions on the management of the range of products and services, and the relationships with clients in the area of sales. As a rule, Committee meetings are convened once a week. The Committee has 11 members. The Chairman of the Board is the member of the Management Board in charge of Retail and Private Banking and Corporate Banking (CMO).

### The NLB Operational Risk Committee

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

### The NLB Retail Credit Committee

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

Management Board appointed also other working bodies that operate at the lower level:

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

## Advisory bodies of the Bank's Management Board

### The Watch List Committee

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

### The Risk Committee

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 12 members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

### Electronic Data Management System (EDMS)

In 2019, the Electronic Data Management System (EDMS) project came to an end. With EDMS, a very important step was made towards electronic management of the meetings of the Bank's bodies. All the meetings of the Management Board, the Supervisory Board and its committees, Management Board for the Group, collective decision-making bodies and advisory bodies of the Bank's Management Board are thus conducted electronically.

Chapter 18

# Compliance and Integrity

The Bank constantly builds, strengthens, and supports the culture of business compliance and due diligence within the Bank and the Group. 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. Systematic monitoring of the legal and regulatory environment and assessment of its impact on the Bank is thus an important part of its daily business. The Group is continuously strengthening the compliance function and diligence of its operations. Compliance policies within the Group are based on the framework of internationally-recognised standards of compliance management. A key element of the Group's long-term success is to follow reasonably set rules and values. Compliance in NLB 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.

### Group-wide ethics and integrity standards

The Compliance and Integrity in the Bank addresses the following risk areas: fraud prevention and investigation; AML/CTF; privacy data protection and information security; regulatory compliance; corruption prevention; conflict of interests, gifts and hospitality management; fit and proper assessment procedures (as part of assessing reputation, financial strength, time availability, and conflict of interests); identification, assessment, and management of compliance, and integrity risks at the Bank and the Group levels; oversight, monitoring, steering, and managing the Group compliance function and programme (established by standards for compliance and integrity for the Group and implementation of monitoring by off-site data analysis and onsite visits); and business ethics and corporate integrity.

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.

### 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. The Bank has also in place a system implementing the market abuse prevention regime in accordance with MAR, to prevent insider trading, market manipulation and illegal disclosure of inside information.

### Managing regulatory compliance risks

The Bank is constantly faced with complex processes of adaptation to the new regulatory environment and complex requirements. In 2019, higher focus was required in the field of inter alia, payment services (PSD2 and related regulatory requirements, implementing technical standards as well as EBA guidelines), the market of financial instruments (MiFID II, MiFIR), new banking prudential regulatory requirements (CRR, CRD, hence a number of technical standards and guidelines are yet to be prepared in due course), proposed changes to the AML/CTF laws and regulations, the new regulatory rules on benchmarks (BMR), and new macroprudential requirements issued by the BoS related to consumer loans. All the aforementioned as well as other changes in the Group's legal environment needed to be implemented in the bank's business operations, as well as internal processes. Consequently the compliance function supported and coordinated these processes to ensure timely implementation and is constantly monitoring the process of ensuring compliance with the requirements applicable to the Bank or Group.

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

#### 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. Upgraded Group AML and Acceptance policies were adopted in 2020, introducing further enhancements of Group AML governance in line with directions set by the BoS. Headquarters are exercising constant onsite and off-site monitoring of the implementation and execution of standards throughout the Group.

The Bank has observed an increased number of clients with AML/CTF indicators. Pursuant to AML/CTF legislation, all of them were duly reported to competent national authority and 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 increase of the AML/CTF team, the bank also dedicated additional resources to the team in 2019.

#### Information security and personal data protection

The information security area, inter alia, focused on upgrading the Bank's Security Operations Centre to the level of the Group member banks, to ensure group-wide activities are operationally in place 24/7, through close cooperation of IT experts within the Group. 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 providers (i.e., personal 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 is running its operations in line with GDPR requirements including the retention and processing of personal data, dedicated Data Privacy Officer, education, and training of employees. New Slovenian Personal Data Protection Act (ZVOP-2) was not adopted in 2019 – although it is expected to be adopted in 2020. If necessary, further alignments will be made when the national legislation will be in place.

#### Prevention

A reassessment of compliance risks (so-called ECRA - Enterprise Compliance Risk Assessment) was carried out at the Group level, based on the newly updated methodology in 2019 after conducting this process in 2017. The assessment allows

**200**

More than 200 regulatory changes in Slovenian or EU environment relevant for the Bank were identified and monitored in 2019, 82 of them being directly applicable, whereas Group-wide there were approximately 300 of all relevant regulatory changes identified and monitored.

**2,090**

More than 2,090 hours were dedicated to advising on compliance issues by the Compliance and Integrity in NLB.

**11**

There were 11 policies and procedures from compliance area issued and implemented in 2019, upgrading compliance and integrity practices in the Bank and the Group.

the Group to reduce the compliance and integrity risks with already prepared risk-mitigation measures and understand the residual compliance 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.

The Compliance function prepared several workshops and compulsory e-education on ethics, the prevention of corruption, conflicts of interest, protection of personal data, Money Laundering and Terrorist Financing Prevention (MLTFP), and other relevant topics related to everyday work. 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. Special workshops and target group trainings (also e-trainings) were organised as part of the implementation of requirements. Such trainings have also been made part of the compliance and integrity programme standards for the Group's core subsidiaries. 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. The Group also devotes a great deal of emphasis to preventing harmful conduct and incidents in the Bank. In 2019, employees at all levels received information and training about the prevention of harmful conduct, procedures, and whistleblowing channels. The Group also continued with the implementation of the Whistler, a special IT tool for whistle-blowers, whereas the process of internal investigations is in place. The Bank's staff is obliged to take part in yearly Compliance training and education.

75

In 2019, more than 75 trainings were organized, educational and risk-awareness activities, covering different compliance and integrity topics in the Bank, whereas Group-wide more than 100 of them were conducted.

10

In 2019, compliance function conducted 10 visits in the Group members, covering all areas in the Compliance and Integrity. Onsite visits are only part of the Group compliance and integrity programme to ensure an adequate level of compliance and integrity standards and practices in the Group.

Chapter 19

# 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.**

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, data management, vault operation, cash management, IT development process, incident management, RWA calculation and risk assessment framework, provisioning, NPL and collateral management, 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 2019, Internal Audit in NLB intended to perform 49 audits, out of which 46 audit assignments were conducted and three were postponed due to objective reasons. Furthermore, auditors conducted 18 branch inspections and were involved in a strategic project as advisor. The majority of the recommendations given in 2019 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.

### 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.

19,686
hours spent in audits

709
hours spent on consulting

24
Internal Audit experts

46
planned and extraordinary audits conducted

Chapter 20

# Corporate Governance Statements

# Statement of Management's Responsibility

The Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as at 31 December 2019, 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 2019.

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

**Management Board of NLB**

**Archibald Kremser**
Member of the
Management Board

A. Burkhardt

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

# Types of Services for which NLB Holds Authorisation

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 RoS, No. 69/17 and 73/19) adopted by the BoS on the basis of the authorisation from Article 93 of the Banking Act (Official Gazette of the RoS, no. 25/15 and subsequent amendments, hereinafter ZBan-2), NLB hereby lists all of the types of financial services which, in accordance with the authorisation of the BoS, 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 standardised 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 with regard to capital structure, operational strategy and related matters, and consultancy and services in connection with corporate M&A
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 webpage 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 the fifth paragraph of Article 70 of the Companies Act (ZGD-1[18]) NLB hereby gives the following Corporate Governance Statement as a part of the Business Report of the NLB Group Annual Report 2019.

## 1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

NLB as a company whose shares are listed on Prime Market of the Ljubljana Stock Exchange hereby discloses the compliance with the Corporate Governance Code for Listed Companies, as the code that applies for the bank. Information contained in this point represents a 'Statement of Compliance with the Corporate Governance Code' as defined in the Ljubljana Stock Exchange Rules, valid from 9 December 2019 (Articles 24 – 26).

### 1.1. REFERENCES TO THE CODE, THE RECOMMENDATIONS AND OTHER INTERNAL REGULATIONS ON CORPORATE GOVERNANCE

Corporate governance of the Bank is based on applicable legislation of the RoS, particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), the Decision 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, and further changes), and the EBA Guidelines on Internal Governance (EBA/GL/2017/11; 21/03/2018).

The corporate governance framework of the Bank is designed jointly by the Management Board and the Supervisory Board of the Bank with a Corporate Governance Policy of NLB (March 2019, published on website: https://www.nlb.si/corporate-governance), 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. The Management and Supervisory Boards also decide on which corporate governance code the Bank should follow.

Apart from binding legal framework, NLB also follows a Corporate Governance Code for Listed Companies (Slovenian Directors' Association and Ljubljana Stock Exchange, adopted 27 October 2016, valid from 1 January 2017). The recommended practices contribute to a transparent and understandable 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. Due to the fact that the first phase of the privatisation of the Bank was concluded on 14 November 2018, NLB became a listed company (as its shares were listed on Ljubljana Stock Exchange and the GDRs representing NLB's ordinary shares were listed on London Stock Exchange). From the mentioned date on NLB has followed the recommendations of the mentioned code exclusively. The code is available on the web site: www.ljse.si.

Corporate Governance Policy of the NLB policy should be read together with the NLB Group Corporate Governance Policy, in which the corporate governance principles and mechanisms of the Group members are defined, while also respecting the local legislation and regulatory requirements.

Furthermore, in 2019 NLB complied in its governance system with the commitments made by the RoS to the EC with respect to the state aid given to NLB in December 2013 (commitments on corporate governance). Mentioned commitments were changed with the Amendment of the Restructuring Decision of NLB on May 2017 and with the Amendment of the Restructuring Commitments of NLB on 10 August 2018 (public versions of mentioned decisions available on:

- http://ec.europa.eu/competition/state_aid/cases/269184/269184_1911771_145_2.pdf and
- https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.298.01.0017.01.ENG&toc=OJ:L:2018:298:TOC).

However, as at 31 December 2019 all the commitments expired and to NLB's assessment were also fulfilled, therefore consequently the limitations given by the commitments are not valid anymore.

NLB strives to increase the level of its business transparency and informs the shareholders and other expert community in line with the Guidelines on Disclosure for Listed Companies (Ljubljana Stock Exchange, 19 August 2019) on electronic communications system of the Ljubljana Stock Exchange (SEOnet) and in line with Rules of the London Stock Exchange through Regulatory News Services (RNS) of the London Stock Exchange.

According to the Companies Act (ZGD-1, Article 70, paragraph 5), the Bank discloses its compliance with mentioned codes based on the 'comply or explain' principle. 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 (1 January until 31 December 2019).

18. The Companies Law (ZGD- 1; Official Gazette of the RoS, No. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision of the Constitutional Court, 82/13, 55/15, 15/17 and 22/19 – ZposS).

The Bank publishes this statement in the Business Report of the NLB Group Annual Report 2019, as well as a separate report on its website (https://www.nlb.si/investor-relations). The Corporate Governance system of the Bank and all relevant information on Bank's management that exceeds the requirements of this act are published in the Corporate Governance Policy of NLB, and other documents that are communicated to the stakeholders by being published on the NLB website (http://www.nlb.si/corporate-governance).

## 2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

NLB deviates from the recommendations as described below, and hereby explains reasoning for such deviations.

**Recommendation no. 8.1:** Upon convocation of the General Meeting of shareholders scheduled for 10 June 2019 NLB did not publish all required information pursuant to this recommendation on its website. In the future, NLB intends to publish on its website also all required information regarding the organised collection of proxy notices.

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

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

**Recommendation no. 12.2:** The Rules of Procedure of the Supervisory Board to 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. The mentioned rules also do not include the Supervisory Board evaluation, education and training of the members of the Supervisory Board. The mentioned provisions are part of other internal documents or decisions of the managing bodies.

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

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

**Recommendation no. 16.2:** The Secretary of the Supervisory Board did not sign a separate statement in which she makes a commitment to protect the confidentiality of information on the same level as the members of the Supervisory Board. She has provisions on confidentiality included in her employment contract and is obliged to protect the confidentiality of information by the Banking Act (ZBan-2) and Labour Law.

**Recommendation no. 17:** In our opinion, at the beginning 2019 the Bank was not providing payment to the Supervisory Board members that corresponded to their responsibilities and the fines set by the Banking Act (ZBan-2). However, changes to the reimbursement of the Supervisory Board and its committees were adopted at the General Meeting dated 21 October 2019 that to a better degree correspond with the responsibilities and tasks to which the members of the Supervisory Board are subjected.

**Recommendations no. 21.4 to 21.6:** In 2019, NLB did not pay variable remuneration in the form of NLB shares to any member of the NLB Management Board, nor do stock option plans and comparable financial instruments make up the majority of the variable remuneration of any member of the NLB Management Board. In relation to the payment of variable remuneration in own shares NLB complies with the Banking Act (ZBan-2) and the Guidelines of the BoS dated 22 November 2016, concerning the application of the principle of proportionality in the implementation of remuneration policies (hereinafter: BoS Guidelines). Considering that NLB shares are listed on a regulated market and based on point 7 of the first paragraph of Article 170 of the Banking Act (ZBan-2), which is based on the Directive 2013/36/EU of the European Parliament and of the Council, at least 50% of the variable remuneration of (among other) each member of the NLB Management Board shall comprise ordinary shares of NLB. The said requirement applies to both the non-deferred and the deferred part of variable remuneration (which is different from recommendations 21.4 and 21.6 which provide that variable remuneration awarded in shares should not be paid out for at least three years after the award). When the variable remuneration of an individual Identified Staff in a particular year does not exceed EUR 50,000, the BoS Guidelines allow for an exception from the requirement that a part of variable remuneration has to be paid in own shares of the bank. As the said threshold was not exceeded, in 2019 NLB did not pay variable remuneration to any of the members of NLB Management Board in the form of NLB shares.

**Recommendation no. 25.3:** The Bank deviates from the recommendation on rotation of audit companies. In 2018, the Bank followed provisions of the Banking Act (ZBan-2) and the Recommendations and the Expectations of SSH regarding the rotation of audit companies, which define a longer rotation period (10 years).

**Recommendation no. 27.4:** NLB draws up its financial calendar which is published on banks' website (https://www.nlb.si/financial-calendar) and includes the date of the Annual General Meeting, however, it doesn't provide information on the dividend payment date. Dividend payment date 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 29.3:** the Bank does not have a program of acquisition of own shares yet. The Bank's managing bodies will discuss about adoption of mentioned program in 2020.

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

**Recommendation no. 29.9:** NLB does not publish the rules of procedure of its bodies (Management Board and Supervisory Board and the General Meeting) on its 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. Due to the above, 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, 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 main strategic risk guidelines into 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 procedures, business procedures, and work procedures (**internal controls**), and
- The internal control functions and departments (**internal control functions**)

#### 3.1.1. Internal Controls

Internal controls should put in place at all levels of the Banks organisational structure, especially the levels of commercial, control, and support functions, and at the level of each of the Banks 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 the 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 Banks rules as defined by the NLB Group Code of Conduct, the events are handled according to 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 NLB, 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 NLB. 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 the NLB and secondary to the Management Board of the Bank.

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). Risk stream covers the following organisational units:

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

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.

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 six banking subsidiary banks. Furthermore, it is also responsible for several ancillary services companies and non-core subsidiaries which are in a controlled wind-down. In 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 strategic risk orientations, internal policies, organisation, work procedures, methodologies, and reporting system.

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

The Group gives high importance to the risk culture, and awareness of all relevant risks within the entire Group. The key goal of Risk Management is to manage, assess, and monitor risks within the Group in line with the Group's Risk Appetite and Risk Strategy, representing the key strategic risk targets and orientations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. Moreover, main strategic risk guidelines are integrated into annual business plan review and budgeting process. The Group is constantly enhancing and continuously adapting its risk management system with the aim to detect and adequately manage existing and new potential emerging risks.

The Group plans a prudent risk appetite and optimally profitable operations in the long run, including fulfilment of all the regulatory requirements. The key strategic risk documents and other risk policies of the Group are approved by the Management Board and the Supervisory Board of NLB. The Group regularly monitors its target risk appetite and internal capital allocation, representing the key components of proactive risk management process in the Group. They enable timely and detailed monitoring, management, and mitigation when needed. Limits usage and potential deviations are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. Additionally, the Group has set up early warning systems and stress testing in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary.

NLB pays special attention to the system of internal controls and risk management in the Group, and continuously upgrades the internal control system in the Group in line with the Corporate Governance Policy of the Group. Corporate governance of the Group is presented in the chapter NLB Corporate Governance, subchapter Corporate Governance of the Group. The risk profile of the Group in conjunction with the business strategy is presented under the Risk Management section in the financial report of the Annual Report.

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

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
- Information security and data protection
- Personal data protection
- Regulatory compliance management
- Prevention of fraud and internal investigations
- 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 and AML/CTF functions are organised within Compliance and Integrity, the CISO and head of AML/CTF area are ensured full independence through equal reporting lines as the director of Compliance and Integrity. All three also have direct access and separate reporting line to the Bank's Supervisory Board.

Following the NLB model, the compliance function has been established in the core members of the Group as well. 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 Group, in core and non-core members.

### 3.2. Financial reporting

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

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

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

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

Changes in share capital were made on 21 June 2019 when the RoS sold the remaining shares of NLB up to Blocking Minority (25% plus 1 share). As at 31 December 2019, NLB's share capital totalled EUR 200 million and was divided into 20 million shares. All shares belong to a single class and are issued in book-entry form. The shares are listed on Prime Market of Ljubljana Stock Exchange and the GDRs, representing shares, are listed on the Main Market of London Stock Exchange. Five GDR represent one share of NLB.

NLB's main shareholders as at 31 December 2019*

| Shareholder | Number of shares | Percentage of shares |
|---|---|---|
| Bank of New York Mellon on behalf of the GDR holders** | 12,464,548 | 62.32 |
| *- of which Brandes Investment Partners, L.P.**** | / | >5 and <10 |
| *- of which EBRD**** | / | >5 and <10 |
| *- of which Schroders plc**** | / | >5 and <10 |
| RoS | 5,000,001 | 25.00 |
| Other shareholders | 2,535,451 | 12.68 |
| **Total** | **20,000,000** | **100.00** |

* 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 ten or more percent of the Bank's shares.

** 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.

*** The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

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

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

No special controlling rights are attached to NLB shares.

**Explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, 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)**

In accordance with Article 5.a) of the NLB's Articles of Association (dated 12 October 2018), any transfer of the Bank's shares with which the acquirer together with the shares held prior to such an acquisition and the shares held by third parties on behalf of such acquirer exceeds 25% of the voting shares, shall require the Bank's authorisation. The authorisation to transfer the shares shall be granted by the Supervisory Board.

The Bank may refuse to grant authorisation to transfer shares, if the acquirer together with its shares held prior to the acquisition and the shares held by third parties on behalf of such an acquirer exceeds 25% of the Bank's voting shares plus one share.

Notwithstanding the provision above, the authorisation to transfer shares shall not be required if the acquirer acquires the shares on behalf of third parties, and as such it is not authorised to exercise their voting rights at its own discretion, while committing to the Bank that it shall not exercise the voting rights attached to these shares as instructed by a relevant third party on behalf of which these shares are held, if the acquirer fails to receive from this party, together with instructions, a written undertaking stipulating that this party holds the shares for its own account and that at the same time it does not, directly or indirectly, hold more than 25% of the Bank's voting shares.

Without having applied for authorisation to transfer shares, or without having received the Bank's authorisation, the acquirer that exceeds 25% of the Bank's voting shares shall be able to exercise the voting rights of 25% of its voting shares.

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

Management Board

In accordance with NLB's Articles of Association, the Supervisory Board appoints and recalls the President and other members of the Management Board. The President of the Management Board may appoint one of the members of the Management Board as his/her Deputy subject to a prior approval of the Supervisory Board.

The President and other members of the Management Board of the Bank shall be appointed for a period of five years and may be re-appointed for another term of office.

The President and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and NLB's Articles of Association.

Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months.

Supervisory Board

The Supervisory Board members are elected by the Shareholders' Meeting for a period of four years, in accordance with NLB's Articles of Association. The Supervisory Board of the Bank shall, at its first meeting after the appointment, elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank.

Membership of the Supervisory Board members shall be terminated after the expiry of their terms of office or based on a resolution on removal adopted by the Shareholders Meeting. Supervisory Board members may resign at any time with a period of notice of three months.

In its Decision No. U-I-56-19, dated 13 June 2019, the Constitutional Court of the RoS rescinded the fourth paragraph of Article 33 of the Banking Act (ZBan-2) on workers' non-participation in the bank's managing bodies. In 2019, the right of workers on participation in bank's managing bodies, according to the Worker Participation in Management Act (ZSDU), has not been realised yet.

Changes to the company's Articles of Association

In accordance with provisions of the Companies Act (ZGD-1) and Article 18 of the NLB's Articles of Association, a qualified majority of at least 75% of the votes cast by shareholders is required for adoption and any amendments to the Bank's Articles of Association.

**Explanation regarding the authorisation of the members of the management, particularly authorisations to issue or purchase own shares (Point 9 of the sixth paragraph of Article 70 of the ZGD-1)**

The General Meeting of Shareholders of NLB on 10 June 2019 authorised the Management Board for redeeming treasury shares and exclusion of the pre-emptive right of the existing shareholders in the disposal of 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) and other relevant regulations, the Bank 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 share capital (2,000,000 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 Act (ZGD-1), the 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 in respect of appointing and discharging members of the Supervisory Board and appointment of an auditor, distribution decisions (appropriation of distributable profit), granting of the 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 particular in cases where the Management Board fails to convene the General Meeting, or where when a convocation is necessary to ensure unhindered operations of the Bank. The Supervisory Board may amend the agenda of the General Meeting convened in line with the bylaws.

As a rule, the General Meeting of the Bank shall be convened at the registered office of the Bank, yet it may also be convened at another venue specified by the convenor. The Shareholders' Meeting shall adopt resolutions by simple majority of the votes cast, unless the applicable laws or the Bank's Articles of Association stipulate a larger majority or other conditions.

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 of Article 296 (3rd paragraph, fifth indent) of the Companies Act NLB informs shareholders on their rights as shareholders in an Information On 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).

## 6. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODY AND ITS COMMITTEES

A detailed description of the composition of the Management and Supervisory Bodies and their committees is in Appendices C.1 and C.2 of the Corporate Governance Code for Listed Companies as attachment to this statement.

### 6.1. The Management Board

The Management Board is the decision-making and representation body of the Bank. It manages the company, makes business decisions autonomously and independently, adopts the development strategy, ensures sound and effective risk management, acts with the highest professional integrity, protects business secrets, and is held accountable for the legality of the Bank's operations within the limits set by the relevant regulations. In accordance with the Articles of Association, the Management Board consists of three to six members, one of whom is appointed President of the Management Board of the Bank.

In 2019, the Management Board of the Bank consisted of Blaž Brodnjak (a member since 1 December 2012, Deputy President since 5 February 2016, and President, CEO and CMO since 6 July 2016, with a new five-year term of office as at 6 July 2016); and members Archibald Kremser, acting as CFO (since 31 July 2013 and with a new five-year term of office as at 6 July 2016); Andreas Burkhardt acting as CRO (since 18 September 2013 and with a new five-year term of office as at 6 July 2016); and László Pelle acting as COO (since 26 October 2016). The five-year term of office of the President of the Management Board, Blaž Brodnjak, and the members of the Management Board, Archibald Kremser, and Andreas Burkhardt expire on 6 July 2021.

On 30 October 2019, the Supervisory Board of NLB and László Pelle, member of the Management Board and COO, agreed on the termination of office going into on 31 January 2020. On 29 November 2019, the Supervisory Board appointed Petr Brunclík as member of the Management Board, with a five-year term of office from the day he receives consent by the ECB. He will assume the function of COO and will be responsible for the IT, operations, procurement, and corporate real estate management departments.

The President and members of the Management Board of the Bank shall be appointed for a period of five years and may be re-appointed for another term of office. The president and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and Articles of Association. Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months. A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a Management Board member under the law on banking, and who has obtained a license from the BoS or the ECB, in accordance with Articles of Association.

In 2019, the Management Board, with a support of the Bank's internal project team and external legal advisors, actively worked to complete the second phase of the sales process of the Bank, run under the leadership of SSH. On 21 June 2019, with the sale of NLB's shares up to the Blocking Minority (25% + 1 share) the second phase of privatisation of NLB was completed. Successfully finished privatisation process of NLB and the sale of insurance company NLB Vita d.d. in December 2019 resulted in fulfilment of the commitments towards the EC. Through the year, the Management Board also devoted considerable efforts to digitalisation, streamlining, and modernisation of processes and services of the Bank, and thus enabled that the entire Group gave to technological development and digitalisation new opportunities for future growth.

More detailed provisions on the method of work of the Management Board are set out by the Rules of procedure governing the work of the Management Board.

### 6.2. The Supervisory Board

The Supervisory Board shall perform its tasks in accordance with the provisions of the applicable legislation governing the operations of banks and companies, the Bank's Articles of Association, and its Rules of Procedure 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.

From 1 January 2019 and until 28 February 2019 the Supervisory Board of NLB consisted of eight members, namely: Primož Karpe - Chairman; Andreas Klingen - Deputy Chairman; and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik. Two members of the Supervisory Board submitted their resignation statements on 30 November 2019 giving three months' notice, as a result of changed EC commitments that the RoS submitted to the EC in 2018 which required independence of all members of the Supervisory Board.

Therefore, at the General Meeting on 10 June 2019 four members of Supervisory Board were elected (Mark William, Lan Richards, Shrenik Dhirajlal Davda, and Gregor Rok Kastelic), whereas one member's term of office was renewed (Andreas Klingen). On 28 June 2019, the Supervisory Board of NLB met for the first time with all nine members, as defined by the Articles of Association. At this meeting, the Supervisory Board also allocated members to its existing committees (Audit, Risk, Remuneration, and Nomination) and established a new committee for Operations & IT.

In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Banks' 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, the Annual Plan of the Internal Audit and to financial transactions defined in Articles of Association. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest.

In 2019, the Supervisory Board met at seven regular, 10 correspondence and one extraordinary session and considered following key topics:

- Adopted the NLB Group Budget 2020 and acknowledged the financial projections for 2021-2024
- Adopted the Corporate Governance Statement of NLB, adopted the Risk Management Statement of NLB
- Approved the NLB Group Annual Report 2018, adopted the Report of the Supervisory Board of NLB on the results of examining the NLB Group Annual Report 2018, adopted the Annual Report of Internal Audit for 2018 for the General Meeting of shareholders
- Approved the Annual Corporate Social Responsibility Report for 2018 and approved the Statement on non-financial operations of the NLB Group for 2018
- Approved the proposal to convene the regular General Meeting of NLB for 10 June 2019 and proposal to convene the extraordinary General Shareholders' Meeting of NLB for 21 October 2019
- Approved the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) and Risk Appetite Reports, Pilar III Disclosures for the NLB Group for 2018, capital optimisation activity for NLB and NLB Group in 2019, NLB Group NPLs wind-down strategy, the report on the Top 50 groups of clients by exposure in the NLB Group, on write-off of receivables from the off-balance sheet record
- Approved the Annual plan of the Internal Audit, the Annual Report of the Compliance and Integrity, the Interim Reports on the operations of the NLB Group, amendments to the Internal Audit Charter of NLB, regular annual Assessment on Risks in the Area of Compliance and Integrity, and acknowledged itself on the Internal Audit's Comprehensive Opinion 2018
- Approved achievements of the goals of the Management Board in 2018 and approved goals for the Management Board for 2019, appointed a new COO, adopted decisions on succession planning for members of the Management Board, the report on self-assessment of the Supervisory Board, acknowledged itself about candidates for members of the Supervisory Board
- Acknowledged the presentation of IT, acknowledged IT performance indicators
- Adopted the regular quarterly reports on State Aid – the Status Reports and adopted Report on risks relating to the unfinished procedures before the EC regarding the State aid
- Acknowledged the regular reports on documents received from the regulator(s) BoS and ECB and on the implementation of the requirements
- Acknowledged the status report on the implementation on the activities concerning investor relations
- Adopted the amendments to the Rules of Procedure of the Risk Committee of the Supervisory Board of NLB, Rules of Procedure of the Audit Committee of the Supervisory Board of NLB, adopted changes to the Corporate Governance Policy of the NLB, acknowledged the amendments to the Corporate Governance Policy of NLB Group, approved the Rules on Inside Information; approved Policy on the Selection of suitable Candidates for members of the Management Board of the Bank
- Adopted decisions (or acknowledgements) on establishment of new companies, cross-border financing and international syndicated financing, large exposures, sale of receivables, write-offs of claims, divestment of the Group companies, legal proceedings involving NLB and NLB Group members, transactions with persons in special relations with the Bank, etc.

### 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 Chair of the Committee may only be appointed from among the members of the Supervisory Board. The Chair, Deputy Chair, and members of the Committee are appointed by a resolution of the Supervisory Board. The term of office of the Chair, the Deputy Chair, and the members of the Committee should not exceed their term of office as Supervisory Board members. The Supervisory Board may terminate the appointment of the chair, deputy chair, or a member of the Committee early without giving a reason.

### 6.3.1. The Audit Committee of the Supervisory Board of NLB

From 1 January 2019 the composition of the committee was as follows: David Eric Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, and Vida Šeme Hočevar (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, 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).

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.

The Audit Committee's tasks are defined by law, the Bank's Articles of Association, the 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 five regular sessions and four correspondence sessions of the Audit Committee in 2019. The following is a summary of the key topics considered by the Audit Committee:

- Annual Report of Internal Audit for 2018 for the General Meeting of shareholders
- Annual plan of the Internal Audit and Compliance
- Regular interim reports on the operations of the Group, Internal Audit's report, Report on the work of the Compliance and Integrity for 2018
- Amendments to the Internal Audit Charter of NLB
- Regular reports on overdue recommendations of the Internal Audit
- Regular Annual Assessment on Risks in the Area of Compliance and Integrity
- Reports on the documents received from BoS and ECB and on the implementation of the requirements of the BoS and ECB
- Approval of the NLB Group Annual Report, and approval of the Corporate Social Responsibility Report for 2018
- Information on cooperation with the external auditor in auditing the Group's annual report, in particular by means of exchanging briefings on major audit-related issues

### 6.3.2. The Risk Committee of the Supervisory Board of NLB

From 1 January 2019 the composition of the committee was as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chairman), Simona Kozjek, Peter Groznik, and David Eric Simon (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, 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).

There were five regular sessions of the Risk Committee in 2019. Following is a summary of key topics considered by the Risk Committee:

- Regular quarterly risk reports in NLB and the NLB Group
- ICAAP and ILAAP Manual and Statement on Liquidity Adequacy and regular ILAAP, ICAAP reports
- Pilar III Disclosures of the Basel Standards for the NLB Group for 2018
- Risk Appetite Reports
- approved updated version of Risk Appetite of the NLB Group and capital optimisation activity
- NLB Group NPLs wind-down strategy
- Report on Top 50 groups of clients by exposure in the NLB Group
- Report on Top 20 largest exposures to clients in restructuring procedures
- 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)

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

From 1 January 2019 the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Vida Šeme Hočevar, and Peter Groznik (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, 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).

There were five regular sessions of the Nomination Committee in 2019. The following is a summary of key topics considered by the Nomination Committee:

- Assessment of collective suitability of members of the Supervisory Board (Fit&Proper)
- Regular annual suitability assessment of the Management Board and Supervisory Board
- selection of the Management Board member responsible for IT and operations (COO)
- Presentation of proposed new candidates to the Supervisory Board
- Assessment of suitability of the candidates for members of the Supervisory Board of NLB
- Amendments to the Rules of Procedure of the Nomination Committee of the Supervisory Board of NLB; Amendments for the Policy on selection of suitable candidates for members of the Supervisory Board of the bank; amendments for the Policy on selection of suitable candidates for members of the Management Board of the bank; amendments to the Policy on the provision of diversity of the management body and senior management

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

From 1 January 2019 the composition of the committee was as follows: Vida Šeme Hočevar (Chairwoman), Simona Kozjek (Deputy Chairwoman), Primož Karpe, and László Urbán (members). New members of the Supervisory Board were elected on the General Meeting dated 10 June 2019. From 28 June 2019, the composition of the committee was as follows: Alexander Bayr (Chairman), László Urbán (Deputy Chairman), Shrenik Dhirajlal Davda, and Gregor Rok Kastelic (members).

There were four sessions of the Remuneration Committee in 2019. The following is a summary of key topics considered by the Remuneration Committee:

- Realisation of goals of Management Board of NLB for 2018 and information on approved goals for 2019
- Assessment of performance and proposed variable part of remuneration for the directors of Internal Audit, Compliance and Integrity, and Global Risk
- Proposed amendments to the Policy on Remuneration for the Employees Performing Special Work

Responsibilities of the committee concerning remuneration policies 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

On session of the Supervisory Board dated 28 June 2019 a decision to establish a new committee for Operations and IT was adopted. The Supervisory Board also adopted a decision on composition of the committee, which was as follows: Mark Willam Lane Richards (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Primož Karpe, Andreas Klingen, and László Urbán (members).

There were two sessions of the Operations and IT Committee 2019. The Operations and IT Committee acknowledged itself with:

- IT performance indicators
- Top 5 IT priorities
- Presentation of IT and Operations (Priorities Dashboard)

Responsibilities of the Operations and IT Committee of the Supervisory Board of NLB are defined in Rules of Procedure of the Operations and IT Committee of the NLB.

Composition of the Committees of the Supervisory Board is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (as attachment to this statement).

## 7. DESCRIPTION POLICY ON THE PROVISION OF DIVERSITY OF THE MANAGEMENT BODY AND SENIOR MANAGEMENT

### 7.1. Supervisory Board, Management Board and senior management

The second version of Policy on the Provision of Diversity of the Management Body and Senior Management was adopted on 33th General Meeting of Shareholders on 10 June 2019. The previous Policy on the Provision of Diversity of the Members of the Supervisory Board (2006), was supplemented and extended on the members of the Management Board and members of the senior management.

With the **Policy on the provision of diversity of the management body and senior management,** NLB sets the framework in the area of diversity of and representation of both genders in the management and supervision bodies (Supervisory Board and Management Board) and the senior management. It also lays down the process of the selection and appointment of candidates (defined in more detail in the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board), which enables the management body to be composed in such manner that, as a whole, it possesses suitable knowledge, skills, and experience needed for in-depth understanding of the strategy and challenges of the Bank, and the risks to which the latter is exposed.

The key amendments to the second edition of the policy include the determination of policy objectives and the way in which these objectives are achieved, while at the same time the policy specifies its implementation and reporting.

As described in the chapter Corporate Governance in the NLB Group Annual Report 2019, two members were females in the composition of the Supervisory Board until 28 February 2019. However, even though selection process for four new members of the Supervisory Board was open to candidates of both genders, female representatives did not participate in the selection process, therefore, on General Meeting on 10 June 2019 only male representatives were elected as members of the Supervisory Board of NLB.

No changes in the composition of the Management Board were made in 2019. On 31 December 2019 the Management Board of the Bank was composed of Blaž Brodnjak, President, CEO and CMO; Archibald Kremser, CFO; Andreas Burkhardt, CRO; and László Pelle, COO. On 30 October 2019, the Supervisory Board of NLB and László Pelle, agreed on the termination of office going into effect on 31 January 2020. On 29 November 2019, the Supervisory Board appointed Petr Brunclík as member of the Management Board.

Ljubljana, 2 April 2020

**The Supervisory Board**

**Primož Karpe**
Chairman of the
Supervisory Board

**The Management Board**

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

**Table 28: Composition of Management in financial year 2019 (C.1)**

| Name and Surname | Position held (president, member) | Area of work covered within the Management Board | First appointment to the position |
|---|---|---|---|
| Blaž Brodnjak | President | CEO | 6 July 2016 |
| Andreas Burkhardt | Member | CRO | 13 September 2013 |
| Archibald Kremser | Member | CFO | 31 July 2013 |
| László Pelle | Member | COO | 26 October 2016 |

**Table 29: Composition of Supervisory Board and Committees in financial year 2019 (C.2)**

| Name and Surname | Position held (president deputy, member) | First appointment to the position | Conclusion of the position / term of office | Representative of the company's capital structure / employees | Attendance at SB session in regard to the total number of SB session (for example 5/7) applicable on his/her mandate |
|---|---|---|---|---|---|
| Primož Karpe | President | 10 February 2016 | 2020 | No | 7/7 |
| Andreas Klingen | Deputy President | 22 June 2015 / 10 June 2019 | 2019/2023 | No | 7/7 |
| Alexander Bayr | Member | 4 August 2016 | 2020 | No | 7/7 |
| David Eric Simon | Member | 4 August 2016 | 2020 | No | 7/7 |
| László Urbán | Member | 10 February 2016 | 2020 | No | 6/7 |
| Vida Šeme Hočevar | Member | 8 September 2017 | 28 February 2019 | No | 1/1 |
| Simona Kozjek | Member | 8 September 2017 | 28 February 2019 | No | 1/1 |
| Peter Groznik | Member | 8 September 2017 | 2021 | No | 6/7 |
| Mark William Lane Richards | Member | 10 June 2019 | 2023 | No | 3/3 |
| Shrenik Dhirajlal Davda | Member | 10 June 2019 | 2023 | No | 3/3 |
| Gregor Rok Kastelic | Member | 10 June 2019 | 2023 | No | 3/3 |

| 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 |
|---|---|---|---|---|---|
| 5 July 2021 | Slovene | 1974 | MBA | Banking / Finance | Banks' Association of Slovenia |
| 5 July 2021 | German | 1971 | MBA | Banking / Finance | |
| 5 July 2021 | Austrian | 1971 | MBA | Banking / Finance | |
| 31 January 2020 | Hungarian | 1966 | MSc | Banking Operations and IT Management | |

| 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 |
|---|---|---|---|---|---|---|---|
| male | Slovene | 1970 | MSc | Banking / Finance | YES | NO | |
| male | German | 1964 | University Degree | Banking / Finance | YES | YES | Kyrgyz Investment and Credit Bank CISC, Credit Bank of Moscow PJSC, Nepi Rockcastle plc |
| male | Austrian | 1960 | University Degree | Banking / Finance | YES | NO | WKBG Bank, Vienna |
| male | British | 1948 | Higher National Diploma in Business Studies | Banking / Finance | YES | NO | Jihlavan a.s., Central Europe Industry Partners a.s. |
| male | Hungarian | 1959 | PhD | Banking / Finance | YES | NO | Ukreximbank, Ukraine |
| female | Slovene | 1967 | PhD | Finance/ Insurance | YES | YES | |
| female | Slovene | 1975 | MSc | Banking / Finance | YES | YES | Hit, d.d. (since December 2018) |
| male | Slovene | 1971 | PhD | Finance, industry, investment banking | YES | NO | MSIN d.o.o., Ljubljana, CETIS d.d., Ljubljana |
| male | British | 1966 | MSc | Banking / Finance | YES | NO | CIB Bank Egypt, Sheffield Haworth Ltd, Vencap International |
| male | British | 1960 | MSc | Finance | YES | NO | Ukrgasbank, Kyiv, Ukraine |
| male | Slovene | 1968 | MSc | Banking / Finance | YES | YES | |

| 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) |
|---|---|---|---|---|---|
| Vida Šeme Hočevar | Remuneration Committee | 6 October 2017 | 28 February 2019 | President | 0/0 |
| Simona Kozjek | Remuneration Committee | 6 October 2017 | 28 February 2019 | Deputy President | 0/0 |
| Primož Karpe | Remuneration Committee | 15 April 2017 | 17 June 2019 | Member | 3/3 |
| László Urbán | Remuneration Committee | 6 October 2017 / 1 March 2019 | 2020 | Member / Deputy President | 4/4 |
| Alexander Bayr | Remuneration Committee | 1 March 2019 | 2020 | President | 4/4 |
| Shrenik Dhirajlal Davda | Remuneration Committee | 28 June 2019 | 2023 | Member | 1/1 |
| Gregor Rok Kastelic | Remuneration Committee | 28 June 2019 | 2023 | Member | 1/1 |
| Primož Karpe | Nomination Committee | 15 April 2016 | 2020 | President | 5/5 |
| Andreas Klingen | Nomination Committee | 19 February 2016 | 2023 | Deputy President | 5/5 |
| Alexander Bayr | Nomination Committee | 6 October 2017 | 2020 | Member | 5/5 |
| Vida Šeme Hočevar | Nomination Committee | 6 October 2017 | 28 February 2019 | Member | 0/0 |
| Peter Groznik | Nomination Committee | 6 October 2017 | 2021 | Member | 5/5 |
| Mark William Lane Richards | Nomination Committee | 28 June 2019 | 2023 | Member | 1/1 |
| David Eric Simon | Audit Committee | 7 April 2016 | 2020 | President | 5/5 |
| Alexander Bayr | Audit Committee | 26 August 2016 | 2020 | Deputy President | 5/5 |
| Primož Karpe | Audit Committee | 19 February 2016 | 2020 | Member | 5/5 |
| Vida Šeme Hočevar | Audit Committee | 6 October 2017 | 28 February 2019 | Member | 0/0 |
| Shrenik Dhirajlal Davda | Audit Committee | 28 June 2019 | 2023 | Member | 2/2 |
| Gregor Rok Kastelic | Audit Committee | 28 June 2019 | 2023 | Member | 2/2 |
| Andreas Klingen | Risk Committee | 19 February 2016 | 2019 / 2023 | President | 5/5 |
| László Urbán | Risk Committee | 26 August 2016 | 2020 | Deputy President | 5/5 |
| Simona Kozjek | Risk Committee | 6 October 2017 | 28 February 2019 | Member | 0/0 |
| Peter Groznik | Risk Committee | 6 October 2017 | 2021 | Member | 4/5 |
| David Eric Simon | Risk Committee | 26 August 2016 | 2020 | Member | 5/5 |
| Mark William Lane Richards | Risk Committee | 28 June 2019 | 2023 | Member | 2/2 |
| Mark William Lane Richards | Operational and IT Committee | 28 June 2019 | 2023 | President | 2/2 |
| Shrenik Dhirajlal Davda | Operational and IT Committee | 28 June 2019 | 2023 | Deputy President | 2/2 |
| László Urbán | Operational and IT Committee | 28 June 2019 | 2020 | Member | 2/2 |
| Andreas Klingen | Operational and IT Committee | 28 June 2019 | 2023 | Member | 2/2 |
| Primož Karpe | Operational and IT Committee | 28 June 2019 | 2020 | 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 30: Composition and amount of remuneration of the Management Board members in the financial year 2019 (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 | Total (2) | Deferred income (3) | Severance pay (4) | Bonuses (5) | 'Draw-back' (6) | Total gross (1+2+3+ 4+5-6) | Total net* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Blaž Brodnjak | president | 433,881.77 | | | 45,496.87 | | 0.00 | 2,172.98 | 0.00 | 481,551.62 | 201,966.35 |
| Archibald Kremser | member | 412,972.63 | | | 45,496.87 | | 0.00 | 25,392.87 | 0.00 | 483,862.37 | 180,419.32 |
| Andreas Burkhardt | member | 397,290.83 | | | 45,496.87 | | 0.00 | 18,515.24 | 0.00 | 461,302.94 | 178,521.29 |
| László Pelle | member | 355,472.71 | | | 25,000.00 | | 0.00 | 30,363.58 | 0.00 | 410,836.29 | 149,729.16 |

*This chart does not include other benefits and cost refunds.

**Table 31: Composition and amount of remuneration of members of the Supervisory Board and committee members in the financial year 2019 (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* | Travel expenses |
|---|---|---|---|---|---|---|
| Primož Karpe | President | 48,979.84 | 7,260.00 | 56,239.84 | 56,239.84 | 9,698.01 |
| Andreas Klingen | Deputy President | 41,136.09 | 5,940.00 | 47,076.09 | 32,408.09 | 17,535.50 |
| László Urbán | Member | 33,384.07 | 5,445.00 | 38,829.07 | 25,578.50 | 6,758.55 |
| Alexander Bayr | Member | 38,758.06 | 6,765.00 | 45,523.06 | 29,988.11 | 15,991.69 |
| David Eric Simon | Member | 36,993.95 | 6,380.00 | 43,373.95 | 28,572.48 | 16,770.34 |
| Simona Kozjek | Member | 3,750.00 | 935.00 | 4,685.00 | 3,407.42 | 0.00 |
| Vida Šeme Hočevar | Member | 5,000.00 | 1,155.00 | 6,155.00 | 4,476.55 | 22.00 |
| Peter Groznik | Member | 32,213.71 | 5,720.00 | 37,933.71 | 27,589.29 | 4,056.69 |
| Mark William Lane Richards | Member | 26,008.06 | 2,200.00 | 28,208.06 | 18,581.99 | 4,119.19 |
| Shrenik Dhirajlal Davda | Member | 23,071.57 | 2,200.00 | 25,271.57 | 16,647.60 | 6,136.43 |
| Gregor Rok Kastelic | Member | 21,901.21 | 1,980.00 | 23,881.21 | 17,368.83 | 4,406.03 |

* 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), as well as the EBA Guidelines in 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 all Group members, 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 that is relevant for the Group's operations is changing with trends such as changing customer behaviours, emerging new technologies and competitors, and increasing new regulatory requirements. Consequently, risk management is continuously adapting in order to detect and manage new potential emerging risks.

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. 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. Moreover, Group's enhanced overall corporate governance reflects in lower SREP requirement for the year 2020, which has decreased in the last two years.

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 timely response when necessary. 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.

In accordance with its strategic orientations intends to be a sustainably profitable, predominantly working with clients on its core markets, providing innovative, but simple customer-oriented solutions. The Group has a well-diversified business model. 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 and 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 ICAAP process in order 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 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.

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 as at the end of year 2019, reflecting interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile, were the following:

- Total capital ratio 16.3%
- Tier 1 capital ratio 15.8%
- Common Equity Tier 1 ratio (CET1) 15.8%
- Leverage ratio 8.7%
- Cost of risk -20 bps
- The share of non-performing exposure (NPE) by EBA 2.7%
- NPL coverage ratio 65.0%
- LTD 65.5%
- LCR 325%
- NSFR 160%
- EVE sensitivity (of 200 bps) 6.1% of capital
- Transactional FX risk 1.7% of capital
- Net losses from operational risk 5.2% of capital requirement for operational risk

Consequently, the Group concluded the year 2019 as self-funded, with strong liquidity and solid capital position, demonstrating the Group's financial resilience.

During 2019, no transactions of sufficiently material nature to impact on the Group's risk profile or distribution of risks on the Group were carried out.

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, 2 April 2020

### The Supervisory Board

**Primož Karpe**
Chairman of the
Supervisory Board

### The Management Board

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

# Statement of the Arrangement of Internal Governance

NLB pursues internal governance, including corporate governance, according to the legislation applicable in the RoS, also adhering to its internal acts.

NLB fully complies with the acts referred to in Article 9, paragraph two of the Banking Act (ZBan-2).

With the aim of strengthening internal governance, the Bank operates especially in compliance with:

1) the provisions of the Banking Act (ZBan-2) defining the internal governance arrangements, especially the provisions of Chapter 3.4 (Governance system of a bank) and Chapter 6 (Internal governance arrangements and internal capital adequacy), in the part referring to bank/savings bank or members of a management body,

2) Regulation on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, and

3) EBA Guidelines on internal governance, EBA guidelines on the assessment of the suitability of members of the management body and key function holders and EBA guidelines on remuneration policies and practices, based on the relevant regulations of the BoS on the application of these Guidelines.

By signing this statement we undertake to continue with proactive activities to strengthen and promote further internal governance arrangement and corporate integrity in wider professional, financial, corporate, and other publics.

This Statement of the NLB is publicly available also on NLB's webpage: https://www.nlb.si/corporate-governance.

Ljubljana, 2 April 2020

**The Supervisory Board**

**Primož Karpe**
Chairman of the
Supervisory Board

**The Management Board**

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

# Statement of Non-financial Information

In line with Article 70.c of the Companies Act[19] (ZGD-1), the Bank reports on non-financial information separately from the NLB Group Annual Report 2019. The Bank's disclosures of non-financial information are prepared in a form of a Non-financial Statement of the NLB Group 2019, and are included in its Annual Report on Corporate Social Responsibility 2019, by applying the GRI Sustainability Reporting Standards (GRI), and thus ensuring compliance with the requirements of the regulations regarding the disclosure of non-financial information.

The Annual Report on Social and Environmental Policy of NLB for 2019, as well as the Statement of Non-financial Information of the NLB Group 2019 are available on the Bank's website: https://www.nlb.si/annual-reports-on-corporate-social-responsibility.

19. Official Gazette of the RoS, No. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision of the Constitutional Court, 82/13, 55/15, 15/17 and 22/19 (The Law on Professional Secrecy – ZPosS).

Chapter 21

# Disclosure on Shares and Shareholders of NLB

## 1. Information pursuant to 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 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.

**Table 32: Main shareholder structure of NLB (as at 31 December 2019)***

| Shareholder | Number of shares | Percentage of shares |
|---|---|---|
| Bank of New York Mellon on behalf of the GDR holders | 12,464,548 | 62.32 |
| *- of which Brandes Investment Partners, L.P.*** | / | >5 and <10 |
| *- of which EBRD*** | / | >5 and <10 |
| *- of which Schroders plc*** | / | >5 and <10 |
| RoS | 5,000,001 | 25.00 |
| Other shareholders | 2,535,451 | 12.68 |
| **Total** | **20,000,000** | **100.00** |

* 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 ten or more percent of the Bank's shares.

** The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

The Bank of New York Mellon holds shares in its capacity as the GDR's depositary for the GDR holders, and is not the beneficial owner of such shares. The GDRs are issued against the deposit of shares of the Bank pursuant to and subject to an agreement made between the Bank and the Bank of New York Mellon in its capacity as the GDR depositary, and are admitted to trading on the London Stock Exchange. 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 general meeting of bank's shareholders or to directly exercise any voting rights under the deposited shares.

### 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 Act 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 for 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 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.

### 1.3. Qualifying holdings

**Table 33: 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 2019)**

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

* In the form of GDRs.

### 1.4. Securities carrying special controlling rights

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

### 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 Bank has no employee share schemes.

### 1.6. 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.

### 1.7. The company's rules on:

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

The Management Board of the Bank is comprised of three to six members, one of whom is appointed President of the Management Board of the Bank. 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. 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 so 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 Fit&Proper assessment prior to the appointment.

The Supervisory Board of the Bank consists of (9) members, elected and recalled by the Bank's general assembly from persons proposed by shareholders or the Supervisory Board of the Bank. Members of the Supervisory Board 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 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. All of the supervisory board members shall be independent professionals as defined by the Articles of Association.

The second version of the Policy on the Provision of Diversity of the Management Body and Senior Management was adopted on 33th General Meeting of Shareholders on 10 June 2019. The previous Policy on the Provision of Diversity of the Members of the Supervisory Board (2006), was supplemented and extended on the members of the Management Board and members of the senior management.

With the Policy on the provision of diversity of the management body and senior management, NLB sets the framework in the area of diversity of and representation of both genders in the management and supervision bodies (Supervisory Board and Management Board) and the senior management. It also lays down the process of the selection and appointment of candidates (defined in more detail in the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board), which enables the management body to be composed in such a manner that, as a whole, it possesses the suitable knowledge, skills, and experience needed for in-depth understanding of the strategy and challenges of the Bank, and the risks to which the latter is exposed.

The key amendments to the second edition of the policy include the determination of policy objectives and the way in which these objectives are achieved, while at the same time the policy specifies its implementation and reporting.

As described in the chapter Corporate Governance in the NLB Group Annual Report 2019, in the composition of the Supervisory Board until 28 February 2019, two members were females. However, even though the selection process for four new members of the Supervisory Board was open to candidates of both genders, female representatives did not participate in the selection process, therefore on General Meeting on 10 June 2019 only male representatives were elected as members of the Supervisory Board of NLB.

No changes in the composition of the Management Board were made in 2019. On 31 December 2019 the Management Board of the Bank was composed of Blaž Brodnjak, President, CEO and CMO; Archibald Kremser, CFO; Andreas Burkhardt, CRO; and László Pelle, COO. On 30 October 2019, the Supervisory Board of NLB and László Pelle agreed on the termination of office going into effect on 31 January 2020. On 29 November 2019, the Supervisory Board appointed Petr Brunclík as member of the Management Board.

- Amendments to Articles of Association:

A qualified majority of at least 75% (seventy-five per cent) 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.

**1.8. Authorisations given to management, particularly authorisations to issue or purchase own shares**

The General Meeting of Shareholders of NLB on 10 June 2019 authorised the Management Board for redeeming treasury shares and the exclusion of the preemptive right of the existing shareholders in the disposal of 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) and other relevant regulations, the Bank 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 share capital (2,000,000 shares).

**1.9. 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.

**1.10. 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 NLB 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 34: Number of shares held by members of Supervisory Board and Management Board (as at 31 December 2019)**

| | Shares held as at 31 December 2019 | |
|---|---|---|
| | Number | % |
| **Name of member of Supervisory Board** | | |
| Primož Karpe | 936 | 0.005% |
| Andreas Klingen | 1,198 | 0.006% |
| Alexander Bayr | 110 | 0.001% |
| David Eric Simon* | 582 | 0.003% |
| László Urbán | 303 | 0.002% |
| Peter Groznik** | 350 | 0.002% |
| Gregor Rok Kastelic | — | — |
| Shrenik Dhirajlal Davda | — | — |
| Mark William Lane Richards | — | — |
| **Name of member of Management Board** | | |
| Blaž Brodnjak | 1,136 | 0.006% |
| Archibald Kremser | 151 | 0.001% |
| Andreas Burkhardt | 151 | 0.001% |
| László Pelle | 151 | 0.001% |

* David Eric Simon holds 2,910 GDRs, which is equal to 582 shares (as 1 share represents 5 GDRs).
** 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%[20]
- Intermediaries: 27.5%
- Legal entities (other than Intermediaries): 15%

20. The tax rate for individuals and intermediaries in amount of 27.5% applies from 1 January 2020 onwards.

### 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 in respect of the shares received by a legal person which is 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.

Chapter 22

# Corporate and Social Responsibility

**The Group, as an institution of systemic importance in the region, is not focusing only on strictly business topics, like numbers, balance sheets, and financial results. Its mission is much broader and aims to be seen and valued in peoples' lives, among its employees, in many social aspects, like sports and humanitarian projects and in the environment. In addition to developing innovative, customer-oriented products and services, and thus creating added value for the stakeholders and contributing to economic development, it cares especially for the home region and wants to contribute to an overall better quality of life. SEE is not just a spot on a map. It is our home.**

The Group aims to achieve the improvements of the quality of life in the home region by fulfilling its socially responsible mission. In 2019, the Group successfully completed 352 CSR projects, all of them aligned with Groups' Politics of Corporate and Social Responsibility. The process of monitoring and deciding on sponsorships and donations were streamlined, thus ensuring even more synergy between the members of the Group.

The focus was on environmental protection, sustainability, humanitarian activities, promotion of financial literacy, and entrepreneurship, as well as supporting culture, sports, and a healthy lifestyle. Above all, investments were made in knowledge and well-being of the Group's employees.

### Committed to the Group's employees

The well-being of the Group's employees is the first and foremost concern. With accurate insight in every employee's strengths and potentials it can offer development plans for employees and careful monitoring progress later on. A satisfied and effective employee with a work/life balance knows that his or her potential is recognised. In the Bank, a better work-life balance was achieved with a series of measures of a family friendly company, amongst them NLB Family day, which was organised for the first time in 2019.

The efforts were recognised to be successful in ensuring the well-being of the employees by the Top Employer Institute, which has granted NLB the prestigious certificate for the fourth consecutive year, thus ranking the Bank amongst the best employers in the world. In 2019, recognition as the second most desirable employer in the financial sector was also awarded to NLB Banka, Sarajevo, making this Group subsidiary bank one of the Top 10 employers in BiH.

### Financial literacy and promotion of entrepreneurship

As a general sponsor, the bank supported the Kopaonik business forum, which gathered around 1,300 businessmen, representatives of state institutions, and non-governmental organisations. Also, in BiH and Montenegro regional business forums were organised: in BiH NLB Banka, Sarajevo and NLB Banka, Banja Luka focused on talents and in Montenegro 'Women in Business: The New Value of the Montenegrin Economy,' during which the successful business stories of NLB Banka, Podgorica women clients were presented.

In 2019, NLB Banka, Sarajevo supported a new cycle of lectures at the Academy for Entrepreneurship which was prepared in cooperation with EFSE and Deloitte; and NLB has, similarly, backed developing entrepreneurial spirit amongst young people by organising financial-entrepreneurial workshops for the My Company programme under the auspices of the Institute for the Promotion of Youth Entrepreneurship.

Aiming at promoting financial literacy, the Group organised many financial workshops for children – members of sports clubs, who participate in the project Youth sports; as well as a financial workshop with the presence of a sign language interpreter for people with hearing disabilities.

### Humanitarian initiatives

The Bank focused much of its attention on people with hearing disability by supporting the Theatre Interpreter Initiative, which introduced a series of theatre plays with sign language interpreters into the Slovenian cultural sphere, thus enabling a more equal inclusion of people with hearing disability into everyday life. The Bank's service 24/7 video call was updated with the presence of an interpreter once a week, thus enabling people with hearing disability to carry out basic banking tasks.

Other vulnerable groups and noteworthy causes were supported as well. Amongst them hospitals and children in need. The Bank has, for example, also collected old Slovenian currency and donated the collected amount to the Europa Donna association. NLB Banka, Prishtina paid special attention to people with disabilities and underprivileged families.

### Supporting professional sport and encouraging youth sports

The Group supported professional athletes as well as children – members of sports clubs, participating in the project Youth Sports, to inspire young people to take up sports, learn how to win, and, on the other hand, learn how to lose with dignity. Across Slovenia, the Bank supported 36 local sports clubs, and gave opportunity to almost 2,000 children to see the football qualifications for the European Championship 2020.

Other Group member banks also contributed their share to this mission. NLB Banka, Prishtina has, for example, financially supported men's rugby championships and chess tournaments; and NLB Banka, Podgorica combined the promotion of sports with humanitarian initiative and the long-time project 'Small Steps are Changing the World for the Better,' during which they donated funds to Montenegrin maternity hospitals.

### Preserving environment and cultural heritage

However, the Group has focused also on the bigger picture – the protection of environment and preserving of cultural heritage. Many exhibitions were held in NLB Banka, Beograd, NLB Banka, Skopje, and NLB Galerija Avla; and in addition, decisive steps were taken in preparation for the establishment of the Slovenian banking museum.

NLB Banka, Beograd continued with its admirable project Organic, supporting organic food production, family entrepreneurship, sustainable development, and care for the environment as well as general health of the population; and NLB Banka, Sarajevo participated in the initiative of cleaning the city in just one day.

Financing large renewable energy project in Kosovo, which is expected to significantly increase the production of green energy from renewable sources in the region, was a project supported on the Group level.

In the future, the Group will put additional efforts to environment protection and sustainability with the new Environmental Social and Governance Strategy, which is being prepared to upgrade current CSR activities primarily with activities related to the safeguarding of the environment – where we live, work, and dream.

Disclosure of the Group's sustainability reporting based on GRI Sustainability Reporting Standards (GRI) is part of the Annual Report on Corporate Social Responsibility 2019 which is publicly available on the Bank's website: https://www.nlb.si/social-responsibility.

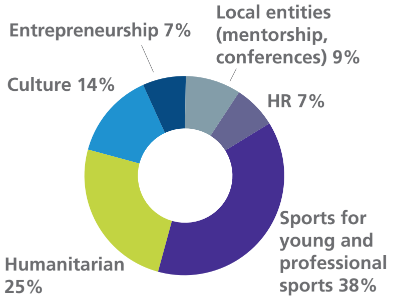



**Figure 72: The structure of socially responsible projects in NLB Group in 2019**

Chapter 23

# Events After the End of the 2019 Financial Year

On 5 February, the Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million. The fixed coupon of the notes during the first five years is 3.40% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as provided at the issuance of the notes (i.e. 3.658% p.a.). The notes with ISIN code XS2113139195 and rated BB by S&P rating agency were admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange on 5 February.

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 a.d. Beograd. The closing of the transaction is expected in Q4 2020 and is subject to mandatory regulatory approvals from, amongst others, the ECB, BoS and the National Bank of Serbia. The consideration for the 83.23% shareholding amounts to EUR 387 million, which will be payable in cash on completion. In accordance with Serbian bank privatisation regulations, NLB is not required to launch a mandatory tender offer for minorities' shareholdings in Komercijalna Banka a.d. Beograd.

On 4 March NLB obtained ECB permission to include the subordinated Tier 2 notes it issued on 19 November 2019 in the aggregate amount of EUR 120 million with ISIN code XS2080776607 in the calculation of Tier 2 capital.

Following the indications of the outbreak of the coronavirus – COVID-19 (hereinafter: coronavirus) in March in Slovenia and SEE, the Group has taken necessary measures to protect its investors, customers, and employees by ensuring safety conditions and ensuring services are provided without disruption. As the outbreak and spread of the coronavirus continues to evolve, it is challenging to predict the full extent and duration of its business and economic implications. Consequently, these circumstances may present Group members with challenges relating to the business operations in large part due to the respective governmental bodies measures and policies which have already been implemented or might be implemented in the future. Such measures and policies could significantly disrupt the activities of one or more Group members, and so the Group is considering implementing measures to support the economies in SEE region. The Group estimates the coronavirus could have a negative effect on the loan portfolio, asset quality, impairments and provisions, fair value measurement of financial assets, etc. The extent of the implications for the Group's financial performance are currently not possible to evaluate with a high degree of certainty.

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# Financial Report

# Contents

# Independent auditor's report

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 NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at 31 December 2019, 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 2019 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 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.

Building a better working world

*Credit risk and impairment of loans and advances to customers*

The carrying amount of loans and advances given customers at amortized costs amounts to EUR 4.6 billion (or 47% of total assets) at the Bank and EUR 7.6 billion (or 54% of total assets) at the Group as of 31 December 2019. Total provisions as of 31 December 2019 at the Bank amounted to EUR 119 million and at the Group to EUR 322 million. 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 life time losses, loss given default (LGD) and probability of default (PD) in case of Stage 1 and Stage 2. Mainly, higher risk is related to assessment of individual provisions for 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' assumption 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. Bank's Stage 3 gross balance of loans and advances to customers was EUR 144 million as of 31 December 2019 (Group: EUR 344 million) and total provisions EUR 85 million (Group: EUR 231 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: life time PD, LGD, 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 7.6 billion) as of 31 December 2019 and total provisions EUR 32 million (Group: EUR 90 million).

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.

We understood and evaluated the processes 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.

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 discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

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 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 assessed the adequacy of the Bank's and the Group's disclosures included in Note 6.1. Credit risk management of the separate and consolidated financial statements.

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*Information technology (IT) systems and controls over financial reporting*

A significant part of the Bank's and the Group's financial reporting process and interest and fee revenue recognition is heavily 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 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 financial reporting, 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 as 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 financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists in our audit procedures.

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.

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.

**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.

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, related safeguards.

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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. Janez Uranič 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 the same date as the issue date of this report.

*Non-audit Services*

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and 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, 17 March 2020

Janez Uranič
Director, Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Simon Podvinski
Certified auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

# 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 2019, 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 2019, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board is also responsible for appropriate accounting practices, the adoption of appropriate measures for safeguarding assets, and the prevention and identification of fraud and other irregularities or illegal acts.

**The Management Board**

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

# Income statement for the annual period ended 31 December

in EUR thousands

| | | NLB Group | | NLB | |
|---|---|---|---|---|---|
| | Notes | 2019 | 2018 | 2019 | 2018 |
| Interest income, using the effective interest method | | 357,412 | 351,773 | 175,598 | 174,296 |
| Interest income, not using the effective interest method | | 7,406 | 7,084 | 7,310 | 7,135 |
| Interest and similar income | 4.1. | 364,818 | 358,857 | 182,908 | 181,431 |
| Interest and similar expense | 4.1. | (46,331) | (45,947) | (24,782) | (23,399) |
| **Net interest income** | | **318,487** | **312,910** | **158,126** | **158,032** |
| Dividend income | 4.2. | 208 | 118 | 71,231 | 49,692 |
| Fee and commission income | 4.3. | 234,979 | 218,559 | 137,898 | 132,677 |
| Fee and commission expense | 4.3. | (64,640) | (57,944) | (33,943) | (32,514) |
| **Net fee and commission income** | | **170,339** | **160,615** | **103,955** | **100,163** |
| Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss | 4.4. | 4,643 | 45 | 4,512 | (365) |
| Gains less losses from financial assets and liabilities held for trading | 4.5. | 10,465 | 9,500 | 3,335 | 2,885 |
| Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss | 4.6. | 18,765 | 4,036 | 16,289 | 5,284 |
| Gains less losses from financial assets and liabilities designated at fair value through profit or loss | | - | (56) | - | (56) |
| Fair value adjustments in hedge accounting | 5.5.a) | (555) | 472 | (555) | 472 |
| Foreign exchange translation gains less losses | 4.7. | 706 | 745 | 396 | 218 |
| Gains less losses on derecognition of assets | | 3,355 | 2,644 | 432 | 123 |
| Other operating income | 4.8. | 16,270 | 18,680 | 8,508 | 9,768 |
| Other operating expenses | 4.9. | (28,214) | (28,268) | (12,347) | (14,637) |
| Administrative expenses | 4.10. | (270,442) | (261,432) | (171,749) | (161,439) |
| Depreciation and amortisation | 4.11. | (30,964) | (27,224) | (18,046) | (17,531) |
| Gains less losses from modification | | (182) | - | - | - |
| Provisions for credit losses | 4.12. | (312) | 3,156 | 368 | 1,157 |
| Provisions for other liabilities and charges | 4.12. | (11,135) | (1,512) | (5,586) | 2,258 |
| Impairment of financial assets | 4.13. | 13,630 | 27,047 | 16,661 | 28,659 |
| Impairment of non-financial assets | 4.13. | (3,177) | (5,414) | 2,795 | 981 |
| Share of profit from investments in associates and joint ventures (accounted for using the equity method) | 5.12.c) | 4,197 | 5,446 | - | - |
| Gains less losses from non-current assets held for sale | 4.14. | (687) | 11,828 | (579) | 11,822 |
| **Profit before income tax** | | **215,397** | **233,336** | **177,746** | **177,486** |
| Income tax | 4.15. | (13,579) | (21,759) | (1,597) | (12,187) |
| **Profit for the year** | | **201,818** | **211,577** | **176,149** | **165,299** |
| Attributable to owners of the parent | | 193,576 | 203,647 | 176,149 | 165,299 |
| Attributable to non-controlling interests | | 8,242 | 7,930 | - | - |
| Earnings per share/diluted earnings per share (in EUR per share) | 4.16. | 9.7 | 10.2 | 8.8 | 8.3 |

The notes are an integral part of these financial statements.

# Statement of comprehensive income for the annual period ended 31 December

in EUR thousands

| | | NLB Group | | NLB | |
|---|---|---|---|---|---|
| | Notes | 2019 | 2018 | 2019 | 2018 |
| **Net profit for the year after tax** | | **201,818** | **211,577** | **176,149** | **165,299** |
| **Other comprehensive income after tax** | | **19,040** | **(14,337)** | **4,446** | **(8,361)** |
| ***Items that will not be reclassified to income statement*** | | | | | |
| **Actuarial gains/(losses) on defined benefit pensions plans** | | **(1,777)** | **1,166** | **(1,523)** | **884** |
| **Fair value changes of equity instruments measured at fair value through other comprehensive income** | 5.4.c) | **284** | **1,015** | **213** | **(10)** |
| **Share of other comprehensive income/(losses) of entities accounted for using the equity method** | | **1,233** | **(1,120)** | **-** | **-** |
| **Income tax relating to components of other comprehensive income** | 5.18. | **(146)** | **141** | **104** | **(73)** |
| ***Items that may be reclassified subsequently to income statement*** | | | | | |
| **Foreign currency translation** | | **1,299** | **(1,128)** | **-** | **-** |
| Translation gains/(losses) taken to equity | | 1,299 | (1,128) | - | - |
| **Debt instruments measured at fair value through other comprehensive income** | | **13,129** | **(12,343)** | **6,977** | **(11,311)** |
| Valuation gains/(losses) taken to equity | 5.4.c) | 16,526 | (12,073) | 11,202 | (11,371) |
| Transferred to income statement | 4.4., 4.13. | (3,397) | (270) | (4,225) | 60 |
| **Share of other comprehensive income/(losses) of entities accounted for using the equity method** | | **8,440** | **(5,375)** | **-** | **-** |
| **Income tax relating to components of other comprehensive income** | 5.18. | **(3,422)** | **3,307** | **(1,325)** | **2,149** |
| **Total comprehensive income for the year after tax** | | **220,858** | **197,240** | **180,595** | **156,938** |
| Attributable to owners of the parent | | 212,266 | 189,430 | 180,595 | 156,938 |
| Attributable to non-controlling interests | | 8,592 | 7,810 | - | - |

The notes are an integral part of these financial statements.

# Statement of financial position as at 31 December

in EUR thousands

| | | NLB Group | | NLB | |
|---|---|---|---|---|---|
| | Notes | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Cash, cash balances at central banks, and other demand deposits at banks | 5.1. | 2,101,346 | 1,588,349 | 1,292,211 | 795,102 |
| Financial assets held for trading | 5.2.a) | 24,038 | 63,609 | 24,085 | 63,611 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 5.3.a) | 25,359 | 32,389 | 23,287 | 29,141 |
| Financial assets measured at fair value through other comprehensive income | 5.4. | 2,141,428 | 1,898,079 | 1,656,657 | 1,528,314 |
| Financial assets measured at amortised cost | | | | | |
| - debt securities | 5.6.a) | 1,653,848 | 1,428,962 | 1,485,166 | 1,274,978 |
| - loans and advances to banks | 5.6.b) | 93,403 | 118,696 | 144,352 | 110,297 |
| - loans and advances to customers | 5.6.c) | 7,589,724 | 7,124,633 | 4,568,599 | 4,451,477 |
| - other financial assets | 5.6.d) | 97,415 | 75,171 | 67,279 | 42,741 |
| Derivatives - hedge accounting | 5.5.b) | 788 | 417 | 788 | 417 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 5.5.c) | 8,991 | 2,517 | 8,991 | 2,517 |
| Investments in subsidiaries | 5.12.a) | - | - | 351,883 | 350,733 |
| Investments in associates and joint ventures | 5.12.b) | 7,499 | 37,147 | 1,366 | 4,777 |
| Tangible assets | | | | | |
| Property and equipment | 5.8.a) | 195,605 | 177,404 | 89,904 | 86,934 |
| Investment property | 5.9. | 52,316 | 58,644 | 9,303 | 12,026 |
| Intangible assets | 5.10. | 39,542 | 34,968 | 25,980 | 23,391 |
| Current income tax assets | | 6,284 | 877 | 5,463 | - |
| Deferred income tax assets | 5.17. | 29,500 | 22,847 | 29,569 | 22,234 |
| Other assets | 5.13. | 63,811 | 70,971 | 11,142 | 10,637 |
| Non-current assets classified as held for sale | 5.7.a) | 43,191 | 4,349 | 5,532 | 1,720 |
| **Total assets** | | **14,174,088** | **12,740,029** | **9,801,557** | **8,811,047** |
| Trading liabilities | 5.2.b) | 17,903 | 12,300 | 17,892 | 12,256 |
| Financial liabilities measured at fair value through profit or loss | 5.3.b) | 7,998 | 4,190 | 7,746 | 3,981 |
| Financial liabilities measured at amortised cost | | | | | |
| - deposits from banks and central banks | 5.15.a) | 42,840 | 26,775 | 89,820 | 48,903 |
| - borrowings from banks and central banks | 5.15.b) | 170,385 | 258,423 | 161,564 | 244,133 |
| - due to customers | 5.15.a) | 11,612,317 | 10,464,017 | 7,760,737 | 7,033,409 |
| - borrowings from other customers | 5.15.b) | 64,458 | 61,844 | 2,537 | 4,128 |
| - subordinated liabilities | 5.15.c) | 210,569 | 15,050 | 210,569 | - |
| - other financial liabilities | 5.15.d) | 158,484 | 100,887 | 98,342 | 62,212 |
| Derivatives - hedge accounting | 5.5.b) | 49,507 | 29,474 | 49,507 | 29,474 |
| Provisions | 5.16. | 88,414 | 80,134 | 60,384 | 56,994 |
| Current income tax liabilities | | 2,271 | 12,152 | - | 10,784 |
| Deferred income tax liabilities | 5.17. | 2,833 | 2,499 | - | - |
| Other liabilities | 5.19. | 15,212 | 14,840 | 9,234 | 9,543 |
| **Total liabilities** | | **12,443,191** | **11,082,585** | **8,468,332** | **7,515,817** |
| **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) | 26,493 | 7,823 | 20,285 | 15,839 |
| Profit reserves | 5.21.a) | 13,522 | 13,522 | 13,522 | 13,522 |
| Retained earnings | | 574,489 | 523,493 | 228,040 | 194,491 |
| | | **1,685,882** | **1,616,216** | **1,333,225** | **1,295,230** |
| Non-controlling interests | | 45,015 | 41,228 | - | - |
| **Total equity** | | **1,730,897** | **1,657,444** | **1,333,225** | **1,295,230** |
| **Total liabilities and equity** | | **14,174,088** | **12,740,029** | **9,801,557** | **8,811,047** |

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**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
President & CEO

Ljubljana, 17 March 2020

# Statement of changes in equity for the annual period ended 31 December

in EUR thousands

| NLB Group | Share capital | Share premium | Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI | Accumulated other comprehensive income: Foreign currency translation reserve | Accumulated other comprehensive income: Other | Profit reserves | Retained earnings | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 Group | Share capital | Share premium | Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI | Accumulated other comprehensive income: Foreign currency translation reserve | Accumulated other comprehensive income: Other | Profit reserves | Retained earnings | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2018 | 200,000 | 871,378 | 45,143 | (17,248) | (3,595) | 13,522 | 588,186 | 1,697,386 | 36,891 | 1,734,277 |
| - Net profit for the year | - | - | - | - | - | - | 203,647 | 203,647 | 7,930 | 211,577 |
| - Other comprehensive income | - | - | (14,200) | (1,027) | 1,010 | - | - | (14,217) | (120) | (14,337) |
| Total comprehensive income after tax | - | - | (14,200) | (1,027) | 1,010 | - | 203,647 | 189,430 | 7,810 | 197,240 |
| Dividends paid | - | - | - | - | - | - | (270,600) | (270,600) | (3,133) | (273,733) |
| Transfer of fair value reserve | - | - | (2,241) | - | (19) | - | 2,260 | - | - | - |
| Other | - | - | - | - | - | - | - | - | (340) | (340) |
| **Balance as at 31 December 2018** | **200,000** | **871,378** | **28,702** | **(18,275)** | **(2,604)** | **13,522** | **523,493** | **1,616,216** | **41,228** | **1,657,444** |

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 |
|---|---|---|---|---|---|---|---|
| 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** |

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 |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2018 | 200,000 | 871,378 | 27,741 | (3,497) | 13,522 | 299,748 | 1,408,892 |
| - Net profit for the year | - | - | - | - | - | 165,299 | 165,299 |
| - Other comprehensive income | - | - | (9,077) | 716 | - | - | (8,361) |
| Total comprehensive income after tax | - | - | (9,077) | 716 | - | 165,299 | 156,938 |
| Dividends paid | - | - | - | - | - | (270,600) | (270,600) |
| Transfer of fair value reserve | - | - | (44) | - | - | 44 | - |
| **Balance as at 31 December 2018** | **200,000** | **871,378** | **18,620** | **(2,781)** | **13,522** | **194,491** | **1,295,230** |

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 2019 | NLB Group 2018 | NLB 2019 | NLB 2018 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Interest received | | 407,372 | 390,588 | 228,618 | 216,528 |
| Interest paid | | (44,062) | (46,022) | (21,335) | (23,503) |
| Dividends received | | 2,985 | 1,830 | 71,229 | 49,692 |
| Fee and commission receipts | | 232,860 | 216,603 | 134,530 | 130,488 |
| Fee and commission payments | | (68,000) | (62,739) | (34,041) | (32,535) |
| Realised gains from financial assets and financial liabilities not at fair value through profit or loss | | 4,644 | 1,201 | 4,513 | 791 |
| Net gains/(losses) from financial assets and liabilities held for trading | | 10,776 | 10,045 | 4,072 | 3,819 |
| Payments to employees and suppliers | | (264,452) | (260,052) | (171,633) | (163,014) |
| Other income | | 18,378 | 21,462 | 7,859 | 8,252 |
| Other expenses | | (26,698) | (24,758) | (12,724) | (14,843) |
| Income tax (paid)/received | | (34,225) | (12,262) | (23,283) | (335) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **239,578** | **235,896** | **187,805** | **175,340** |
| **(Increases)/decreases in operating assets** | | **(575,987)** | **(85,235)** | **(229,476)** | **209,016** |
| Net (increase)/decrease in trading assets | | 44,214 | 10,773 | 44,214 | 10,773 |
| Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss | | 29,084 | 3,288 | 25,948 | 8,464 |
| Net (increase)/decrease in financial assets measured at fair value through other comprehensive income | | (250,506) | (266,865) | (126,152) | (266,349) |
| Net (increase)/decrease in loans and receivables measured at amortised cost | | (411,170) | 148,042 | (173,964) | 454,865 |
| Net (increase)/decrease in other assets | | 12,391 | 19,527 | 478 | 1,263 |
| **Increases/(decreases) in operating liabilities** | | **1,067,045** | **525,311** | **679,366** | **160,647** |
| Net increase/(decrease) in financial liabilities measured at fair value through profit or loss | | - | (691) | - | (691) |
| Net increase/(decrease) in deposits and borrowings measured at amortised cost | | 1,067,440 | 527,007 | 679,366 | 161,004 |
| Net increase/(decrease) in other liabilities | | (395) | (1,005) | - | 334 |
| **Net cash used in operating activities** | | **730,636** | **675,972** | **637,695** | **545,003** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| **Receipts from investing activities** | | **251,424** | **498,388** | **224,834** | **409,337** |
| Proceeds from sale of property, equipment, and investment property | | 6,556 | 5,841 | 3,684 | 80 |
| Proceeds from sale of subsidiaries | | 8 | 19,629 | 3,437 | 12,526 |
| Proceeds from sale of associates and joint ventures | | - | 4,600 | - | 4,600 |
| Proceeds from non-current assets held for sale | | 269 | 301 | 269 | 158 |
| Proceeds from disposals of debt securities measured at amortised cost | | 244,591 | 468,017 | 217,444 | 391,973 |
| **Payments from investing activities** | | **(500,106)** | **(634,727)** | **(448,106)** | **(521,369)** |
| Purchase of property, equipment, and investment property | | (19,257) | (16,962) | (10,787) | (10,442) |
| Purchase of intangible assets | | (13,311) | (12,671) | (9,125) | (9,931) |
| Purchase of subsidiaries and increase in subsidiaries' equity | | - | - | (1,744) | (2,100) |
| Purchase of debt securities measured at amortised cost | | (467,538) | (605,094) | (426,450) | (498,896) |
| **Net cash flows used in investing activities** | | **(248,682)** | **(136,339)** | **(223,272)** | **(112,032)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| **Proceeds from financing activities** | | **208,321** | **-** | **208,321** | **-** |
| Issue of subordinated debt | 5.15.c) | 208,321 | - | 208,321 | - |
| **Payments from financing activities** | | **(162,246)** | **(285,708)** | **(142,600)** | **(270,600)** |
| Dividends paid | | (147,244) | (273,733) | (142,600) | (270,600) |
| Repayments of subordinated debt | 5.15.c) | (15,002) | (11,975) | - | - |
| **Net cash from financing activities** | | **46,075** | **(285,708)** | **65,721** | **(270,600)** |
| Effects of exchange rate changes on cash and cash equivalents | | 3,693 | (546) | 1,189 | (453) |
| **Net increase/(decrease) in cash and cash equivalents** | | **528,029** | **253,925** | **480,144** | **162,371** |
| **Cash and cash equivalents at beginning of year** | | **1,729,093** | **1,475,714** | **824,337** | **662,419** |
| **Cash and cash equivalents at end of year** | | **2,260,815** | **1,729,093** | **1,305,670** | **824,337** |

The notes are an integral part of these financial statements.

# Statement of cash flows for the annual period ended 31 December

in EUR thousands

| | | NLB Group | | NLB | |
|---|---|---|---|---|---|
| | Notes | 2019 | 2018 | 2019 | 2018 |
| **Cash and cash equivalents comprise:** | | | | | |
| Cash, cash balances at central banks, and other demand deposits at banks | 5.1. | 2,101,871 | 1,588,819 | 1,292,345 | 795,190 |
| Loans and advances to banks with original maturity up to 3 months | | 85,369 | 72,170 | 5,770 | 29,147 |
| Debt securities measured at amortised cost with original maturity up to 3 months | | 10,007 | - | 10,007 | - |
| Debt securities measured at fair value through other comprehensive income with original maturity up to 3 months | | 66,020 | 68,104 | - | - |
| **Total** | | **2,263,267** | **1,729,093** | **1,308,122** | **824,337** |

## 1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB') is a joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in nine countries. Information on the 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 shares are listed on the London Stock Exchange. Five GDRs represent one share of NLB.

As at 31 December 2019, the largest shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share (31 December 2018: 35.00% of the shares).

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 classified as 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.

### 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.

With regard to implementation of IFRS 16 (note 5.11.), NLB Group chose a modified retrospective approach, with no adjustments to comparative amounts. Therefore, amounts related to 2019 are presented according to IFRS 16 and amounts related to 2018 according to IAS 17.

### 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, directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or by the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances, and unrealised gains on transactions between NLB Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest.'

### 2.5. Investments in subsidiaries, associates, and joint ventures

In the separate financial statements (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.b).

NLB Group's subsidiaries, associates, and joint ventures are presented in note 5.12.

### 2.6. Goodwill and bargain purchases

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired, as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it has identified all the assets acquired and all the liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements. However, this excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from the equity, and all other transaction costs associated with the acquisition are expensed.

The goodwill of associates and joint ventures is included in the carrying value of investments.

### 2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles, and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

Mergers of entities within NLB Group do not affect the consolidated financial statements.

### 2.8. Foreign currency translation

#### Functional and presentation currency

Items included in the financial statements of each of NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. the functional currency). The financial statements are presented in euros, which is NLB Group's presentation currency.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency and classified as 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 equities at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equities classified as 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 precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) on the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs but excludes future credit risk losses.

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.

### 2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

### 2.11. Dividend income

Dividends are recognised in the income statement 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.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

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 an 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 fair value are recognised in profit or loss, with the exception of movements in fair value of liabilities 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.

#### Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within the NLB Group, and is based on observable factors for different portfolios that best 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. Based on the change in cash flows discounted at the original effective interest rate, NLB Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

### 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 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 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 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 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 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.

### 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 uses a unified definition of past due and default exposures that is aligned with Article 178 of Regulation EU575/2013. Defaulted clients are rated D, DF, or E based on the internal rating system and contains clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level; however, the rating can deteriorate based on the rating of other credit facilities of the same client.

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, or
- if the facility is placed on the watch list or intensive care list.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

The 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.

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 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 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 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, 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 the NLB Group for ECL measurement 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. A three-component scenario framework is used under the IFRS 9, namely Baseline, Optimistic, and Pessimistic scenarios.

The baseline scenario presents a direct application of official GDP forecasts (IMF, EC, and IMAD), with additional modifications to mitigate for possible excessive optimism or pessimism in forecasts. The pessimistic scenario assumes moderate cyclical slowdown of the economy – the main reason for the slowdown is because of the exports due to international growth and trade moderation. House prices growth is derived by the internal models, using the official GDP projections as a price driver. The optimistic scenario simply takes the best forecaster GDP projections in the 5Y period, while the pessimistic scenario refers to the adverse macro scenario from the ICAAP process.

Each scenario is weighted by the respective probability of occurrence and the weighted average scenario is subsequently calculated. Weights are derived from the historical data, based on their distribution properties. The weighted average scenario is used as a base for IFRS 9 ECL calculations. Currently, NLB Group uses GDP for PDs and House prices growth for LGD forward-looking projections.

*Macroeconomic scenarios for Risk parameters explanatory variables*

| | | | GDP percentage growth 5Y projection | | | | |
|---|---|---|---|---|---|---|---|
| **Risk parameter** | **Scenario** | **Scenario weight (period average)** | **2019** | **2020** | **2021** | **2022** | **2023** |
| PD | Baseline | 43% | 2.70 | 2.39 | 2.23 | 1.81 | 1.63 |
| | Optimistic | 36% | 3.40 | 3.10 | 2.80 | 2.32 | 2.08 |
| | Pessimistic | 21% | (1.77) | (2.56) | 1.47 | 1.08 | 0.84 |
| | Weighted average | - | 2.80 | 2.57 | 2.09 | 1.82 | 1.66 |

| | | | House prices growth 5Y projection | | | | |
|---|---|---|---|---|---|---|---|
| **Risk parameter** | **Scenario** | **Scenario weight** | **2019** | **2020** | **2021** | **2022** | **2023** |
| LGD* | Weighted average | - | (0.06) | (0.15) | (0.34) | (0.45) | (0.51) |

* 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.

b) Individual assessment of allowances for impaired financial assets

Assets carried at an amortised cost

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 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. 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 (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; and
- no exposure, in the probation period, is more than 30 days in default 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 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 and goodwill (note 2.6.). Intangible assets are stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write-down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

**2.20. Investment properties**

Investment properties include buildings held to earn rentals, or to increase the value of a long-term investment, rather than to be used by the 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.

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) Accounting for leases based on IFRS 16

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. As 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.

#### 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 exist 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; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

#### NLB Group as a lessor

NLB Group is not exposed to finance leases as a lessor. Its leases are classified as operating, since it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Lease payments from operating leases are recognised as income on a straight-line basis. NLB Group recognises cost, including depreciation, incurred in earning the lease income as an expense. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

#### b) Accounting for leases based on IAS 17

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed upon period of time. Lease agreements are accounted for in accordance with their classification as finance leases or operating leases at the inception of the lease. The key classification factor is the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee.

#### NLB Group as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

Finance leases are recognised as an asset and liability in amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Leased assets are depreciated in accordance with NLB Group's policy over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that NLB Group will obtain ownership by the end of the lease term. Lease payments are apportioned between interest expenses and the reduction of the outstanding liability to produce a constant periodic rate of interest on the remaining balance of the liability.

#### NLB Group as a lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest rate method.

Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

#### Sale-and-leaseback transactions

NLB Group also enters into sale-and-leaseback transactions (in which NLB Group is primarily a lessor) under which the leased assets are purchased from and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

### 2.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks and other demand deposits at banks, debt securities held for trading, loans to banks, and debt securities not held for trading with an original maturity of up to 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.

**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.

**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 2019 in Slovenia was 19% (2018: 19%).

Current and deferred taxes are recognised in profit or loss, except for 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 investments in subsidiaries, associates, and joint ventures are recognised only to the extent that it is probable that:

- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

A tax on financial services, which 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% (2018: 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 fiduciary activities are generally recognised in the income statement when the service has been provided. 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 additionally disclosed in note 5.24. 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 benefit plan terms and conditions.

Service costs are included in the income statement in the item 'Administrative expenses' as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item 'Interest and similar expenses.' These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. 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.

### 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 where slowing global economy mercantilist policy effects the economic growth, even more in small open economies like Slovenia.

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 impairments in the first year of stress by EUR 73.6 million (2018: EUR 75.2 million), and an increase in the coverage of the credit portfolio by impairments by 1.16 percentage points (2018: 0.89 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.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with NLB Group's methodology for the valuation of derivative financial instruments. The market exchange rates, interest rates, yield, and volatility curves used in 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 1 and 1.5%.
- The target capital adequacy ratio of an individual bank is between 13 and 17%.
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 9.66 and 15.81% (31 December 2018: between 9.66 and 15.18%).

For strategic NLB Group members in 2019 and 2018, there were no indications of impairment for equity investments.

In 2019, NLB impaired equity investments in non-core members in the amount of EUR 590 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Actuarial assumptions** | | | | |
| Discount factor | 0.2% - 3.2% | 1.01% - 5.0% | 0.2% | 1.05% |
| Wage growth based on inflation, promotions, and wage growth based on past years of service | 1.8% - 3.7% | 1.4% - 3.8% | 3.0% - 3.3% | 2.8% - 3.3% |
| **Other assumptions** | | | | |
| Number of employees eligible for benefits | 5,010 | 5,044 | 2,608 | 2,662 |

Sensitivity analysis of significant actuarial assumptions for post-employment benefit

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| **31 dec 2019** | Discount rate | | Future salary increases | | Discount rate | | Future salary increases | |
| | +0.5 b.p. | -0.5 b.p. | +0.5 b.p. | -0.5 b.p. | +0.5 b.p. | -0.5 b.p. | +0.5 b.p. | -0.5 b.p. |
| Impact on employee benefits provisions - post-employment benefits (in %) | (5.5) | 2.9 | 5.9 | (5.5) | (5.4) | 2.3 | 5.8 | (5.5) |

The minimum discount rate is considered to be 0%.

#### e) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2019 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 increase (decrease) by 10%, the estimated amount of deferred tax assets would increase by EUR 6,126 thousand (decrease of EUR 6,126 thousand). NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (notes 4.15. 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 2019.

#### Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2019 that were endorsed by the EU and adopted by NLB Group

- IFRS 16 (new standard) – 'Leases' (effective for annual periods beginning on or after 1 January 2019). It replaces the old lease accounting standard IAS 17 Leases. IFRS 16 establishes principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract, i.e., the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases in their financial statements, moreover, it introduces a single accounting model for all leases (similar to the accounting for finance leases under IAS 17), with certain exemptions (“low value” assets and short-term leases). At the commencement date of a lease, a lessee shall recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of lease liability, adjusted for any payments made at or before the commencement date, any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee at the end of lease term. The value of lease liability is calculated as the net present value of future lease payments.

The term ‘Lessor Accounting’ under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Presentation of effects of transition to IFRS 16 is disclosed in note 2.35.

- IFRS 9 (amendment) – ‘Prepayment Features with Negative Compensation’ is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The amendment allows certain pre-payable financial assets with a negative compensation prepayment option to be measured at an amortised cost or fair value through other comprehensive income, if the prepayment amount substantially represents the reasonable compensation and unpaid principal and interest. Reasonable compensation may be positive or negative. Prior to this amendment financial assets with this negative compensation feature would have failed the exclusive payments of principal and interest test and be mandatorily measured at fair value through profit or loss. There is no impact on NLB Group’s consolidated financial statements.

- IFRIC 23 ‘Uncertainty over Income Tax Treatments’ is effective for annual periods beginning on or after 1 January 2019. The Interpretation addresses the accounting for income tax when it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. There is no impact on NLB Group’s consolidated financial statements.

- ‘Annual Improvements to IFRS 2015–2017 Cycle’. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2019. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. There is no impact on NLB Group’s consolidated financial statements.

- IAS 28 (amendment) – ‘Long-term Interests in Associates and Joint Ventures’ is effective for annual periods beginning on or after 1 January 2019. The amendment clarifies that IFRS 9 Financial Instruments applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied. There is no impact on NLB Group’s consolidated financial statements.

- IAS 19 (amendment) – ‘Plan Amendment, Curtailment or Settlement’ is effective for annual periods beginning on or after 1 January 2019. It clarifies the accounting when a plan amendment, curtailment, or settlement occurs. Entities are thus required to use updated assumptions to determine the current service cost and the net interest for the period after the remeasurement. Moreover, amendments have been included to clarify the effect of a plan amendment, curtailment, or settlement on the requirements regarding the asset ceiling. There is no impact on NLB Group’s consolidated financial statements.

Accounting standards and amendments to existing standards that were endorsed by the EU and adopted early by NLB Group

- The Bank has early adopted ‘Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7’. 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, to continue to apply hedge accounting in accordance with IAS 39. 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).

#### Accounting standards and amendments to existing standards that were endorsed by the EU, but not adopted early 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. NLB Group does not expect an impact on its 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.

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

- IFRS 17 (new standard) – 'Insurance Contracts' is effective for annual periods beginning on or after 1 January 2021. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts, and requires insurance contracts to be measured using current fulfilment cash flows, and for revenue to be recognised as the service is provided over the coverage period. NLB Group does not expect an impact on its 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. NLB Group does not expect an impact on its consolidated financial statements.

- IFRS 10 and IAS 28 (amendment) – The IASB has deferred the effective dates of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture amendments indefinitely. The amendments address a conflict between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group does not expect an impact on its consolidated financial statements.

### 2.35. Presentation of effects at transition to IFRS 16 as at 1 January 2019

The note explains the impact of the adoption of IFRS 16 on the NLB Group's financial statements.

NLB Group has identified contracts that meet the definition of a lease in accordance with the IFRS 16 requirements. The most significant types of leases are leases of business premises, followed by the leases of vehicles and a small number of parking spaces. One of the most important assumptions for calculation of the net present value was the lease term signed for an indefinite period. For these NLB Group assumed a 5-year lease term with the exemption of business premises on strategic locations where management assessed a different (longer) lease term. Another important assumption for the calculation of the net present value of the future lease payments was the discount rate where NLB Group applied the internal transfer price for retail deposits. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was between 0.97% and 3% for NLB Group (NLB: between 1.05% and 1.52%).

At the transition to IFRS 16 NLB Group chose modified retrospective approach, where right-of-use assets are measured as an amount equal to the lease liability. Adoption of the IFRS 16 requirements did not have material impact on the consolidated financial statements of NLB Group as at 1 January 2019. More specifically, due to a recognition of the right-of-use assets and lease liabilities the consolidated assets and liabilities increased by EUR 19,045 thousand (NLB: EUR 2,578 thousand). The impact on the regulatory equity is immaterial.

Measurement of lease liabilities

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 24,848 | 3,711 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (2,487) | (80) |
| (Less) short-term leases not recognised as a liability | (600) | (242) |
| (Less) low-value leases not recognised as a liability | (1,893) | - |
| (Less) leases of intangible assets not recognised as a liability | (823) | (811) |
| **Lease liability recognised as at 1 January 2019** | **19,045** | **2,578** |

## 3. Changes in subsidiary holdings

### 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. From March 2019 the company is 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., Belgrade merged with SR-RE d.o.o., Belgrade. In April 2019, SR-RE d.o.o., Belgrade was renamed REAM d.o.o., Belgrade.
- From 1 January 2019 NLB Srbija d.o.o., Belgrade 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 NLB Vita. 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 has been transferred from line "Investments in associates and joint ventures" into line "Non-current assets classified as held for sale."

### Changes in 2018

*Capital changes:*

- An increase in share capital in the form of a cash contribution in the amount of EUR 300 thousand in Prospera plus d.o.o., Ljubljana – v likvidaciji for covering operating costs.
- An increase in share capital in the form of a cash contribution in the amount of EUR 1,300 thousand in S-REAM d.o.o., Ljubljana to ensure regular business operations.

*Other changes:*

- In March 2018, NLB Group sold its core subsidiary NLB Nov Penziski Fond, Skopje (note 4.14.).
- NLB Interfinanz, Praga – vo likvidaci and NLB Interfinanz, Belgrade – u likvidaciji are formally in liquidation.
- In May 2018 S-REAM, poslovanje z nepremičninami, d.o.o. Ljubljana was established and will manage certain real estate in NLB Group. NLB's ownership is 100%.
- In June 2018 NLB Propria d.o.o., Ljubljana – v likvidaciji was liquidated. In accordance with a court order, the company was removed from the court register.
- In September 2018, NLB sold its associate Skupna pokojninska družba d. d., Ljubljana (note 4.14.).
- In December 2018, NLB received EUR 958 thousand from liquidation of NLB Lizing Skopje (note 4.13.). In January 2019 liquidation was finished and the company was removed from the court register in accordance with court order.
- In December 2018, NLB sold its subsidiary REAM d.o.o., Zagreb to S-REAM, d.o.o., poslovanje z nepremičninami, Ljubljana (note 4.14.).

## 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Interest and similar income** | | | | |
| *Interest income, using the effective interest method* | 357,412 | 351,773 | 175,598 | 174,296 |
| Loans and advances to customers at amortised cost | 311,541 | 304,652 | 141,345 | 139,235 |
| Securities measured at amortised cost | 23,215 | 23,107 | 19,119 | 19,152 |
| Financial assets measured at fair value through other comprehensive income | 20,606 | 20,749 | 11,656 | 12,937 |
| Loans and advances to banks measured at amortised cost | 1,235 | 2,070 | 3,065 | 2,394 |
| Deposits with banks and central banks | 815 | 1,195 | 413 | 578 |
| *Interest income, not using the effective interest method* | 7,406 | 7,084 | 7,310 | 7,135 |
| Financial assets held for trading | 6,097 | 5,571 | 6,097 | 5,571 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 1,300 | 1,513 | 1,204 | 1,564 |
| Derivatives - hedge accounting | 9 | - | 9 | - |
| **Total** | **364,818** | **358,857** | **182,908** | **181,431** |
| **Interest and similar expenses** | | | | |
| Due to customers | 23,111 | 25,039 | 4,317 | 5,616 |
| Financial liabilities held for trading | 5,100 | 4,814 | 5,100 | 4,814 |
| Derivatives - hedge accounting | 8,969 | 8,372 | 8,969 | 8,372 |
| Borrowings from banks and central banks | 1,285 | 1,505 | 1,110 | 1,221 |
| Borrowings from other customers | 940 | 1,160 | - | - |
| Subordinated liabilities | 2,716 | 1,275 | 2,271 | - |
| Negative interest | 3,488 | 3,364 | 2,578 | 2,987 |
| Interest expenses on defined employee benefits (note 2.30., 5.16.c) | 184 | 221 | 96 | 126 |
| Deposits from banks and central banks | 216 | 184 | 298 | 258 |
| Lease liabiliies (note 5.11.a) | 316 | - | 38 | - |
| Other financial liabilities | 6 | 13 | 5 | 5 |
| **Total** | **46,331** | **45,947** | **24,782** | **23,399** |
| **Net interest** | **318,487** | **312,910** | **158,126** | **158,032** |

The item 'Negative interest' includes the interest from deposits with banks and central banks in the amount of EUR 2,970 thousand for NLB Group (2018: EUR 3,179 thousand), and EUR 2,060 thousand for NLB (2018: EUR 2,802 thousand), and also interest from securities with a negative yield due to the purchase with a premium in the amount of EUR 518 thousand for NLB Group and NLB (2018: EUR 185 thousand).

## 4.2. Dividend income

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Financial assets measured at fair value through other comprehensive income | 111 | 95 | - | - |
| - related to investments derecognised during the period | - | 12 | - | - |
| - related to investments held at the end of reporting period | 111 | 83 | - | - |
| Investments in subsidiaries | - | - | 68,353 | 47,955 |
| Investments in associates and joint ventures | - | - | 2,781 | 1,714 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 97 | 23 | 97 | 23 |
| **Total** | **208** | **118** | **71,231** | **49,692** |

## 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Fee and commission income** | | | | |
| *Fee and commission income relating to financial instruments not at fair value through profit or loss* | | | | |
| Credit cards and ATMs | 69,423 | 66,552 | 39,369 | 41,015 |
| Customer transaction accounts | 60,686 | 48,829 | 45,606 | 36,378 |
| *Other fee and commission income* | | | | |
| Payments | 54,697 | 56,472 | 23,477 | 27,151 |
| Investment funds | 17,621 | 16,369 | 5,506 | 4,991 |
| Guarantees | 11,282 | 10,840 | 7,192 | 7,095 |
| Agency of insurance products | 6,384 | 4,757 | 4,832 | 4,199 |
| Other services | 5,619 | 5,467 | 4,141 | 3,897 |
| **Total** | **225,712** | **209,286** | **130,123** | **124,726** |
| **Fee and commission expenses** | | | | |
| *Fee and commission expenses relating to financial instruments not at fair value through profit or loss* | | | | |
| Credit cards and ATMs | 49,685 | 43,461 | 28,261 | 26,131 |
| *Other fee and commission expenses* | | | | |
| Payments | 6,605 | 6,125 | 875 | 829 |
| Insurance for holders of personal accounts and gold cards | 955 | 1,148 | 771 | 906 |
| Investment banking | 1,989 | 2,062 | 487 | 764 |
| Guarantees | 114 | 161 | 30 | 30 |
| Other services | 2,529 | 2,200 | 753 | 1,059 |
| **Total** | **61,877** | **55,157** | **31,177** | **29,719** |
| **Net fee and commission income related to banking activities** | **163,835** | **154,129** | **98,946** | **95,007** |

b) Fee and commission income and expenses relating to fiduciary activities

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Fee and commission income related to fiduciary activities** | | | | |
| Receipt, processing, and execution of orders | 1,281 | 1,418 | 1,227 | 1,367 |
| Management of financial instruments portfolio | 1,513 | 1,240 | - | - |
| Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis | 256 | 574 | 256 | 574 |
| Custody and similar services | 4,877 | 5,151 | 4,953 | 5,120 |
| Management of clients' account of non-materialised securities | 1,162 | 795 | 1,162 | 795 |
| Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies | 178 | 95 | 177 | 95 |
| **Total** | **9,267** | **9,273** | **7,775** | **7,951** |
| **Fee and commission expenses related to fiduciary activities** | | | | |
| Fee and commission related to Central Securities Clearing Corporation and similar organisations | 2,711 | 2,728 | 2,714 | 2,736 |
| Fee and commission related to stock exchange and similar organisations | 52 | 59 | 52 | 59 |
| **Total** | **2,763** | **2,787** | **2,766** | **2,795** |
| **Net fee income related to fiduciary activities** | **6,504** | **6,486** | **5,009** | **5,156** |
| **Total fee and commission income** | **234,979** | **218,559** | **137,898** | **132,677** |
| **Total fee and commission expenses** | **64,640** | **57,944** | **33,943** | **32,514** |
| **Total a) and b)** | **170,339** | **160,615** | **103,955** | **100,163** |

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

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Debt instruments measured at fair value through other comprehensive income | | | | |
| *- gains* | 4,528 | 941 | 4,397 | 785 |
| *- losses* | (1) | (697) | (1) | (697) |
| Debt instruments measured at amortised cost | | | | |
| *- gains* | 116 | 6 | 116 | 6 |
| *- losses* | - | (459) | - | (459) |
| Financial liabilities measured at amortised cost | | | | |
| *- gains* | - | 254 | - | - |
| **Total** | **4,643** | **45** | **4,512** | **(365)** |

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

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Foreign exchange trading | | | | |
| *- gains* | 24,102 | 18,762 | 16,058 | 10,947 |
| *- losses* | (12,574) | (8,145) | (11,338) | (6,943) |
| Debt instruments | | | | |
| *- gains* | 1,455 | 551 | 1,455 | 551 |
| *- losses* | (1,459) | (933) | (1,459) | (933) |
| Derivatives | | | | |
| *- currency* | 363 | 260 | 41 | 257 |
| *- interest rate* | (1,900) | (753) | (1,900) | (752) |
| *- securities* | 478 | (242) | 478 | (242) |
| **Total** | **10,465** | **9,500** | **3,335** | **2,885** |

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

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Equity securities | | | | |
| *- gains* | 9.277 | 1.121 | 8.061 | 1.088 |
| *- losses* | (945) | (834) | (945) | (543) |
| Debt securities | | | | |
| *- gains* | 6 | - | - | - |
| *- losses* | (66) | (10) | - | - |
| Loans and advances to customers | | | | |
| *- gains* | 10.493 | 3.759 | 9.173 | 4.739 |
| **Total** | **18.765** | **4.036** | **16.289** | **5.284** |

## 4.7. Foreign exchange translation gains less losses

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Financial assets and liabilities not classified as at fair value through profit or loss | 662 | 782 | 372 | 255 |
| Disposal of a subsidiary | 19 | (2) | - | - |
| Financial assets measured at fair value through profit or loss | 39 | (37) | 39 | (37) |
| Other | (14) | 2 | (15) | - |
| **Total** | **706** | **745** | **396** | **218** |

## 4.8. Other operating income

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Income from non-banking services | 6,605 | 8,176 | 5,694 | 5,653 |
| *- cash transportation* | 3,170 | 3,328 | 3,170 | 3,328 |
| *- operating leases of movable property* | 985 | 2,152 | 455 | 437 |
| *- IT services* | 863 | 988 | 863 | 988 |
| *- other* | 1,587 | 1,708 | 1,206 | 900 |
| Rental income from investment property | 4,124 | 4,759 | 697 | 543 |
| Revaluation of investment property to fair value (note 5.9.) | 849 | 730 | 11 | 169 |
| Sale of investment property | 361 | 121 | 220 | 69 |
| Other operating income | 4,331 | 4,894 | 1,886 | 3,334 |
| **Total** | **16,270** | **18,680** | **8,508** | **9,768** |

## 4.9. Other operating expenses

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Deposit guarantee | 14,173 | 13,818 | 4,984 | 5,746 |
| Other taxes and compulsory public levies | 2,757 | 2,772 | 1,027 | 1,001 |
| Expenses related to issued service guarantees | 2,477 | 3,068 | 2,477 | 3,068 |
| Single Resolution Fund | 2,050 | 2,506 | 2,050 | 2,506 |
| Membership fees and similar fees | 815 | 840 | 322 | 361 |
| Revaluation of investment property to fair value (note 5.9.) | 541 | 774 | 86 | 65 |
| Other operating expenses | 5,401 | 4,490 | 1,401 | 1,890 |
| **Total** | **28,214** | **28,268** | **12,347** | **14,637** |

Other operating expenses mainly include expenses associated with donations, damages, and licences.

## 4.10. Administrative expenses

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Employee costs** | | | | |
| Gross salaries, compensations, and other short-term benefits | 151,634 | 146,171 | 95,934 | 91,742 |
| Defined contribution scheme | 10,484 | 10,351 | 6,826 | 6,776 |
| Social security contributions | 8,317 | 8,457 | 5,591 | 5,551 |
| Defined benefit expenses (note 5.16.c) | 741 | 139 | 218 | (225) |
| *Post-employment benefits* | 447 | 343 | 54 | 69 |
| *Other employee benefits* | 294 | (204) | 164 | (294) |
| **Total** | **171,176** | **165,118** | **108,569** | **103,844** |
| **Other general and administrative expenses** | | | | |
| Material | 4,562 | 5,284 | 1,834 | 2,330 |
| Services | 29,841 | 26,372 | 20,674 | 16,842 |
| *Intellectual services* | 13,908 | 10,933 | 9,894 | 6,854 |
| *Costs of supervision* | 3,494 | 2,900 | 1,931 | 1,444 |
| *Costs of other services* | 12,439 | 12,539 | 8,849 | 8,544 |
| Business travel | 1,205 | 1,300 | 512 | 515 |
| Marketing | 9,625 | 8,993 | 5,985 | 5,486 |
| Buildings and equipment | 22,243 | 27,094 | 13,101 | 14,200 |
| *Electricity* | 4,113 | 4,138 | 2,230 | 2,321 |
| *Rents and leases* | 1,899 | 6,385 | 528 | 1,242 |
| *Maintainance costs* | 6,975 | 6,956 | 5,049 | 5,219 |
| *Costs of security* | 3,669 | 3,712 | 1,619 | 1,652 |
| *Insurance for tangible assets* | 2,056 | 2,052 | 1,152 | 1,120 |
| *Other costs related to buildings and equipment* | 3,531 | 3,851 | 2,523 | 2,646 |
| Technology | 20,282 | 16,377 | 13,581 | 10,895 |
| *Maintainance of software and hardware* | 9,342 | 8,496 | 6,556 | 5,851 |
| *Licences* | 7,061 | 3,949 | 4,514 | 2,341 |
| *Data assets and subscription costs* | 2,096 | 2,059 | 1,503 | 1,535 |
| *Other technology costs* | 1,783 | 1,873 | 1,008 | 1,168 |
| Communications | 9,305 | 8,757 | 6,002 | 6,025 |
| *Postal services* | 5,215 | 4,547 | 4,001 | 4,010 |
| *Telecommunication and internet* | 2,002 | 2,149 | 751 | 765 |
| *Other communication costs* | 2,088 | 2,061 | 1,250 | 1,250 |
| Other general and administrative costs | 2,203 | 2,137 | 1,491 | 1,302 |
| **Total** | **99,266** | **96,314** | **63,180** | **57,595** |
| **Total administrative expenses** | **270,442** | **261,432** | **171,749** | **161,439** |
| Number of employees | 5,878 | 5,887 | 2,659 | 2,690 |

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 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **External audit services** | | | | |
| Audit of annual report | 570 | 497 | 211 | 206 |
| Other audit services | 10 | 492 | 10 | 479 |
| Other non-audit services | - | 6 | - | 6 |
| **Total** | **580** | **995** | **221** | **691** |

Additionally, to the services included in the table above, the statutory auditor performed also some services related to the issue of subordinated instruments in the amount of EUR 330 thousand. These expenses are included in the calculation of the effective interest rate of the issued subordinated instruments.

## 4.11. Depreciation and amortisation

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Amortisation of intangible assets (note 5.10.) | 9,994 | 10,794 | 7,348 | 8,135 |
| Depreciation of property and equipment: | | | | |
| - own property and equipment (note 5.8.b) | 16,393 | 16,430 | 9,922 | 9,396 |
| - right-of-use assets (note 5.11.a) | 4,577 | - | 776 | - |
| **Total** | **30,964** | **27,224** | **18,046** | **17,531** |

## 4.12. Provisions

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Guarantees and commitments (note 5.16.b) | 312 | (3,156) | (368) | (1,157) |
| Restructuring provisions (note 5.16.d) | 5,478 | (21) | 5,500 | - |
| Provisions for legal risks (note 5.16.e) | 5,696 | 1,533 | 191 | (2,258) |
| Other provisions (note 5.16.f) | (39) | - | (105) | - |
| **Total** | **11,447** | **(1,644)** | **5,218** | **(3,415)** |

## 4.13. Impairment charge

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Impairment of financial assets** | | | | |
| Cash balances at central banks, and other demand deposits at banks | 63 | (175) | 46 | 21 |
| Loans and advances to individuals measured at amortised cost (note 5.14.a) | 8,010 | 7,724 | 3,772 | 3,155 |
| Loans and advances to legal entities measured at amortised cost (note 5.14.a) | (23,856) | (35,902) | (21,606) | (31,988) |
| Debt securities measured at fair value through other comprehensive income (note 5.14.b) | 1,130 | (26) | 171 | 148 |
| Debt securities measured at amortised cost (note 5.14.b) | 237 | 733 | 293 | 25 |
| Other financial assets measured at amortised cost (note 5.14.a) | 786 | 599 | 663 | (20) |
| **Total** | **(13,630)** | **(27,047)** | **(16,661)** | **(28,659)** |
| **Impairment of investments in subsidiaries, associates and JV** | | | | |
| Investments in subsidiaries | - | - | (2,843) | (958) |
| Investments in associates and joint ventures | - | - | 1 | 20 |
| **Total** | **-** | **-** | **(2,842)** | **(938)** |
| **Impairment of other assets** | | | | |
| Property and equipment (note 5.8.) | 171 | 643 | - | - |
| Other assets | 3,006 | 4,771 | 47 | (43) |
| **Total** | **3,177** | **5,414** | **47** | **(43)** |
| **Total impairment** | **(10,453)** | **(21,633)** | **(19,456)** | **(29,640)** |

In 2019, NLB impaired equity investments in non-core subsidiaries and an associate in total amount of EUR 591 thousand (2018: EUR 544 thousand). Release of impairments in total amount of EUR 3,433 thousand relates mainly to decrease of share capital in non-core subsidiary and consequential repayment of funds to NLB (2018: EUR 1,482 thousand, mainly due to repayment from liquidation mass of non-core subsidiaries).

Impairments of investments in subsidiaries and associates are included in the segment “Non-core members.”

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

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Gains less losses on derecognition of subsidiaries | (110) | 12,178 | - | 9,203 |
| Gains less losses on derecognition of associates | (1) | (477) | (1) | 2,465 |
| Gains less losses from property and equipment | (576) | 127 | (578) | 154 |
| **Total** | **(687)** | **11,828** | **(579)** | **11,822** |

In 2018, NLB sold its subsidiaries NLB Nov Penziski Fond a.d., Skopje and Ream d.o.o., Zagreb. At the sale of NLB Nov Penziski Fond a.d., Skopje, NLB Group realised a profit in the amount of EUR 12,178 thousand and NLB in the amount of EUR 8,840 thousand.

In 2018, NLB sold its associate Skupna pokojninska družba d.o.o., Ljubljana. At the sale, NLB Group realised a loss in the amount of EUR 477 thousand and NLB realised a profit in the amount of EUR 2,465 thousand.

## 4.15. Income tax

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Current income tax | 21,620 | 22,679 | 10,153 | 12,027 |
| Deferred income tax (note 5.17.) | (8,041) | (920) | (8,556) | 160 |
| **Total** | **13,579** | **21,759** | **1,597** | **12,187** |

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Profit before tax | 215,397 | 233,336 | 177,746 | 177,486 |
| Tax calculated at prescribed rate of 19% | 40,925 | 44,334 | 33,772 | 33,722 |
| Income not assessable for tax purposes | (3,102) | (3,100) | (13,632) | (10,223) |
| Expenses not deductible for tax purposes | 3,829 | (2,438) | 627 | 838 |
| Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates | (2,112) | (141) | (2,650) | (319) |
| Tax allowances | (2,929) | (1,920) | (1,864) | (1,536) |
| Effect of unrecognised deferred tax assets on tax losses | (8,531) | (8,715) | (9,155) | (11,957) |
| Effects of different tax rates in other countries | (9,110) | (8,324) | - | - |
| 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 | 2,870 | 1,605 | 2,870 | 1,605 |
| Adjustment to tax in respect of prior periods | 113 | 27 | 3 | 1 |
| Other | 19 | 431 | 19 | 56 |
| **Total** | **13,579** | **21,759** | **1,597** | **12,187** |

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 2019 (2018: 19%).

Most of the non-taxable income relates to dividends. NLB excluded EUR 67,605 thousand dividend income in 2019 (2018: EUR 47,208 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.

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e., within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), a lower range of expected outcomes was considered for purposes of deferred tax assets calculation.

In 2019, NLB continued its trend of stable and profitable business operations and based on five-years profit projections 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. Deferred tax assets in 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 hedge accounting).

Other NLB Group members did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised, and where the utilisation of unused tax losses is limited to five years.

NLB did not recognise deferred tax assets on temporary differences arising from the impairment of investments in strategic subsidiaries and associates in the amount of EUR 322,077 thousand as at 31 December 2019 (31 December 2018: EUR 321,561 thousand), where it is not probable that the temporary difference will reverse in the foreseeable future. Impairments of investments in non-strategic subsidiaries on which NLB did not recognise deferred tax assets due to exceeding the total balance of deferred tax assets that are expected to be reversed within five years amount to EUR 291,357 thousand (2018: EUR 382,055 thousand).

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 a 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 the NLB Group relating to operations in 2019 is 6.3% (2018: 9.3%) (calculated as a ratio of the tax expense and profit before tax), and for NLB is 0.9% (2018: 6.9%).

### 4.16. 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net profit attributable to the owners of the parent (in EUR thousands) | 193,576 | 203,647 | 176,149 | 165,299 |
| Weighted average number of ordinary shares (in thousands) | 20,000 | 20,000 | 20,000 | 20,000 |
| Basic earnings per share (in EUR per share) | 9.7 | 10.2 | 8.8 | 8.3 |
| Diluted earnings per share (in EUR per share) | 9.7 | 10.2 | 8.8 | 8.3 |

## 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Balances and obligatory reserves with central banks | 1,569,753 | 1,075,378 | 1,044,255 | 575,088 |
| Cash | 339,897 | 312,748 | 164,725 | 153,315 |
| Demand deposits at banks | 192,221 | 200,693 | 83,365 | 66,787 |
| | **2,101,871** | **1,588,819** | **1,292,345** | **795,190** |
| Allowance for impairment | (525) | (470) | (134) | (88) |
| **Total** | **2,101,346** | **1,588,349** | **1,292,211** | **795,102** |

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) Trading assets

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Derivatives, excluding hedging instruments** | | | | |
| Swap contracts | 18,169 | 13,561 | 18,216 | 13,563 |
| *- currency swaps* | 2,056 | 1,081 | 2,103 | 1,083 |
| *- interest rate swaps* | 16,113 | 12,480 | 16,113 | 12,480 |
| *Options* | 810 | 414 | 810 | 414 |
| *- interest rate options* | 3 | 85 | 3 | 85 |
| *- securities options* | 807 | 329 | 807 | 329 |
| Forward contracts | 734 | 937 | 734 | 937 |
| *- currency forward* | 734 | 937 | 734 | 937 |
| **Total derivatives** | **19,713** | **14,912** | **19,760** | **14,914** |
| **Securities** | | | | |
| Bonds | 4,325 | 18,659 | 4,325 | 18,659 |
| *- Republic of Slovenia* | 1,041 | 6,770 | 1,041 | 6,770 |
| *- other EU members* | *40* | *10,121* | *40* | *10,121* |
| *- non-EU members* | *3,244* | *1,768* | *3,244* | *1,768* |
| Treasury bills - Republic of Slovenia | - | 30,038 | - | 30,038 |
| **Total securities** | **4,325** | **48,697** | **4,325** | **48,697** |
| **Total** | **24,038** | **63,609** | **24,085** | **63,611** |
| - quoted securities | 4,325 | 48,697 | 4,325 | 48,697 |
| *of these debt instruments* | 4,325 | 48,697 | 4,325 | 48,697 |

The notional amounts of derivative financial instruments are disclosed in note 5.23.b.

b) Trading liabilities

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Derivatives, excluding hedging instruments** | | | | |
| Swap contracts | 17,238 | 11,343 | 17,238 | 11,302 |
| - *currency swaps* | 1,983 | 956 | 1,983 | 915 |
| - *interest rate swaps* | 15,255 | 10,387 | 15,255 | 10,387 |
| Options | 3 | 86 | 3 | 86 |
| - *interest rate options* | 3 | 86 | 3 | 86 |
| Forward contracts | 662 | 871 | 651 | 868 |
| - *currency forward* | *662* | *871* | *651* | *868* |
| **Total** | **17,903** | **12,300** | **17,892** | **12,256** |

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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Assets** | | | | |
| Shares | 3,167 | 2,513 | 2,716 | 2,513 |
| Investment funds | 5,475 | 4,067 | - | 34 |
| Bonds | 1,756 | 2,009 | - | - |
| Loans and advances to companies | 14,961 | 23,800 | 20,571 | 26,594 |
| **Total** | **25,359** | **32,389** | **23,287** | **29,141** |
| - quoted securities | 2,207 | 6,666 | - | 624 |
| *of these equity instruments* | 451 | 4,657 | - | 624 |
| *of these debt instruments* | 1,756 | 2,009 | - | - |
| - unquoted securities | *8,191* | *1,923* | *2,716* | *1,923* |
| *of these equity instruments* | *8,191* | *1,923* | *2,716* | *1,923* |

As at 31 December 2019, NLB Group and NLB do not have any equity instruments obtained by from taking possession of collateral in the statement of financial position (31 December 2018: EUR 624 thousand) (note 6.1.l).

b) Financial liabilities measured at fair value through profit or loss

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Liabilities** | | | | |
| Loans and advances to companies | 7,998 | 4,190 | 7,746 | 3,981 |

## 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Bonds | 1,913,623 | 1,648,863 | 1,509,559 | 1,433,476 |
| *- governments* | 1,330,137 | 1,051,199 | 930,561 | 837,347 |
| *- Republic of Slovenia* | 434,168 | 425,114 | 362,694 | 402,783 |
| *- other EU members* | 557,783 | 427,862 | 528,359 | 417,233 |
| *- non-EU members* | 338,186 | 198,223 | 39,508 | 17,331 |
| *- banks* | 561,596 | 588,180 | 561,596 | 588,180 |
| *- other issuers* | 21,890 | 9,484 | 17,402 | 7,949 |
| Shares | 4,936 | 4,577 | 259 | 248 |
| National Resolution Fund | 44,687 | 44,484 | 44,687 | 44,484 |
| Treasury bills | 112,162 | 99,398 | 102,152 | 50,106 |
| *- Republic of Slovenia* | 93,184 | 50,106 | 87,170 | 50,106 |
| *- other EU members* | 14,982 | - | 14,982 | - |
| *- non-EU members* | 3,996 | 49,292 | - | - |
| Commercial bills | 66,020 | 100,757 | - | - |
| **Total** | **2,141,428** | **1,898,079** | **1,656,657** | **1,528,314** |
| Allowance for impairment | (5,597) | (4,470) | (2,512) | (2,339) |
| - quoted securities | 1,952,920 | 1,685,708 | 1,611,711 | 1,483,582 |
| *of these equity instruments* | 3,288 | 3,185 | - | - |
| *of these debt instruments* | 1,949,632 | 1,682,523 | 1,611,711 | 1,483,582 |
| - unquoted securities | 188,508 | 212,371 | 44,946 | 44,732 |
| *of these equity instruments* | 46,335 | 45,876 | 44,946 | 44,732 |
| *of these debt instruments* | 142,173 | 166,495 | - | - |

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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 1,898,079 | 1,654,856 | 1,528,314 | 1,283,767 |
| Effects of translation of foreign operations to presentation currency | 977 | (209) | - | - |
| Additions | 1,958,648 | 1,579,126 | 802,625 | 481,507 |
| Disposals and maturity | (1,767,198) | (1,350,103) | (711,020) | (243,219) |
| Net interest income | 20,142 | 20,564 | 11,192 | 12,752 |
| Exchange differences on monetary assets | 1,135 | 964 | 1,268 | 1,038 |
| Changes in fair values | 29,645 | (7,119) | 24,278 | (7,531) |
| **Balance as at 31 December** | **2,141,428** | **1,898,079** | **1,656,657** | **1,528,314** |

As at 31 December 2019, the value of equity instruments obtained by NLB Group from taking possession of collateral and recognised in the statement of financial position is EUR 3,289 thousand (31 December 2018: EUR 3,185 thousand) (note 6.1.l).

In 2019, NLB Group and NLB did not realise any gain or loss (2018: NLB Group net gain in the amount of EUR 2,101 thousand and NLB net gain in the amount of EUR 44 thousand) by selling equity securities measured at fair value through other comprehensive income. The gain in 2018 was transferred to retained earnings (note 5.4.c).

c) Accumulated other comprehensive income related to financial assets measured at fair value through other comprehensive income

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 28,861 | 45,315 | 18,620 | 27,741 |
| Effects of translation of foreign operations to presentation currency | 29 | (18) | - | - |
| Disposal of subisidiaries | - | (65) | - | - |
| Net gains/(losses) from changes in fair value | 16,782 | (10,969) | 11,415 | (11,381) |
| Gains/losses transferred to net profit on disposal (note 4.4.) | (4,527) | (244) | (4,396) | (88) |
| Impairment (note 4.13.) | 1,130 | (26) | 171 | 148 |
| Transfer of gains/losses to retained earnings | - | (2,101) | - | (44) |
| Deferred income tax (note 5.17.) | (1,859) | 2,394 | (1,366) | 2,244 |
| Share of other comprehensive income of associates and joint ventures | 7,900 | (5,425) | - | - |
| **Balance as at 31 December** | **48,316** | **28,861** | **24,444** | **18,620** |
| - debt securities | 43,933 | 26,818 | 24,156 | 18,477 |
| - equity securities | 4,383 | 2,043 | 288 | 143 |

## 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 with the shift in the yield curve.

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the 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.

### a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousands

| NLB Group and NLB | 2019 | 2018 |
|---|---|---|
| **Fair value hedge** | **(555)** | **472** |
| Net effects from hedging instruments | (19,482) | (4,224) |
| - interest rate swap for micro hedge | (12,968) | (2,425) |
| - interest rate swap for macro hedge | (6,514) | (1,799) |
| Net effects from hedged items | 18,927 | 4,696 |
| - loans measured at amortised cost - micro hedge | (153) | (170) |
| - bonds measured at amortised cost - micro hedge | (257) | (783) |
| - bonds measured at fair value through OCI - micro hedge | 12,864 | 3,850 |
| - loans measured at amortised cost- macro hedge | 6,473 | 1,799 |

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 2019 and 2018, 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 hedge of a net investment in a foreign operation in years 2011 and 2012 and at that time it recognised 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 2019 | 561,500 | 788 | 49,507 |
| 31 Dec 2018 | 493,677 | 417 | 29,474 |

### 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 separate item 'Fair value changes of the hedged items in portfolio hedge of interest rate risk.'

in EUR thousands

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **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** | **479,098** | **35,668** | **439,374** | **11,554** |
| Fixed rate corporate loans measured at AC | 3,582 | 293 | 4,422 | 446 |
| Fixed rate bonds measured at AC | 117,811 | 13,378 | 78,655 | 1,974 |
| Fixed rate bonds measured at FVOCI | 357,705 | 21,997 | 356,297 | 9,134 |
| **Macro fair value hedges** | **149,198** | **8,991** | **114,224** | **2,517** |
| Fixed rate retail loans | 149,198 | 8,991 | 114,224 | 2,517 |

### d) IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the Group CFO and is being led by senior representatives from functions across the Bank including Sales, Legal, Finance, Global Risk, Operations, and Technology. The project provides quarterly progress updates to the Group ALCO.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the NLB Group manages through hedging relationships.

| 31 Dec 2019 | Nominal amount (in EUR thousands) | Weighted average maturity (years) |
|---|---|---|
| Interest rate swaps | | |
| EURIBOR (3 months) | 186,472 | 6.23 |
| EURIBOR (6 months) | 375,028 | 8.95 |

As can be seen in the table, all 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 change of EURIBOR is expected. As at 31 December 2019, derivatives with remaining maturity of five or more years amount to EUR 441,189 thousand.

## 5.6. Financial assets measured at amortised cost

*Analysis by type*

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Debt securities | 1,653,848 | 1,428,962 | 1,485,166 | 1,274,978 |
| Loans and advances to banks | 93,403 | 118,696 | 144,352 | 110,297 |
| Loans and advances to customers | 7,589,724 | 7,124,633 | 4,568,599 | 4,451,477 |
| Other financial assets | 97,415 | 75,171 | 67,279 | 42,741 |
| **Total** | **9,434,390** | **8,747,462** | **6,265,396** | **5,879,493** |

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 a).

### a) Debt securities

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Government | 1,285,540 | 1,138,415 | 1,115,335 | 982,856 |
| Companies | 81,350 | 81,990 | 81,350 | 81,990 |
| Banks | 264,323 | 183,715 | 264,323 | 183,715 |
| Financial organisation | 25,775 | 27,740 | 25,775 | 27,740 |
| | **1,656,988** | **1,431,860** | **1,486,783** | **1,276,301** |
| Allowance for impairment (note 5.14.b) | (3,140) | (2,898) | (1,617) | (1,323) |
| **Total** | **1,653,848** | **1,428,962** | **1,485,166** | **1,274,978** |

### b) Loans and advances to banks

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Loans | 2,213 | 1,710 | 81,633 | 40,073 |
| Time deposits | 91,076 | 116,450 | 62,651 | 69,639 |
| Purchased receivables | 209 | 662 | 209 | 662 |
| | **93,498** | **118,822** | **144,493** | **110,374** |
| Allowance for impairment (note 5.14.a) | (95) | (126) | (141) | (77) |
| **Total** | **93,403** | **118,696** | **144,352** | **110,297** |

c) Loans and advances to customers

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Loans | 7,408,374 | 7,051,289 | 4,446,843 | 4,408,703 |
| Overdrafts | 328,947 | 311,366 | 179,381 | 178,590 |
| Finance lease receivables (note 5.11 b) | 49,017 | 86,842 | - | - |
| Credit card business | 122,730 | 120,611 | 60,688 | 60,130 |
| Called guarantees | 3,100 | 8,092 | 452 | 6,613 |
| | **7,912,168** | **7,578,200** | **4,687,364** | **4,654,036** |
| Allowance for impairment (note 5.14.a) | (322,444) | (453,567) | (118,765) | (202,559) |
| **Total** | **7,589,724** | **7,124,633** | **4,568,599** | **4,451,477** |

*Analysis of loans and advances to customers by sector*

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Government | 271,389 | 352,746 | 182,582 | 267,716 |
| Financial organisations | 100,054 | 88,676 | 131,442 | 177,744 |
| Companies | 3,280,246 | 3,041,159 | 1,901,950 | 1,790,350 |
| Individuals | 3,938,035 | 3,642,052 | 2,352,625 | 2,215,667 |
| **Total** | **7,589,724** | **7,124,633** | **4,568,599** | **4,451,477** |

d) Other financial assets

*Analysis by type of other financial assets*

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Receivables in the course of collection | 18,901 | 19,127 | 16,029 | 16,110 |
| Credit card receivables | 18,497 | 18,355 | 12,194 | 12,705 |
| Debtors | 6,360 | 6,015 | 1,525 | 820 |
| Fees and commissions | 5,315 | 5,591 | 3,524 | 4,013 |
| Receivables from purchase agreements for equity securities | 612 | 610 | 610 | 610 |
| Dividends | 46 | 44 | 46 | 44 |
| Prepayments | 38 | 5,131 | - | - |
| Other financial assets | 52,552 | 28,494 | 35,192 | 10,327 |
| | **102,321** | **83,367** | **69,120** | **44,629** |
| Allowance for impairment (note 5.14.a) | (4,906) | (8,196) | (1,841) | (1,888) |
| **Total** | **97,415** | **75,171** | **67,279** | **42,741** |

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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Banks | 21,749 | 20,398 | 14,994 | 11,686 |
| Government | 25,500 | 17,923 | 24,905 | 2,903 |
| Financial organisations | 10,810 | 11,420 | 6,920 | 7,170 |
| Companies | 3,857 | 4,757 | 1,506 | 1,505 |
| Individuals | 35,499 | 20,673 | 18,954 | 19,477 |
| **Total** | **97,415** | **75,171** | **67,279** | **42,741** |

## e) Movement of called non-financial guarantees

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 683 | 1,375 | 548 | 1,263 |
| Effects of translation of foreign operations to presentation currency | 2 | - | - | - |
| Called guarantees | 1,828 | 1,127 | 278 | 457 |
| Paid guarantees | (397) | (898) | (204) | (251) |
| Write-offs | (257) | (921) | (257) | (921) |
| **Balance as at 31 December** | **1,859** | **683** | **365** | **548** |

## 5.7. Non-current assets classified as held for sale

## a) Analysis by type of non-current assets classified as held for sale

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Property and equipment | 4,308 | 4,349 | 2,123 | 1,720 |
| Investment in joint venture | 38,883 | - | 3,409 | - |
| **Total non-current assets held for sale** | **43,191** | **4,349** | **5,532** | **1,720** |

Item 'Property and equipment' includes business premises and assets received as collateral that are in the process of sale.

NLB Group and NLB classified joint venture NLB Vita, Ljubljana as non-current assets held for sale, due to its expected sale in 2020 (note 3). The investment in NLB Vita is included in the segment "Retail banking in Slovenia".

## b) Analysis of movements

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 4,349 | 11,631 | 1,720 | 2,564 |
| Effects of translation of foreign operations to presentation currency | 21 | 5 | - | - |
| Additions | - | 32 | - | - |
| Transfer from/(into) property and equipment (note 5.8.) | 1,328 | 381 | 1,249 | 242 |
| Transfer from/(into) other assets | 85 | - | - | - |
| Transfer from investments in associates and joint ventures | 38,883 | - | 3,409 | - |
| Transfer from/(into) investment property (note 5.9.) | (550) | - | - | - |
| Disposals | (320) | (7,779) | (248) | (1,195) |
| Valuation | (605) | 79 | (598) | 109 |
| **Balance as at 31 December** | **43,191** | **4,349** | **5,532** | **1,720** |

## 5.8. Property and equipment

### a) Analysis by type

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Own property and equipment | 179,060 | 177,404 | 87,120 | 86,934 |
| Right-of-use assets (note 5.11) | 16,545 | - | 2,784 | - |
| **Total** | **195,605** | **177,404** | **89,904** | **86,934** |

## 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 2019 | 312,458 | 69,234 | 94,313 | 6,804 | 482,809 | 198,180 | 47,021 | 50,206 | 5,208 | 300,615 |
| Effects of translation of foreign operations to presentation currency | 222 | 56 | 122 | - | 400 | - | - | - | - | - |
| Additions | 4,561 | 11,816 | 4,369 | 363 | 21,109 | 2,952 | 6,614 | 1,488 | 363 | 11,417 |
| Disposals | (700) | (4,881) | (8,231) | (981) | (14,793) | - | (3,559) | (5,507) | (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** | **76,185** | **90,232** | **6,186** | **485,771** | **198,313** | **50,076** | **46,187** | **5,441** | **300,017** |
| Depreciation and impairment | | | | | | | | | | |
| Balance as at 1 January 2019 | 168,665 | 51,348 | 80,922 | 4,470 | 305,405 | 132,296 | 33,567 | 43,897 | 3,921 | 213,681 |
| Effects of translation of foreign operations to presentation currency | 80 | 44 | 108 | - | 232 | - | - | - | - | - |
| Disposals | (241) | (4,820) | (7,522) | (604) | (13,187) | (1) | (3,504) | (5,549) | (82) | (9,136) |
| Depreciation (note 4.11.) | 7,010 | 6,643 | 1,981 | 759 | 16,393 | 4,603 | 3,744 | 1,047 | 528 | 9,922 |
| Impairment (note 4.13.) | 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** | **53,175** | **75,148** | **4,625** | **306,711** | **135,328** | **33,807** | **39,395** | **4,367** | **212,897** |
| Net carrying value | | | | | | | | | | |
| **Balance as at 31 December 2019** | **139,405** | **23,010** | **15,084** | **1,561** | **179,060** | **62,985** | **16,269** | **6,792** | **1,074** | **87,120** |
| **Balance as at 1 January 2019** | **143,793** | **17,886** | **13,391** | **2,334** | **177,404** | **65,884** | **13,454** | **6,309** | **1,287** | **86,934** |

in EUR thousands

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| | Land & Buildings | Computers | Other equipment | Total | Land & Buildings | Computers | Other equipment | Total |
| Cost | | | | | | | | |
| Balance as at 1 January 2018 | 321,712 | 69,940 | 105,461 | 497,113 | 197,666 | 47,009 | 58,064 | 302,739 |
| Effects of translation of foreign operations to presentation currency | (101) | (27) | (86) | (214) | - | - | - | - |
| Additions | 5,264 | 6,607 | 4,428 | 16,299 | 3,048 | 4,885 | 2,130 | 10,063 |
| Disposals | (488) | (7,286) | (8,686) | (16,460) | - | (4,873) | (4,780) | (9,653) |
| Impairment (note 4.13.) | (169) | - | - | (169) | - | - | - | - |
| Transfer to/from investment property (note 5.9.) | (13,012) | - | - | (13,012) | (1,930) | - | - | (1,930) |
| Transfer to/from non-current assets held for sale (note 5.7.) | (748) | - | - | (748) | (604) | - | - | (604) |
| **Balance as at 31 December 2018** | **312,458** | **69,234** | **101,117** | **482,809** | **198,180** | **47,021** | **55,414** | **300,615** |
| Depreciation and impairment | | | | | | | | |
| Balance as at 1 January 2018 | 165,545 | 53,757 | 89,456 | 308,758 | 128,987 | 35,336 | 51,365 | 215,688 |
| Effects of translation of foreign operations to presentation currency | (18) | (26) | (69) | (113) | - | - | - | - |
| Disposals | (321) | (7,263) | (8,058) | (15,642) | - | (4,872) | (4,779) | (9,651) |
| Depreciation (note 4.11.) | 7,487 | 4,880 | 4,063 | 16,430 | 5,061 | 3,103 | 1,232 | 9,396 |
| Impairment (note 4.13.) | 474 | - | - | 474 | - | - | - | - |
| Transfer to/from investment property (note 5.9.) | (4,135) | - | - | (4,135) | (1,390) | - | - | (1,390) |
| Transfer to/from non-current assets held for sale (note 5.7.) | (367) | - | - | (367) | (362) | - | - | (362) |
| **Balance as at 31 December 2018** | **168,665** | **51,348** | **85,392** | **305,405** | **132,296** | **33,567** | **47,818** | **213,681** |
| Net carrying amount | | | | | | | | |
| **Balance as at 31 December 2018** | **143,793** | **17,886** | **15,725** | **177,404** | **65,884** | **13,454** | **7,596** | **86,934** |
| **Balance as at 1 January 2018** | **156,167** | **16,183** | **16,005** | **188,355** | **68,679** | **11,673** | **6,699** | **87,051** |

NLB Group and NLB had no assets held under finance leases as at 31 December 2018. As at 31 December 2019, assets held under finance leases are presented within right-of-use assets disclosed in note 5.11.

As at 31 December 2019, the value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 1,440 thousand (31 December 2018: EUR 1,418 thousand), and in NLB amounted to EUR 7 thousand (31 December 2018: EUR 7 thousand) (note 6.1.l).

As at 31 December 2018, the net carrying value of assets leased out by NLB Group under operating leases was EUR 2,334 thousand, and by NLB was EUR 1,287 thousand. For NLB Group, a total of 44.9% of assets leased out related to motor vehicles and for NLB all assets leased out related to other equipment.

## 5.9. Investment property

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 58,644 | 51,838 | 12,026 | 9,257 |
| Effects of translation of foreign operations to presentation currency | 84 | (9) | - | - |
| Additions | 1,024 | 99 | 923 | - |
| Disposals | (8,417) | (5,687) | (3,571) | (53) |
| Transfer from/(into) property and equipment (note 5.8.) | 123 | 8,877 | - | 540 |
| Transfer from/(into) non-current assets held for sale (note 5.7.) | 550 | - | - | - |
| Transfer from/(into) other assets | - | 3,570 | - | 2,178 |
| Net valuation to fair value (note 4.8. and 4.9.) | 308 | (44) | (75) | 104 |
| **Balance as at 31 December** | **52,316** | **58,644** | **9,303** | **12,026** |

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 32,465 thousand (31 December 2018: EUR 38,747 thousand), and in NLB amounted to EUR 3,464 thousand (31 December 2018: EUR 6,464 thousand) (note 6.1.l).

Operating expenses arising from investment properties

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Leased to others | 1,135 | 1,155 | 456 | 432 |
| Not leased to others | 235 | 455 | 175 | 412 |
| **Total** | **1,370** | **1,610** | **631** | **844** |

## 5.10. Intangible assets

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 (note 3) | (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 (note 3) | (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** |

in EUR thousands

| | NLB Group | | | NLB |
|---|---|---|---|---|
| | Software licenses | Goodwill | Total | Software licenses |
| Cost | | | | |
| Balance as at 1 January 2018 | 232,296 | 32,336 | 264,632 | 203,742 |
| Effects of translation of foreign operations to presentation currency | (43) | - | (43) | - |
| Additions | 10,798 | - | 10,798 | 7,615 |
| Write-offs | (28,708) | - | (28,708) | (28,649) |
| **Balance as at 31 December 2018** | **214,343** | **32,336** | **246,679** | **182,708** |
| Amortisation and impairment | | | | |
| Balance as at 1 January 2018 | 200,851 | 28,807 | 229,658 | 179,831 |
| Effects of translation of foreign operations to presentation currency | (35) | - | (35) | - |
| Amortisation (note 4.11.) | 10,794 | - | 10,794 | 8,135 |
| Write-offs | (28,706) | - | (28,706) | (28,649) |
| **Balance as at 31 December 2018** | **182,904** | **28,807** | **211,711** | **159,317** |
| Net carrying value | | | | |
| **Balance as at 31 December 2018** | **31,439** | **3,529** | **34,968** | **23,391** |
| **Balance as at 1 January 2018** | **31,445** | **3,529** | **34,974** | **23,911** |

### 5.11. Leases

a) NLB Group as a lessee

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| | **31 Dec 2019** | **31 Dec 2019** |
| **Right-of-use assets** | | |
| Land and buildings | 13,481 | 1,691 |
| Vehicles | 1,256 | 1,049 |
| Furniture and equipment | 1,808 | 44 |
| **Total** | **16,545** | **2,784** |
| **Lease liabilities** | **16,713** | **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 2019 in NLB Group amounted to EUR 3,650 thousand and in NLB EUR 1,114 thousand.

The income statement shows the following amounts relating to leases:

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| | **2019** | **2019** |
| **Depreciation of right-of-use assets** | | |
| Land and buildings | 3,446 | 425 |
| Vehicles | 522 | 349 |
| Furniture and equipment | 609 | 2 |
| **Total** | **4,577** | **776** |

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| | **2019** | **2019** |
| Interest expenses on lease liabilities (note 4.1.) | (316) | (38) |
| Expenses relating to short-term leases (included in administrative expenses) | (506) | (375) |
| Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses) | (787) | (151) |
| Income from sub-leasing right-of-use assets (included in other operating income) | 114 | - |

The total cash outflow for leases in 2019 in NLB Group was EUR 5,558 thousand and in NLB 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 5-year lease term 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.

Maturity analysis of lease liabilities is disclosed in note 6.3.f).

*Operating lease commitments (IAS 17)*

The future minimum lease payments under non-cancellable operating leases are as follows:

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| | 31 Dec 2018 | 31 Dec 2018 |
| Real estate | | |
| Not later than one year | 3,753 | 604 |
| Later than one year and not later than five years | 11,582 | 1,424 |
| Later than five years | 1,883 | 120 |
| Other | | |
| Not later than one year | 1,935 | 489 |
| Later than one year and not later than five years | 5,270 | 1,074 |
| Later than five years | 425 | - |
| **Total** | **24,848** | **3,711** |

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 2019, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 4,505 thousand (as at 31 December 2018 EUR 6,335 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 (IFRS 16) | 2019 |
|---|---|
| **Less than one year** | **25,351** |
| One to two years | 13,119 |
| Two to three years | 7,317 |
| Three to four years | 3,632 |
| Four to five years | 1,758 |
| More than five years | 1,860 |
| **Total undiscounted lease receivable** | **53,037** |
| Unearned finance income | (4,020) |
| **Net investment in the lease** | **49,017** |

During 2019, NLB Group recognised interest income on lease receivables in the amount of EUR 3,776 thousand.

in EUR thousands

| NLB Group (IAS 17) | 31 Dec 2018 |
|---|---|
| The gross investment in finance leases by maturity | |
| - not later than 1 year | 37,818 |
| - later than 1 year and not later than 5 years | 53,450 |
| - later than 5 years | 3,874 |
| | **95,142** |
| Unearned future finance income on finance leases | (8,300) |
| **Net investment in finance leases** | **86,842** |
| - present value of minimum lease payments | 86,842 |
| The net investment in finance leases by maturity | |
| - not later than 1 year | 34,164 |
| - later than 1 year and not later than 5 years | 49,050 |
| - later than 5 years | 3,628 |
| **Total** | **86,842** |

*Operating lease*

Maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date (IFRS 16):

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| | 2019 | 2019 |
| Less than one year | 1,855 | 405 |
| One to two years | 1,447 | 392 |
| Two to three years | 1,200 | 315 |
| Three to four years | 484 | 293 |
| Four to five years | 445 | 285 |
| More than five years | 697 | 326 |
| **Total** | **6,128** | **2,016** |

Future minimum operating lease income from investment property (IAS 17):

in EUR thousands

| | NLB Group | NLB |
|---|---|---|
| | 2018 | 2018 |
| Not later than one year | 2,941 | 603 |
| Later than one year and not later than five years | 5,801 | 2,097 |
| Later than five years | 336 | 236 |
| **Total** | **9,078** | **2,936** |

NLB Group realised rental income arising from: investment properties in the amount of EUR 4,124 thousand (2018: EUR 4,759 thousand); movable property in the amount of EUR 985 thousand (2018: EUR 2,152 thousand). NLB realised rental income arising from: investment properties in the amount of EUR 697 thousand (2018: EUR 543 thousand); movable property in the amount of EUR 455 thousand (2018: EUR 437 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 2019 | 31 Dec 2018 |
|---|---|---|
| Banks | 277,160 | 277,160 |
| Other financial organisations | 18,819 | 18,819 |
| Enterprises | 55,904 | 54,754 |
| **Total** | **351,883** | **350,733** |

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 |

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2018:

in EUR thousands

| | Nature of Business | Country of Incorporation | Equity as at 31 Dec 2018 | Profit/(loss) for 2018 | 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 | 199,808 | 37,068 | 86.97 | 86.97 | 86.97 | 86.97 |
| **NLB Banka a.d., Podgorica** | Banking | Montenegro | 68,937 | 10,033 | 99.83 | 99.83 | 99.83 | 99.83 |
| **NLB Banka a.d., Banja Luka** | Banking | Bosnia and Herzegovina | 87,218 | 16,184 | 99.85 | 99.85 | 99.85 | 99.85 |
| **NLB Banka sh.a., Prishtina** | Banking | Kosovo | 71,786 | 14,836 | 81.21 | 81.21 | 81.21 | 81.21 |
| **NLB Banka d.d., Sarajevo** | Banking | Bosnia and Herzegovina | 80,174 | 8,757 | 97.34 | 97.35 | 97.34 | 97.35 |
| **NLB Banka a.d., Belgrade** | Banking | Serbia | 67,686 | 5,202 | 99.997 | 99.997 | 99.997 | 99.997 |
| **NLB Srbija d.o.o., Belgrade** | Real estate | Serbia | 30,110 | (536) | 100 | 100 | 100 | 100 |
| **NLB Skladi d.o.o., Ljubljana** | Finance | Slovenia | 9,321 | 4,324 | 100 | 100 | 100 | 100 |
| **NLB Crna Gora d.o.o., Podgorica** | Real estate | Montenegro | 450 | (870) | 100 | 100 | 100 | 100 |
| **Non-core members** | | | | | | | | |
| **NLB Leasing d.o.o. - v likvidaciji, Ljubljana** | Finance | Slovenia | 15,472 | 4,582 | 100 | 100 | 100 | 100 |
| Optima Leasing d.o.o., Zagreb - "u likvidaciji" | Finance | Croatia | 2,884 | (946) | - | - | 100 | 100 |
| **NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"** | Finance | Montenegro | 105 | (453) | 100 | 100 | 100 | 100 |
| **NLB Leasing d.o.o., Belgrade - u likvidaciji** | Finance | Serbia | 5,448 | 259 | 100 | 100 | 100 | 100 |
| **NLB Leasing d.o.o., Sarajevo** | Finance | Bosnia and Herzegovina | 4,577 | (180) | 100 | 100 | 100 | 100 |
| **NLB Lizing d.o.o.e.l., Skopje - vo likvidacija** | Finance | North Macedonia | 1,062 | 87 | 100 | 100 | 100 | 100 |
| **Tara Hotel d.o.o., Budva** | Real estate | Montenegro | 18,496 | 1,568 | 12.71 | 12.71 | 100 | 100 |
| **PRO-REM d.o.o., Ljubljana - v likvidaciji** | Real estate | Slovenia | 20,377 | (648) | 100 | 100 | 100 | 100 |
| OL Nekretnine d.o.o., Zagreb - u likvidaciji | Real estate | Croatia | 1,726 | 1,184 | - | - | 100 | 100 |
| BH-RE d.o.o., Sarajevo | Real estate | Bosnia and Herzegovina | 29 | (15) | - | - | 100 | 100 |
| **REAM d.o.o., Podgorica** | Real estate | Montenegro | 167 | (143) | 100 | 100 | 100 | 100 |
| **REAM d.o.o., Belgrade** | Real estate | Serbia | 135 | (99) | 100 | 100 | 100 | 100 |
| **SR-RE d.o.o., Belgrade** | Real estate | Serbia | 2,027 | (328) | 100 | 100 | 100 | 100 |
| **SPV 2 d.o.o., Belgrade** | Real estate | Serbia | 862 | (753) | 100 | 100 | 100 | 100 |
| **S-REAM d.o.o, Ljubljana** | Real estate | Slovenia | 1,753 | (47) | 100 | 100 | 100 | 100 |
| **REAM d.o.o., Zagreb** | Real estate | Croatia | 1,597 | 928 | - | - | 100 | 100 |
| **CBS Invest d.o.o., Sarajevo** | Real estate | Bosnia and Herzegovina | 22 | (36) | 100 | 100 | 100 | 100 |
| **NLB InterFinanz AG, Zürich in Liquidation** | Finance | Switzerland | 7,682 | 210 | 100 | 100 | 100 | 100 |
| NLB InterFinanz Praha s.r.o., Prague | Finance | Czech Republic | 177 | (30) | - | - | 100 | 100 |
| NLB InterFinanz d.o.o., Belgrade | Finance | Serbia | (21) | (5) | - | - | 100 | 100 |
| **Prospera plus d.o.o., Ljubljana - v likvidaciji** | Tourist and catering trade | Slovenia | 162 | (323) | 100 | 100 | 100 | 100 |
| **LHB AG, Frankfurt** | Finance | Germany | 3,543 | 780 | 100 | 100 | 100 | 100 |

Changes in ownership interest in subsidiaries of NLB Group in 2019 and 2018 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| 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 | 84,105 | 82,103 | 45,066 | 38,462 |
| **Profit/(loss) for the year** | **32,877** | **37,068** | **19,545** | **14,836** |
| Attributable to non-controlling interest | 4,284 | 4,830 | 3,673 | 2,788 |
| Other comprehensive income | 1,092 | (938) | 1,025 | 721 |
| **Total comprehensive income** | **33,969** | **36,130** | **20,570** | **15,557** |
| Attributable to non-controlling interest | 4,426 | 4,708 | 3,865 | 2,923 |
| Paid dividends to non-controlling interest | 3,139 | 1,122 | 1,396 | 1,974 |
| **Statement of financial position** | | | | |
| Current assets | 668,866 | 662,750 | 379,090 | 338,536 |
| Non-current assets | 793,433 | 687,301 | 421,995 | 329,591 |
| Current liabilities | 1,049,358 | 936,248 | 597,505 | 494,208 |
| Non-current liabilities | 203,277 | 213,995 | 118,653 | 102,133 |
| **Equity** | **209,664** | **199,808** | **84,927** | **71,786** |
| Attributable to non-controlling interest | 27,319 | 26,035 | 15,958 | 13,489 |

## b) 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 2019** | **31 Dec 2018** | **31 Dec 2019** | **31 Dec 2018** |
| Other financial organisations | 7,499 | 37,147 | 1,056 | 4,465 |
| Enterprises | - | - | 310 | 312 |
| **Total** | **7,499** | **37,147** | **1,366** | **4,777** |

In 2018, NLB sold its associate Skupna pokojninska družba, d.o.o., Ljubljana (note 4.14.).

## NLB Group's associates

| | | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | Nature of Business | Country of Incorporation | Shareholding % | Voting rights % | Shareholding % | Voting rights % |
| Bankart d.o.o., Ljubljana | Card processing | Slovenia | 39.44 | 39.44 | 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.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

in EUR thousands

| | 2019 | 2018 |
|---|---|---|
| **Carrying amount of the NLB Group's interest** | **7,499** | **7,243** |
| NLB Group's share of: | | |
| - Profit for the year | 1,036 | 1,281 |
| - Other comprehensive income | (81) | (59) |
| **- Total comprehensive income** | **955** | **1,222** |

In 2019, NLB Group did not recognise a share of profit of an associate in the amount of EUR 5 thousand (31 December 2018: unrecognised profit EUR 39 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2019 amounted to EUR 2,295 thousand (31 December 2018: EUR 2,299 thousand).

## NLB Group’s joint ventures

| | | | 2019 | 2018 |
|---|---|---|---|---|
| | Nature of Business | Country of Incorporation | Voting rights% | Voting rights% |
| NLB Vita d.d., Ljubljana | Insurance | Slovenia | 50 | 50 |
| Prvi Faktor Group, Ljubljana | Finance | Slovenia | 50 | 50 |

In 2019, NLB Group did not recognise a share of loss of a joint venture in the amount of EUR 183 thousand (31 December 2018: unrecognised loss EUR 135 thousand). Cumulative unrecognised share of losses of a joint venture as at 31 December 2019 amounted to EUR 14,687 thousand (31 December 2018: EUR 14,505 thousand).

Summarised financial information on material joint venture NLB Vita, Ljubljana included in the consolidated financial statements of NLB Group:

in EUR thousands

| | NLB Vita d.d., Ljubljana | |
|---|---|---|
| | nine months ended Sep 2019 | 2018 |
| Revenues | 62,604 | 88,492 |
| Interest income | 6,119 | 7,829 |
| Interest expense | (27) | (2) |
| Depreciation and amortisation | (285) | (241) |
| Income tax | (1,483) | (1,835) |
| **Profit for the period** | **6,323** | **8,330** |
| Other comprehensive income | 21,756 | (10,424) |
| **Total comprehensive income** | **28,079** | **(2,094)** |
| NLB Group's share of: | | |
| - Profit for the period | 3,162 | 4,165 |
| - Other comprehensive income | 10,878 | (5,212) |
| | **30 Sep 2019** | **31 Dec 2018** |
| Total assets | 541,801 | 457,929 |
| Cash and cash equivalents | 362 | 35 |
| Total liabilities | 458,081 | 398,122 |
| **Equity** | **83,720** | **59,807** |
| NLB Group's ownership interest in joint venture | 41,860 | 29,904 |
| **Carrying amount of the NLB Group's interest in joint venture** | **41,860** | **29,904** |

Data for 2019 are presented as of 30 September as the investment was at that time classified as non-current assets held for sale, due to its expected sale in 2020 (note 3).

## c) Movements of investments in associates and joint ventures

in EUR thousands

| NLB Group | 2019 | 2018 |
|---|---|---|
| Balance as at 1 January | 37,147 | 43,765 |
| Disposal | - | (5,077) |
| Share of results before tax | 5,051 | 7,201 |
| Share of tax | (854) | (1,755) |
| Net gains/(losses) recognised in other comprehensive income | 7,819 | (5,273) |
| Dividends received | (2,781) | (1,714) |
| Transfer to non-current assets classified as held for sale (note 5.7.b) | (38,883) | - |
| **Balance as at 31 December** | **7,499** | **37,147** |

### 5.13. Other assets

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Assets, received as collateral (note 6.1.l) | 51,322 | 60,173 | 5,292 | 5,815 |
| Deferred expenses | 6,005 | 5,247 | 4,935 | 3,862 |
| Inventories | 2,513 | 3,346 | 378 | 378 |
| Claim for taxes and other dues | 2,021 | 1,421 | 435 | 400 |
| Prepayments | 1,950 | 784 | 102 | 182 |
| **Total** | **63,811** | **70,971** | **11,142** | **10,637** |

Assets, received as collateral on NLB Group in the amount of EUR 50,467 thousand (31 December 2018: EUR 59,540 thousand), and on NLB in the amount of EUR 5,292 thousand (31 December 2018: EUR 5,815 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 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 Group | Balance as at 1 Jan 2018 | Effects of translation of foreign operations to presentation currency | Transfers | Increases/ (Decreases) | Write-offs | Changes in models/risk parameters | Foreign exchange and other movements | Balance as at 31 Dec 2018 | Repayments of written-off receivables |
|---|---|---|---|---|---|---|---|---|---|
| **12-month expected credit losses** | | | | | | | | | |
| Loans and advances to individuals | 15,291 | - | 14,182 | (12,238) | - | (74) | 1 | **17,162** | - |
| Loans and advances to legal entities | 20,040 | (54) | 6,104 | (144) | (29) | (1,540) | 39 | **24,416** | - |
| Other financial assets | 171 | - | 85 | (49) | (33) | 6 | 2 | **182** | - |
| **Lifetime ECL not credit-impaired** | | | | | | | | | |
| Loans and advances to individuals | 8,307 | - | (8,357) | 7,849 | - | 461 | 3 | **8,263** | - |
| Loans and advances to legal entities | 25,896 | (59) | 4,216 | (2,856) | (13) | 118 | (28) | **27,274** | - |
| Other financial assets | 25 | - | 71 | (40) | (25) | (1) | 28 | **58** | - |
| **Lifetime ECL credit-impaired** | | | | | | | | | |
| Loans and advances to individuals | 60,513 | - | (5,825) | 13,578 | (10,685) | 1,426 | 47 | **59,054** | 3,278 |
| Loans and advances to legal entities | 420,557 | 1,345 | (10,320) | (8,640) | (84,270) | (173) | (975) | **317,524** | 22,667 |
| Other financial assets | 10,672 | 1 | (156) | 1,143 | (3,496) | 7 | (215) | **7,956** | 467 |
| Of which: Purchased credit-impaired financial assets | | | | | | | | | |
| Loans and advances to legal entities | 1,680 | - | - | 504 | - | - | - | **2,184** | - |
| Other financial assets | - | - | - | 1 | - | - | - | **1** | - |

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** | - |

in EUR thousands

| NLB | Balance as at 1 Jan 2018 | Transfers | Increases/ (Decreases) | Write-offs | Changes in models/risk parameters | Foreign exchange and other movements | Balance as at 31 Dec 2018 | Repayments of written-off receivables |
|---|---|---|---|---|---|---|---|---|
| **12-month expected credit losses** | | | | | | | | |
| Loans and advances to individuals | 4,908 | 5,288 | (3,651) | - | (191) | 1 | **6,355** | - |
| Loans and advances to legal entities | 11,396 | (661) | 156 | (28) | (379) | 27 | **10,511** | - |
| Other financial assets | 24 | 12 | (9) | (4) | 4 | - | **27** | - |
| **Lifetime ECL not credit-impaired** | | | | | | | | |
| Loans and advances to individuals | 2,050 | (2,701) | 1,619 | - | 284 | 3 | **1,255** | - |
| Loans and advances to legal entities | 4,266 | 13,054 | (7,165) | (11) | 1,261 | - | **11,405** | - |
| Other financial assets | 5 | 18 | (17) | - | - | - | **6** | - |
| **Lifetime ECL credit-impaired** | | | | | | | | |
| Loans and advances to individuals | 20,009 | (2,587) | 5,286 | (5,529) | 1,121 | 47 | **18,347** | 1,313 |
| Loans and advances to legal entities | 210,321 | (12,393) | (16,468) | (26,750) | 58 | (5) | **154,763** | 9,451 |
| Other financial assets | 2,637 | (30) | 419 | (1,174) | 3 | - | **1,855** | 420 |
| Of which: Purchased credit-impaired financial assets | | | | | | | | |
| Loans and advances to legal entities | 1,656 | - | 489 | - | - | - | **2,145** | - |
| Other financial assets | - | - | 1 | - | - | - | **1** | - |

The contractual amount outstanding on financial assets that were written off during the year ending 31 December 2019 and that are still subject to enforcement activity for NLB Group amounted to EUR 99,782 thousand (31 December 2018: EUR 41,116 thousand), and for NLB amounted to EUR 51,137 thousand (31 December 2018: EUR 9,598 thousand).

b) Movements in allowance for the impairment of debt securities

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 Group | Balance as at 1 Jan 2018 | 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 2018 |
|---|---|---|---|---|---|---|---|
| **12-month expected credit losses** | | | | | | | |
| Debt securities measured at amortised cost | 2,169 | (4) | - | 728 | 5 | - | **2,898** |
| Debt securities measured at fair value through other comprehensive income | 3,696 | 1 | (108) | 28 | (21) | 1 | **3,597** |
| **Lifetime ECL not credit-impaired** | | | | | | | |
| Debt securities measured at fair value through other comprehensive income | - | - | 108 | (33) | - | - | **75** |
| **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** |

in EUR thousands

| NLB | Balance as at 1 Jan 2018 | Increases/ (Decreases) | Changes in models/risk parameters | Foreign exchange and other movements | Balance as at 31 Dec 2018 |
|---|---|---|---|---|---|
| **12-month expected credit losses** | | | | | |
| Debt securities measured at amortised cost | 1,298 | 20 | 5 | - | **1,323** |
| Debt securities measured at fair value through other comprehensive income | 1,392 | 169 | (21) | 1 | **1,541** |
| **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 2019, the gross carrying amount of debt securities at amortised cost increased by EUR 225,128 thousand for NLB Group and EUR 210,482 for NLB, but since they are all classified in Stage 1, this only increased the balance of loss allowance by EUR 242 thousand at the NLB Group level, and EUR 294 thousand at the NLB level. Similarly, 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 decreased for EUR 25,324 thousand and loss allowance for EUR 31 thousand, while at NLB level gross carrying amount increased for EUR 34,119 thousand and loss allowance for EUR 64 thousand.

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.

The biggest change in loss allowance was recognised for loans and advances to other customers which 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. Most decreases of gross carrying amount 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 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) | 666,177 | (90,175) | (116,728) | 459,274 | 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 |
| **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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Deposits from banks and central banks | 42,840 | 26,775 | 89,820 | 48,903 |
| Borrowings from banks and central banks | 170,385 | 258,423 | 161,564 | 244,133 |
| Due to customers | 11,612,317 | 10,464,017 | 7,760,737 | 7,033,409 |
| Borrowings from other customers | 64,458 | 61,844 | 2,537 | 4,128 |
| Subordinated liabilities | 210,569 | 15,050 | 210,569 | - |
| Other financial liabilities | 158,484 | 100,887 | 98,342 | 62,212 |
| **Total** | **12,259,053** | **10,926,996** | **8,323,569** | **7,392,785** |

a) Deposits from banks and central banks and amounts due to customers

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Deposits on demand | | | | |
| - banks and central banks | 31,298 | 23,191 | 86,366 | 41,949 |
| - other customers | 9,463,888 | 8,281,230 | 6,917,810 | 6,084,776 |
| *- governments* | 214,472 | 214,770 | 69,855 | 83,258 |
| *- financial organisations* | 134,735 | 120,906 | 114,836 | 106,060 |
| *- companies* | 2,212,002 | 1,857,646 | 1,352,522 | 1,111,963 |
| *- individuals* | 6,902,679 | 6,087,908 | 5,380,597 | 4,783,495 |
| Other deposits | | | | |
| - banks and central banks | 11,542 | 3,584 | 3,454 | 6,954 |
| - other customers | 2,148,429 | 2,182,787 | 842,927 | 948,633 |
| *- governments* | 42,909 | 46,328 | 31,027 | 35,838 |
| *- financial organisations* | 126,156 | 91,906 | 32,147 | 8,196 |
| *- companies* | 299,094 | 266,857 | 175,368 | 165,952 |
| - individuals | 1,680,270 | 1,777,696 | 604,385 | 738,647 |
| **Total** | **11,655,157** | **10,490,792** | **7,850,557** | **7,082,312** |

b) Borrowings from banks and central banks and other customers

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Loans | | | | |
| - banks and central banks | 170,385 | 258,423 | 161,564 | 244,133 |
| - other customers | 64,458 | 61,844 | 2,537 | 4,128 |
| *- governments* | 16,657 | 10,582 | - | - |
| *- financial organisations* | 44,157 | 45,417 | - | - |
| *- companies* | 3,644 | 5,845 | 2,537 | 4,128 |
| **Total** | **234,843** | **320,267** | **164,101** | **248,261** |

As at 31 December 2019, NLB Group and NLB had EUR 344,687 thousand in undrawn borrowings (31 December 2018: EUR 343,653 thousand).

### c) Subordinated liabilities

in EUR thousands

| | | | | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 31 Dec 2019 | | 31 Dec 2018 | | 31 Dec 2019 | | 31 Dec 2018 | |
| | Currency | Due date | Interest rate | Carrying amount | Nominal value | Carrying amount | Nominal value | Carrying amount | Nominal value | Carrying amount | Nominal value |
| **Subordinated bonds** | | | | | | | | | | | |
| | EUR | 6.5.2029 | 4.2% to 6.5.2024, thereafter 5Y MS + 4.159% p.a. | 45,826 | 45,000 | - | - | 45,826 | 45,000 | - | - |
| | EUR | 19.11.2029 | 3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a. | 119,376 | 120,000 | | | 119,376 | 120,000 | | |
| **Subordinated loans** | | | | | | | | | | | |
| | EUR | 20.9.2029 | 3.826% to 20.9.2024, thereafter 5Y IRS + 4.21% p.a. | 45,367 | 45,000 | - | - | 45,367 | 45,000 | - | - |
| | EUR | 30.6.2020 | 6 months EURIBOR + 7.7% p.a. | - | - | 5,110 | 5,000 | - | - | - | - |
| | EUR | 26.6.2025 | 6 months EURIBOR + 6.25% p.a. | - | - | 9,940 | 10,000 | - | - | - | - |
| **Total** | | | | **210,569** | **210,000** | **15,050** | **15,000** | **210,569** | **210,000** | **-** | **-** |

Both bonds issued in year 2019 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 of 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 15,050 | 27,350 | - | - |
| Exchange differences of opening balances | 6 | (143) | - | - |
| Cash flow items: | 193,319 | (11,975) | 208,321 | - |
| - new issued subordinated liabilities | 208,321 | - | 208,321 | - |
| - repayments of subordinated liabilities | (15,002) | (11,975) | - | - |
| Non-Cash flow items: | 2,194 | (182) | 2,248 | - |
| - accrued interest | 2,194 | (182) | 2,248 | - |
| **Balance as at 31 December** | **210,569** | **15,050** | **210,569** | **-** |

### d) Other financial liabilities

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Items in the course of payment | 24,124 | 20,360 | 4,960 | 4,451 |
| Debit or credit card payables | 24,092 | 22,567 | 20,014 | 20,511 |
| Suppliers | 21,600 | 16,404 | 16,259 | 13,191 |
| Lease liabilities (note 5.11.a) | 16,713 | - | 2,784 | - |
| Accrued expenses | 17,848 | 11,988 | 10,481 | 4,741 |
| Accrued salaries | 13,011 | 12,683 | 9,666 | 9,151 |
| Unused annual leave | 3,784 | 3,645 | 2,455 | 2,389 |
| Fees and commissions | 1,736 | 1,861 | 1,660 | 1,802 |
| Other financial liabilities | 35,576 | 11,379 | 30,063 | 5,976 |
| **Total** | **158,484** | **100,887** | **98,342** | **62,212** |

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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Provisions for guarantees and commitments (note 5.23.a) | 39,421 | 39,082 | 29,163 | 29,516 |
| Employee benefit provisions | 17,704 | 15,404 | 14,743 | 13,158 |
| Restructuring provisions | 14,500 | 12,363 | 14,182 | 11,942 |
| Provisions for legal risks | 16,627 | 13,076 | 2,211 | 2,180 |
| Other provisions | 162 | 209 | 85 | 198 |
| **Total** | **88,414** | **80,134** | **60,384** | **56,994** |

*Legal risks*

Provisions for legal risks are formed based on expectations regarding the probable outcome of legal disputes. As at 31 December 2019, NLB Group was involved in 31 (31 December 2018: 34) legal disputes with material claims against group members in the total amount of EUR 340,492 thousand, excluding accrued interest (31 December 2018: EUR 374,620 thousand). As at 31 December 2019, NLB was involved in 16 (31 December 2018: 17) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 177,075 thousand (31 December 2018: EUR 205,686 thousand).

In connection with legal risks, the biggest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 170 million (as per 31. December 2019). 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 bellow 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 above-mentioned 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 22 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 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 financial assets | | | | | | | |
| Guarantees and commitments | 688 | - | - | 1,296 | - | - | **1,984** |

in EUR thousands

| NLB Group | Balance as at 1 Jan 2018 | 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 2018 |
|---|---|---|---|---|---|---|---|
| **12-month expected credit losses** | | | | | | | |
| Guarantees and commitments | 6,928 | (12) | 2,424 | 169 | (470) | 5 | **9,044** |
| **Lifetime ECL not credit-impaired** | | | | | | | |
| Guarantees and commitments | 4,833 | (8) | (1,779) | 337 | (110) | (9) | **3,264** |
| **Lifetime ECL credit-impaired** | | | | | | | |
| Guarantees and commitments | 30,504 | (6) | (645) | (2,869) | (213) | 3 | **26,774** |
| Of which: Purchased credit-impaired financial assets | | | | | | | |
| Guarantees and commitments | - | - | - | 688 | - | - | **688** |

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 financial assets | | | | | | |
| Guarantees and commitments | 688 | - | 1,296 | - | - | **1,984** |

in EUR thousands

| NLB | Balance as at 1 Jan 2018 | Transfer | Increases/ (Decreases) | Changes in models/risk parameters | Foreign exchange and other movements | Balance as at 31 Dec 2018 |
|---|---|---|---|---|---|---|
| **12-month expected credit losses** | | | | | | |
| Guarantees and commitments | 2,946 | 273 | 1,040 | (189) | 1 | **4,071** |
| **Lifetime ECL not credit-impaired** | | | | | | |
| Guarantees and commitments | 450 | 10 | 328 | 33 | - | **821** |
| **Lifetime ECL credit-impaired** | | | | | | |
| Guarantees and commitments | 27,276 | (283) | (2,365) | (4) | - | **24,624** |
| Of which: Purchased credit-impaired financial assets | | | | | | |
| Guarantees and commitments | - | - | 688 | - | - | **688** |

## c) Movements in employee benefit provisions

*Post-employment benefits*

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 13,157 | 14,144 | 11,588 | 12,338 |
| Effects of translation of foreign operations to presentation currency | 2 | (3) | - | - |
| Additional provisions (note 4.10.) | 1,155 | 928 | 724 | 599 |
| Provisions released (note 4.10.) | (708) | (585) | (670) | (530) |
| Interest expenses (note 4.1.) | 147 | 172 | 85 | 108 |
| Utilised during year (payments) | (210) | (333) | (85) | (43) |
| Actuarial gains and losses | 1,777 | (1,166) | 1,523 | (884) |
| **Balance as at 31 December** | **15,320** | **13,157** | **13,165** | **11,588** |

*Other employee benefits*

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 2,247 | 6,296 | 1,570 | 4,374 |
| Effects of translation of foreign operations to presentation currency | 2 | (3) | - | - |
| Transfer to other liabilities | - | (3,613) | - | (2,312) |
| Additional provisions (note 4.10.) | 329 | 243 | 164 | 91 |
| Provisions released (note 4.10.) | (35) | (447) | - | (385) |
| Interest expenses (note 4.1.) | 37 | 49 | 11 | 18 |
| Utilised during year | (196) | (278) | (167) | (216) |
| **Balance as at 31 December** | **2,384** | **2,247** | **1,578** | **1,570** |

Other employee benefits include NLB Group's obligations for jubilee long-service benefits.

## d) Movements in restructuring provisions

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as at 1 January | 12,363 | 15,284 | 11,942 | 14,687 |
| Effects of translation of foreign operations to presentation currency | - | 1 | - | - |
| Additional provisions (note 4.12.) | 5,523 | 3 | 5,500 | - |
| Provisions released (note 4.12.) | (45) | (24) | - | - |
| Utilised during year | (3,341) | (2,901) | (3,260) | (2,745) |
| **Balance as at 31 December** | **14,500** | **12,363** | **14,182** | **11,942** |

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 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Balance as at 1 January | 13,076 | 15,786 | 2,180 | 4,958 |
| Effects of translation of foreign operations to presentation currency | 24 | 8 | - | - |
| Additional provisions (note 4.12.) | 5,837 | 4,529 | 251 | 293 |
| Provisions released (note 4.12.) | (141) | (2,996) | (60) | (2,551) |
| Utilised during year | (2,168) | (4,250) | (160) | (520) |
| Exchange differences | (1) | (1) | - | - |
| **Balance as at 31 December** | **16,627** | **13,076** | **2,211** | **2,180** |

## f) Movements in other provisions

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Balance as at 1 January | 209 | 214 | 198 | 203 |
| Additional provisions (note 4.12.) | 66 | - | - | - |
| Provisions released (note 4.12.) | (105) | - | (105) | - |
| Utilised during year | (8) | (5) | (8) | (5) |
| **Balance as at 31 December** | **162** | **209** | **85** | **198** |

## 5.17. Deferred income tax

### a) Analysis by type of deferred income taxes

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Deferred income tax assets** | | | | |
| Valuation of financial instruments and capital investments | 36,286 | 25,834 | 36,244 | 25,747 |
| Impairment provisions | 910 | 905 | 784 | 697 |
| Employee benefit provisions | 4,109 | 3,671 | 3,196 | 2,915 |
| Depreciation and valuation of non-financial assets | 1,087 | 1,627 | 154 | 157 |
| **Total deferred income tax assets** | **42,392** | **32,037** | **40,378** | **29,516** |
| **Deferred income tax liabilities** | | | | |
| Valuation of financial instruments | 11,159 | 7,205 | 10,131 | 6,606 |
| Depreciation and valuation of non-financial assets | 1,296 | 1,179 | 201 | 232 |
| Impairment provisions | 3,270 | 3,305 | 477 | 444 |
| **Total deferred income tax liabilities** | **15,725** | **11,689** | **10,809** | **7,282** |
| **Net deferred income tax assets** | **29,500** | **22,847** | **29,569** | **22,234** |
| **Net deferred income tax liabilities** | **(2,833)** | **(2,499)** | **-** | **-** |

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Included in the income statement for the current year** | **8,041** | **920** | **8,556** | **(160)** |
| - valuation of financial instruments and capital investments | 8,305 | 248 | 8,305 | 147 |
| - impairment provisions | 100 | 282 | 87 | 33 |
| - employee benefit provisions | 293 | (180) | 136 | (349) |
| - depreciation and valuation of non-financial assets | (657) | 570 | 28 | 9 |
| **Included in other comprehensive income for the current year** | **(1,714)** | **2,226** | **(1,221)** | **2,076** |
| - valuation and impairment of financial assets measured at fair value through other comprehensive income | (1,859) | 2,394 | (1,366) | 2,244 |
| - actuarial assumptions and experience | 145 | (168) | 145 | (168) |

As at 31 December 2019, NLB recognised EUR 40,378 thousand in deferred tax assets (31 December 2018: EUR 29,516 thousand). Unrecognised deferred tax assets amount to EUR 235,693 thousand (31 December 2018: EUR 262,081 thousand), of which EUR 180,335 thousand (31 December 2018: EUR 189,491 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 55,358 thousand (31 December 2018: EUR 72,590 thousand) to unrecognised deferred tax assets from impairments of non-strategic capital investments.

## b) Movements in deferred income taxes

*Deferred income tax assets*

in EUR thousands

| NLB Group | Employee benefit provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Impairment provisions | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2018 | 4,018 | 25,267 | 976 | 890 | 31,151 |
| Effects of translation of foreign operations to presentation currency | 1 | - | - | 1 | 2 |
| (Charged)/credited to profit and loss | (180) | 38 | 651 | 14 | 523 |
| (Charged)/credited to other comprehensive income | (168) | 529 | - | - | 361 |
| **Balance as at 31 December 2018** | **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** |

in EUR thousands

| NLB | Employee benefit provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Impairment provisions | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2018 | 3,432 | 25,229 | 162 | 664 | 29,487 |
| (Charged)/credited to profit and loss | (349) | 38 | (5) | 33 | (283) |
| (Charged)/credited to other comprehensive income | (168) | 480 | - | - | 312 |
| **Balance as at 31 December 2018** | **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** |

*Deferred income tax liabilities*

in EUR thousands

| NLB Group | Impairment provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Total |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 3,543 | 9,323 | 1,097 | 13,963 |
| Effects of translation of foreign operations to presentation currency | (11) | (2) | 1 | (12) |
| Charged/(credited) to profit and loss | (268) | (210) | 81 | (397) |
| Charged/(credited) to other comprehensive income | 41 | (1,906) | - | (1,865) |
| **Balance as at 31 December 2018** | **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** |

in EUR thousands

| NLB | Impairment provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Total |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 416 | 8,507 | 246 | 9,169 |
| Charged/(credited) to profit and loss | - | (109) | (14) | (123) |
| Charged/(credited) to other comprehensive income | 28 | (1,792) | - | (1,764) |
| **Balance as at 31 December 2018** | **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** |

### 5.18. Income tax relating to components of other comprehensive income

in EUR thousands

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| **2019** | **Before tax** | **Tax expense** | **Net of tax** | **Before tax** | **Tax expense** | **Net of tax** |
| Actuarial gains and lossess | (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** |

in EUR thousands

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| **2018** | **Before tax** | **Tax expense** | **Net of tax** | **Before tax** | **Tax expense** | **Net of tax** |
| Actuarial gains and lossess | 1,166 | (168) | 998 | 884 | (168) | 716 |
| Financial assets measured at fair value through other comprehensive income | (11,328) | 2,394 | (8,934) | (11,321) | 2,244 | (9,077) |
| Share of associates and joint ventures | (6,495) | 1,222 | (5,273) | - | - | - |
| **Total** | **(16,657)** | **3,448** | **(13,209)** | **(10,437)** | **2,076** | **(8,361)** |

### 5.19. Other liabilities

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | **31 Dec 2019** | **31 Dec 2018** | **31 Dec 2019** | **31 Dec 2018** |
| Deferred income | 9,012 | 8,269 | 6,142 | 5,698 |
| Taxes payable | 4,209 | 4,210 | 3,039 | 3,185 |
| Payments received in advance | 1,991 | 2,361 | 53 | 660 |
| **Total** | **15,212** | **14,840** | **9,234** | **9,543** |

### 5.20. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change during 2019. It comprises of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31 December 2019, the major shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share. As at 31 December 2018, the major shareholder of NLB with significant influence is the Republic of Slovenia, which owned 35.00%.

The book value of a NLB share on a consolidated level as at 31 December 2019 was EUR 84.3 (31 December 2018: EUR 80.8), and on solo level was EUR 66.7 (31 December 2018: EUR 64.8). 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 2019 amounts to EUR 228,040 thousand (31 December 2018: EUR 194,491 thousand), and consists of NLB net profit for 2019 in the amount of EUR 176,149 thousand (2018: EUR 165,299 thousand), and retained earnings from previous years in the amount of EUR 51,891 thousand. Its allocation will be subject to a decision by the Bank's General Assembly. Proposal for General Assembly will be prepared by the Management and the Supervisory Board, considering Group's risk appetite, target capital adequacy at Group 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 acquisition. The Supervisory Board's approval may only be rejected if, following such acquisition, such 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 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, 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 dividend. In 2019 NLB paid dividends for previous year in the amount of 7.13 EUR per share (2018: 13.53 EUR per share), which decreased retained earnings for EUR 142,600 thousand (2018: EUR 270,600 thousand).

As at 31 December 2019 and 31 December 2018 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 2019 and 31 December 2018 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 2019 and 31 December 2018 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2019, NLB recorded a net profit in the amount of EUR 176,149 thousand which is included in the retained earnings as at 31 December 2019.

#### b) Accumulated other comprehensive income

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Financial assets measured at fair value through other comprehensive income - debt securities | 45,040 | 27,166 | 24,156 | 18,504 |
| Financial assets measured at fair value through other comprehensive income - equity securities | 2,840 | 1,536 | 288 | 116 |
| Actuarial defined benefit pension plans | (5,086) | (3,358) | (4,159) | (2,781) |
| Foreign currency translation | (17,055) | (18,275) | - | - |
| Hedge of a net investment in a foreign operation | 754 | 754 | - | - |
| **Total** | **26,493** | **7,823** | **20,285** | **15,839** |

## 5.22. Capital adequacy ratios

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Paid up capital instruments | 200,000 | 200,000 | 200,000 | 200,000 |
| Share premium | 871,378 | 871,378 | 871,378 | 871,378 |
| Retained earnings | 358,648 | 293,026 | 51,891 | 29,192 |
| Profit eligible - from current year | 35,000 | 108,829 | 8,166 | 103,335 |
| Accumulated other comprehensive income | 14,364 | 3,598 | 20,285 | 15,839 |
| Other reserves | 13,522 | 13,522 | 13,522 | 13,522 |
| Prudential filters: Value adjustments due to the requirements for prudent valuation | (2,194) | (1,983) | (1,701) | (1,607) |
| (-) Goodwill | (3,529) | (3,529) | - | - |
| (-) Other intangible assets | (36,013) | (31,439) | (25,980) | (23,391) |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **1,451,176** | **1,453,402** | **1,137,561** | **1,208,268** |
| Additional Tier 1 capital | - | - | - | - |
| **TIER 1 CAPITAL** | **1,451,176** | **1,453,402** | **1,137,561** | **1,208,268** |
| Tier 2 capital | 44,595 | - | 44,595 | - |
| **Total CAPITAL (OWN FUNDS)** | **1,495,771** | **1,453,402** | **1,182,156** | **1,208,268** |
| RWA for credit risk | 7,720,232 | 7,179,678 | 4,344,829 | 4,150,987 |
| RWA for market risks | 523,050 | 541,901 | 274,025 | 273,476 |
| RWA for credit valuation adjustment risk | 663 | 2,563 | 663 | 2,563 |
| RWA for operational risk | 941,594 | 953,482 | 605,581 | 596,586 |
| **Total RISK EXPOSURE AMOUNT (RWA)** | **9,185,539** | **8,677,624** | **5,225,098** | **5,023,612** |
| Common Equity Tier 1 Ratio | 15.8% | 16.7% | 21.8% | 24.1% |
| Tier 1 Ratio | 15.8% | 16.7% | 21.8% | 24.1% |
| Total Capital Ratio | 16.3% | 16.7% | 22.6% | 24.1% |

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:

- 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);
- 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 | | 2019 | 2018 |
|---|---|---|---|
| Pillar 1 (P1R) | CET1 | 4.5% | 4.5% |
| | AT1 | 1.5% | 1.5% |
| | T2 | 2.0% | 2.0% |
| Pillar 2 (P2R) | CET1 | 3.25% | 3.50% |
| Total SREP Capital Requirement (TSCR) | CET1 | 7.75% | 8.00% |
| | Tier 1 | 9.25% | 9.50% |
| | Total Capital | 11.25% | 11.50% |
| Combined Buffer requirement (CBR) | | | |
| Conservation buffer | CET1 | 2.500% | 1.875% |
| O-SII buffer | CET1 | 1.0% | 0.0% |
| Countercyclical buffer | CET1 | 0.0% | 0.0% |
| Overall capital requirement (OCR) = MDA threshold | CET1 | 11.250% | 9.875% |
| | Tier 1 | 12.750% | 11.375% |
| | Total Capital | 14.750% | 13.375% |
| Pillar 2 Guidance (P2G) | CET1 | 1.0% | 1.5% |
| OCR + P2G | CET1 | 12.250% | 11.375% |

The Overall Capital Requirement (OCR) amounted to 14.75% for NLB on the consolidated basis, consisting of:

- 11.25% TSCR (8% Pillar 1 Requirement and 3.25% 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 2019 was raised to 14.75%, due to the gradual phase-in of the Capital Conservation Buffer as prescribed by the law and introduction of O-SII buffer. On the other hand, Pillar 2 Requirement decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment. Moreover, Pillar 2 Guidance (P2G) remains at a relatively low level, 1.0% of CET1.

From 1 January 2020, NLB is required to maintain the OCR on 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).

Pillar 2 Requirement from 1 January 2020 decreased additionally, by 0.5 p.p. to 2.75%, as a result of enhanced overall corporate governance, resulting in overall SREP assessment.

To strengthen and optimise the capital structure, NLB issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million on 6 May 2019 and instrument has been included in the capital since 30 June 2019. In addition to that, on 19 November 2019, NLB issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million, which are not included in NLB Group's capital as at 31 December 2019, permission for their inclusion was obtained on 4 March 2020.

On 17 September 2019, NLB entered into a loan agreement to raise EUR 45 million of subordinated Tier 2 debt. As NLB had not obtained ECB approval to count the loan towards its capital by end of 2019 and was not reasonably expected to receive it in the near future, NLB exercised early repayment on 17 January 2020.

The capital of NLB and the NLB Group at the end of year 2019 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 of 31 December 2019, NLB Group capital ratios on a consolidated basis stand at:

- 15.8% CET1 ratio,
- 15.8% Tier 1 ratio,
- 16.3% Total Capital ratio.

NLB Group's capital adequacy in terms of CET1, representing the capital of highest quality, was within the stated risk appetite limit and above the EU average (14.6% for Q3 2019) as published by the European Banking Authority (EBA).

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 2019, the Total Capital Ratio for the NLB Group stood at 16.3% (or 0.5 p.p. lower than at the end of 2018), and for NLB at 22.6% (or 1.4 p.p. lower than at the end of 2018). The Tier 1 ratio and CET1 ratio (15.8% or 0.9 p.p. lower than at the end of 2018) differs from the Total Capital Ratio due to new Tier 2 notes issued in May. The lower capital adequacy compared to the end of 2018 derives from higher RWA YoY (EUR 507.9 million for the NLB Group). In June 2019, NLB paid out dividends in the total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. Total Capital increased by EUR 42.4 million, mainly due to new Tier 2 notes (EUR 44.6 million).

The RWA for credit risk in 2019 increased by EUR 540.6 million, mainly due to increase of exposure in the Corporate and Retail segment due to loan growth. The decrease in RWA for market risks and CVA (Credit value adjustments) (EUR -20.8 million) is mainly the result of more closed positions in domestic currencies of non-euro subsidiary banks. The decrease in the RWA for operating risks (EUR -11.9 million) arises from the lower 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, the NLB Group gives strong emphasis on its integration into the overall risk management system in order to assure proactive support for informed decision-making.

Under 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 fulfill all of its capital-related regulatory and supervisory requirements and risk appetite of NLB Group. Within these capital constraints, the 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Short-term guarantees | 210,469 | 204,513 | 112,461 | 122,273 |
| *- financial* | 111,526 | 116,547 | 58,920 | 66,184 |
| *- non-financial* | 98,943 | 87,966 | 53,541 | 56,089 |
| Long-term guarantees | 705,989 | 604,793 | 502,012 | 451,053 |
| *- financial* | 272,071 | 241,231 | 171,989 | 161,606 |
| *- non-financial* | 433,918 | 363,562 | 330,023 | 289,447 |
| Commitments to extend credit | 1,346,012 | 1,207,642 | 1,072,458 | 945,856 |
| Letters of credit | 22,871 | 18,155 | 6,243 | 5,302 |
| Other | 8,742 | 10,415 | 14,106 | 5,200 |
| | **2,294,083** | **2,045,518** | **1,707,280** | **1,529,684** |
| Provisions (note 5.16.b) | (39,421) | (39,082) | (29,163) | (29,516) |
| **Total** | **2,254,662** | **2,006,436** | **1,678,117** | **1,500,168** |

Fee income from all issued non-financial guarantees amounted to EUR 4,801 thousand (2018: EUR 5,096 thousand) in NLB Group, and to EUR 4,375 thousand (2018: EUR 4,267 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 2019 unused guarantee lines at the NLB Group level amount to EUR 307,199 thousand, and at the NLB level EUR 247,485 thousand.

### b) Analysis of derivative financial instruments by notional amounts

in EUR thousands

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2019 | | 31 Dec 2018 | | 31 Dec 2019 | | 31 Dec 2018 | |
| | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term |
| Swaps | 42,736 | 1,706,073 | 42,121 | 1,790,411 | 52,299 | 1,706,073 | 35,723 | 1,790,411 |
| *- currency swaps* | 42,736 | 69,328 | 42,121 | 65,834 | 52,299 | 69,328 | 35,723 | 65,834 |
| *- interest rate swaps* | - | 1,636,745 | - | 1,724,577 | - | 1,636,745 | - | 1,724,577 |
| Options | 12,864 | 28,875 | 11,954 | 30,750 | 12,864 | 28,875 | 11,954 | 30,750 |
| *- interest rate options* | - | 28,875 | - | 30,750 | - | 28,875 | - | 30,750 |
| *- securities options* | 12,864 | - | 11,954 | - | 12,864 | - | 11,954 | - |
| Forward contracts | 108,640 | 28,298 | 65,979 | 8,953 | 107,936 | 28,298 | 65,590 | 8,953 |
| *- currency forward* | 108,640 | 28,298 | 65,979 | 8,953 | 107,936 | 28,298 | 65,590 | 8,953 |
| **Total** | **164,240** | **1,763,246** | **120,054** | **1,830,114** | **173,099** | **1,763,246** | **113,267** | **1,830,114** |
| | **1,927,486** | | **1,950,168** | | **1,936,345** | | **1,943,381** | |

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 561,500 thousand (31 December 2018: EUR 493,677 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Capital commitments for purchase of: | | | | |
| - property and equipment | 7,286 | 2,476 | 7,201 | 2,476 |
| - intangible assets | 2,122 | 1,839 | 2,084 | 1,787 |
| **Total** | **9,408** | **4,315** | **9,285** | **4,263** |

### 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Fiduciary activities | 24,495,725 | 24,879,612 | 23,259,665 | 24,062,542 |
| Settlement and other services | 1,012,492 | 1,251,416 | 980,964 | 1,220,641 |
| **Total** | **25,508,217** | **26,131,028** | **24,240,629** | **25,283,183** |

## Fiduciary activities

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Assets** | | | | |
| **Clearing or transaction account claims for client assets** | **24,431,766** | **24,815,258** | **23,202,008** | **24,003,252** |
| - from financial instruments | 24,431,355 | 24,808,718 | 23,201,641 | 23,997,062 |
| *- receipt, processing, and execution of orders* | 9,574,811 | 8,945,528 | 8,930,064 | 8,643,063 |
| *- management of financial instruments portfolio* | 522,263 | 437,066 | - | - |
| *- custody services* | 14,334,281 | 15,426,124 | 14,271,577 | 15,353,999 |
| - to Central Securities Clearing Corporation or bank settlement account for sold financial instrument | 124 | 608 | 80 | 258 |
| - to other settlement systems and institutions for bought financial instrument (debtors) | 287 | 5,932 | 287 | 5,932 |
| **Clients' money** | **63,959** | **64,354** | **57,657** | **59,290** |
| - at settlement account for client assets | 28,250 | 13,788 | 21,948 | 8,724 |
| - at bank transaction accounts | 35,709 | 50,566 | 35,709 | 50,566 |
| **Liabilities** | | | | |
| **Clearing or transaction liabilities for client assets** | **24,495,725** | **24,879,612** | **23,259,665** | **24,062,542** |
| - to client from cash and financial instruments | 24,492,746 | 24,876,258 | 23,258,161 | 24,059,499 |
| *- receipt, processing, and execution of orders* | 9,606,633 | 8,965,387 | 8,961,886 | 8,662,922 |
| *- management of financial instruments portfolio* | 527,134 | 442,169 | - | - |
| *- custody services* | 14,358,979 | 15,468,702 | 14,296,275 | 15,396,577 |
| - to Central Securities Clearing Corporation or bank settlement account for bought financial instrument | 83 | 344 | 83 | 344 |
| - to other settlement systems and institutions for bought financial instrument (creditors) | 2,514 | 2,615 | 1,039 | 2,304 |
| - to bank or settlement bank account for fees and costs, etc. | 382 | 395 | 382 | 395 |

## Fee income for funds managed on behalf of third parties

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Fiduciary activities (note 4.3.b) | 9,267 | 9,273 | 7,775 | 7,951 |
| Settlement and other services | 1,435 | 1,570 | 1,185 | 1,166 |
| **Total** | **10,702** | **10,843** | **8,960** | **9,117** |

## 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 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. The 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. Concerning market risks, the Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low and focuses on minimising their possible impacts on NLB Group's entire operations.

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. Additionally, the Group established early warning systems in different risk areas with the intention of strengthening existing internal controls and timely response when necessary.

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, and the Recovery Plan 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 six banking members and other non-core subsidiaries which are in the controlled wind-out.

Overall, the organisation and delineation of competencies in the NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in the NLB Group is centralised within the Risk management business-line, which is a specialised business-line encompassing several professional areas, for which the Global Risk Department, the Corporate and the Retail Credit Analysis Department, and 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 the NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the NLB Group, monitoring the NLB Group's risk exposures, and preparing external and internal reports.

All members of the NLB Group, which are included in the financial statements of the NLB Group, report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee ('ALCO') of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board, adopt appropriate measures.

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

Risk monitoring in the NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk management strategy and policies of the NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

c) Risk measurement and reporting systems

As a systemic 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. Each NLB Group member complies with the ECB regulation, while the NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators.

The NLB Group's measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. Regarding capital adequacy, the NLB Group applies the standardised approach to credit and market risk, and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's Risk management standards. For the purposes of measuring exposure to credit, market, interest, valuation, operational, and non-financial risks, in addition to prescribed regulations, NLB Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as best practices in banking methodologies.

As for risk reporting, the NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, 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 2019

Efficient managing of risks and capital is 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, 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 most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to the credit portfolio quality, where the quality of new financing of corporate and retail clients, and a well-diversified portfolio structure represent the key goals. In the year 2019, NLB Group's credit portfolio quality remained very solid and improved further with a stable rating structure and portfolio diversification. NLB Group experienced healthy lending growth and negative cost of risk, resulting from stable macroeconomic environment, prudent new financing and the active management of non-performing loans.

The portfolio quality was very stable with increasing Stage 1 exposures, representing a major part of credit portfolio, and a reduction of NPL loans, which are below the Slovenian average. A high percentage of the Stage 1 loan portfolio is a result of cautious lending policy. Respectively, the volume of Stage 2 loans is quite limited, their decrease occurred due to positive resolving of these exposures. The Group managed to further reduce the volume of non-performing exposures, approaching the average EU banking level. In addition, coverage ratio remains high, enabling further NPL reduction without significant influence on cost of risk in the years ahead.

In the still negative interest rate environment, the Group faced growing excess liquidity, whereby significant attention was put to the structure and concentration of the liquidity reserves by incorporating early warning systems, having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within risk appetite tolerance toward this risk. Moreover, during 2019 the Group's capital and liquidity position remained strong at both, the Group and subsidiary bank levels.

In the area of operational risk NLB Group follows the guideline that such risk may not considerably influence its operations. In 2019, additional efforts were made regarding proactive mitigation, prevention, and minimisation of potential damage in the future. Key risk indicators, servicing as an early warning system for the broader field of operational risks, were additionally enhanced. Their upgrade facilitates more detailed information for the more effective planning of measures and operational risk management, improves the existing internal controls and enables reacting on time when necessary.

### 6.1. Credit risk management

#### a) Introduction

In its operations, NLB Group is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the 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 case of client default, restructuring or work-out is initiated depending on the severity of client position.

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

  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, while credit 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 IFRS9 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 2019

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. The successful deleveraging and new investment projects in Slovenia have had a positive influence on the approval of new loans, but nevertheless lending growth in the corporate segment remained relatively moderate. In the retail segment, especially in the consumer loan segment, positive trends have been recorded throughout the region. The low unemployment rate and relatively high wage growth reflected in the increased household consumption alongside with the increasing residential real estate prices. In 2019 efforts, arising from the improved credit standards, resulted in the cumulatively very low new non-performing loans (NPL) formation. In addition, the favourable macroeconomic environment resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and sustainable in line with strategic orientations.

In November 2019, Bank of Slovenia introduced a binding macro-prudential measure in retail lending, by determining maximum disposable amount of consumer or housing loans in relation to the borrower’s income (DSTI) related limitation on consumer loan’s maturity, and the maximum level of derogations referring to these limitations on a single bank level. By introducing this measure, BoS anticipates a decrease of relatively high growth in the consumer lending, namely in the long-term segment.

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.

Great emphasis is also placed on intensive and proactive handling of problematic customers, changes in the credit process and early warning system for detecting increased credit risk at a very early stage. Reduction of NPLs on the Group level remained a strong focus in 2019, the reduction exceeded set targets in the budget for 2019. As at 31 December 2019 the share of non-performing exposure by EBA methodology was 2.7% (reduced from 4.7% at the end of 2018). Moreover, the coverage ratio remains high at 65.0%, which is well above the EU average published by the EBA (44.6% in 3Q 2019).

## c) Maximum exposure to credit risk

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Cash, cash balances at central banks, and other demand deposits at banks | 2,101,346 | 1,588,349 | 1,292,211 | 795,102 |
| Financial assets held for trading | 24,038 | 63,609 | 24,085 | 63,611 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 16,717 | 25,809 | 20,571 | 26,594 |
| Financial assets at fair value through other comprehensive income | 2,091,805 | 1,849,018 | 1,611,711 | 1,483,582 |
| Financial assets at amortised cost | | | | |
| Debt securities | 1,653,848 | 1,428,962 | 1,485,166 | 1,274,978 |
| Loans to government | 271,389 | 352,746 | 182,582 | 267,716 |
| Loans to banks | 93,403 | 118,696 | 144,352 | 110,297 |
| Loans to financial organisations | 100,054 | 88,676 | 131,442 | 177,744 |
| Loans to individuals | 3,938,035 | 3,642,052 | 2,352,625 | 2,215,667 |
| Loans to other customers | 3,280,246 | 3,041,159 | 1,901,950 | 1,790,350 |
| Other financial assets | 97,415 | 75,171 | 67,279 | 42,741 |
| Derivatives - hedge accounting | 788 | 417 | 788 | 417 |
| **Total net financial assets** | **13,669,084** | **12,274,664** | **9,214,762** | **8,248,799** |
| Guarantees | 916,458 | 809,306 | 614,473 | 573,326 |
| *Financial guarantees* | 383,597 | 357,778 | 230,909 | 227,790 |
| *Non-financial guarantees* | 532,861 | 451,528 | 383,564 | 345,536 |
| Loan commitments | 1,346,012 | 1,207,642 | 1,072,458 | 945,856 |
| Other potential liabilities | 31,613 | 28,570 | 20,349 | 10,502 |
| **Total contingent liabilities** | **2,294,083** | **2,045,518** | **1,707,280** | **1,529,684** |
| **Total maximum exposure to credit risk** | **15,963,167** | **14,320,182** | **10,922,042** | **9,778,483** |

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

| 31 Dec 2019 | NLB Group | | | |
|---|---|---|---|---|
| | Fully/over collateralised financial assets | | Financial assets not or not fully covered with collateral | |
| | Net value of loans and advances | Fair value of collateral | Net value of loans and advances | Fair value of collateral |
| 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

| 31 Dec 2018 | NLB Group | | | |
|---|---|---|---|---|
| | Fully/over collateralised financial assets | | Financial assets not or not fully covered with collateral | |
| | Net value of loans and advances | Fair value of collateral | Net value of loans and advances | Fair value of collateral |
| Financial assets at amortised cost | | | | |
| Loans to government | 3,463 | 8,261 | 860 | - |
| Loans to financial organisations | - | - | 18 | - |
| Loans to individuals | 29,828 | 98,207 | 11,955 | 9,344 |
| Loans to other customers | 93,655 | 557,261 | 57,088 | 119,392 |
| Other financial assets | 120 | 12,894 | 1,743 | 128 |
| **Total** | **127,066** | **676,623** | **71,664** | **128,864** |

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** |

in EUR thousands

| | NLB | | | |
|---|---|---|---|---|
| | Fully/over collateralised financial assets | | Financial assets not or not fully covered with collateral | |
| 31 Dec 2018 | 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 | 3,462 | 8,170 | - | - |
| Loans to financial organisations | - | - | 5 | - |
| Loans to individuals | 18,442 | 43,043 | 6,240 | 2,560 |
| Loans to other customers | 59,646 | 289,742 | 38,196 | 64,966 |
| Other financial assets | 66 | 1,976 | 847 | 79 |
| **Total** | **81,616** | **342,931** | **45,288** | **67,605** |

### e) Collateral from loans mandatorily at fair value through profit or loss

in EUR thousands

| | NLB Group | | | |
|---|---|---|---|---|
| | Fully/over collateralised financial assets | | | |
| | 31 Dec 2019 | | 31 Dec 2018 | |
| | 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 | 14,961 | 28,981 | 23,800 | 39,465 |

in EUR thousands

| | NLB | | | |
|---|---|---|---|---|
| | Fully/over collateralised financial assets | | | |
| | 31 Dec 2019 | | 31 Dec 2018 | |
| | 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 | 20,571 | 25,085 | 26,594 | 38,511 |

### f) Credit protection policy

The NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the 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 and by the supervisory bodies of respective members for other members of the NLB Group. The Policy represents the basic principles that the 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.

The 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, the 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, the 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 the NLB Group, most reports of external 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, for movables they range between 50 and 100%, depending on the type of movable.

The market value of financial instruments held by the 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 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, 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 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. The 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, the NLB Group follows the internal regulations which define the minimum security or pledge ratios. The 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, the 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.

The 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 Bank

The 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.

The 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, asset management d.o.o.) 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 NLB 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, private 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 d.d. has also created, in the area of real-estate loan collateral, an 'on line' connection with the Surveying and Mapping Authority in the Republic of Slovenia, which allows direct and immediate verification of the existence of property.

The 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

| | NLB Group | | | | | NLB | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 31 Dec 2019 | 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 |
| C | - | - | - | - | - | - | - | - | - | - |
| D and E | - | - | - | - | - | - | - | - | - | - |
| 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 | - | - | - | - | - |
| D and E | - | - | - | - | - | - | - | - | - | - |
| 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 |
| C | - | - | - | - | - | - | - | - | - | - |
| D and E | - | - | - | - | - | - | - | - | - | - |
| 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 |

in EUR thousands

| 31 Dec 2018 | NLB Group 12-month expected credit losses | Lifetime ECL not credit - impaired | Lifetime ECL credit-impaired | Purchased credit-impaired financial assets | Total | NLB 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 | 1,144,444 | - | - | - | 1,144,444 | 1,144,444 | - | - | - | 1,144,444 |
| B | 287,416 | - | - | - | 287,416 | 131,857 | - | - | - | 131,857 |
| C | - | - | - | - | - | - | - | - | - | - |
| D and E | - | - | - | - | - | - | - | - | - | - |
| Loss allowance | (2,898) | - | - | - | (2,898) | (1,323) | - | - | - | (1,323) |
| Carrying amount | 1,428,962 | - | - | - | 1,428,962 | 1,274,978 | - | - | - | 1,274,978 |
| **Loans and advances to banks at amortised cost** | | | | | | | | | | |
| A | 95,110 | - | - | - | 95,110 | 108,931 | - | - | - | 108,931 |
| B | 23,212 | - | - | - | 23,212 | 1,443 | - | - | - | 1,443 |
| C | 500 | - | - | - | 500 | - | - | - | - | - |
| D and E | - | - | - | - | - | - | - | - | - | - |
| Loss allowance | (126) | - | - | - | (126) | (77) | - | - | - | (77) |
| Carrying amount | 118,696 | - | - | - | 118,696 | 110,297 | - | - | - | 110,297 |
| **Loans and advances to customers at amortised cost** | | | | | | | | | | |
| A | 4,621,756 | 66,636 | - | - | 4,688,392 | 3,095,962 | 9,340 | - | - | 3,105,302 |
| B | 1,747,074 | 174,010 | - | - | 1,921,084 | 987,771 | 52,167 | - | - | 1,039,938 |
| C | 57,990 | 337,289 | - | - | 395,279 | 63,011 | 146,684 | - | - | 209,695 |
| D and E | - | - | 567,236 | 6,209 | 573,445 | - | - | 293,852 | 5,249 | 299,101 |
| Loss allowance | (41,452) | (35,537) | (374,394) | (2,184) | (453,567) | (16,789) | (12,660) | (170,965) | (2,145) | (202,559) |
| Carrying amount | 6,385,368 | 542,398 | 192,842 | 4,025 | 7,124,633 | 4,129,955 | 195,531 | 122,887 | 3,104 | 4,451,477 |
| **Other financial assets at amortised cost** | | | | | | | | | | |
| A | 46,518 | 87 | - | - | 46,605 | 34,797 | 4 | - | - | 34,801 |
| B | 25,959 | 254 | - | - | 26,213 | 6,692 | 161 | - | - | 6,853 |
| C | 181 | 549 | - | - | 730 | 156 | 51 | - | - | 207 |
| D and E | - | - | 9,793 | 26 | 9,819 | - | - | 2,765 | 3 | 2,768 |
| Loss allowance | (182) | (58) | (7,955) | (1) | (8,196) | (27) | (6) | (1,854) | (1) | (1,888) |
| Carrying amount | 72,476 | 832 | 1,838 | 25 | 75,171 | 41,618 | 210 | 911 | 2 | 42,741 |
| **Debt instruments at fair value through other comprehensive income** | | | | | | | | | | |
| A | 1,501,073 | - | - | - | 1,501,073 | 1,429,332 | - | - | - | 1,429,332 |
| B | 347,707 | - | - | - | 347,707 | 54,250 | - | - | - | 54,250 |
| C | - | 238 | - | - | 238 | - | - | - | - | - |
| D and E | - | - | - | - | - | - | - | - | - | - |
| Loss allowance | (3,597) | (75) | (798) | - | (4,470) | (1,541) | - | (798) | - | (2,339) |
| **Contingent liabilities** | | | | | | | | | | |
| A | 983,559 | 10,759 | - | - | 994,318 | 793,590 | 932 | - | - | 794,522 |
| B | 784,251 | 86,332 | - | - | 870,583 | 539,091 | 59,892 | - | - | 598,983 |
| C | 16,435 | 94,641 | - | - | 111,076 | 9,119 | 62,477 | - | - | 71,596 |
| D and E | - | - | 66,283 | 3,258 | 69,541 | - | - | 61,325 | 3,258 | 64,583 |
| Loss allowance | (9,044) | (3,264) | (26,086) | (688) | (39,082) | (4,071) | (821) | (23,936) | (688) | (29,516) |
| Carrying amount | 1,775,201 | 188,468 | 40,197 | 2,570 | 2,006,436 | 1,337,729 | 122,480 | 37,389 | 2,570 | 1,500,168 |

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).

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 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 HFT** | **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 Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | All forborne exposures | | | | Impairment, provisions and value adjustments | | |
| | | | Non - performing | | | | |
| 31 Dec 2018 | 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)** | **405,761** | **73,018** | **332,743** | **332,743** | **(5,174)** | **(203,851)** | **128,942** |
| Governments | 7,264 | - | 7,264 | 7,264 | - | (3,802) | 3,462 |
| Other financial organisations | 1,971 | 36 | 1,935 | 1,935 | (1) | (1,935) | - |
| Non-financial organisations | 360,203 | 59,192 | 301,011 | 301,011 | (4,694) | (190,200) | 111,554 |
| Households | 36,323 | 13,790 | 22,533 | 22,533 | (479) | (7,914) | 13,926 |
| **Debt instruments other than HFT** | **405,761** | **73,018** | **332,743** | **332,743** | **(5,174)** | **(203,851)** | **128,942** |
| **Loan commitments given** | **5,233** | **1,173** | **4,061** | **4,061** | **(10)** | **(1,055)** | **2,438** |
| **Total exposures with forbearance measures** | **410,994** | **74,191** | **336,804** | **336,804** | **(5,184)** | **(204,906)** | **131,380** |

in EUR thousands

| 31 Dec 2019 | NLB<br>All forborne exposures<br>Gross carrying amount | Performing | Non - performing<br>Impaired | Defaulted | Impairment, provisions and value adjustments<br>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 HFT** | **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** |

in EUR thousands

| 31 Dec 2018 | NLB<br>All forborne exposures<br>Gross carrying amount | Performing | Non - performing<br>Impaired | Defaulted | Impairment, provisions and value adjustments<br>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)** | **272,395** | **54,691** | **217,704** | **217,704** | **(3,794)** | **(115,793)** | **100,986** |
| Governments | 5,870 | - | 5,870 | 5,870 | - | (2,408) | 3,462 |
| Other financial organisations | 1,971 | 36 | 1,935 | 1,935 | (1) | (1,935) | - |
| Non-financial organisations | 239,301 | 43,733 | 195,568 | 195,568 | (3,430) | (108,016) | 87,148 |
| Households | 25,253 | 10,922 | 14,331 | 14,331 | (363) | (3,434) | 10,376 |
| **Debt instruments other than HFT** | **272,395** | **54,691** | **217,704** | **217,704** | **(3,794)** | **(115,793)** | **100,986** |
| **Loan commitments given** | **5,216** | **1,156** | **4,060** | **4,060** | **(8)** | **(1,055)** | **2,438** |
| **Total exposures with forbearance measures** | **277,611** | **55,847** | **221,764** | **221,764** | **(3,802)** | **(116,848)** | **103,424** |

Forborne exposures of debt instruments by periods of forbearance

in EUR thousands

| | NLB Group | | | |
|---|---|---|---|---|
| **31 Dec 2019** | **Up to 3 months** | **3 to 6 months** | **6 to 12 months** | **Over 12 months** |
| 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** |
| **31 Dec 2018** | | | | |
| Performing exposures | 4,527 | 14,911 | 11,042 | 37,364 |
| Non-performing exposures | 1,309 | 5,081 | 3,096 | 126,178 |
| **Total exposures with forbearance measures** | **5,836** | **19,992** | **14,138** | **163,542** |

in EUR thousands

| | NLB | | | |
|---|---|---|---|---|
| **31 Dec 2019** | **Up to 3 months** | **3 to 6 months** | **6 to 12 months** | **Over 12 months** |
| 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** |
| **31 Dec 2018** | | | | |
| Performing exposures | 2,264 | 12,821 | 7,329 | 28,483 |
| Non-performing exposures | 1,070 | 4,670 | 2,741 | 98,353 |
| **Total exposures with forbearance measures** | **3,334** | **17,491** | **10,070** | **126,836** |

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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Nature of assets** | Net value | | Net value | |
| Equity securities mandatorily measured at fair value through profit or loss (note 5.3.a) | - | 624 | - | 624 |
| Equity securities measured at fair value through OCI (note 5.4.b) | 3,289 | 3,185 | - | - |
| Investment property (note 5.9.) | 32,465 | 38,747 | 3,464 | 6,464 |
| Property and equipment (note 5.8.) | 1,440 | 1,418 | 7 | 7 |
| Investments in subsidiaries and associates | - | - | 2,442 | 2,444 |
| Real estates (note 5.13.) | 50,467 | 59,540 | 5,292 | 5,815 |
| Other assets (note 5.13.) | 855 | 633 | - | - |
| **Total** | **88,516** | **104,147** | **11,205** | **15,354** |

### m) Analysis of loans and advances by industry sectors

in EUR thousands

| NLB Group | 31 Dec 2019 | | | | 31 Dec 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **Industry sector** | Gross loans | Impairment provisions | Net loans | (%) | Gross loans | Impairment provisions | Net loans | (%) |
| Banks | 93,498 | (95) | 93,403 | 1.20 | 118,822 | (126) | 118,696 | 1.62 |
| Finance | 93,479 | (2,763) | 90,716 | 1.16 | 72,219 | (3,012) | 69,207 | 0.94 |
| Electricity, gas, and water | 178,504 | (4,352) | 174,152 | 2.23 | 139,953 | (4,232) | 135,721 | 1.85 |
| Construction industry | 236,394 | (29,669) | 206,725 | 2.65 | 253,536 | (61,675) | 191,861 | 2.61 |
| Heavy industry | 857,269 | (42,368) | 814,901 | 10.45 | 851,033 | (60,441) | 790,592 | 10.77 |
| Education | 10,762 | (559) | 10,203 | 0.13 | 12,593 | (447) | 12,146 | 0.17 |
| Agriculture, forestry, and fishing | 61,261 | (6,770) | 54,491 | 0.70 | 55,129 | (7,439) | 47,690 | 0.65 |
| Public sector | 184,435 | (4,533) | 179,902 | 2.31 | 248,448 | (5,144) | 243,304 | 3.31 |
| Individuals | 4,013,488 | (75,453) | 3,938,035 | 50.52 | 3,726,531 | (84,479) | 3,642,052 | 49.60 |
| Mining | 18,441 | (1,596) | 16,845 | 0.22 | 17,171 | (4,103) | 13,068 | 0.18 |
| Entrepreneurs | 151,217 | (3,609) | 147,608 | 1.89 | 143,636 | (3,944) | 139,692 | 1.90 |
| Services | 599,180 | (55,871) | 543,309 | 6.97 | 599,224 | (69,137) | 530,087 | 7.22 |
| Transport and communications | 745,260 | (18,099) | 727,161 | 9.33 | 703,935 | (25,090) | 678,845 | 9.25 |
| Trade industry | 752,835 | (75,264) | 677,571 | 8.69 | 752,807 | (122,910) | 629,897 | 8.58 |
| Health care and social security | 24,604 | (1,538) | 23,066 | 0.30 | 25,785 | (1,514) | 24,271 | 0.33 |
| Other financial assets | 102,321 | (4,906) | 97,415 | 1.25 | 83,367 | (8,196) | 75,171 | 1.02 |
| **Total** | **8,122,948** | **(327,445)** | **7,795,503** | **100.00** | **7,804,189** | **(461,889)** | **7,342,300** | **100.00** |

in EUR thousands

| NLB | 31 Dec 2019 | | | | 31 Dec 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **Industry sector** | **Gross loans** | **Impairment provisions** | **Net loans** | **(%)** | **Gross loans** | **Impairment provisions** | **Net loans** | **(%)** |
| Banks | 144,493 | (141) | 144,352 | 3.01 | 110,374 | (77) | 110,297 | 2.38 |
| Finance | 125,521 | (3,441) | 122,080 | 2.54 | 162,765 | (4,645) | 158,120 | 3.41 |
| Electricity, gas, and water | 138,587 | (2,497) | 136,090 | 2.83 | 100,813 | (2,665) | 98,148 | 2.12 |
| Construction industry | 67,427 | (11,545) | 55,882 | 1.16 | 97,225 | (38,375) | 58,850 | 1.27 |
| Heavy industry | 557,861 | (13,994) | 543,867 | 11.33 | 561,905 | (15,306) | 546,599 | 11.80 |
| Education | 6,078 | (56) | 6,022 | 0.13 | 7,314 | (38) | 7,276 | 0.16 |
| Agriculture, forestry, and fishing | 14,714 | (809) | 13,905 | 0.29 | 14,373 | (268) | 14,105 | 0.30 |
| Public sector | 92,924 | (1,689) | 91,235 | 1.90 | 151,818 | (1,534) | 150,284 | 3.25 |
| Individuals | 2,376,791 | (24,166) | 2,352,625 | 49.00 | 2,241,624 | (25,957) | 2,215,667 | 47.84 |
| Mining | 6,495 | (47) | 6,448 | 0.13 | 9,645 | (657) | 8,988 | 0.19 |
| Entrepreneurs | 49,732 | (1,604) | 48,128 | 1.00 | 51,173 | (1,451) | 49,722 | 1.07 |
| Services | 398,059 | (29,139) | 368,920 | 7.68 | 404,209 | (43,929) | 360,280 | 7.78 |
| Transport and communications | 645,791 | (3,822) | 641,969 | 13.37 | 616,781 | (10,986) | 605,795 | 13.08 |
| Trade industry | 217,068 | (24,849) | 192,219 | 4.00 | 249,004 | (55,673) | 193,331 | 4.17 |
| Health care and social security | 10,887 | (1,107) | 9,780 | 0.20 | 11,981 | (1,075) | 10,906 | 0.24 |
| Other financial assets | 69,120 | (1,841) | 67,279 | 1.40 | 44,629 | (1,888) | 42,741 | 0.92 |
| **Total** | **4,921,548** | **(120,747)** | **4,800,801** | **100.00** | **4,835,633** | **(204,524)** | **4,631,109** | **100.00** |

## n) Analysis of net loans and advances by geographical sectors

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| **Country** | **31 Dec 2019** | **31 Dec 2018** | **31 Dec 2019** | **31 Dec 2018** |
| Slovenia | 4,405,416 | 4,302,730 | 4,401,362 | 4,297,956 |
| Other European Union members | 180,385 | 168,657 | 100,261 | 100,769 |
| Other countries | 3,209,702 | 2,870,913 | 299,178 | 232,384 |
| **Total** | **7,795,503** | **7,342,300** | **4,800,801** | **4,631,109** |

o) Analysis of debt securities and derivative financial instruments by geographical sectors

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 |
| *- Italy* | 8,720 | - | 15,463 | 109 | - | 8,720 | - | 15,463 | - |
| *- Ireland* | 40,754 | 10 | 56,834 | - | - | 40,754 | 10 | 51,425 | - |
| *- France* | 164,488 | 10 | 234,174 | - | 622 | 164,488 | 10 | 223,049 | 622 |
| *- Belgium* | 124,649 | - | 62,276 | - | 16 | 124,649 | - | 57,515 | 16 |
| *- Netherlands* | 50,642 | - | 99,586 | - | 3 | 50,642 | - | 99,586 | 3 |
| *- Austria* | 79,096 | - | 34,066 | - | - | 79,096 | - | 34,066 | - |
| *- Germany* | 120,107 | 10 | 91,484 | 302 | 426 | 120,107 | 10 | 88,479 | 426 |
| *- Finland* | 41,312 | - | 80,712 | 625 | - | 41,312 | - | 79,645 | - |
| *- Sweden* | 8,091 | - | 42,029 | - | - | 8,091 | - | 42,029 | - |
| *- Denmark* | - | - | 18,288 | - | - | - | - | 18,288 | - |
| *- Luxembourg* | 78,891 | - | 48,042 | 355 | - | 78,891 | - | 48,042 | - |
| *- Great Britain* | 1,193 | - | 79,053 | - | 4,941 | 1,193 | - | 79,053 | 4,941 |
| *- Slovakia* | 21,721 | - | 42,630 | - | - | 21,721 | - | 42,630 | - |
| *- Spain* | 63,600 | 10 | 51,105 | - | - | 63,600 | 10 | 47,047 | - |
| *- Portugal* | 44,704 | - | 22,863 | - | - | 44,704 | - | 22,863 | - |
| *- Poland* | 13,873 | - | 43,741 | - | - | 13,873 | - | 43,741 | - |
| *- Czech Republic* | 1,024 | - | 19,180 | - | - | 1,024 | - | 19,180 | - |
| *- Hungary* | 27,252 | - | 1,841 | - | - | 27,252 | | 1,841 | - |
| *- Romania* | 18,161 | - | 5,239 | - | - | 18,161 | - | 5,239 | - |
| *- Bulgaria* | 35,880 | - | 3,301 | - | - | 35,880 | - | 3,301 | - |
| *- Lithuania* | 9,082 | - | 24,654 | - | - | 9,082 | - | 24,654 | - |
| *- Latvia* | 13,534 | - | 12,123 | - | - | 13,534 | - | 12,123 | - |
| *- 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 |
| *- Serbia* | - | - | 84,118 | - | - | - | - | 9,801 | 45 |
| *- Bosnia and Herzegovina* | - | - | 87,464 | - | - | - | - | - | - |
| *- Montenegro* | 26,773 | - | 24,852 | - | - | - | - | 3,271 | - |
| *- Kosovo* | - | - | 70,140 | - | 807 | - | - | - | 807 |
| *- Iceland* | 5,070 | - | - | - | - | 5,070 | - | - | - |
| *- Norway* | 6,304 | - | 17,706 | - | - | 6,304 | - | 17,706 | - |
| *- Other* | 33,153 | - | 32,343 | 365 | - | 33,153 | - | 32,343 | - |
| **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 Greece, Cyprus, and Croatia.

Other members of the 'Other countries' in the item 'Other' are Canada, Australia, and Russia.

in EUR thousands

| 31 Dec 2018 | 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 | 452,212 | 36,808 | 513,229 | - | 10,797 | 452,212 | 36,808 | 460,838 | 10,797 |
| Other members of European Union | 748,529 | 10,121 | 984,904 | 1,271 | 4,203 | 748,529 | 10,121 | 974,281 | 4,203 |
| *- Italy* | 22,807 | - | 23,566 | 520 | - | 22,807 | - | 23,566 | - |
| *- Ireland* | 16,049 | - | 50,744 | - | - | 16,049 | - | 48,356 | - |
| *- France* | 132,083 | - | 127,192 | 103 | 90 | 132,083 | - | 123,040 | 90 |
| *- Belgium* | 75,679 | 4,028 | 61,166 | - | 337 | 75,679 | 4,028 | 58,135 | 337 |
| *- Netherlands* | 33,769 | - | 114,376 | - | 77 | 33,769 | - | 114,376 | 77 |
| *- Austria* | 76,278 | 3,088 | 34,086 | - | - | 76,278 | 3,088 | 34,086 | - |
| *- Germany* | 81,050 | 3,005 | 111,820 | - | 167 | 81,050 | 3,005 | 111,820 | 167 |
| *- Finland* | 36,312 | - | 80,679 | 648 | - | 36,312 | - | 79,627 | - |
| *- Sweden* | 3,005 | - | 36,700 | - | - | 3,005 | - | 36,700 | - |
| *- Denmark* | - | - | 36,241 | - | - | - | - | 36,241 | - |
| *- Luxembourg* | 91,963 | - | 29,619 | - | - | 91,963 | - | 29,619 | - |
| *- Great Britain* | 1,122 | - | 106,763 | - | 3,257 | 1,122 | - | 106,763 | 3,257 |
| *- Slovakia* | 11,019 | - | 43,043 | - | - | 11,019 | - | 43,043 | - |
| *- Spain* | 49,593 | - | 19,261 | - | - | 49,593 | - | 19,261 | - |
| *- Portugal* | 27,357 | - | 3,667 | - | - | 27,357 | - | 3,667 | - |
| *- Poland* | 6,388 | - | 46,617 | - | - | 6,388 | - | 46,617 | - |
| *- Czech Republic* | 1,023 | - | 19,717 | - | - | 1,023 | - | 19,717 | - |
| *- Hungary* | 25,706 | - | 3,607 | - | - | 25,706 | | 3,607 | - |
| *- Romania* | 23,730 | - | - | - | - | 23,730 | - | - | - |
| *- Bulgaria* | 12,770 | - | 3,316 | - | - | 12,770 | - | 3,316 | - |
| *- Lithuania* | 2,022 | - | 20,750 | - | - | 2,022 | - | 20,750 | - |
| *- Latvia* | 13,603 | - | 11,974 | - | - | 13,603 | - | 11,974 | - |
| *- Other* | 5,201 | - | - | - | 275 | 5,201 | - | - | 275 |
| United States of America | 43,419 | 1,768 | 15,730 | - | - | 43,419 | 1,768 | 7,003 | - |
| Other countries | 184,802 | - | 335,155 | 738 | 329 | 30,818 | - | 41,460 | 331 |
| *- North Macedonia* | 127,473 | - | 69,169 | - | - | - | - | 1,065 | - |
| *- Serbia* | - | - | 60,063 | - | - | - | - | 1,791 | 2 |
| *- Bosnia and Herzegovina* | - | - | 80,902 | - | - | - | - | - | - |
| *- Montenegro* | 26,511 | - | 24,929 | - | - | - | - | 1,055 | - |
| *- Switzerland* | - | - | - | 360 | - | - | - | - | - |
| *- Kosovo* | - | - | 62,543 | - | 329 | - | - | - | 329 |
| *- Iceland* | 5,130 | - | - | - | - | 5,130 | - | - | - |
| *- Norway* | 992 | - | 16,555 | - | - | 992 | - | 16,555 | - |
| *- Other* | 24,696 | - | 20,994 | 378 | - | 24,696 | - | 20,994 | - |
| **Total** | **1,428,962** | **48,697** | **1,849,018** | **2,009** | **15,329** | **1,274,978** | **48,697** | **1,483,582** | **15,331** |

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 Canada, Australia, and Russia.

## p) Internal rating of derivatives counterparties

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| | in % | | in % | |
| A | 74.14 | 70.92 | 74.27 | 70.92 |
| B | 16.34 | 19.17 | 16.26 | 19.17 |
| C | 9.52 | 9.91 | 9.47 | 9.91 |
| **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 2019 | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| **Internal rating** | **A** | **B** | **C** | **Total** | **A** | **B** | **C** | **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** |

in EUR thousands

| 31 Dec 2018 | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| **Internal rating** | **A** | **B** | **C** | **Total** | **A** | **B** | **C** | **Total** |
| Financial assets measured at amortised cost | | | | | | | | |
| - debt securities | 523 | - | - | 523 | 523 | - | - | 523 |
| - loans and advances to banks | - | - | - | - | 24,024 | - | - | 24,024 |
| - loans and advances to customers | - | - | - | - | - | - | 5,833 | 5,833 |
| **Total** | **523** | **-** | **-** | **523** | **24,547** | **-** | **5,833** | **30,380** |

## s) Presentation of net financial instruments by measurement category

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 2018 | 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 | - | - | - | 1,588,349 | - | - | 1,588,349 |
| Securities | 48,697 | 8,589 | 1,898,079 | 1,428,962 | - | - | 3,384,327 |
| - Bonds | 18,659 | 2,009 | 1,648,863 | 1,414,007 | - | - | 3,083,538 |
| - Shares | - | 2,513 | 49,061 | - | - | - | 51,574 |
| - Commercial bills | - | - | 100,757 | - | - | - | 100,757 |
| - Treasury bills | 30,038 | - | 99,398 | 14,955 | - | - | 144,391 |
| - Investment funds | - | 4,067 | - | - | - | - | 4,067 |
| Derivatives | 14.912 | - | - | - | - | 417 | 15.329 |
| Loans and receivables | - | 23,800 | - | 7,162,822 | 80,507 | - | 7,267,129 |
| - Loans to government | - | - | - | 345,838 | 6,908 | - | 352,746 |
| - Loans to banks | - | - | - | 118,696 | - | - | 118,696 |
| - Loans to financial organisations | - | - | - | 88,611 | 65 | - | 88,676 |
| - Loans to individuals | - | - | - | 3,601,829 | 40,223 | - | 3,642,052 |
| - Loans to other customers | - | 23,800 | - | 3,007,848 | 33,311 | - | 3,064,959 |
| Other financial assets | - | - | - | 75,171 | - | - | 75,171 |
| **Total financial assets** | **63,609** | **32,389** | **1,898,079** | **10,255,304** | **80,507** | **417** | **12,330,305** |

in EUR thousands

| | NLB | | | | | |
|---|---|---|---|---|---|---|
| **31 Dec 2019** | **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** |

in EUR thousands

| | NLB | | | | | |
|---|---|---|---|---|---|---|
| **31 Dec 2018** | **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 | - | - | - | 795,102 | - | 795,102 |
| Securities | 48,697 | 2,547 | 1,528,314 | 1,274,978 | - | 2,854,536 |
| - Bonds | 18,659 | - | 1,433,476 | 1,264,958 | - | 2,717,093 |
| - Shares | - | 2,513 | 44,732 | - | - | 47,245 |
| - Treasury bills | 30,038 | - | 50,106 | 10,020 | - | 90,164 |
| - Investment funds | - | 34 | - | - | - | 34 |
| Derivatives | 14,914 | - | - | - | 417 | 15,331 |
| Loans and receivables | - | 26,594 | - | 4,561,774 | - | 4,588,368 |
| - Loans to government | - | - | - | 267,716 | - | 267,716 |
| - Loans to banks | - | - | - | 110,297 | - | 110,297 |
| - Loans to financial organisations | - | - | - | 177,744 | - | 177,744 |
| - Loans to individuals | - | - | - | 2,215,667 | - | 2,215,667 |
| - Loans to other customers | - | 26,594 | - | 1,790,350 | - | 1,816,944 |
| Other financial assets | - | - | - | 42,741 | - | 42,741 |
| **Total financial assets** | **63,611** | **29,141** | **1,528,314** | **6,674,595** | **417** | **8,296,078** |

As at 31 December 2019 and 31 December 2018, 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. Thus, NLB is the only Group member with a trading book in accordance with CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

#### 6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the bank. The bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board of the Bank and in accordance to the adopted policy of managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the income statement. FX exposures in banking book result from core banking business activities.

Currency risk management in NLB Group is decentralised. Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with 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) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousands

| | NLB Group | | | | |
|---|---|---|---|---|---|
| **31 Dec 2019** | **EUR** | **USD** | **CHF** | **Other** | **Total** |
| **Financial assets** | | | | | |
| Cash, cash balances at central banks, and other demand deposits at banks | 1,575,186 | 33,621 | 37,527 | 455,012 | 2,101,346 |
| Financial assets held for trading | 20,795 | 3,243 | - | - | 24,038 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 24,908 | 451 | - | - | 25,359 |
| Financial assets measured at fair value through other comprehensive income | 1,928,168 | 52,774 | 3,289 | 157,197 | 2,141,428 |
| Financial assets measured at amortised cost | | | | | |
| - debt securities | 1,458,013 | 58,379 | - | 137,456 | 1,653,848 |
| - loans and advances to banks | 35,119 | 37,594 | 11,488 | 9,202 | 93,403 |
| - loans and advances to customers | 6,366,058 | 43,663 | 53,464 | 1,126,539 | 7,589,724 |
| - other financial assets | 42,600 | 30,402 | 50 | 24,363 | 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** | **11,460,626** | **260,127** | **105,818** | **1,909,769** | **13,736,340** |
| **Financial liabilities** | | | | | |
| Trading liabilities | 17,903 | - | - | - | 17,903 |
| Financial liabilities measured at fair value through profit or loss | 7,520 | 382 | - | 96 | 7,998 |
| Derivatives - hedge accounting | 49,507 | - | - | - | 49,507 |
| Financial liabilities measured at amortised cost | | | | | |
| - deposits from banks and central banks | 7,488 | 7,214 | 1,440 | 26,698 | 42,840 |
| - borrowings from banks and central banks | 147,041 | 14,389 | 8,955 | - | 170,385 |
| - due to customers | 9,872,408 | 187,862 | 79,921 | 1,472,126 | 11,612,317 |
| - borrowings from other customers | 64,458 | - | - | - | 64,458 |
| - subordinated liabilities | 210,569 | - | - | - | 210,569 |
| - other financial liabilities | 110,743 | 22,863 | 1,302 | 23,576 | 158,484 |
| **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** |
| **31 Dec 2018** | | | | | |
| **Total financial assets** | **10,244,629** | **224,982** | **117,218** | **1,745,993** | **12,332,822** |
| **Total financial liabilities** | **9,313,339** | **217,040** | **93,631** | **1,348,950** | **10,972,960** |
| **Net on-balance sheet financial position** | **931,290** | **7,942** | **23,587** | **397,043** | **1,359,862** |
| Derivative financial instruments | 21,590 | 434 | (16,473) | (14,992) | (9,441) |
| **Net financial position** | **952,880** | **8,376** | **7,114** | **382,051** | **1,350,421** |

in EUR thousands

| | NLB | | | | |
|---|---|---|---|---|---|
| **31 Dec 2019** | **EUR** | **USD** | **CHF** | **Other** | **Total** |
| **Financial assets** | | | | | |
| Cash, cash balances at central banks, and other demand deposits at banks | 1,231,447 | 13,864 | 9,148 | 37,752 | 1,292,211 |
| Financial assets held for trading | 20,842 | 3,243 | - | - | 24,085 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 23,287 | - | - | - | 23,287 |
| Financial assets measured at fair value through other comprehensive income | 1,600,023 | 32,345 | - | 24,289 | 1,656,657 |
| Financial assets measured at amortised cost | | | | | |
| - debt securities | 1,425,594 | 58,379 | - | 1,193 | 1,485,166 |
| - loans and advances to banks | 139,709 | - | - | 4,643 | 144,352 |
| - loans and advances to customers | 4,470,822 | 38,314 | 56,880 | 2,583 | 4,568,599 |
| - other financial assets | 36,274 | 30,371 | - | 634 | 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** | **8,957,777** | **176,516** | **66,028** | **71,094** | **9,271,415** |
| **Financial liabilities** | | | | | |
| Trading liabilities | 17,892 | - | - | - | 17,892 |
| Financial liabilities measured at fair value through profit or loss | 7,364 | 382 | - | - | 7,746 |
| Derivatives - hedge accounting | 49,507 | - | - | - | 49,507 |
| Financial liabilities measured at amortised cost | | | | | |
| - deposits from banks and central banks | 60,118 | 7,505 | 7,565 | 14,632 | 89,820 |
| - borrowings from banks and central banks | 138,220 | 14,389 | 8,955 | - | 161,564 |
| - due to customers | 7,581,040 | 98,706 | 45,238 | 35,753 | 7,760,737 |
| - borrowings from other customers | 2,537 | - | - | - | 2,537 |
| - subordinated liabilities | 210,569 | - | - | - | 210,569 |
| - other financial liabilities | 75,116 | 21,413 | 241 | 1,572 | 98,342 |
| **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** |
| **31 Dec 2018** | | | | | |
| **Total financial assets** | **8,003,580** | **147,869** | **79,630** | **67,516** | **8,298,595** |
| **Total financial liabilities** | **7,191,592** | **139,446** | **62,909** | **44,549** | **7,438,496** |
| **Net on-balance sheet financial position** | **811,988** | **8,423** | **16,721** | **22,967** | **860,099** |
| Derivative financial instruments | 21,509 | - | (16,033) | (14,845) | (9,369) |
| **Net financial position** | **833,497** | **8,423** | **688** | **8,122** | **850,730** |

### b) FX sensitivity analysis

| Scenarios | NLB Group and NLB 31 Dec 2019 | NLB Group and NLB 31 Dec 2018 |
|---|---|---|
| USD | +/-4% | +/-6% |
| CHF | +/-3% | +/-4% |
| CZK | +/-3% | +/-3% |
| RSD | +/-2% | +/-2% |
| MKD | +/-2% | +/-2% |
| JPY | +/-5% | +/-7% |
| AUD | +/-5% | +/-5% |
| HUF | +/-4% | +/-4% |
| HRK | +/-1% | +/-1% |
| BAM | +/-0% | +/-0% |

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| **31 Dec 2019** | **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** |

in EUR thousands

| 31 Dec 2018 | NLB Group | | NLB | |
|---|---|---|---|---|
| | Effects on income statement | Effects on other comprehensive income | Effects on income statement | Effects on other comprehensive income |
| Appreciation of | | | | |
| USD | 275 | - | 239 | 1 |
| CHF | (263) | 218 | 15 | - |
| CZK | 3 | - | 1 | - |
| RSD | 10 | 2,374 | 12 | - |
| MKD | 2 | 3,178 | 22 | - |
| Other | 31 | 148 | 87 | - |
| **Effects on comprehensive income** | **58** | **5,918** | **376** | **1** |
| Depreciation of | | | | |
| USD | (244) | - | (212) | (1) |
| CHF | 241 | (200) | (13) | - |
| CZK | (3) | - | (1) | - |
| RSD | (10) | (2,280) | (12) | - |
| MKD | (2) | (3,077) | (22) | - |
| Other | (22) | (145) | (77) | - |
| **Effects on comprehensive income** | **(40)** | **(5,702)** | **(337)** | **(1)** |

### 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 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 core part is allocated long-term by using replicating portfolio. Optionality risk is mainly derived from behavioural options, reflecting 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 manages interest rates risk also by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded 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.

The management of NLB Group's interest rate exposure is decentralised. Each member of NLB Group is responsible for its own interest rate risk policy, which includes limit system and is in line with the parent Bank's guidelines and standards, as well as with the local regulatory requirements. NLB regularly monitors the interest rate risk exposure of individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported weekly in the case of NLB by Global Risk Department, while positions are managed by Financial Markets and monthly on the Group level. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level.

### a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual repricing or residual maturity.

in EUR thousands

| | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 Dec 2019 | 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** | | | | | | | | |
| Trading liabilities | 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

| | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2018** | **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 | 1,588,349 | 468,535 | 1,119,814 | 1,119,814 | - | - | - | - |
| Financial assets held for trading | 63,609 | 14,912 | 48,697 | - | 26,828 | 10,039 | - | 11,830 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 32,389 | 6,580 | 25,809 | 659 | 3,727 | 17,822 | 3,446 | 155 |
| Financial assets measured at fair value through other comprehensive income | 1,898,079 | 49,061 | 1,849,018 | 120,332 | 90,886 | 259,901 | 831,419 | 546,480 |
| Financial assets measured at amortised cost | | | | | | | | |
| - debt securities | 1,428,962 | - | 1,428,962 | 40,896 | 79,979 | 122,692 | 566,502 | 618,893 |
| - loans and advances to banks | 118,696 | 27 | 118,669 | 96,853 | 10,423 | 11,377 | 16 | - |
| - loans and advances to customers | 7,124,633 | 72,813 | 7,051,820 | 1,576,821 | 1,087,822 | 2,499,063 | 1,295,776 | 592,338 |
| - other financial assets | 75,171 | 75,171 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 417 | 417 | - | - | - | - | - | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 2,517 | 2,517 | - | - | - | - | - | - |
| **Total financial assets** | **12,332,822** | **690,033** | **11,642,789** | **2,955,375** | **1,299,665** | **2,920,894** | **2,697,159** | **1,769,696** |
| **Financial liabilities** | | | | | | | | |
| Trading liabilities | 12,300 | 12,300 | - | - | - | - | - | - |
| Financial liabilities measured at fair value through profit or loss | 4,190 | 4,190 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 29,474 | 29,474 | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 26,775 | - | 26,775 | 26,775 | - | - | - | - |
| - borrowings from banks and central banks | 258,423 | - | 258,423 | 4,498 | 74,431 | 162,384 | 16,811 | 299 |
| - due to customers | 10,464,017 | 73,980 | 10,390,037 | 8,699,749 | 350,176 | 895,822 | 440,544 | 3,746 |
| - borrowings from other customers | 61,844 | - | 61,844 | 1,619 | 5,410 | 10,113 | 20,830 | 23,872 |
| - subordinated liabilities | 15,050 | - | 15,050 | 133 | - | 14,917 | - | - |
| - other financial liabilities | 100,887 | 100,887 | - | - | - | - | - | - |
| **Total financial liabilities** | **10,972,960** | **220,831** | **10,752,129** | **8,732,774** | **430,017** | **1,083,236** | **478,185** | **27,917** |
| **Total interest repricing gap** | | | | **(5,777,399)** | **869,648** | **1,837,658** | **2,218,974** | **1,741,779** |

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** | | | | | | | | |
| Trading liabilities | 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** |

in EUR thousands

| | NLB | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31 Dec 2018 | 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 | 795,102 | 153,315 | 641,787 | 641,787 | - | - | - | - |
| Financial assets held for trading | 63,611 | 14,914 | 48,697 | - | 26,828 | 10,039 | - | 11,830 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 29,141 | 2,547 | 26,594 | 298 | 6,903 | 18,684 | 554 | 155 |
| Financial assets measured at fair value through other comprehensive income | 1,528,314 | 44,732 | 1,483,582 | 45,335 | 45,929 | 187,225 | 672,455 | 532,638 |
| Financial assets measured at amortised cost | | | | | | | | |
| - debt securities | 1,274,978 | - | 1,274,978 | 38,025 | 76,090 | 101,186 | 440,784 | 618,893 |
| - loans and advances to banks | 110,297 | 11 | 110,286 | 30,244 | 17,086 | 54,573 | 8,383 | - |
| - loans and advances to customers | 4,451,477 | 47,373 | 4,404,104 | 1,175,203 | 892,032 | 1,641,273 | 376,628 | 318,968 |
| - other financial assets | 42,741 | 42,741 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 417 | 417 | - | - | - | - | - | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 2,517 | 2,517 | - | - | - | - | - | - |
| **Total financial assets** | **8,298,595** | **308,567** | **7,990,028** | **1,930,892** | **1,064,868** | **2,012,980** | **1,498,804** | **1,482,484** |
| **Financial liabilities** | | | | | | | | |
| Trading liabilities | 12,256 | 12,256 | - | - | - | - | - | - |
| Financial liabilities measured at fair value through profit or loss | 3,981 | 3,981 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 29,474 | 29,474 | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 48,903 | - | 48,903 | 48,903 | - | - | - | - |
| - borrowings from banks and central banks | 244,133 | - | 244,133 | 85 | 74,431 | 156,870 | 12,747 | - |
| - due to customers | 7,033,409 | - | 7,033,409 | 6,422,293 | 210,091 | 327,967 | 70,233 | 2,825 |
| - borrowings from other customers | 4,128 | - | 4,128 | 1 | - | 4,088 | 32 | 7 |
| - other financial liabilities | 62,212 | 62,212 | - | - | - | - | - | - |
| **Total financial liabilities** | **7,438,496** | **107,923** | **7,330,573** | **6,471,282** | **284,522** | **488,925** | **83,012** | **2,832** |
| **Total interest repricing gap** | | | | **(4,540,390)** | **780,346** | **1,524,055** | **1,415,792** | **1,479,652** |

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 banks 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Net interest income sensitivity | 14,689 | 13,099 | 8,488 | 7,835 |
| Net interest income sensitivity - as % of Equity | 1.01% | 0.90% | 0.75% | 0.65% |

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. 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 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Interest risk in banking book - EVE | 88,355 | 102,397 | 71,979 | 77,131 |
| Interest risk in banking book - EVE as % of Equity | 6.09% | 7.02% | 6.33% | 6.37% |

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 at NLB Group, 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 positon and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in three stages:

- Current exposure and compliance with the limits,
- Forward-looking and stress testing,
- Liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:

- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios;
- 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.

The 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. Liquidity management on the operational level is decentralised in NLB Group. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and
- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

The Group members have defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is decentralised under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is performed daily. Global Risk gives guidelines and defines minimal standards for group members regarding liquidity risk management in NLB Group Risk Management Standards. Decentralised liquidity management means that each group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO, and to local Assets and Liabilities Committees.

### a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and term deposits at banks, 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. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The minimum and optimum amount of liquidity reserves is determined on the basis of the methodology pertaining to liquidity risk stress tests. The amount represents the survival of a severe stress over a period of three months in a combined stress scenario.

The structure of liquidity reserves is shown in the following table.

### Liquid assets

in EUR thousands

| | NLB Group | | NLB | |
|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| **Liquid assets** | | | | |
| Cash, cash balances at central banks, and other demand deposits at banks | 2,101,346 | 1,588,349 | 1,292,211 | 795,102 |
| Time deposits at banks | 91,076 | 116,450 | 62,651 | 69,639 |
| Trading book securities | 4,325 | 48,697 | 4,325 | 48,697 |
| Banking book securities | 3,745,653 | 3,277,980 | 3,096,877 | 2,758,560 |
| ECB eligible loans | 545,247 | 140,777 | 545,247 | 140,777 |
| **Total liquid assets** | **6,487,647** | **5,172,253** | **5,001,311** | **3,812,775** |

As at 31 December 2019, 78.9% (31 December 2018: 77.5%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 7.8% (31 December 2018: 9.7%) were senior unsecured bonds.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial Markets' banking book and the Policy for Managing Domestic (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

| 2019 | NLB Group: Carrying amount of encumbered assets | NLB Group: Fair value of encumbered securities | NLB Group: Carrying amount of unencumbered assets | NLB Group: Fair value of unencumbered securities | NLB: Carrying amount of encumbered assets | NLB: Fair value of encumbered securities | NLB: Carrying amount of unencumbered assets | NLB: 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** | |

in EUR thousands

| 2018 | NLB Group: Carrying amount of encumbered assets | NLB Group: Fair value of encumbered securities | NLB Group: Carrying amount of unencumbered assets | NLB Group: Fair value of unencumbered securities | NLB: Carrying amount of encumbered assets | NLB: Fair value of encumbered securities | NLB: Carrying amount of unencumbered assets | NLB: Fair value of unencumbered securities |
|---|---|---|---|---|---|---|---|---|
| Loans on demand | 410,200 | - | 865,401 | - | 78,807 | - | 562,980 | - |
| Equity instruments | - | - | 55,641 | 55,641 | - | - | 47,279 | 47,279 |
| Debt securities | 59,696 | 64,791 | 3,268,990 | 3,305,827 | 59,696 | 64,791 | 2,747,561 | 2,781,400 |
| Loans and advances other than loans on demand | 50,767 | - | 7,291,533 | - | 44,271 | - | 4,586,838 | - |
| Other assets | - | - | 737,800 | - | - | - | 683,615 | - |
| **Total** | **520,663** | | **12,219,365** | | **182,774** | | **8,628,273** | |

## 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Equity instruments | 197,157 | 215,033 | 176,532 | 199,652 |
| Loans and advances other than loans on demand | 111,726 | 117,661 | 20,249 | 23,303 |
| Other assets | 7,361,858 | 7,360,279 | 3,703,078 | 3,735,514 |
| **Total** | **7,670,741** | **7,692,973** | **3,899,859** | **3,958,469** |

### d) Source of encumbrance

in EUR thousands

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | 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 | 65,056 | 78,174 | 39,597 | 54,919 | 65,056 | 78,174 | 39,597 | 54,919 |
| Deposits and loans | 8,955 | 14,553 | 11,561 | 21,891 | 8,955 | 14,553 | 11,561 | 21,891 |
| Other sources of encumbrance | 4,107 | 473,274 | 4,296 | 443,854 | - | 109,230 | - | 105,965 |
| **Total** | **78,118** | **566,001** | **55,454** | **520,664** | **74,011** | **201,957** | **51,158** | **182,775** |

As at 31 December 2019, 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 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

| | 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 |
| **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 2018 | 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 | - | 103 | 106 | 3,981 | - | 4,190 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 26,453 | 5 | 12 | 325 | - | 26,795 |
| - borrowings from banks and central banks | 1,701 | 814 | 22,541 | 74,910 | 163,859 | 263,825 |
| - due to customers | 8,657,887 | 289,160 | 910,094 | 602,592 | 34,090 | 10,493,823 |
| - borrowings from other customers | 673 | 2,438 | 11,390 | 25,895 | 26,253 | 66,649 |
| - subordinated liabilities | - | - | 1,076 | 7,594 | 10,844 | 19,514 |
| - other financial liabilities | 87,241 | 4,263 | 8,997 | 386 | - | 100,887 |
| Credit risk related commitments | 526,366 | 169,129 | 479,819 | 227,540 | 191,136 | 1,593,990 |
| Non-financial guarantees | 23,879 | 37,234 | 129,124 | 196,226 | 65,065 | 451,528 |
| **Total** | **9,324,200** | **503,146** | **1,563,159** | **1,139,449** | **491,247** | **13,021,201** |
| **Total financial assets** | **2,593,275** | **519,820** | **1,893,782** | **5,054,574** | **3,521,023** | **13,582,474** |

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** |

in EUR thousands

| | NLB | | | | | |
|---|---|---|---|---|---|---|
| **31 Dec 2018** | **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 | - | - | - | 3,981 | - | 3,981 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 48,904 | - | - | - | - | 48,904 |
| - borrowings from banks and central banks | 85 | 814 | 18,488 | 66,920 | 162,890 | 249,197 |
| - due to customers | 6,373,622 | 146,121 | 357,259 | 127,540 | 32,594 | 7,037,136 |
| - borrowings from other customers | 1 | - | 4,088 | 32 | 7 | 4,128 |
| - other financial liabilities | 58,511 | 3,230 | 471 | - | - | 62,212 |
| Credit risk related commitments | 465,022 | 145,198 | 299,398 | 162,577 | 111,953 | 1,184,148 |
| Non-financial guarantees | 16,693 | 28,418 | 97,807 | 170,993 | 31,625 | 345,536 |
| **Total** | **6,962,838** | **323,781** | **777,511** | **532,043** | **339,069** | **8,935,242** |
| **Total financial assets** | **1,285,864** | **319,997** | **1,072,658** | **3,500,232** | **2,827,595** | **9,006,346** |

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

| | 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 in portfolio hedge of interest rate risk | - | - | - | 903 | 8,088 | 8,991 |
| Non-current assets classified as 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** |
| Trading liabilities | 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 Group | | | | | |
|---|---|---|---|---|---|---|
| 31 Dec 2018 | 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 | 1,588,349 | - | - | - | - | 1,588,349 |
| Financial assets held for trading | 14,912 | 26,828 | 10,039 | - | 11,830 | 63,609 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 664 | 350 | 1,793 | 22,827 | 6,755 | 32,389 |
| Financial assets measured at fair value through other comprehensive income | 225,528 | 74,604 | 236,704 | 778,004 | 583,239 | 1,898,079 |
| Financial assets measured at amortised cost | | | | | | |
| - debt securities | 16,443 | 80,873 | 123,364 | 589,389 | 618,893 | 1,428,962 |
| - loans and advances to banks | 97,853 | 10,051 | 10,109 | 662 | 21 | 118,696 |
| - loans and advances to customers | 533,437 | 285,692 | 1,331,729 | 3,041,040 | 1,932,735 | 7,124,633 |
| - other financial assets | 72,238 | 156 | 2,777 | - | - | 75,171 |
| Derivatives - hedge accounting | 417 | - | - | - | - | 417 |
| Fair value changes of hedged in portfolio hedge of interest rate risk | - | - | - | 294 | 2,223 | 2,517 |
| Non-current assets classified as held for sale | - | - | 4,349 | - | - | 4,349 |
| Property and equipment | - | - | - | 19,290 | 158,114 | 177,404 |
| Investment property | - | - | - | 43,262 | 15,382 | 58,644 |
| Intangible assets | - | - | - | 11,801 | 23,167 | 34,968 |
| Investments in associates, and joint ventures | - | - | - | - | 37,147 | 37,147 |
| Current income tax assets | 294 | - | 583 | - | - | 877 |
| Deferred income tax assets | - | - | - | 22,668 | 179 | 22,847 |
| Other assets | 5,598 | 1,525 | 33,488 | 30,208 | 152 | 70,971 |
| **Total assets** | **2,555,733** | **480,079** | **1,754,935** | **4,559,445** | **3,389,837** | **12,740,029** |
| Trading liabilities | 12,300 | - | - | - | - | 12,300 |
| Financial liabilities measured at fair value through profit or loss | - | 103 | 106 | 3,981 | - | 4,190 |
| Derivatives - hedge accounting | 29,474 | - | - | - | - | 29,474 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 26,450 | - | - | 325 | - | 26,775 |
| - borrowings from banks and central banks | 1,670 | 743 | 21,444 | 71,453 | 163,113 | 258,423 |
| - due to customers | 8,656,216 | 286,558 | 900,073 | 587,656 | 33,514 | 10,464,017 |
| - borrowings from other customers | 604 | 2,249 | 10,731 | 23,692 | 24,568 | 61,844 |
| - subordinated liabilities | - | - | 133 | 5,000 | 9,917 | 15,050 |
| - other financial liabilities | 87,241 | 4,263 | 8,997 | 386 | - | 100,887 |
| Provisions | 2,021 | 462 | 29,885 | 45,268 | 2,498 | 80,134 |
| Current income tax liabilities | 1,047 | 337 | 10,768 | - | - | 12,152 |
| Deferred income tax liabilities | - | - | - | 2,200 | 299 | 2,499 |
| Other liabilities | 6,642 | 459 | 3,125 | 4,614 | - | 14,840 |
| **Total liabilities** | **8,823,665** | **295,174** | **985,262** | **744,575** | **233,909** | **11,082,585** |
| Credit risk related commitments | 526,367 | 169,129 | 479,819 | 227,540 | 191,135 | 1,593,990 |
| Non-financial guarantees | 23,879 | 37,234 | 129,124 | 196,226 | 65,065 | 451,528 |
| **Total liabilities and credit-related commitments** | **9,373,911** | **501,537** | **1,594,205** | **1,168,341** | **490,109** | **13,128,103** |

in EUR thousands

| | NLB | | | | | |
|---|---|---|---|---|---|---|
| 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 | 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 in portfolio hedge of interest rate risk | - | - | - | 903 | 8,088 | 8,991 |
| Non-current assets classified as 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** | **3,371,122** | **3,211,680** | **9,801,557** |
| Trading liabilities | 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** |

in EUR thousands

| 31 Dec 2018 | 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 | 795,102 | - | - | - | - | 795,102 |
| Financial assets held for trading | 14,914 | 26,828 | 10,039 | - | 11,830 | 63,611 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 297 | 37 | 1,749 | 24,336 | 2,722 | 29,141 |
| Financial assets measured at fair value through other comprehensive income | 45,335 | 45,929 | 187,225 | 672,455 | 577,370 | 1,528,314 |
| Financial assets measured at amortised cost | | | | | | |
| - debt securities | 14,909 | 76,089 | 101,470 | 463,617 | 618,893 | 1,274,978 |
| - loans and advances to banks | 26,269 | 17,087 | 32,025 | 10,999 | 23,917 | 110,297 |
| - loans and advances to customers | 354,219 | 135,063 | 649,426 | 1,957,856 | 1,354,913 | 4,451,477 |
| - other financial assets | 41,478 | 152 | 1,111 | - | - | 42,741 |
| Derivatives - hedge accounting | 417 | - | - | - | - | 417 |
| Fair value changes of hedged in portfolio hedge of interest rate risk | - | - | - | 294 | 2,223 | 2,517 |
| Non-current assets classified as held for sale | - | - | 1,720 | - | - | 1,720 |
| Property and equipment | - | - | - | 13,977 | 72,957 | 86,934 |
| Investment property | - | - | - | 12,026 | - | 12,026 |
| Intangible assets | - | - | - | 10,851 | 12,540 | 23,391 |
| Investments in subsidiaries, associates and joint ventures | - | - | - | 30,576 | 324,934 | 355,510 |
| Deferred income tax assets | - | - | - | 22,234 | - | 22,234 |
| Other assets | 4,444 | - | 6,193 | - | - | 10,637 |
| **Total assets** | **1,297,384** | **301,185** | **990,958** | **3,219,221** | **3,002,299** | **8,811,047** |
| Trading liabilities | 12,256 | - | - | - | - | 12,256 |
| Financial liabilities measured at fair value through profit or loss | - | - | - | 3,981 | - | 3,981 |
| Derivatives - hedge accounting | 29,474 | - | - | - | - | 29,474 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 48,903 | - | - | - | - | 48,903 |
| - borrowings from banks and central banks | 85 | 743 | 17,511 | 63,636 | 162,158 | 244,133 |
| - due to customers | 6,373,382 | 145,793 | 356,270 | 125,847 | 32,117 | 7,033,409 |
| - borrowings from other customers | 1 | - | 4,088 | 32 | 7 | 4,128 |
| - other financial liabilities | 58,511 | 3,230 | 471 | - | - | 62,212 |
| Provisions | 640 | 360 | 19,832 | 36,162 | - | 56,994 |
| Current income tax liabilities | 230 | - | 10,554 | - | - | 10,784 |
| Other liabilities | 3,796 | 159 | 1,068 | 4,520 | - | 9,543 |
| **Total liabilities** | **6,527,278** | **150,285** | **409,794** | **234,178** | **194,282** | **7,515,817** |
| Credit risk related commitments | 465,022 | 145,198 | 299,398 | 162,577 | 111,953 | 1,184,148 |
| Non-financial guarantees | 16,693 | 28,418 | 97,807 | 170,993 | 31,625 | 345,536 |
| **Total liabilities and credit-related commitments** | **7,008,993** | **323,901** | **806,999** | **567,748** | **337,860** | **9,045,501** |

## 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

| | 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 |
| **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

| | NLB Group | | | | | |
|---|---|---|---|---|---|---|
| 31 Dec 2018 | 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 | (39,633) | (16,404) | (15,567) | (3,396) | - | (75,000) |
| - Inflow | 39,670 | 16,422 | 15,589 | 3,399 | - | 75,080 |
| - Swaps | | | | | | |
| - Outflow | (23,400) | (21,077) | (3,754) | (60,135) | - | (108,366) |
| - Inflow | 23,258 | 21,141 | 3,754 | 60,244 | - | 108,397 |
| **Interest rate derivatives** | | | | | | |
| - Interest rate swaps and cross-currency swaps | | | | | | |
| - Outflow | (1,059) | (2,608) | (11,474) | (45,680) | (32,056) | (92,877) |
| - Inflow | 116 | 1,325 | 6,125 | 24,231 | 35,234 | 67,031 |
| **Total outflow** | **(64,092)** | **(40,089)** | **(30,795)** | **(109,211)** | **(32,056)** | **(276,243)** |
| **Total inflow** | **63,044** | **38,888** | **25,468** | **87,874** | **35,234** | **250,508** |

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** |

in EUR thousands

| 31 Dec 2018 | 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 | (39,124) | (16,378) | (15,567) | (3,396) | - | (74,465) |
| - Inflow | 39,160 | 16,395 | 15,589 | 3,399 | - | 74,543 |
| - Swaps | | | | | | |
| - Outflow | (23,545) | (14,020) | (3,754) | (60,135) | - | (101,454) |
| - Inflow | 23,409 | 14,150 | 3,754 | 60,244 | - | 101,557 |
| **Interest rate derivatives** | | | | | | |
| - Interest rate swaps and cross-currency swaps | | | | | | |
| - Outflow | (1,059) | (2,608) | (11,474) | (45,680) | (32,056) | (92,877) |
| - Inflow | 116 | 1,325 | 6,125 | 24,231 | 35,234 | 67,031 |
| **Total outflow** | **(63,728)** | **(33,006)** | **(30,795)** | **(109,211)** | **(32,056)** | **(268,796)** |
| **Total inflow** | **62,685** | **31,870** | **25,468** | **87,874** | **35,234** | **243,131** |

## 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 the NLB Group, with disinvestment process of non-core activities and optimisation of internal processes. The NLB Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks. This is particularly valid in strategic banking members.

All NLB Group banking members monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention or mitigation of the same or similar loss events. The critical limit of loss events is also defined, which in case of exceeding requires an assessment of the possible increase in the capital requirement for operational risk within ICAAP and other possible 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 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 aforementioned 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 2019 was a bit higher than in the previous year, nevertheless, it still represents a relatively small part of the capital requirement 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.

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

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

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the 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 and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2019, 44 tests were carried out at NLB (35 internal ones and nine with external business partners). 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 2019, NLB thus carried out a training course for all employees (e-education), the Crisis Teams of office buildings, and participants of annul BIA.

Upon IT failures, the Bank successfully used the IT plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk, and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach but 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 requirements, as a part of the ICAAP process, are also considered.

**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 2019** | **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 | 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 | - | - | 23,287 | 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 | - | - | 20,571 | 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 classified as 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 |

in EUR thousands

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2018** | **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 | 48,697 | 14,583 | 329 | 63,609 | 48,697 | 14,585 | 329 | 63,611 |
| *Debt instruments* | 48,697 | - | - | 48,697 | 48,697 | - | - | 48,697 |
| *Derivatives* | - | 14,583 | 329 | 14,912 | - | 14,585 | 329 | 14,914 |
| *Derivatives - hedge accounting* | - | 417 | - | 417 | - | 417 | - | 417 |
| Financial assets measured at fair value through other comprehensive income | 1,638,822 | 255,297 | 3,960 | 1,898,079 | 1,475,633 | 52,433 | 248 | 1,528,314 |
| *Debt instruments* | 1,638,660 | 210,358 | - | 1,849,018 | 1,475,633 | 7,949 | - | 1,483,582 |
| *Equity instruments* | 162 | 44,939 | 3,960 | 49,061 | - | 44,484 | 248 | 44,732 |
| *Non-trading financial assets mandatorily at fair value through profit and loss* | 6,666 | - | 25,723 | 32,389 | 624 | - | 28,517 | 29,141 |
| *Debt instruments* | 2,009 | - | - | 2,009 | - | - | - | - |
| *Equity instruments* | 4,657 | - | 1,923 | 6,580 | 624 | - | 1,923 | 2,547 |
| *Loans* | - | - | 23,800 | 23,800 | - | - | 26,594 | 26,594 |
| **Financial liabilities** | | | | | | | | |
| Financial instruments held for trading | - | 12,300 | - | 12,300 | - | 12,256 | - | 12,256 |
| *Derivatives* | - | 12,300 | - | 12,300 | - | 12,256 | - | 12,256 |
| Derivatives - hedge accounting | - | 29,474 | - | 29,474 | - | 29,474 | - | 29,474 |
| Financial liabilities measured at fair value through profit or loss | - | - | 4,190 | 4,190 | - | - | 3,981 | 3,981 |
| **Non-financial assets** | | | | | | | | |
| Investment properties | - | 26,436 | 32,208 | 58,644 | - | 12,026 | - | 12,026 |
| Non-current assets classified as held for sale | - | 4,349 | - | 4,349 | - | 1,720 | - | 1,720 |
| **Non-financial assets impaired during the year** | | | | | | | | |
| Recoverable amount of property and equipment | - | 6,025 | - | 6,025 | - | - | - | - |
| Recoverable amount of investments in subsidiaries, associates, and joint ventures | - | - | - | - | - | 312 | 1,029 | 1,341 |

### b) Significant transfers of financial instruments between levels of valuation

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

| | | | | | Derivatives | | |
|---|---|---|---|---|---|---|---|
| **Fair value hierarchy** | **Equities** | **Equity stake** | **Funds** | **Debt securities** | **Equities** | **Currency** | **Interest** |
| **1** | market value from exchange market | | regular valuation by fund management company | market value from exchange market | | | |
| **2** | | | | valuation model | valuation model (underlying in level 1) | valuation model | valuation model |
| **3** | valuation model | valuation model | valuation model | valuation model | valuation model (underlying in level 3) | | |
| **Transfers** | *from level 1 to level 3* | | *from level 1 to level 3* | *from level 1 to level 2* | *from level 2 to level 3* | | |
| | equity excluded from exchange market | | fund management stops publishing regular valuation | fixed income excluded from exchange market | underlying excluded from exchange market | | |
| | *from level 1 to level 3* | | *from level 3 to level 1* | *from level 1 to level 2* | *from level 3 to level 2* | | |
| | companies in insolvency proceedings | | fund management starts publishing regular valuation | fixed income not liquid (no trading for 6 months) | underlying included into exchange market | | |
| | *from level 3 to level 1* | | | *from level 1 to level 3 and from level 2 to level 3* | | | |
| | equity included to exchange market | | | companies in insolvency proceedings | | | |
| | | | | *from level 2 to level 1 and from level 3 to level 1* | | | |
| | | | | start trading with fixed income on exchange market | | | |
| | | | | *from level 3 to level 2* | | | |
| | | | | until valuation parameters are confirmed on ALCO (at least on quarterly basis) | | | |

For 2019 and 2018, neither NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

### c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valuated by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets; and
- the National Resolution Fund.

Non-financial assets on Level 2 of the fair value hierarchy at NLB Group and NLB include investment property.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

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

At least 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 Slovenian corporate and 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 (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
- 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 property.

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** | **Equity instruments** | **Equity instruments** | **Loans and other financial assets** | **Total financial assets** | **Loans and other financial liabilities** |
| Balance as at 1 January 2018 | 571 | 3,853 | 1,578 | 24,649 | 30,651 | 5,180 |
| Exchange differences | - | 127 | - | - | 127 | 20 |
| Valuation: | | | | | | |
| *- through profit or loss* | (242) | - | 345 | 2,749 | 2,852 | (1,010) |
| *- recognised in other comprehensive income* | - | (7) | - | - | (7) | - |
| Increases | - | - | - | 26,399 | 26,399 | - |
| Decreases | - | (13) | - | (29,997) | (30,010) | - |
| **Balance as at 31 December 2018** | **329** | **3,960** | **1,923** | **23,800** | **30,012** | **4,190** |
| Exchange differences | - | - | - | - | - | 10 |
| 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 | - |
| Increases | - | - | - | 7,147 | 7,147 | - |
| Decreases | - | - | (6,935) | (30,277) | (37,212) | - |
| Transfer to level 3 | - | - | 600 | - | 600 | - |
| **Balance as at 31 December 2019** | **807** | **4,109** | **2,716** | **14,961** | **22,593** | **7,998** |

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** | **Derivatives** | **Equity instruments** | **Equity instruments** | **Loans and other financial assets** | **Total financial assets** | **Loans and other financial liabilities** |
| Balance as at 1 January 2018 | 571 | 275 | 1,578 | 30,055 | 32,479 | 4,531 |
| Exchange differences | - | - | - | - | - | 20 |
| Valuation: | | | | | | |
| *- through profit or loss* | (242) | - | 345 | 4,169 | 4,272 | (570) |
| *- recognised in other comprehensive income* | - | (24) | - | - | (24) | - |
| Increases | - | - | - | 26,161 | 26,161 | - |
| Decreases | - | (3) | - | (33,791) | (33,794) | - |
| **Balance as at 31 December 2018** | **329** | **248** | **1,923** | **26,594** | **29,094** | **3,981** |
| Exchange differences | - | - | - | - | - | 10 |
| Valuation: | | | | | - | |
| *- through profit or loss* | 478 | - | 7,128 | 12,927 | 20,533 | 3,755 |
| *- recognised in other comprehensive income* | - | 11 | - | - | 11 | - |
| Increases | - | - | - | 10,908 | 10,908 | - |
| Decreases | - | - | (6,935) | (29,858) | (36,793) | - |
| Transfer to level 3 | - | - | 600 | - | 600 | - |
| **Balance as at 31 December 2019** | **807** | **259** | **2,716** | **20,571** | **24,353** | **7,746** |

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 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 | Financial assets, held for trading | Financial assets measured at fair value through other comprehensive income | Non-trading financial assets mandatorily at fair value through profit or loss | | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|
| **31 Dec 2019** | **Derivatives** | **Equity instruments** | **Equity instruments** | **Loans and other financial assets** | **Loans and other financial liabilities** |
| **Items of Income statement** | | | | | |
| Gains/(losses) from financial assets and liabilities held for trading | 478 | - | - | - | - |
| Gains/(losses) from non-trading financial assets mandatorily at fair value through profit or loss | - | - | 845 | 14,291 | (3,798) |
| Foreign exchange translation gains/(losses) | - | - | - | - | (10) |
| **Item of Other comprehensive income** | | | | | |
| Financial assets measured at fair value through other comprehensive income | - | 43 | - | - | - |

in EUR thousands

| NLB Group | Financial assets, held for trading | Financial assets measured at fair value through other comprehensive income | Non-trading financial assets mandatorily at fair value through profit or loss | | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|
| **31 Dec 2018** | **Derivatives** | **Equity instruments** | **Equity instruments** | **Loans and other financial assets** | **Loans and other financial liabilities** |
| **Items of Income statement** | | | | | |
| Gains/(losses) from financial assets and liabilities held for trading | (242) | - | - | - | - |
| Gains/(losses) from non-trading financial assets mandatorily at fair value through profit or loss | - | - | 345 | 2,749 | 1,010 |
| Foreign exchange translation gains/(losses) | - | - | - | - | (20) |
| **Item of Other comprehensive income** | | | | | |
| Financial assets measured at fair value through other comprehensive income | - | (7) | - | - | - |

in EUR thousands

| NLB | Financial assets, held for trading | Financial assets measured at fair value through other comprehensive income | Non-trading financial assets mandatorily at fair value through profit or loss | | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|
| **31 Dec 2019** | **Derivatives** | **Equity instruments** | **Equity instruments** | **Loans and other financial assets** | **Loans and other financial liabilities** |
| **Items of Income statement** | | | | | |
| Gains/(losses) from financial assets and liabilities held for trading | 478 | - | - | - | - |
| Gains/(losses) from non-trading financial assets mandatorily at fair value through profit or loss | - | - | 845 | 12,927 | (3,755) |
| Foreign exchange translation gains/(losses) | - | - | - | - | (10) |
| **Item of Other comprehensive income** | | | | | |
| Financial assets measured at fair value through other comprehensive income | - | 11 | - | - | - |

in EUR thousands

| NLB | Financial assets, held for trading | Financial assets measured at fair value through other comprehensive income | Non-trading financial assets mandatorily at fair value through profit or loss | | Financial liabilities measured at fair value through profit or loss |
|---|---|---|---|---|---|
| **31 Dec 2018** | **Derivatives** | **Equity instruments** | **Equity instruments** | **Loans and other financial assets** | **Loans and other financial liabilities** |
| **Items of Income statement** | | | | | |
| Gains/(losses) from financial assets and liabilities held for trading | (242) | - | - | - | - |
| Gains/(losses) from non-trading financial assets mandatorily at fair value through profit or loss | - | - | 345 | 4,169 | 570 |
| Foreign exchange translation gains/(losses) | - | - | - | - | (20) |
| **Item of Other comprehensive income** | | | | | |
| Financial assets measured at fair value through other comprehensive income | - | (24) | - | - | - |

*Movements of non-financial assets at Level 3*

in EUR thousands

| | NLB Group | |
|---|---|---|
| **Investment property** | **2019** | **2018** |
| Balance as at 1 January | 32,208 | 24,119 |
| Effects of translation of foreign operations to presentation currency | 84 | (9) |
| Additions | - | 99 |
| Disposals | (4,188) | (891) |
| Transfer from/(into) property and equipment | (363) | 7,600 |
| Transfer from/(into) non-current assets held for sale | 550 | - |
| Transfer from/(into) other assets | - | 1,392 |
| Net valuation to fair value | 642 | (102) |
| **Balance as at 31 December** | **28,933** | **32,208** |

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

in EUR thousands

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2019 | | 31 Dec 2018 | | 31 Dec 2019 | | 31 Dec 2018 | |
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets measured at amortised cost | | | | | | | | |
| - debt securities | 1,653,848 | 1,715,350 | 1,428,962 | 1,471,050 | 1,485,166 | 1,543,518 | 1,274,978 | 1,313,913 |
| - loans and advances to banks | 93,403 | 93,503 | 118,696 | 118,973 | 144,352 | 150,520 | 110,297 | 123,377 |
| - loans and advances to customers | 7,589,724 | 7,775,128 | 7,124,633 | 7,186,301 | 4,568,599 | 4,713,622 | 4,451,477 | 4,472,075 |
| - other financial assets | 97,415 | 97,415 | 75,171 | 75,171 | 67,279 | 67,279 | 42,741 | 42,741 |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 42,840 | 42,690 | 26,775 | 26,754 | 89,820 | 89,820 | 48,903 | 48,901 |
| - borrowings from banks and central banks | 170,385 | 178,374 | 258,423 | 268,003 | 161,564 | 169,312 | 244,133 | 253,376 |
| - due to customers | 11,612,317 | 11,630,157 | 10,464,017 | 10,478,309 | 7,760,737 | 7,768,365 | 7,033,409 | 7,039,583 |
| - borrowings from other customers | 64,458 | 63,868 | 61,844 | 62,226 | 2,537 | 2,548 | 4,128 | 4,135 |
| - subordinated liabilities | 210,569 | 211,889 | 15,050 | 15,209 | 210,569 | 211,889 | - | - |
| - other financial liabilities | 158,484 | 158,484 | 100,887 | 100,887 | 98,342 | 98,342 | 62,212 | 62,212 |

*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 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 |

in EUR thousands

| | NLB Group | | | | NLB | | | |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2018** | **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 | 1,392,741 | 78,309 | - | 1,471,050 | 1,235,604 | 78,309 | - | 1,313,913 |
| - loans and advances to banks | - | 118,973 | - | 118,973 | - | 123,377 | - | 123,377 |
| - loans and advances to customers | - | 7,186,301 | - | 7,186,301 | - | 4,472,075 | - | 4,472,075 |
| - other financial assets | - | 75,171 | - | 75,171 | - | 42,741 | - | 42,741 |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | - | 26,754 | - | 26,754 | - | 48,901 | - | 48,901 |
| - borrowings from banks and central banks | - | 268,003 | - | 268,003 | - | 253,376 | - | 253,376 |
| - due to customers | - | 10,478,309 | - | 10,478,309 | - | 7,039,583 | - | 7,039,583 |
| - borrowings from other customers | - | 62,226 | - | 62,226 | - | 4,135 | - | 4,135 |
| - subordinated liabilities | - | 15,209 | - | 15,209 | - | - | - | - |
| - other financial liabilities | - | 100,887 | - | 100,887 | - | 62,212 | - | 62,212 |

### 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 done 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

| 31 Dec 2019 | NLB Group | | | |
|---|---|---|---|---|
| | | Amounts not set-off on the statement of financial position | | |
| Financial assets/liabilities | Gross amounts of recognised financial assets/liabilities | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 19,695 | 4,061 | 16 | 15,618 |
| Derivatives - liabilities | 67,399 | 4,061 | 59,657 | 3,681 |

in EUR thousands

| 31 Dec 2019 | NLB | | | |
|---|---|---|---|---|
| | | Amounts not set-off on the statement of financial position | | |
| Financial assets/liabilities | Gross amounts of recognised financial assets/liabilities | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 19,742 | 4,061 | 16 | 15,665 |
| Derivatives - liabilities | 67,399 | 4,061 | 59,657 | 3,681 |

in EUR thousands

| 31 Dec 2018 | NLB Group and NLB | | | |
|---|---|---|---|---|
| | | Amounts not set-off on the statement of financial position | | |
| Financial assets/liabilities | Gross amounts of recognised financial assets/liabilities | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 15,002 | 2,111 | 1,027 | 11,864 |
| Derivatives - liabilities | 41,730 | 2,111 | 35,898 | 3,721 |

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **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** |
| Total net income | 165,637 | 80,226 | 210,415 | 35,586 | 10,967 | 12,741 | - | 515,571 |
| *Net income from external customers* | 172,677 | 84,992 | 213,184 | 19,201 | 10,865 | 12,681 | - | 513,600 |
| *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 | (106,402) | (40,508) | (93,255) | (6,862) | (12,653) | (12,090) | - | (271,770) |
| 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 | 13,995 | 342 | 291 | 4,111 | - | 36,667 |

in EUR thousands

| | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2018** | **Retail banking in Slovenia** | **Corporate banking in Slovenia** | **Strategic foreign markets** | **Financial markets and investment banking in Slovenia** | **Non-strategic markets and activities** | **Other activities** | **Unallocated** | **Total** |
| Total net income | 146,429 | 76,663 | 213,979 | 38,829 | 14,515 | 4,849 | - | 495,263 |
| *Net income from external customers* | 147,981 | 80,264 | 214,934 | 30,779 | 14,510 | 4,801 | - | 493,269 |
| *Intersegment net income* | (1,552) | (3,602) | (955) | 8,051 | 4 | 48 | - | 1,994 |
| Net interest income | 79,325 | 42,535 | 150,113 | 31,686 | 9,334 | (83) | - | 312,910 |
| *Net interest income from external customers* | 81,235 | 46,137 | 151,850 | 23,892 | 9,927 | (131) | - | 312,910 |
| *Intersegment net interest income* | (1,910) | (3,602) | (1,737) | 7,794 | (593) | 48 | - | - |
| Administrative expenses | (96,960) | (38,963) | (90,863) | (11,487) | (16,794) | (8,358) | - | (263,426) |
| Depreciation and amortisation | (10,350) | (3,996) | (9,098) | (1,098) | (1,423) | (1,260) | - | (27,224) |
| Reportable segment profit/(loss) before impairment and provision charge | 39,119 | 33,703 | 114,018 | 26,244 | (3,703) | (4,769) | - | 204,613 |
| Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures | 5,446 | - | - | - | - | - | - | 5,446 |
| Impairment and provisions charge | (3,692) | 26,648 | (14,286) | 241 | 11,938 | 2,428 | - | 23,277 |
| Profit/(loss) before income tax | 40,874 | 60,351 | 99,732 | 26,485 | 8,236 | (2,341) | - | 233,336 |
| *Owners of the parent* | 40,874 | 60,351 | 91,802 | 26,485 | 8,236 | (2,341) | - | 225,406 |
| *Non-controlling interests* | - | - | 7,930 | - | - | - | - | 7,930 |
| Income tax | - | - | - | - | - | - | (21,759) | (21,759) |
| **Profit for the year** | | | | | | | | **203,647** |
| Reportable segment assets | 2,347,174 | 1,975,803 | 4,293,207 | 3,634,975 | 263,690 | 188,033 | - | 12,702,882 |
| Investments in associates, and joint ventures | 37,147 | - | - | - | - | - | - | 37,147 |
| Reportable segment liabilities | 5,821,282 | 1,157,405 | 3,596,397 | 391,145 | 18,334 | 98,023 | - | 11,082,585 |
| Additions to non-current assets | 11,138 | 4,061 | 8,928 | 673 | 161 | 2,069 | - | 27,031 |

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 is reallocated between segments on the basis of fund transfer rates (FTP). Other NLB Group members are, based on their business activity, included in only one segment.

In 2019, NLB Group changed the way in which business segments are managed and monitored due to changes in the criteria for market segmentation and the treatment of legal entities in NLB, the termination of the European Commission commitments related to disinvestment of certain industries and other strategic decisions. This has resulted in the following changes:

- Investment banking and custody services shifted from segment Financial markets in Slovenia to segment Corporate and Investment Banking in Slovenia.
- Part of legal entities with the basic treatment was transferred from the segment Corporate and Investment Banking in Slovenia to the segment Retail banking in Slovenia.
- Since the European Commission commitments regarding the reduction of credit business in specific industries (construction, transport, financial holdings and foreign clients) have ceased to exist, there is no need for specific monitoring of NLB non-core segment. Consequently, such clients were transferred to the segment Corporate and Investment Banking in Slovenia from the segment Non-strategic markets and activities, which was renamed to Non-core members in 2019.
- The transfer of NLB Srbija and NLB Črna Gora from the Strategic Foreign Markets segment to the Non-core members segment.

Due to these changes the segments' results for the year 2019 are not directly comparable to the segments' results for the previous year.

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals and legal entities with the basic treatment in NLB and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associate Bankart;
- Corporate and Investment Banking in Slovenia, which includes operations with large (key), medium-sized (mid-market), micro and small businesses, intensive care and non-performing loans, brokerage and custody of securities, as well as financial advisory;
- Strategic foreign markets represent all business activities of NLB Group (bank) members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia and Serbia), except leasing and REAM entities;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments;
- Non-core members represent total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland) and all leasing and REAM entities; and
- Other activities represent items of NLB income statement not related to reportable segments.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

### b) Geographical information

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

in EUR thousands

| | Revenues | | Net income | | Profit/(loss) before income tax | | Income tax | |
|---|---|---|---|---|---|---|---|---|
| **NLB Group** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Slovenia | 332,511 | 327,594 | 295,254 | 284,157 | 114,711 | 136,206 | (2,821) | (12,823) |
| South East Europe | 266,923 | 249,344 | 216,347 | 208,551 | 100,034 | 96,166 | (10,692) | (8,930) |
| *North Macedonia* | 84,134 | 82,710 | 66,498 | 69,410 | 36,216 | 36,332 | (3,211) | (3,879) |
| *Serbia* | 33,578 | 29,307 | 25,390 | 24,323 | 4,997 | 4,368 | (172) | (219) |
| *Montenegro* | 33,121 | 30,114 | 28,091 | 24,855 | 8,353 | 9,729 | (1,909) | 406 |
| *Croatia* | 63 | - | 783 | 1,115 | (105) | 1,148 | (100) | (143) |
| *Bosnia and Herzegovina* | 70,975 | 68,751 | 58,403 | 56,476 | 28,738 | 27,832 | (2,857) | (3,118) |
| *Kosovo* | 45,052 | 38,462 | 37,182 | 32,372 | 21,835 | 16,757 | (2,443) | (1,977) |
| Western Europe | 571 | 596 | 1,998 | 561 | 665 | 994 | (66) | (6) |
| *Germany* | 7 | 8 | 61 | (122) | (276) | 779 | - | - |
| *Switzerland* | 564 | 588 | 1,937 | 683 | 941 | 215 | (66) | (6) |
| Czech Republic | - | - | 1 | - | (13) | (30) | - | - |
| **Total** | **600,005** | **577,534** | **513,600** | **493,269** | **215,397** | **233,336** | **(13,579)** | **(21,759)** |

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income.

The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets, 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 2019** | **31 Dec 2018** | **31 Dec 2019** | **31 Dec 2018** | **31 Dec 2019** | **31 Dec 2018** |
| Slovenia | 151,934 | 179,526 | 9,350,558 | 8,373,933 | 2,750 | 2,786 |
| South East Europe | 142,870 | 128,416 | 4,811,617 | 4,346,277 | 3,124 | 3,096 |
| *North Macedonia* | 34,971 | 31,537 | 1,448,179 | 1,341,154 | 903 | 893 |
| *Serbia* | 25,549 | 24,086 | 639,351 | 511,119 | 494 | 471 |
| *Montenegro* | 30,089 | 28,811 | 533,849 | 518,083 | 312 | 308 |
| *Croatia* | 2,045 | 2,827 | 12,497 | 23,945 | 7 | 9 |
| *Bosnia and Herzegovina* | 34,246 | 28,240 | 1,381,718 | 1,282,643 | 934 | 939 |
| *Kosovo* | 15,970 | 12,915 | 796,023 | 669,333 | 474 | 476 |
| Western Europe | 158 | 221 | 11,913 | 19,641 | 4 | 5 |
| *Germany* | 152 | 209 | 1,787 | 1,335 | 1 | 1 |
| *Switzerland* | 6 | 12 | 10,126 | 18,306 | 3 | 4 |
| Czech Republic | - | - | - | 178 | - | - |
| **Total** | **294,962** | **308,163** | **14,174,088** | **12,740,029** | **5,878** | **5,887** |

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** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Slovenia | 415,437 | 388,060 | 371,079 | 341,840 | 185,857 | 186,366 | (2,926) | (13,201) |
| South East Europe | 267,546 | 249,748 | 214,111 | 212,235 | 99,862 | 100,806 | (10,635) | (8,815) |
| *North Macedonia* | 84,105 | 82,692 | 64,890 | 73,592 | 36,088 | 41,283 | (3,211) | (3,879) |
| *Serbia* | 33,798 | 29,520 | 26,171 | 25,005 | 4,919 | 3,844 | (115) | (104) |
| *Montenegro* | 33,381 | 30,264 | 27,904 | 24,561 | 8,368 | 9,729 | (1,909) | 406 |
| *Croatia* | 142 | 30 | 756 | 786 | (105) | 1,309 | (100) | (143) |
| *Bosnia and Herzegovina* | 71,054 | 68,780 | 57,602 | 55,885 | 28,604 | 27,828 | (2,857) | (3,118) |
| *Kosovo* | 45,066 | 38,462 | 36,788 | 32,406 | 21,988 | 16,813 | (2,443) | (1,977) |
| Western Europe | 1,688 | 634 | 2,882 | 202 | 2,033 | 996 | (6) | (6) |
| *Germany* | 2 | 4 | 56 | (126) | (275) | 780 | - | - |
| *Switzerland* | 1,686 | 630 | 2,826 | 328 | 2,308 | 216 | (6) | (6) |
| Czech Republic | - | - | 1 | - | (13) | (30) | - | - |
| **Total** | **684,671** | **638,442** | **588,073** | **554,277** | **287,739** | **288,138** | **(13,567)** | **(22,022)** |

## 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** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| **Loans issued** | | | | | | | | |
| Balance at 1 January | 1,903 | 2,021 | 347 | 413 | 231 | 242 | 413 | 435 |
| Increase | 1,192 | 946 | 492 | 221 | 245 | 441 | 43 | 53 |
| Decrease | (976) | (1,064) | (319) | (287) | (346) | (452) | (208) | (75) |
| **Balance at 31 December** | **2,119** | **1,903** | **520** | **347** | **130** | **231** | **248** | **413** |
| Interest income | 41 | 34 | 8 | 8 | 3 | 4 | 5 | 10 |
| **Deposits received** | | | | | | | | |
| Balance at 1 January | 1,732 | 1,981 | 447 | 769 | 102 | 593 | 341 | 240 |
| Increase | 1,367 | 1,868 | 1,175 | 656 | 265 | 648 | 158 | 769 |
| Decrease | (1,520) | (2,117) | (751) | (978) | (174) | (1,139) | (301) | (668) |
| **Balance at 31 December** | **1,579** | **1,732** | **871** | **447** | **193** | **102** | **198** | **341** |
| Interest expense | (4) | (4) | - | (1) | - | - | - | - |
| **Other financial liabilities** | **2,759** | **2,552** | **-** | **-** | **4** | **6** | **-** | **-** |
| **Guarantees issued and credit commitments** | **246** | **221** | **82** | **83** | **91** | **59** | **18** | **26** |
| Fee income | 11 | 9 | 6 | 6 | 5 | 10 | 2 | 2 |
| Other income | 20 | 5 | - | - | - | - | - | - |
| Other expenses | (8) | (3) | - | (1) | (54) | (58) | - | - |

### 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 and refers to the period to which the variable part of the salary for performance relates.

Simultaneously, under the contract, members of the Management Board are entitled to a variable part of the salary based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan.

In accordance with the legislation, the annual variable part of the salary cannot in any case exceed eight average gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to variable part of the salary only proportionally, depending on their actual employment in the Bank for the period for which the variable part of the salary 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 job 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 job 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 and attendance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders and are in full compliance with the applicable recommendations of corporate governance.

The table below shows payments in presented periods.

in EUR thousands

| | Management Board | | Other key management personnel | | Supervisory Board | |
|---|---|---|---|---|---|---|
| **NLB Group and NLB** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Short-term benefits | 1,676 | 661 | 5,064 | 4,734 | 357 | 251 |
| Cost refunds | 4 | 5 | 86 | 88 | 85 | 57 |
| Long-term bonuses: | | | | | | |
| - severance pay | - | - | - | 4 | - | - |
| - other benefits | 6 | 6 | 72 | 73 | - | - |
| - variable part of payments | 162 | 143 | 1,316 | 1,352 | - | - |
| **Total** | **1,848** | **815** | **6,538** | **6,251** | **442** | **308** |

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 | | 2019 | 2018 |
|---|---|---|---|
| Blaž Brodnjak 1.12.2012 | Short-term benefits: | | |
| | - gross salary and holiday allowance | 433,882 | 146,805 |
| | - benefits and other short-term bonuses | 2,173 | 1,988 |
| | Costs refunds | 1,016 | 1,126 |
| | Long-term bonuses: | | |
| | - other benefits | 1,409 | 1,409 |
| | - variable part of payments | 45,497 | 40,773 |
| | **Total** | **483,977** | **192,101** |
| Andreas Burkhardt 18.9.2013 | Short-term benefits: | | |
| | - gross salary and holiday allowance | 397,291 | 146,805 |
| | - benefits and other short-term bonuses | 18,515 | 20,080 |
| | Costs refunds | 1,047 | 1,163 |
| | Long-term bonuses: | | |
| | - other benefits | 1,409 | 1,409 |
| | - variable part of payments | 45,497 | 40,773 |
| | **Total** | **463,759** | **210,230** |
| Archibald Kremser 31.7.2013 | Short-term benefits: | | |
| | - gross salary and holiday allowance | 412,973 | 146,805 |
| | - benefits and other short-term bonuses | 25,393 | 19,556 |
| | Costs refunds | 1,028 | 1,052 |
| | Long-term bonuses: | | |
| | - other benefits | 1,409 | 1,409 |
| | - variable part of payments | 45,497 | 40,773 |
| | **Total** | **486,300** | **209,595** |
| László Pelle 26.10.2016 | Short-term benefits: | | |
| | - gross salary and holiday allowance | 355,473 | 146,805 |
| | - benefits and other short-term bonuses | 30,364 | 32,283 |
| | Costs refunds | 1,261 | 1,206 |
| | Long-term bonuses: | | |
| | - other benefits | 1,409 | 1,409 |
| | - variable part of payments | 25,000 | 20,886 |
| | **Total** | **413,507** | **202,589** |

## Payments to individual members of the Supervisory Board

in EUR

| Member | | 2019 | 2018 |
|---|---|---|---|
| Andreas Klingen<br>22.6.2015 | Session fees | 5,940 | 4,565 |
| | Annual compensation | 41,136 | 27,750 |
| | Costs refunds | 17,200 | 11,702 |
| Primož Karpe<br>11.2.2016 | Session fees | 7,260 | 5,445 |
| | Annual compensation | 48,980 | 37,500 |
| | Costs refunds | 9,698 | 9,858 |
| Laszlo Zoltan Urban<br>11.2.2016 | Session fees | 5,445 | 4,345 |
| | Annual compensation | 33,384 | 22,500 |
| | Costs refunds | 6,759 | 6,931 |
| Alexander Bayr<br>4.8.2016 | Session fees | 6,765 | 5,005 |
| | Annual compensation | 38,758 | 22,500 |
| | Costs refunds | 15,992 | 10,936 |
| David Eric Simon<br>4.8.2016 | Session fees | 6,380 | 5,225 |
| | Annual compensation | 36,994 | 26,250 |
| | Costs refunds | 16,770 | 16,206 |
| Peter Groznik<br>8.9.2017 | Session fees | 5,720 | 4,565 |
| | Annual compensation | 32,214 | 22,500 |
| | Costs refunds | 4,056 | 1,487 |
| Simona Kozjek<br>8.9.2017 | Session fees | 935 | 4,345 |
| | Annual compensation | 3,750 | 22,500 |
| | Costs refunds | - | - |
| Vida Šeme Hočevar<br>8.9.2017 | Session fees | 1,155 | 5,665 |
| | Annual compensation | 5,000 | 30,000 |
| | Costs refunds | 22 | 266 |
| Gregor Rok Kastelic<br>10.6.2019 | Session fees | 1,980 | - |
| | Annual compensation | 21,901 | - |
| | Costs refunds | 4,406 | - |
| Shrenik Dhirajlal Davda<br>10.6.2019 | Session fees | 2,200 | - |
| | Annual compensation | 23,072 | - |
| | Costs refunds | 6,136 | - |
| Mark William Lane Richards<br>10.6.2019 | Session fees | 2,200 | - |
| | Annual compensation | 26,008 | - |
| | Costs refunds | 4,119 | - |

## Related-party transactions with subsidiaries, associates, and joint ventures

in EUR thousands

| | NLB Group | | | |
|---|---|---|---|---|
| | Associates | | Joint ventures | |
| | 2019 | 2018 | 2019 | 2018 |
| **Loans issued** | | | | |
| Balance at 1 January | 1,176 | 1,296 | 2,981 | 4,333 |
| Increase | 112 | 120 | 37 | 58 |
| Decrease | (222) | (240) | (1,813) | (1,410) |
| **Balance at 31 December** | **1,066** | **1,176** | **1,205** | **2,981** |
| Interest income | 34 | 38 | 21 | 40 |
| Impairment | 21 | 20 | 66 | 99 |
| **Deposits received** | | | | |
| Balance at 1 January | 722 | 4,958 | 4,424 | 6,856 |
| Effects of translation of foreign operations to presentation currency | - | - | 17 | 5 |
| Increase | 1,920 | 14,750 | 92,618 | 90,948 |
| Decrease | (1,800) | (18,986) | (88,604) | (93,385) |
| **Balance at 31 December** | **842** | **722** | **8,455** | **4,424** |
| Interest expense | - | - | (66) | (34) |
| **Other financial assets** | **18** | **22** | **539** | **347** |
| **Other financial liabilities** | **1,294** | **1,131** | **250** | **231** |
| **Guarantees issued and credit commitments** | **31** | **35** | **26** | **26** |
| Fee income | 9 | 107 | 4,985 | 4,325 |
| Fee expense | (14,101) | (12,496) | (2,138) | (2,020) |
| Other income | 192 | 196 | 134 | 132 |
| Other expense | (545) | (853) | (23) | (26) |
| Gains less losses on derecognition of financial assets/liabilities held for trading | - | (1) | - | - |

in EUR thousands

| | NLB | | | | | |
|---|---|---|---|---|---|---|
| | Subsidiaries | | Associates | | Joint ventures | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Loans issued** | | | | | | |
| Balance at 1 January | 187,744 | 278,064 | 1,176 | 1,296 | 2,940 | 4,272 |
| Increase | 95,047 | 63,853 | 112 | 120 | 35 | 53 |
| Decrease | (122,157) | (154,173) | (222) | (240) | (1,801) | (1,385) |
| **Balance at 31 December** | **160,634** | **187,744** | **1,066** | **1,176** | **1,174** | **2,940** |
| Interest income | 4,694 | 4,453 | 34 | 38 | 19 | 38 |
| Impairment | 1,461 | 798 | 21 | 20 | 66 | 99 |
| **Deposits** | | | | | | |
| Balance at 1 January | 56,784 | 36,470 | - | - | - | - |
| Increase | 376,939 | 358,462 | - | - | - | - |
| Decrease | (363,254) | (338,148) | - | - | - | - |
| **Balance at 31 December** | **70,469** | **56,784** | **-** | **-** | **-** | **-** |
| Interest income | 34 | 27 | - | - | - | - |
| Impairment | (12) | 24 | - | - | - | - |
| **Deposits received** | | | | | | |
| Balance at 1 January | 40,313 | 56,129 | 722 | 4,958 | 2,588 | 4,855 |
| Increase | 13,862,854 | 14,565,179 | 1,920 | 14,750 | 82,911 | 80,802 |
| Decrease | (13,822,361) | (14,580,995) | (1,800) | (18,986) | (80,081) | (83,069) |
| **Balance at 31 December** | **80,806** | **40,313** | **842** | **722** | **5,418** | **2,588** |
| Interest expense | (228) | (207) | - | - | - | - |
| **Derivatives** | | | | | | |
| Fair value | 47 | 2 | - | - | - | - |
| Contractual amount | 9,743 | 588 | - | - | - | - |
| **Other financial assets** | **984** | **745** | **18** | **22** | **539** | **347** |
| **Other financial liabilities** | **235** | **86** | **1,174** | **1,078** | **116** | **140** |
| **Guarantees issued and credit commitments** | **32,727** | **25,413** | **31** | **35** | **26** | **26** |
| Income/(expense) provisons for guaranties and commitments | (461) | (29) | - | - | - | - |
| **Received loan commitments and financial guarantees** | **3,297** | **4,811** | **-** | **-** | **-** | **-** |
| Fee income | 6,276 | 5,746 | 9 | 107 | 4,847 | 4,203 |
| Fee expense | (19) | (33) | (11,918) | (11,029) | (771) | (906) |
| Other income | 533 | 587 | 192 | 196 | 133 | 131 |
| Other expense | (443) | (799) | (542) | (538) | (23) | (26) |
| Gains less losses on derecognition of financial assets/liabilities held for trading | (225) | (57) | - | (1) | - | - |
| Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss | (419) | 1,214 | - | - | - | - |

### 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 | |
| | 2019 | 2018 | 2019 | 2018 |
| **Loans issued** | | | | |
| Balance at 1 January | 79,156 | 127,781 | 76,374 | 123,659 |
| Increase | 3,320 | 16,862 | 3,270 | 16,778 |
| Decrease | (54,270) | (65,487) | (51,438) | (64,063) |
| **Balance at 31 December** | **28,206** | **79,156** | **28,206** | **76,374** |
| Interest income | 1,563 | 2,579 | 1,513 | 2,495 |
| **Investments in securities** | | | | |
| Balance at 1 January | 908,263 | 901,511 | 855,872 | 826,362 |
| Increase | 767,386 | 543,501 | 630,949 | 451,642 |
| Decrease | (836,044) | (532,384) | (720,857) | (417,190) |
| Valuation | 11,360 | (4,365) | 12,124 | (4,923) |
| **Balance at 31 December** | **850,965** | **908,263** | **778,088** | **855,872** |
| Interest income | 13,014 | 18,276 | 14,047 | 18,508 |
| **Other financial assets** | **651** | **648** | **651** | **648** |
| **Other financial liabilities** | **22** | **7** | **22** | **7** |
| **Guarantees issued and credit commitments** | **1,168** | **1,153** | **1,168** | **1,153** |
| Fee income | 144 | 657 | 144 | 657 |
| Fee expense | (35) | (37) | (35) | (37) |
| Other income | 181 | 184 | 181 | 184 |
| Other expense | (5) | (203) | (5) | (203) |
| Gains less losses on derecognition of financial assets/liabilities not classified at FVPL | 2,809 | 366 | 2,809 | 366 |
| Gains less losses on derecognition of financial assets/liabilities held for trading | (360) | (334) | (360) | (334) |

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 2019 | 2018 | Number of significant transactions concluded during the year 2019 | 2018 |
|---|---|---|---|---|
| Loans | 57,113 | - | 1 | - |
| Borrowings, deposits and business accounts | 179,309 | - | 2 | - |
| | **Year-end balance of all significant transactions** | | **Number of significant transactions at year-end** | |
| | **2019** | **2018** | **2019** | **2018** |
| Loans | 582,081 | 539,116 | 6 | 5 |
| Debt securities measured at amortised cost | 78,014 | 76,680 | 1 | 1 |
| Borrowings, deposits and business accounts | 115,500 | 135,063 | 2 | 2 |
| | **Effects in income statement during the year** | | | |
| | **2019** | **2018** | | |
| Interest income from loans | 3,175 | 1,281 | | |
| Fees and commissions income | 175 | 15 | | |
| Interest income from debt securities measured at amortised cost | 2,139 | (81) | | |
| Interest expense from borrowings, deposits, and business accounts | (849) | (63) | | |

## 9. Events after the reporting date

On 17 January 2020 NLB exercised early repayment of subordinated loan in the amount of EUR 45 million (note 5.15 c).

On 5 February 2020 NLB issued subordinated Tier 2 notes in a nominal amount of EUR 120 million, with maturity after 10 years and the possibility of early termination after five years. The fixed coupon of the notes during the first five years is 3.40% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as provided at the issuance of the notes (i.e., 3,658% p.a.). The final offering price for the notes is equal to 100% of their nominal value. The notes with ISIN code XS2113139195 and rated BB by S&P rating agency were admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange on 5 February 2020.

On 26 February 2020, NLB entered into a share purchase agreement with the Republic of Serbia for the acquisition of an 83.23% ordinary shareholding in Komercijalna Banka a.d. Beograd (KB). The consideration for the 83.23% shareholding amounts to EUR 387 million, which will be payable in cash on completion. The purchase price will be subject to a 2% annual interest rate between 1 January 2020 and closing, with NLB benefiting from KB's earnings during that period under a "locked-box" mechanism. In accordance with Serbian bank privatisation regulations, NLB is not required to launch a mandatory tender offer for minorities' shareholdings in KB. The closing of the transaction is expected in Q4 2020 and is subject to mandatory regulatory approvals from, amongst others, the European Central Bank, Bank of Slovenia and the National Bank of Serbia.

Following the indications of the outbreak of the coronavirus – COVID-19 (hereinafter coronavirus) in March in Slovenia and SEE, the Group has taken necessary measures to protect its investors, customers, and employees, by ensuring safety conditions and ensuring services are provided without disruption. As the outbreak and spread of the coronavirus continues to evolve, it is challenging to predict the full extent and duration of its business and economic implications. Consequently, these circumstances may present NLB Group members with challenges relating to the business operations in large part due to the respective governmental bodies measures and policies which have already been implemented or might be implemented in the future. Such measures and policies could significantly disrupt the activities of one or more Group members, and the Group is considering implementing measures to support the economies in SEE region. The Group estimates the coronavirus could have a negative effect on the loan portfolio, asset quality, impairments and provisions, fair value measurement of financial assets, etc. The extent of the implications for the Group's financial performance are currently not possible to evaluate with a high degree of certainty.

# 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.

(in EUR million and bps)

| | NLB Group | |
|---|---|---|
| | 2018 | 2019 |
| Numerator | | |
| Credit impairments and provisions* | 30.0 | 14.5 |
| Denominator | | |
| Average net loans to customers** | 7,012.3 | 7,339.4 |
| **Cost of risk** | **-43** | **-20** |

* 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.

** 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).

**Cost to income ratio (CIR)** - Indicator of cost efficiency, calculated as the ratio between total costs and total net operating income.

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Total cost | 284.7 | 288.7 | 301.4 | 175.9 | 179.0 | 189.8 |
| Denominator | | | | | | |
| Total net operating income | 487.7 | 493.3 | 513.6 | 330.1 | 323.4 | 353.3 |
| **Cost to income ratio (CIR)** | **58.4%** | **58.5%** | **58.7%** | **53.3%** | **55.3%** | **53.7%** |

(in EUR million and %)

| | NLB Banka, Skopje | | | NLB Banka, Banja Luka | | | NLB Banka, Sarajevo | | | NLB Banka, Prishtina | | | NLB Banka, Podgorica | | | NLB Banka, Beograd | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | | | | | | | |
| Total cost | 23.4 | 25.0 | 26.6 | 12.8 | 13.0 | 13.0 | 14.0 | 14.2 | 14.7 | 11.2 | 11.8 | 11.7 | 12.4 | 12.3 | 13.5 | 16.3 | 18.0 | 19.5 |
| Denominator | | | | | | | | | | | | | | | | | | |
| Total income | 62.5 | 72.8 | 64.9 | 27.8 | 30.0 | 30.2 | 25.5 | 25.9 | 27.5 | 29.1 | 32.4 | 36.8 | 21.5 | 23.8 | 26.3 | 21.0 | 23.6 | 24.9 |
| **Cost to income ratio (CIR)** | **37.4%** | **34.4%** | **41.0%** | **46.1%** | **43.5%** | **43.2%** | **54.8%** | **54.8%** | **53.3%** | **38.7%** | **36.4%** | **31.9%** | **57.7%** | **51.8%** | **51.4%** | **77.8%** | **76.2%** | **78.3%** |

**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 (0.3 per cent. December 2019; 0.5 per cent. December 2018) 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.

(in EUR million and %)

| | NLB Group | |
|---|---|---|
| | 31 December 2018 | 31 December 2019 |
| Numerator | | |
| Total (AC) loans in Stage 1 | 7,817 | 8,948 |
| Denominator | | |
| Total gross loans and advances | 9,017 | 9,793 |
| **IFRS 9 classification into Stage 1** | **86.7%** | **91.4%** |

(in EUR million and %)

| | NLB Group | |
|---|---|---|
| | 31 December 2018 | 31 December 2019 |
| Numerator | | |
| Total (AC) loans in Stage 2 | 578 | 471 |
| Denominator | | |
| Total gross loans and advances | 9,017 | 9,793 |
| **IFRS 9 classification into Stage 2** | **6.4%** | **4.8%** |

(in EUR million and %)

| | NLB Group | |
|---|---|---|
| | 31 December 2018 | 31 December 2019 |
| Numerator | | |
| Total (AC) loans in Stage 3 | 573 | 349 |
| Denominator | | |
| Total gross loans and advances | 9,017 | 9,793 |
| **IFRS 9 classification into Stage 3** | **6.4%** | **3.6%** |

**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.

(in EUR million and %)

| | NLB Group | |
|---|---|---|
| | 31 December 2018 | 31 December 2019 |
| Numerator | | |
| Stock of HQLA | 3,151 | 3,985 |
| Denominator | | |
| Net liquidity outflow | 873 | 1,226 |
| **LCR** | **361%** | **325%** |

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.

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Net loans to customers | 6,994.5 | 7,148.4 | 7,604.7 | 4,669.6 | 4,478.1 | 4,589.2 |
| Denominator | | | | | | |
| Deposits from customers | 9,879.0 | 10,464.0 | 11,612.3 | 6,811.6 | 7,033.4 | 7,760.7 |
| **Net loan to deposit ratio (LTD)** | **70.8%** | **68.3%** | **65.5%** | **68.6%** | **63.7%** | **59.1%** |

(in EUR million and %)

| | NLB Banka, Skopje | | NLB Banka, Banja Luka | | NLB Banka, Sarajevo | | NLB Banka, Prishtina | | NLB Banka, Podgorica | | NLB Banka, Beograd | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December | | | | | | | | | | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | |
| Net loans to customers | 858.6 | 915.1 | 384.8 | 411.7 | 359.5 | 399.3 | 466.9 | 540.1 | 310.7 | 346.3 | 318.8 | 412.0 |
| Denominator | | | | | | | | | | | | |
| Deposits from customers | 1,076.2 | 1,175.6 | 575.8 | 618.1 | 472.3 | 515.2 | 585.9 | 685.4 | 391.8 | 436.5 | 352.9 | 437.3 |
| **Net loan to deposit ratio (LTD)** | **79.8%** | **77.8%** | **66.8%** | **66.6%** | **76.1%** | **77.5%** | **79.7%** | **78.8%** | **79.3%** | **79.3%** | **90.3%** | **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.

(in EUR million and %)

| | NLB Group | | NLB Group | | |
|---|---|---|---|---|---|
| | | | 1-3 | 1-6 | 1-9 |
| | 2018 | 2019 | 2019 | | |
| Numerator | | | | | |
| Net interest income* | 312.9 | 318.5 | 321.8 | 320.7 | 319.3 |
| Denominator | | | | | |
| Average interest bearing assets** | 12,220.7 | 12,845.9 | 12,585.6 | 12,617.0 | 12,714.6 |
| **Net interest margin on interest bearing assets** | **2.56%** | **2.48%** | **2.56%** | **2.54%** | **2.51%** |

(in EUR million and %)

| | SEE banks total | | SEE banks total | | |
|---|---|---|---|---|---|
| | | | 1-3 | 1-6 | 1-9 |
| | 2018 | 2019 | 2019 | | |
| Numerator | | | | | |
| Net interest income* | 150.6 | 157.5 | 156.6 | 157.0 | 157.2 |
| Denominator | | | | | |
| Average interest bearing assets** | 3,915.5 | 4,390.9 | 4,226.5 | 4,275.5 | 4,333.0 |
| **Net interest margin on interest bearing assets** | **3.85%** | **3.59%** | **3.71%** | **3.67%** | **3.63%** |

(in EUR million and %)

| | NLB | | NLB | | |
|---|---|---|---|---|---|
| | | | 1-3 | 1-6 | 1-9 |
| | 2018 | 2019 | 2019 | | |
| Numerator | | | | | |
| Net interest income* | 158.0 | 158.1 | 161.2 | 160.5 | 159.1 |
| Denominator | | | | | |
| Average interest bearing assets** | 8,339.6 | 8,537.9 | 8,395.4 | 8,407.5 | 8,461.6 |
| **Net interest margin on interest bearing assets** | **1.89%** | **1.85%** | **1.92%** | **1.91%** | **1.88%** |

(in EUR million and %)

| | NLB Banka, Skopje | | NLB Banka, Banja Luka | | NLB Banka, Sarajevo | | NLB Banka, Prishtina | | NLB Banka, Podgorica | | NLB Banka, Beograd | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | |
| Net interest income* | 48.8 | 49.0 | 19.1 | 18.5 | 17.6 | 18.0 | 27.4 | 31.0 | 18.0 | 20.3 | 19.8 | 20.7 |
| Denominator | | | | | | | | | | | | |
| Average interest bearing assets** | 1,224.6 | 1,338.5 | 683.4 | 738.9 | 549.6 | 608.1 | 616.7 | 715.8 | 439.3 | 475.2 | 401.9 | 514.4 |
| **Net interest margin on interest bearing assets** | **4.0%** | **3.7%** | **2.8%** | **2.5%** | **3.2%** | **3.0%** | **4.4%** | **4.3%** | **4.1%** | **4.3%** | **4.9%** | **4.0%** |

* 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.

** NLB internal information. Average interest bearing assets for the NLB Group and SEE banks 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).

**Net interest margin on total assets**
- Calculated as ratio between net interest income annualized and average total assets.

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Net interest income* | 309.3 | 312.9 | 318.5 | 158.8 | 158.0 | 158.1 |
| Denominator | | | | | | |
| Average total assets** | 12,046.3 | 12,515.5 | 13,311.6 | 8,704.9 | 8,870.9 | 9,206.3 |
| **Net interest margin on total assets** | **2.6%** | **2.5%** | **2.4%** | **1.8%** | **1.8%** | **1.7%** |

* 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.

** 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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Total Non-Performing on-balance and off-balance Exposure in Finrep18 | 560 | 385 | 221 | 933 | 675 | 433 |
| Denominator | | | | | | |
| Total on-balance and off-balance exposures in Finrep18 | 9,676 | 9,763 | 11,088 | 13,941 | 14,410 | 16,229 |
| **NPE per cent.** | **5.8%** | **3.9%** | **2.0%** | **6.7%** | **4.7%** | **2.7%** |

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Total Non-Performing Loans | 478 | 343 | 169 | 844 | 622 | 375 |
| Denominator | | | | | | |
| Total gross loans | 5,866 | 5,455 | 5,990 | 9,130 | 9,017 | 9,793 |
| **NPL per cent.** | **8.1%** | **6.3%** | **2.8%** | **9.2%** | **6.9%** | **3.8%** |

(in EUR million and %)

| | NLB Banka, Skopje | | NLB Banka, Banja Luka | | NLB Banka, Sarajevo | | NLB Banka, Prishtina | | NLB Banka, Podgorica | | NLB Banka, Beograd | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December | | | | | | | | | | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | |
| Total Non-Performing Loans | 56 | 48 | 19 | 8 | 31 | 19 | 14 | 11 | 21 | 18 | 10 | 8 |
| Denominator | | | | | | | | | | | | |
| Total gross loans | 1,102 | 1,147 | 599 | 598 | 544 | 564 | 599 | 714 | 397 | 455 | 408 | 513 |
| **NPL per cent.** | **5.1%** | **4.2%** | **3.2%** | **1.3%** | **5.7%** | **3.3%** | **2.4%** | **1.5%** | **5.2%** | **4.0%** | **2.4%** | **1.6%** |

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Loan loss allowances entire loan portfolio | 324 | 226 | 129 | 655 | 480 | 334 |
| Denominator | | | | | | |
| Total Non-Performing Loans | 478 | 343 | 169 | 844 | 622 | 375 |
| **NPL coverage ratio 1 (NPL CR 1)** | **67.8%** | **65.8%** | **76.2%** | **77.5%** | **77.1%** | **89.2%** |

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Loan loss allowances non-performing loan portfolio | 267 | 196 | 96 | 525 | 402 | 244 |
| Denominator | | | | | | |
| Total Non-Performing Loans | 478 | 343 | 169 | 844 | 622 | 375 |
| **NPL coverage ratio 2 (NPL CR 2)** | **56.0%** | **57.1%** | **56.7%** | **62.2%** | **64.6%** | **65.0%** |

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Net volume of non-performing loans | 210 | 147 | 73 | 319 | 220 | 131 |
| Denominator | | | | | | |
| Total Net Loans | 5,543 | 5,230 | 5,861 | 8,476 | 8,538 | 9,459 |
| **Net NPL ratio per cent. (%Net NPL)** | **3.8%** | **2.8%** | **1.3%** | **3.8%** | **2.6%** | **1.4%** |

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Gross volume of Non-Performing Loans covered by collaterals | 334 | 244 | 122 | 562 | 419 | 250 |
| Denominator | | | | | | |
| Total Non-Performing Loans | 478 | 343 | 169 | 844 | 622 | 375 |
| **Received collaterals for NPLs / NPL** | **70.0%** | **71.1%** | **72.0%** | **66.5%** | **67.4%** | **66.6%** |

**Gross NPL ratio defined by EBA**

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits | - | 328 | 164 | - | 614 | 373 |
| Denominator | | | | | | |
| Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits | - | 4,841 | 4,923 | - | 7,811 | 8,126 |
| **Gross NPL ratio per cent. (% NPL)** | **-** | **6.8%** | **3.3%** | **-** | **7.9 %** | **4.6%** |

**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).

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances | - | 181 | 91 | - | 391 | 240 |
| Denominator | | | | | | |
| Gross volume of Non-Performing loans and advances | - | 328 | 164 | - | 614 | 373 |
| **NPL coverage ratio per cent. (% CR)** | **-** | **55.0%** | **55.5%** | **-** | **63.7%** | **64.5%** |

**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.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Volume of collateral received up to the carrying amount of each loan or advance | - | 23 | 13 | - | 46 | 24 |
| Denominator | | | | | | |
| Gross volume of collateralized Non-Performing loans and advances | - | 59 | 38 | - | 112 | 67 |
| **NPL coverage ratio per cent. (% CR)** | **-** | **39.9%** | **33.6%** | **-** | **41.2%** | **35.4%** |

**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.

(in EUR million and %)

| | NLB Group | |
|---|---|---|
| | 31 December 2018 | 31 December 2019 |
| Numerator | | |
| Amount of available stable funding | 10,994 | 11,958 |
| Denominator | | |
| Amount of required stable funding | 6,929 | 7,496 |
| **NSFR** | **159%** | **160%** |

**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:

(in EUR million and %)

| | NLB Group | |
|---|---|---|
| | 31 December 2018 | 31 December 2019 |
| Interest risk in banking book – EVE | 102,397 | 88,355 |
| **Interest risk in banking book – EVE as % of Equity** | **7.02%** | **6.09%** |

**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).

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Result before tax* | 237.3 | 233.3 | 215.4 | 184.9 | 177.5 | 177.7 |
| Denominator | | | | | | |
| Average total equity** | 1,599.2 | 1,768.7 | 1,700.7 | 1,310.1 | 1,426.8 | 1,328.7 |
| **ROE b.t.** | **14.8%** | **13.2%** | **12.7%** | **14.1%** | **12.4%** | **13.4%** |

* 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.

** 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.

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Result after tax* | 225.1 | 203.6 | 193.6 | 189.1 | 165.3 | 176.1 |
| Denominator | | | | | | |
| Average equity** | 1,566.7 | 1,729.9 | 1,658.0 | 1,310.1 | 1,426.8 | 1,328.7 |
| **ROE a.t.** | **14.4%** | **11.8%** | **11.7%** | **14.4%** | **11.6%** | **13.3%** |

(in EUR million and %)

| | NLB Banka, Skopje | | | NLB Banka, Banja Luka | | | NLB Banka, Sarajevo | | | NLB Banka, Prishtina | | | NLB Banka, Podgorica | | | NLB Banka, Beograd | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December | | | | | | | | | | | | | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | | | | | | | |
| Result after tax* | 40.0 | 37.1 | 32.9 | 23.7 | 16.2 | 17.1 | 8.3 | 8.8 | 9.0 | 14.2 | 14.8 | 19.5 | 5.4 | 10.0 | 7.6 | 3.7 | 5.2 | 4.1 |
| Denominator | | | | | | | | | | | | | | | | | | |
| Average equity** | 143.7 | 186.3 | 202.8 | 81.0 | 86.6 | 86.1 | 64.7 | 75.8 | 80.5 | 64.0 | 68.8 | 78.0 | 77.4 | 67.3 | 67.6 | 55.9 | 65.8 | 69.8 |
| **ROE a.t.** | **27.8%** | **19.9%** | **16.2%** | **29.3%** | **18.7%** | **19.9%** | **12.8%** | **11.6%** | **11.2%** | **22.2%** | **21.6%** | **25.1%** | **7.0%** | **14.9%** | **11.2%** | **6.7%** | **7.9%** | **5.9%** |

* 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.
** 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).

**Return on assets (ROA b.t.)** – Calculated as the ratio between result before tax annualized and average total assets.

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Result before tax* | 237.3 | 233.3 | 215.4 | 184.9 | 177.5 | 177.7 |
| Denominator | | | | | | |
| Average total assets** | 12,046.3 | 12,515.5 | 13,311.7 | 8,711.5 | 8,847.4 | 9,215.3 |
| **ROA b.t.** | **2.0%** | **1.9%** | **1.6%** | **2.1%** | **2.0%** | **1.9%** |

* 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.
** 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.

(in EUR million and %)

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Result after tax* | 225.1 | 203.6 | 193.6 | 189.1 | 165.3 | 176.1 |
| Denominator | | | | | | |
| Average total assets** | 12,046.3 | 12,515.5 | 13,311.7 | 8,711.5 | 8,847.4 | 9,215.3 |
| **ROA a.t.** | **1.9%** | **1.6%** | **1.5%** | **2.2%** | **1.9%** | **1.9%** |

(in EUR million and %)

| | NLB Banka, Skopje | | NLB Banka, Banja Luka | | NLB Banka, Sarajevo | | NLB Banka, Prishtina | | NLB Banka, Podgorica | | NLB Banka, Beograd | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | |
| Result after tax* | 37.1 | 32.9 | 16.2 | 17.1 | 8.8 | 9.0 | 14.8 | 19.5 | 10.0 | 7.6 | 5.2 | 4.1 |
| Denominator | | | | | | | | | | | | |
| Average total assets** | 1,258.1 | 1,377.1 | 700.3 | 759.3 | 554.9 | 620.0 | 619.8 | 720.6 | 469.7 | 520.3 | 418.6 | 537.1 |
| **ROA a.t.** | **3.0%** | **2.4%** | **2.3%** | **2.3%** | **1.6%** | **1.5%** | **2.4%** | **2.7%** | **2.1%** | **1.5%** | **1.2%** | **0.8%** |

* 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.

** 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).

**Total capital ratio (TCR)** - Total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

(in EUR million and %)

| | NLB | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31 December | | | | | |
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Numerator | | | | | | |
| Total capital (Own funds) | 1,140.6 | 1,208.3 | 1,182.2 | 1,362.1 | 1,453.4 | 1,495.8 |
| Denominator | | | | | | |
| Total risk exposure Amount (Total RWA) | 5,234.1 | 5,023.6 | 5,225.1 | 8,546.5 | 8,677.6 | 9,185.5 |
| **Total capital ratio** | **21.8%** | **24.1%** | **22.6%** | **15.9%** | **16.7%** | **16.3%** |

(in EUR million and %)

| | NLB Banka, Skopje | | NLB Banka, Banja Luka | | NLB Banka, Sarajevo | | NLB Banka, Prishtina | | NLB Banka, Podgorica | | NLB Banka, Beograd | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December | | | | | | | | | | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Numerator | | | | | | | | | | | | |
| Total capital | 174.5 | 188.4 | 66.5 | 70.1 | 63.0 | 68.9 | 74.9 | 98.2 | 44.7 | 46.1 | 54.4 | 81.1 |
| Denominator | | | | | | | | | | | | |
| Total risk exposure amount (Total RWA) | 1,045.8 | 1,149.2 | 427.2 | 439.9 | 384.9 | 431.1 | 513.8 | 599.1 | 275.7 | 308.1 | 326.1 | 416.3 |
| **Total capital ratio** | **16.7%** | **16.4%** | **15.6%** | **15.9%** | **16.4%** | **16.0%** | **14.6%** | **16.4%** | **16.2%** | **15.0%** | **16.7%** | **19.5%** |

# NLB Group Chart

**Nova Ljubljanska banka d.d., Ljubljana**

**Core members**

**Banks**

Foreign countries

| Company | % |
|---|---|
| **NLB Banka, Beograd** | 99.997% |
| | 99.997% |
| **NLB Banka, Sarajevo** | 97.35% |
| | 97.35% |
| **NLB Banka, Podgorica** | 99.83% |
| | 99.83% |
| **NLB Banka, Prishtina** | 81.21% |
| | 81.21% |
| **NLB Banka, Banja Luka** | 99.85% |
| | 99.85% |
| **NLB Banka, Skopje** | 86.97% |
| | 86.97% |

**Financial institutions**

Slovenia

| Company | % |
|---|---|
| **NLB Skladi, Ljubljana** | 100% |
| | 100% |
| **NLB Vita****** | 50% |
| | 50% |

**Companies**

Slovenia

| Company | % |
|---|---|
| **Bankart, Ljubljana** | 39.44% |
| | 39.44% |

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 |

* Contractual based influence on management of the company.
** 90 % direct ownership Prvi Faktor, Ljubljana in liquidation, 5% NLB, 5% SID banka d.d.
*** on 23 April 2019 SR-RE, Beograd was renamed to REAM, Beograd.
**** on 27 December 2019 the Sale Purchase Agreement for the 100% share in the company NLB Vita d.d., Ljubljana was signed.

## Non-core members

### Financial institutions

#### Slovenia

- **NLB Leasing, Ljubljana** in liquidation 100% 100%
  - **Optima Leasing, Zagreb** in liquidation 100% 100%
- **Prvi faktor, Ljubljana** in liquidation 50% 50%
  - **Prvi faktor, Beograd** in liquidation** 90% 95%
  - **Prvi faktor, Sarajevo** in liquidation 100% 100%
  - **Prvi faktor, Zagreb** in liquidation 100% 100%

#### Foreign countries

- **NLB InterFinanz, Zürich** in liquidation 100% 100%
  - **NLB InterFinanz, Beograd** in liquidation 100% 100%
- **NLB Leasing, Sarajevo** 100% 100%
- **NLB Leasing, Beograd** in liquidation 100% 100%
- **NLB Leasing, Podgorica** in liquidation 100% 100%
- **LHB AG, Frankfurt** 100% 100%
- **Sophia Portfolio BV*** 0% 0%

### Companies

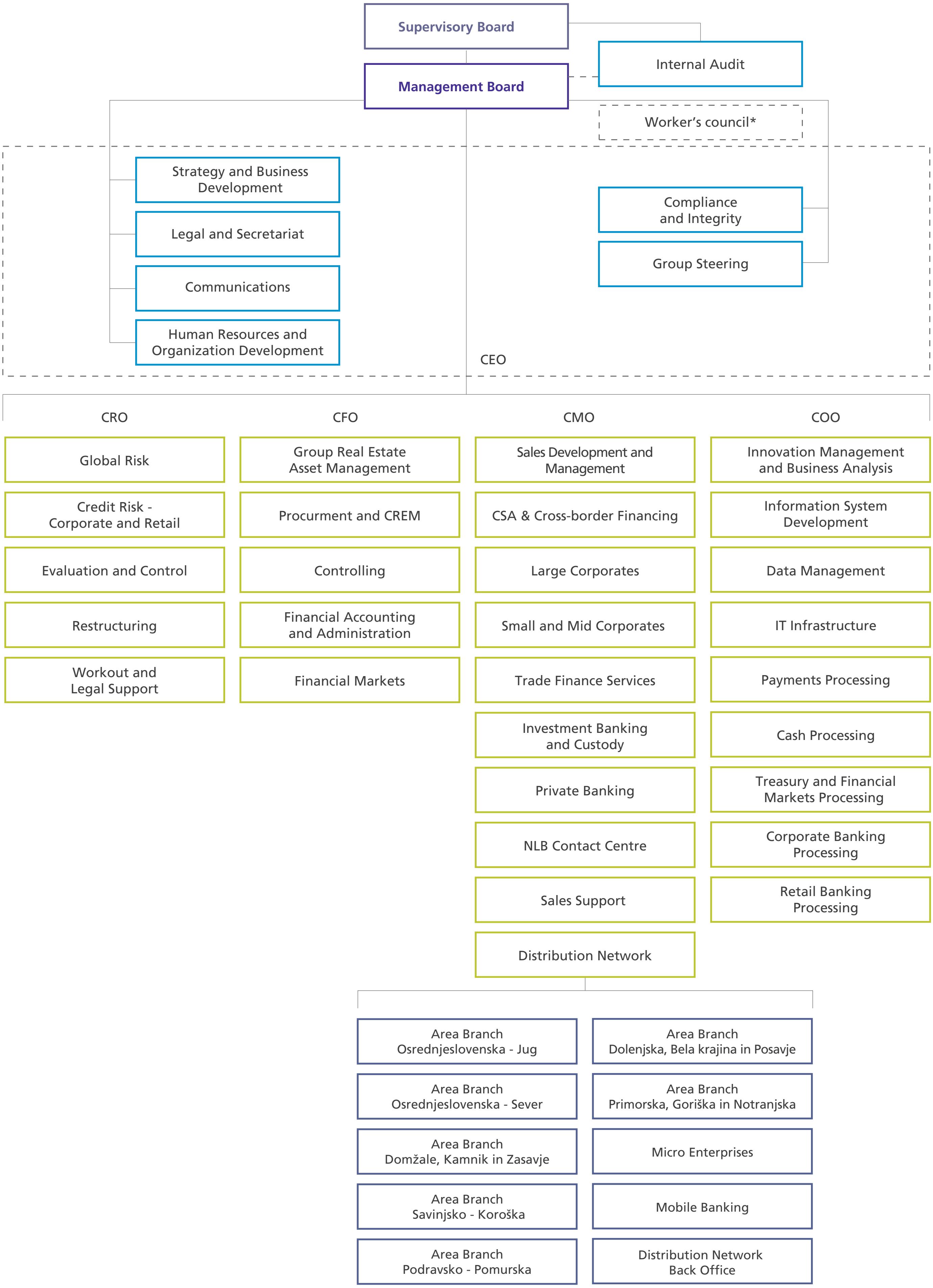
#### Slovenia

- **PRO-REM, Ljubljana** in liquidation 100% 100%
  - **BH-RE, Sarajevo** 100% 100%
  - **OL Nekretnine, Zagreb** in liquidation 100% 100%
- **S-REAM d.o.o., 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** 100% 100%
- **SPV 2 DOO Beograd** 100% 100%
- **NLB Srbija, Beograd** 100% 100%
- **NLB Crna Gora, Podgorica** 100% 100%

# Organisational Structure of NLB




Understanding of the tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit is taken into account in acccordance to the definitions of the (currently valid) Banking Act (ZBan-2).

* Worker's Council is independent organisational unit with no subordinate or superior organisational units and it operates in accordance with ZSDU.

# NLB Group Directory

**Nova Ljubljanska banka d.d., Ljubljana**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 39 00, +386 1 477 20 00
Fax: +386 1 252 24 22
E-mail: info@nlb.si
www.nlb.si
Blaž Brodnjak, President & CEO
Archibald Kremser, Member of the Management Board
Andreas Burkhardt, Member of the Management Board
László Pelle, Member of the Management Board[21]

## Slovenian network

**Osrednjeslovenska - South Branch**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 23 30

**Osrednjeslovenska - North Branch**
Celovška 89
1000 Ljubljana, Slovenia
Tel: +386 1 476 57 02

**Domžale, Kamnik, and Zasavje Branch**
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel: +386 1 724 55 01

**Savinjsko-Koroška Branch**
Glavni trg 30
2380 Slovenj Gradec, Slovenia
Tel: +386 2 884 9150

**Podravsko-Pomurska Branch**
Titova cesta 2
2000 Maribor, Slovenia
Tel: +386 2 234 45 04

**Dolenjska, Bela krajina, and Posavje Branch**
Seidlova cesta 3
8000 Novo mesto, Slovenia
Tel: +386 7 339 14 56

**Primorska, Goriška, and Notranjska Branch**
Pristaniška 45
6000 Koper, Slovenia
Tel: +386 5 610 30 10

**Private Banking**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 23 66

**Micro Enterprises**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 50 01

**Mobile banking**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 44 39

## Small and Mid Corporates

**Small Enterprises I**
Trg republike 2
1000 Ljubljana, Slovenia
Tel.: +386 1 476 49 52

**Small Enterprises II**
Titova cesta 2
2000 Maribor, Slovenia
Tel.: +386 2 234 45 09

**Central region**
Trg republike 2
1520 Ljubljana, Slovenia
Tel.: +386 1 476 26 11

**Northeast region**
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel.: +386 1 724 54 75

**Southwest region**
Pristaniška ulica 45
6000 Koper, Slovenia
Tel.: +386 5 610 30 29

**Podravsko-Pomurska region**
Titova cesta 2
2000 Maribor, Slovenia
Tel.: +386 2 234 45 00

**Savinjsko-Koroška region**
Kocenova 1
3000 Celje, Slovenia
Tel.: +386 3 424 01 11

**Innovative Entrepreneurship Centre**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 31 49

## CSA & Cross-border Financing

Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 26 18

21. Till 31 January 2020.

## Large corporates

**Institutional Investors**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 24 92

**Large Corporates**
Trg republike 2
1520 Ljubljana, Slovenia
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## Members of NLB Group

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Vlastimir Vuković, Member of the Executive Board
Dejan Janjatović, Member of the Executive Board

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Martin Leberle, CEO
Marko Popovič, Executive Officer
Dino Redžepagić, Executive Officer

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Rr. Ukshin Hoti nr. 124
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Albert Lumezi, President of the Management Board
Bogdan Podlesnik, Member of the Management Board[22]
Lavdim Koshutova, Member of the Management Board

**NLB Banka a.d. Banja Luka**
Milana Tepića 4
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Radovan Bajić, President of the Management Board
Marjana Usenik, Member of the Management Board
Dragan Injac, Member of the Management Board

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1000 Skopje, Macedonia
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E-mail: info@nlb.mk
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Antonio Argir, President of the Management Board
Günter Friedl, Member of the Management Board
Damir Kuder, Member of the Management Board[23]

**NLB Banka d.d., Sarajevo**
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E-mail: info@nlb.ba
www.nlb.ba
Lidija Žigić, President of the Management Board
Denis Hasanić, Member of the Management Board
Jure Peljhan, Member of the Management Board

**NLB Leasing d.o.o., Ljubljana – v likvidaciji**
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Tel: +386 1 586 29 10
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E-mail: info@nlbleasing.si
www.nlbleasing.si
Andrej Pucer, Liquidator
Anže Pogačnik, Liquidator

**NLB Leasing d.o.o. Beograd – u likvidaciji**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 222 01 01
Fax: +381 11 222 01 02
E-mail: info@nlbleasing.rs
Veljko Tanić, Liquidator

**NLB Leasing Podgorica d.o.o., Podgorica - u likvidaciji**
Bulevar Stanka Dragojevića 44a
81000 Podgorica, Montenegro
Tel: +382 81 667 655
Fax: +382 81 667 656
E-mail: info@nlbleasing.me
Milan Marković, Liquidator

22. Member till 1 January 2020; Gem Maloku, member from 1 January.
23. Member till 1 January 2020; Peter Zelen, member from 1 Januarry 2020; additionally, Igor Davchevski was appointed as member from 1 January 2020.

**NLB Leasing d.o.o. Sarajevo**
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71000 Sarajevo, Bosnia and Herzegovina
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Denis Silajdžić, Director
Tanja Ibišbegović, Executive Director

**Optima Leasing d.o.o. u likvidaciji, Zagreb**
Miramarska 24
10000 Zagreb, Croatia
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Fax: +385 1 61 77 228
E-mail info@optima-leasing.hr
Vjekoslav Budimir, Liquidator

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1000 Ljubljana, Slovenia
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Klemen Hauko, Liquidator

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# Definitions and Glossary of Selected Terms

| | |
|---|---|
| **ALM** | Asset and Liability Management |
| **AML/CTF** | Anti-Money Laundering and Counter-Terrorism Financing |
| **Articles of Association** | Articles of Association of the Bank |
| **BiH** | Bosnia and Herzegovina |
| **BMR** | Benchmarks Regulation |
| **BoS** | Bank of Slovenia |
| **bps** | Basis Points |
| **BRRD 2** | Bank Recovery and Resolution Directive |
| **CAGR** | Compound Annual Growth Rate |
| **CB** | Central Bank |
| **CBR** | Combined Buffer Requirement |
| **CEBS** | Committee of European Banking Supervisors |
| **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 |
| **CSR** | Corporate Social Responsibility |
| **CVA** | Credit Value Adjustments |
| **DGS** | Deposit Guarantee Scheme |
| **DSTI** | Debt Service-to-Income |
| **EBA** | European Banking Authority |
| **EBRD** | European Bank for Reconstruction and Development |
| **EC** | European Commission |
| **ECB** | European Central Bank |
| **EEA** | European Economic Area |
| **EMU** | Economic and Monetary Union of the European Union |
| **EU** | European Union |
| **EVE** | Economic Value of Equity |
| **FDI** | Foreign Direct Investments |
| **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 |
| **IAS 39** | International Accounting Standard 39 |
| **ICAAP** | Internal Capital Adequacy Assessment Process |

| | |
|---|---|
| **IFRS 9** | International Financial Reporting Standard 9 |
| **ILAAP** | Internal Liquidity Adequacy Assessment Process |
| **KDD** | Central Securities Clearing Corporation |
| **KPI** | Key Performance Indicator |
| **LCR** | Liquidity Coverage Ratio |
| **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 |
| **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 |
| **OCR** | Overall Capital Requirement |
| **p.p.** | Percentage point(s) |
| **POS** | Point of Sale |
| **PSD2** | Payments Services Directive |
| **REAM** | Real Estate Asset Management |
| **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 |
| **SSH** | Slovenian Sovereign Holding |
| **TCR** | Total Capital Ratio |
| **TLOF** | Total Liabilities and Own Funds |
| **TLTRO** | Targeted Longer-Term Refinancing Operations |
| **TSCR** | Total SREP Capital Requirement |
| **The Group** | NLB Group |
| **UK** | United Kingdom |
| **US** | United States |
| **ZBan-2** | Slovenian Banking Act |
| **ZGD-1** | The Companies Act |
| **ZRPPB** | The Resolution and Compulsory Winding-Up of Banks Act |
| **ZTFI-1** | Financial Instruments Market Act |
| **ZVOP-2** | The Slovenian Personal Data Protection Act |
| **€STR** | Euro Short-Term Rate |

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NLB Group
For whatever may come.

BANK GUARANTEE
DIGITAL SERVICES B2B
24/7 LJUBLJANA QUALITY
KNOWLEDGE ACCESSIBILITY
FLEXIBILITY CONSULTING
SOCIAL STABILITY
RESPONSIBILITY
REGIONAL PROJECTS
MOBILE WALLET NLB PAY BEST SERVICE
FLEXIBILITY SECURITY NLB TELEDOM
BELGRADE 24/7 REGIONAL PROJECTS
FINANCIAL ADVICE BANJA LUKA
PURCHASE OF RECEIVABLES BANK GUARANTEE
REGIONAL PROJECTS KLIKIN
327 BRANCHES PROFESSIONAL
BEST SERVICE WIN-WIN
EXCELLENCE NLB KLIK
UP TO DATE GROWTH
ECOLOGY
KNOWLEDGE PROFESSIONAL
PODGORICA R&D SECURITY
REGIONAL PROJECTS
EASY GROWTH
NLB TELEDOM MENTORSHIP
WIN-WIN DONATIONS
KLIKIN SPONSORSHIP
GOOD DEEDS
SKOPJE B2B MOBILE BANK TRUST
NLB KLIK DIGITAL SERVICES
GROWTH SARAJEVO
MOBILE WALLET NLB PAY WIN-WIN
24/7
MOBILE BANKERS SECURITY

EASY KLIKIN TRUST UP TO DATE EXCELLENCE PRIVATE BANKING PURCHASE OF RECEIVABLES
5.800+ EMPLOYEES B2B B2C TRUST FINANCIAL LITERACY REGIONAL PROJECTS FLEXIBILITY R&D
TRUST B2B ACCESSIBILITY
MOBILE WALLET NLB PAY BANK GUARANTEE PROFESSIONAL B2B EASY TRUST FINANCIAL LITERACY CARE
DIGITAL SERVICES FLEXIBILITY ECOLOGY PRISHTINA BANK GUARANTEE PURCHASE OF RECEIVABLES HEALTH DIGITAL