NLB Group

Pillar 3 Disclosures

2019

Abbreviations

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AE	Asset Encumbrance
AML	Anti-Money Laundering
AMLTF	Anti-Money Laundering Task Force
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BPV	Basis point value
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCP	Central Counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CET1	Common equity tier 1 capital
CFO	Chief Finance Officer
CIR	Cost-income ratio
COBIT	Control Objectives for Information Technologies
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive and Regulation
CREM	Corporate real estate management
CRM	Credit Risk Mitigation
CRO	Chief risk officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
DSTI	Debt service-to-income
CTF	Combating the Financing of Terrorism
CTO	Chief technology officer
CVA	Credit valuation adjustment
CVaR	Conditional Value at Risk
D-SIB	Domestic systemically important banks
DVA	Debit Valuation Adjustments
DWH	Data Warehouse
EAD	Exposure at default
EaR	Earnings at Risk
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
ECRA	Enterprise compliance and integrity risk assessment
EHQLA	Extremely High-quality Liquid Assets
EMIR	European Market Infrastructure Regulation
ESRB	European Systemic Risk Board
EU	European Union
EVE	Economic Value of Equity
EVS	European Valuation Standards
EWS	Early Warning System
FTE	Full-time equivalent
FX	Foreign Exchange
GLTDF	Gross Loans to Deposit Flows ratio
GMRA	Global Master Repurchase Agreement
G-SIB	Global systemically important banks
HHI	Herfindahl-Hirschman Index
HQLA	High-quality liquid assets
HR	Human resources
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based approach
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
IVS	International Valuation Standards
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LCR	Liquidity coverage ratio
LGD	Loss given default
LTD	Loan-to-deposit
LTI	Loan-to-income
LTV	Loan-to-value
MB	Management Board
MDA	Maximum Distributable Amount
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRSA	Market Risk Standardised Approach
MS	Mid-swap
MTF	Multilateral trading facility
NII	Net interest income
NPE	Non Performing Exposures
NPL	Non Performing Loans
NPL CR	Non-performing Loans Coverage Ratio
NPV	Net Present Value
NSFR	Net Stable Funding Ratio
OCI	Other comprehensive income
OCR	Overall capital requirement
O-SII	Other systemically important institutions
OTC	Over-the-counter
OU	Organisational unit
PD	Probability of default
P2G	Pillar 2 Guidance
P&L	Profit and Loss
P2R	Pillar 2 Requirement
PP&E	Property, plant and equipment
QCCP	Qualifying Central Counterparty
RAF	Risk Appetite Framework
RICO	Risk Committee
RICS	Royal Institution of Chartered Surveyors
ROE	Return on Equity
RP	Recovery plan
RWA	Risk-weighted assets
SA	Standardised Approach
SB	Supervisory Board
SEE	Southeast Europe
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
S&P	Standard & Poor's
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
ST	Stress test
TC	Total Capital
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TSCR	Total SREP capital requirement
VaR	Value at risk
ZBan-2	Banking Act
ZGD-1	Companies Act
ZOSRB	Bank Authority and Fund Act
ZPPOGD	Act Governing the Remuneration of Managers of
ZRPPB	Law on Rescue and Forced Cessation of Banks

Key highlights

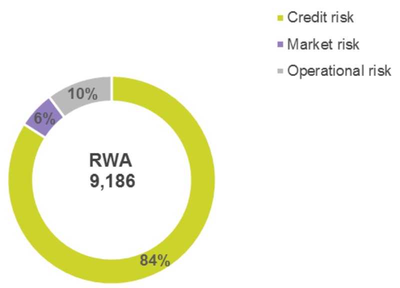
Table 1 – Key metrics

NLB Group	31.12.2019	31.12.2018
Available capital		
Common equity tier 1 (CET1)	1,451,176	1,453,402
Tier 1	1,451,176	1,453,402
Tier 2	44,595	0
Total capital	1,495,771	1,453,402
Risk weighted assets		
Total RWA	9,185,539	8,677,624
Capital ratios		
Common equity tier 1 ratio (%)	15.8%	16.7%
Tier 1 ratio (%)	15.8%	16.7%
Total capital ratio (%)	16.3%	16.7%
Additional CET1 buffer requirements as a % of RWA		
Capital conservation buffer requirement	2.5%	1.875%
Countercyclical buffer requirement	0.0%	0.0%
Bank G-SIB and /or D-SIB additional requirements	1.0%	0.0%
Total of bank CET1 specific buffer requrements	3.5%	1.875%
Leverage ratio		
Total leverage ratio exposure measure	16,671,280	14,709,318
Leverage ratio (%)	8.70%	9.88%
Liquidity Coverage Ratio		
Total HQLA	3,985,017	3,150,557
Total net cash outflow	1,226,351	873,297
LCR ratio	325%	361%
NSFR ratio	160%	159%

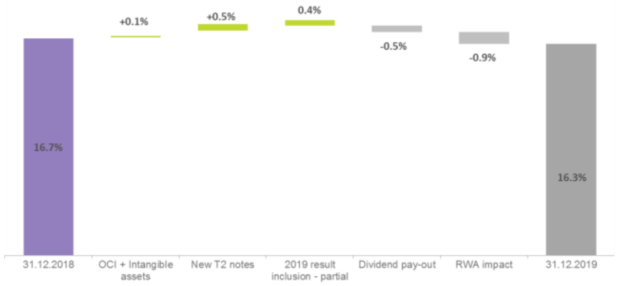
Key ratios and figures are reflected throughout the Pillar 3 disclosures and a summary is reflected in Table 1.

Changes in RWA

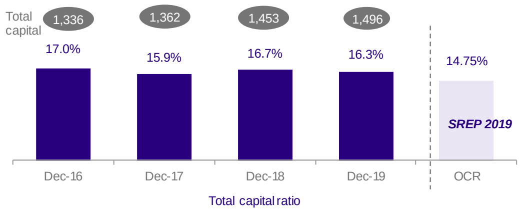
RWA analysis



Total capital ratio changes



Total capital movement



Statement of Management of Risk

(Articles 435 f of CRR)

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

Risk management in the Group, representing an important element of the Group's overall corporate governance, is implemented in accordance with the set strategic guidelines, established internal policies, and procedures which take into account the European banking regulations, the regulations adopted by the BoS, the current EBA guidelines, and the relevant good banking practices. EU regulations are followed by 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 a 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.

NLB Group is the largest Slovenian banking and financial group with an important presence in the SEE region.

In accordance with its strategic orientations, the Group intends to be a sustainably profitable, predominantly working with clients on its core markets, providing innovative, but simple customer-oriented solutions. 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 the 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 the 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 a moderate level. The Group's basic orientation in the management of interest rate risk is to limit the 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 the MREL requirement,
- maintenance of low leverage,
- improvement in the quality of the credit portfolio, sufficient NPL coverage, sustainable credit risk volatility, sustainable cost of risk across the economic cycle, sustainable industry concentration, sustainable exposure to project financing,
- maintenance of a solid liquidity position, maintaining stable customers' deposits as the main funding base,
- diversification of risk in exposures to banks and sovereigns,
- limited exposure to credit spread risk,
- limited exposure to interest rate risk,
- limited exposure to FX risk,
- sustainable tolerance to net losses from operational risk.

Values of the most important risk appetite indicators of the Group 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, and 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

1. Introduction

The purpose of this Report is to provide disclosures as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision. On the European level, these are implemented in the disclosure requirements as laid down in Part Eight of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms' (Capital Requirements Regulation, or 'CRR') and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV, or 'CRD'). The CRD IV commonly refers to both CRR and CRD, which were published in the *Official Journal of the EU* on 27 June 2013. On 27 June 2019, a change of CRR was published (Regulation (EU) No. 2019/876 – CRR2) with some of its provisions already valid.

The CRR/CRR2 had a direct effect in EU member states, while the CRD was required to be implemented through national legislation in EU member states by 31 December 2013. Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-2).

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

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

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

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

Areas covered

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

NLB Group uses the following approaches for the calculation of capital requirements:
- Credit risk – standardised approach,
- Market risk – standardised approach, and
- Operational risk – a basic indicator approach.

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

Frequency of disclosures and media

CRD IV and EBA guidelines require NLB Group to disclose information at least on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. A separate

Pillar 3 document is also published quarterly on the NLB's website www.nlb.si, following our Annual or Interim Reports for NLB Group disclosure.

Verifications and source of information

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

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

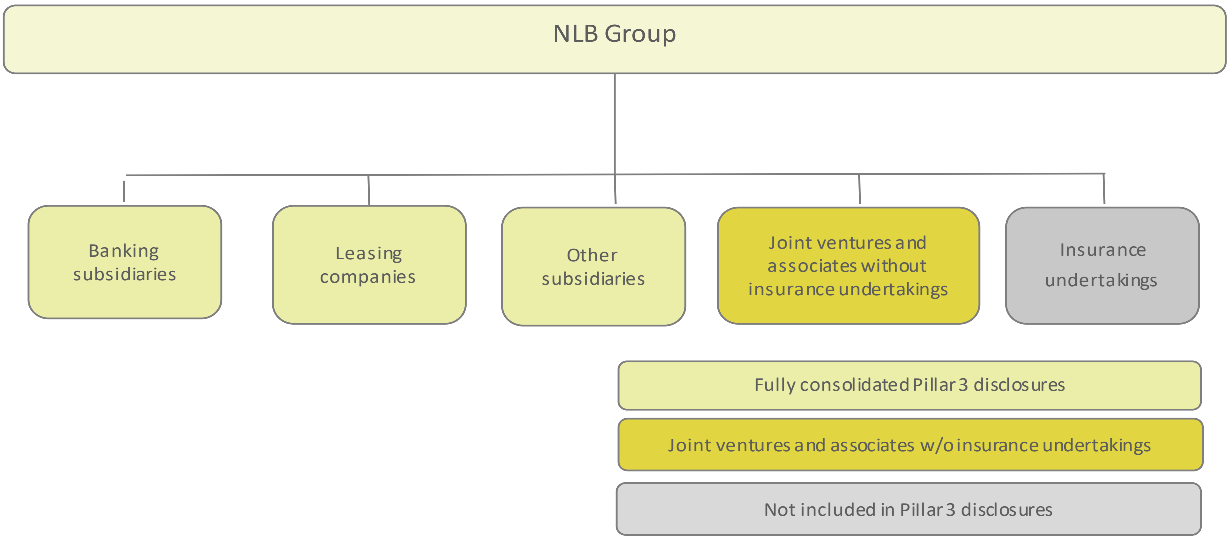
Verification of information included in the disclosures is subject to strict procedure of internal control and management. The persons in charge of individual contents are responsible for primary controls. Quantitative reports must be submitted in individual templates and precisely aligned with the information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

It should be noted that while some quantitative information in this document is based on financial data contained in the 2019 NLB Group Annual Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the 2019 NLB Group Annual Report. Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 2 – EU LI1.

2. Scope of application

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

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



A significant subsidiary of NLB Group that exceeds 10% Group's RWA is NLB Banka a.d., Skopje. Detailed information is disclosed in the annual report published on the website http://www.nlb.mk.

Table EU LI1 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the 2019 NLB Group Annual Report, and under the scope of regulatory consolidation.

The differences between the scope of consolidation for regulatory and accounting purposes (pursuant to the IFRS) of NLB Group (entity by entity) as at 31 December 2019 are seen from Table EU LI3 (disclosed in Appendix 5). The consolidation for *accounting purposes* comprise all:

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

In contrast to the accounting consolidation, the *regulatory consolidation* only includes (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings and asset management companies. As regards NLB Group, this means that the regulatory consolidation does not include company operating in the area of insurance (NLB Vita).

Concerning the consolidation method, there are no differences between the accounting and regulatory consolidation as at 31 December 2019, as companies from the Prvi Faktor Group (see table EU LI3) are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD IV) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amount to zero. More details are disclosed in the 2019 NLB Group Annual Report - note 5.12 b Analysis by type of investment in associates and joint ventures (page 236).

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

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

31.12.2018	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	1,588,349	1,588,349	-	-	-
Financial assets held for trading	63,609	63,609	-	15,386	63,609	-
Non-trading financial assets mandatorily at fair value through profit or loss	32,389	32,389	32,389	-	-	-
Financial assets measured at fair value through other comprehensive income	1,898,079	1,898,079	1,898,079	-	-	-
Financial assets measured at amortised cost						
- debt securities	1,428,962	1,428,962	1,415,015	-	-	13,947
- loans and advances to banks	118,696	118,696	118,696	-	-	-
- loans and advances to customers	7,124,633	7,124,633	7,124,186	-	-	447
- other financial assets	75,171	75,171	75,171	-	-	-
Derivatives - hedge accounting	417	417	-	417	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	2,517	-	-	-	-
Investments in associates and joint ventures	37,147	10,652	10,652	-	-	-
Tangible assets						
Property and equipment	177,404	177,404	177,404	-	-	-
Investment property	58,644	58,644	58,644	-	-	-
Intangible assets	34,968	34,968	-	-	-	34,968
Current income tax assets	877	877	877	-	-	-
Deferred income tax assets	22,847	22,847	22,847	-	-	-
Other assets	70,971	70,971	70,971	-	-	-
Non-current assets and disposal group classified as held for sale	4,349	4,349	4,349	-	-	-
Total assets	**12,740,029**	**12,713,534**	**12,597,629**	**15,803**	**63,609**	**49,362**
Trading liabilities	12,300	12,300	-	12,300	12,300	-
Financial liabilities measured at fair value through profit or loss	4,190	4,190	-	-	-	-
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	26,775	26,775	-	-	-	-
- borrowings from banks and central banks	258,423	258,423	-	-	-	-
- due to customers	10,464,017	10,464,017	-	-	-	-
- borrowings from other customers	61,844	61,844	-	-	-	-
- subordinated liabilities	15,050	15,050	-	-	-	-
- other financial liabilities	100,887	100,887	-	-	-	-
Derivatives - hedge accounting	29,474	29,474	-	29,474	-	-
Provisions	80,134	80,134	-	-	-	-
Current income tax liabilities	12,152	12,152	-	-	-	-
Deferred income tax liabilities	2,499	2,499	-	-	-	-
Other liabilities	14,840	14,840	-	-	-	-
Total liabilities	**11,082,585**	**11,082,585**	**-**	**41,774**	**12,300**	**-**
Equity and reserves attributable to owners of the parent						
Share capital	200,000	200,000	-	-	-	-
Share premium	871,378	871,378	-	-	-	-
Accumulated other comprehensive income	7,823	3,598	-	-	-	-
Profit reserves	13,522	13,522	-	-	-	-
Retained earnings	523,493	501,223	-	-	-	-
	1,616,216	**1,589,721**	**-**	**-**	**-**	**-**
Non-controlling interests	41,228	41,228	-	-	-	-
Total equity	**1,657,444**	**1,630,949**	**-**	**-**	**-**	**-**
Total liabilities and equity	**12,740,029**	**12,713,534**	**-**	**41,774**	**12,300**	**-**

The difference between accounting consolidation and regulatory consolidation represents the book value of the equity method for a company that is operating in the area of insurance and is not included in regulatory consolidation in accordance with Article 4 of CRR. It refers to a company in the process of sale, namely NLB Vita, more information in Chapter 11. Equity holdings are not in the trading book.

Table 2 (EU LI 1) provides the reconciliation of the accounting consolidated financial statements (as presented in the 2019 NLB Group Annual Report (Audited Financial Statements of NLB Group Pursuant to the International Financial Reporting Standards as adopted by the European Union) to the regulatory consolidated financial statements. Certain assets can be subject to multiple RWA frameworks. The details of items not subject to capital requirement or subject to deduction from capital or explanation of differences with the comparative period are explained below:

- None of NLB Group's investments in subsidiaries, associated companies, and jointly controlled companies represents a deduction from capital. The total amount of investments that could become deductions from capital is relatively low and remains under the statutory thresholds;
- In accordance with CRR article 36 (b), intangible assets are a deduction item from capital;
- Valuations of hedged items in fair value hedge relationships are excluded from positions, subject to credit risk.

Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries are disclosed in Appendix 7.
Table 3 – EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements of NLB Group

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

			Items subject to		
	31.12.2018	**Total**	**Credit risk framework**	**CCR framework**	**Market risk framework**
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**12,677,041**	**12,597,629**	**15,803**	**63,609**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(54,074)	-	(41,774)	(12,300)
3	Total net amount under the regulatory scope of consolidation	12,622,967	12,597,629	(25,971)	51,309
4	Off-balance-sheet amounts	2,041,400	2,041,400	-	-
5	*Differencies due to derivatives*	12,289	-	12,289	-
6	**Exposure amounts considered for regulatory purposes**	**14,676,656**	**14,639,029**	**(13,682)**	**51,309**

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

3. Capital and capital requirements

3.1. Capital adequacy

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

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

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

- Pillar 2 Requirement (SREP requirement): bank-specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 Requirement it represents the minimum total SREP capital requirement – TSCR);
- The applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank-specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Capital Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank-specific, and 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).

Table 4 – Capital requirements and buffers of NLB Group

		2020	2019	2018
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%
Pillar 2 (P2R)	CET1	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%

In December 2019, OCR amounted to 14.75% for the Bank 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 has been raised to 14.75%, due to the gradual phase-in of the capital conservation buffer as prescribed by law and introduction of O-SII buffer. Conversely, the Pillar 2 Requirement decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment. Based on that Supervisory Board of NLB on 12 April 2019 confirmed adjusted mid-term financial target for NLB Group total capital ratio at 16.25%. The target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.

On 28 November 2019, 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 – P2R, which was reduced from 3.25% to 2.75%) to be held in excess of minimum own funds requirement on consolidated level. This decision together with applicable combined buffer requirement leads to overall capital requirement of 14.25%.

Table 5 – Capital adequacy of NLB Group:

	31.12.2019	30.9.2019	31.12.2018
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	358,648	358,628	293,026
Current result	35,000	-	108,829
Accumulated other comprehensive income	14,364	18,365	3,598
Other reserves	13,522	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(2,194)	(2,193)	(1,983)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(36,013)	(32,146)	(31,439)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,451,176**	**1,424,025**	**1,453,402**
Additional Tier 1 capital	-	-	-
TIER 1 CAPITAL	**1,451,176**	**1,424,025**	**1,453,402**
Tier 2 capital	44,595	44,595	-
TOTAL CAPITAL	**1,495,771**	**1,468,620**	**1,453,402**
Risk exposure amount for credit risk	7,720,232	7,626,968	7,179,678
Risk exposure amount for market risks	523,050	550,538	541,901
Risk exposure amount for CVA	663	7,038	2,563
Risk exposure amount for operational risk	941,594	941,594	953,482
TOTAL RISK EXPOSURE AMOUNT (RWA)	**9,185,539**	**9,126,138**	**8,677,624**
Common Equity Tier 1 Ratio	15.8%	15.6%	16.7%
Tier 1 Ratio	15.8%	15.6%	16.7%
Total Capital Ratio	16.3%	16.1%	16.7%

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%, however, it is under revision to reflect new (lower) capital requirement (TSCR) that is applicable as of 1 January 2020. The Bank’s dividend policy envisages a yearly distribution of dividends in the approximate amount of 70% of the Group’s result, while fulfilling all regulatory requirements including Pillar 2 Guidance.

The capital adequacy of NLB Group and NLB at the end of year 2019 remains strong in accordance with risk appetite orientations, and at a level, which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the Pillar 2 Guidance.

At the end of 2019, the Total capital ratio for NLB Group stood at 16.3% (or 0.5 percentage points lower than at the end of 2018), and for NLB at 22.6% (or 1.4 percentage point lower than at the end of 2018). The Tier 1 ratio and Common equity Tier 1 ratio (15.8% or 1.0 percentage points lower than at the end of 2018) differs from Total capital ratio due to subordinated Tier 2 notes issuance conducted in May. The lower capital adequacy derives from higher RWA (EUR 507.9 million for NLB Group) compared to the end of 2018.

In accordance with the ZRPPB, the NLB Group will, in future, need to meet a MREL requirement set by the Bank of Slovenia. On 17 May 2019, NLB received a decision of the Bank of Slovenia relating to this MREL requirement, which was set to 17.93% of total liabilities and own funds 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 this requirement must be met at all times.

The drivers behind the differences between the RWAs in year 2019 are explained in chapter 3.2 Capital requirements in the Table 6 – EU OV1 – Overview of RWAs.

In June 2019, NLB paid out dividends in total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. This decreased capital for EUR -43.2 million, nevertheless, the Total capital in year 2019 increased by EUR 42.4 million, mainly due to inclusion of Tier 2 notes issued in May (EUR 44.6 million), partial inclusion of 2019 net profit (EUR 35 million) and higher other comprehensive income (EUR 10.8 million).

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 upon completion. The Purchase Price will be subject to a 2% annual interest rate between 1 January 2020 and closing, with NLB benefitting 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 minority 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. NLB will at all times exceed the Overall Capital Requirement and Pillar 2 Guidance of 15.25%. To deliver on this objective we will use capital instruments already issued and not yet accounted for (EUR 240 million of Tier 2 instruments) and anticipated capital accretion stemming from retained earnings and/or ongoing RWA optimisation measures, potential AT1 issuance and non-controlling interest inclusion.

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 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.

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 to 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 to consider implementing measures to support the economies in SEE region. The Group estimates the coronavirus could have negative effect on loan portfolio, asset quality, impairments and provisions, fair value measurement financial assets, etc. The extent of the implications on the Group's financial performance are currently not possible to evaluate with a high degree of certainty. More info are set out in statement New developments as of issuance of the auditor report disclosed on our web page https://www.nlb.si/financial-reports-2019 right next to our Annual report and Pillar 3 Disclosures for 2019.

3.2. Capital requirements
(Article 438 c, e, and f and 445 of CRR)

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

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

In the calculation of capital ratios, risk is expressed as a risk exposure amount or a capital requirement. The capital requirement for an individual risk amounts to 8% of the total exposure to the individual risk.

The Table 6 shows the detailed composition of the capital requirements of NLB Group at the end of 2019, at the end of September 2019, and at the end of 2018.

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

		31.12.2019		30.9.2019		31.12.2018	
		RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1	**Credit risk (excluding CCR)**	**7,524,999**	**602,000**	**7,444,057**	**595,525**	**7,071,808**	**565,745**
2	Of which the standardised approach	7,524,999	602,000	7,444,057	595,525	7,071,808	565,745
6	**CCR**	**37,758**	**3,021**	**50,426**	**4,034**	**26,625**	**2,130**
7	Of which mark to market	37,095	2,968	43,388	3,471	24,062	1,925
12	Of which CVA	663	53	7,038	563	2,563	205
13	**Settlement risk**	**-**	**-**	**-**	**-**	**100**	**8**
19	**Market risk**	**523,050**	**41,844**	**550,538**	**44,043**	**541,801**	**43,344**
20	Of which the standardised approach	523,050	41,844	550,538	44,043	541,801	43,344
23	**Operational risk**	**941,594**	**75,328**	**941,594**	**75,328**	**953,482**	**76,279**
24	Of which basic indicator approach	941,594	75,328	941,594	75,328	953,482	76,279
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**158,138**	**12,651**	**139,523**	**11,162**	**83,808**	**6,705**
29	**Total**	**9,185,539**	**734,843**	**9,126,138**	**730,091**	**8,677,624**	**694,210**

In 2019 the RWA for Credit risk increased by EUR 540.6 million (lines 2, 7, and 27 in Table 6), mainly due to an increase of exposure in the corporate and retail segment because of increased lending activities (EUR 397.3 million).

The decrease in RWA for market risk and CVA (Credit value adjustments) amounted to EUR -20.8 million (lines 12, 13, and 20 in Table 6), mainly because of structural FX positions arising from operations of NLB Group's non-euro subsidiary banks. These positions are long, non-trading and deliberately taken. On a consolidated level, foreign exchange translation differences from investments in foreign subsidiary companies are recognised in the consolidated capital and do not have an impact on the NLB Group's profit and loss.

The decrease below the RWA for operational 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 and changes of the calculation based on ECB recommendation.

3.3. Summary of the approach to assessing the internal capital needed for current and planned activities
(Article 438 a of CRR)

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

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

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

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

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

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

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

3.4. Capital instruments included in the capital
(Articles 437.1 b and c of CRR)

In 2019, the capital of NLB Group consisted of Common Equity Tier 1 capital and Tier 2 capital. The only instrument included in Common Equity Tier 1 capital are the ordinary shares of the parent company NLB. The only instrument included in Tier 2 capital are the subordinated Tier 2 notes issued in May 2019 by NLB.

To strengthen and optimize the NLB Group’s capital structure, the Bank issued or concluded three subordinated Tier 2 instruments in 2019 as follows:

- On 6 May 2019, NLB issued subordinated Tier 2 notes (10NC5) in the aggregate amount of EUR 45 million with characteristics prescribed by Article 63 of the CRR. 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 by the terms and conditions of the notes (i.e., 4.159%). The notes with ticker NLB27 and ISIN code SI0022103855 are admitted to trading on the regulated market of the Ljubljana Stock Exchange, bond segment. The instrument is included in the capital of the Bank on individual and consolidated basis as at 30 June 2019;
- On 20 September 2019, NLB entered a bilateral agreement under which EUR 45 million of subordinated Tier 2 debt (10NC5) was obtained with characteristics prescribed by Article 63 of the CRR. On 17 January 2020, the instrument was prepaid, as regulatory approval for inclusion into capital has not been granted by 23 December 2019 and it was not reasonably expected to be granted in the near future;
- On 19 November 2019, NLB issued subordinated Tier 2 notes (10NC5) in the aggregate amount of EUR 120 million with characteristics prescribed by Article 63 of the CRR. The fixed coupon of the notes during the first five years is 3.65% p.a.; thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as defined by the terms and conditions of the notes (i.e., 3.833%). The notes with ISIN code XS2080776607 and rated BB by S&P rating agency are admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. The instrument is not included in the capital as of 31 December 2019, however, on 4 March 2020 NLB obtained permission by ECB for its inclusion.

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

In 2019, other banking members of NLB Group had no capital instruments issued that would be eligible for inclusion in Additional Tier 1 capital or Tier 2 capital on consolidated basis. Subordinated liabilities for NLB Group are disclosed in the 2019 NLB Group Annual Report – note 5.15 c) Subordinated liabilities (page 245).

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

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

On 1 January 2016, the Bank of Slovenia introduced a macro-prudential measure: a countercyclical capital buffer intended to protect the banking sector from losses potentially caused by cyclical risks in the economy. The purpose of the countercyclical capital buffer is to ensure that the Bank has a sufficient capital base in periods of credit growth, to be used in stress periods or when the conditions for lending are less favourable, i.e. to absorb losses. When the defined buffer rate is more than 0%, or when the already established rate is increased, the new buffer rate applies 12 months after publication (except for extraordinary cases). The buffer value may fluctuate between 0% and 2.5% of the amount of total risk exposure (in exceptional cases also more) and depends on the amount of risk in the system.

The buffer value for exposures in Slovenia was 0% as at 31 December 2019, which remained unchanged since its introduction on 1 January 2016. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposure in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country are 0%. Counter-cyclical capital rates have generally been set at 0%, except for Sweden and Norway, which have as at 31 December 2019 a countercyclical capital rate of 2.5%, Iceland 1.75%, Slovakia and Czech Republic with a rate of 1.5%, Denmark, Ireland, Lithuania, and United Kingdom 1%, Bulgaria 0.5% and France 0.25%.

A calculation of the bank-specific countercyclical capital buffer is made on an individual as well as a consolidated level. The Bank defines the geographic distribution of exposures, which are subject to the calculation of capital requirement for credit risk using the standardised approach and the special risk or risk of non-payment, and migrations for exposures from the trading book. If the Bank's exposures represent less than 2% of its total risk-weighted exposures, these exposures may be presented at the geographic location of the Bank and additionally explained.

The rate of the bank-specific countercyclical capital buffer is composed of the weighted average of countercyclical capital buffer rates used in those countries where the relevant credit exposures of this institution are located.

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

31.12.2019	NLB Group	NLB
Total risk exposure amount	468,258	273,397
Institution specific countercyclical buffer rate	0%	0.02%
Institution specific countercyclical buffer requirement	-	63

31.12.2018	NLB Group	NLB
Total risk exposure amount	438,161	266,525
Institution specific countercyclical buffer rate	0%	0%
Institution specific countercyclical buffer requirement	-	-

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

31.12.2019	General credit exposures	Own funds requirements			
Country	Exposure value for SA	Of which: General credit exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Slovenia	4,253,095	249,607	249,607	0.53	-
North Macedonia	947,793	60,637	60,637	0.13	-
Bosnia and Herzegovina	789,995	50,700	50,700	0.11	-
Kosovo	565,374	37,943	37,943	0.08	-
Serbia	495,579	30,434	30,434	0.06	-
Montenegro	398,731	26,367	26,367	0.06	-
United Kingdom	79,103	6,305	6,305	0.01	1.00
United States	27,142	2,161	2,161	0.00	-
Croatia	23,201	2,046	2,046	0	-
Belgium	12,930	1,034	1,034	0	-
Bulgaria	8,500	680	680	0	0.50
Switzerland	2,195	97	97	0	-
Germany	790	47	47	0	-
Austria	834	35	35	0	-
Czech Republic	550	35	35	0	1.50
Cyprus	617	25	25	0	-
Netherlands	321	25	25	0	-
Luxembourg	417	18	18	0	-
Denmark	108	9	9	0	1.00
Latvia	126	8	8	0	-
Spain	193	7	7	0	-
United Arab Emirates	122	6	6	0	-
France	139	5	5	0	0.25
Russian Federation	122	4	4	0	-
Sweden	72	4	4	0	2.50
Ireland	53	4	4	0	1.00
Australia	77	4	4	0	-
Italy	55	3	3	0	-
Lithuania	103	3	3	0	1.00
Hungary	21	1	1	0	-
Slovakia	14	1	1	0	1.50
Canada	12	1	1	0	-
Albania	13	1	1	0	-
Ukraine	9	1	1	0	-
Other	35	-	-	-	-
Total	**7,608,012**	**468,235**	**468,235**	**1.00**	**-**

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

31.12.2019	General credit exposures	Own funds requirements			
Country	Exposure value for SA	Of which: General credit exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Slovenia	4,251,184	249,534	249,534	0.91	-
United Kingdom	79,089	6,304	6,304	0.02	1.00
Serbia	48,775	4,171	4,171	0.02	-
Montenegro	46,581	3,754	3,754	0.01	-
Bosnia And Herzegovina	20,489	1,817	1,817	0.01	-
United States	21,404	1,704	1,704	0.01	-
Kosovo	19,120	1,663	1,663	0.01	-
Switzerland	20,486	1,606	1,606	0	-
Croatia	13,328	1,179	1,179	0	-
Belgium	9,864	789	789	0	-
Bulgaria	8,495	679	679	0	0.50
Czech Republic	550	35	35	0	1.50
Austria	793	32	32	0	-
Netherlands	319	25	25	0	-
Cyprus	568	23	23	0	-
Germany	404	20	20	0	-
Denmark	108	9	9	0	1.00
Latvia	126	8	8	0	-
Spain	193	7	7	0	-
United Arab Emirates	122	6	6	0	-
France	138	5	5	0	0.25
North Macedonia	86	5	5	0	-
Ireland	51	4	4	0	1.00
Russian Federation	117	4	4	0	-
Australia	75	4	4	0	-
Lithuania	103	3	3	0	1.00
Italy	44	3	3	0	-
Luxembourg	63	2	2	0	-
Hungary	21	1	1	0	-
Slovakia	14	1	1	0	1.50
Other	38	-	-	-	-
Total	**4,542,428**	**273,383**	**273,383**	**1.00**	**0.02**

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

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of 2019, at the end of September 2019, and at the end of 2018 in the form prescribed by the EBA implementing technical standards, published as Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2014 (Annex IV – Own funds disclosure template). A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 3.1. Capital adequacy.

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

Table 10 – Own funds for NLB Group

		31.12.2019	30.9.2019	31.12.2018
	Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,071,378	1,071,378	1,071,378
	of which: ordinary shares	1,071,378	1,071,378	1,071,378
2	Retained earnings - including current result	393,648	358,628	401,855
3	Accumulated other comprehensive income (and other reserves)	27,886	31,887	17,120
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,492,912**	**1,461,893**	**1,490,353**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,194)	(2,193)	(1,983)
8	Intangible assets (net of related tax liability) (negative amount)	(39,542)	(35,675)	(34,968)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(41,736)**	**(37,868)**	**(36,951)**
29	**Common Equity Tier 1 (CET1) capital**	**1,451,176**	**1,424,025**	**1,453,402**
43	**Total regulatory adjustments to Additional Tier 1 (AT1)**	**-**	**-**	**-**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	**-**
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,451,176**	**1,424,025**	**1,453,402**
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	44,595	44,595	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**44,595**	**44,595**	**-**
58	**Tier 2 (T2) capital**	**44,595**	**44,595**	**-**
59	**Total capital (TC = T1 + T2)**	**1,495,771**	**1,468,620**	**1,453,402**
60	**Total risk weighted assets**	**9,185,539**	**9,126,138**	**8,677,624**
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.8%	15.6%	16.7%
62	Tier 1 (as a percentage of total risk exposure amount)	15.8%	15.6%	16.7%
63	Total capital (as a percentage of total risk exposure amount)	16.3%	16.1%	16.7%
64	Institution specific buffer requirement (CET1 Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	8.0%	8.0%	6.375%
65	of which: capital conservation buffer requirement	2.5%	2.5%	1.875%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.0%	1.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	7.8%	7.6%	8.7%
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3,248	3,055	2,359
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10,908	10,948	10,652
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met)	29,500	22,014	22,847

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

3.7. Reconciliation of items with financial statements
(Articles 437 a and f, and 447 e of CRR)

Calculations of the capital and capital ratios are based on the financial statements of NLB Group prepared according to regulatory consolidation. Essentially, the capital of NLB Group consists of the elements of equity of the balance sheet (not all elements and not fully) and, in addition, it is reduced by deduction items and prudential filters.

The table below shows to what extent individual balance sheet items are included in the calculation of capital and capital adequacy.

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

	31.12.2019		30.9.2019		31.12.2018	
	Prudential consolidation	**Included in capital as reported**	**Prudential consolidation**	**Included in capital as reported**	**Prudential consolidation**	**Included in capital as reported**
Cash, cash balances at central banks and other demand deposits at banks	2,101,346	-	1,531,379	-	1,588,349	-
Financial assets held for trading	24,038	(24)	87,586	(88)	63,609	(64)
Non-trading financial assets mandatorily at fair value through profit or loss	25,359	(11)	31,007	(16)	32,389	(9)
Financial assets measured at fair value through other comprehensive income	2,141,428	(2,141)	2,065,533	(2,065)	1,898,079	(1,898)
Financial assets measured at amortised cost	9,434,390	-	9,332,452	-	8,747,462	-
Derivatives - hedge accounting	788	-	-	-	417	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	8,991	-	14,018	-	2,517	-
Investments in associates and joint ventures	7,499	-	10,948	-	10,652	-
Tangible assets	247,921	-	247,463	-	236,048	-
Intangible assets	39,542	(39,542)	35,675	(35,675)	34,968	(34,968)
Goodwill	3,529	(3,529)	3,529	(3,529)	3,529	(3,529)
Other intangible assets	36,013	(36,013)	32,146	(32,146)	31,439	(31,439)
Current income tax assets	6,284	-	1,873	-	877	-
Deferred income tax assets	29,500	-	22,014	-	22,847	-
That rely on future profitability and arise from temporary differences	29,500	-	22,014	-	22,847	-
Other assets	63,811	-	67,568	-	70,971	-
Non-current assets classified as held for sale	7,717	-	3,569	-	4,349	-
Total assets	**14,138,614**	-	**13,451,085**	-	**12,713,534**	-
Trading liabilities	17,903	(18)	24,473	(24)	12,300	(12)
Financial liabilities measured at fair value through profit or loss	7,998	-	8,769	-	4,190	-
Financial liabilities measured at amortised cost	12,259,053	44,595	11,584,540	44,595	10,926,996	-
Derivatives - hedge accounting	49,507	-	65,417	-	29,474	-
Provisions	88,414	-	83,271	-	80,134	-
Current income tax liabilities	2,271	-	2,020	-	12,152	-
Deferred income tax liabilities	2,833	-	2,606	-	2,499	-
Other liabilities	15,212	-	14,032	-	14,840	-
Total liabilities	**12,443,191**	-	**11,785,128**	-	**11,082,585**	-
Share capital	200,000	200,000	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	14,364	14,364	18,365	18,365	3,598	3,598
Profit reserves	13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings	551,144	393,648	519,794	358,628	501,223	401,855
Non-controlling interests	45,015	-	42,898	-	41,228	-
Total equity	**1,695,423**	**-**	**1,665,957**	**-**	**1,630,949**	**-**
Total liabilities and equity	**14,138,614**	**-**	**13,451,085**	**-**	**12,713,534**	**-**
Sum of balance sheet items		**1,495,771**		**1,468,620**		**1,453,402**
Capital		**1,495,771**		**1,468,620**		**1,453,402**

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

31.12.2019	Equity - Prudential consolidation	Retained earnings not included in the regulatory equity	Exclusion of minority interest not eligible according to CRR requirements	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Item in capital and capital adequacy calculation
Share capital	**200,000**	-	-	-	**200,000**	Paid in capital instruments
Share premium	**871,378**	-	-	-	**871,378**	Share premium
Accumulated other comprehensive income	**14,364**	-	-		**14,364**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**358,648**	-	-	-	**358,648**	Retained earnings - from previous years
Retained earnings - current results	**192,496**	(157,496)	-	-	**35,000**	Current results
Minority interest	**45,015**	-	(45,015)	-	**-**	Minority interest
				(2,194)	**(2,194)**	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
				(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
				(36,013)	**(36,013)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**1,695,423**	**(157,496)**	**(45,015)**	**(41,736)**	**1,451,176**	**Common Equity Tier 1 (CET1) capital**
					-	Additional Tier 1 capital
					1,451,176	**Tier 1 capital**
					44,595	Tier 2 capital
					1,495,771	**Total capital**

30.9.2019	Equity - Prudential consolidation	Temporary exclusion of unaudited interim profit	Exclusion of minority interest not eligible according to CRR requirements	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Item in capital and capital adequacy calculation
Share capital	**200,000**	-	-	-	**200,000**	Paid in capital instruments
Share premium	**871,378**	-	-	-	**871,378**	Share premium
Accumulated other comprehensive income	**18,365**	-	-		**18,365**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**358,628**	-	-	-	**358,628**	Retained earnings - from previous years
Retained earnings - current results	**161,166**	(161,166)	-	-	**-**	Current results
Minority interest	**42,898**	-	(42,898)	-	**-**	Minority interest
				(2,193)	**(2,193)**	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
				(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
				(32,146)	**(32,146)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**1,665,957**	**(161,166)**	**(42,898)**	**(37,868)**	**1,424,025**	**Common Equity Tier 1 (CET1) capital**
					-	Additional Tier 1 capital
					1,424,025	**Tier 1 capital**
					44,595	Tier 2 capital
					1,468,620	**Total capital**

31.12.2018	Equity - Prudential consolidation	Retained earnings not included in the regulatory equity	Exclusion of minority interest not eligible according to CRR requirements	Prudential filters and deduction items from capital	Capital (included in calculation of capital adequacy)	Item in capital and capital adequacy calculation
Share capital	**200,000**	-	-	-	**200,000**	Paid in capital instruments
Share premium	**871,378**	-	-	-	**871,378**	Share premium
Accumulated other comprehensive income	**3,598**	-	-		**3,598**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**293,026**	-	-	-	**293,026**	Retained earnings - from previous years
Retained earnings - current results	**208,197**	(99,368)	-	-	**108,829**	Current results
Minority interest	**41,228**	-	(41,228)	-	**-**	Minority interest
				(1,983)	**(1,983)**	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
				(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
				(31,439)	**(31,439)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**1,630,949**	**(99,368)**	**(41,228)**	**(36,951)**	**1,453,402**	**Common Equity Tier 1 (CET1) capital**
					-	Additional Tier 1 capital
					1,453,402	**Tier 1 capital**
					-	Tier 2 capital
					1,453,402	**Total capital**

During 2019 total accounting equity increased by EUR 64 million to EUR 1,695 million as at 31 December 2019, primarily due to higher Retained earnings and higher Accumulated other comprehensive income.

4. Risk management, objectives, and policies

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

NLB Group is the largest banking and financial group in Slovenia with a strategic focus on selected markets in SEE, namely Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia, and Kosovo. NLB Group is comprised of NLB as the parent entity in Slovenia, six subsidiary banks in SEE, several companies for ancillary services (asset management, insurance, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down. NLB Group has a leading position in selected SEE markets with significant growth potential, focusing mainly on corporate and retail lending. Moreover, it has a very strong retail deposit-taking franchise, whereby providing asset management services is also important. NLB Group continues to pursue its vision to become an innovative with simple, customer-oriented solutions focused on Slovenia and SEE countries. Its implementation is expected to sustain the Group's profitability and achieve growth, including the alertness for future challenges in the banking environment.

NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire NLB Group. Maintaining risk awareness is engrained in the business strategy of the Group. NLB Group is committed to developing a culture of client focus, risk awareness, integrity, efficient organisation, and social responsibility. The trust of the Group's clients, employees, shareholders, and the society in which it works is seen by NLB Group as a profound responsibility. Risk management in NLB Group is implemented in accordance with the 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 practice. EU regulations are followed by all NLB Group members, where NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. The business and operating environment relevant for the Group's operations is changing with trends such as: changing customer behaviour, emerging new technologies and competitors, and increasing new regulatory requirements. Consequently, risk management is continuously adapting with the aim to detect and manage new potential emerging risks.

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

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

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

NLB Group is the largest Slovenian banking and financial group and has an important presence in the SEE region. In accordance with its strategic orientations, the Group's intention is to: be a sustainably profitable; to work predominantly with clients on its core markets; and to provide innovative, but simple customer-oriented solutions. NLB Group has a well-diversified business model. Based on the Group's business strategy, credit risk is the dominant risk category, followed by valuation risk, interest rate risk in the banking book, operational risk, liquidity risk, market risk, and other non-financial risks. Regular risk identification and their assessment is performed within the ICAAP process with aim to assure their overall control and effective risk management in a very early stage. In addition, internal capital and liquidity consumption are integrated into an overall risk management system in order to assure proactive support for informed decision-making on strategic and operational level.

Managing risks and capital efficiently at all levels is crucial for NLB Group's sustained, long-term profitable operations. Management of credit risk, which is the most important risk in NLB Group, focuses on the taking of moderate risks – a diversified credit portfolio, adequate credit portfolio quality, a sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. NLB Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Furthermore, with the aim of minimising this risk, NLB 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 NLB 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, NLB Group pursues the orientation that such 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. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to servicing customers and hedging the Bank's own positions. In the area of currency risk, NLB 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 objectives are the following:

- preservation of regulatory capital adequacy,
- preservation of internal capital adequacy,
- fulfilment of the MREL requirement,
- maintenance of low leverage,
- improvement in the quality of the credit portfolio, sufficient NPL coverage, sustainable credit risk volatility, sustainable cost of risk across the economic cycle, sustainable industry concentration, sustainable exposure to project financing,
- maintenance of a solid liquidity position, maintaining stable customer 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 foreign exchange risk,
- sustainable tolerance to net losses from operational risk.

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

Values of the most important risk appetite indicators of NLB Group as at the end of 2019, reflecting the 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%,
- Non-performing loans coverage ratio (NPL CR) 65.0%,
- Loan-to-deposit ratio (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, NLB Group concluded the year 2019 within its target risk appetite. Self-funded, strong liquidity and capital position continued, demonstrating the Group’s financial resilience.

Risk management, hedging, and mitigation

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

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

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

Risk management focuses on managing and mitigating risks in line with the Group’s Risk Appetite and Risk Strategy, and represents the foundation of the Group’s Risk management framework. Within these frameworks, the Group monitors a range of risk metrics in order to assure the Group’s risk profile is in line with its risk appetite. The use of risk limits and potential deviations from limits and target values are regularly reported to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Additionally, NLB Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient credit risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral with the aim of efficient credit risk mitigation and consuming capital economically. NLB Group applies a cash-flow based credit policy that considers the repayment capacity of the client when approving or extending the loan or other credit exposure. The received collateral represents a secondary source of repayment. In the area of project finance, a careful monitoring process is established by different experts within relevant phases of the project, namely in terms of fulfilling requested conditions and criteria before each disbursement. A project's financial status is regularly reported to the respective committees.

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

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

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

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

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

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

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

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

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

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

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

Table 13: Scope of stress testing exercises on the level of NLB Group

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

Stress testing has an important role when assessing the Group's resilience to stressed circumstances. As such it is embedded into the Group's risk management system, as an important component of sound risk management. In addition, stress testing is integrated into the risk appetite, ICAAP, ILAAP, and a recovery plan to determine how severe unexpected changes in the business and macro environment might affect

NLB Group's capital adequacy or liquidity position. Furthermore, stress tests results are considered as an important element when setting risk appetite and other risk limits.

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

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

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 ECB regulation, while NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators.

NLB Group's measurement systems and 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, and which take into account the provisions of the Directive (CRD), Decision (CRR), and EBA guidelines. With regards to capital adequacy, NLB Group applies a 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 the management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating, and in line with the Group's risk management standards. For the purposes of measuring of 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, NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, uniform databases structure within Data Warehouse (DWH), comprehensive data quality assurance and automated report preparation, which ensures the quality of reports and reduces the possibility of errors.

Data and IT system

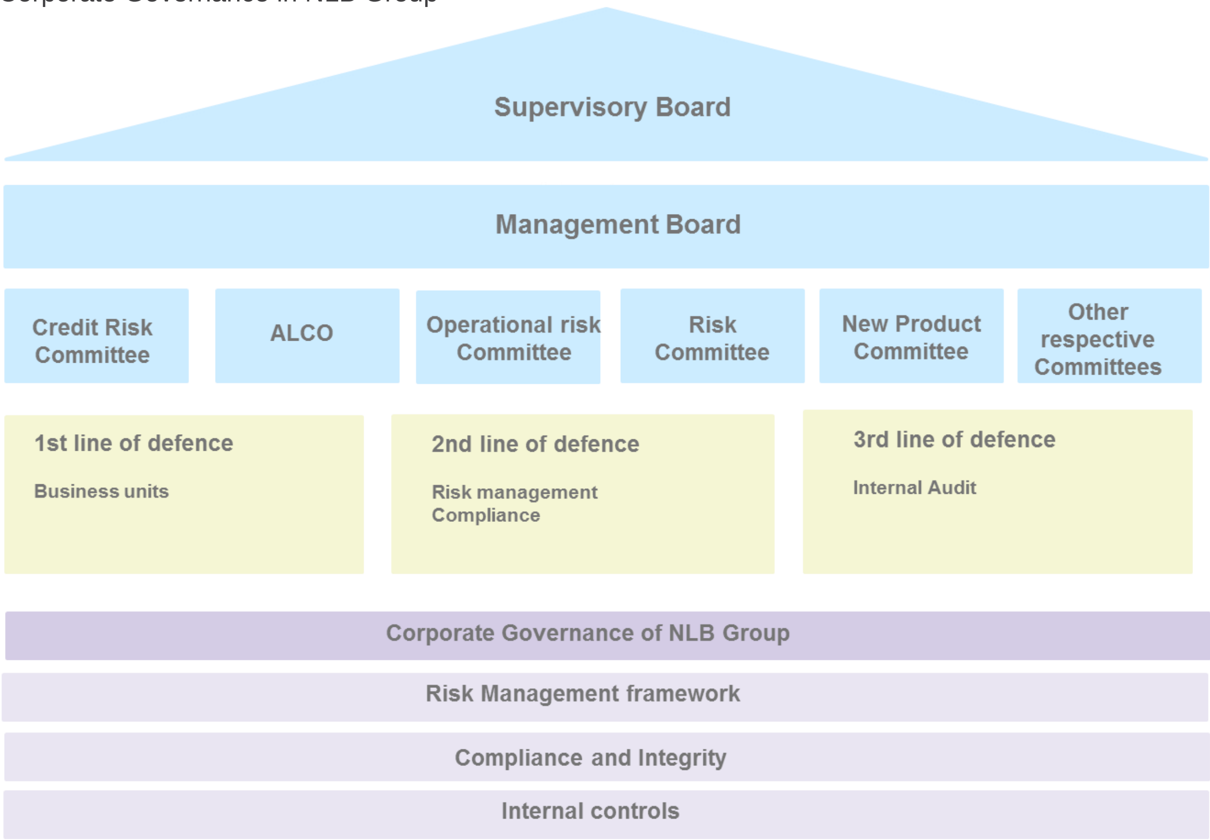
Risk data are calculated and stored in the NLB Group Data Warehouse (DWH), collected from NLB and other group member's DWH. The established process provides an integrated information in common reference structure where business users can access in a consistent and subject-oriented format. Data are regularly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

Corporate governance in relation to risk management and internal controls

NLB Group established a corporate governance framework based on the principles of sound and responsible governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), Regulation on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy

Assessment Process for Banks and Savings Banks, the EBA Guidelines on internal governance, the EBA Guidelines on the assessment of the suitability of members of the management body, and key function holders, as well as the EBA Guidelines on remuneration practices. Several layers of management, as shown in the diagram below, provide cohesive risk management governance in NLB Group.

Corporate Governance in NLB Group



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

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

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

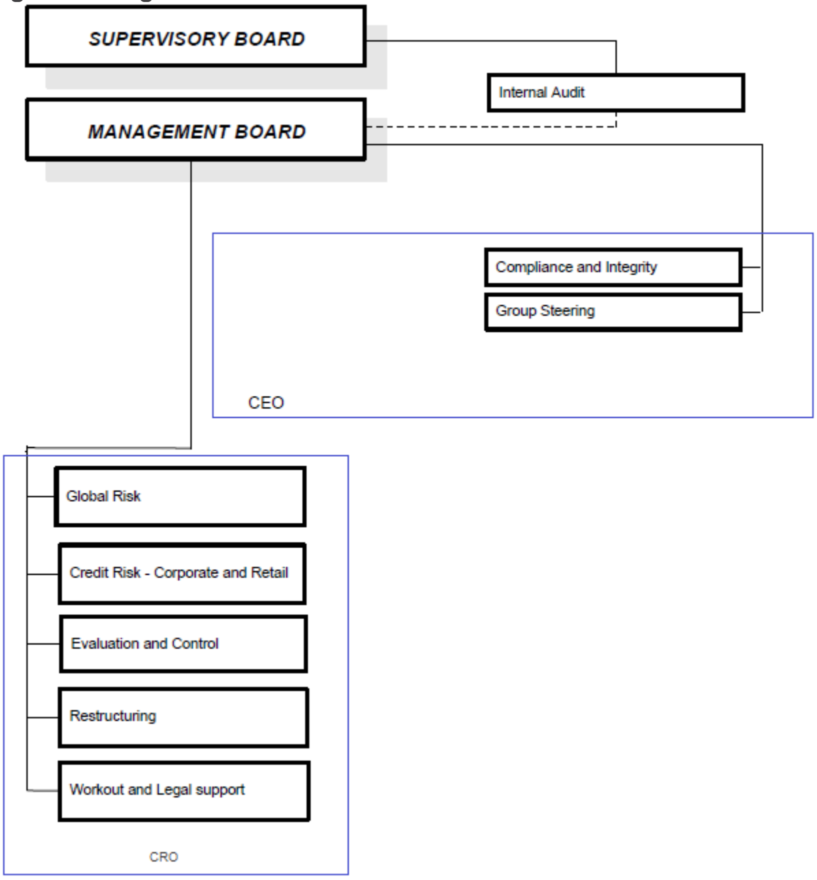
Within this framework, business units represent the first line of defence, having primary responsibility for day-to-day risk management. In addition, they are accountable for identifying and managing the risks that occur while conducting their activities with clients within risk appetite framework or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

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

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

The tasks and responsibilities of Global Risk, Compliance (also covering the information security function in accordance with the BoS regulation), and Internal Audit are set out in accordance with the definitions of the Zban-2, under which all such functions are independent and have direct access to NLB’s Supervisory Board. During 2019, there were no material changes in functions that present the second and third lines of defence of the internal control framework (Global Risk, Compliance, and Internal Audit in NLB). In 2019, a new general manager of Internal Audit was appointed (followed after regular expiry of a mandate).

Risk management organisation in NLB



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

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

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

- Credit Committee whose role is to accept decisions on grading classifications, set exposure limits, and approve loans in commercial banking in line with the Rules on Authorisations and Signing, including materially important clients within the NLB Group. In addition, the Retail Credit Committee accepts decisions on lending and other investments with terms and conditions deviating from the regular offer and exceeding authorisations of retail network directors, as defined by the Management Board.
- Asset and Liability Committee (ALCO) whose role is to analyse balance sheet positions, changes and trends, and also to form decisions to achieve a balance sheet structure in line with the Bank's business policy. Its wider role includes overseeing normal banking activity; that goals are set and targets are achieved.
- Operational Risk Committee whose role is monitoring, guiding, and supervising operational risk and other risks related to operational risk (such as IT and physical security, incidents, risk associated with projects, internal controls, etc.) management in NLB Group and NLB.
- New and Existing Products Committee whose role is assessing and mitigating risks when introducing new products and when substantial changes of existing products is proposed.
- Risk Committee whose role is to discuss, oversee, follow-up, and periodically review risk and risk-commercial related issues and submit them to the Management Board for a decision. Information on the Risk Committee and the number of times the Risk Committee has met is disclosed in Appendix 1.

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

- Risk Committee monitors and drafts resolutions for the Supervisory Board in all areas of risk relevant to NLB's operations. It consults on the current and future risk appetite and the risk management strategy, and it helps exercise control over senior management as regards implementation of the risk management strategy.
- Audit Committee monitors and prepares draft resolutions for the Supervisory Board on financial reporting, internal control and risk management, internal audit, compliance, external audit, and supervises the implementation of regulatory measures.
- Operations and IT Committee monitors and prepares draft resolutions for the Supervisory Board on implementation of Strategy for IT, Information Security and Operations area. Additionally, the Committee monitors key Operations and IT key performance and service quality indicators, key Operations and IT projects / initiatives and operating risks in the area of Operations, IT and IT Security.
- Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of Management Board and Supervisory Board members, evaluates the performance of the Management Board and the Supervisory Board, and assesses the knowledge, skills and experience of individual members of the Management Board as a whole. The Committee proposes amendments to the Management Board's policy on the selection and appointment of suitable candidates for senior management of NLB.
- Remuneration Committee carries out expert and independent assessments of remuneration policies and practices, and on this basis formulates initiatives for measures related to improving the management of NLB's risks, capital, and liquidity, prepares proposals for decisions of the Supervisory Board in relation to remuneration, and supervises the remuneration of senior management performing risk management and compliance functions.

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

Overall, the organisation and delineation of competencies in NLB Group's risk management structure is designed to prevent conflicts of interest and to ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in 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 Retail Credit Analysis Department, and the Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The Risk Management business line is in charge of formulating and controlling the risk management policies of NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within NLB Group, monitoring NLB Group's risk appetite and other risk exposures, and the preparation of external and internal reports.

All members of NLB Group which are included in the financial statements of NLB Group report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board adopt appropriate measures.

The primary responsibility for managing the risks assumed by NLB Group members within the framework of their business strategy lies with each NLB Group member's management, which, in accordance with the set limits, targets, and other guidelines established at NLB Group level, pursue NLB Group's strategic goals, implement NLB Group's planned business results, and monitor and manage risks. In furtherance of this, NLB Group members each adopt appropriate risk management policies approved by the Supervisory board of the applicable member. The Supervisory Board of each NLB Group member also monitors the implementation of that member's risk management policies and assesses their effectiveness.

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

Risk monitoring in 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 policies of NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

Compliance and Integrity in NLB Group and NLB

Compliance and Integrity in NLB 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 NLB Group (Competence line Compliance and Integrity).

In 2019, relationship management with the ECB and Bank of Slovenia regulators transferred to Internal Audit.

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

The main activities of the Compliance and Integrity Centre are:

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

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

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

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

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

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

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

Internal Audit

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

Internal Audit serves as an advisory tool for the systematic and professional assessment of the success of NLB Group's risk management procedures, control system, and governance of NLB Group operations. Following a risk-based methodology, Internal Audit prepares the yearly audit plan, which has been approved by the Management Board and Supervisory Board. On that basis, Internal Audit serves as an impartial guide to the Management and Supervisory Board regarding those areas of NLB and of NLB

Group with the highest risk in order to help ensure such risks are managed appropriately. Internal Audit also performs "Group Audits" in which internal auditors of NLB Group members participate in order to provide assurance at NLB Group level, as well as to provide additional expertise and assistance. Furthermore, a review of the quality of the internal audit service performance was carried out in all six banking members of NLB Group.

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

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

Table 14 – The number of directorships held by members of the management body

Director	Number of directorships	External directorships as counted under Article 91(3) and 91(4) of Directive 2013/36/EU
Blaž Brodnjak	5	President of the Association of Banks in Slovenia, Member of the Board of Governors: AmCham Slovenia
Andreas Burkhardt	2	None
Archibald Kremser	3	None
Laszlo Pelle	1	None

Details on functions, held by members of the management body are disclosed in the 2019 NLB Group Annual Report, in the chapter Corporate Governance (page 121).

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

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

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

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

Beside all legal and statutory set conditions, Management Body member candidates need to have adequate experience, skills, expertise, and competences, including their individual personal integrity and ability to dedicate adequate time to carry out their duties in view of possible other candidate's activities outside the Bank. By this the candidates are able to carry out their duties diligently, responsibly, effectively, as well as define and determine the values of the Bank and strategy of its operations in order to follow the objectives of its long-term success and to ensure they are in line with the Bank’s best interests and highest ethical standards of its management. Management Body candidates need to demonstrate the ability of constructively-critical cooperation when addressing the most important issues of the Bank with the objective of the continuous pursuit of the Bank’s best interest, and with this the ability of active involvement in Bank’s operations and its risk management. Management Body candidates must subordinate their personal interests, the partial interest of third parties, as well as interests which could arise from the candidate’s past functions or other activities, economic, professional, and private relationships (including the Management Board and Supervisory Board members), which could by any means influence decision-making in the Bank’s best interest.

In the case of any circumstances which could lead to conflict of interest and consequently jeopardise the adopting of independent decisions in best interest of the Bank, such conflicts should be disclosed in the selection process, and a member should accept full responsibility to take timely measures to eliminate such conflicts of interest. During the Management Body member selection process, recommendations of both genders being appropriately represented are followed.

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

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

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

Selection procedure of the candidate for the Supervisory Board

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

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

The procedure consists of the following steps:

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

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

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

The procedure consists of the following steps:
- identification of the need to search for and appoint a candidate to be NLB's Management Board member;
- definition of the profile;
- search for candidates;
- selection of the candidates;
- fit & proper assessment of the candidates;
- proposal for appointment of a candidate;
- appointment of a candidate for Management Board member.

The Management Board comprises of four members; namely the Chairman of the Board (CEO) – who is also responsible for the Large Corporates area, Retail Banking, and Private Banking; the CRO; the CFO; in 2020 after receiving the Bank of Slovenia licence, the new COO will start the mandate – who besides the IT area is also responsible for the Procurement and CREM area, as well the Back Office area.

With regard to the wide range of relevant knowledge, skills, and experience from the international environment, as well as a number of successfully completed projects, the Management Board as a whole has the appropriate expertise, skills, and experience to effectively and successfully lead the Bank. There are no foreseeable changes within the overall composition of the management body.

4.4. The policy on diversity with regard to selection of members of the management body, its objectives, and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved
(Article 435.2 c of CRR)

The Bank accepted the Policy of Supervisory Board diversity on 8 August 2016 and published it on its internet page. A new Policy of diversity with regard to selection of members of the management body was prepared in 2019, referring not only to the Supervisory board, but also to the Management Board and B-1 level, and was confirmed on General Assembly on 29.4.2019.

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

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

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

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

The Policy aims at the following:

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

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

Supervisory Board members must subordinate their personal interests, partial interest of third parties, as well as interests which could arise from the candidate's past functions or other activities, and economic, professional, and private relationships (including Management Board and Supervisory Board members), which could by any means influence their decisions in monitoring the Bank. In the composition of the Supervisory Board, recommendations of both genders being appropriately represented is followed.

The Bank has established succession systems, career and mobility planning, training, mentoring, coaching and talent management, especially for those who will potentially assume positions in the Management Board or senior management.

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

Table 15 – The structure of the Supervisory Board, Management Board, and senior management

Goal	Supervisory Board		Management Board		Senior Management	
wide range of knowledge, skills, professional experience	H		H		H	
International experience of members in various fields	H		H		MH	
Age structure	30-40	0	30-40	0	30-40	3
	40-50	3	40-50	3	40-50	24
	50-60	2	50-60	1	50-60	9
	60+	1	60+	0	60+	0
Proportion of women	0		0		53%	

H = High, M= Medium

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

5. Credit risk and general information on CRM

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

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

Credit risk management strategies and policies
Considering its core business activities, NLB Group will continue to pursue a continuous focus on clients with the aim of improving: effectiveness of the sales force, intensified development of distribution channels, and new solutions for clients. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized, and small enterprises segments, while on the corporate segment the NLB Group intends to reinforce the cooperation with selected corporate clients (through different types of lending or investment instruments). Furthermore, functionality in all of the Group's banking members, NLB Group will approach and service clients in a more structured and consistent way across the region via the international desk. Nevertheless, even in such circumstances, NLB Group is oriented towards appropriate credit portfolio diversification in order to avoid large concentration. NLB Group carefully monitors its loan portfolio and new approved loans from different aspects, including their migration and default rate.

In recent years, NLB Group has focused on active NPL management and used the positive momentum of macroeconomic recovery to improve its portfolio quality. As part of the NPL Management Strategy, the NPL level was reduced from 19.3% in 2015 to 13.8% in 2016 then to 9.2% in 2017, to 6.9% in 2018 and reached 3.8% at the end of 2019. The NPL Reduction Strategy follows the intention of reducing the existing NPL by using different measures, and at the same time a conservative credit policy enables very low NPL formation from new business.

Credit Risk appetite
With the aim to maintain the medium-term and long-term sustainability of operations, NLB Group strives to maintain the adequate quality of the credit portfolio, and increase profitability based on a concept of optimising the ratio between the return and the assumed risks. While maintaining a balanced overall risk profile, NLB will foster the development of micro and small companies to support their evolution into a robust backbone of target market economies. NLB Group places great emphasis on monitoring the concentration risk (industry, single client/group of related persons) to avoid the exposure to excessive risk. More detailed guidelines concerning the credit portfolio's quality and its concentration are defined in the NLB Group Risk Strategy and NLB Group Risk profile, whereby the target values and limits are the subject to regular, at least quarterly monitoring.

Credit risk management and mitigation
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 with 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 the Bank of Slovenia, and the EBA guidelines. This area is governed in detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB Group members, NLB ensures that the credit risk management of those entities function in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed. It is also important to secure high-quality collateral even though it does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. In this part of the credit process, regular monitoring of clients within the Early Warning

System (EWS) is important. In the case of client default, restructuring or work-out is initiated depending on the severity of the client position.

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

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

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

  Apart from default risk, the portfolio management is also focused on monitoring single name and industry concentration, migration, and FX lending risk. An increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy. Capital requirements for credit risk at 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.

The Group is constantly developing a wide range of advanced approaches, supported by mathematical and statistical models, in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools. In order to manage exposures with higher risk, NLB Group established several measures, including the introduction of an early warning system and a loan watch committee. The restructuring approaches built in the past are focused on the early warning detection of clients with potential financial difficulties and their proactive resolving. These approaches encompass systematic usage of standardised tools for the timely restructuring of exposures. Moreover, the Group has taken an active approach to the management of non-performing exposures through the implementation of its NPL reduction strategy, under which the use of different alternative measures to reduce the Group's NPL level is planned. The realisation of NPL Strategy is subject of regular follow-up by the Management and Supervisory boards, including the implementation of mitigation measures necessary to fulfill internally set targets.

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

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

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

- NLB Group finances only clients that it knows (Know Your Client) and trusts, and only those acting according to ethical and moral values, conducting legal business and transparently disclosing their operations;

- NLB Group finances only clients with a sufficient level of anticipated free cash flow, as the primary source of repayment. Furthermore, credit approval is not based only on client's financial statements, a comprehensive analysis is done by also taking into account the client's industry specifics, future cash flow generation capability, the references and competences of owners and management bodies, and critical judgement of future financial plans;
- The received collateral cannot influence the client's creditworthiness assessment. The accepted collateral represents a secondary source of repayment as a risk mitigation tool;
- In case of restructuring, NLB Group primarily follows restructuring criteria and measures with the aim to optimally resolve the client's financial difficulties. Before restructuring, a detailed analysis is performed testing the client's viability to reach sustainable financial indebtedness in mid-term and the willingness to cooperate in the restructuring process. For Corporate clients, different economic options are tested and the option that maximises the NPV for the bank is selected.

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

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

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

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

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

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

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

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

Internal control assessment in credit risk function
In 2019, Internal Audit performed several reviews in the area of credit risk management and mitigation. As the leading strengths, they identified an enhanced automatisation, efficient key controls in the credit process, and already underway process optimisation activities. Furthermore, for private individuals and micro corporates on- line products are in place, with the aim of maintaining and increasing competitiveness. The quality of consumer portfolio is good and overall portfolio monitoring is well performed. On the Group level, the Policy for the introduction of new and substantial changes of existing products has been implemented. Furthermore, as part of audit reviews, strong capabilities in the Modelling and Validation team, progress in loan collateral management, and in assessing individual impairments and provisions were identified.

Internal Audit also assesses that the NPL Strategy, the regular monitoring, regulatory reporting of NPL, and overperformed strategic goals of NPL reduction are the major strengths of the credit risk management process. Additionally, for further improvements in collection process, a comprehensive renewal of the end-to-end collection process is ongoing.

Internal Audit also identified certain possibilities for improvements in the credit risk management process. A changing and very complex regulatory environment was identified as one of the major challenges for the bank/group. Internal Audit sees that improvements in the existing IT support for credit process and loan collateral management would be needed, which will enable a higher level of automatisation and optimisation of the process. However, this depends on the decision of the future IT architecture. Possibilities for improvements have been noticed in online lending process for corporates, in-depth monitoring of retail portfolio, collateral reporting, validation of internal models and establishing general internal model governance. Identified shortcomings were addressed with adequate audit recommendations to responsible organisation units. Recommendations are in progress.

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

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

During 2019, Compliance and Integrity closely cooperated with credit risk management in supporting the identification and management of compliance and integrity risk, as well as reputation risk related to proposed investments of the bank, including AML/CTF, personal data protection, and information security risks. These assessments are also an integral part of major changes of the bank’s business or internal processes (usually managed through a project management approach) to enable the bank to foresee risks related to changes in credit risk management policies, processes, and methodologies (this approach is followed for other risks, as well). The same approach to manage credit risks, compliance risks and other types of risks is followed when assessing risks related to new or existing products which the bank offers to its clients, i.e. before introducing a new product or when regularly assessing the existing products and services of the bank.

Furthermore, as part of fraud prevention and management, Compliance and Integrity monitors all information communicated in relation to any deviations from standard procedures, and is actively involved in the conduct of investigations, corrective actions, and issuing recommendations to eliminate any irregularities detected and possible damage in cases where suspected of fraudulent or other types of harmful behaviour. This approach was used in 2019 as a standard procedure for compliance functions in NLB.

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

Table 16 – EU CRB-B – Total and average net amount of exposures of NLB Group

	2019		2018	
	Net value of exposures at the end of the period	Average net exposures over the period	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	4,454,581	3,929,026	3,583,490	3,360,314
Regional governments or local authorities	132,965	133,781	135,483	119,140
Public sector entities	150,664	122,048	112,730	87,112
Multilateral development banks	107,057	95,659	103,283	85,447
International organisations	25,225	29,105	27,196	27,196
Institutions	738,346	790,126	747,301	1,104,393
Corporates	3,489,022	3,364,606	3,342,433	3,216,310
Of which: SMEs	1,458,433	1,297,173	1,129,782	1,085,566
Retail	5,109,369	4,834,802	4,563,190	4,423,865
Of which: SMEs	1,410,425	1,164,898	957,920	932,638
Secured by mortgages on immovable property	975,744	856,916	701,415	720,463
Of which: SMEs	169,509	150,493	117,086	121,009
Exposures in default	156,110	185,103	248,034	288,986
Items associated with particularly high risk	201,050	142,850	78,272	88,390
Covered bonds	359,609	344,394	284,238	219,323
Collective investments undertakings	51,718	50,390	45,671	45,785
Equity exposures	19,012	21,773	21,833	24,171
Other exposures	676,682	653,084	644,483	626,780
Total standardised approach	**16,647,152**	**15,553,661**	**14,639,054**	**14,437,675**
Total	**16,647,152**	**15,553,661**	**14,639,054**	**14,437,675**

The highest net exposure is reached in the segments of Retail, Central government and central banks, and the Corporate segment. The highest increase of net exposure compared to 31 December 2018 is shown in the segment of Central Government and central banks as a consequence of liquidity management. The increase of exposure in the Retail segment is a result of increased lending activities in all strategic markets in NLB Group. A material decrease is shown in the exposures in default due to an ambitious NPL Reduction Strategy.

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

Table 17 – EU CRB-C – Geographical breakdown of exposures of NLB Group

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

31.12.2018	Slovenia	North Macedonia	Bosnia and Herzegovina	Kosovo	Montenegro	Serbia	Other countries	Total
Central governments or central banks	1,549,150	297,308	306,023	132,802	129,720	124,383	1,044,106	3,583,490
Regional governments or local authorities	72,860	3,501	30,741	-	5,375	3	23,003	135,483
Public sector entities	18,494	21,215	30,021	404	2,357	26,920	13,319	112,730
Multilateral development banks	-	-	-	-	-	-	103,283	103,283
International organisations	-	-	-	-	-	-	27,196	27,196
Institutions	21,675	8,114	6,973	1,183	180	5,366	703,810	747,301
Corporates	2,289,612	306,240	272,526	218,430	55,836	99,044	100,745	3,342,433
Retail	2,468,564	679,778	535,238	309,533	262,234	302,576	5,266	4,563,190
Secured by mortgages on immovable property	699,732	-	-	-	-	-	1,683	701,415
Exposures in default	146,810	17,129	12,515	1,760	40,314	22,435	7,072	248,034
Items associated with particularly high risk	24,071	5,776	8,646	15,973	7,440	2,397	13,968	78,272
Covered bonds	-	-	-	-	-	-	284,238	284,238
Collective investments undertakings	45,671	-	-	-	-	-	-	45,671
Equity exposures	15,350	525	69	-	-	-	5,890	21,833
Other exposures	297,387	92,674	73,266	29,998	76,407	55,389	19,363	644,483
Total standardised approach	**7,649,375**	**1,432,260**	**1,276,018**	**710,083**	**579,863**	**638,513**	**2,352,941**	**14,639,054**
Total	**7,649,375**	**1,432,260**	**1,276,018**	**710,083**	**579,863**	**638,513**	**2,352,941**	**14,639,054**

The table shows net exposures by country. The materiality threshold was determined in such a way, that all countries where NLB Group has banking subsidiaries are included. In this display, exposures to ‘Other countries’ have thresholds below 3.75%, of which France has 2.6% and the rest of countries are below 2%.The net exposure at the end of 2019 in Slovenia represents 52% of the total, followed by North Macedonia (9%), Bosnia and Herzegovina (8%), Kosovo and Serbia (5%), and Montenegro (4%). Other countries mostly include different EU member states, where the bulk of exposure is on Central government and Institutions for liquidity management purposes.

Compared to end of 2018, the net exposure in Slovenia increased mainly on the Central governments or central banks segment and on the Retail segment. A material decrease is shown in the exposures in default. NLB as a parent bank maintained its leading position in the Retail segment in Slovenia with a market share of 23.5%. In other markets of NLB Group, net exposures increased mainly due to increased lending activity in Retail and Central governments or central banks.

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

Table 18 – EU CRB-D – Concentration of exposures by industry or counterparty types of NLB Group

31.12.2019	Agriculture, forestry and fishing	Mining and quarrying	Manufac-turing	Electricity, gas, steam and air conditioning supply	Water supply	Constru-ction	Wholesale and retail trade	Transport and storage	Accommo-dation and food service activities	Information and communi-cation	Real estate activities	Professional, scientific and technical activities	Admini-strative and support service activities	Public admini-stration and defence, compulsory social security	Education	Human Health services and social work activities	Arts, entertain-ment and recreation	Other services	Total
Central governments or central banks	-	-	181	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,454,400	4,454,581
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	50	28	132,888	-	-	-	-	132,965
Public sector entities	4,675	3,502	4,821	6,599	2,546	110	51	3,050	4,541	30,849	4,518	3,185	79	54,024	5,909	699	1,910	19,594	150,664
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	107,057	107,057
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,225	25,225
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	738,346	738,346
Corporates	34,058	10,420	888,744	234,821	35,275	203,348	625,280	598,390	41,645	205,541	107,646	195,211	119,663	-	1,779	11,901	14,287	161,012	3,489,022
Retail	97,566	5,295	261,960	14,887	11,237	222,260	427,819	110,961	25,330	34,684	13,930	76,455	45,028	545	5,226	11,193	7,613	3,737,380	5,109,369
Secured by mortgages on immovable property	5,389	257	87,595	65	4,245	10,007	43,108	37,210	14,537	5,544	4,236	21,818	2,481	785	576	2,514	1,669	733,706	975,744
Exposures in default	2,290	481	21,201	1,726	53	15,648	44,879	4,147	2,642	686	172	14,441	1,253	2	46	2,419	766	43,259	156,110
Items associated with particularly high risk	-	-	25,897	7,010	-	91,468	8,532	219	5,148	4	35,805	4,505	1,435	-	-	1	4	21,022	201,050
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359,609	359,609
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51,718	51,718
Equity exposures	-	-	-	-	-	-	-	-	3,290	7,950	-	-	-	-	-	-	-	7,772	19,012
Other exposures	-	-	27,856	2	-	2,804	312	218	3	3,167	37,912	338	2	6	26	-	154	603,883	676,682
Total standardised approach	**143,978**	**19,956**	**1,318,256**	**265,110**	**53,356**	**545,644**	**1,149,981**	**754,195**	**97,135**	**288,425**	**204,220**	**316,002**	**169,970**	**188,250**	**13,561**	**28,728**	**26,402**	**11,063,982**	**16,647,152**
Total	**143,978**	**19,956**	**1,318,256**	**265,110**	**53,356**	**545,644**	**1,149,981**	**754,195**	**97,135**	**288,425**	**204,220**	**316,002**	**169,970**	**188,250**	**13,561**	**28,728**	**26,402**	**11,063,982**	**16,647,152**

31.12.2018	Agriculture, forestry and fishing	Mining and quarrying	Manufac-turing	Electricity, gas, steam and air conditioning supply	Water supply	Constru-ction	Wholesale and retail trade	Transport and storage	Accommo-dation and food service activities	Information and communi-cation	Real estate activities	Professional, scientific and technical activities	Admini-strative and support service activities	Public admini-stration and defence, compulsory social security	Education	Human Health services and social work activities	Arts, entertain-ment and recreation	Other services	Total
Central governments or central banks	-	-	683	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,582,807	3,583,490
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	59	7	135,417	0	-	0	0	135,483
Public sector entities	547	4	4,820	3,852	2,427	1,338	31	3,609	2,137	26,709	1,564	1,972	34	20,679	7,182	976	1,897	32,950	112,730
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103,283	103,283
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,196	27,196
Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	747,301	747,301
Corporates	26,025	12,288	879,452	169,358	38,212	244,113	609,834	614,803	36,897	167,948	93,391	145,462	140,250	7,324	3,077	11,186	15,627	127,186	3,342,433
Retail	89,499	2,963	183,725	6,917	6,307	114,275	273,044	84,977	26,810	18,812	11,661	39,094	32,438	1,685	4,155	12,554	7,833	3,646,441	4,563,190
Secured by mortgages on immovable property	1,041	61	54,931	18	3,198	5,370	37,301	24,135	12,416	2,356	4,337	13,577	3,347	221	230	958	1,408	536,511	701,415
Exposures in default	5,986	511	21,103	3,192	59	31,329	87,015	8,774	18,851	2,581	9,153	8,386	1,452	5	58	3,151	1,186	45,243	248,034
Items associated with particularly high risk	132	48	1,903	7,743	4	42,479	745	134	176	5	15,689	8,487	113	0	22	104	54	433	78,272
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	284,238	284,238
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,671	45,671
Equity exposures	-	-	-	-	-	-	-	625	3,186	7,284	-	-	-	-	-	-	-	10,739	21,833
Other exposures	0	-	23,321	2	15	4,801	485	219	4	1,403	40,659	397	65	12	27	0	188	572,886	644,483
Total standardised approach	**123,229**	**15,876**	**1,169,937**	**191,082**	**50,222**	**443,706**	**1,008,455**	**737,275**	**100,477**	**227,097**	**176,455**	**217,434**	**177,705**	**165,342**	**14,752**	**28,931**	**28,192**	**9,762,886**	**14,639,054**
Total	**123,229**	**15,876**	**1,169,937**	**191,082**	**50,222**	**443,706**	**1,008,455**	**737,275**	**100,477**	**227,097**	**176,455**	**217,434**	**177,705**	**165,342**	**14,752**	**28,931**	**28,192**	**9,762,886**	**14,639,054**

The prevailing industries at the end of 2019 are Manufacturing, Wholesale and the Retail trade. Other services include segments that cannot be attributed to an industry for example Central government, Institutions, and Retail. The highest increase in net exposure was noticed in the Manufacturing and Wholesale and the Retail trade sector as a result of new financing, while the largest decrease is noticed in Administrative and support service activities due to loan repayment.

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

Table 19 – EU CRB-E – Maturity of on-balance exposures of NLB Group

	Net exposure value				
31.12.2019	**On demand**	**Up to1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Central governments or central banks	1,869,278	716,815	1,072,508	773,698	4,432,299
Regional governments or local authorities	-	3,526	33,280	94,640	131,446
Public sector entities	-	22,557	56,627	52,896	132,080
Multilateral development banks	-	36,951	39,558	30,547	107,057
International organisations	-	-	17,403	7,822	25,225
Institutions	192,171	159,160	240,966	65,450	657,746
Corporates	64,589	650,655	908,095	747,836	2,371,174
Retail	-	692,466	1,617,398	1,579,480	3,889,344
Secured by mortgages on immovable property	-	83,123	250,868	627,242	961,232
Exposures in default	-	35,224	35,994	40,898	112,116
Items associated with particularly high risk	-	24,207	34,796	67,072	126,076
Covered bonds	-	-	273,609	86,000	359,609
Collective investments undertakings	-	6	-	51,712	51,718
Equity exposures	-	-	-	19,012	19,012
Other exposures	339,896	67,201	101,357	166,993	675,448
Total standardised approach	**2,465,934**	**2,491,891**	**4,682,458**	**4,411,298**	**14,051,581**
Total	**2,465,934**	**2,491,891**	**4,682,458**	**4,411,298**	**14,051,581**

At the end of 2019, 33.3% of net on-balance exposure has remaining maturity '1 year to 5 years,' followed by the 'Over 5 years' category with 31% and 'Up to 1 year' with 18%. In the last year the highest increase was noticed in the 'Over 5 years' and the highest decrease was noticed in the 'Up to 1 year.'

	Net exposure value				
31.12.2018	**On demand**	**Up to1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Central governments or central banks	1,191,789	451,040	1,056,329	882,702	3,581,860
Regional governments or local authorities	-	2,477	33,781	97,937	134,195
Public sector entities	16,620	12,104	23,788	35,594	88,107
Multilateral development banks	-	30,509	27,049	45,725	103,283
International organisations	-	5,019	17,485	4,692	27,196
Institutions	210,905	261,989	204,135	35,076	712,105
Corporates	45,387	1,005,663	654,468	545,050	2,250,568
Retail	1,947	664,884	1,971,179	1,099,005	3,737,015
Secured by mortgages on immovable property	-	10,546	283,785	397,886	692,217
Exposures in default	-	63,461	96,086	49,911	209,458
Items associated with particularly high risk	-	19,337	18,043	28,050	65,430
Covered bonds	-	-	192,479	91,759	284,238
Collective investments undertakings	1,176	11	-	44,484	45,671
Equity exposures	-	-	-	21,809	21,809
Other exposures	312,748	54,322	93,766	183,640	644,476
Total standardised approach	**1,780,572**	**2,581,364**	**4,672,375**	**3,563,318**	**12,597,629**
Total	**1,780,572**	**2,581,364**	**4,672,375**	**3,563,318**	**12,597,629**

5.6. Credit quality of exposures by exposure class and instrument types
(Article 442 g and h of CRR)

Table 20 – EU CR1-A – Credit quality of exposures by exposure class and instrument types of NLB Group

		Gross carrying values of						
	31.12.2019	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
16	Central governments or central banks	-	4,462,173	-	7,592	-	1,379	4,454,581
17	Regional governments or local authorities	-	136,196	-	3,231	-	719	132,965
18	Public sector entities	-	153,101	-	2,437	-	181	150,664
19	Multilateral development banks	-	107,075	-	18	-	(10)	107,057
20	International organisations	-	25,252	-	28	-	7	25,225
21	Institutions	-	738,974	-	629	3	(1,228)	738,346
22	Corporates	249	3,533,690	224	44,693	9	(1,565)	3,489,022
23	*Of which: SMEs*	249	1,486,715	224	28,307	9	9,858	1,458,433
24	Retail	-	5,156,443	-	47,074	221	(5,656)	5,109,369
25	*Of which: SMEs*	-	1,427,072	-	16,647	36	(181)	1,410,425
26	Secured by mortgages on immovable property	-	978,427	-	2,684	-	(8,334)	975,744
27	*Of which: SMEs*	-	171,330	-	1,821	-	767	169,509
28	Exposures in default	370,731	-	214,622	-	105,638	6,437	156,110
29	Items associated with particularly high risk	73,268	186,072	53,143	5,147	29,855	(5,689)	201,050
30	Covered bonds	-	360,037	-	428	-	99	359,609
32	Collective investments undertakings	-	51,718	-	-	-	-	51,718
33	Equity exposures	3,290	15,722	-	-	-	-	19,012
34	Other exposures	538	676,322	26	152	2	342	676,682
35	***Total standardised approach***	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**
36	***Total***	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**
37	Of which: Loans	372,579	9,515,271	240,376	90,816	135,727	(14,997)	9,556,657
38	Of which: Debt securities	798	3,741,975	798	7,943	-	1,367	3,734,031
39	Of which: Off- balance-sheet exposures	70,833	2,566,933	26,840	15,354	-	312	2,595,572

		Gross carrying values of						
	30.6.2019	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
16	Central governments or central banks	-	3,687,747	-	7,160	-	957	3,680,586
17	Regional governments or local authorities	-	135,825	-	2,945	-	431	132,879
18	Public sector entities	-	120,241	-	1,334	-	(203)	118,907
19	Multilateral development banks	-	91,373	-	27	-	(1)	91,346
20	International organisations	-	30,445	-	20	-	(1)	30,425
21	Institutions	-	815,893	-	770	1	(22)	815,123
22	Corporates	473	3,430,769	222	43,008	-	(256)	3,388,012
23	*Of which: SMEs*	473	1,226,699	222	26,127	-	5,915	1,200,822
24	Retail	-	4,731,948	-	42,801	167	(3,238)	4,689,147
25	*Of which: SMEs*	-	980,453	-	12,182	2	(1,104)	968,271
26	Secured by mortgages on immovable property	-	748,361	-	1,906	-	434	746,455
27	*Of which: SMEs*	-	127,636	-	1,329	-	529	126,308
28	Exposures in default	489,662	-	295,994	-	28,144	3,370	193,668
29	Items associated with particularly high risk	115,000	100,734	89,559	2,896	1,465	(1,176)	123,279
30	Covered bonds	-	349,640	-	416	-	87	349,224
32	Collective investments undertakings	34	48,873	-	-	-	-	48,907
33	Equity exposures	10,138	14,383	-	-	-	-	24,521
34	Other exposures	200	647,824	27	144	-	340	647,853
35	***Total standardised approach***	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**
36	***Total***	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**
37	Of which: Loans	540,180	8,538,505	354,578	82,273	29,777	(2,466)	8,641,834
38	Of which: Debt securities	798	3,600,971	798	7,837	-	1,267	3,593,134
39	Of which: Off- balance-sheet exposures	64,021	2,103,604	30,426	13,315	-	1,920	2,123,884

		Gross carrying values of						
	31.12.2018	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
16	Central governments or central banks	-	3,589,788	-	6,298	-	315	3,583,490
17	Regional governments or local authorities	-	137,996	-	2,513	-	(194)	135,483
18	Public sector entities	-	114,257	-	1,527	-	(637)	112,730
19	Multilateral development banks	-	103,311	-	29	-	10	103,283
20	International organisations	-	27,217	-	21	-	12	27,196
21	Institutions	-	747,994	-	693	-	(1,889)	747,301
22	Corporates	224	3,384,109	224	41,676	1	(14,524)	3,342,433
23	*Of which: SMEs*	224	1,150,604	224	20,822	-	1,876	1,129,782
24	Retail	-	4,604,153	-	40,963	81	(6,737)	4,563,190
25	*Of which: SMEs*	-	970,676	-	12,756	60	308	957,920
26	Secured by mortgages on immovable property	-	702,616	-	1,201	-	(429)	701,415
27	*Of which: SMEs*	-	117,851	-	765	-	(371)	117,086
28	Exposures in default	617,945	-	369,911	-	85,194	(670)	248,034
29	Items associated with particularly high risk	60,345	66,859	47,398	1,534	13,269	(5,689)	78,272
30	Covered bonds	-	284,569	-	331	-	224	284,238
32	Collective investments undertakings	-	45,671	-	-	-	-	45,671
33	Equity exposures	3,860	17,973	-	-	-	-	21,833
34	Other exposures	2,405	644,207	2,047	82	5	5	644,483
35	***Total standardised approach***	**684,779**	**14,470,719**	**419,580**	**96,866**	**98,551**	**(30,203)**	**14,639,054**
36	***Total***	**684,779**	**14,470,719**	**419,580**	**96,866**	**98,551**	**(30,203)**	**14,639,054**
37	Of which: Loans	613,480	8,473,071	391,164	77,968	98,551	(27,753)	8,617,419
38	Of which: Debt securities	798	3,272,613	798	6,569	-	706	3,266,044
39	Of which: Off- balance-sheet exposures	66,195	2,015,152	27,618	12,328	-	(3,156)	2,041,401

In 2019, gross exposure increased by EUR 1,874 million, mostly in the Central government and central banks and Retail segments. The decrease in gross defaulted exposures was compensated by additional non-default exposures, primarily in the Retail segment. The decrease of default exposures was achieved mostly due to measures of defaulted exposure management. The volume of specific risk adjustment was reduced by EUR 152 million, mostly due to default exposure reduction.

Table 21 – EU CR1-B – Credit quality of exposures by industry or counterparty types of NLB Group

	Gross carrying values of						
31.12.2019	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
Agriculture, forestry and fishing	7,625	144,066	5,334	2,378	1,826	979	143,978
Mining and quarrying	1,788	19,800	1,307	326	1,683	(1,086)	19,956
Manufacturing	53,037	1,313,284	31,804	16,261	15,988	(377)	1,318,256
Electricity, gas, steam and air conditioning supply	3,503	266,133	1,775	2,750	1	1,143	265,110
Water supply	110	53,905	57	601	43	90	53,356
Construction	63,719	527,545	38,832	6,788	32,321	(3,769)	545,644
Wholesale and retail trade	121,554	1,120,435	74,969	17,040	46,878	(158)	1,149,981
Transport and storage	16,272	753,332	11,916	3,493	436	(6,857)	754,195
Accommodation and food service activities	10,861	93,363	4,929	2,159	863	1,552	97,135
Information and communication	2,127	291,163	1,434	3,430	27	213	288,425
Real estate activities	16,534	203,742	11,600	4,456	9,023	(5,271)	204,220
Professional, scientific and technical activities	44,174	299,186	25,244	2,114	4,032	3,358	316,002
Administrative and support service activities	3,539	170,570	2,284	1,855	882	(264)	169,970
Public administration and defence, compulsory social security	329	192,368	327	4,120	6	(159)	188,250
Education	63	14,098	17	583	5	133	13,562
Human health services and social work activities	4,546	26,834	2,127	525	57	25	28,728
Arts, entertainment and recreation	1,526	26,280	681	722	54	(4)	26,402
Other services	96,771	11,065,098	53,376	44,512	21,604	(2,866)	11,063,982
Total	**448,076**	**16,581,203**	**268,014**	**114,112**	**135,727**	**(13,318)**	**16,647,152**

	Gross carrying values of						
30.6.2019	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
Agriculture, forestry and fishing	9,922	127,555	6,962	1,352	132	4	129,163
Mining and quarrying	4,330	15,604	3,780	182		(212)	15,973
Manufacturing	71,905	1,153,490	45,027	16,357	3,077	194	1,164,011
Electricity, gas, steam and air conditioning supply	3,909	176,830	1,833	1,712	1	162	177,194
Water supply	129	49,730	52	508	42	(8)	49,299
Construction	100,074	426,088	64,740	6,436	10,163	(549)	454,985
Wholesale and retail trade	174,891	989,638	118,378	13,909	3,681	(3,675)	1,032,243
Transport and storage	34,824	733,229	20,376	3,911	73	1,799	743,766
Accommodation and food service activities	25,716	80,505	4,057	1,119	178	502	101,044
Information and communication	2,297	236,043	1,773	2,739	1	(128)	233,827
Real estate activities	27,620	204,383	20,574	4,428	6,092	889	207,002
Professional, scientific and technical activities	37,861	198,281	27,719	1,842	4	1,808	206,580
Administrative and support service activities	4,398	182,189	2,943	1,812	87	10	181,831
Public administration and defence, compulsory social security	347	172,845	344	3,534	-	(730)	169,314
Education	89	14,691	20	533	-	85	14,228
Human health services and social work activities	5,009	26,846	2,207	519	1	43	29,128
Arts, entertainment and recreation	3,443	27,048	2,288	764	-	39	27,438
Other services	108,740	10,139,061	62,727	41,769	6,245	489	10,143,306
Total	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**

	Gross carrying values of						
31.12.2018	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
Agriculture, forestry and fishing	13,018	118,673	7,032	1,429	1,533	1,582	123,229
Mining and quarrying	4,493	15,554	3,934	237	4	1,014	15,876
Manufacturing	70,192	1,165,242	49,090	16,408	13,932	3,202	1,169,937
Electricity, gas, steam and air conditioning supply	5,718	189,407	2,525	1,519	209	(2,403)	191,082
Water supply	191	50,643	117	494	7	141	50,222
Construction	114,675	411,393	75,867	6,495	15,500	(905)	443,706
Wholesale and retail trade	214,726	935,567	127,647	14,191	31,705	(7,239)	1,008,455
Transport and storage	29,499	730,330	20,100	2,454	2,549	(4,031)	737,275
Accommodation and food service activities	25,600	79,561	3,564	1,120	1,042	(517)	100,477
Information and communication	4,907	226,866	2,232	2,444	82	(478)	227,097
Real estate activities	41,300	165,412	26,726	3,531	15,493	(5,380)	176,455
Professional, scientific and technical activities	33,908	211,273	25,521	2,226	712	181	217,434
Administrative and support service activities	4,365	177,978	2,881	1,757	123	371	177,705
Public administration and defence, compulsory social security	1,494	168,459	1,489	3,122	-	(1,182)	165,342
Education	79	15,146	21	452	386	61	14,752
Human health services and social work activities	5,382	26,303	2,231	523	-	(792)	28,931
Arts, entertainment and recreation	3,666	27,546	2,380	639	2,092	(545)	28,192
Other services	111,565	9,755,367	66,221	37,825	13,185	(13,283)	9,762,886
Total	**684,779**	**14,470,719**	**419,580**	**96,866**	**98,551**	**(30,203)**	**14,639,054**

Manufacturing (representing 8% of total gross exposure) and Wholesale and the Retail trade (7%) remain the strongest industries at the end of 2019. Non-defaulted exposures increased most in the Manufacturing, Wholesale and Retail trade segments, and in the Construction industry. Other services represent all client segments that are not considered non-financial corporations (including Central government, Retail and Institutions).

Table 22 – EU CR1-C – Credit quality of exposures by geography of NLB Group

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

	Gross carrying values of						
30.6.2019	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	219,722	7,530,739	97,512	32,880	9,123	(297)	7,620,069
North Macedonia	59,428	1,440,333	42,223	25,838	1,156	(4,550)	1,431,700
Bosnia and Herzegovina	71,178	1,332,366	59,702	14,768	4,320	(6,562)	1,329,074
Kosovo	15,454	763,075	14,081	18,079	136	1,483	746,370
Serbia	57,602	714,684	34,959	4,227	12,430	7,698	733,100
Montenegro	121,316	566,189	78,086	4,612	845	4,027	604,808
Other countries	70,806	2,606,667	59,240	3,022	1,767	(1,079)	2,615,211
Total	**615,507**	**14,954,055**	**385,802**	**103,427**	**29,777**	**721**	**15,080,332**

	Gross carrying values of						
31.12.2018	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
Slovenia	249,456	7,534,151	101,978	32,254	37,044	(12,777)	7,649,375
North Macedonia	59,643	1,438,207	42,512	23,077	9,128	8,762	1,432,260
Bosnia and Herzegovina	85,944	1,275,854	72,360	13,419	5,717	332	1,276,018
Kosovo	16,259	724,998	14,442	16,733	1,619	4,048	710,083
Montenegro	123,527	540,204	79,157	4,711	14,908	288	579,863
Serbia	72,657	618,267	48,353	4,057	13,835	559	638,513
Other countries	77,294	2,339,039	60,778	2,614	16,299	(31,415)	2,352,941
Total	**684,779**	**14,470,719**	**419,580**	**96,866**	**98,551**	**(30,203)**	**14,639,054**

Slovenia is the biggest market for NLB Group with 51% of gross exposure at the end of 2019, followed by North Macedonia (10%), Bosnia and Herzegovina (8%) and other countries where the Group's banking subsidiaries are established. Nevertheless, the growth rate of gross exposure in countries where banking subsidiaries are established exceeds the growth in Slovenia. The increase of non-default exposures was the highest in Slovenia, however, this also includes exposures to Central governments as part of liquidity management.

5.7. Non-performing and forborne exposures

(Article 442 a, b, and i of CRR)

The bank uses a unified definition of past due and default exposures that is aligned with Article 178 of CRR. Defaulted clients are rated D, DF, or E based on the Bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level, however, the rating can be deteriorated based on the rating of other credit facilities of the same client. The new EU regulation, which sets common rules regarding the days of delay that trigger default will be applied in NLB Group during 2020.

The Bank has an objective credit rating classification methodology that classifies all past-due exposures to D, DF, or E credit rating. Based on that, an assessment of (individual or collective) impairments and provisions is performed.

The Bank recognises individual impairments for all defaulted exposures exceeding the materiality threshold, while clients with lower exposure obtain collective impairments and provisions. These are based on 100% PD and LGDs applicable based on available collateral and expected repayments from other sources.

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

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

Table 23 – Template 1 – Credit quality of forborne exposures

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

	31.12.2018	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**73,018**	**339,516**	**339,516**	**339,516**	**(5,174)**	**(203,851)**	**191,600**	**128,682**
3	General governments	-	7,264	7,264	7,264	-	(3,802)	3,462	3,462
5	Other financial corporations	36	1,935	1,935	1,935	(1)	(1,935)	35	-
6	Non-financial corporations	59,192	307,784	307,784	307,784	(4,694)	(190,200)	163,237	111,332
7	Households	13,790	22,533	22,533	22,533	(479)	(7,914)	24,866	13,888
9	Loan commitments given	1,173	4,061	4,061	4,061	(10)	(1,055)	3,103	2,438
10	**Total**	**74,191**	**343,577**	**343,577**	**343,577**	**(5,184)**	**(204,906)**	**194,703**	**131,120**

Table 24 – Template 3 – Credit quality of performing and non-performing exposures by past due days

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

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
31.12.2018	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**8,473,105**	**8,392,498**	**80,607**	**613,924**	**236,331**	**22,463**	**22,711**	**111,687**	**82,646**	**49,227**	**88,859**	**613,924**
Central banks	1,075,389	1,075,388	1	-	-	-	-	-	-	-	-	-
General governments	369,763	369,744	19	8,770	7,294	9	1,280	6	102	-	79	8,770
Credit institutions	340,016	340,010	6	15	15	-	-	-	-	-	-	15
Other financial corporations	100,243	100,233	10	3,351	54	-	-	-	3,297	-	-	3,351
Non-financial corporations	2,794,024	2,767,478	26,546	493,868	189,344	13,594	10,271	89,100	66,570	43,834	81,155	493,868
Of which SMEs	1,411,248	1,389,721	21,527	333,190	97,949	7,198	9,234	58,824	48,544	43,821	67,620	333,190
Households	3,793,670	3,739,645	54,025	107,920	39,624	8,860	11,160	22,581	12,677	5,393	7,625	107,920
Debt securities	**3,286,560**	**3,286,560**	**-**	**798**	**798**	**-**	**-**	**-**	**-**	**-**	**-**	**798**
Central banks	68,166	68,166	-	-	-	-	-	-	-	-	-	-
General governments	2,325,234	2,325,234	-	-	-	-	-	-	-	-	-	-
Credit institutions	773,561	773,561	-	-	-	-	-	-	-	-	-	-
Other financial corporations	28,100	28,100	-	798	798	-	-	-	-	-	-	798
Non-financial corporations	91,499	91,499	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**1,976,001**			**60,111**								**60,111**
Central banks	126			-								-
General governments	5,829			139								139
Credit institutions	28,099			93								93
Other financial corporations	10,029			100								100
Non-financial corporations	1,364,982			58,675								58,675
Households	566,936			1,104								1,104
Total	**13,735,666**	**11,679,058**	**80,607**	**674,833**	**237,129**	**22,463**	**22,711**	**111,687**	**82,646**	**49,227**	**88,859**	**674,833**

Table 25 – Template 4 – Performing and non-performing exposures and related provisions

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

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumu-lated partial write-off	On performing exposures	On non-performing exposures
31.12.2018	**Total**	**Of which stage 1**	**Of which stage 2**	**Total**	**Of which stage 2**	**Of which stage 3**	**Total**	**Of which stage 1**	**Of which stage 2**	**Total**	**Of which stage 2**	**Of which stage 3**			
Loans and advances	**8,473,105**	**7,893,671**	**579,434**	**613,924**	**-**	**613,924**	**(77,968)**	**(42,325)**	**(35,643)**	**(391,163)**	**-**	**(391,163)**	**(98,551)**	**4,062,564**	**200,048**
Central banks	1,075,389	1,075,389	-	-	-	-	(410)	(410)	-	-	-	-	-	-	-
General governments	369,763	365,299	4,464	8,770	-	8,770	(3,419)	(3,068)	(351)	(4,443)	-	(4,443)	-	121,726	3,463
Credit institutions	340,016	339,366	650	15	-	15	(292)	(225)	(67)	(15)	-	(15)	-	995	-
Other financial corporations	100,243	100,084	159	3,351	-	3,351	(441)	(439)	(2)	(3,286)	-	(3,286)	-	27,677	44
Non-financial corporations	2,794,024	2,365,215	428,809	493,868	-	493,868	(46,011)	(19,591)	(26,420)	(320,479)	-	(320,479)	(86,044)	1,818,024	160,297
Of which SMEs	1,411,248	1,234,845	176,403	333,190	-	333,190	(27,512)	(15,772)	(11,740)	(242,408)	-	(242,408)	(60,647)	957,636	86,150
Households	3,793,670	3,648,318	145,352	107,920	-	107,920	(27,395)	(18,592)	(8,803)	(62,940)	-	(62,940)	(12,507)	2,094,142	36,244
Debt securities	**3,286,560**	**3,286,246**	**314**	**798**	**-**	**798**	**(6,569)**	**(6,494)**	**(75)**	**(798)**	**-**	**(798)**	**-**	**-**	**-**
Central banks	68,166	68,166	-	-	-	-	(62)	(62)	-	-	-	-	-	-	-
General governments	2,325,234	2,324,920	314	-	-	-	(5,623)	(5,548)	(75)	-	-	-	-	-	-
Credit institutions	773,561	773,561	-	-	-	-	(775)	(775)	-	-	-	-	-	-	-
Other financial corporations	28,100	28,100	-	798	-	798	(21)	(21)	-	(798)	-	(798)	-	-	-
Non-financial corporations	91,499	91,499	-	-	-	-	(88)	(88)	-	-	-	-	-	-	-
Off-balance-sheet exposures	**1,976,001**	**1,784,272**	**191,729**	**60,111**	**-**	**60,111**	**(12,328)**	**(9,065)**	**(3,263)**	**(26,754)**	**-**	**(26,754)**		**295,840**	**10,259**
Central banks	126	126	-	-	-	-	-	-	-	-	-	-		-	-
General governments	5,829	5,758	71	139	-	139	(55)	(55)	-	(20)	-	(20)		118	60
Credit institutions	28,099	28,099	-	93	-	93	(18)	(18)	-	(24)	-	(24)		699	-
Other financial corporations	10,029	9,841	188	100	-	100	(38)	(36)	(2)	(77)	-	(77)		1,473	-
Non-financial corporations	1,364,982	1,181,136	183,846	58,675	-	58,675	(8,957)	(5,873)	(3,084)	(26,205)	-	(26,205)		287,602	10,083
Households	566,936	559,312	7,624	1,104	-	1,104	(3,260)	(3,083)	(177)	(428)	-	(428)		5,948	116
Total	**13,735,666**	**12,964,189**	**771,477**	**674,833**	**-**	**674,833**	**(96,865)**	**(57,884)**	**(38,981)**	**(418,715)**	**-**	**(418,715)**	**(98,551)**	**4,358,404**	**210,307**

Table 26 – Template 9 – Collateral obtained by taking possession and execution processes

31.12.2019	Collateral obtained by taking possession Value at initial recognition	 Accumulated negative changes
Property, plant and equipment (PP&E)	-	-
Other than PP&E	119,034	(33,483)
Residential immovable property	12,445	(3,430)
Commercial immovable property	105,871	(31,082)
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	718	1,029
Total	**119,034**	**(33,483)**

31.12.2018	Collateral obtained by taking possession Value at initial recognition	 Accumulated negative changes
Property, plant and equipment (PP&E)	-	-
Other than PP&E	136,423	(33,390)
Residential immovable property	16,600	(3,331)
Commercial Immovable property	119,639	(34,662)
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	184	4,603
Total	**136,423**	**(33,390)**

Table 27 – EU CR2-A – Changes in the stock of general and specific credit risk adjustments of NLB Group

		2019		H1 2019		2018	
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	(419,580)	(96,865)	(419,580)	(96,865)	(530,972)	(88,002)
2	Increases due to amounts set aside for estimated loan losses during the period	(14,510)	(61,760)	(10,342)	(28,206)	(23,649)	(61,686)
3	Decreases due to amounts reversed for estimated loan losses during the period	27,941	44,271	11,514	21,616	36,488	52,637
4	Decreases due to amounts taken against accumulated credit risk adjustments	135,456	271	29,729	48	98,451	100
5	Transfers between credit risk adjustments	-	-	-	-	-	-
8	Other adjustments	2,679	(30)	2,877	(19)	102	86
9	**Closing balance**	(268,014)	(114,113)	(385,802)	(103,426)	(419,580)	(96,865)
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	17,376	11	4,697	-	26,402	11
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-	-	-	-	-

Credit impairments and provisions were released in the amount of EUR 13.3 million (in 2018 EUR 30.2 million). The cost of risk in both periods is negative, but increased from -43 basis points to -20 basis points.

Table 28 – EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities of NLB Group

	2019	H1 2019	2018
	Gross carrying value defaulted exposures	**Gross carrying value defaulted exposures**	**Gross carrying value defaulted exposures**
Opening balance	**614,278**	**614,278**	**855,630**
Loans and debt securities that have defaulted or impaired since the last reporting period	52,982	29,355	60,468
Returned to non-defaulted status	(54,579)	(18,601)	(50,144)
Amounts written off	(135,727)	(29,777)	(98,551)
Other changes	(103,577)	(54,277)	(153,124)
Closing balance	**373,377**	**540,977**	**614,278**

In 2019, based on the NPL Strategy, there was a material decrease of default exposures that amounted to EUR 241 million or 39% of the initial default exposure volume. The measures that let to such decrease were repayments, sale of loans, liquidation of collateral, write-offs (final and those to off-balance based on the Bank of Slovenia regulation) and defaults returned to non-defaulted status. The new default flow is a result of normal portfolio movements and represents 14% of the portfolio at the end of 2019.

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

Credit protection policy
The NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the 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 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 (for example, a lien on movable property, a pledge of an equity stake, investment coupons, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. If there is of a lower probability that this type of collateral would generate a cash flow, the NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

The processes for valuing collateral
In compliance with relevant regulations, the 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 between 30 and 70%, depending on the type of real estate and location, for movables they range between 50 and 100% depending on the type of movable.

The market value of financial instruments held by the 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, and RICS). Appraisals related to retail loans are generally ordered only from appraisers with whom the NLB has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal that is not made by an appraiser included on the NLB's reference list, the NLB's expert department which employs certified 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).

The main types of collateral taken by the Bank
NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

The 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.
- Pledge of an equity stake: non-marketable capital shares with a credit rating of at least B are adequate.
- Pledge or assignment of receivables as collateral: cash receivables must have longer maturities than the maturity of the investment and they must not be due and not be paid.
- Other material forms of loan collateral (e.g. life insurance policies pledged to NLB): the Bank accepts products of NLB Vita, life insurance company – pledge of an investment life insurance policy and a life insurance policy with a guaranteed return that includes saving, in addition to insurance.

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

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

The 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.

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

The CRR eligible collateral that allow a decrease in RWA for credit risks amounts to EUR 687 million and represents 5.5% of the net exposure pre CCR and CRM. The prevailing types of collateral used as CRM are government guarantees and cash deposits, the bank does not use credit derivatives to manage capital requirements. The low volume of eligible collateral shows the low concentration from a CRM point of view.

Table 29 – EU CR3 – CRM techniques – Overview of NLB Group

31.12.2019	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	8,954,623	602,034	560,587	512,692	-
Total debt securities	3,599,835	134,196	126,189	126,189	-
Total exposures	**12,554,459**	**736,230**	**686,776**	**638,881**	**-**
Of which defaulted	4,134	17,831	351	15	-

30.6.2019	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	8,022,984	618,850	580,733	531,083	-
Total debt securities	3,458,963	134,171	134,138	134,138	-
Total exposures	**11,481,947**	**753,021**	**714,870**	**665,221**	**-**
Of which defaulted	4,640	16,355	553	65	-

31.12.2018	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	7,958,824	658,594	619,594	565,493	-
Total debt securities	3,139,899	126,145	126,109	126,109	-
Total exposures	**11,098,724**	**784,739**	**745,703**	**691,602**	**-**
Of which defaulted	7,011	26,419	647	108	-

At the end of 2019, the secured part of the portfolio represents 5.5% of the total portfolio. However, it has to be considered that such low share is due to stick rules applied to the eligible collateral in the standardised approach. The values of secured exposure decreased in 2019, primarily due to repayment of exposure with state guarantees.

Table 30 – CRM techniques – Overview by exposure classes of NLB Group

31.12.2019 Exposure classes	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Central governments or central banks	4,394,320	-	-	-
Regional government or local authorities	131,442	-	-	-
Public sector entities	127,464	4,597	4,597	4,568
Multilateral development banks	107,057	-	-	-
International organisations	25,225	-	-	-
Institutions	591,083	61,892	53,890	53,890
Corporates	1,753,358	616,474	585,545	576,374
Retail	3,844,021	44,123	36,728	39
Secured by mortgages on immovable property	961,232	-	-	-
Exposures in default	111,597	451	338	15
Exposures associated with particularly high risk	118,310	7,766	4,750	3,995
Covered bonds	359,609	-	-	-
Collective investment undertakings	1,556	-	-	-
Other items	28,186	928	928	-
Total	**12,554,459**	**736,230**	**686,776**	**638,881**

31.12.2018 Exposure classes	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
Central governments or central banks	3,557,312	-	-	-
Regional government or local authorities	134,193	-	-	-
Public sector entities	82,050	5,856	5,855	5,836
Multilateral development banks	103,283	-	-	-
International organisations	27,196	-	-	-
Institutions	654,159	53,528	53,496	53,496
Corporates	1,580,803	668,541	640,275	627,447
Retail	3,689,224	46,998	39,524	23
Secured by mortgages on immovable property	692,217	-	-	-
Exposures in default	208,508	856	622	108
Exposures associated with particularly high risk	56,471	8,960	5,931	4,692
Covered bonds	284,238	-	-	-
Collective investment undertakings	1,187	-	-	-
Other items	27,883	-	-	-
Total	**11,098,724**	**784,739**	**745,703**	**691,602**

Table 31 – EU CR4 – Standardised Approach – Credit risk exposure and CRM effects of NLB Group

	31.12.2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
1	Central governments or central banks	4,432,299	22,282	5,119,059	15,761	1,234,573	24%
2	Regional government or local authorities	131,446	1,519	131,446	304	58,943	45%
3	Public sector entities	132,080	18,583	127,484	3,153	102,111	78%
4	Multilateral development banks	107,057	-	107,057	-	-	-
5	International organisations	25,225	-	25,225	-	-	-
6	Institutions	657,746	80,600	603,871	22,343	208,104	33%
7	Corporates	2,371,174	1,117,847	1,785,630	290,571	2,044,864	98%
8	Retail	3,889,344	1,220,025	3,852,615	268,701	2,934,373	71%
9	Secured by mortgages on immovable property	961,232	14,512	961,232	3,897	363,798	38%
10	Exposures in default	112,116	43,994	111,778	10,074	139,956	115%
11	Exposures associated with particularly high risk	126,076	74,975	121,325	14,903	204,343	150%
12	Covered bonds	359,609	-	359,609	-	39,589	11%
14	Collective investment undertakings	51,718	-	51,718	-	13,287	26%
15	Equity	19,012	-	19,012	-	35,375	186%
16	Other items	675,448	1,235	674,520	247	340,914	51%
17	**Total**	**14,051,581**	**2,595,572**	**14,051,581**	**629,955**	**7,720,230**	**52.6%**

	30.6.2019	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
1	Central governments or central banks	3,677,102	3,485	4,391,957	14,406	1,151,281	26%
2	Regional government or local authorities	129,413	3,467	129,413	693	53,280	41%
3	Public sector entities	100,338	18,568	95,057	3,728	70,401	71%
4	Multilateral development banks	91,346	-	91,346	-	-	-
5	International organisations	30,425	-	30,425	-	-	-
6	Institutions	734,840	80,284	672,095	21,883	244,727	35%
7	Corporates	2,260,050	1,127,962	1,656,943	349,687	1,953,740	97%
8	Retail	3,852,177	836,970	3,814,098	190,730	2,869,547	72%
9	Secured by mortgages on immovable property	738,556	7,899	738,556	2,772	281,240	38%
10	Exposures in default	160,073	33,595	159,539	8,367	202,504	121%
11	Exposures associated with particularly high risk	111,627	11,651	106,518	2,545	163,595	150%
12	Covered bonds	349,224	-	349,224	-	38,238	11%
14	Collective investment undertakings	48,907	-	48,907	-	10,376	21%
15	Equity	24,521	-	24,521	-	40,060	163%
16	Other items	647,849	4	647,849	1	349,257	54%
17	**Total**	**12,956,448**	**2,123,884**	**12,956,448**	**594,812**	**7,428,244**	**54.8%**

31.12.2018	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1 Central governments or central banks	3,581,860	1,630	4,327,557	14,260	1,101,858	25%
2 Regional government or local authorities	134,195	1,288	134,195	258	53,195	40%
3 Public sector entities	88,106	24,624	82,252	5,088	69,635	80%
4 Multilateral development banks	103,283	-	103,283	-	-	-
6 Institutions	712,105	35,196	658,615	12,189	238,054	35%
7 Corporates	2,250,568	1,091,865	1,610,293	344,753	1,902,214	97%
8 Retail	3,737,015	826,175	3,697,491	187,635	2,782,815	72%
9 Secured by mortgages on immovable property	692,217	9,198	692,217	3,138	260,664	37%
10 Exposures in default	209,458	38,576	208,836	8,750	268,623	123%
11 Exposures associated with particularly high risk	65,430	12,841	59,499	2,596	93,143	150%
12 Covered bonds	284,238	-	284,238	-	30,989	11%
14 Collective investment undertakings	45,671	-	45,671	-	6,970	15%
15 Equity	21,809	-	21,809	-	37,848	173%
16 Other items	644,477	7	644,476	1	333,670	52%
17 **Total**	**12,597,629**	**2,041,401**	**12,597,628**	**578,667**	**7,179,678**	**54.5%**

The table shows exposures before CRM and CCF, exposure post-CCF and -CRM and the RWA for all customer segments. In 2019, the increase of both types of exposures was noticed in the Retail segment, which is in line with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight decreased from 54.5% in 2018 to 52.6% in 2019.

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

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

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

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

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

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

In exposure categories for which a credit assessment institution was designated, the weight is assigned based on the financial instrument’s rating. If such a rating is not available, the higher of the weights applying to long-term credit rating of the debtor or other financial instruments of the same debtor or country is used.

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

Table 32 – EU CR5 – Standardised Approach of NLB Group

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

	30.6.2019	Risk weight																Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	3,163,057	-	-	-	75,357	-	115,722	-	-	1,034,761	0	17,467	-	-	-	-	4,406,364	4,406,364
2	Regional government or local authorities	22,939	-	-	-	67,359	-	-	-	-	39,808	-	-	-	-	-	-	130,106	130,106
3	Public sector entities	14,326	-	-	-	90	-	27,973	-	-	56,397	-	-	-	-	-	-	98,785	98,785
4	Multilateral development banks	91,346	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,346	91,346
5	International organisations	30,425	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,425	30,425
6	Institutions	-	-	-	-	363,222	-	317,346	-	-	13,410	-	-	-	-	-	-	693,977	72,186
7	Corporates	-	-	-	-	-	-	-	-	-	2,006,630	-	-	-	-	-	-	2,006,630	2,006,630
8	Retail	-	-	-	-	-	-	-	-	4,004,828	-	-	-	-	-	-	-	4,004,828	4,004,828
9	Secured by mortgages on immovable property	-	-	-	-	-	555,989	185,340	-	-	-	-	-	-	-	-	-	741,328	741,328
10	Exposures in default	-	-	-	-	-	-	-	-	-	98,709	69,196	-	-	-	-	-	167,906	167,906
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	109,063	-	-	-	-	-	109,063	109,063
12	Covered bonds	-	-	-	316,074	33,151	-	-	-	-	-	-	-	-	-	-	-	349,224	110,947
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	4,103	-	-	-	-	44,804	-	48,907	48,907
15	Equity	-	-	-	-	-	-	-	-	-	14,161	-	10,359	-	-	-	-	24,521	24,521
16	Other items	282,577	-	-	-	20,019	-	-	-	-	345,253	-	-	-	-	-	-	647,850	628,706
17	**Total**	**3,604,670**	**-**	**-**	**316,074**	**559,198**	**555,989**	**646,380**	**-**	**4,004,828**	**3,613,231**	**178,260**	**27,827**	**-**	**-**	**44,804**	**-**	**13,551,260**	**12,672,049**

31.12.2018	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
1 Central governments or central banks	3,169,852	-	-	-	80,443	-	79,757	-	-	988,919	-	22,847	-	-	-	-	4,341,817	4,341,817
2 Regional government or local authorities	23,001	-	-	-	72,820	-	-	-	-	38,631	-	-	-	-	-	-	134,453	134,453
3 Public sector entities	13,927	-	-	-	244	-	7,165	-	-	66,004	-	-	-	-	-	-	87,339	87,339
4 Multilateral development banks	103,283	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103,283	103,283
5 International organisations	27,196	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,196	27,196
6 Institutions	4,896	-	-	-	344,715	-	304,163	-	-	17,030	-	-	-	-	-	-	670,803	106,000
7 Corporates	-	-	-	-	-	-	-	-	-	1,955,046	-	-	-	-	-	-	1,955,046	1,955,046
8 Retail	-	-	-	-	-	-	-	-	3,885,125	-	-	-	-	-	-	-	3,885,125	3,885,125
9 Secured by mortgages on immovable property	-	-	-	-	-	540,408	154,946	-	-	-	-	-	-	-	-	-	695,354	695,354
10 Exposures in default	-	-	-	-	-	-	-	-	-	115,514	102,072	-	-	-	-	-	217,587	217,587
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	62,095	-	-	-	-	-	62,095	62,095
12 Covered bonds	-	-	-	258,585	25,653	-	-	-	-	-	-	-	-	-	-	-	284,238	89,278
14 Collective investment undertakings	-	-	-	-	-	-	-	-	-	1,187	-	-	-	-	44,485	-	45,671	45,671
15 Equity	-	-	-	-	-	-	-	-	-	11,157	-	10,676	-	-	-	-	21,833	21,833
16 Other items	302,607	-	-	-	10,250	-	-	-	-	331,620	-	-	-	-	-	-	644,477	626,591
17 **Total**	**3,644,761**	**-**	**-**	**258,585**	**534,126**	**540,408**	**546,031**	**-**	**3,885,125**	**3,525,108**	**164,167**	**33,523**	**-**	**-**	**44,485**	**-**	**13,176,319**	**12,398,670**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure, and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. In 2019, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government and central banks segment, while the highest decrease appeared under 100% and 150% weight in the Default exposure category.

7. Exposure to counterparty credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 33 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

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

	a	b	c	f	g
30.6.2019	**Notional**	**Replacement cost/current market value**	**Potential future credit exposure**	**EAD post CRM**	**RWAs**
1 Mark to market	-	24,313	13,527	37,840	33,502
11 Total	**-**	**-**	**-**	**-**	**33,502**

	a	b	c	f	g
31.12.2018	**Notional**	**Replacement cost/current market value**	**Potential future credit exposure**	**EAD post CRM**	**RWAs**
1 Mark to market	-	15,386	12,705	28,092	24,062
11 Total	**-**	**-**	**-**	**-**	**24,062**

Table 34 - EU CCR2 – CVA capital charge for NLB Group

		31.12.2019		30.6.2019		31.12.2018	
		Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
4	All portfolios subject to the standardised method	3,950	663	7,925	6,025	5,890	2,563
EU4	Based on the original exposure method	-	-	-	-	-	-
5	**Total subject to the CVA capital charge**	**3,950**	**663**	**7,925**	**6,025**	**5,890**	**2,563**

Table 35 – EU CCR8 – Exposures to CCPs of NLB Group

		31.12.2019		30.6.2019		31.12.2018	
		EAD post CRM	RWAs	EAD post CRM	RWAs	EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**	**-**	**11,823**	**-**	**10,128**	**-**	**11,065**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	11,823	11,823	10,128	10,128	11,065	11,065
3	OTC derivatives	11,823	11,823	10,128	10,128	11,065	11,065
7	Segregated initial margin	18,311	-	18,436	-	19,154	-
11	**Exposures to non-QCCPs (total)**	-	**-**	-	**-**	**-**	**-**
20	Unfunded default fund contributions	-	-	-	-	-	-

Table 36 – EU CCR3 – Standardised Approach – CCR exposures by regulatory portfolio and risk of NLB Group

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

	30.6.2019	Risk weight												
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**Of which unrated**
1	Central governments or central banks	3,163,057	-	-	-	75,357	115,722	-	-	1,035,950	-	16,463	4,406,548	4,406,548
2	Regional government or local authorities	22,939	-	-	-	67,359	-	-	-	39,808	-	-	130,106	130,106
3	Public sector entities	14,326	-	-	-	90	27,973	-	-	58,483	-	-	100,871	100,871
4	Multilateral development banks	91,346	-	-	-	-	-	-	-	-	-	-	91,346	91,346
5	International organisations	30,425	-	-	-	-	-	-	-	-	-	-	30,425	30,425
6	Institutions	-	-	-	316,074	396,373	317,346	-	-	13,449	6	322	1,043,569	183,501
7	Corporates	-	-	-	-	-	70,876	-	-	1,175,113	40,218	3,430	1,289,637	1,289,637
8	Retail	-	-	-	-	-	114,464	-	4,004,828	953,108	138,035	608,405	5,818,840	5,818,840
10	Other items	282,577	-	-	-	20,019	-	-	-	337,321	-	-	639,917	620,774
11	**Total**	**3,604,670**	**-**	**-**	**316,074**	**559,198**	**646,380**	**-**	**4,004,828**	**3,613,231**	**178,260**	**628,619**	**13,551,260**	**12,672,049**

	31.12.2018	Risk weight												
	Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which unrated
1	Central governments or central banks	3,169,852	-	-	-	80,443	79,757	-	-	989,784	-	21,405	4,341,241	4,341,241
2	Regional government or local authorities	23,001	-	-	-	72,820	-	-	-	38,632	1	-	134,454	134,454
3	Public sector entities	13,927	-	-	-	244	7,165	-	-	68,416	5	426	90,183	90,183
4	Multilateral development banks	103,283	-	-	-	-	-	-	-	-	-	-	103,283	103,283
5	International organisations	27,196	-	-	-	-	-	-	-	-	-	-	27,196	27,196
6	Institutions	4,896	-	-	258,585	370,369	304,163	-	-	17,070	6	333	955,420	195,657
7	Corporates	-	-	-	-	-	48,426	-	-	1,164,518	66,580	3,409	1,282,932	1,282,932
8	Retail	-	-	-	-	-	106,521	-	3,885,125	920,549	97,576	592,843	5,602,613	5,602,613
10	Other items	302,607	-	-	-	10,250	-	-	-	326,139	-	-	638,996	621,110
11	**Total**	**3,644,761**	**-**	**-**	**258,585**	**534,126**	**546,031**	**-**	**3,885,125**	**3,525,108**	**164,167**	**618,416**	**13,176,319**	**12,398,670**

The exposure values are distributed to the prescribed segments and the risk weights that apply based on the riskiness of the exposure in accordance with the standardised approach. The 0% weight prevails in Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is applied to Retail and Corporate customers that represent High risk exposures and those Default exposures, whose provision coverage does not exceed 20%. In 2019, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government and central banks segment, while the highest decrease appeared under 100% and 150% weight in the Corporates exposure category.

Table 37 – EU CCR5-A – Impact of netting and collateral held on exposure values for NLB Group

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

30.6.2019	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	23,843	2,677	21,166	3,934	17,232
4 Total	**23,843**	**2,677**	**21,166**	**3,934**	**17,232**

31.12.2018	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	15,666	3,845	11,821	1,028	10,793
4 Total	**15,666**	**3,845**	**11,821**	**1,028**	**10,793**

Table 38 – EU CCR5-B – Composition of collateral for exposures to CCR of NLB Group

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

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
30.6.2019	Segregated	Unsegregated	Segregated	Unsegregated
Cash	3,934	-	86,135	-
Total	**3,934**	**-**	**86,135**	**-**

	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31.12.2018	Segregated	Unsegregated	Segregated	Unsegregated
Cash	1,028	-	55,277	-
Total	**1,028**	**-**	**55,277**	**-**

8. Unencumbered assets

(Article 443 of CRR)

General narrative information on asset encumbrance

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

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

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

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

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

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

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

NLB Group holds an adequate amount of unencumbered High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. NLB Group can use those stocks of assets as a source of contingent funds that are available to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period. According to Basel III, NLB Group demonstrates monthly that its LCR ratio – HQLA divided by total net cash outflows – is always greater than 100% (325% at the end of December 2019) which indicates that the Group does not need any additional liquidity to withstand cash outflows during a "significant stress scenario" lasting 30 days. Also, from this point of view, there is no need to carry a greater extent of encumbered assets. However, all assets that have been pledged are treated and reported as encumbered.

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

As at 31 December 2019 NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level, the amount of encumbered assets equalled EUR 566 million. On the solo level, the amount of encumbered assets equalled EUR 201.9 million.

Encumbered assets consist of debt securities of which: issued by general governments (EUR 50.9 million on NLB Group level and NLB) and placed deposits (EUR 515.1 million on NLB Group level and on the solo level EUR 151 million). The biggest part of placed deposits represents obligatory reserves. Group members are self-funded and have a strong liquidity position, therefore NLB has the majority of encumbered assets in NLB Group.

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

The values of asset encumbrance are calculated as the median of the end-of-period values from in ITS AE (F 32) reporting for each of the four quarters in a year (used for display in tables 39 to 43).

Table 39 – Encumbered and unencumbered assets of NLB Group

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

31.12.2018	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets	**113,498**	**54,130**			**12,334,616**	**3,176,073**		
Equity instruments	-	-			57,338			
Debt securities	59,994	54,130	65,381	59,519	3,113,474	2,480,875	3,122,231	2,515,042
of which: issued by general governments	59,994	54,130	65,381	59,519	2,130,185	1,636,148	2,152,274	1,669,558
of which: issued by financial corporations	-	-	-	-	805,211	735,074	806,378	736,258
of which: issued by non-financial corporations	-	-	-	-	97,826	93,017	97,765	92,900
Other assets	56,426	-			9,254,990	740,498		

Table 40 – Collateral received of NLB Group

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

31.12.2018	Fair value of encumbered collateral received or own debt securities issued	of which notionally eligible EHQLA and HQLA	Non-encumbered: Fair value of collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
Collateral received	**-**	**-**	**-**	**-**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	**-**	**-**
Own covered bonds and asset-backed securities issued and not yet pledged			**-**	**-**
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**113,498**	**54,130**		

Table 41 – Encumbered and unencumbered assets of NLB

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

31.12.2018	Carrying amount of encumbered assets	of which notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally eligible EHQLA and HQLA	Carrying amount of non-encumbered assets	of which EHQLA and HQLA	Fair value of non-encumbered assets	of which EHQLA and HQLA
Assets	**108,951**	**54,130**			**8,778,781**	**3,176,073**		
Equity instruments	-	-			47,389			
Debt securities	59,994	54,130	65,381	59,519	2,598,746	2,480,875	2,632,944	2,515,042
of which: issued by general governments	59,994	54,130	65,381	59,519	1,684,035	1,636,148	1,717,457	1,669,558
of which: issued by financial corporations	-	-	-	-	805,211	735,074	806,378	736,258
of which: issued by non-financial corporations	-	-	-	-	97,828	93,017	97,767	92,900
Other assets	51,742	-			6,216,956	740,498		

Table 42 – Collateral received of NLB

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

31.12.2018	Fair value of encumbered collateral received or own debt securities issued		Non-encumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received	**-**	**-**	**-**	**-**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**108,951**	**54,130**		

Table 43 – Sources of encumbrance of NLB Group and NLB

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

31.12.2018	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**5,422,867**	**95,860**

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

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

Table 44 – EU MR1 – Market risk under the standardised approach of NLB Group

		31.12.2019		30.6.2019		31.12.2018	
		RWAs	Capital requirements	RWAs	Capital requirements	RWAs	Capital requirements
	Outright products						
1	Interest rate risk (general and specific)	2,675	214	8,538	683	7,213	577
3	Foreign exchange risk	520,375	41,630	550,788	44,063	534,588	42,767
9	**Total**	**523,050**	**41,844**	**559,326**	**44,746**	**541,801**	**43,344**

In 2019, the RWA for position risk decreased by EUR 4.5 million due to the sell of debt securities and the RWA for foreign exchange risk decreased by EUR 14.2 million due to the decreased open FX positions in local currencies of the non-euro subsidiaries of NLB Group.

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

The objectives and risk management policy

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

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

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

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

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

NLB, as the parent bank, is the only member of NLB Group which has a trading book according to the CRR. The bank maintains a small-size trading portfolio allocated to the position management for the purpose of achieving the additional earnings and monitoring market signals in the global markets. The Bank's tolerance for interest rate risk and credit spread risk in the trading portfolio is low.

Structure and organisation

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

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

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

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

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

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

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

Risk measurement and control

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

responsible for defining a reporting structure and calculation methodology. The bank uses a centralised system for providing market data.

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

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

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

External reporting is as follows:

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

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

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

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

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

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

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

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

More precisely, the different and complementary perspectives involve:

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

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

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

(Article 448 of CRR)

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

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

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

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

10.2. The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency

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

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

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

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

11. Equity holdings not in the trading book

(Article 447 of CRR)

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

Table 45 – Equity holdings not in the trading book of NLB Group

		31.12.2019	**31.12.2018**
1	Investments in associates and joint ventures	7,499	10,652
2	Non-current assets classified as held for sale	3,409	-
3	Equity investments - measured at fair value through OCI	49,623	49,061
3a	of which: National Resolution Fund	44,687	44,484
4	Equity instruments mandatorily at FV through P&L	3,167	2,513
5	**Total**	**63,698**	**62,226**

Accounting treatment and valuation

NLB Group's exposure to equity securities measured at fair value through other comprehensive income has a balance sheet value of EUR 49,623 thousand (in 2018: EUR 49,061 thousand) of which quoted on active market amounted to EUR 3,288 thousand (2018: EUR 3,185 thousand).

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. At the subsequent measurements, equity investments are measured at fair value. The fair value of financial instruments traded on active markets is based on the price that would be received at the sale of the assets, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method of accounting. In 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 the line "Non-current assets classified as held for sale."

By selling equity securities measured at fair value through other comprehensive income, in 2019 NLB Group and NLB did not realise any gain (in 2018 NLB Group realised a net gain in the amount of EUR 2,101 thousand, and NLB a net gain in the amount of EUR 44 thousand).

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

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

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

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

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

Furthermore, NLB Group defines liquidity risk tolerance with several indicators such as LCR, NSFR, and LTD. The respective risk bearing capacity is accordingly taken into account in Group's daily operations and in financial planning activities.

The goal of NLB Group is that it fulfils the regulatory liquidity requirements at any point of time. In this regard, NLB Group focuses on exceeding short-term liquidity disruptions (LCR), and exceeding a stable funding profile in relation to the composition of assets and off-balance sheet activities (NSFR).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Global Risk calculates a larger set of internal liquidity ratios on a solo level for NLB on a monthly basis, and reports them to the Assets and Liabilities Committee of the Group. Limits and warning levels are defined for each liquidity ratio, separately for core (banking members) and non-core members and for consolidated level. Global Risk in NLB as a parent bank determines internal liquidity ratios, limits and warning levels for other banking members. For other Group members, internal liquidity ratios are monitored monthly and reported quarterly to the ALCO, including results on the consolidated level. Reports on the liquidity risk management are submitted to senior management, ALCO, the Supervisory Board, and regulators on a regular basis.

Global Risk reports liquidity risk such as:

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

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

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

Based on the stress tests, the minimum and optimum amounts of unencumbered liquidity reserves is determined for each banking member that it has to hold in order to cover potential unexpected outflows. The limits set are:

- minimum level of liquidity reserves equals outflows in two months of severe stress scenario,
- optimum level of liquidity reserves equals outflows in three months of severe stress scenario.

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

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

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

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

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

NLB Group maintains the appropriate level of liquidity reserves in the form of cash and other highly liquid and unencumbered assets that are available in a relatively short time. Liquidity reserves enable the settling of overdue liabilities within a predefined short period of stressed liquidity situation. Unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high quality debt securities, and ECB eligible loans. At the end of December 2019, NLB Group had 42.49% of unencumbered liquidity reserves in total assets (37.31% at the end of 2018).

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

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

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

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

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

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

ALM metrics are prepared internally on solo and Group levels. In terms of funding providers, product and assets in the counterbalancing are monthly monitored and reported to the Central Bank.

On NLB Group level, at the end of 2019, the top 30 counterparties provided 4.20% of the total liabilities, mostly by retail, while the top 30 counterparties in NLB provided 5.00% of the total liabilities.

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

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

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

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Besides, the Group also reports LCR in a second significant currency and that is the Macedonian denar (MKD). In the last quarter of 2019, the aggregate liabilities in MKD was 5.97% of total liabilities of the Group, therefore MKD is qualified as a significant currency.

A description of the degree of centralisation of liquidity management and interaction between the group's units
All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided only to non-core members that are in the process of disinvestment. Liquidity risk management is decentralised under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is done on a daily and monthly basis.

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

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

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

Table 46 – LIQ1 – LCR disclosure table, on quantitative information of LCR which complements Article 435.1 f of CRR of NLB Group, data in millions

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2019**	**30.9.2019**	**30.6.2019**	**31.3.2019**	**31.12.2019**	**30.9.2019**	**30.6.2019**	**31.3.2019**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	3,387	3,224	3,106	2,958
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	8,105	7,886	7,691	7,515	558	542	531	522
3	*Stable deposits*	5,575	5,400	5,228	5,055	279	270	261	253
4	*Less stable deposits*	2,531	2,486	2,463	2,461	280	272	269	269
5	Unsecured wholesale funding	1,375	1,312	1,281	1,276	680	647	638	641
7	*Non-operational deposits (all counterparties)*	1,375	1,312	1,281	1,276	680	647	638	641
9	Secured wholesale funding	-	-	-	-	11	10	7	2
10	Additional requirements	1,290	1,246	1,194	1,161	109	104	98	96
11	*Outflows related to derivative exposures and other collateral requirements*	17	14	12	11	17	14	12	11
13	*Credit and liquidity facilities*	1,273	1,232	1,182	1,150	93	90	86	84
14	Other contractual funding obligations	26	22	22	24	15	11	11	12
15	Other contingent funding obligations	874	845	823	804	71	73	71	69
16	**TOTAL CASH OUTFLOWS**					**1,444**	**1,387**	**1,356**	**1,342**
Cash-inflows									
18	Inflows from fully performing exposures	590	607	606	613	420	439	443	452
19	Other cash inflows	18	24	30	26	18	24	30	26
20	**TOTAL CASH INFLOWS**	**608**	**631**	**636**	**638**	**437**	**464**	**473**	**478**
EU-20c	***Inflows subject to 75% cap***	**608**	**631**	**636**	**638**	**437**	**464**	**473**	**478**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**3,387**	**3,224**	**3,106**	**2,958**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**996**	**913**	**875**	**862**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**-**	**-**	**-**	**341%**	**355%**	**356%**	**345%**

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2018**	**30.9.2018**	**30.6.2018**	**31.3.2018**	**31.12.2018**	**30.9.2018**	**30.6.2018**	**31.3.2018**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	2,775	2,633	2,461	2,390
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	7,335	7,149	6,891	6,632	515	509	495	481
3	*Stable deposits*	4,882	4,731	4,558	4,390	244	237	228	219
4	*Less stable deposits*	2,453	2,417	2,334	2,242	271	272	267	262
5	Unsecured wholesale funding	1,244	1,256	1,244	1,260	644	662	653	667
7	*Non-operational deposits (all counterparties)*	1,244	1,256	1,244	1,237	644	662	653	644
8	*Unsecured debt*	-	-	-	24	-	-	-	24
10	Additional requirements	1,147	1,130	1,116	1,107	95	95	94	93
11	*Outflows related to derivative exposures and other collateral requirements*	11	11	10	10	11	11	10	10
13	*Credit and liquidity facilities*	1,136	1,119	1,106	1,097	84	85	84	83
14	Other contractual funding obligations	25	25	26	31	12	12	13	19
15	Other contingent funding obligations	784	763	745	732	67	64	62	61
16	**TOTAL CASH OUTFLOWS**					**1,332**	**1,342**	**1,318**	**1,321**
Cash-inflows									
18	Inflows from fully performing exposures	621	643	644	634	463	479	483	475
19	Other cash inflows	29	21	22	25	29	21	22	25
20	**TOTAL CASH INFLOWS**	**651**	**664**	**666**	**658**	**492**	**500**	**505**	**500**
EU-20c	***Inflows subject to 75% cap***	**651**	**664**	**666**	**658**	**492**	**500**	**505**	**500**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**2,775**	**2,633**	**2,461**	**2,390**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**840**	**842**	**813**	**821**
23	**LIQUIDITY COVERAGE RATIO (%)**	**-**	**-**	**-**	**-**	**332%**	**313%**	**304%**	**294%**

Table 47 – LIQ1 – LCR disclosure table, on quantitative information of LCR which complements Article 435.1 f of CRR of NLB, data in millions

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2019**	**30.9.2019**	**30.6.2019**	**31.3.2019**	**31.12.2019**	**30.9.2019**	**30.6.2019**	**31.3.2019**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	3,144	2,999	2,898	2,760
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	5,938	5,813	5,685	5,553	379	371	362	353
3	*Stable deposits*	4,559	4,481	4,397	4,306	228	224	220	215
4	*Less stable deposits*	1,379	1,332	1,288	1,247	151	146	142	138
5	Unsecured wholesale funding	875	829	826	844	479	452	454	465
7	*Non-operational deposits (all counterparties)*	875	829	826	844	479	452	454	465
9	Secured wholesale funding	-	-	-	-	11	10	7	2
10	Additional requirements	1,009	975	935	912	98	93	88	86
11	*Outflows related to derivative exposures and other collateral requirements*	17	14	12	11	17	14	12	11
13	*Credit and liquidity facilities*	992	961	923	901	81	79	76	74
14	Other contractual funding obligations	25	21	21	21	14	10	10	9
15	Other contingent funding obligations	595	581	568	558	35	34	33	33
16	**TOTAL CASH OUTFLOWS**					**1,015**	**969**	**954**	**948**
Cash-inflows									
18	Inflows from fully performing exposures	295	317	324	333	177	199	208	220
19	Other cash inflows	16	23	29	26	16	23	29	26
20	**TOTAL CASH INFLOWS**	**311**	**340**	**353**	**359**	**193**	**222**	**237**	**245**
EU-20c	*Inflows subject to 75% cap*	311	340	353	359	193	222	237	245
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**3,144**	**2,999**	**2,898**	**2,760**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**811**	**737**	**709**	**701**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	-	-	-	**389%**	**410%**	**412%**	**397%**

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31.12.2018**	**30.9.2018**	**30.6.2018**	**31.3.2018**	**31.12.2018**	**30.9.2018**	**30.6.2018**	**31.3.2018**
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	2,578	2,447	2,288	2,223
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	5,408	5,259	5,106	4,959	347	343	338	333
3	*Stable deposits*	4,187	4,058	3,928	3,804	209	203	196	190
4	*Less stable deposits*	1,221	1,202	1,179	1,155	138	140	141	143
5	Unsecured wholesale funding	836	871	900	947	473	503	515	545
7	*Non-operational deposits (all counterparties)*	836	871	900	924	473	503	515	521
8	*Unsecured debt*	-	-	-	24	-	-	-	24
10	Additional requirements	908	898	891	888	87	89	90	90
11	*Outflows related to derivative exposures and other collateral requirements*	11	11	10	10	11	11	10	10
13	*Credit and liquidity facilities*	897	887	880	878	76	79	80	80
14	Other contractual funding obligations	22	22	23	29	9	9	10	17
15	Other contingent funding obligations	542	524	509	496	31	30	28	27
16	**TOTAL CASH OUTFLOWS**					**948**	**974**	**982**	**1,011**
Cash-inflows									
18	Inflows from fully performing exposures	351	369	382	387	240	253	267	274
19	Other cash inflows	29	21	22	25	29	21	22	25
20	**TOTAL CASH INFLOWS**	**380**	**391**	**404**	**411**	**269**	**274**	**288**	**299**
EU-20c	*Inflows subject to 75% cap*	380	391	404	411	269	274	288	299
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**	-	-	-	-	**2,578**	**2,447**	**2,288**	**2,223**
22	**TOTAL NET CASH OUTFLOWS**	-	-	-	-	**679**	**699**	**693**	**713**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	-	-	-	**384%**	**351%**	**331%**	**315%**

13. Leverage

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

The leverage ratio is calculated in line with provisions from the CRR and CRD, including the amendments published in Commission Delegated Regulation (EU) No. 2015/62, 2016/200, and 2016/428.

The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk-based supplementary measure to the risk-based capital requirements. The purpose of the leverage ratio is to limit the size of bank balance sheets, and with a special emphasis on exposures, which are not weighted within the framework of the existing capital requirement calculations. Therefore, the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. From 1 January 2018 onwards, the leverage ratio is calculated in accordance with the fully phased definition of the capital measure and has become one of the mandatory minimum capital requirements.

The leverage ratio of NLB Group as at 31 December 2019 amounted to 8.7%, which is well above the 3% threshold defined by the Basel Committee on Banking Supervision. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not considered as material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceedings of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Boards of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 31 December 2019 slightly decreased in comparison with the previous year, by 1.2 percentage points. The decrease occurred primarily due to the higher value of the total leverage exposure calculated in accordance with Article 111 of the CRR by EUR 1,962 million. The higher amount of total leverage exposure arose from increased on-balance sheet exposures. It refers specifically to the banking book exposures treated as sovereign, retail, and other exposures, including higher off-balance sheet exposures. Exposures in derivatives increased in comparison with the previous year, but are relatively unimportant. The impact of Tier 1 capital decrease on the leverage ratio was EUR 2.2 million.

Table 48 – Leverage ratio of NLB Group

	31.12.2019	30.9.2019	31.12.2018
Tier 1 capital	1,451,176	1,424,025	1,453,402
Total leverage exposures	16,671,280	15,668,030	14,709,318
Leverage ratio	**8.70%**	**9.09%**	**9.88%**

As at 31 December 2019, the leverage exposure was mainly driven by on-balance sheet exposures (96%), and other off-balance sheet exposure (3.8%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as Sovereigns (27.6%), Retail exposures (24.2%), exposures to Corporates (14.8%), and 17.9% to Other exposures.

Table 49 – LRCom - Leverage ratio common disclosure for NLB Group

		31.12.2019 CRR leverage ratio exposures	30.9.2019 CRR leverage ratio exposures	31.12.2018 CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	16,052,013	15,076,097	14,166,782
2	(Asset amounts deducted in determining Tier 1 capital)	(41,736)	(37,868)	(36,951)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**16,010,277**	**15,038,229**	**14,129,831**
Derivative exposures				
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	20,501	26,402	15,329
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	21,180	21,749	23,828
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(2,206)	(78)	(459)
8	(Exempted CCP leg of client-cleared trade exposures)	(9,617)	(9,725)	(10,606)
11	**Total derivative exposures**	**29,858**	**38,348**	**28,092**
Securities financing transaction exposures				
16	**Total securities financing transaction exposures**	**-**	**-**	**-**
Other off-balance sheet exposures				
17	Off-balance sheet exposures at gross notional amount	2,593,312	2,279,690	2,041,327
18	(Adjustments for conversion to credit equivalent amounts)	(1,962,167)	(1,688,237)	(1,489,933)
19	**Other off-balance sheet exposures**	**631,145**	**591,453**	**551,395**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)				
Capital and total exposures				
20	Tier 1 capital	1,451,176	1,424,025	1,453,402
21	**Total leverage ratio exposures**	**16,671,280**	**15,668,030**	**14,709,318**
Leverage ratio				
22	**Leverage ratio**	**8.70%**	**9.09%**	**9.88%**

Table 50 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		31.12.2019	30.9.2019	31.12.2018
1	**Total assets as per published financial statements**	**14,174,088**	**13,489,538**	**12,740,029**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(35,474)	(38,453)	(26,495)
4	Adjustments for derivative financial instruments	9,357	11,946	12,763
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	631,145	591,453	551,395
7	Other adjustments	1,892,164	1,613,546	1,431,626
8	**Leverage ratio total exposure measure**	**16,671,280**	**15,668,030**	**14,709,318**

Table 51 – LRSpl – Split-up of on balance sheet exposures for NLB Group

		CRR leverage ratio exposures		
		31.12.2019	30.9.2019	31.12.2018
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**16,052,013**	**15,076,097**	**14,166,782**
EU-2	Trading book exposures	4,324	61,184	48,698
EU-3	Banking book exposures, of which:	16,047,689	15,014,913	14,118,084
EU-4	Covered bonds	359,324	355,804	283,980
EU-5	Exposures treated as sovereigns	4,428,498	3,749,178	3,579,114
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	370,202	322,083	325,282
EU-7	Institutions	682,651	787,659	738,940
EU-8	Secured by mortgages of immovable properties	961,232	942,174	692,217
EU-9	Retail exposures	3,889,344	3,815,812	3,737,015
EU-10	Corporate	2,371,157	2,318,256	2,250,563
EU-11	Exposures in default	111,318	130,237	208,660
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2,873,963	2,593,710	2,302,313

14. Operational risk management

(Article 446 of CRR)

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

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

14.2. Description of other internal approaches and methodologies in the area of operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The risk is also gradually decreasing due to reduced complexity of operations in the Group and optimisation of internal processes. NLB Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, and stress testing framework, 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 the case of exceeding requires an assessment of the possible increase in the internal capital requirement for operational risk and other possible risk management measures. In addition, the bank does not allow certain risks in its business – for them the 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 an early warning system. In order to monitor certain important risks that could indicate an increased operational risk as an early warning indicator, the Bank developed a specific methodology. 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, and 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 has introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

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

15. Remuneration policy

15.1. Information on the decision-making process used for determining the Remuneration Policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders

(Article 450.1 a of CRR)

In compliance with ZBan-2, the Regulation on Internal Management Arrangements, Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks and the Regulation on the application of the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) no. 575/2013 (EBA/GL/2015/22), the Bank is obliged to prepare the Remuneration Policy at the levels of NLB Group, NLB, and subsidiaries applicable to categories of employees who, within the scope of their responsibilities or tasks and activities, may have a significant impact on the risk profile of the bank. The Policy of Remuneration for the Employees Performing Special Work (hereinafter: 'the Remuneration Policy') entered into force on 1 January 2012. The Policy is regularly revised and aligned, in compliance with the requirements of the aforementioned regulations, the relevant guidelines, the Slovenian Corporate Governance Code for Joint-Stock Companies and the Corporate Governance Code for Companies with a State Capital Investment.

In 2019, the Remuneration Policy was updated whereas the Bank has ceased to be bound by the ZPPOGD and the restrictions on remuneration provided for by this Act and due to amending the Regulation on Internal Management Arrangements, Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks.

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

Compliance with the rules of the Remuneration Policy, taking into account all the regulations binding on the Bank, ensures that conflicts of interest arising from the payment of variable or fixed remuneration in instruments are identified in advance and managed. The Remuneration Policy further ensures that no potential conflicts of interest arise for employees in control functions. Once a year, the Bank makes a self-assessment of the appropriateness of classification of the employees performing special work on the basis of the qualitative and quantitative criteria from the Delegated Regulation (EU) No 604/2014.

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

The Remuneration Committee of the Supervisory Board of NLB held four meetings in 2019. The members of the Remuneration Committee in 2019 were:

- Vida Šeme Hočevar, President – until 28.2.2019
- Simona Kozjek, Deputy President – until 28.2.2019
- Primož Karpe, member – until 17.6.2019
- László Urbán, member – until 28.2.2019
- Alexander Bayr, President – from 1.3.2019 further
- László Zoltan Urbán, Deputy President – from 1.3.2019 further
- Shrenik DhirajlalDavda, member – from 28.6.2019 further
- Gregor Rok Kastelic, member – from 28.6.2019 further

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

- Preparing proposals of general principles of remuneration policies, including the formulating of opinions on individual aspects of remuneration policies;
- Assessing the adequacy of established methodologies, based on which the remuneration system promotes adequate risk, capital, and liquidity management;
- Preparing recommendations for the Supervisory Board on implementation of remuneration policies;
- Preparing draft decisions about remuneration of employees, including those affecting the Bank's risks and their management;
- Assessing the appropriateness of the external consultant whose services the Supervisory Board commissioned to determine the remuneration policy of the Bank;
- Examining the adequacy of general principles of the remuneration policies and their implementation;
- Examining the compliance of remuneration policies with the business policy of the Bank over a long period;
- Direct supervision over remuneration of the categories of employees performing special work within the internal control system and other control functions.

15.2. Information on the link between pay and performance

(Article 450.1 b of CRR)

The Remuneration Policy provides clear orientations for prudent remuneration of employees performing special work in accordance with the above regulations, and with the aim of ensuring prudent and efficient risk management.

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

The Remuneration Policy supports the business strategy of the Bank, NLB and NLB Group goals, organisational culture, long-term interests, values, measures to prevent the conflicts of interest, risk profile and risk appetite. The Remuneration Policy does not stimulate the employees performing special work to assume non-proportionally high risks or risks that exceed the ability of the Bank to assume risks, taking into account all risks, including reputational risks and risks resulting from mis-selling or unethical selling of products or other unethical or non-compliant behaviour. The Bank ensures pursuing of this goal with an appropriate structure, amount, and method of payment of remuneration. The Bank ensures that the Remuneration Policy is compatible with adequate and efficient risk management, and that it stimulates such management.

In terms of payment of the variable part of the salary, the Remuneration Policy takes into account the fulfilment of obligations or achievement of goals referring to capital or liquidity, and helps achieve and maintain a sound capital base.

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

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

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

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

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

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

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

The tables 52 to 55 define the amount of the variable part of the salary of an employee performing special work for each business year, depending on the category.

Table 52 – Determination of the amount of the variable part of the salary for Category 2 of employees performing special work for each business year

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

Table 53 – Determination of the amount of the variable part of the salary for category 3 of employees performing special work for each business year

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

Table 54 – Determination of the amount of the variable part of the salary for category 4 of employees performing special work for each business year

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

Table 55 – Determination of the amount of the variable part of the salary for category 5 of employees performing special work for each business year

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

The Remuneration Policy stipulates that a decision on whether the performance criteria have been achieved and the decision to pay the annual variable part of salary to the Management Board members are adopted by the Supervisory Board, whereas for other employees performing special work they are adopted by the Bank's Management Board. An employee is not entitled to the annual variable part of salary if they fail to achieve their personal goals, regardless of whether or not the goals the Bank and the OU have been achieved or not. The employee is not entitled to the annual variable part of the salary if they grossly violate the values of NLB Group defined in the Ethical Code of NLB Group.

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

In 2019, employees performing special work received the annual variable part of the salary for the year 2018, in accordance with the Remuneration Policy valid in 2018. The amount of the variable part of the salary which depended on their assessed achievement of the financial and non-financial performance criteria and on the duration of the term of office of each employee performing special work. Furthermore, the employees performing special work were also paid out the deferred variable part of the salary for 2015 in 2019 based on the approval of the Supervisory Board on the fulfilment of all the conditions.

15.3. The essential components of the policy of remuneration for employees performing special work

(Article 450.1 c of CRR)

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

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

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

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

- Members of the Management Board of NLB,
- Employees performing special work who are members of the senior management in the Bank's front office and the assistants to the Bank's Management Board,
- Employees performing special work in the Bank's front office at level B-2 and area managers for the NLB Group,

- Employees performing special work in the back office of the Bank, who are members of the senior management, and employees not belonging to any other category hereunder but who are considered to have an important impact on the Bank's risk profile pursuant to the Commission Delegated Regulation (EU) No 604/2014,
- Supervisory or control functions.

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

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

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

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

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

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

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

Annual interviews are held with employees performing special work, where the expected results or goals are defined for every employee based on NLB Group Strategy, the goals of NLB, as well as its development and project goals.

Goals of NLB Group and NLB

The Management Board sets the goals of NLB and NLB Group for each business year and the Supervisory Board approves them. The goals that are set for NLB Group also apply to the Management Board. The goals that are set for NLB also apply to other employees performing special work, except for the employees performing special work in control or supervisory function.

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

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

The definition of NLB Group goals is based on the financial and non-financial performance indicators. The 2019 indicators were as follows:

- Financial performance indicators (achievement of the planned values):
  - Net profit after tax,
  - Return on equity (ROE) after tax,
  - Total revenues,
  - Total costs,
  - Cost/Income Ratio (CIR),
  - Net cost of risk,[1]
  - Achievement of the planned value of the share of non-performing exposures (NPE ratio according to the EBA definition),
  - specific financial KPI's for each member of the Management Board,
- Non-financial indicators:
  - International Desk,
  - Strategy-Delivery,
  - Achievement of the set goals related to social responsibility,
  - Slovenia - IT productivity (Implementation of performance management dashboard into the CTO area; Agile/Scrum methodology implementation),
  - Group IT Strategy rollout plan,
  - Cybersecurity backlog,
  - Profitability Metrics,
  - Cost-containment portfolio,
  - Corporate Cross border,
  - Restructuring/Workout FTE,
  - AML enhancement.

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

- business goals of the organisational unit, project goals, cross-functional goals;
- financial goals of the organisational unit (if specified).

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

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

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

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

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

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

[1] Net cost of risk = net established credit impairments and provisions in a period / average net loans to the non-banking sector

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

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

Award of the variable part

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

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

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

Table 56 – Cases in which the amount of variable remuneration is reduced (potentially down to zero)

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

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

Payment of the variable part

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies dated 22.06.2016, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000 gross in a business year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. The defined amount per employee, taking into account the principle of proportionality, risk strategy, risk profile and risk appetite, ensures efficient and prudent risk management. The same amount, taking into account the principle of proportionality, is defined also on NLB Group level, respectively in NLB Group members.

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

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

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

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

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

- the period of deferment has expired;
- the Supervisory Board of NLB sets the variable remuneration for the members of the Management Board of NLB for the business year prior to the business year in which the deferment period expires.

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

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

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

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

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

Table 57 – Cases in which the amount of deferred variable remuneration is reduced (potentially down to zero)

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

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

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

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

Amount of payment of the variable part of the remuneration for 2018
Pursuant to Item 7 of Article 170 of the ZBan-2, the Bank's remuneration policy stipulates that at least 50% of the variable part of the remuneration of each employee performing special work should be composed of ordinary or preference shares of the Bank, or of instruments related to shares or equal non-cash instruments when the Bank's shares are not listed on the regulated market, whereby the person obtaining the shares or instruments may only transfer them upon the Bank's approval, which may only be issued after at least two years of the obtaining. Pursuant to the second paragraph of the above Article, the Bank must follow this principle (like other principles of the remuneration policies) in a way and to the extent compliant with its size, internal organisation and nature, as well as the volume and complexity of its activities. As the Bank's shares were not listed on the stock exchange at the time, part of the variable salary should be paid in the aforementioned financial instruments, however, according to the guidelines of the Bank of Slovenia, this rule does not apply when the variable part is less than EUR 50,000 gross.

The Supervisory Board on its session on 8 March 2019 confirmed positive business results and assessment of the results of NLB Group for year 2018. On 4 June 2019, the Management Board approved the resolution to pay to the employees performing special work the pertaining variable part for 2018 based on the actual assessments of the entitlement to variable remuneration, namely to pay 50% of the variable part immediately and to defer 50% and pay it after three years. The payment was made on 10 June 2019.

Defining the goals of employees performing special work in 2019
Planning of goals and assessment of the employees performing special work are conducted once a year; the planning of the goals is usually carried out by the end of January and the assessment of performance by the end of March, or when the results of operations are known.

In 2019, the goals of NLB were approved by the Supervisory Board, and were included in the forms for monitoring performance of all employees performing special work. The goals for individual OUs were defined 'top-down, ' which means that each member of the Management Board set goals for their directly subordinate employees performing special work, whereas the latter set goals down the line of management. The goals of the OU can be financial or non-financial and must be defined according to the SMART method, which means that they have to be specific, measurable, challenging, achievable, relevant, and time bound.

When setting goals, the following shall be defined:

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

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

Personal goals for all employees performing special work were set on an individual basis for each employee, depending on the assessment of the superior director or member of the Management Board for the area where development of the employee performing special work is required, the results of the corporate climate, and personal development guidelines.

15.4. The ratio between fixed and variable remuneration
(Article 450.1 d of CRR)

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

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

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

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

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

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

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

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

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

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

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

15.5. Information on the performance criteria on which the entitlement to shares, options, or variable components of remuneration are based

(Article 450.1 e of CRR)

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies dated 22/11/2016, the Bank defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000 gross in a year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. An equal amount, taking into account the principle of proportionality, is also set at NLB Group level.

Accordingly, the variable remuneration in 2019 was not paid in ordinary or preference shares of the Bank or instruments related to shares or equal non-cash instruments.

If the Bank is supposed to, pursuant to the applicable regulations, pay the variable part of the remuneration of a specific individual in ordinary or preference shares of the Bank, or instruments related to shares or equal non-cash instruments when the Bank’s shares are not listed on the regulated market, the variable remuneration is set according to the criteria whereby the Bank ensures compatibility with prudent and efficient risk management.

The Bank determines the instruments to be used for the variable part of the remuneration in accordance with the currently applicable regulations.

15.6. Main parameters and rationale for any variable component scheme and any other non-cash benefits

(Article 450.1 f of CRR)

The main parameters of variable components are specified in the employment contract according to the ZGD-1, ZBan-2, the Regulation on Internal Management Arrangements, Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks and the Regulation on the application of the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) no. 575/2013 (EBA/GL/2015/22).

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

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

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

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

15.7. Quantitative information on remuneration

(Article 450.1 g and h of CRR)

Table 58 – Accounted remuneration in year, combined by operating segment for NLB Group

2019	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	31	45	-	-	-	-	-	-
Number of identified staff in FTE	-	-	2.00	40.50	23.78	4.99	16.89	63.74
Number of identified staff in senior management positions	-	-	2	45	27	7	20	75
Total fixed remuneration (in EUR)	475,344	6,070,045	120,576	2,664,407	1,508,415	566,882	1,301,541	4,991,481
Of which: fixed in cash	475,344	6,070,045	120,576	2,664,407	1,508,415	566,882	1,301,541	4,991,481
Total variable remuneration (in EUR)	-	1,406,706	19,311	1,085,763	193,767	150,456	340,843	1,198,406
Of which: variable in cash	-	1,396,124	19,311	1,085,763	171,882	150,456	340,843	1,198,406
Of which: variable in other types instruments	-	10,582	-	-	21,885	-	-	-
Total amount of variable remuneration awarded in year which has been deferred (in EUR)	-	560,697	9,656	404,548	97,496	63,426	106,731	454,185
Of which: deferred variable in cash in year	-	549,084	9,656	404,548	75,110	63,426	106,731	454,185
Of which: deferred variable in other types of instruments in year	-	11,613	-	-	22,386	-	-	-
Additional information regarding the amount of total variable remuneration								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year (in EUR); Art 450 h(iii)CRR;	-	771,709	17,805	693,252	93,224	79,678	175,735	748,946

2018	MB Supervisory function	MB Management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
Members (Headcount)	24	47	-	-	-	-	-	-
Number of identified staff in FTE	-	-	2.00	41.03	6.92	6.37	22.40	86.05
Number of identified staff in senior management positions	-	-	2	42	7	7	23	87
Total fixed remuneration (in EUR)	318,210	4,194,175	143,452	2,248,637	372,219	451,974	1,087,726	4,575,699
Of which: fixed in cash	318,210	4,194,175	143,452	2,248,637	372,219	451,974	1,087,726	4,575,699
Total variable remuneration (in EUR)	-	1,102,318	66,342	1,039,335	134,521	78,937	235,913	910,660
Of which: variable in cash	-	1,102,318	66,342	1,039,335	134,521	78,937	235,913	910,660
Total amount of variable remuneration awarded in year which has been deferred (in EUR)	-	503,981	26,271	397,155	48,593	36,886	95,451	402,447
Of which: deferred variable in cash in year	-	503,981	26,271	397,155	48,593	36,886	95,451	402,447
Additional information regarding the amount of total variable remuneration								
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year (in EUR); Art 450 h(iii)CRR;	-	568,980	40,359	670,429	83,642	30,331	139,645	533,778

MB Supervisory function includes the Supervisory Board of NLB and the Supervisory Boards of NLB Group subsidiaries where employees performing special work of NLB are also members. These employees do not receive a compensation for performing a supervisory function. Payments to the individual members of the Management Board of NLB (parent bank), other key management personel, and members of the Supervisory Board of NLB (parent bank) are disclosed in the 2019 NLB Group Annual Report in chapter Related-party transactions (page 326).

15.8. The information on individuals being remunerated EUR 1 million or more

(Article 450.1 i and j of CRR)

None of the employees performing special work was paid EUR 1 million or more in 2019. Payments to individual members of the Management Board are disclosed in the 2019 NLB Group Annual Report in chapter Related-party transactions (page 328).

16. Appendices

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

NLB has the Risk Committee as an advisory body of the Supervisory Board. Five meetings of the Risk Committee were held in 2019.

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

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

Management Board of NLB

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

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

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

All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided only to non-core members which are in the process of disinvestment (liquidation).

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

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

	NLB Group		NLB	
Liquidity	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
LCR	325%	361%	362%	417%
NSFR	160%	159%	159%	156%
LTD net	65.5%	68.3%	59.1%	63.6%
Encumbred liquidity reserves	55,306	59,696	51,015	59,696
Unencumbered liquidity reserves	6,001,357	4,746,706	4,851,548	3,723,286
Unencumbered liquidity reserves in total assets	43%	37%	50%	42%
Share of non-banking sector deposits	83%	82%	79%	80%

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

16.4. Appendix 4

Statement regarding internal controls and procedures
(Article 38 of EBA Guidelines)

The undersigned

CERTIFY

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

Ljubljana, 2 April 2020

Anica Knavs
General Manager
Financial Accounting
and Administration

Igor Žalar
General Manager
Global Risk

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

16.5. Appendix 5

Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

Table 59 –EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

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

Entities that are neither consolidated nor deducted are not consolidated:

- in accordance with Article 19 of the CRR (this refers on members of Prvi Faktor Group)
- or because it is insurance (NLB Vita).

16.6. Appendix 6
Capital instruments main features templates

Table 60 – The main characteristics of the ordinary shares of NLB:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SI0021117344
3	Governing law(s) of the instrument	Slovenian law
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share
8	Amount recognised in regulatory capital (Currency in thousand, as of most recent reporting date)	Paid up capital and related share premium: 1,071,378
9	Nominal amount of instrument	N/A – No par value shares (20,000,000 shares)
9a	Issue price	EUR 77.55
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	18.12.2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First loss absorbent instrument, subordinated to all instruments
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

The ordinary shares are fully included in the Common Equity Tier 1 capital of NLB Group as the only source. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of CRR.

Table 61 – The main characteristics of the subordinated Tier 2 bonds issued by NLB:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SI0022103855
3	Governing law(s) of the instrument	Slovenian law
	Regulatory treatment	
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 44,595,000
9	Nominal amount of instrument	EUR 45,000,000
9a	Issue price	99.1%
9b	Redemption price	100%
10	Accounting classification	financial liability
11	Original date of issuance	6.5.2019
12	Perpetual or dated	Dated
13	Original maturity date	6.5.2029
14	Issuer call subject to prior supervisory approval	of the Issuer arising out of the Notes can be paid before the maturity of such liability, determined in accordance of Terms and Conditions of the Notes, except in the case of the Issuer's compulsory liquidation or bankruptcy or any other proceedings, the aim of which is compulsory winding-up of the Issuer. Provided that it obtains a permission of the competent authority referred to in Article 77. of the CRR Regulation for conducting redemption, repurchase, repayment or payment of the Notes, the Issuer may pay the principal of all the Notes (but not only some) together with the interest calculated until the date of redemption, in the following cases: (a) if the Issuer fails to obtain the approval of the European Central Bank for inclusion of the amount received by the Issuer as the paid-up amount or proceeds of the initial sale of the Notes (the Paid-Up Amount) in the calculation of its Tier 2 capital on or before 6 August 2019; (b) if the Notes are redeemed on the Fifth Anniversary; or (c) if, as a result of any change in, or amendment to, the laws or regulations or any change in the application or official interpretation of such laws or regulations which becomes effective after the Issue Date, there is a change in the tax treatment of the Notes due to which: (i) the Issuer becomes (or it becomes certain that on the next Interest Payment Date the Issuer will become) required to pay additional amounts as provided or referred to in Condition 6; or (ii) the Issuer ceases to be (or it becomes certain that on the next Interest Payment Date the Issuer will cease to be) entitled to treat the interest on the Notes as a tax deductible expense, either entirely or in a material part; or (iii) for other reasons the tax treatment of the Notes becomes more burdensome for the Issuer than on the Issue Date; or (d) if, due to a change in the conditions for inclusion of the Notes in the Tier 2 capital of the Issuer on individual and consolidated level, it becomes likely that the Paid-Up Amount, in whole or in part, will no longer qualify as Tier 2 capital of the Issuer on individual and consolidated level or will be re-classified as a lower quality form of capital.
15	Optional call date, contingent call dates and redemption amount	6.5.2024, optional call dates in case of regulatory call and tax call
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%; (ii) from and including the Fifth Anniversary, the sum of Reference Interest Rate, applicable on Interest Rate Determination Date, and Margin (4.159%)
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Claims from eligible liabilities instruments (Article 72(b) of the CRR)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

16.7. Appendix 7
Material, practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries
(Article 436 c and d of CRR)

In NLB Group, there are no substantial practical or legal impediments to the prompt transfer of capital or repayment of liabilities between the parent undertaking and its subsidiaries. In the case of a capital transfer provided by NLB, it is necessary to follow the provisions regarding the minimum capital in accordance with CRR and the ZBan-2. For subsidiary banks the provisions regarding liquidity, capital adequacy, and the level of capital to cover all risks are also taken into account, all in accordance with local legislation.

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

For several non-core companies that are in the liquidation process there is a restriction according to local Companies Law stipulating that during the duration of the liquidation process dividends are not paid out nor are assets disbursed to stakeholders until all claims are paid. The liquidation process can be concluded after all the court disputes are brought to an end and the assets that are to be distributed to stakeholders, but exceed the subscribed share capital of a stakeholder, are considered as a dividend.

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

All subsidiaries of NLB Group not included in the prudential consolidation met the minimum capital requirements as at 31 December 2019.

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

Art.	Requirement	Chapter	Page
435	**Risk management objectives and policies**		
1.	**Objectives and policies regarding the relevant risks**		
	(a) The strategies and processes to manage those risks;	4.1, 7.1, 9.1	25, 67, 77
	(b) The structure and organisation of the relevant risk management function, including information on its authority and statute, or other appropriate arrangements;	4.1, 7.1, 9.1	25, 67, 77
	(c) The scope and nature of risk reporting and measurement systems;	4.1, 7.1, 9.1	25, 67, 77
	(d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;	4.1, 7.1, 9.1	25, 67, 77
	(e) A declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy;	4.1	25
	(f) A concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	4.1	25
2.	**Information, including regular, at least annual updates, regarding governance arrangements**		
	(a) The number of directorships held by members of the management body;	4.2	37
	(b) The recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise;	4.3	37
	(c) The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;	4.4	39
	(d) Whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;	16.1	111
	(e) The description of the information flow on risk to the management body.	4.1	25
436	**Scope of application**		
	(a) The name of the institution to which the requirements of this Regulation apply;	1	6
	(b) An outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted;	2, 16.5	10, 110
	(c) Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	2, 16.6	10, 113
	(d) The aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;	2, 16.6	10, 113
	(e) If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	/	/
437	**Capital (Own funds)**		
	(a) A full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	3.7	22
	(b) A description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.4	18
	(c) The full terms and conditions of all CET1, AT1 and Tier 2 instruments;	3.4	18

	(d) Separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) each deduction made pursuant to Articles 36, 56 and 66; (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	3.6	21
	(e) A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	3.6	21
	(f) Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	/	/
438	**Capital requirements**		
	(a) A summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	3.3	18
	(b) upon demand of the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU;	/	/
	(c) (SA approach:) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= SA categories);	3.2	17
	(d) (IRB approach:) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2);	/	/
	(e) (Market risks:) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3); (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk;	3.2	17
	(f) (Operational risk :) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	17
439	**Exposure to counterparty credit risk**		
	(a) A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;	7.3	68
	(b) A discussion of policies for securing collateral and establishing credit reserves;	7.4	68
	(c) A discussion of policies with respect to wrong-way risk exposures;	7.5	68
	(d) A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;	7.6	69
	(e) Gross positive fair value of contracts, netting benefits, and netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;	7.6	69
	(f) Measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6, whichever method is applicable;	7.6	69
	(g) The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;	/	/
	(h) The notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;	/	/
	(i) The estimate of α if the institution has received the permission of the competent authorities to estimate α.	/	/
	Capital buffers		
440	1. Countercyclical capital buffer: (a) The geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;	3.5	19
	(b) The amount of its institution-specific countercyclical capital buffer.	3.5	19
441	2. G-SII buffer:	/	/

	1. Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.		
442	**Credit risk adjustments**		
	(a) The definitions for accounting purposes of 'past due' and 'impaired';	5.7	51
	(b) A description of the approaches and methods adopted for determining specific and general credit risk adjustments;	5.7	51
	(c) The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;	5.2	45
	(d) The geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;	5.3	45
	(e) The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;	5.4	47
	(f) The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	5.5	48
	(g) By significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period;	5.6	49
	(h) The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;	5.6	49
	(i) The reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: (i) a description of the type of specific and general credit risk adjustments; (ii) the opening balances; (iii) the amounts taken against the credit risk adjustments during the reporting period; (iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; (v) The closing balances.	5.7	51
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	5.6	49
443	**Unencumbered assets**		
	EBA has prepared regulatory technical standards for disclosure of unencumbered assets – Regulation (EU) No 2017/2295.	8	73
444	**Use of ECAIs**		
	(a) The names of the nominated ECAIs and ECAs and the reasons for any changes;	6	64
	(b) The exposure classes for which each ECAI or ECA is used;	6	64
	(c) A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;	6	64
	(d) The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA;	6	64
	(e) The exposure values and the exp. values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds.	6, 5.2	64, 45
445	**Exposure to market risk**		
	Separately for each risk + the own funds requirement for specific IRR of securitisation positions.	9	77

446	**Operational risk**		
	Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	14	92
447	**Exposures in equities not included in the trading book**		
	(a) The differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;	11	82
	(b) The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;	11	82
	(c) The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;	11	82
	(d) The cumulative realised gains or losses arising from sales and liquidations in the period; and	11	82
	(e) The total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	11	82
448	**Exposure to interest rate risk on positions not included in the trading book**		
	(a) The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the IRR;	10.1	81
	(b) The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	10.2	81
449	**Exposure to securitisation positions**	/	/
450	**Remuneration policy**		
1	For those categories of staff whose professional activities have a <u>material impact on its risk profile</u>: (a) Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	15.1	93
	(b) Information on the link between pay and performance;	15.2	94
	(c) The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	15.3	96
	(d) The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	15.4	104
	(e) Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	15.5	105
	(f) The main parameters and rationale for any variable com. scheme and any other non-cash benefits;	15.6	105
	(g) Aggregate quantitative information on remuneration, broken down by business area;	15.7	107
	(h) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions; (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;	15.7	107

	(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;		
	(i) The number of individuals being remunerated with EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	15.8	108
	(j) Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	15.8	108
451	**Leverage**		
	(a) The leverage ratio and how the institution applies Article 499(2) and (3);	13	90
	(b) A breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	13	90
	(c) Where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11);	/	/
	(d) A description of the processes used to manage the risk of excessive leverage;	13	90
	(e) A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	13	90
452	**Use of the IRB Approach to credit risk**	/	/
453	**Use of credit risk mitigation techniques**	/	/
	(a) The policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting;	/	/
	(b) The policies and processes for collateral valuation and management;	5.8	59
	(c) a description of the main types of collateral taken by the institution;	5.8	59
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;	/	/
	(e) Information about market or credit risk concentrations within the credit mitigation taken;	5.8	59
	(f) For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral;	5.2, 5.8	45, 59
	(g) For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	5.2, 5.8	45, 59
454	**Use of the Advanced Measurement Approaches to operational risk**	/	/
455	**Use of Internal Market Risk Models**	/	/
492	**Transitional provisions for disclosure of own funds**		
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the number of instruments that qualify as CET 1 instruments, AT1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments that are not eligible under new legislation, but can be gradually excluded).	/	/