NLB Group

Pillar 3 Disclosures

Q1 2020

Abbreviations

AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
CBR	Combined buffer requirement
CCP	Central Counterparty
CCR	Counterparty credit risk
CET1	Common equity tier 1 capital
COVID-19	Coronavirus disease 2019
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive and Regulation
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
D-SII	Domestic systemically important institutions (banks)
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
G-SII	Global systemically important institutions (banks)
HQLA	High-quality liquid assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
LCR	Liquidity coverage ratio
MDB	Multilateral Development Bank
MREL	Minimum Requirement for own funds and Eligible Liabilities
NSFR	Net Stable Funding Ratio
OCI	Other comprehensive income
OCR	Overall capital requirement
P1R	Pillar 1 Requirement
P2R	Pillar 2 Requirement
PFE	Potential future exposure
RWA	Risk-weighted assets
SA	Standardised Approach
SEE	Southeast Europe
SFT	Securities Financing Transactions
SREP	Supervisory Review and Evaluation Process
TC	Total Capital
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TSCR	Total SREP capital requirement
UMAR	Institute for macroeconomic analysis and development
ZBan-2	Banking Act
ZRPPB	Law on Rescue and Forced Cessation of Banks

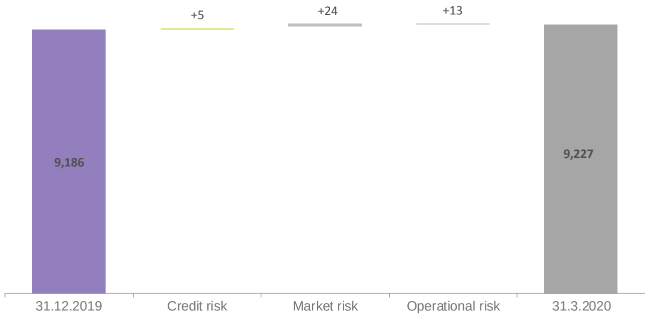
Key highlights

Table 1 – Key metrics

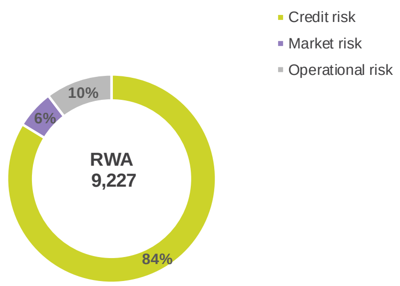
NLB Group	31.3.2020	31.12.2019
Available capital		
Common equity tier 1 (CET1)	1,423,174	1,451,176
Tier 1	1,423,174	1,451,176
Tier 2	284,595	44,595
Total capital	1,707,769	1,495,771
Risk weighted assets		
Total RWA	9,226,695	9,185,539
Capital ratios		
Common equity tier 1 ratio (%)	15.4%	15.8%
Tier 1 ratio (%)	15.4%	15.8%
Total capital ratio (%)	18.5%	16.3%
Additional CET1 buffer requirements as a % of RWA		
Capital conservation buffer requirement	2.5%	2.5%
Countercyclical buffer requirement	0.0%	0.0%
Bank G-SII and / or O-SII additional requirements	1.0%	1.0%
Combined buffer requirement	3.5%	3.5%
Leverage ratio		
Total leverage ratio exposure measure	16,732,063	16,671,280
Leverage ratio (%)	8.5%	8.7%
Liquidity Coverage Ratio		
Total HQLA	3,974,172	3,985,017
Total net cash outflow	1,308,108	1,226,351
LCR ratio	304%	325%
NSFR ratio	158%	160%

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

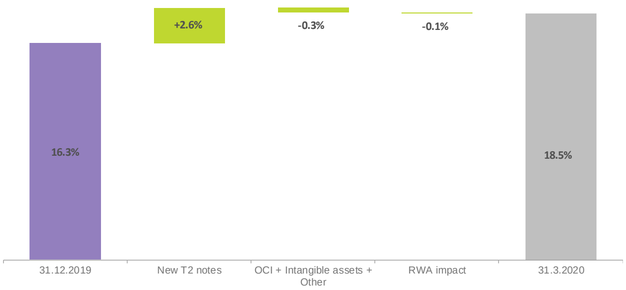
Changes in RWA



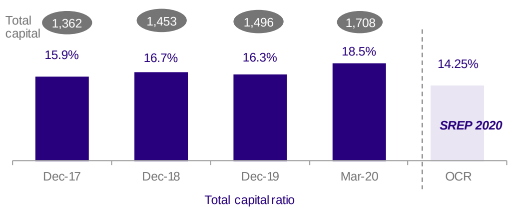
RWA analysis



Total capital ratio changes



Total capital movement



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. The CRR had a direct effect in EU member states, while the CRD was required to be implemented through national legislation in EU member states by 31 December 2013. Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-2). On 27 June 2019, an amendment of CRR was published (Regulation (EU) No. 2019/876 – CRR2) with some of its provisions already valid, as well as an amendment of CRD IV (Directive (EU) 2019/878 – CRD V) which is yet to be transposed in Slovenian national legislation.

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

- Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk;
- Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with valuating how well financial institutions are assessing their capital adequacy needs relative to their risks. Risks not considered under Pillar 1 are considered under this Pillar;
- Pillar 3 is intended to complement 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.

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

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 NLB Group Interim Report Q1 2020, 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 NLB Group Interim Report Q1 2020. Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 2.

2. Scope of application

(Articles 436 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.

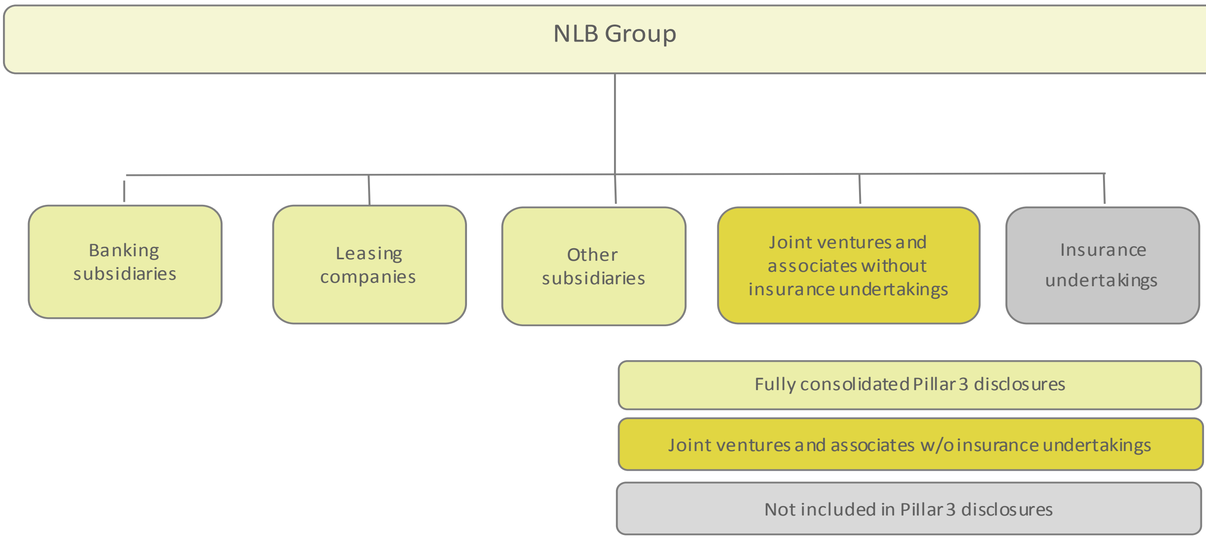


Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report Q1 2020, and under the scope of regulatory consolidation.

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).

Table 2 – Differences between accounting and regulatory scopes of consolidation of NLB Group

31.3.2020	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**
Cash, cash balances at central banks, and other demand deposits at banks	2,095,407	2,095,407
Financial assets held for trading	25,587	25,587
Non-trading financial assets mandatorily at fair value through profit or loss	34,297	34,297
Financial assets measured at fair value through other comprehensive income	2,144,729	2,144,729
Financial assets measured at amortised cost		
- debt securities	1,532,174	1,532,174
- loans and advances to banks	93,634	93,634
- loans and advances to customers	7,734,276	7,734,276
- other financial assets	170,633	170,633
Derivatives - hedge accounting	107	107
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12,139	12,139
Investments in associates and joint ventures	7,726	7,726
Tangible assets		
Property and equipment	193,271	193,271
Investment property	52,151	52,151
Intangible assets	37,902	37,902
Current income tax assets	10,446	10,446
Deferred income tax assets	32,070	32,070
Other assets	68,533	68,533
Non-current assets and disposal group classified as held for sale	43,249	7,775
Total assets	**14,288,331**	**14,252,857**
Trading liabilities	19,583	19,583
Financial liabilities measured at fair value through profit or loss	106	106
Financial liabilities measured at amortised cost		
- deposits from banks and central banks	63,148	63,148
- borrowings from banks and central banks	169,598	169,598
- due to customers	11,652,891	11,652,891
- borrowings from other customers	62,930	62,930
- subordinated liabilities	286,640	286,640
- other financial liabilities	146,350	146,350
Derivatives - hedge accounting	57,878	57,878
Provisions	87,832	87,832
Current income tax liabilities	686	686
Deferred income tax liabilities	3,043	3,043
Other liabilities	12,909	12,909
Total liabilities	**12,563,594**	**12,563,594**
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	1,184	(10,945)
Profit reserves	13,522	13,522
Retained earnings	592,800	569,455
	1,678,884	**1,643,410**
Non-controlling interests	45,853	45,853
Total equity	**1,724,737**	**1,689,263**
Total liabilities and equity	**14,288,331**	**14,252,857**

3. Capital and capital requirements

3.1. Capital adequacy

European banking legislation 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 3 – Capital requirements and buffers of NLB Group

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

In March 2020, OCR amounted to 14.25% for the Bank on a consolidated basis, consisting of:
- 10.75% TSCR (8% Pillar 1 Requirement and 2.75% Pillar 2 Requirement); and
- 3.5% CBR (2.5% Capital Conservation Buffer, 1% O-SII Buffer and 0% Countercyclical Buffer).

The applicable OCR requirement for 2020 decreased from 14.75% to 14.25%, as Pillar 2 Requirement decreased by 0.5 p.p. to 2.75%, as a result of better overall SREP assessment. Pillar 2 Guidance amounts to 1.00% which should be comprised entirely of CET1 capital.

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

On 27 March 2020 ECB issued Recommendation on dividend distributions during the COVID-19 pandemic which postponed the distribution of dividends until the reassessment of the situation once the uncertainties COVID-19 disappear (in any case not before 1 October 2020). This was followed by Bank of Slovenia measure on 7 April 2020 which actually limits any dividend distribution (2019 and 2020 result and previous years retained earnings) for the currently envisaged one year period (the measure will be reassessed before end 2020).

Table 4 – Capital adequacy of NLB Group:

	31.3.2020	31.12.2019
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	393,648	358,648
Current result	-	35,000
Accumulated other comprehensive income	(10,945)	14,364
Other reserves	13,522	13,522
Prudential filters: Additional Valuation Adjustments (AVA)	(2,199)	(2,194)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(34,373)	(36,013)
(-) Deduction item related to credit impairments and provisions not included in capital	(4,328)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,423,174**	**1,451,176**
Additional Tier 1 capital	-	-
TIER 1 CAPITAL	**1,423,174**	**1,451,176**
Tier 2 capital	284,595	44,595
TOTAL CAPITAL	**1,707,769**	**1,495,771**
Risk exposure amount for credit risk	7,724,996	7,720,232
Risk exposure amount for market risks	546,638	523,050
Risk exposure amount for CVA	913	663
Risk exposure amount for operational risk	954,148	941,594
TOTAL RISK EXPOSURE AMOUNT (RWA)	**9,226,695**	**9,185,539**
Common Equity Tier 1 Ratio	15.4%	15.8%
Tier 1 Ratio	15.4%	15.8%
Total Capital Ratio	18.5%	16.3%

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

As at 31 March 2020, the Total capital ratio for NLB Group stood at 18.5% (or 2.2 percentage points higher than at the end of 2019), and for NLB at 26.1% (or 3.4 percentage point higher than at the end of 2019). The Tier 1 ratio and Common equity Tier 1 ratio (15.4% or 0.4 percentage points lower than at the end of 2019) differ from Total capital ratio due to Tier 2 instruments. The higher total capital adequacy derives from higher capital (EUR 212.0 million for NLB Group) mainly due to inclusion of all T2 instruments in capital (EUR 240.0 million), while other comprehensive income decreased for EUR -25.3 million.

In accordance with the ZRPPB, the NLB Group will, in future, need to meet a MREL requirement set by the Bank of Slovenia. On 9 April 2020, NLB received a decision of the Bank of Slovenia relating to this MREL requirement, which was set to 15.56% 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 31 December 2021 and from that date this requirement must be met at all times. This new decision supersedes previous decision of Bank of Slovenia on MREL requirement dated 15 May 2019.

The drivers behind the differences between the RWAs in year 2020 are explained in chapter 3.2 Capital requirements in the Table 5 – EU OV1 – Overview of RWAs.

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 (EUR 285 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.

3.2. Capital requirements
(Article 438 c, e, and f 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 5 shows the detailed composition of the capital requirements of NLB Group at the end of March 2020, and at the end of 2019.

Table 5 – EU OV1 – Overview of RWAs of NLB Group

		31.3.2020		31.12.2019	
		RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1	**Credit risk (excluding CCR)**	**7,525,474**	**602,038**	**7,524,999**	**602,000**
2	Of which the standardised approach	7,525,474	602,038	7,524,999	602,000
6	**CCR**	**35,305**	**2,824**	**37,758**	**3,021**
7	Of which mark to market	34,392	2,751	37,095	2,968
12	Of which CVA	913	73	663	53
19	**Market risk**	**546,638**	**43,731**	**523,050**	**41,844**
20	Of which the standardised approach	546,638	43,731	523,050	41,844
23	**Operational risk**	**954,148**	**76,332**	**941,594**	**75,328**
24	Of which basic indicator approach	954,148	76,332	941,594	75,328
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**165,130**	**13,210**	**158,138**	**12,651**
29	**Total**	**9,226,695**	**738,136**	**9,185,539**	**734,843**

In Q1 2020 the RWA for Credit risk increased by EUR 4.8 million (lines 2, 7, and 27 in Table 5), as result of new loan production, mainly on corporate segment. In year 2020, Serbia was included to the lists of third countries whose supervisory and regulatory requirements are considered equivalent as EEA counties. RWA for exposures to Serbian central governments and central banks denominated in local currency decreased by EUR -100.1 million.

The increase in RWA for market risk and CVA amounted to EUR 23.8 million (lines 12 and 20 in Table 5), 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 increase in the RWA for operational risks (EUR 12.6 million) arose from the higher three-year average of relevant income, as defined in Article 316 of CRR, which represents the basis for the calculation.

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

In March 2020, 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 instruments included in Tier 2 capital are the subordinated Tier 2 notes issued in May 2019, November 2019 and February 2020 by NLB.

In 2020 the Bank continued with strengthening and optimizing the capital structure. On 5 February 2020, the Bank issued subordinated Tier 2 notes (10NC5) in the aggregate nominal amount of EUR 120 million. The fixed coupon of the notes during the first five years is 3.40% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as 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 ECB permission for its inclusion in the capital, so the subordinated notes are included in the capital as of 31 March 2020.

On 4 March 2020 the Bank also obtained ECB permission to include in the capital subordinated Tier 2 notes issued in November 2019 in the amount of EUR 120 million. Now all existing subordinated Tier 2 notes in total of EUR 284.6 million are included in the capital.

In 2020, 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 NLB Group Interim Report Q1 2020 – note 5.11 a) Subordinated liabilities (page 70).

Details on main characteristics of the capital instruments are disclosed in Appendix 5.1.

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

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

Table 6 – Own funds for NLB Group

		31.3.2020	31.12.2019
Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,071,378	1,071,378
	of which: ordinary shares	1,071,378	1,071,378
2	Retained earnings - including current result	393,648	393,648
3	Accumulated other comprehensive income (and other reserves)	2,577	27,886
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,467,603**	**1,492,912**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,199)	(2,194)
8	Intangible assets (net of related tax liability) (negative amount)	(37,902)	(39,542)
27a	Deduction item related to credit imapirments and provisions not included in capital (as a part of the interim result), but are lowering the exposure in RWA calculation (BoS requirement based on EBA Q&A 2014_1087)	(4,328)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(44,429)**	**(41,736)**
29	**Common Equity Tier 1 (CET1) capital**	**1,423,174**	**1,451,176**
43	**Total regulatory adjustments to Additional Tier 1 (AT1)**	**-**	**-**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,423,174**	**1,451,176**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	284,595	44,595
51	**Tier 2 (T2) capital before regulatory adjustments**	**284,595**	**44,595**
58	**Tier 2 (T2) capital**	**284,595**	**44,595**
59	**Total capital (TC = T1 + T2)**	**1,707,769**	**1,495,771**
60	**Total risk weighted assets**	**9,226,695**	**9,185,539**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.4%	15.8%
62	Tier 1 (as a percentage of total risk exposure amount)	15.4%	15.8%
63	Total capital (as a percentage of total risk exposure amount)	18.5%	16.3%
64	Institution specific buffer requirement (CET1 Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	8.0%	8.0%
65	of which: capital conservation buffer requirement	2.5%	2.5%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	7.4%	7.8%
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2,920	3,248
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	11,135	10,908
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met)	32,070	29,500

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

3.5. Reconciliation of items with financial statements
(Articles 437 a and f 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 7 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

	31.3.2020		31.12.2019	
	Prudential consolidation	**Included in capital**	**Prudential consolidation**	**Included in capital**
Cash, cash balances at central banks and other demand deposits at banks	2,095,407	-	2,101,346	-
Financial assets held for trading	25,587	(26)	24,038	(24)
Non-trading financial assets mandatorily at fair value through profit or loss	34,297	(9)	25,359	(11)
Financial assets measured at fair value through other comprehensive income	2,144,729	(2,145)	2,141,428	(2,141)
Financial assets measured at amortised cost	9,530,717	-	9,434,390	-
Derivatives - hedge accounting	107	-	788	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12,139	-	8,991	-
Investments in associates and joint ventures	7,726	-	7,499	-
Tangible assets	245,422	-	247,921	-
Intangible assets	37,902	(37,902)	39,542	(39,542)
Goodwill	3,529	(3,529)	3,529	(3,529)
Other intangible assets	34,373	(34,373)	36,013	(36,013)
Current income tax assets	10,446	-	6,284	-
Deferred income tax assets	32,070	-	29,500	-
That rely on future profitability and arise from temporary differences	32,070	-	29,500	-
Other assets	68,533	-	63,811	-
Non-current assets classified as held for sale	7,775	-	7,717	-
Total assets	**14,252,857**	-	**14,138,614**	-
Trading liabilities	19,583	(19)	17,903	(18)
Financial liabilities measured at fair value through profit or loss	106	-	7,998	-
Financial liabilities measured at amortised cost	12,381,557	284,595	12,259,053	44,595
Derivatives - hedge accounting	57,878	-	49,507	-
Provisions	87,832	-	88,414	-
Current income tax liabilities	686	-	2,271	-
Deferred income tax liabilities	3,043	-	2,833	-
Other liabilities	12,909	-	15,212	-
Total liabilities	**12,563,594**	-	**12,443,191**	-
Share capital	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	(10,945)	(10,945)	14,364	14,364
Profit reserves	13,522	13,522	13,522	13,522
Retained earnings	569,455	393,648	551,144	393,648
Non-controlling interests	45,853	-	45,015	-
Total equity	**1,689,263**	**-**	**1,695,423**	**-**
Total liabilities and equity	**14,252,857**	**-**	**14,138,614**	**-**
Sum of balance sheet items		**1,712,097**		**1,495,771**
Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital		(4,328)		-
Capital		**1,707,769**		**1,495,771**

Table 8 – Reconciliation of the accounting capital to the regulatory capital for the calculation of capital adequacy of NLB Group

31.3.2020	Equity - Prudential consolidation	Retained earnings not included in the regulatory capital	Temporary exclustion of unaudited interim profit	Exclusion of minority interest not eligible	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	**(10,945)**	-	-	-		**(10,945)**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**551,144**	(157,496)	-	-	-	**393,648**	Retained earnings - from previous years
Retained earnings - current results	**18,311**	-	(18,311)	-	-	**-**	Current results
Minority interest	**45,853**	-	-	(45,853)	-	**-**	Minority interest
					(2,199)	**(2,199)**	Prudential filter: Additional valuation adjustment (AVA) (Article 34)
					(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
					(34,373)	**(34,373)**	Deduction item: Other intangible assets (Article 36.b)
					(4,328)	**(4,328)**	Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital
Total equity	**1,689,263**	**(157,496)**	**(18,311)**	**(45,853)**	**(40,101)**	**1,423,174**	**Common Equity Tier 1 (CET1) capital**
						-	Additional Tier 1 capital
						1,423,174	**Tier 1 capital**
						284,595	Tier 2 capital
						1,707,769	**Total capital**

31.12.2019	Equity - Prudential consolidation	Retained earnings not included in the regulatory capital	Exclusion of minority interest not eligible	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)
				-	**-**	Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital
Total equity	**1,695,423**	**(157,496)**	**(45,015)**	**(41,736)**	**1,451,176**	**Common Equity Tier 1 (CET1) capital**
					-	Additional Tier 1 capital
					1,451,176	**Tier 1 capital**
					44,595	Tier 2 capital
					1,495,771	**Total capital**

During 2020 total accounting equity decreased by EUR 6 million to EUR 1,689 million as at 31 March 2020, due to lower retained earnings and accumulated other comprehensive income.

3.6. Risk factors and Outlook 2020 in light of coronavirus pandemic outbreak

Risk factors

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

Economic momentum in the region where the Group operates has worsened due to COVID-19 pandemic that started at the end of Q1 2020. Governments in the region implemented different mitigation measures, with the aim of mitigating adverse negative impacts of the pandemic. Substantial drop in the economic activity, lower industrial production and consumer spending is expected to cause an economic slowdown and increased unemployment in the region.

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

Consequently, the economic slowdown is expected to have a negative impact on the existing loan portfolio quality, related cost of risk and new loan generation. Credit spread widening, arising from Groups' bond portfolio kept for liquidity purposes, already resulted in negative valuation effects. Therefore, the related Groups' investment strategy adapts to the expected market trends in accordance with the set risk appetite. Liquidity position of the Group is expected to remain solid, impacts of pandemic did not cause any material liquidity outflows. However, such circumstances are expected to have negative impact on the Group's current operating results and related profitability. In this regard, the Group closely follows macroeconomic indicators relevant to the Group's operations:

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

The Group established comprehensive internal stress testing framework and early warning systems in different risk areas with built-in risk factors, relevant to the Group's business model. Stress testing framework is integrated into Risk appetite, ICAAP, ILAAP and Recovery Plan to determine how severe unexpected changes in the business and macro environment might affect the Group's capital adequacy or liquidity position.

The Group prepared a first set of new macroeconomic scenarios, based on the forecasts prepared by the EC, IMF, UMAR, BoS, other reliable experts and related off-set measures, approved by governments in the region. These scenarios which are currently based on the expected U-crisis (severe deterioration of macroeconomic indicators in 2020 and moderate positive growth in 2021) and integrating government mitigation measures are already included in the calculation of expected credit losses in accordance with IFRS 9. Nevertheless, IFRS 9 provision and impairment calculation will be reviewed in Q2 2020. Both, stress testing framework and recovery plan indicators, support proactive management of the Group's overall risk profile in these circumstances, namely capital and liquidity position from a forward-looking perspective.

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

Outlook 2020

The Euro area, with an already weak economic growth in 2019, could contract by around 6.5% this year, while Slovenia can experience a similar contraction (6.0%). The economic growth in the Group's region could drop to around -4.5% this year. Fiscal measures will be mostly financed by government budgets, which will force them into borrowing, which will in turn increase their public debts. This scenario is expected in case the coronavirus outbreak is put under control and the lockdowns are lifted by the end of May 2020. In this case a U-shaped recession is expected. With an additional month or two of lockdown, the recession will be deeper and as a prolonged U-shape. If the outbreak takes longer and if there will be a second (external) wave of infections, a deep long-term recession with L-shape could be expected. The downside risks remain but with sufficient countervailing measures the worst scenarios can be avoided.

Following the indications of the outbreak of the COVID-19 in March in Slovenia and SEE, the Group has taken necessary measures to protect its customers and employees by ensuring the relevant safety conditions and making sure services offered by the Group are provided without any 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.

The overall slow-down of the economy is expected to have a negative impact on new loan generation and consequently lower net interest income than previously expected. Margins are expected to be under further pressure. The additional pressure on interest income in retail market in Slovenia is expected due to regulatory restrictions for consumer lending put in place by the end of 2019.

A negative effect is expected also on fees and commissions as a result of lower transaction volumes, of which the most significant negative deviation is foreseen in relation to the card business and in payments.

Nevertheless, the Group continues to strive for increasing margins over time by emphasising higher margin activities and pursuing new opportunities such as leasing.

Due to slower business operations linked to moratoriums and the crisis, some of the activities of the Group are expected to be cancelled or postponed; which is expected to result in lower costs. On the other hand, costs related to protection of health - hygiene, safety products and transportation, resulting from the current situation, are expected to increase.

Due to the impact of worsened macroeconomic environment at the end of Q1 2020 the Group made one-off adjustment of expected credit losses in accordance with new macro forecasts, consequently resulting in an increase of cost of risk. The cost of risk for 2020 is under current knowledge and anticipated consequences expected to be in a range of 150 bps, although this will depend on the length and severity of disruption in corporate operations and consumer incomes. An important factor, currently hard to assess, is expected to be the impact of off-setting measures by governments, where special focus is on retail automatic stabilisers (special social transfers for employees and the self-employed affected by the crisis) and government guarantee schemes for liquidity of companies.

Clients who apply for a moratorium, as a response to COVID-19 epidemic in the region where the Group operates, will not be automatically classified as forbearance measures, as per IFRS 9 and the definition of default. The Group will assess the credit quality of the exposures benefiting from these measures and identify any situation of unlikeness to pay. In Q2 2020 the Group will review IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and related future impacts.

From liquidity perspective the Group did not register any material liquidity outflows, on the contrary deposits on the Group level are even increasing. In addition, the Group holds a very strong liquidity position, at the Group and individual subsidiary bank level. Even if a very unfavourable liquidity scenario materialized, the Group has sufficient liquidity reserves in the form of placements at the ECB, prime debt securities, and money market placements.

The Group capital position was due to the recent issuances of subordinated Tier 2 notes even stronger at the end of Q1 2020 and stood at 18.5%; it represents a strong base to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance, also in the aggravated circumstances during COVID-19 pandemic. The recently adopted ECB measures allow the Group to benefit from the lower capital requirements, while due to the ECB Recommendation on dividend distributions during the COVID-19 pandemic towards European banks, accompanied also with the BoS restriction on dividend distributions applicable for Slovenian banks, the dividend distributions by the Bank are not envisaged in 2020.

Regarding the process of the potential acquisition of Komercijalna banka a.d. Beograd in Serbia (share purchase agreement signed in February 2020, closing process pending), the timing and eventual outcome of the transaction is still subject to regulatory and anti-trust approvals in multiple jurisdictions, as well as other factors closely related to the wider implications COVID-19. Therefore any potential effects the aforementioned acquisition might have are not included in the outlook.

4. Leverage
(Article 451 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 capital 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 March 2020 amounted to 8.5%, 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 exceeding's 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 March 2020 slightly decreased in comparison with the end of the previous year, by 0.2 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 61 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 corporate, retail, and exposures to institutions, while off-balance sheet exposures decreased. Exposures in derivatives increased in comparison with the end of the previous year, but are relatively unimportant. The impact of Tier 1 capital decrease on the leverage ratio was EUR 28 million.

Table 9 – Leverage ratio of NLB Group

	31.3.2020	31.12.2019
Tier 1 capital	1,423,174	1,451,176
Total leverage exposures	16,732,063	16,671,280
Leverage ratio	**8.51%**	**8.70%**

As at 31 March 2020, 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 (27.5%), Retail exposures (24.1%), exposures to Corporates (15.6%), and 17.5% to Other exposures.

Table 10 – LRCom - Leverage ratio common disclosure for NLB Group

		31.3.2020	31.12.2019
		CRR leverage ratio exposures	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	16.113.417	16.052.013
2	(Asset amounts deducted in determining Tier 1 capital)	(44.429)	(41.736)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**16.068.988**	**16.010.277**
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	21.466	20.501
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	18.530	21.180
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(58)	(2.206)
8	(Exempted CCP leg of client-cleared trade exposures)	(7.845)	(9.617)
11	**Total derivative exposures**	**32.093**	**29.858**
Securities financing transaction exposures			
16	**Total securities financing transaction exposures**	**-**	**-**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	2.545.575	2.593.312
18	(Adjustments for conversion to credit equivalent amounts)	(1.914.593)	(1.962.167)
19	**Other off-balance sheet exposures**	**630.982**	**631.145**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
Capital and total exposures			
20	Tier 1 capital	1.423.174	1.451.176
21	**Total leverage ratio exposures**	**16.732.063**	**16.671.280**
Leverage ratio			
22	**Leverage ratio**	**8,51%**	**8,70%**

Table 11 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		**31.3.2020**	**31.12.2019**
1	**Total assets as per published financial statements**	**14.288.331**	**14.174.088**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(35.474)	(35.474)
4	Adjustments for derivative financial instruments	10.627	9.357
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	630.983	631.145
7	Other adjustments	1.837.596	1.892.164
8	**Leverage ratio total exposure measure**	**16.732.063**	**16.671.280**

Table 12 – LRSpl – Split-up of on balance sheet exposures for NLB Group

		CRR leverage ratio exposures	
		31.3.2020	**31.12.2019**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**16.113.417**	**16.052.013**
EU-2	Trading book exposures	4.228	4.324
EU-3	Banking book exposures, of which:	16.109.189	16.047.689
EU-4	Covered bonds	355.254	359.324
EU-5	Exposures treated as sovereigns	4.426.997	4.428.498
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	348.301	370.202
EU-7	Institutions	697.455	682.651
EU-8	Secured by mortgages of immovable properties	938.693	961.232
EU-9	Retail exposures	3.887.521	3.889.344
EU-10	Corporate	2.514.756	2.371.157
EU-11	Exposures in default	123.259	111.318
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2.816.952	2.873.963

5. Appendices

5.1. Appendix 1
Capital instruments main features templates

Table 13 – The main characteristics of the ordinary shares of NLB

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

N/A – not relevant for this instrument

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

Table 14 – The main characteristics of the subordinated Tier 2 bonds issued in May 2019 by NLB:

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier	ISIN: SI0022103855
3	Governing law(s) of the instrument	Slovenian law
	Regulatory treatment	
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 44,595,000
9	Nominal amount of instrument	EUR 45,000,000
9a	Issue price	99.1%
9b	Redemption price	100%
10	Accounting classification	financial liability
11	Original date of issuance	6.5.2019
12	Perpetual or dated	Dated
13	Original maturity date	6.5.2029
14	Issuer call subject to prior supervisory approval	The principal of the Notes cannot be prepaid upon demand of a Noteholder. No liability 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

N/A – not relevant for this instrument

Table 15 – The main characteristics of the subordinated Tier 2 bonds issued in November 2019 by NLB

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

N/A – not relevant for this instrument

Table 16 – The main characteristics of the subordinated Tier 2 bonds issued in February 2020 by NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier	ISIN: XS2113139195
3	Governing law(s) of the instrument	German law, with the exception of status of the notes which is governed in accordance with Slovenian law
Regulatory treatment		
4	Transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
5	Post-transitional CRR rules	Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 120,000,000
9	Nominal amount of instrument	EUR 120,000,000
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	financial liability
11	Original date of issuance	5.2.2020
12	Perpetual or dated	Dated
13	Original maturity date	5.2.2030
14	Issuer call subject to prior supervisory approval	The principal of the Notes cannot be prepaid upon demand of a noteholder. The Issuer may redeem the Notes before maturity (in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in conditions of the Notes are met): (a) if, by 31.7.2020, the Issuer does not obtain the permission of the competent authority to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the CRR II; and (b) subject to the prior consent of the competent authority: (i) on the fifth anniversary of the issue date of the Notes; (ii) if there is a change in the regulatory classification of the Notes; and/or (iii) if there is a change in the applicable tax treatment of the Notes.
15	Optional call date, contingent call dates and redemption amount	Redemption amount equals to 100% of principal amount plus accrued and unpaid interest; Optional call date: 5.2.2025; Contingent call dates: - if the issuer fails to obtain regulatory permission by 31.7.2020; - early redemption for regulatory reasons; - early redemption due to change in applicable tax treatment of the Notes.
16	Subsequent call dates, if applicable	No
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) 3.40% up to but excluding 5.2.2025; (ii) from and including 5.2.2025, the sum of reference rate(5y MS), applicable on reset interest date, and margin of 3,658%.
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Claims from eligible liabilities instruments (Article 72(b) of the CRR)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

5.2. Appendix 2
List of all disclosures required under Part 8 of CRR

Art.	Requirement	Chapter	Page
436	**Scope of application**		
	(a) The name of the institution to which the requirements of this Regulation apply;	1	4
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;	3.5	12
	(b) A description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.3	9
	(c) The full terms and conditions of all CET1, AT1 and Tier 2 instruments;	3.3	9
	(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;	3.4	11
	(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;	3.4	11
438	**Capital requirements**		
	(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	9
	(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	9
	(f) (Operational risk :) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	9
451	**Leverage**		
	(a) The leverage ratio and how the institution applies Article 499(2) and (3);	4	16
	(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;	4	16
	(d) A description of the processes used to manage the risk of excessive leverage;	4	16
	(e) A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.	4	16