

Interim Report

**Q3
2020**

BANK GUARANTEE **DIGITAL SERVICES** **B2B** **EASY** **KLIKIN** **TRUST**
24/7 **LJUBLJANA** **QUALITY**
EMPLOYEES **B2B** **B2C** **KNOWLEDGE** **ACCESSIBILITY** **TRUST** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **UP TO DATE** **FLEXIBILITY** **CONSULTING** **EXCELLENCE**
SOCIAL **STABILITY** **TRUST**
RESPONSIBILITY
REGIONAL PROJECTS **R&D**
MOBILE WALLET **NLB PAY** **BEST SERVICE**
FLEXIBILITY **TRUST** **SECURITY** **NLB TELEDOM**
BELGRADE **24/7** **REGIONAL PROJECTS**
FINANCIAL ADVICE **BANJA LUKA**
PURCHASE OF RECEIVABLES **BANK GUARANTEE**
5,800+ **REGIONAL PROJECTS** **B2B** **KLIKIN**
298 BRANCHES **PROFESSIONAL**
MOBILE WALLET **NLB PAY** **BEST SERVICE** **WIN-WIN**
BANK GUARANTEE **PROFESSIONAL** **B2B** **EASY** **TRUST** **EXCELLENCE** **NLB KLIK**
UP TO DATE **ACCESSIBILITY** **GROWTH**
KNOWLEDGE **PROFESSIONAL**
PODGORICA **R&D** **SECURITY**
REGIONAL PROJECTS
EASY **GROWTH** **PRISHTINA**
NLB TELEDOM **FINANCIAL LITERACY** **CARE** **MENTORSHIP**
WIN-WIN **DIGITAL SERVICES** **FLEXIBILITY** **ECOLOGY** **DONATIONS**
KLIKIN **SPONSORSHIP**
SKOPJE **B2B** **GOOD DEEDS**
NLB KLIK **MOBILE BANK** **TRUST** **BANK GUARANTEE**
GROWTH **DIGITAL SERVICES** **SARAJEVO** **PURCHASE OF RECEIVABLES**
MOBILE WALLET **NLB PAY** **DIGITAL** **WIN-WIN** **HEALTH** **BANK GUARANTEE**
MOBILE BANKERS **24/7** **SECURITY**

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NLB Group Strategic Members Overview

	Slovenia		North Macedonia	Bosnia and Herzegovina		Kosovo	Montenegro	Serbia	
	NLB Group	NLB, Ljubljana	NLB Skladi, Ljubljana	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica	NLB Banka, Beograd
Market position									
Branches	298	80	-	50	51	36	34	19	28
Active clients	1,898,733	672,275	-	455,068	211,743	135,376	218,261	65,007	141,003
Total assets (in EUR million)	15,146	10,639	1,488 ⁽ⁱ⁾	1,526	789	644	833	540	715
Profit after tax (in EUR million)	104.6	85.5	3.9	15.2	7.7	4.5	10.8	1.2	4.3
Market share (by total assets)		24.4%	33.9%	16.5%	19.0% ^(ii, iv)	5.2% ^(iii, v)	17.4%	11.8% ^(vi)	1.8% ^(v)

⁽ⁱ⁾ Assets under management.

⁽ⁱⁱ⁾ Market share in the Republic of Srpska.

⁽ⁱⁱⁱ⁾ Market share in the Federation of BiH.

^(iv) Data on market share as of 31 August 2020.

^(v) Data on market share as of 30 June 2020.



LJUBLJANA
DIGITAL SERVICES
SPORTS
THEATRE INTERPRETER
SPONSORSHIPS
TRUST
CSR
LOCAL COMMUNITY
QUALITY OF LIFE
EASY KLIKIN
KNOWLEDGE
FINANCIAL ADVICE
CULTURE
HEALTHY BANK
FLEXIBILITY
ONLINE BANK
DIGITAL SERVICES
BEST SERVICE
MOBILE WALLET NLB PAY
TRUST
CULTURE
KLIKIN

BANJA LUKA
DONATIONS
FINANCIAL LITERACY
ECOLOGY
QUALITY OF LIFE
SPONSORSHIPS
YOUTH SPORT
EASY
QUALITY OF LIFE
SOCIAL RESPONSIBILITY
DIGITAL TOP EMPLOYER

SARAJEVO
MENTORSHIP
SPORTS GAMES
ACCESSIBILITY
SPONSORSHIPS
FAMILY DAY
NLB ORGANIC
24/7
KLIKIN
MENTORSHIP

TRUST
REGIONAL PROJECTS
PRISHTINA
CONSULTING
5,800+ EMPLOYEES
STABILITY

PODGORICA
ENTREPRENEURSHIP
PRIVATE BANKING
DIGITAL
UP TO DATE
MENTORSHIP
ART
DIGITAL
TOP EMPLOYER

SKOPJE
UNDERSTANDING
BANKING PACKAGES
ONLINE BANK
STOCK MARKET
SECURITY
BANK GUARANTEE
DONATIONS
FINANCIAL LITERACY
298 BRANCHES
BUSINESS FORUM

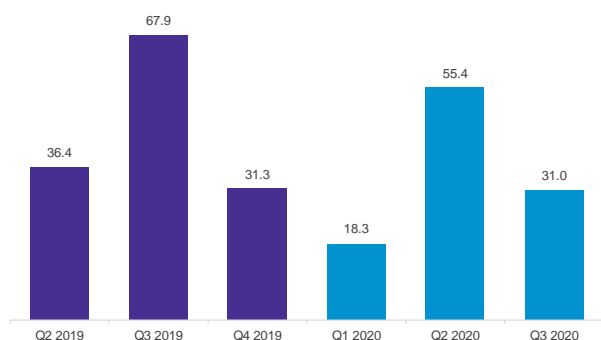
298 BRANCHES
CULTURE
KLIKIN
DIGITAL SERVICES
LOCAL COMMUNITY
MOBILE BANK

24/7 BELGRADE
DONATIONS
FINANCIAL LITERACY
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QUALITY OF LIFE
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DIGITAL TOP EMPLOYER

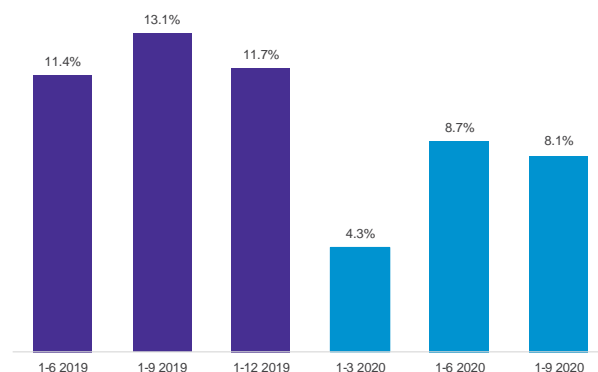
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Figures at a Glance

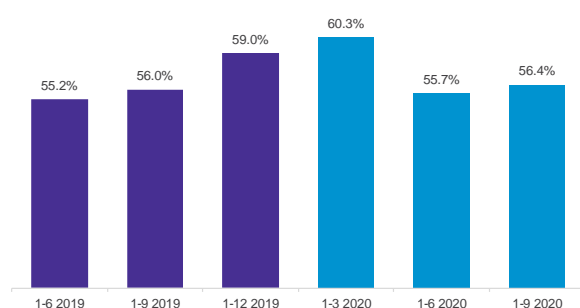
Profit a.t. - quarterly (in EUR million)



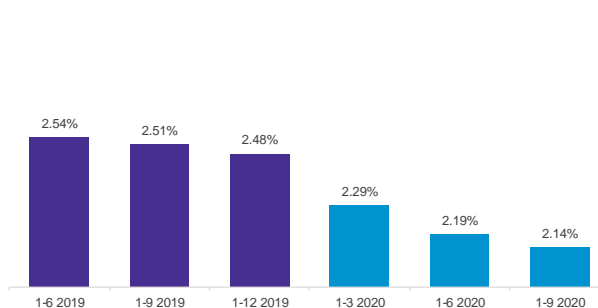
ROE a.t. (in %)



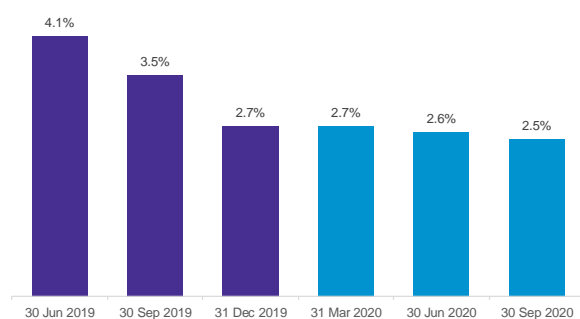
Cost/income ratio - CIR⁽ⁱ⁾ (in %)



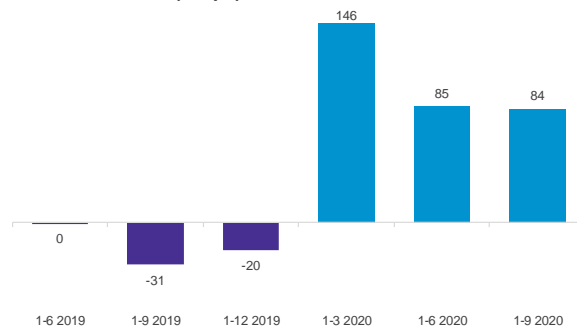
Interest margin (in %)



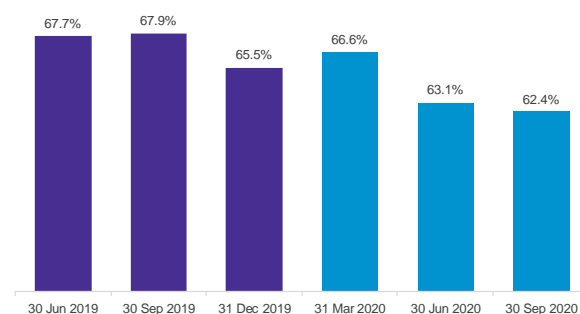
NPE ratio - EBA def. (in %)



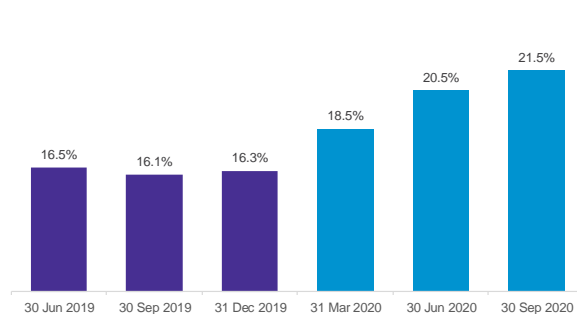
Cost of risk net⁽ⁱⁱ⁾ (in bps)



Loan to deposit ratio - LTD (in %)



Total capital ratio (in %)



⁽ⁱ⁾ CIR is adjusted to changed schemes prescribed by the BoS.

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

Key Financial Indicators

Table 1: Key Financial Indicators of NLB Group

in EUR million / % / bps	NLB Group					
	1-9 2020	1-9 2019	Change YoY	Q3 2020	Q2 2020	Q3 2019
Key Income Statement Data						
Net operating income ⁽ⁱ⁾	383.3	387.4	-1%	123.3	136.2	128.3
Net interest income	224.5	238.8	-6%	74.4	72.7	79.8
Net non-interest income	158.8	148.6	7%	48.9	63.5	48.6
Total costs ⁽ⁱ⁾	-216.3	-217.0	0%	-71.4	-70.2	-73.9
Result before impairments and provisions	167.0	170.3	-2%	51.9	66.0	54.4
Impairments and provisions	-50.2	9.7	-	-17.0	-4.9	15.2
Result after tax	104.6	162.2	-36%	31.0	55.4	67.9
Key Financial Indicators						
Return on equity after tax (ROE a.t.)	8.1%	13.1%	-5.0 p.p.			
Return on assets after tax (ROA a.t.)	1.0%	1.6%	-0.7 p.p.			
Interest margin (on interest bearing assets)	2.14%	2.51%	-0.37 p.p.			
Interest margin (on total assets - BoS ratio)	2.06%	2.43%	-0.37 p.p.			
Cost-to-income ratio (CIR) ⁽ⁱⁱ⁾	56.4%	56.0%	0.4 p.p.			
Cost of risk net (bps) ⁽ⁱⁱⁱ⁾	84	-31	114			

in EUR million / %	30 Sep 2020	31 Dec 2019	30 Sep 2019	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	15,145.7	14,174.1	13,489.5	7%	12%
Gross loans to customers	8,111.1	7,938.3	7,905.1	2%	3%
Net loans to customers	7,749.0	7,604.7	7,496.0	2%	3%
Deposits from customers	12,408.8	11,612.3	11,038.2	7%	12%
Equity (without non-controlling interests)	1,770.8	1,685.9	1,661.5	5%	7%
Other Key Financial Indicators					
LTD ^(iv)	62.4%	65.5%	67.9%	-3.0 p.p.	-5.5 p.p.
Common Equity Tier 1 Ratio	18.3%	15.8%	15.6%	2.5 p.p.	2.7 p.p.
Total capital ratio	21.5%	16.3%	16.1%	5.3 p.p.	5.5 p.p.
Total risk weighted assets	8,863.2	9,185.5	9,126.1	-4%	-3%
NPL volume ^(v)	399.2	374.7	476.3	5%	-16%
NPL coverage ratio 1 ^(vi)	90.7%	89.2%	86.0%	1.5 p.p.	4.7 p.p.
NPL coverage ratio 2 ^(vii)	62.3%	65.0%	67.9%	-2.7 p.p.	-5.6 p.p.
NPL ratio (internal def.) ^(viii)	3.7%	3.8%	5.2%	-0.2 p.p.	-1.5 p.p.
Net NPL ratio (internal def.) ^(ix)	1.4%	1.4%	1.7%	0.0 p.p.	-0.3 p.p.
NPL ratio (EBA def.) ^(x)	4.7%	4.6%	5.9%	0.2 p.p.	-1.1 p.p.
NPE ratio (EBA def.) ^(xi)	2.5%	2.7%	3.5%	-0.2 p.p.	-1.0 p.p.
Employees					
Number of employees	5,814	5,878	5,857	-64	-43

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

⁽ⁱⁱ⁾ CIR is adjusted to the changed schemes as prescribed by the BoS.

⁽ⁱⁱⁱ⁾ Cost of risk = credit impairments and provisions (annualised level) / average net loans to customers.

^(iv) LTD = Net loans to customers / deposits from customers.

^(v) Non-performing loans include loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

^(vi) Coverage of gross non-performing loans with impairments for all loans.

^(vii) Coverage of gross non-performing loans with impairments for non-performing loans.

^(viii) NPL ratio as per internal definition is calculated as follows: (i) Numerator: total gross non-performing loans; (ii) Denominator: total gross loans.

^(ix) Net NPL ratio as per internal definition is calculated as follows: (i) Numerator: net non-performing loans; (ii) Denominator: total net loans.

^(x) NPL ratio as per EBA definition is calculated as follows: (i) Numerator: gross volume of non-performing loans and advances in Finrep 18 without loans held for sale, cash balances at central banks and other demand deposits; (ii) Denominator: gross volume of loans and advances in Finrep18 without loans held for sale, cash balances at central banks and other demand deposits.

^(xi) NPE ratio as per EBA definition is calculated as follows: (i) Numerator: total non-performing exposure in Finrep 18; (ii) Denominator: total exposures in Finrep 18.

International credit ratings NLB	30 Jun 2020	30 Sep 2020	Outlook
Standard & Poor's	BBB-	BBB-	Negative
Fitch	BB+	BB+	Negative
Moody's ⁽ⁱ⁾	Baa2	Baa2 ⁽ⁱⁱ⁾	Stable

⁽ⁱ⁾ Unsolicited rating.

⁽ⁱⁱ⁾ On 6 October 2020 Moody's upgraded NLB to Baa1.

Macroeconomic Environment

Macroeconomic summary and outlook

The COVID-19 pandemic caused unprecedented contraction in the Eurozone in H1 2020. However, the activity rebounded robustly in Q3 2020 due to the easing of measures to contain the COVID-19 pandemic, re-opening of economies, and supportive fiscal and monetary policies. In the EU, the beginning of Q3 was marked also by the agreement reached on the Next Generation EU stimulus plan. With the summer travel season in full swing, the resurgence of COVID-19 cases in the European countries led to re-introduction of some containment measures, thereby slowing down the recovery. The Eurozone private sector economy lost momentum in August-September following a spike in July, with clear divergence between services and manufacturing sectors, as manufacturing production picked up on the back of rising external demand while the services sector contracted on the back of re-introduced containment measures. The unemployment rate in the Eurozone increased slowly and gradually. The COVID-19 shock still has only a very moderate effect on the unemployment rate mainly due to short-time working schemes, which have been extended in most large Eurozone economies. Largely stable incomes due to short-time working schemes have been beneficial for the recovery of domestic demand. A combination of pent-up demand, higher savings and stable incomes boosted the consumption of goods. Strong retail sales in August seem to confirm the re-opening of economy boosted consumption. Furthermore, disinflationary pressures have increased. The responsibility for a significant part of the downward pressure on prices lies in the German VAT reduction and energy prices. Moreover, prices of goods have also been affected by the delayed sales season in certain Eurozone countries. Disinflation in the Eurozone is caused by temporary factors, but the longer it lasts the more worrying it becomes for the ECB. Euro appreciation was an additional factor that needed monitoring. In Q3 2020, the ECB retained its monetary policy stance, maintaining key interest rates unchanged as well as the size of its Quantitative Easing (QE) programme. Over the summer, ECB slowed purchases under Pandemic Emergency Purchase Programme (PEPP) seizing the opportunity of calmer market conditions. As for another important ECB tool, the European banks drew EUR 174.5 billion from the fifth tranche of the ECB funding programme Targeted longer-term refinancing operations (TLTRO-III) in September, bringing the total size of TLTRO-III programme to EUR 1,699 billion. However, in case of economic and inflation outlook deterioration it would be impossible to rule out additional monetary policy stimulus measures. Meanwhile, the Fed announced a monetary policy shift, aiming for 2% inflation on average over time, which drew attention in the Eurozone in the light of the ongoing ECB strategic review.

Despite a rebound in activity and expected strong growth in Q3 2020, the outlook remains blurry. Higher COVID-19 infection rates do not bode well for economic activity as measures to contain the spread of COVID-19 constrain private consumption, investment, trade and travel. Worsening of the pandemic and reinstatement of lock-downs represent the major downside risks to the outlook and the hurdle preventing sustainable recovery. Fiscal policy decisions of euro area member countries, the US presidential elections and the uncertainty of Brexit are the risks drawing attention. The Eurozone economy is seen contracting by 8.5% in 2020. In Slovenia, the economy is expected to contract by 7.0% in 2020, while the output in the Group's region could on average contract by 6.4% in 2020. The recovery of the Group's region remains dependent on how this pandemic is handled as well as on the EU recovery pace.

Table 2: Movement of key macroeconomic indicators in the Euro area and NLB Group region

	GDP (annual growth rate in %)				Average inflation (in %, aop)				Unemployment rate (in %, aop)			
	2019	Q2 2020	2020	2021	2019	Q3 2020	2020	2021	2019	Q2 2020	2020	2021
Euro area	1.3	-4.3 ⁽ⁱ⁾	-8.5	4.0	1.2	0.0	0.3	1.2	7.6	8.2 ⁽ⁱⁱ⁾	8.0	8.5
Slovenia	2.4	-13.1	-7.0	4.5	1.7	0.0	0.2	1.5	4.5	5.2	5.5	6.0
BiH	2.4	-9.3	-6.0	4.0	0.6	-1.3	-0.8	0.7	33.3	34.3	35.0	35.0
Montenegro	3.6	-20.2	-11.5	6.5	0.4	-0.3	-0.1	1.0	15.1	15.2	18.0	17.5
N. Macedonia	3.6	-12.7	-5.0	5.0	0.8	1.6	0.9	1.5	17.3	16.7	18.0	18.0
Serbia	4.2	-6.4	-2.0	4.5	1.9	1.9	1.5	2.0	10.4	7.3	9.0	8.5
Kosovo	4.2	-9.3	-7.0	5.0	2.7	-0.3	0.4	1.4	25.7	25.0 ⁽ⁱⁱⁱ⁾	30.0	28.5

Source: Statistical offices, NLB ALM.

Note: Registered unemployment data used for BiH; NLB Forecasts highlighted in green. ⁽ⁱ⁾Data for Q3 2020; ⁽ⁱⁱ⁾Data for Q1 2020; aop – average of period.

PROFESSIONAL
PURCHASE OF RECEIVABLES
298 BRANCHES
REGIONAL PROJECTS DIGITAL
CONTACT CENTRE
MOBILE WALLET NLB PAY
KNOWLEDGE
EXCELLENCE
BEST SERVICE
ENTREPRENEURSHIP
INTEGRITY
QUALITY OF LIFE
MOBILE BANKERS
UP TO DATE
5,800+ EMPLOYEES
TOP EMPLOYER
24/7
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GROWTH
ASSETS
TRUST
STOCK MARKET
FINANCIAL ADVICE
NLB TELEDOM

Business Report

Key Developments

Financial Performance

Overall robust performance given challenging environment

- **Very solid quarter with core revenues** from lending and fee and commission business at pre-COVID-19 levels.
 - Defending a stable level of **profit before impairments and provisions** (EUR 167 million, -2% YoY), supported by non-recurring income (the sale of NLB Vita and debt securities).
 - **Profit after tax** (EUR 104.6 million, -36% YoY) was mainly affected by impairments and provisions (EUR 50.2 million).
- Continuing focus on the **cost discipline** (CIR of 56.4%, +0.4 p.p. YoY).

Business Overview

Increasing availability and use of digital channels

- Although business in 2020 has been marked by COVID-19, the Group's results demonstrated the robustness and resilience of its sustainable business model.
- Strong **deposit base** demonstrating client confidence in the Group.
- Wider array of **digital solutions** (increased number of digital users and number of digital payments) and improved **customer experience**.
- Healthy generation of housing loans.
- **New business opportunities** pursued (company NLB Lease&Go established) to generate additional revenues.

Asset Quality

Strong asset quality with a significant buffer to cover potential losses

- Stable **NPE (EBA def.)** of 2.5%.
- Limited **exposure** to industry sectors considered as COVID-19 sensitive.
- **Cost of risk** of 84 bps.
- Focus on proactive workout approaches and other **precautionary measures** to minimize potential future losses.

Capital & Liquidity

Well-capitalized, well above regulatory requirements

- Substantially strengthened **capital position** throughout 2020 (21.5%, +5.3 p.p. YtD) due to inclusion of Tier 2 instruments into capital and capital relief measures (MIGA guarantee, minority interest, SME supporting factor and temporary treatment of public debt issued in the currency of another member state).
- NLB Group remains **well-capitalized** for the envisaged Komercijalna Banka a.d. Beograd acquisition and the implications of COVID-19 pandemic.
- **Liquidity position** of the Group remains very strong.

Response to COVID-19 Pandemic

Quick adaptation of business operations

- Instant adaptation of processes to ensure higher **availability and use of digital channels**.
- **Supporting clients** through the downturn by offering **moratoriums** (EUR 1.7 billion), **new COVID-19 financing** (EUR 99.0 million), of which subject to public **guarantee schemes** (EUR 42.9 million).

Strategy & Outlook

Committed to pursue its strategic objectives

- Special focus on **stable revenues** and cost sustainability.
- Pursuing **new opportunities** for income generating business.
- The Bank is well prepared for **Komercijalna Banka a.d. Beograd acquisition** (expected in Q4 2020).
- **Dividend pay out** is not envisaged in 2020 due to ECB recommendations and BoS restrictions on dividend distributions. Once these restrictions cease to apply, NLB would resume dividend pay out in line with its capacity and regulatory requirements.
- Continue to serve the community aiming to **improve the quality of life** in the region.
- On the track to follow the principles of **sustainable banking**.

Key Events

On 5 February, the Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million. The fixed coupon of the notes during the first five years is 3.40% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as provided at the issuance of the notes (i.e. 3.658% p.a.). The notes with ISIN code XS2113139195 and rated BB by the S&P rating agency were on 5 February admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. The investor base was diverse, coming from high quality international as well as regional accounts.

On 26 February, NLB entered into a share purchase agreement with the Republic of Serbia for the acquisition of an 83.23% ordinary shareholding in Komercijalna Banka a.d. Beograd. The closing of the transaction is expected in Q4 2020 and is subject to mandatory regulatory approvals from, amongst others, the ECB, BoS and the National Bank of Serbia. The consideration for the 83.23% shareholding amounts to EUR 387 million, which will be payable in cash on completion.

On 4 March, NLB obtained the ECB's permission to include the subordinated Tier 2 notes it issued on 19 November 2019 in the aggregate amount of EUR 120 million with ISIN code XS2080776607 in the calculation of Tier 2 capital.

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

On 25 March, NLB obtained the ECB's permission to include the subordinated Tier 2 notes issued on 5 February 2020 in the aggregate amount of EUR 120 million with ISIN code XS2113139195 in the calculation of Tier 2 capital.

On 9 April, the Bank disclosed the amendment to the composition of Pillar 2 additional own funds requirement (P2R). The Bank received a new decision amending the composition of Pillar 2 (P2R) additional own funds requirement of the currently applicable Decision establishing prudential requirements (SREP). The Pillar 2 additional own funds requirement (P2R) to be held in the form of CET1 capital, shall, instead, be held in the form of 56.25% of CET1 capital and 75% of Tier 1 capital, as a minimum. The TSCR and the Pillar 2 additional own funds requirement remained unchanged. The decision was applied retroactively from 12 March 2020.

On 9 April, the Bank received the decision of the BoS relating to the MREL requirement, which amounts to 15.56% of TLOF on sub-consolidated level of the NLB Resolution Group (consisting of the Bank and non-core part of the Group). MREL requirement shall be reached by 31 December 2021 and shall be met at all times from that date onwards. This BoS decision superseded the previous BoS decision on MREL requirement dated 15 May 2019.

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

On 13 May, the ECB gave its consent to the appointment of Petr Brunclík as a member of the Management Board of the Bank and Chief Operating Officer (COO). Petr Brunclík, who was appointed by the Supervisory Board of the Bank at the end of November 2019, joined the NLB in February 2020. The new COO joined the Bank during its intense digital and IT transformation, challenges associated with the containment measures to curb the spread of

COVID-19, as well as numerous challenges faced by the banking sector due to various fintech companies, and continuing calls to improve customer experience.

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

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

On 15 June, the shareholders of the Bank gathered at the 35th General Meeting of NLB where 56.85% shares with voting rights were present. First, they took note of the approved NLB Group 2019 Annual Report, Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2019 and Information on the income of members of the Management Board and Supervisory Board of NLB during last year. The shareholders also decided on the allocation of distributable profit for 2019 and granting a discharge from liability to the Management Board of the Bank and Supervisory Board of the Bank, amendments to the Articles of Association of the Bank, election of members of the Supervisory Board of the Bank and other points on the agenda.

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

On 30 June, the Bank entered into contracts with MIGA (part of the World Bank Group) on mitigation of the risk of expropriation of mandatory reserves held by the Group banking members with their local central banks. The risk mitigation measure became effective as of 31 July contributing to risk weighted assets reduction on the consolidated level by EUR 303.1 million.

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

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

At the end of September, NLB as the first bank in Slovenia joined more than 180 banks from all over the world becoming a signatory of the United Nations Principles for Responsible Banking. This is a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and the United Nations Organisation. NLB will also contribute to the dissemination of these principles, as its Group of six member banks from the SEE region joins the signatories in addition to the parent bank.

NLB Shareholders Structure

The Bank's issued share capital is divided into 20,000,000 shares. The shares are listed on the Prime Market of the Ljubljana Stock Exchange (ISIN SI0021117344, Ljubljana Stock Exchange trading symbol: NLBR) and the global depositary receipts (GDR), representing ordinary shares of NLB, are listed on the Main Market of the London Stock Exchange (ISIN: US66980N2036 and US66980N1046, London Stock Exchange GDR trading symbol: NLB and 55VX). Five GDRs represent one NLB share.

Table 3: NLB's main shareholders as of 30 September 2020¹

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders ⁽ⁱ⁾	11,850,473	59.25
• of which Brandes Investment Partners, L.P. ⁽ⁱⁱ⁾	n.a.	>5 and <10
• of which European Bank for Reconstruction and Development (EBRD) ⁽ⁱⁱ⁾	n.a.	>5 and <10
• of which Schroders plc ⁽ⁱⁱ⁾	n.a.	>5 and <10
Republic of Slovenia (RoS)	5,000,001	25.00
Other shareholders	3,149,526	15.75
Total	20,000,000	100.00

⁽ⁱ⁾ The Bank of New York Mellon holds shares in its capacity as the depositary (the GDR Depositary) for the GDR holders and is not the beneficial owner of such shares. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the shareholder's meeting or to exercise any voting rights under the deposited shares.

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

Notes:

¹ Information is sourced from the NLB shareholders book available at the web services of CSD (Central Security Depository, Slovenian: KDD - Centralna klirinško depotna družba) to the CSD members. Information on major holdings is based on self-declarations by individual holders pursuant to the applicable provisions of the Slovenian legislation, which requires that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings go over the preset thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50% or 75%. The table provides all self-declared major holders whose notifications have been received. In reliance on this obligation vested in the holders of major holdings, the Bank postulates that no other entities nor any natural persons hold directly and/or indirectly ten or more percent of the Bank's shares.

Financial Performance

Table 4: Income statement of NLB Group²

in EUR million	NLB Group				Q3 2020	Q2 2020	Q3 2019	Change	
	1-9 2020	1-9 2019	YoY					QoQ	
Net interest income	224.5	238.8	-14.3	-6%	74.4	72.7	79.8	1.7	2%
Net fee and commission income	125.1	126.9	-1.7	-1%	43.7	39.0	44.6	4.6	12%
Dividend income	0.1	0.2	-0.1	-46%	0.0	0.1	0.0	-0.1	-82%
Net income from financial transactions	30.0	28.0	2.0	7%	5.7	20.5	5.1	-14.8	-72%
Net other income	3.6	-6.5	10.1	-	-0.5	3.9	-1.2	-4.4	-
Net non-interest income	158.8	148.6	10.2	7%	48.9	63.5	48.6	-14.6	-23%
Total net operating income	383.3	387.4	-4.0	-1%	123.3	136.2	128.3	-12.9	-9%
Employee costs	-122.9	-123.2	0.3	0%	-40.2	-39.8	-41.8	-0.4	-1%
Other general and administrative expenses	-69.6	-70.5	0.9	1%	-23.5	-22.5	-24.2	-0.9	-4%
Depreciation and amortisation	-23.7	-23.3	-0.4	-2%	-7.8	-7.9	-7.9	0.0	0%
Total costs	-216.3	-217.0	0.7	0%	-71.4	-70.2	-73.9	-1.3	-2%
Result before impairments and provisions	167.0	170.3	-3.3	-2%	51.9	66.0	54.4	-14.1	-21%
Impairments and provisions for credit risk	-49.1	15.6	-64.7	-	-16.3	-4.6	16.4	-11.6	-
Other impairments and provisions	-1.2	-5.9	4.7	80%	-0.7	-0.3	-1.1	-0.5	-181%
Impairments and provisions	-50.2	9.7	-60.0	-	-17.0	-4.9	15.2	-12.1	-
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	0.9	4.2	-3.3	-78%	0.5	0.2	1.6	0.3	125%
Result before tax	117.7	184.2	-66.5	-36%	35.4	61.3	71.2	-26.0	-42%
Income tax	-8.9	-15.8	6.9	43%	-3.4	-3.9	-0.9	0.5	13%
Result of non-controlling interests	4.2	6.2	-2.0	-33%	1.0	2.0	2.4	-1.0	-52%
Result after tax	104.6	162.2	-57.6	-36%	31.0	55.4	67.9	-24.4	-44%

Profit

The Group generated EUR 104.6 million of profit after tax, which is EUR 57.6 million lower YoY.

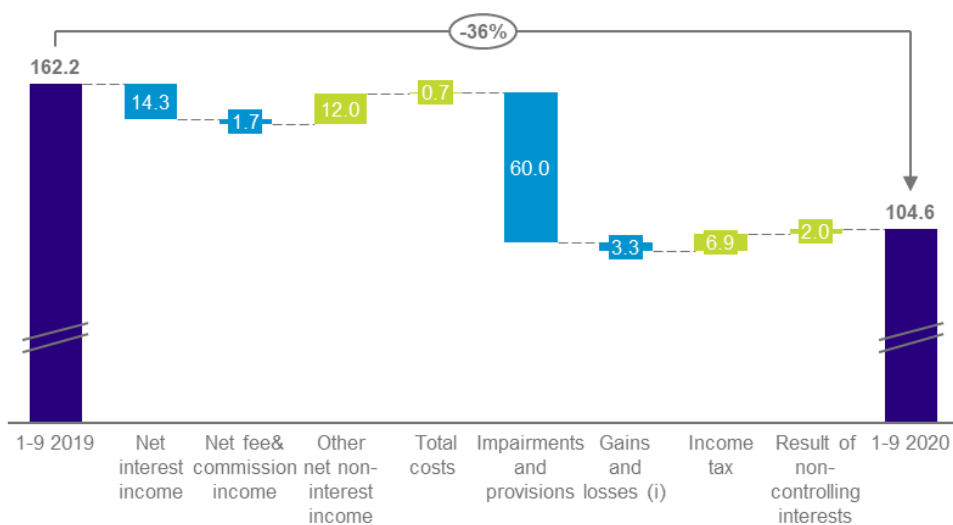
The result was based on the following key drivers and YoY evolution:

- **Net interest income** lower by EUR 14.3 million (6%): lower interest income mostly related to lower yields due to reinvestment of debt securities in the Bank (in H1 2020 realized non-recurring profit of EUR 17.1 million from the sale) and higher volume of cash and balances with the central bank, while higher interest expenses are related to the raised subordinated Tier 2 instruments. The pressure on interest margins in the Bank and banking members in SEE continues.
- Lower **net fee and commission income**, EUR 1.7 million (1%) due to COVID-19 outbreak, mainly on card operations, payment transactions, and bancassurance business. Normalization to pre-COVID-19 income in Q3 2020 after substantial decline as a result of lock-down during H1 2020.
- **Non-recurring net income from the financial transaction** affected by the sale of debt securities in the Bank (EUR 17.1 million) and partial repayment of a large exposure measured at fair value through profit and loss in the amount of EUR 3.4 million, while in 2019 by partial repayment of a large exposure measured at fair value through profit and loss in the amount of EUR 5.1 million and revaluation of a non-core equity stake in the amount of EUR 6.3 million.
- **Non-recurring net other income** affected by the sale of NLB Vita with a positive effect of EUR 11.0 million in May 2020.
- **Total costs** slightly below 2019 level, EUR 0.7 million lower, and remain well contained through all cost categories and geographies.
- Additional **net impairments and provisions** were established in the amount of EUR 50.2 million, out of which EUR 18.4 million due to changed macroeconomic parameters, that incorporated estimated impacts of COVID-19 outbreak.

Notes:

² Data for 2019 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses). More details are available in 2.3 under Unaudited Condensed Interim Financial Statements of NLB Group and NLB.

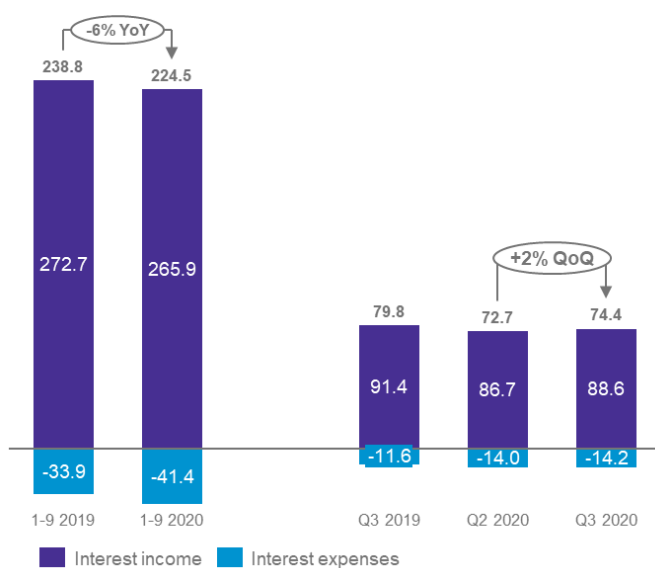
Figure 1: Profit after tax of NLB Group – evolution YoY (in EUR million)



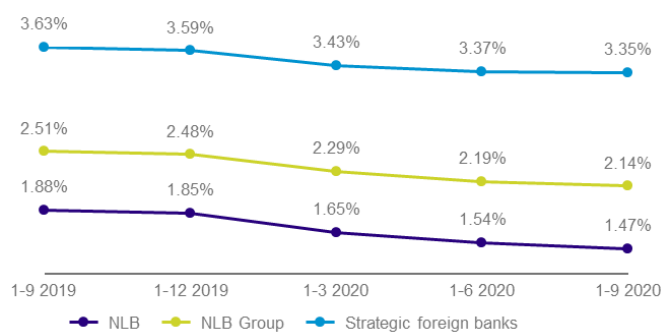
⁽ⁱ⁾ Gains less losses from capital investments in the subsidiaries, associates, and joint ventures.

Net Interest Income

Figure 2: Net interest income of NLB Group (in EUR million)



The net interest income totalling EUR 224.5 million decreased by EUR 14.3 million or 6% YoY. Lower interest income mainly related to lower income from financial assets related to reinvestment of debt securities with lower yields in the Bank, higher cash volumes and balances with the central bank (bearing negative interest in line with the expansionary monetary policy), and continued pressure on interest rates achieved on the loan portfolio in the Bank and Group banking members in the SEE region. Higher interest expenses are related to the subordinated Tier 2 instruments raised by the Bank to optimize the capital structure. Interest expenses for customer deposits were decreasing. Additionally, on QoQ basis the interest income increased due to higher volumes of loans, especially to individuals.

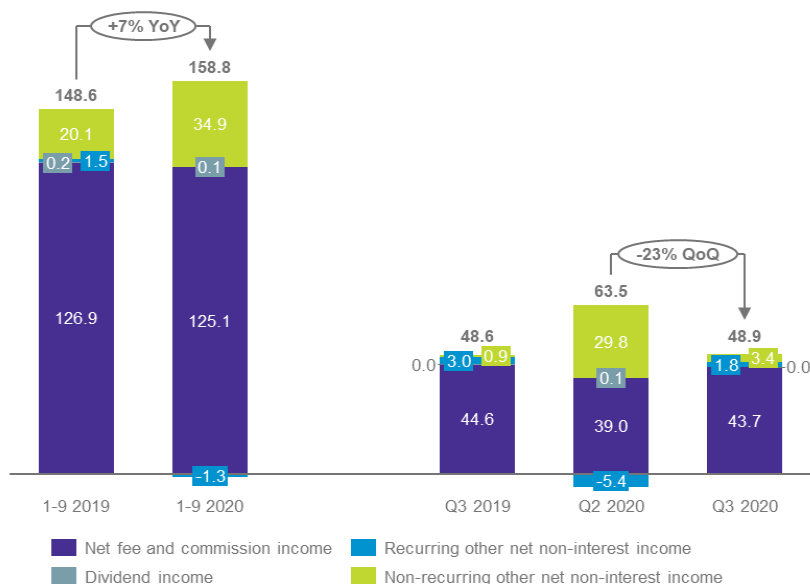
Figure 3: Net interest margin of NLB Group³ (in %)

The net interest margin of 2.14% for the Group decreased YoY. The interest margin for the Bank and the Group banking members in the SEE region decreased YoY, totalling 1.47% and 3.35% respectively. A substantial YoY decrease in the interest margin was recorded due to:

- lower yields on securities, due to the sale of debt securities in H1 2020 (realized one-off effect in the amount of EUR 17.1 million in the Bank) and their reinvestment in Q3 2020 in the Bank;
- higher cost of funding due to subordinated Tier 2 instruments raised by the Bank (EUR 6.5 million);
- higher cash volumes and balances with the central bank (1,497.6 million YoY) bearing negative interest;
- continued pressure on interest rates in the Bank and banking members in SEE.

Net Non-Interest Income⁴

Figure 4: Net non-interest income of NLB Group (in EUR million)



Notes:

³ Calculation of the interest margin based on interest bearing assets.

⁴ Please refer to note 2.

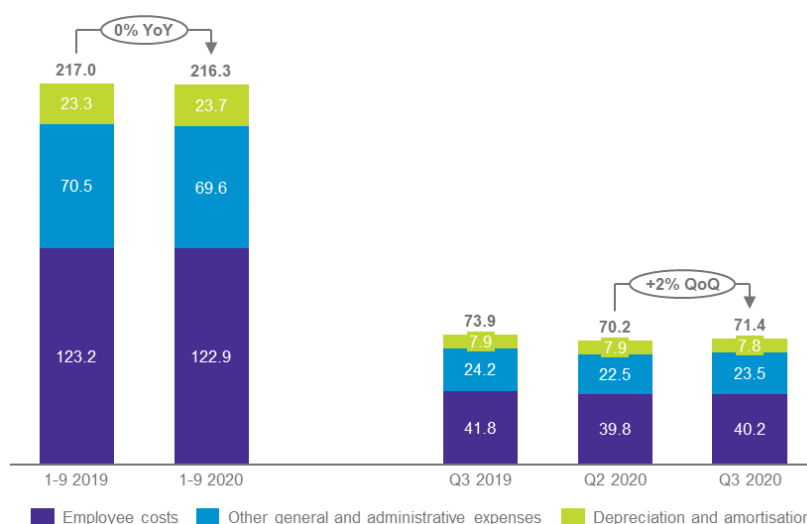
Net non-interest income reached EUR 158.8 million and increased by EUR 10.2 million or 7% YoY. The YoY dynamic was influenced by the following factors:

- **Net fee and commission income** lower by EUR 1.7 million (1%) YoY, mostly due to COVID-19 outbreak and its negative impact on card operations and payment transactions (lower consumption by clients).
- **Non-recurring net income from financial transactions** was affected by the sale of debt securities in H1 2020 in the Bank as a consequence of perceived higher risk during the COVID-19 pandemic in the amount of EUR 17.1 million. In both years, the Group made a non-recurring net income by partial repayment of a large exposure measured at fair value through profit and loss, in 2020 in the amount of EUR 3.4 million and in 2019 in the amount of EUR 5.1 million. In 2019, the non-recurring income from financial transactions was also affected also by revaluation of a non-core equity stake (EUR 6.3 million, sold in Q4 2019).
- **Non-recurring net other income** affected by the sale of NLB Vita with a positive effect of EUR 11.0 million on the Group level (EUR 35.5 million on the level of the Bank).

QoQ decrease is mainly related to positive effect from non-recurring net non-interest income (sale of NLB Vita and sale of debt securities in the Bank) and negative effect from regulatory costs in Q2 (EUR 1.7 million for SRF and EUR 5.5 million for DGS in the Bank in June). Normalization of net fee and commission income to pre-COVID-19 income in Q3 2020 after substantial decline during lock-down.

Total Costs⁵

Figure 5: Total costs of NLB Group (in EUR million)



Total costs amounted to EUR 216.3 million, EUR 0.7 million lower YoY, and are well contained through all cost categories and geographies. Decrease in employee costs was related to COVID-19 outbreak measures taken in Q2 2020 and expected to be valid till the end of 2020. The total costs increased QoQ due to normalization of other general and administrative costs (lower in Q2).

Notes:

⁵ Please refer to note 2.

The Group is undertaking several strategic initiatives (channel strategy, digitalization, paperless, lean process, branch network optimization, etc.) to maintain the sustainable cost base going forward.

CIR stood at 56.4%, an 0.4 p.p. YoY increase.

Net Impairments and Provisions

Additional **net impairments and provisions** were established in the total amount of EUR 50.2 million, EUR 49.1 million for credit risk, out of which EUR 18.4 million due to changed macroeconomic parameters, that incorporate estimated impacts of COVID-19 outbreak. Cost of risk was positive, 84 bps (-31 bps in the same period 2019).

Financial Position

Table 5: Statement of financial position of NLB Group

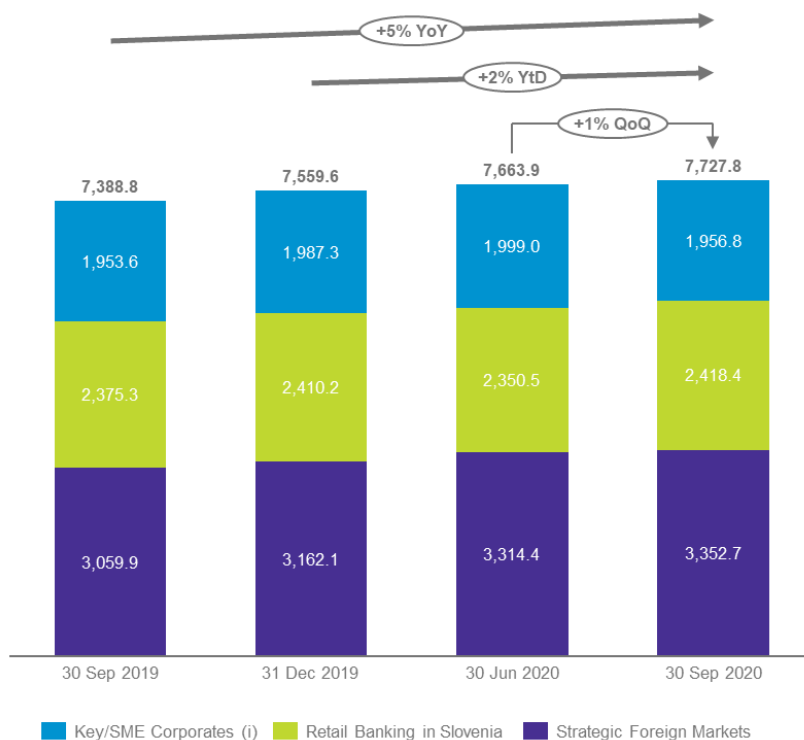
in EUR million	NLB Group									
	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019	Change YTD	Change YoY	Change QoQ			
ASSETS										
Cash, cash balances at central banks, and other demand deposits at banks	3,010.9	3,084.6	2,101.3	1,531.4	909.6	43%	1,479.6	97%	-73.6	-2%
Loans to banks	112.5	94.9	93.4	90.3	19.1	20%	22.3	25%	17.6	19%
Net loans to customers	7,749.0	7,686.7	7,604.7	7,496.0	144.3	2%	253.0	3%	62.3	1%
Gross loans to customers	8,111.1	8,048.9	7,938.3	7,905.1	172.8	2%	206.1	3%	62.2	1%
- Corporate	3,702.4	3,751.7	3,646.3	3,661.5	56.2	2%	40.9	1%	-49.3	-1%
- Individuals	4,119.4	4,002.6	4,013.5	3,931.5	105.9	3%	187.9	5%	116.8	3%
- State	289.3	294.7	278.6	312.1	10.8	4%	-22.7	-7%	-5.3	-2%
Impairments and valuation of loans to customers	-362.1	-362.2	-333.6	-409.0	-28.5	-9%	46.9	11%	0.1	0%
Financial assets	3,783.8	3,504.8	3,829.7	3,841.4	-45.9	-1%	-57.7	-2%	279.0	8%
- Trading book	16.8	22.6	24.0	87.6	-7.2	-30%	-70.8	-81%	-5.9	-26%
- Non-trading book	3,767.0	3,482.2	3,805.7	3,753.9	-38.7	-1%	13.1	0%	284.8	8%
Investments in subsidiaries, associates, and joint ventures	7.7	7.9	7.5	7.5	0.2	3%	0.2	3%	-0.2	-3%
Property and equipment, investment property	240.0	243.6	247.9	247.5	-7.9	-3%	-7.4	-3%	-3.6	-1%
Intangible assets	37.5	37.6	39.5	35.7	-2.1	-5%	1.8	5%	-0.1	0%
Other assets	204.2	231.7	250.0	239.8	-45.7	-18%	-35.5	-15%	-27.5	-12%
TOTAL ASSETS	15,145.7	14,891.9	14,174.1	13,489.5	971.6	7%	1,656.2	12%	253.9	2%
LIABILITIES										
Deposits from customers	12,408.8	12,190.8	11,612.3	11,038.2	796.5	7%	1,370.6	12%	217.9	2%
- Corporate	2,915.0	2,781.2	2,772.0	2,429.9	143.1	5%	485.1	20%	133.8	5%
- Individuals	9,197.2	9,146.9	8,582.9	8,330.2	614.3	7%	867.0	10%	50.3	1%
- State	296.5	262.7	257.4	278.0	39.1	15%	18.5	7%	33.8	13%
Deposits from banks and central banks	49.7	54.3	42.8	56.3	6.8	16%	-6.6	-12%	-4.6	-9%
Borrowings	218.6	220.9	234.8	242.7	-16.3	-7%	-24.2	-10%	-2.3	-1%
Other liabilities	359.0	360.1	342.6	357.6	16.3	5%	1.3	0%	-1.2	0%
Subordinated liabilities	290.0	287.4	210.6	90.3	79.5	38%	199.8	-	2.7	1%
Equity	1,770.8	1,730.6	1,685.9	1,661.5	84.9	5%	109.3	7%	40.2	2%
Non-controlling interests	48.9	47.7	45.0	42.9	3.9	9%	6.0	14%	1.2	2%
TOTAL LIABILITIES AND EQUITY	15,145.7	14,891.9	14,174.1	13,489.5	971.6	7%	1,656.2	12%	253.9	2%

The Group's total assets increased by EUR 971.6 million YtD totalling EUR 15,145.7 million, mainly due to the continued inflows of deposits from individuals (EUR 614.3 million, however the growth is showing slow down in the Q3), higher subordinated debt (EUR 79.5 million) and higher equity (EUR 84.9 million) on the source of funding. Excess liquidity was placed on the account with the central bank (EUR 909.6 million increase YtD), while the net loans to customers increased by EUR 144.3 million. Deleveraged banking book securities in H1 2020 were reinvested in Q3.

Gross loans to customers at the Group level amounted to EUR 8,111.1 million (3% higher YoY), a growth was recorded in gross loans to the corporate clients (EUR 40.9 million or 1% YoY) and individuals (EUR 187.9 million or 5% YoY). Despite the COVID-19 outbreak and negative impact of macroprudential measures on consumer loans introduced in November 2019, causing an adverse effect for the new production of loans to individuals, the retail loan book increased YtD (EUR 105.9 million or 3%), especially in housing loans. Demand from corporate clients for working capital loans, revolving loans and overdraft facilities for daily liquidity initially increased in the beginning of COVID-19 outbreak but has since receded. The Group recorded a EUR 56.2 million increase of the corporate loan book YtD exclusively on the back of COVID-19 impact on ensuring liquidity in Q1 2020 followed by decreases in outstanding loans each month in the following two quarters.

The LTD ratio (net) was 62.4% at the Group level; a decrease of 5.5 p.p. YoY as a result of increased deposits, which was partially neutralized by growing, but still moderate demand for loans.

Figure 6: NLB Group gross loans to customers by Key business activities (in EUR million)



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

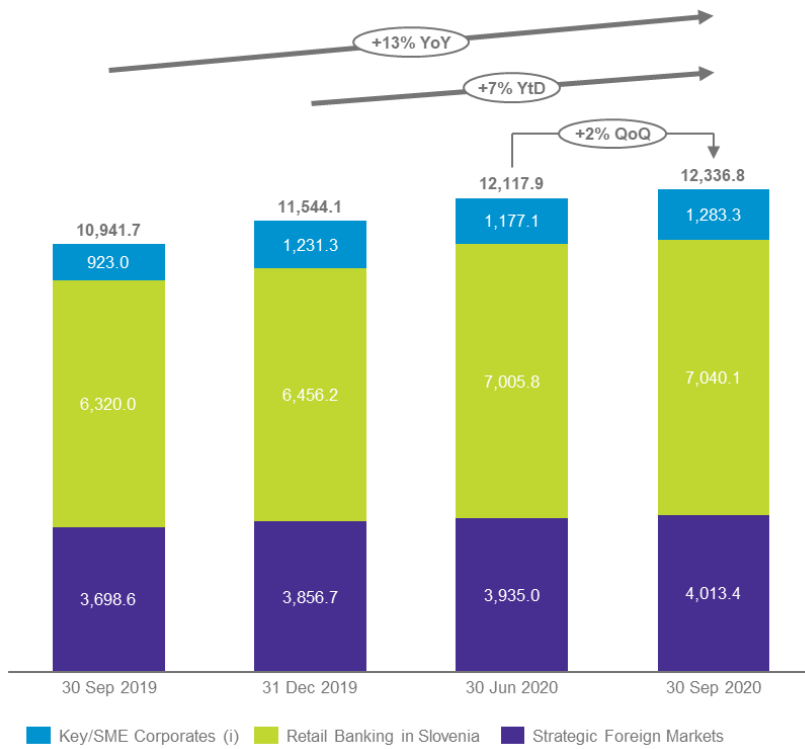
Key business activities recorded a 5% and 2% increase of gross loans to customers YoY and YtD respectively, totalling EUR 7,727.8 million.

YtD increase was recorded in the Strategic Foreign Markets (EUR 190.6 million or 6%). The trends of increasing business volumes slowed down significantly in the region after the COVID-19 outbreak but still remaining, especially in the retail segment. Compared to 2019 YE, the gross loans to customers grew in all subsidiaries; the largest increase was reported by NLB Banka, Beograd (15%), followed by NLB Banka, Podgorica (10%).

The Key and SME Corporates recorded a YtD decrease (EUR 30.6 million or 2%). Demand from corporate clients for working capital loans, revolving loans and overdraft facilities for daily liquidity initially increased in the beginning of COVID-19 outbreak but has since receded.

In the Retail Banking in Slovenia, the loan portfolio increased slightly by EUR 8.1 million YtD, mostly due to increasing volume of housing loans (EUR 62.7 million YtD, with EUR 202.3 million new loans) related to more attractive offers for clients and intensive marketing campaigns. Volume of consumer loans is still below Q3 2019 (EUR 96.0 million), however, new production in Q3 2020 (EUR 62.5 million) is significantly higher compared to EUR 34.7 million in Q2 2020 and EUR 51.5 million in Q1 2020).

Figure 7: NLB Group deposits from customers by Key business activities (in EUR million)

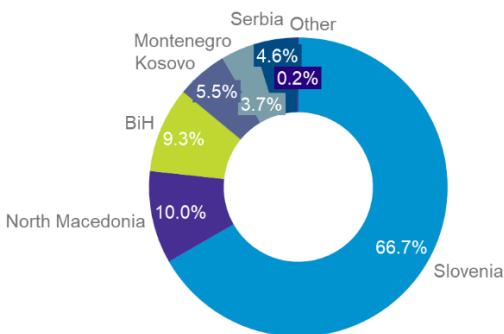


⁽ⁱ⁾ Including deposits from Corporate and from the State.

Deposits from customers in the Key business activities increased by 13% YoY and 7% YtD.

Key/SME Corporate recorded a 39% increase YoY and 4% increase YtD due to one-off corporate deposit at the end of 2019, which was transferred from the Bank during Q1 2020. Retail Banking in Slovenia recorded an 11% increase YoY and 9% YtD, while the Strategic Foreign Markets have seen a 9% YoY and 4% YtD increase.

Figure 8: Total assets of NLB Group by booking entity (in %)⁶



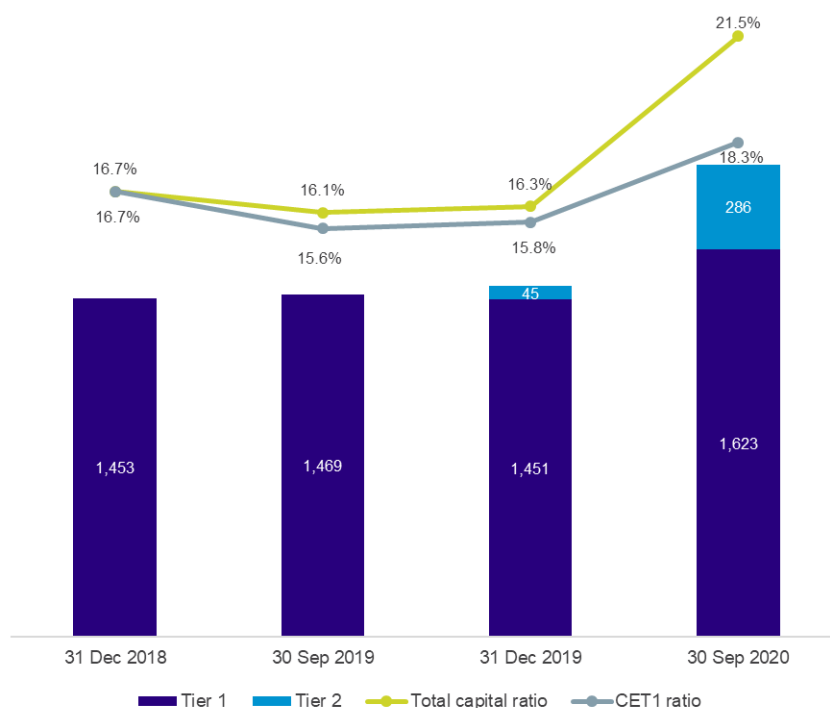
Notes:

⁶ Geographical analysis based on the booking entity.

Capital and Liquidity

Capital

Figure 9: NLB Group capital (in EUR million), total capital ratio and CET1 ratio (in %)



The Overall Capital Requirement (OCR) was 14.25% for the Bank on the consolidated basis, consisting of:

- 10.75% TSCR (8% Pillar 1 Requirement and 2.75% Pillar 2 Requirement); and
- 3.5% CBR (2.5% Capital Conservation Buffer, 1% O-SII Buffer and 0% Countercyclical Buffer).

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

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

Table 6: NLB Group capital requirements and buffers

		as of 12 Mar 2020	as of 1 Jan till 11 Mar 2020	2019	2018
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%	2.0%
Pillar 2 (P2R)	CET1	1.55%	0.00%	0.00%	0.0%
	Tier 1	2.06%	0.00%	0.00%	0.0%
	Total Capital	2.75%	2.75%	3.25%	3.5%
Total SREP Capital Requirement (TSCR)	CET1	6.05%	7.25%	7.75%	8.0%
	Tier 1	8.06%	8.75%	9.25%	9.5%
	Total Capital	10.75%	10.75%	11.25%	11.5%
Combined Buffer requirement (CBR)					
Conservation buffer	CET1	2.5%	2.5%	2.5%	1.875%
O-SII buffer	CET1	1.0%	1.0%	1.0%	0.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	10.75%	11.25%	9.875%
	Tier 1	11.56%	12.25%	12.75%	11.375%
	Total Capital	14.25%	14.25%	14.75%	13.375%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%	1.5%
OCR + P2G	CET1	10.55%	11.75%	12.25%	11.375%

The Bank and Group's capital covers all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance.

In 2020, the Bank continued to strengthen and optimize its capital structure. On 5 February 2020, the Bank issued subordinated Tier 2 notes (10NC5) in the aggregate nominal amount of EUR 120 million. On 25 March 2020, the Bank obtained the ECB's permission to include them in the capital, and the subordinated notes have been included as of 31 March 2020. On 4 March 2020, the Bank also obtained the ECB's permission to include in the capital subordinated Tier 2 notes (10NC5) issued in November 2019 in the aggregate nominal amount of EUR 120 million. All the existing subordinated Tier 2 notes in the total amount of EUR 284.6 million were included in the capital thus contributing 3.1 p.p. to the total capital ratio at the time. As of June 2020, also the non-controlling interest (minority capital) in the amount of EUR 31.7 million (EUR 32.0 million as of 30 September 2020) was included in the capital, which at that time accounted for 0.3 p.p. of the total capital ratio.

As at 30 September 2020, the CET1 ratio stood at 18.3% (2.5 p.p. YtD increase) and the total capital ratio for the Group stood at 21.5% (5.3 p.p. YtD increase). Ratios increased both due to the higher capital and lower RWA. The capital increased (EUR 413.9 million) mostly due to the inclusion of subordinated Tier 2 notes (EUR 240 million) and undistributed profit from 2019 (EUR 157.5 million).

Table 7: Total risk exposure for NLB Group (in EUR million)

	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	31 Dec 2018	Change YtD
Total risk exposure amount (RWA)	8,863	9,302	9,227	9,186	8,678	-3.5%
RWA for credit risk	7,374	7,787	7,725	7,720	7,180	-4.5%
Central governments or central banks	878	1,178	1,090	1,235	1,102	-28.9%
Regional governments or local authorities	63	62	59	59	53	6.1%
Public sector entities	102	105	104	102	70	-0.3%
Multilateral developments banks	0	0	0	0	0	0.0%
International organisations	0	0	0	0	0	0.0%
Institutions	236	176	200	208	238	13.2%
Corporates	1,869	2,107	2,206	2,045	1,902	-8.6%
Retail	3,056	2,990	2,935	2,934	2,783	4.1%
Secured by mortgages on immovable property	349	358	353	364	261	-4.0%
Exposures in default	157	155	150	140	269	12.1%
Items associated with particularly high risk	256	227	209	204	93	25.3%
Covered bonds	42	39	39	40	31	5.0%
Claims in the form of CIU	12	12	12	13	7	-6.1%
Equity Exposures	25	24	35	35	38	-29.3%
Other items	330	351	334	341	334	-3.1%
RWA for market risks + CVA	535	560	548	524	544	2.1%
RWA for operational risk	954	954	954	942	953	1.3%

The RWA for credit risk decreased by EUR 345.9 million YtD. In Q1 2020 Serbia was added to the lists of third countries whose supervisory and regulatory requirements are considered equivalent as EEA counties, which reduced RWA for exposures to Serbian central governments and central banks denominated in local currency by EUR -100.1 million. Nevertheless, total RWA for credit risk in Q1 slightly increased due to new loan production, mainly on corporate segment. Also increase of RWA in Q2 (EUR 62.1 million) is mainly due to new loan production. In Q3 2020 the RWA for credit risk decreased mainly due to effectiveness of MIGA guarantee for obligatory reserves in the Group banks (EUR -303.1 million in July) and due to changes in CRR regulation. CRR 'quick fix' introduced a more favourable treatment of SMEs (changes to the prescribed SME supporting factor, effect EUR 168.3 million, mostly in Corporate segment) and a temporary treatment of public debt issued in the currency of another member state (effect EUR 57.4 million in Central government or Central banks segment). Other changes in RWA for credit risks are a result of portfolio movements.

The RWA increase for market risks and CVA (Credit Value Adjustments) (EUR 11 million YtD) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operational risks (EUR 12.6 million YtD) arose from the higher three-year average of relevant income, which represents the basis for the calculation.

Liquidity

The liquidity position of the Group remains strong, with LTD ratio (net) of 62.4% (2019 YE: 65.5%), thus meeting the liquidity indicators high above the regulatory requirements, as well as confirming the low liquidity risk tolerance of the Group.

Liquid assets of the Group amounted to EUR 7.4 billion (48.8% of total assets; 2019 YE: EUR 6.5 billion, 45.8% of total assets), of which EUR 0.5 billion (2019 YE: EUR 0.5 billion) were encumbered due to operational and regulatory requirements.

Figure 10: NLB Group liquid assets structure reflects a robust liquidity position (in EUR million)



The banking book securities portfolio, which accounted for 50.2% of the Group's liquid assets (2019 YE: 57.7%), was dispersed appropriately across issuers, geographies, and remaining average maturity, with the aim of adequate liquidity and interest risk management.

After a temporary COVID-19-related adjustment of the Group positioning by increasing cash allocation ratio, the investment activity turned back to a more balanced approach with a clear focus on attractive market opportunities and well-managed credit risk and capital consumption.

Driven by the low interest rate environment, the main change in the funding structure of the Group was the ongoing transformation of term-to-sight customer deposits, representing the key funding base. The share of sight customer deposits was 68.9% of the total assets (2019 YE: 66.8%).

Related-Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions mainly consists of loans and deposits issued and deposits received. Specific transaction volumes are available in the financial part of this report under 7.

Segment Analysis

The segments of the Group are divided into core and non-core segments.

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals, asset management (NLB Skladi), and one part of the new subsidiary NLB Lease&Go that deals with retail clients as well as the contribution to the result from the associated company Bankart (in the nine months of 2019 also from the joint venture NLB Vita⁷ and in the nine months of 2020 the gains made from the sale of this asset).
- Corporate and Investment Banking in Slovenia, which covers banking with Key Corporate Clients, SMEs, Investment Banking and Custody, Restructuring and Workout and one part of the new subsidiary NLB Lease&Go that renders services to corporate clients.
- Strategic Foreign Markets, which consist of the operations of strategic Group banks in the strategic markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia).
- Financial Markets in Slovenia cover treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).
- Other accounts for the categories whose operating results cannot be allocated to specific segments, such as the external realization, costs generated by vacant business premises, and income tax as well as the new subsidiary The NLB Cultural Heritage Management Institute, Ljubljana.

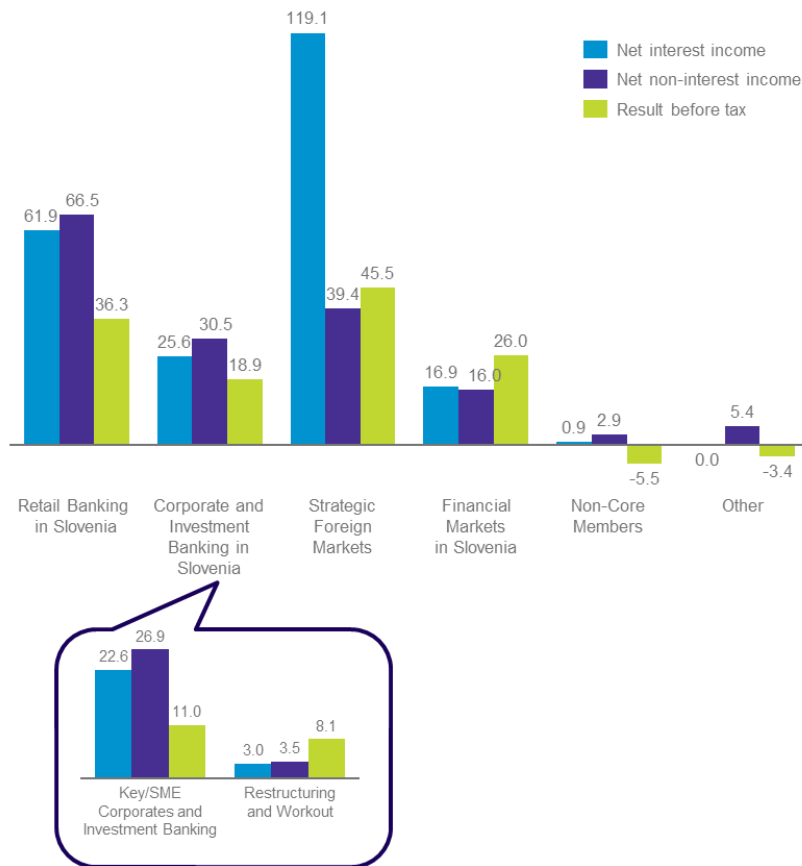
The Non-Core Members consist of the operations of non-core Group members, namely REAM and leasing entities – except NLB Lease&Go, NLB Srbija and NLB Crna Gora.

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

Notes:

⁷ In 2019, the segment also included the result of the JV company NLB Vita. In December 2019, the NLB and KBC Insurance NV, in a joint process, agreed to sell their respective stakes. The sale was completed in May 2020.

Figure 11: Segment results of NLB Group (in EUR million)



The core markets and activities made a profit before tax of EUR 123.2 million. The Strategic Foreign Markets contributed the largest share to the Group's profit before tax in the amount of EUR 45.5 million, followed by Retail Banking in Slovenia with EUR 36.3 million, Financial Markets in Slovenia with EUR 26.0 million and Corporate and Investment Banking in Slovenia with EUR 18.9 million, while the segment Other made a loss of EUR 3.4 million.

In line with the divestment strategy the Non-Core Members recorded a loss before tax in the amount of EUR 5.5 million.

Retail Banking in Slovenia

Financial Highlights

- The segment's **profit before tax** amounted to EUR 36.3 million, an 8% decrease YoY; this decrease is mostly related to higher credit impairments and provisions and lower deposit margin from deposits, which was partially compensated by sales effects from NLB Vita.⁸
- Net interest income** was 6% lower YoY. Due to overliquidity of the Bank, the policy to de-stimulate the deposit collection triggered the retail deposits margin after transfer price (FTP) reduction in the amount of EUR 6.1 million YoY. The interest income from loans to individuals was EUR 2.5 million higher YoY due to higher volumes and higher interest margin. In H1 2020, COVID-19 outbreak affected the new production of loans to individuals, as well as change of legislation that tightened the measures in consumer lending. The production of new consumer loans in Q3 2020 amounted to EUR 62.5 million and was higher than in previous two quarters (EUR 34.7 million in Q2 and EUR 51.5 million in Q1) as result of marketing campaigns, individualised preapproved loan campaigns, process improvements, however still lower than in Q3 2019 (EUR 96.0 million). The YtD decline in the balance of consumer loans (EUR 25.3 million) is largely due to a lower production of new consumer loans in Q1 and Q2 2020, while the last quarter has seen a recovery. The decrease was recorded also in the portfolio of overdrafts and cards (EUR 27 million YtD). Housing loans recorded an increase in the portfolio (EUR 62.7 million YtD and EUR 85.8 million YoY), also as a result of a more attractive offer for clients and intensive marketing campaigns.
- The segment recorded the **net non-interest income** of EUR 66.5 million, EUR 9.6 million (17%) increase YoY, due to the sale of NLB Vita in the amount of EUR 11.0 million.
- Net impairments and provisions** were established in the amount of EUR 9.0 million due to additional credit impairments and provisions related to COVID-19 outbreak.
- Deposits from customers** increased by EUR 720.0 million (11%) YoY (EUR 583.9 million or 9% YtD). In the last two months of Q3 2020 the deposit inflow stabilized.
- Exposures subject to COVID-19 moratorium were concluded in the amount of EUR 114.3 million⁹ (4.6% of the total retail exposure).

Business Highlights

- With the latest upgrades m-bank Klikin is becoming a true branch office.
- Digital signing of documents in Klikin.
- Further upgrade of m-wallet NLB Pay facilitating confirmation of on-line purchases with biometric recognition.

Table 8: Key financials of Retail Banking in Slovenia

in EUR million consolidated		Retail Banking in Slovenia						
	1-9 2020	1-9 2019	Change YoY		Q3 2020	Q2 2020	Q3 2019	Change QoQ
Net interest income	61.9	65.6	-3.7	-6%	20.3	20.4	21.4	-1%
Net non-interest income	66.5	56.9	9.6	17%	21.5	26.5	21.7	-19%
o/w Net fee and commission income	61.1	61.1	0.0	0%	21.4	20.4	21.2	5%
Total net operating income	128.5	122.5	6.0	5%	41.7	46.8	43.1	-11%
Total costs	-84.0	-84.2	0.1	0%	-27.9	-27.6	-29.0	-1%
Result before impairments and provisions	44.4	38.3	6.1	16%	13.8	19.3	14.2	-28%
Impairments and provisions	-9.0	-2.9	-6.2	-	-3.4	-1.1	-1.1	-
Net gains from investments in subsidiaries, associates, and JVs'	0.9	4.2	-3.3	-78%	0.5	0.2	1.6	125%
Result before tax	36.3	39.6	-3.3	-8%	10.9	18.4	14.8	-41%

Notes:

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

⁹ Including data for NLB and NLB Leasing d.o.o. – v likvidaciji, Ljubljana. Further details are available in Table 15.

	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019	Change YtD		Change YoY		Change QoQ
Net loans to customers	2,386.4	2,322.0	2,385.1	2,347.5	1.2	0%	38.9	2%	3%
Gross loans to customers	2,418.4	2,350.5	2,410.2	2,375.3	8.1	0%	43.1	2%	3%
Housing loans	1,487.8	1,450.7	1,425.0	1,401.9	62.7	4%	85.8	6%	3%
Interest rate on housing loans	2.52%	2.52%	2.54%	2.55%	-0.02 p.p.		-0.03 p.p.		0.00 p.p.
Consumer loans	663.0	661.5	688.3	682.2	-25.3	-4%	-19.2	-3%	0%
Interest rate on consumer loans	6.39%	6.32%	6.33%	6.32%	0.06 p.p.		0.07 p.p.		0.07 p.p.
Other	264.1	238.3	296.9	291.1	-32.8	-11%	-27.0	-9%	11%
Deposits from customers	7,040.1	7,005.8	6,456.2	6,320.0	583.9	9%	720.0	11%	0%
Interest rate on deposits	0.05%	0.05%	0.05%	0.05%	0.00 p.p.		0.00 p.p.		0.00 p.p.
Non-performing loans (gross)	45.8	43.0	40.8	43.3	5.0	12%	2.6	6%	7%

	1-9 2020	1-9 2019	Change YoY
Cost of risk (in bps) ⁽⁶⁾	51	17	34
CIR	65.4%	68.7%	-3.3 p.p.
Interest margin	1.80%	2.07%	-0.27 p.p.

⁽⁶⁾ Cost of risk for 2019 is adjusted to new methodology.

The Bank maintained the leading position with a market share of 23.2% in the retail lending (2019 YE: 23.1%) and 31.1% (2019 YE: 30.5%) in deposit-taking.

Clients are more prone to using online and mobile banking services and digital channels enabling client support continue to be available 24/7. In case of lock-down, the Bank is well-prepared with the experience from Q1 2020. Changed clients' habits affected the visits to the Bank's branch offices and this is expected to have lasting effects in the future. Consequently, the Bank further optimized the branch office space with the focus on advisory services.

A noticeable pick up in sales of new consumer and housing loans was recorded in Q3 2020 supported by successful campaigns. Share of new production of consumer loans through Klikin increased by 3.7 p.p. compared to 3Q 2019 and represents 13.3% of total new production in Q3 2020.

An extensive upgrade of m-bank Klikin resulted in new functionalities for ordering services and distant signing of documents when changing NLB personal account overdraft and NLB payment cards limits, and when ordering new payment cards. This is an important milestone in furthering digitalization processes. Klikin is becoming more and more like a true branch office. The Klikin app is now also available in the Huawei App Gallery. In WEBSI web champions project¹⁰, Klikin won two first places for digital achievements, one awarded by the expert jury composed of the financial sector and the other, most importantly, by the public.

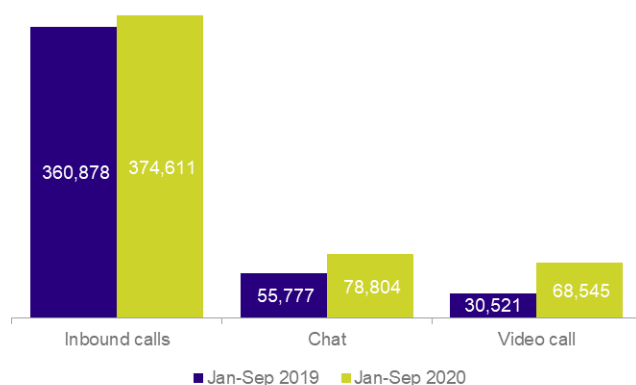
The number of digital users (unique users of e-bank and m-bank) in 2020 continued to increase stopping roughly at 8% YoY. The number of m-bank Klikin and e-bank NLB Klik users recorded a YoY increase, 15% and 4% respectively. In the first nine months, the YoY increase of the total volume and number of payments processed in the e-bank and m-bank was 12% and 13% respectively, indicating that the clients opted for digital payments over in-person payments in the branch offices.

The NLB Contact Centre does not only support clients 24/7, it evolved into an important sales channel with an increasingly important role in efficient client relationship management. YoY comparison of the first nine months shows an increase of 4% in inbound calls, 41% in chats and as much as 125% in video call usage.

Notes:

¹⁰ Organized by WEBSI, Digital excellence institute.

Figure 12: NLB Contact Centre contacts



M-wallet NLB Pay offers a payment method called Flik, facilitating instant payments from personal accounts between different banks' clients using the contacts stored in the mobile device. A special version of NLB Pay with the Flik functionality is also available to iOS users. In Q3, the NLB Pay was upgraded with the functionality to confirm on-line purchases which replaced the SMS OTP authentication. If the NLB Pay user's device has the right kind of functionality, confirmation can be done with biometric recognition.

This is the first bank in Slovenia in which clients receive a text message with their PIN for all new NLB cards (Maestro, Mastercard, Visa). The clients also no longer get new PINs when their NLB cards are replaced with contactless cards, since their existing PINs remain valid.

The Bank has welcomed a rising demand from merchants for e-commerce card acceptance. After a drop in H1 2020, NLB card transaction volumes picked up in 1-9 2020 by almost 2% YoY or 6% compared with Q3 2019.

An Intervention Act adopted at the end of March, allowing the borrowers to defer payment obligations with a moratorium of up to 12 months, helped the clients to mitigate the effects of the lock-down. The Bank prepared the relevant measures with all the necessary instructions and processes.¹¹

The market share of NLB Skladi increased to 34% (30 September 2019: 33%). With EUR 68.7 million of net inflows in 2020 the company ranked first among its peers in Slovenia, accounting for 75% of net inflows in the market. The company remains the largest asset management company and the second largest mutual funds management company in Slovenia. The total assets under management amounted to EUR 1,488.0 million (30 September 2019: EUR 1,436.4 million) of which EUR 1,005.8 million consisted of mutual funds (30 September 2019: EUR 949.1 million) and EUR 482.2 million of the discretionary portfolio (30 September 2019: EUR 478.3 million).

The insurance company Vita remains the Bank's strategic partner. Their products are sold through the Bank's distribution network, such as savings and investment insurance products, risk and health insurance products. Non-life insurance products, including car and home insurance, are provided to the clients in cooperation with the GENERALI Zavarovalnica.

Notes:

¹¹ Further details are available in the Risk Management chapter.

Corporate and Investment Banking in Slovenia

Financial Highlights

- The segment's **profit before tax** was EUR 18.9 million, EUR 29.1 million lower YoY. The decrease is mostly due to credit impairments and provisions related to COVID-19 outbreak.
- **Net interest income** decreased by EUR 2.7 million YoY, due to lower volumes of gross loans to customers (EUR 48.9 million YoY) as well as lower interest rates on loans. Key and SME clients recorded a growth in gross loans (EUR 23.0 million), while gross loans in the Restructuring and Workout and gross loans to state recorded a decrease YoY (EUR 63.7 million and EUR 20.1 million respectively). YtD the volume of gross loans in the segment decreased by 1%. New COVID-19-related financing to companies was recorded in the amount of EUR 21.5 million (without public guarantee schemes, as legislation harmonisation process was just concluded).
- **Net fee and commission income** stayed on the same level YoY.
- **Total costs** decreased by EUR 1.1 million (3%) YoY.
- **Net impairments and provisions** were established in the amount of EUR 6.8 million due to additional credit impairments and provisions related to COVID-19 outbreak.
- The **Investment Banking and Custody** recorded non-interest income in the amount of EUR 7.5 million and increased by EUR 0.6 million YoY. The total income growth is the result of a larger volume of transactions and higher margins. The total value of assets under custody amounted to EUR 15.3 billion (2019 YE: EUR 14.4 billion).
- Exposures subject to COVID-19 moratorium were concluded in the amount of EUR 409.9 million¹² (21.4% of the total corporate exposure).

Business Highlights

- Digital signing implemented as a regular process.
- Successful 'Help Framework' project for the small and micro segment.
- Arranging EUR 172.5 million of syndicated loans and EUR 128.3 million of instruments issuances on debt capital markets.

Table 9: Key Financials of Corporate and Investment Banking in Slovenia

in EUR million consolidated									
Corporate and Investment Banking in Slovenia									
	1-9 2020	1-9 2019	Change YoY		Q3 2020	Q2 2020	Q3 2019	Change QoQ	
Net interest income	25.6	28.4	-2.7	-10%	7.8	8.5	8.7	-9%	
Net non-interest income	30.5	33.4	-2.8	-9%	9.8	9.8	8.9	0%	
o/w Net fee and commission income	24.8	24.6	0.1	1%	8.7	7.4	8.5	17%	
Total net operating income	56.2	61.7	-5.6	-9%	17.6	18.4	17.6	-4%	
Total costs	-30.5	-31.6	1.1	3%	-10.1	-10.0	-10.8	-1%	
Result before impairments and provisions	25.6	30.1	-4.5	-15%	7.5	8.4	6.8	-11%	
Impairments and provisions	-6.8	17.8	-24.6	-	2.5	0.4	14.9	-	
Result before tax	18.9	47.9	-29.1	-61%	10.0	8.8	21.7	14%	

Notes:

¹² Including data for NLB and NLB Leasing d.o.o. – v likvidaciji, Ljubljana. Further details are available in Table 15.

	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019	Change YtD		Change YoY		Change QoQ
Net loans to customers	2,022.0	2,053.8	2,049.6	2,031.2	-27.6	-1%	-9.2	0%	-2%
Gross loans to customers	2,130.6	2,168.2	2,150.9	2,179.5	-20.3	-1%	-48.9	-2%	-2%
Corporate	1,969.9	2,005.3	1,976.8	1,998.8	-7.0	0%	-28.9	-1%	-2%
Key/SME Corporates	1,802.0	1,842.0	1,819.3	1,779.0	-17.4	-1%	23.0	1%	-2%
Interest rate on Key/SME Corporates loans	1.79%	1.81%	1.82%	1.83%	-0.03 p.p.		-0.04 p.p.		-0.02 p.p.
Investment banking	0.2	0.2	0.1	0.1	0.1	57%	0.1	57%	-
Restructuring and Workout	156.0	162.2	157.4	219.7	-1.4	-1%	-63.7	-29%	-4%
NLB Lease&Go, Ljubljana	11.7	0.8			11.7	-	11.7	-	-
State	160.3	162.5	173.6	180.3	-13.4	-8%	-20.1	-11%	-1%
Interest rate on State loans	2.18%	2.45%	1.88%	1.98%	0.30 p.p.		0.20 p.p.		-0.27 p.p.
Deposits from customers	1,354.1	1,248.5	1,299.1	1,014.5	55.0	4%	339.6	33%	8%
Interest rate on deposits	0.06%	0.06%	0.07%	0.07%	-0.01 p.p.		-0.01 p.p.		0.00 p.p.
Non-performing loans (gross)	129.7	136.0	128.7	188.2	1.1	1%	-58.5	-31%	-5%

	1-9 2020	1-9 2019	Change YoY
Cost of risk (in bps) ⁽ⁱ⁾	43	-116	159
CIR	54.3%	51.2%	3.1 p.p.
Interest margin	1.94%	2.25%	-0.31 p.p.

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

The Bank is the leading bank in servicing corporate clients in Slovenia with by far the largest client base. It has a 17.1% market share in corporate loans (2019 YE: 17.5%), and 31.5% (2019 YE: 30.0%) in guarantees and letters of credit (including guarantee lines). The Bank is increasingly focused on mid-sized and small enterprises.

The Bank fully implemented the relevant Intervention Acts by introducing special processes.¹³ Positive experience from digital signing during the lock-down in H1 2020 was then implemented as a regular process, which enabled paperless, faster and simpler client treatment. Micro and small enterprises were supported through highly successful Help Framework ('Okvir pomoči') project.

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

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

The Bank maintains its relationship with different Slovenian institutions, such as SID Bank and Slovene Enterprise Fund. An agreement on mutual cooperation in the long-term lending to micro, small and medium-sized enterprises and the issuance of guarantees for 2020 was signed with the Slovene Enterprise Fund in March. An agreement on participation without financing within the framework of the implementation of the financial instrument 'EKP portfolio guarantee' for small and medium-sized companies was signed with the SID Bank in May.

After the lock-down period ended in H1 2020, many companies had to adapt their business practices to the changed behaviour, habits and expectations of their customers. Digital transformation is bringing new opportunities to address their customers' needs and adapt their sales channels accordingly. The Bank joined Mastercard and Slovenian Craft Chamber in the project attempting to boost digitalization of smaller companies and will act as one of the providers of digital solutions for various business challenges.

Notes:

¹³ Further details are available in the section Risk Factors and Risk Management.

The number of m-bank Klikpro users is constantly rising (YoY by 10%), which indicates that clients are getting more used to digital banking.

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

The Group's goal is to build up clients' trust and satisfaction also on the basis of proactive support and collaboration among the banking members in the Group. Such teamwork creates added-value opportunities that support the clients' plans across the Group's home region in the SEE. Until the end of Q3 2020, a total of EUR 170.5 million loan facilities were approved for projects in the home region, of which the Bank participated EUR 142 million, and other Group members EUR 28.5 million.

In 2020, the Bank as a mandated lead arranger successfully organized syndicated loans in the amount of EUR 172.5 million and as a lead manager or joint lead manager successfully organized issuance of long-term and short-term instruments in the amount of EUR 128.3 million in the domestic and international debt capital markets.

Within brokerage services in 1-9 2020 the Bank executed clients' buy and sell orders in a total amount of EUR 753.6 million (1-9 2019: EUR 786.2 million), while in the area of dealing in financial instruments the Bank executed foreign exchange spot deals totalling EUR 525.3 million (1-9 2019: EUR 572.4 million) and for EUR 185.8 million (1-9 2019: EUR 219.3 million) worth of transactions involving derivatives.

The Bank remains one of the top Slovenian players in custodian services for Slovenian and international customers. The total value of assets under custody on 30 September 2020 was, together with the fund administration services, EUR 15.3 billion (30 September 2019: EUR 14.4 billion).

Strategic Foreign Markets

Financial Highlights

- The segment's **profit before tax** was EUR 45.5 million, 37% lower YoY, mainly due to impairments and provisions (EUR 33.2 million), to a large extent related to COVID-19 outbreak. The result before impairments and provisions was 1% higher YoY.
- Net interest income** increased by EUR 1.6 million (1%) YoY due to higher volumes (gross loans to customers 10% higher YoY), despite the falling trend of interest margins.
- Net non-interest income** increased slightly by EUR 0.3 million or 1% YoY, while **net fee and commission income** decreased by EUR 1.1 million or 3% YoY, due to COVID-19 negative impact on card operations and payment transactions.
- Total costs** increased slightly by EUR 1.1 million or 1% YoY.
- Net impairments and provisions** in the amount of EUR 33.2 million, mostly related to COVID-19 outbreak.
- Gross loans to customers** increased by EUR 190.6 million (6%) YtD due to increase in gross loans in all the subsidiary banks; the largest YtD increases were recorded in NLB Banka, Beograd (EUR 62.7 million), NLB Banka, Skopje (EUR 42.9 million), NLB Banka, Podgorica (EUR 35.0 million), and NLB Banka, Prishtina (EUR 30.6 million).
- In the Strategic Foreign Markets, various moratorium schemes were implemented (opt-in, opt-out), the total amount of moratorium outstanding was EUR 1,183.2 million¹⁴. Average moratorium maturity is 3-6 months.

Business Highlights

- All subsidiary banks reported profit.
- The first signs of corporate portfolio deteriorations are starting to occur due to implications of COVID-19, but there are no material impacts.
- Automated credit process for unsecured lending to private individuals implemented in NLB Banka, Banja Luka.
- Various subsidiary banks' achievements were recognized and awarded.

Table 10: Key Financials of Strategic Foreign Markets

Strategic Foreign Markets									
in EUR million consolidated									
	1-9 2020	1-9 2019	Change YoY		Q3 2020	Q2 2020	Q3 2019	Change QoQ	
Net interest income	119.1	117.6	1.6	1%	40.6	38.7	39.7	5%	
Net non-interest income	39.4	39.1	0.3	1%	14.2	12.2	14.5	16%	
o/w Net fee and commission income	39.4	40.5	-1.1	-3%	13.8	12.3	14.7	13%	
Total net operating income	158.6	156.7	1.9	1%	54.8	50.9	54.3	8%	
Total costs	-79.9	-78.7	-1.1	-1%	-26.5	-25.8	-26.9	-3%	
Result before impairments and provisions	78.7	77.9	0.8	1%	28.2	25.2	27.4	12%	
Impairments and provisions	-33.2	-6.0	-27.2	-	-15.4	-3.8	1.1	-	
Result before tax	45.5	72.0	-26.4	-37%	12.8	21.3	28.5	-40%	
o/w Result of minority shareholders	4.2	6.2	-2.0	-33%	1.0	2.0	2.4	-52%	

	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019	Change YtD		Change YoY		Change QoQ
Net loans to customers	3,199.5	3,165.3	3,024.6	2,907.9	174.9	6%	291.7	10%	1%
Gross loans to customers	3,352.7	3,314.4	3,162.1	3,059.9	190.6	6%	292.8	10%	1%
Individuals	1,711.0	1,658.2	1,603.8	1,555.2	107.1	7%	155.8	10%	3%
Interest rate on retail loans	6.34%	6.39%	6.71%	6.76%	-0.37 p.p.		-0.42 p.p.		-0.05 p.p.
Corporate	1,528.6	1,540.6	1,470.3	1,414.7	58.3	4%	113.9	8%	-1%
Interest rate on corporate loans	4.19%	4.21%	4.49%	4.54%	-0.30 p.p.		-0.36 p.p.		-0.02 p.p.
State	113.1	115.6	88.0	90.0	25.2	29%	23.2	26%	-2%
Interest rate on state loans	3.63%	3.12%	4.00%	4.12%	-0.38 p.p.		-0.50 p.p.		0.50 p.p.
Deposits from customers	4,013.4	3,935.0	3,856.7	3,698.6	156.8	4%	314.8	9%	2%
Interest rate on deposits	0.44%	0.46%	0.53%	0.54%	-0.08 p.p.		-0.09 p.p.		-0.02 p.p.
Non-performing loans (gross)	130.8	126.3	111.6	132.6	19.2	17%	-1.8	-1%	4%

	1-9 2020	1-9 2019	Change YoY
Cost of risk (in bps) ⁽¹⁾	140	3	137
CIR	50.4%	50.3%	0.1 p.p.
Interest margin	3.35%	3.63%	-0.28 p.p.

⁽¹⁾ Cost of risk for 2019 is adjusted to new methodology.

Notes:

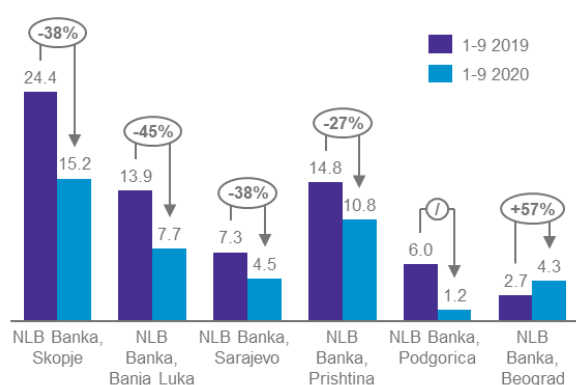
¹⁴ Further details are available in Table 15.

Faced with dire circumstances caused by COVID-19 pandemic, the subsidiary banks implemented a series of activities in a very short period of time to facilitate a smooth transition from traditional to digital banking. Making the banking business easier for the clients was the main target leading to a significant increase of the use of digital channels which has in certain parts remained stable also after the lock-down.

Help was offered to clients in all the countries, in which the subsidiary banks operate, either under public guarantee schemes or Group scheme, to cope better with the post pandemic economic implications. A substantial part of corporate portfolios is still under moratoria. Additional credit quality deterioration is to be expected in the remainder of 2020, however due to above average quality of the portfolio before the crisis, the impact should not be excessive. Due to the impact of worsened macroeconomic situation in the first nine months of 2020, the Group made an adjustment to expected credit losses in accordance with the new macro forecasts, resulting in a higher cost of risk. In addition, individual provisions were established due to estimated impact of COVID-19 outbreak.

In Q3 2020 NLB Banka, Banja Luka automated its credit process for unsecured lending to private individuals fully integrating it with their core system, thus joining NLB Banka, Belgrade that had already implemented the platform for the automatic unsecured lending process.

Figure 13: Net profit of strategic NLB Group banks¹⁵ (in EUR million)



Taking into account the difficult situation related to COVID-19 pandemic, all the banks in the Group closed the reported period with a net profit. The trends of rising business volumes slowed down significantly in Q2 due to COVID-19, however the loan demand preserved the general upward trend. Compared to the 2019 YE, the largest increase of net loans to non-banking sector occurred in NLB Banka, Beograd (15%), NLB Banka, Podgorica (9%), NLB Banka, Prishtina (4%) and NLB Banka, Skopje (4%). Despite increasing pressure from competitors leading to lower interest rates and downward trend of net interest margins in all the countries with the Group banks' operations, at the end of Q3 2020 the banks were able to largely retain the net interest margin capacity from the end of Q2 2020. CIR lower than 50% was achieved by NLB Banka, Prishtina (31.4%), NLB Banka, Skopje (40.5%) and NLB Banka, Banja Luka (45.6%). The net profit (IFRS) of NLB Banka, Podgorica was additionally impacted by legal provisions.

Various aspects of banking activities received region-wide recognition. Only recently NLB Banka, Banja Luka was awarded two Golden BAM awards – for ROE – the highest return on equity and ROA – the highest return on

Notes:

¹⁵ Data on the stand-alone basis as included in the consolidated financial statements of the Group.

assets, and NLB Banka, Sarajevo won the Golden BAM for the best bank in the CSR - Corporate Social Responsibility - field for year 2020.

Earlier in the year, the EBRD nominated NLB Banka, Prishtina as 'The most active bank for credit guarantees issuing in Kosovo in 2019.' In addition to that, NLB Banka, Skopje was awarded the Best Bank in Northern Macedonia in 2019 by the financial magazine Europe Banking Awards for the fourth time in a row.

Financial Markets in Slovenia

Financial Highlights

- **Net interest income** was EUR 8.3 million (33%) lower YoY, due to the maturities and sale of high yielding securities (as a consequence of higher risk perceived during the COVID-19 pandemic), mostly in Q2 2020, that were already reinvested at lower yields in Q3 2020.
- Higher **net non-interest income**, EUR 14.2 million YoY, mainly due to the sale of high yielding securities in H1 2020 in order to lower the high exposure toward some issuers or reduce the high risk exposures. Total effect on the income statement from the sold securities amounted to EUR 17.1 million.
- Increase in **balances with central banks** (EUR 1,462.3 million YoY and EUR 887.0 million YtD), while **banking book securities** decreased substantially in Q2 2020 (sale following COVID-19 crisis). The excess liquidity was reinvested in Q3 2020 and therefore the balance of banking book securities resulted in a minor 1% decrease YtD (EUR 39.5 million).

Business Highlights

- The Bank issued Tier 2 subordinated bonds in the total amount of EUR 120 million on the international capital markets.
- Risk mitigation contracts concluded with MIGA in the total amount of EUR 303.1 million.
- Increase of banking book securities portfolio to the pre-COVID-19 level.

Table 11: Key Financials of Financial Markets in Slovenia

in million EUR consolidated									
Financial Markets in Slovenia									
	1-9 2020	1-9 2019	Change YoY		Q3 2020	Q2 2020	Q3 2019	Change QoQ	
Net interest income	16.9	25.2	-8.3	-33%	5.6	4.7	9.3	18%	
Net non-interest income	16.0	1.8	14.2	-	0.6	14.3	0.3	-96%	
Total net operating income	32.9	26.9	5.9	22%	6.2	19.0	9.6	-68%	
Total costs	-5.6	-5.2	-0.4	-9%	-2.0	-1.7	-1.6	-18%	
Result before impairments and provisions	27.3	21.8	5.5	25%	4.1	17.3	7.9	-76%	
Impairments and provisions	-1.3	-0.5	-0.8	-163%	-1.3	0.0	0.0	-	
Result before tax	26.0	21.3	4.7	22%	2.8	17.3	7.9	-84%	

	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019	Change YtD		Change YoY		Change QoQ
Balances with Central banks	1,931.1	1,991.0	1,044.1	468.8	887.0	85%	1,462.3	-	-3%
Banking book securities	3,054.1	2,774.0	3,093.6	3,053.1	-39.5	-1%	1.0	0%	10%
<i>Interest rate on banking book securities</i>	<i>0.77%</i>	<i>0.78%</i>	<i>1.03%</i>	<i>1.04%</i>	<i>-0.26 p.p.</i>		<i>-0.27 p.p.</i>		<i>-0.01 p.p.</i>
Wholesale funding	151.4	152.5	161.6	170.6	-10.2	-6%	-19.2	-11%	-1%
<i>Interest rate on wholesale funding</i>	<i>0.55%</i>	<i>0.56%</i>	<i>0.50%</i>	<i>0.48%</i>	<i>0.05 p.p.</i>		<i>0.07 p.p.</i>		<i>-0.01 p.p.</i>
Subordinated liabilities	290.0	287.4	210.6	90.3	79.5	38%	199.8	-	0.0
<i>Interest rate on subordinated liabilities</i>	<i>3.62%</i>	<i>3.56%</i>	<i>4.03%</i>	<i>4.22%</i>	<i>-0.41 p.p.</i>		<i>-0.60 p.p.</i>		<i>0.06 p.p.</i>

The main mission of the segment continued to be the Group's activities on the international financial markets, including treasury operations. In the challenging environment of low interest rates on financial markets, the major focus was on prudent liquidity reserves management and compliance with the regulatory requirements.

The Bank has successfully reinvested in banking book portfolio after the sale in Q2 following COVID-19 crisis.

The Bank entered into contracts with MIGA on mitigation of the risk of expropriation of mandatory reserves held by the Group banking members with their local central banks in the total amount of EUR 303.1 million. The risk mitigation measure for RWA reduction of the Bank on the consolidated basis became effective as of 31 July 2020.

Non-Core Members

Financial Highlights

- A substantial decrease in the **total assets** of the segment YoY (EUR 49.5 million) which is in line with the divestment strategy of the non-core segment, hence a EUR 5.2 million YoY decrease of the **net operating income**.
- Lower **net non-interest income** also due to positive effect the contractual penalty (EUR 1.3 million) had on the Q1 2019 result.
- The segment recorded a EUR 5.5 million **loss before tax**.

Business Highlights

- Non-core members continued to monetize assets in their possession in line with the wind-down plans, however, due to the circumstances surrounding the COVID-19, such endeavours have been gravely impeded in Q3 2020 as court enforcements were put on hold in most of the markets.
- On 29 September 2020, liquidation proceedings have started for NLB Leasing Sarajevo.

Table 12: Key Financials of Non-Core members

in EUR million consolidated									
Non-Core Members									
	1-9 2020	1-9 2019	Change YoY		Q3 2020	Q2 2020	Q3 2019	Change QoQ	
Net interest income	0.9	2.2	-1.2	-57%	0.2	0.3	0.6	-28%	
Net non-interest income	2.9	6.8	-4.0	-58%	0.9	0.9	2.2	4%	
Total net operating income	3.8	9.0	-5.2	-58%	1.2	1.2	2.9	-4%	
Total costs	-9.7	-10.3	0.6	5%	-3.2	-3.1	-3.5	-6%	
Result before impairments and provisions	-5.9	-1.3	-4.6	-	-2.0	-1.8	-0.6	-13%	
Impairments and provisions	0.4	1.3	-1.0	-73%	0.5	0.1	0.3	-	
Result before tax	-5.5	0.1	-5.6	-	-1.6	-1.7	-0.3	10%	
	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019	Change YTD		Change YoY		Change QoQ
Segment assets	143.3	150.5	169.5	192.9	-26.1	-15%	-49.5	-26%	-5%
Net loans to customers	52.6	58.4	67.4	83.8	-14.9	-22%	-31.2	-37%	-10%
Gross loans to customers	120.7	128.5	137.2	164.7	-16.5	-12%	-44.0	-27%	-6%
Investment property and property & equipment received for repayment of loans	73.1	74.5	75.6	81.1	-2.4	-3%	-8.0	-10%	-2%
Other assets	17.6	17.6	26.5	27.9	-8.8	-33%	-10.3	-37%	0%
Non-performing loans (gross)	92.9	95.9	93.6	112.2	-0.8	-1%	-19.3	-17%	-3%
	1-9 2020	1-9 2019	Change YoY						
Cost of risk (in bps) ⁽¹⁾	-145	-245	101						
CIR	253.4%	113.9%	139.6 p.p.						

⁽¹⁾ Cost of risk for 2019 is adjusted to new methodology.

Rigorous wind-down has remained the main objective of the non-core segment in all the non-core portfolios followed by subsequent reduction of costs.

Strategic Mid-Term Targets, Risk Factors and Outlook for 2020

Strategic Mid-Term Targets

In November 2019, the Group adopted a refreshed five-year strategy aimed at protecting and strengthening its market position in its home region and investing active participation in further growth and market consolidation. Due to the unpredictable impacts of the COVID-19 pandemic on the economic and social conditions in the region, the strategic mid-term targets that the Group pursued and reported in the previous reports were under review and in the process of strategic analysis. Current expectations suggest that the pandemic will have a negative impact on delivering targets within the originally foreseen timeframe (by 2023), and the majority of present targets could be achievable with one to two-year lag. The target that appears hardest to achieve based on low margin environment, impact of COVID-19 and competitive pressure is the net interest margin (NIM). Key performance indicators will be reviewed after the closing of pending acquisition of Komercijalna banka a.d. Beograd in Serbia.

Regardless of the changed circumstances and economic uncertainty caused by the COVID-19 pandemic, the Group will continue to pursue its strategic objectives and remain focused on the implementation of the adopted strategic guidelines.

The Group will remain focused solely on the SEE markets. On this basis, the activities related to the completion of the acquisition of Komercijalna banka a.d. Beograd, and its integration plans have been continued. The completion of the acquisition process is expected to take place in Q4 2020 (subject to, among other things, numerous regulatory approvals). This acquisition would significantly increase the Group's presence in Serbia (which is the largest country among its key markets) and would offer opportunities for synergies, long-term growth and profitability. The acquisition (which is a part of the Group's strategy) is expected to positively contribute to the achievement of the Group's key strategic mid-term targets of ROE and dividend capacity, within the originally foreseen timeframe (by 2023).

Table 13: Key performance indicators

	1-9 / 30 Sep 2020	1-9 / 30 Sep 2019	Strategic Mid-term Targets
Net interest margin (NIM) ⁽ⁱ⁾	2.14%	2.51%	> 2.7%
Loan to deposit (LTD) ratio	62.4%	67.9%	< 95.0%
Total capital ratio	21.5%	16.1%	15.75% ⁽ⁱⁱⁱ⁾
Costs to income ratio (CIR)	56.4%	56.0% ⁽ⁱⁱ⁾	~ 50.0%
Cost of risk Net (bps)	84	-31	< 90
NPE ratio (EBA definition)	2.5%	3.5%	< 4.0%
Return on equity after tax (ROE a.t.)	8.1%	13.1%	~12.0%

⁽ⁱ⁾ Calculated on the basis of average interest-bearing assets.

⁽ⁱⁱ⁾ CIR is adjusted to the changed schemes as prescribed by the BoS.

⁽ⁱⁱⁱ⁾ Revised in April 2020 (from 16.25%); the target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.

Digitalization remains one of the key strategic objectives, especially in the post COVID-19 period. The new circumstances continue to affect the growth and acceptance of digital channels by our customers even further. The Group was prepared for such market trends as the leading provider and innovator in its core markets. It will continue to introduce banking IT innovations in Slovenia and aim to transfer its development to its key markets, thus enabling business synergies.

One of the more important strategic topics for the Group is the full exploitation of potential synergies within the Group. Significant strategic business efforts are undertaken to achieve synergies, both in costs and operational efficiency. We are convinced that these efforts will, to a certain extent, help mitigate the negative effects of the pandemic on the Group's future business results.

As a systemic player in the SEE markets, the Group also plays an important social role and actively contributes to a better quality of life in the region. The Group took initial steps in the direction of global stream of sustainable banking to set up a regional platform by implementing a responsible and sustainable approach in our business operations. The Bank also committed itself by signing the United Nations Principles for Responsible Banking at the end of September this year.

As changing and new circumstances are the only constant, the Group will continue to make strategic modifications. Further changes to market conditions are expected mainly due to possible shifts in the monetary policy, excessive liquidity and the overall macroeconomic picture because of the COVID-19 pandemic, both in Slovenia and SEE, as well as in Europe as a whole. Nevertheless, changed market conditions will create new opportunities for which the Group is strategically well prepared and positioned.

Risk Factors

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

The economic momentum in the region where the Group operates has worsened due to COVID-19 pandemic that started at the end of Q1 2020. The governments in the region implemented different mitigation measures, with the aim of mitigating adverse negative impacts of the pandemic. A substantial drop in the economic activity, lower industrial production and consumer spending are expected to cause the 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 a significant increase of the credit risk. All the clients requiring the moratorium are closely monitored as their financial situation and identification of credit deterioration will lead to a downgrade and will impact the IFRS 9 staging. Those clients will not automatically fall into the forbearance category. The Group regularly assesses the credit quality of the exposures benefiting from these measures and identifies any situation in which payment is unlikely. In Q3 2020, the Group additionally reviewed IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and the related impacts in the future.

The economic slowdown 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 the Group's bond portfolio kept for liquidity purposes, influenced the valuation effects, but with a less negative impact than at the end of Q1 2020. Therefore, the related investment strategy of the Group adapts to the expected market trends in accordance with the preset risk appetite. The liquidity position of the Group is expected to remain very solid, the pandemic did not result in any material liquidity outflows.

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

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

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

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

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

Outlook 2020

The outlook remains uncertain despite a rebound in activity and expected strong growth in Q3 2020. Higher COVID-19 infection rates do not bode well for economic activity as measures to contain the spread of COVID-19 constrain private consumption, investment, trade and travel. Worsening of the pandemic and reinstatement of lock-downs represent the major downside risks to the outlook and the hurdle preventing sustainable recovery. Fiscal policy decisions of euro area member countries, the US presidential elections and the uncertainty of Brexit, are the risks drawing attention. The Eurozone economy is seen contracting by 8.5% in 2020. In Slovenia, the economy is expected to contract by 7.0% in 2020 while the output in the Group's region could on average contract by 6.4% in 2020. The recovery of the Group's region remains dependent on how this pandemic is handled as well as on the EU recovery pace. Economic implications of the worsening of the pandemic could be protracted to Q1 2021.

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

Similar trends in terms of loan growth, revenues and margins as in Q3 2020 are expected in Q4 2020. Severe worsening of economic and health situation related to the second wave of COVID-19 could negatively impact these trends.

The Group is undertaking several strategic initiatives and measures for strategic cost optimization (channel strategy, digitalization, paperless, lean process, branch network optimization, real-estate rationalization, etc.). Costs are expected to stay flat in 2020 compared to 2019.

Due to the impact of worsened macroeconomic environment in the first nine months of 2020, the Group made an adjustment to the expected credit losses in accordance with the new macro forecasts, resulting in an increase of cost of risk. Additionally, individual provisions were incorporated, arising from changed risk parameters due to the estimated impact of COVID-19 outbreak. The baseline expectation for cost of risk in 2020 is, based on the current understanding and anticipated consequences, ranging between 100 and 130 bps and as of now it is not expected to exceed 150 bps, although this will depend on the length and severity of disruption in corporate operations and consumer spending. An important factor, even though its magnitude remains hard to assess, is expected to be the impact of off-setting measures imposed by the governments, with a special focus on retail automatic stabilizers (special social transfers for employees and the self-employed affected by the crisis) and public guarantee schemes providing liquidity to companies.

Besides, the economic slowdown is expected to have a negative impact on the existing loan portfolio quality, namely a potential increase of Stage 2 and Stage 3 exposures in the remainder of 2020. However, due to a very stable quality of the portfolio before the crisis, this impact should not be excessive.

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

At 21.5%, the Group's capital position was even stronger at the end of Q3 2020 after the inclusion of subordinated Tier 2 notes, inclusion of undistributed profit for year 2019, inclusion of minority interest and measures undertaken to reduce RWAs (by obtaining the MIGA guarantee and implementing SME supporting factor and temporary treatment of public debt issued in the currency of another member state). The capital position represents a strong base to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance, also in the aggravated circumstances during the COVID-19 pandemic. Even so, the Group / Bank might undertake capital market activities to further optimise its capital position in the future (Tier 2). 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 for the European banks, accompanied also with the BoS restriction on dividend distributions applicable for Slovenian banks, the Bank will

not pay out any dividends in 2020. Once these restrictions cease to apply, the NLB would resume with dividend pay out in line with its capacity and regulatory requirements.

Potential effects of acquisition of Komercijalna banka a.d. Beograd are not included in the outlook.

Risk Management

The Group puts great emphasis on the risk culture and awareness across the entire Group. The main risk principles are set forth by the Group’s Risk Appetite and Risk Strategy, created in accordance with the business strategy. A special focus is placed on the inclusion of risk analysis into the decision-making process at strategic and operating levels, diversification to avoid large concentration, optimal capital usage and allocation, appropriate risk-adjusted pricing and overall compliance with internal rules and regulations.

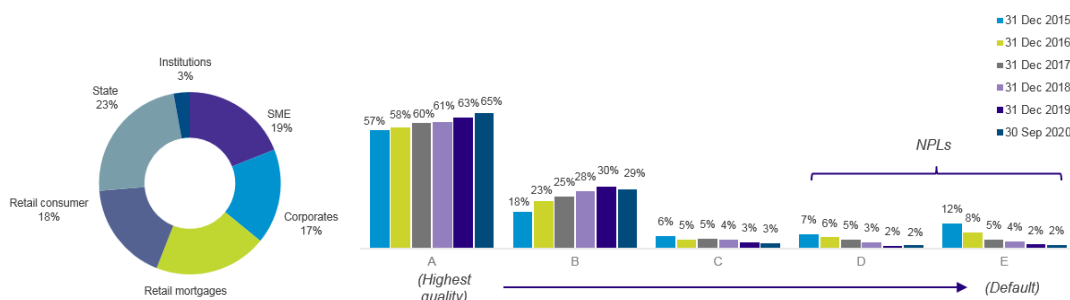
Maintaining a high credit portfolio quality is the most important goal, with the focus on cautious risk taking and quality of new loans leading to a diversified portfolio of customers. The Group is constantly developing a wide range of advanced approaches in the segment of credit risk assessment in line with best banking practice to further enhance the existing risk management tools, while at the same time enabling greater customer responsiveness. Moreover, the restructuring approach is focused on the early detection of clients with potential financial difficulties and their proactive treatment.

The Group’s lending strategy focuses on its core markets of retail, SME, and selected corporate business activities. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized companies, and small enterprise segments, whereas on the corporate segment, the Bank established cooperation with selected corporate clients (through different types of lending or investment instruments). All other banking members in the SEE region, where the Group is present, are universal banks, mainly focused on the retail, medium-sized and small enterprises segments. Their primary goal is to provide comprehensive services to clients by applying prudent risk management principles.

The overall slow-down of the economy, caused by COVID-19 epidemic at the end of Q1 2020, is expected to have a negative impact on the existing loan portfolio quality and new loan generation. The cost of risk increased due to the impact of worsened macroeconomic environment, which started at the end of Q1 2020, where its materiality and impacts on the risk profile of the loan portfolio in the future will mostly depend on the length and severity of disruption in corporate operations and average retail income (further details are available under the Risk Factors and Outlook 2020).

In Q3 2020, the Group reviewed IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and related future impacts.

Figure 14: NLB Group structure of the credit portfolio (gross loans) by segment and rating¹⁶



Notes:

¹⁶ Gross exposures also include reserves at central banks and demand deposits at banks.

The current structure of credit portfolio (gross loans) consists of 38% retail clients, 17% large corporate clients, 19% SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. There is no large concentration in any specific industry or client segment.

Table 14: NLB Group corporate performing loan portfolio by industry as at 30 September 2020; in EUR thousand

Corporate sector, industry structure	Performing loans	%	Manufacturing activities referring to main activities of automotive sector	Performing loans	%
Accommodation and food service activities	97,486	2.7%	Manufacture of electric motors, generators and transformers	36,162	1.0%
<i>Hotels and similar</i>	65,459	1.8%	Manufacture of metal structures and parts of structures	24,359	0.7%
<i>Restaurants and mobile food</i>	21,375	0.6%	Manufacture of other parts and accessories for motor vehicles	22,668	0.6%
<i>Others</i>	9,537	0.3%	Casting of light metals	17,762	0.5%
<i>Accommodation</i>	1,115	0.0%	Manufacture of batteries and accumulators	12,595	0.4%
Act. of extraterritorial org. and bodies	0	0.0%	Manufacture of electricity distribution and control apparatus	8,487	0.2%
Administrative and support service activities	105,532	2.9%	Manufacture of other pumps and compressors	4,709	0.1%
Agriculture, forestry and fishing	154,621	4.3%	Manufacture of fluid power equipment	3,699	0.1%
Arts, entertainment and recreation	12,855	0.4%	Total main manufacturing activities	130,441	3.6%
Construction industry	243,861	6.8%	Transport	Performing loans	%
Education	12,800	0.4%	Exposure to State Guarantee	363,464	10.1%
Electricity, gas, steam and air condition	145,100	4.0%	Land transport (freight and pipelines)	66,878	1.9%
Finance	113,049	3.2%	Land transport (passenger)	26,257	0.7%
Human health and social work activities	23,137	0.6%	Postal services	17,226	0.5%
Information and communication	175,684	4.9%	Air transport (all)	1,675	0.0%
Manufacturing	880,372	24.6%	Water transport (all)	1,593	0.0%
Mining and quarrying	24,375	0.7%	Total Transport	477,092	13.3%
Professional, scientific and techn. act.	83,100	2.3%			
Public admin., defence, compulsory social.	125,107	3.5%			
Real estate activities	163,006	4.5%			
Services	13,538	0.4%			
Transport and storage	531,018	14.8%			
Water supply	28,282	0.8%			
Wholesale and retail trade	652,578	18.2%			
Other	144	0.0%			
Total	3,585,644	100.0%			

The Group has limited exposure to sectors considered as COVID-19 sensitive. Accommodation, Manufacturing (related to Car industry only) and Transport accounted for 9.53% (EUR 0.34 billion) of corporate performing loans (excl. loans to corporate clients with state guarantee) as at the end of Q3 2020.

The majority of the Group's loan portfolio is classified as Stage 1 (91.9%), a relatively small portion as Stage 2 (4.4%) and Stage 3 (3.3%). The loans in stages from 1 to 3 are measured at amortised cost, while the remaining minor part (0.4%) represents FVTPL. The portfolio quality remains very stable with increasing Stage 1 exposures and a relatively low percentage of NPL loans, which are below the Slovenian average. The percentage of Stage 1 loan portfolio remains at 95.1% in the Retail segment, while in the Corporate segment, despite the adverse economic conditions, there was only a minor decrease to 82.6%, which is a result of cautious lending policy. Additional credit quality deterioration is to be expected in the remainder of 2020, however due to the very stable portfolio quality before the crisis, the impact should not be excessive.

Figure 15: NLB Group loan portfolio (valued at amortised cost) by stages as at 30 September 2020

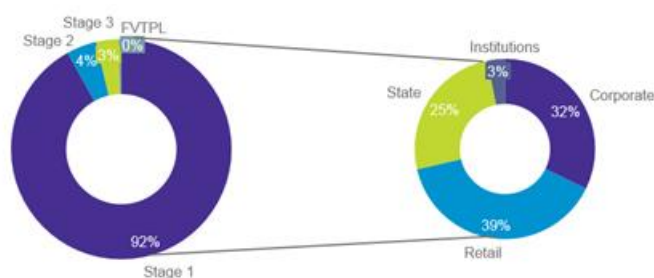


Table 15: NLB Group loan portfolio (valued at amortised cost) by stages as at 30 September 2020

(EURm)	Credit portfolio				YtD change			
	Stage 1	Stage 2	Stage 3	FVTPL	Stage 1	Stage 2	Stage 3	FVTPL
Total NLB Group	10,015.0	483.3	358.2	41.2	1,067.3	12.2	9.6	15.1
o/w Corporate	3,231.8	378.3	259.9	41.2	24.6	11.0	0.5	15.1
o/w Retail	3,916.1	105.0	98.3	-	93.9	1.3	10.8	-
o/w State	2,552.6	0.0	0.0	-	920.4	0.0	-1.7	-
o/w Institutions	314.5	0.0	0.0	-	28.3	0.0	0.0	-

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

In accordance with the Intervention Measure Act on Deferred Payments of Borrowers' Obligations (ZIUPOK) in Slovenia, by the end of Q3 2020 the Bank granted COVID-19 moratoriums in the total amount of EUR 433.0 million, of which EUR 320.7 million to its corporate clients and EUR 112.2 million to its retail clients respectively.

Based on similar intervention acts relating to the debt payment moratorium imposed by governments where the Group operates, various models were implemented:

- Serbia (opt-out) – 3 months minimum,
- North Macedonia (opt-out: Retail, SME, opt-in: Corporate) –3 months minimum,
- Kosovo (opt-in) – 3 months,
- Montenegro (opt-in) –3 months minimum,
- Republika Srpska (opt-in) – 6 months maximum,
- Federation BiH (opt-in) – 6 months maximum.

In some markets where the Group members operate, the local government or regulator renewed or prolonged payment moratoriums in Q3 2020. However, the Group members shall follow EBA guidelines on moratoria. In accordance with these guidelines, moratoria granted after 30 September 2020 should be classified on a case-by-case basis, evaluating each client's forbearance status.

The moratorium applies to a large group of obligors predefined on the basis of broad criteria, and envisages only changes to the schedule of payments, either by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined and limited period of time. Moratoriums are granted for the period between 3 to 12 months, subject to applicable government measures. Based on that, the banks in the Strategic Foreign Markets have approved EUR 1,183.2 million of moratoriums, of which EUR 483.6 million expired by the end of Q3 2020.

The Group is actively present on the SEE markets, financing the existing and new creditworthy clients. Lending growth in the corporate segment remained relatively moderate, especially in the current specific circumstances. Besides that, COVID-19 situation contributed to a temporary slowdown in the growth of retail segment. Apart from moratoriums, the Group is also providing additional liquidity by granting new loans to help with the specific situation due to COVID-19 crisis. The loans are extended to the Bank's existing clients with solid credit potential. The total volume of such loans was EUR 21.5 million in the Bank and close to EUR 77.6 million in other banking members of the Group. In addition to that, the new COVID-19 loans approved under the public guarantee

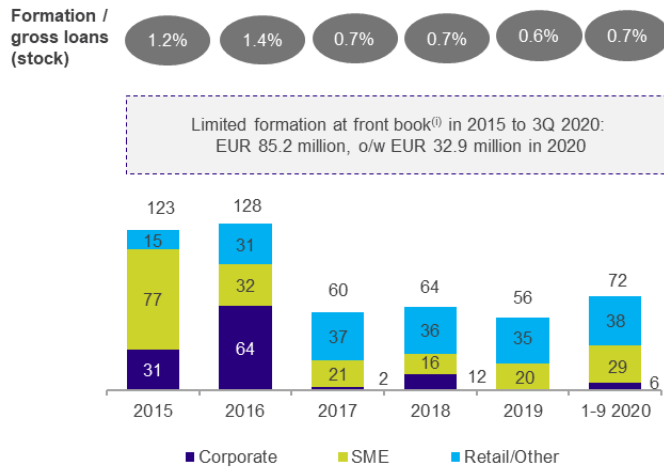
schemes were granted in the amount of EUR 42.9 million by NLB Banka, Beograd. The Bank has just started to approve the first exposures based on the Slovenian public guarantee scheme. The volume of such loans is increasing, but a rapid growth is not expected.

Table 16: NLB Group COVID-19 Related Transactions (Moratoriums and New Financings); in EUR thousand

NLB Group member	COVID-19 Moratorium						COVID-19 New Financing				Total COVID-19 Related Transactions		
	Number of clients	Exposure	Of which: EBA Compliant moratoria	Of which: expired by 30 September 2020	% of Exposure	% of exposure (exc. expired moratoriums)	Number of clients	Exposure	Of which: expired by 30 September 2020	Of which: subject to public guarantee schemes	% of Exposure	Exposure	Of which: expired by 30 September 2020
NLB, Ljubljana	3,527.0	520,031.2	432,968.0	13,373.6	7.8%	7.6%	124.0	21,473.1	0.0	68.9	0.3%	541,504.3	13,373.6
Retail	3,184.0	113,061.5	112,186.9	11,211.1	1.7%	1.5%	24.0	450.3	0.0	8.2	0.0%	113,511.8	11,211.1
o/w Housing	1,171.0	73,506.0	73,076.8	6,340.7	1.1%	1.0%	0.0	0.0	0.0	0.0	0.0%	73,506.0	6,340.7
o/w Consumer	2,340.0	39,555.4	39,110.2	4,870.4	0.6%	0.5%	24.0	450.3	0.0	8.2	0.0%	40,005.7	4,870.4
Non-financial corporations	341.0	406,886.4	320,697.7	2,162.5	6.1%	6.1%	100.0	21,022.8	0.0	60.7	0.3%	427,909.2	2,162.5
o/w Secured loans	199.0	344,377.9	258,477.8	1,821.5	5.2%	5.1%	18.0	2,572.3	0.0	60.7	0.0%	346,950.1	1,821.5
o/w Unsecured loans	185.0	62,508.5	62,220.0	341.0	0.9%	0.9%	83.0	18,450.5	0.0	0.0	0.3%	80,959.1	341.0
Other	2.0	83.3	83.3	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	83.3	0.0
NLB Banka, Beograd	48,319.0	308,742.8	308,742.8	66,360.1	51.2%	40.2%	173.0	42,859.1	0.0	42,859.1	7.1%	351,601.9	66,360.1
Retail	47,590.0	195,029.1	195,029.1	28,916.8	32.4%	27.6%	15.0	960.3	0.0	960.3	0.2%	195,989.4	28,916.8
o/w Housing	832.0	29,149.2	29,149.2	9,075.8	4.8%	3.3%	0.0	0.0	0.0	0.0	0.0%	29,149.2	9,075.8
o/w Consumer	47,228.0	165,879.9	165,879.9	19,841.0	27.5%	24.2%	15.0	960.3	0.0	960.3	0.2%	166,840.2	19,841.0
Non-financial corporations	725.0	113,691.9	113,691.9	37,421.9	18.9%	12.7%	158.0	41,898.8	0.0	41,898.8	7.0%	155,590.7	37,421.9
o/w Secured loans	146.0	40,596.6	40,596.6	17,025.1	6.7%	3.9%	156.0	40,504.3	0.0	40,504.3	6.7%	81,100.9	17,025.1
o/w Unsecured loans	643.0	73,095.3	73,095.3	20,396.8	12.1%	8.7%	2.0	1,394.5	0.0	1,394.5	0.2%	74,489.8	20,396.8
Other	4.0	21.8	21.8	21.4	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	21.8	21.4
NLB banka, Podgorica	7,932.0	177,821.8	173,991.6	169,754.5	38.7%	1.8%	17.0	1,870.0	0.0	0.0	0.4%	179,691.8	169,754.5
Retail	7,674.0	124,485.1	122,606.5	122,397.5	27.1%	0.5%	0.0	0.0	0.0	0.0	0.0%	124,485.1	122,397.5
o/w Housing	1,796.0	70,918.7	69,086.7	69,232.7	15.4%	0.4%	0.0	0.0	0.0	0.0	0.0%	70,918.7	69,232.7
o/w Consumer	6,503.0	53,566.4	53,519.8	53,164.8	11.7%	0.1%	0.0	0.0	0.0	0.0	0.0%	53,566.4	53,164.8
Non-financial corporations	256.0	50,046.7	48,095.0	44,066.9	10.9%	1.3%	17.0	1,870.0	0.0	0.0	0.4%	51,916.7	44,066.9
o/w Secured loans	155.0	41,097.6	39,461.3	35,277.1	8.9%	1.3%	4.0	435.9	0.0	0.0	0.1%	41,533.6	35,277.1
o/w Unsecured loans	158.0	8,949.1	8,633.7	8,789.9	1.9%	0.0%	13.0	1,434.0	0.0	0.0	0.3%	10,383.1	8,789.9
Other	2.0	3,290.0	3,290.0	3,290.0	0.7%	0.0%	0.0	0.0	0.0	0.0	0.0%	3,290.0	3,290.0
NLB Banka, Banja Luka	165.0	23,212.5	13,750.1	18,684.7	4.0%	0.8%	38.0	2,807.6	0.0	0.0	0.5%	26,020.1	18,684.7
Retail	131.0	2,275.2	376.8	1,029.5	0.4%	0.2%	16.0	366.1	0.0	0.0	0.1%	2,641.2	1,029.5
o/w Housing	33.0	1,233.4	220.7	553.3	0.2%	0.1%	0.0	0.0	0.0	0.0	0.0%	1,233.4	553.3
o/w Consumer	104.0	1,041.7	156.1	476.2	0.2%	0.1%	16.0	366.1	0.0	0.0	0.1%	1,407.8	476.2
Non-financial corporations	33.0	12,820.9	5,256.8	9,538.7	2.2%	0.6%	22.0	2,441.6	0.0	0.0	0.4%	15,262.4	9,538.7
o/w Secured loans	27.0	12,763.2	5,204.7	9,485.1	2.2%	0.6%	7.0	1,789.3	0.0	0.0	0.3%	14,552.5	9,485.1
o/w Unsecured loans	8.0	57.7	52.1	53.7	0.0%	0.0%	15.0	652.2	0.0	0.0	0.1%	7,710.0	53.7
Other	1.0	8,116.5	8,116.5	8,116.5	1.4%	0.0%	0.0	0.0	0.0	0.0	0.0%	8,116.5	8,116.5
NLB Banka, Skopje	81,616.0	373,864.7	302,003.5	4,805.5	30.6%	30.2%	40.0	30,057.4	0.0	0.0	2.5%	409,922.1	4,805.5
Retail	80,995.0	302,569.0	302,003.5	1,979.4	24.7%	24.6%	0.0	0.0	0.0	0.0	0.0%	302,569.0	1,979.4
o/w Housing	2,173.0	84,970.6	84,970.6	0.0	6.9%	6.9%	0.0	0.0	0.0	0.0	0.0%	84,970.6	0.0
o/w Consumer	79,976.0	217,598.4	217,032.9	1,979.4	17.8%	17.6%	0.0	0.0	0.0	0.0	0.0%	217,598.4	1,979.4
Non-financial corporations	620.0	71,279.1	0.0	2,826.2	5.8%	5.6%	40.0	30,057.4	0.0	0.0	2.5%	101,336.5	2,826.2
o/w Secured loans	185.0	52,276.8	0.0	2,826.2	4.3%	4.0%	38.0	29,273.8	0.0	0.0	2.4%	81,560.6	2,826.2
o/w Unsecured loans	478.0	19,002.3	0.0	0.0	1.6%	1.6%	4.0	783.6	0.0	0.0	0.1%	19,785.9	0.0
Other	1.0	16.7	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	16.7	0.0
NLB Banka, Sarajevo	1,482.0	36,408.8	36,408.8	30,732.7	6.8%	1.1%	0.0	0.0	0.0	0.0	0.0%	36,408.8	30,732.7
Retail	1,404.0	13,228.9	13,228.9	12,371.5	2.5%	0.2%	0.0	0.0	0.0	0.0	0.0%	13,228.9	12,371.5
o/w Housing	76.0	1,758.7	1,758.7	1,514.5	0.3%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,758.7	1,514.5
o/w Consumer	1,366.0	11,470.2	11,470.2	10,857.0	2.1%	0.1%	0.0	0.0	0.0	0.0	0.0%	11,470.2	10,857.0
Non-financial corporations	77.0	21,337.6	21,337.6	16,518.8	4.0%	0.9%	0.0	0.0	0.0	0.0	0.0%	21,337.6	16,518.8
o/w Secured loans	32.0	15,630.7	15,630.7	11,342.8	2.9%	0.8%	0.0	0.0	0.0	0.0	0.0%	15,630.7	11,342.8
o/w Unsecured loans	50.0	5,706.9	5,706.9	5,176.0	1.1%	0.1%	0.0	0.0	0.0	0.0	0.0%	5,706.9	5,176.0
Other	1.0	1,842.4	1,842.4	1,842.4	0.3%	0.0%	0.0	0.0	0.0	0.0	0.0%	1,842.4	1,842.4
NLB Banka, Prishtina	6,151.0	263,191.7	0.0	193,306.4	34.5%	0.2%	0.0	0.0	0.0	0.0	0.0%	263,191.7	193,306.4
Retail	4,836.0	54,512.4	0.0	53,725.1	7.2%	0.1%	0.0	0.0	0.0	0.0	0.0%	54,512.4	53,725.1
o/w Housing	2,136.0	40,805.4	0.0	40,120.6	5.4%	0.1%	0.0	0.0	0.0	0.0	0.0%	40,805.4	40,120.6
o/w Consumer	4,055.0	13,707.0	0.0	13,604.5	1.8%	0.0%	0.0	0.0	0.0	0.0	0.0%	13,707.0	13,604.5
Non-financial corporations	1,310.0	208,625.9	0.0	139,528.0	27.4%	9.1%	0.0	0.0	0.0	0.0	0.0%	208,625.9	139,528.0
o/w Secured loans	1,296.0	208,530.6	0.0	139,434.5	27.4%	9.1%	0.0	0.0	0.0	0.0	0.0%	208,530.6	139,434.5
o/w Unsecured loans	27.0	95.3	0.0	93.5	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	95.3	93.5
Other	5.0	53.3	0.0	53.3	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	53.3	53.3
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	165.0	4,227.4	0.0	4,001.5	14.4%	0.8%	0.0	0.0	0.0	0.0	0.0%	4,227.4	4,001.5
Retail	97.0	1,230.9	0.0	1,077.9	4.2%	0.5%	0.0	0.0	0.0	0.0	0.0%	1,230.9	1,077.9
o/w Housing	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.0	0.0
o/w Consumer	97.0	1,230.9	0.0	1,077.9	4.2%	0.5%	0.0	0.0	0.0	0.0	0.0%	1,230.9	1,077.9
Non-financial corporations	68.0	2,996.5	0.0	2,923.6	10.2%	0.2%	0.0	0.0	0.0	0.0	0.0%	2,996.5	2,923.6
o/w Secured loans	68.0	2,996.5	0.0	2,922.7	10.2%	0.2%	0.0	0.0	0.0	0.0	0.0%	2,996.5	2,922.7
o/w Unsecured loans	1.0	0.9	0.0	0.9	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.9	0.9
Other	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0	0.0%	0.0	0.0
TOTAL NLBG	149,357.0	1,707,500.9	1,267,864.7	501,018.9	15.7%	11.1%	392.0	99,067.2	0.0	42,928.0	0.9%	1,806,568.1	501,018.9

The combination of high quality portfolio, COVID-19 legislative options and uncertain macroeconomic conditions led to cumulative new NPLs formation in the amount of EUR 72 million, which is 0.7 % of the total portfolio. Additionally, the macroeconomic situation across the region, affected by the economic slowdown in the current year, resulted in an increased cost of risk, which could further increase depending on the economic circumstances caused by COVID-19 pandemic in Q4 2020.

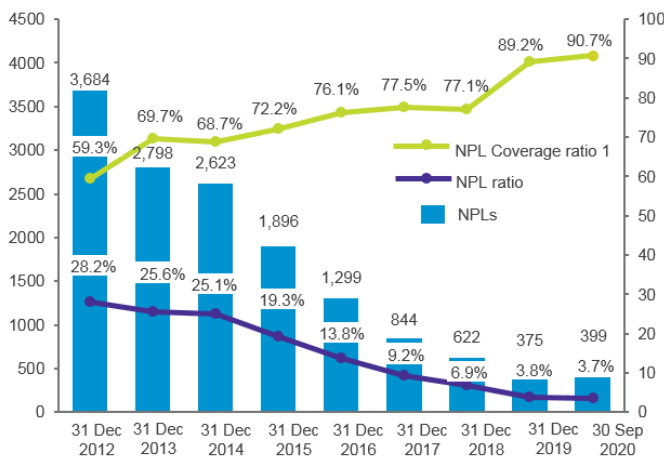
Figure 16: NLB Group gross NPL formation (in EUR million)



⁽ⁱ⁾ Refers to Corporate and Retail loans disbursed since 2015.

Precisely set targets in the Group’s NPL Strategy and various proactive workout approaches facilitated the management of the non-performing portfolio. The Group’s approach to NPL management puts a strong emphasis on restructuring and use of other active NPL management tools, such as foreclosure of collateral, the sale of claims and pledged assets. The non-performing credit portfolio stock stopped its multi-year declining trend as a consequence of COVID-19 outbreak. The existing non-performing credit portfolio stock in the Group remained at end of Q3 2020 at almost the same level as at the end H1 2020, while in comparison with YE 2019 it slightly increased to EUR 399 million (2019 YE: EUR 375 million). The combined result of all of the effects resulted in 3.7% of NPLs, while the internationally more comparable NPE ratio, based on the EBA methodology, was reduced from 2.7% to 2.5% YtD. The Group’s indicator gross NPL ratio, defined by the EBA, increased by 0.2 p.p. to 4.7% YtD, and is below the regulatory defined threshold for establishment of NPL strategy framework.

Figure 17: NLB Group NPL, NPL ratio and Coverage ratio¹⁷



Notes:

¹⁷ By internal definition.

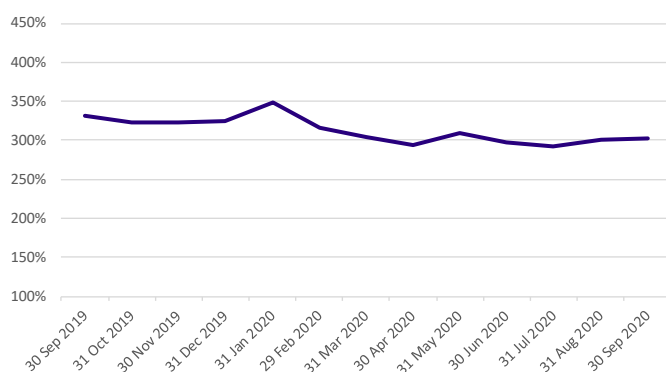
Due to extensive experience gained in the last few years in dealing with clients with financial difficulties, resulting primarily from legacy portfolios, the Group has developed an extensive knowledge base both in the prevention of financial difficulties for clients, to restructure viable clients in case of need, and to efficiently work out exposures with no realistic recovery prospects. This extensive knowledge base is available throughout the Group, and risk units as well as restructuring and workout teams are properly staffed and have the capacity to deal, if needed, with considerably increased volumes in a professional and efficient manner. Due to this fact, as well as due to implemented early warning tools, and due to efficient analysis and reporting mechanisms, which allows the Group to proactively identify and engage with potentially distressed borrowers, the Group estimates that it is well prepared to deal proactively with potentially distressed debtors also in the context of COVID-19, while properly differentiating between viable and non-viable clients, in order to minimize the impact on the quality of its credit portfolio.

An important Group's strength is the NPL coverage ratio 1 (coverage of gross NPLs with impairments for all loans), which remains high at 90.7%. Furthermore, the Group's NPL coverage ratio 2 (coverage of gross NPLs with impairments for NPL) stands at 62.3%, which is well above the EU average as published by the EBA (45.3% for H1 2020). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years.

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

The liquidity position of the Group remained very solid, impacts of the pandemic did not cause any material liquidity outflows. The Group holds a very strong liquidity position at the Group and individual subsidiary bank level, which is well above the risk appetite with the LCR of 303% and unencumbered eligible reserves in the amount of EUR 6,864 million in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank level predominately entails customer deposits, namely in the retail segment, representing a very stable and constantly growing base. A very comfortable level of LTD at 62.4% gives the Group the potential for further customer loan placements.

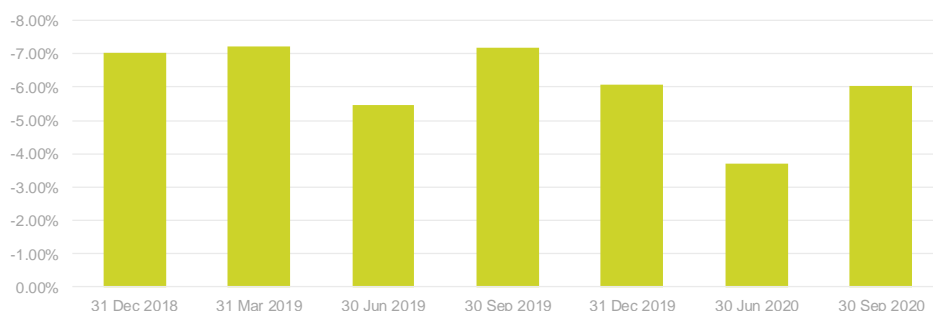
Figure 18: NLB Group's LCR



The Group's net open FX position from the transactional risk is low at less than 1.14% of capital. With regards to structural FX positions on the consolidated basis, which are recognized in the other comprehensive income, there were no major fluctuations of relevant currencies.

The Group's interest rate positions were slightly affected by moratoriums, which are mostly short-term from 3 to 6 months. The Group has increased purchases of banking book securities in Q3. The interest rate exposure to interest rate risk remains modest, within the risk appetite limits. Net interest income sensitivity of the Group would amount to EUR 14.3 million, if market interest rates increased by 50 bps, whereas if they decreased, the exposure would be lower due to zero floor clauses included in the loan contracts (EUR 13.6 million). From the EVE perspective, the capital sensitivity of 200 bps equals 6.05% of the Group's capital.

Figure 19: NLB Group's EVE evolution



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

Corporate Governance

Management Board

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

In Q3 2020, there were no changes in the composition of the Management Board compared to the previous report.

Supervisory Board

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

In accordance with the Articles of Association of the Bank, modified on 15 June 2020, the Supervisory Board consists of 12 members, out of which 8 are representatives of the capital and 4 are employees' representatives elected and appointed by the NLB Worker's Council. Since 3 members of the Supervisory Board – employees' representatives were already appointed on 28 July 2020, the Worker's Council published a call for the election and appointment of one more member of the Supervisory Board – employees' representative.

On 1 September 2020, the Bank received a letter of resignation from the position of a member of the Supervisory Board from Petra Kakovič Bizjak, the employees' representative. The Bank took the necessary steps to execute her resignation, while the Supervisory Board also decided to shorten the three-month notice period, which is otherwise provided in the Articles of Association of the Bank.

In line with the above, the Worker's Council published on 7 September 2020 that the procedure for the appointment of one member of the Supervisory Board – the employees' representative was underway, but that, due to the resignation notice submitted by the above-mentioned employees' representative, another member of the Supervisory Board representing the employees must be elected and appointed.

General Meeting

The shareholders exercise their rights related to the Bank's operations at General Meetings of the Bank (General Meeting). The General Meeting passes decisions in accordance with the legislation and the Articles of Association of the Bank. The authorisations of the General Meeting are stipulated in the Companies Act, Banking Act, and the Articles of Association of the Bank. Decisions adopted by the General Meeting include, among others: adopt and amend the Articles of Association of the Bank, allocate distributable profit, grant a discharge from liability to the Management and Supervisory Board, changes to the Bank's share capital, appoint and discharge members of the Supervisory Board, remuneration of members of the Supervisory Board, annual schedules, and characteristics of issues of securities convertible to shares and equity securities of the Bank.

In Q3 2020, the General Meeting of the Bank's shareholders was not convened.

Guidelines on Disclosure for Listed Companies

In accordance with Section 2.1.3, Point 2 of the Guidelines on Disclosure for Listed Companies, the Bank hereby states that apart from the changes in the Supervisory Board described in this section, there were no changes made to the Management Board. There were also no changes in the Internal Audit of NLB.

Events after 30 September 2020

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

Alternative Performance Indicators

The Bank has chosen to present these APIs, either because they are commonly used within the industry or because they are commonly used by investors and as such suitable for disclosure. The APIs are used internally to monitor and manage operations of the Bank and the Group, and are not considered to be directly comparable with similar KPIs presented by other companies. The Bank's APIs are described below together with definitions.

Cost of risk - Calculated as the ratio between credit impairments and provisions annualized from the income statement and average net loans to customers.

(in EUR million and bps)	NLB Group					
	1-9 2020	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019
Numerator						
Credit impairments and provisions*	64.2	65.2	111.9	-14.5	-22.3	-0.3
Denominator						
Average net loans to customers**	7,674.8	7,666.5	7,660.6	7,339.4	7,269.6	7,212.2
Cost of risk	84	85	146	-20	-31	0

* NLB internal information. Credit impairments and provisions are annualized, calculated as all established and released impairments on loans and provisions for off balance (from the income statement) in the period divided by the number of months per reporting period and multiplied by 12. The net established Credit impairments and provisions are shown with a positive sign, net released Credit impairments and provisions are shown with a negative sign.

** NLB internal information. Average net loans to customers are calculated as a sum of balance from the previous year end (31 December) and monthly balances as of the last day of each month from January to month t divided by (t+1).

Cost to income ratio (CIR) - Indicator of cost efficiency, calculated as the ratio between total costs and total net operating income.

(in EUR million and %)	NLB Group					
	1-9 2020	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019
Numerator						
Total costs	216.3	144.8	74.6	305.0	217.0	143.1
Denominator						
Total net operating income	383.3	260.0	123.8	517.2	387.4	259.0
Cost to income ratio (CIR)	56.4 %	55.7%	60.3%	59.0%	56.0%	55.2%

CIR is adjusted to changed schemes prescribed by the BoS.

FVTPL - Financial assets measured as a mandatory requirement at fair value through profit or loss (FVTPL) are not classified into stages and are therefore shown separately (before deduction of fair value adjustment for credit risk; loans with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding).

IFRS 9 classification into stages for loan portfolio:

IFRS 9 requires an expected loss model, where allowances for expected credit losses (ECL) are formed. Loans measured at AC are classified into the following stages (before deduction of loan loss allowances):

Stage 1 – A performing portfolio: no significant increase of credit risk since initial recognition, Group recognises an allowance based on a 12-month period;

Stage 2 – An underperforming portfolio: a significant increase in credit risk since initial recognition, Group recognises an allowance for a lifetime period;

Stage 3 – An impaired portfolio: Group recognises lifetime allowances for these financial assets. Definition of default is harmonised with the EBA guidelines.

A significant increase in credit risk is assumed: when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition; when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment); if the Group expects to grant the client forbearance or if the client is placed on the watch list.

Loan portfolio includes loans to banks, loans to other customers, loans mandatorily measured at FVTPL and balances with central banks and other banks. The majority of loan portfolio is classified into IFRS 9 stages. The remaining minor part (0.4 per cent at the end of Q3 2020; 0.3 per cent. December 2019) represents FVTPL. The classification into stages is calculated on the internal data source, by which the Group measures the loan portfolio quality, and is also published in Business Report of Annual and Interim Reports.

(in EUR million and %)	NLB Group	
	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 1	10,015.0	8,947.7
Denominator		
Total gross loans	10,897.7	9,793.5
IFRS 9 classification into Stage 1	91.9%	91.4%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 2	483.3	471.1
Denominator		
Total gross loans	10,897.7	9,793.5
IFRS 9 classification into Stage 2	4.4%	4.8%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 3	358.2	348.6
Denominator		
Total gross loans	10,897.7	9,793.5
IFRS 9 classification into Stage 3	3.3%	3.6%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 1 to Corporates	3,231.8	3,207.2
Denominator		
Total gross loans to Corporates	3,911.3	3,860.0
Corporates - IFRS 9 classification into Stage 1	82.6%	83.1%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 1 to Retail	3,916.1	3,822.2
Denominator		
Total gross loans to Retail	4,119.4	4,013.4
Retail - IFRS 9 classification into Stage 1	95.1%	95.2%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 2 to Corporates	378.3	367.3
Denominator		
Total gross loans to Corporates	3,911.3	3,860.0
Corporates - IFRS 9 classification into Stage 2	9.7%	9.5%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 2 to Retail	105.0	103.7
Denominator		
Total gross loans to Retail	4,119.4	4,013.4
Retail - IFRS 9 classification into Stage 2	2.5%	2.6%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 3 to Corporates	259.9	259.4
Denominator		
Total gross loans to Corporates	3,911.3	3,860.0
Corporates - IFRS 9 classification into Stage 3	6.6%	6.7%

NLB Group		
(in EUR million and %)	30 Sep 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 3 to Retail	98.3	87.5
Denominator		
Total gross loans to Retail	4,119.4	4,013.4
Retail - IFRS 9 classification into Stage 3	2.4%	2.2%

Liquidity coverage ratio - LCR refers to high liquid assets held by the financial institution to cover its net liquidity outflows over a 30-calendar day stress period.

The LCR requires financial institutions to maintain a sufficient reserve of high-quality liquid assets (HQLA) to withstand a crisis that puts their cash flows under pressure. The assets to hold must be equal to or greater than their net cash outflow over a 30-calendar-day stress period (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III guidelines. Below presented calculations are based on internal data sources.

(in EUR million and %)	NLB Group	
	30 Sep 2020	30 Sep 2019
Numerator		
Stock of HQLA	4,710.4	3,334.7
Denominator		
Net liquidity outflow	1,553.9	1,005.2
LCR	303.1%	331.8%

Based on the EC's Delegated Act on LCR.

Net loan to deposit ratio (LTD) - Calculated as the ratio between net loans to customers and deposits from customers. There is no regulatory LTD limit, however the aim of this measure is to restrict extensive growth of the loan portfolio.

(in EUR million and %)	NLB Group					
	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019
Numerator						
Net loans to customers	7,749.0	7,686.7	7,759.8	7,604.7	7,496.0	7,280.8
Denominator						
Deposits from customers	12,408.8	12,190.8	11,652.9	11,612.3	11,038.2	10,753.5
Net loan to deposit ratio (LTD)	62.4%	63.1%	66.6%	65.5%	67.9%	67.7%

Net interest margin on the basis of interest bearing assets - Calculated as the ratio between net interest income annualized and average interest bearing assets.

(in EUR million and %)	NLB Group					
	1-9 2020	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019
Numerator						
Net interest income*	299.9	301.8	311.2	318.5	319.3	320.7
Denominator						
Average interest bearing assets**	14,009.2	13,791.1	13,560.3	12,845.9	12,714.6	12,617.0
Net interest margin on interest bearing assets	2.14%	2.19%	2.29%	2.48%	2.51%	2.54%

(in EUR million and %)	SEE banks total				
	1-9 2020	1-6 2020	1-3 2020	1-12 2019	1-9 2019
Numerator					
Net interest income*	159.1	158.0	160.1	157.5	157.2
Denominator					
Average interest bearing assets**	4,744.2	4,694.1	4,669.5	4,390.9	4,333.0
Net interest margin on interest bearing assets	3.35%	3.37%	3.43%	3.59%	3.63%

(in EUR million and %)	NLB				
	1-9 2020	1-6 2020	1-3 2020	1-12 2019	1-9 2019
Numerator					
Net interest income*	139.4	142.4	149.5	158.1	159.1
Denominator					
Average interest bearing assets**	9,455.8	9,270.4	9,078.1	8,537.9	8,461.7
Net interest margin on interest bearing assets	1.47%	1.54%	1.65%	1.85%	1.88%

* Net interest income is annualized, calculated as the sum of interest income and interest expenses in the period divided by the number of days in the period and multiplied by the number of days in the year.

** NLB internal information. Average interest bearing assets for the Group and SEE banks are calculated as the sum of balance from the previous year end (31 December) and monthly balances of the last day of each month from January to the reporting month t divided by (t+1). Average interest bearing assets for NLB are calculated as the sum of balance from the previous year end (31 December) and daily balances in the period (from 1 January to day d – last day in the reporting month) divided by (d+1).

Net interest margin on total assets - Calculated as the ratio between net interest income annualized and average total assets.

(in EUR million and %)	NLB Group	
	1-9 2020	1-9 2019
Numerator		
Net interest income*	299.9	319.3
Denominator		
Average total assets**	14,589.5	13,153.0
Net interest margin on total assets	2.06%	2.43%

* Net interest income is annualized, calculated as the sum of interest income and interest expenses in the period divided by number of days in the period and multiplied by number of days in the year.

** NLB internal information. Average total assets for the Group are calculated as the sum of balance from the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

NPE - NPE includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses). NPE measured by fair value loans through P&L (FVTPL) are taken into account at fair value increased by amount of negative fair value changes for credit risk.

NPE per cent. (on-balance and off-balance) / Classified on-balance and off-balance exposures - NPE per cent. in accordance with the EBA methodology: NPE as a percentage of all exposures to clients in Finrep18, before deduction of allowances for the expected credit losses; ratio in gross terms.

Where NPE includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses). Share of NPEs is calculated on the basis of internal data source, by which the Group monitors the portfolio quality.

Below presented calculations are based on internal data sources.

(in EUR million and %)	NLB Group		
	30 Sep 2020	31 Dec 2019	30 Sep 2019
Numerator			
Total Non-Performing on-balance and off-balance Exposure in Finrep18	437.4	432.7	531.8
Denominator			
Total on-balance and off-balance exposures in Finrep18	17,562.6	16,228.5	15,252.8
NPE per cent.	2.5%	2.7%	3.5%

NPL - Non-performing loans include loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

NPL per cent. - Share of non-performing loans in total loans: non-performing loans as a percentage of total loans to clients before deduction of loan loss allowances; ratio in gross terms. Where non-performing loans are defined as loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances). Share of non-performing loans is calculated on the basis of internal data source, by which the Group monitors the loan portfolio quality.

(in EUR million and %)	NLB Group		
	30 Sep 2020	31 Dec 2019	30 Sep 2019
Numerator			
Total Non-Performing Loans	399.2	374.7	476.3
Denominator			
Total gross loans	10,897.7	9,793.5	9,196.9
NPL per cent.	3.7%	3.8%	5.2%

NPL coverage ratio 1 - The coverage of the gross non-performing loans portfolio with loan loss allowances on the entire loan portfolio - loan impairment in respect of non-performing loans. It shows the level of credit impairments and provisions that the entity has already absorbed into its profit and loss account in respect of the total of impaired loans. NPL coverage ratio 1 is calculated on the basis of internal data source, by which the Group monitors the quality of loan portfolio.

(in EUR million and %)	NLB Group		
	30 Sep 2020	31 Dec 2019	30 Sep 2019
Numerator			
Loan loss allowances entire loan portfolio	362.0	334.2	409.6
Denominator			
Total Non-Performing Loans	399.2	374.7	476.3
NPL coverage ratio 1 (NPL CR 1)	90.7%	89.2%	86.0%

NPL coverage ratio 2 - The coverage of the gross non-performing loans portfolio with loan loss allowances on the non-performing loans portfolio. NPL coverage ratio 2 is calculated on the basis of internal data source, by which the Group monitors the loan portfolio quality.

(in EUR million and %)	NLB Group		
	30 Sep 2020	31 Dec 2019	30 Sep 2019
Numerator			
Loan loss allowances non-performing loan portfolio	248.7	243.7	323.2
Denominator			
Total Non-Performing Loans	399.2	374.7	476.3
NPL coverage ratio 2 (NPL CR 2)	62.3%	65.0%	67.9%

Net NPL Ratio - Share of net non-performing loans in total net loans: non-performing loans after deduction of loss allowances on the non-performing loans portfolio as a percentage of total loans to clients after deduction of loan loss allowances; ratio in net terms. Below presented calculations are based on internal data sources.

(in EUR million and %)	NLB Group		
	30 Sep 2020	31 Dec 2019	30 Sep 2019
Numerator			
Net volume of non-performing loans	150.5	131.0	153.1
Denominator			
Total Net Loans	10,535.7	9,459.2	8,787.4
Net NPL ratio per cent. (%Net NPL)	1.4%	1.4%	1.7%

Non-performing loans and advances (EBA def.) - Non-performing loans include loans and advances in accordance with the EBA Methodology that are classified as D and E, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

Gross NPL ratio (EBA def.) - The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). For the purpose of this calculation, loans and advances classified as held for sale, cash balances at central banks and other demand deposits at banks are excluded both from the denominator and from the numerator. Below presented calculations are based on internal data sources.

(in EUR million and %)	NLB Group		
	30 Sep 2020	31 Dec 2019	30 Sep 2019
Numerator			
Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits	394.5	372.9	474.4
Denominator			
Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits	8,307.3	8,127.5	8,080.9
Gross NPL ratio per cent. (%NPL)	4.7%	4.6%	5.9%

EVE (Economic Value of Equity) method is a measure of sensitivity of changes in market interest rates on the economic value of financial instruments. EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates at least under the six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations are taking into account behavioural and automatic options as well as allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 bps on the economic value of the banking book position:

(in EUR thousand and %)	NLB Group	
	30 Sep 2020	30 Sep 2019
Numerator		
Interest risk in banking book – EVE	98,185	102,319
Denominator		
Equity (Tier I)	1,622,945	1,424,020
EVE as % of Equity	6.05%	7.19%

Return on equity after tax (ROE a.t.) - Calculated as the ratio between result after tax annualized and average equity.

(in EUR million and %)	NLB Group					
	1-9 2020	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019
Numerator						
Result after tax*	139.5	147.3	73.2	193.6	216.3	188.7
Denominator						
Average equity**	1,720.4	1,703.2	1,697.7	1,658.0	1,651.3	1,656.6
ROE a.t.	8.1%	8.7%	4.3%	11.7%	13.1%	11.4%

* Result after tax is annualized, calculated as result after tax in the period divided by number of months for reporting period and multiplied by 12.

** NLB internal information. Average equity is calculated as a sum of balance as at end of previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Return on assets (ROA a.t.) - Calculated as the ratio between the result after tax annualized and average total assets.

(in EUR million and %)	NLB Group	
	1-9 2020	1-9 2019
Numerator		
Result after tax*	139.5	216.3
Denominator		
Average total assets**	14,589.5	13,153.0
ROA a.t.	1.0%	1.6%

* Result after tax is annualized, calculated as the result after tax in the period divided by number of months per reporting period and multiplied by 12.

** NLB internal information. Average total assets are calculated as the sum of balance as at the previous year end (31 December) and monthly balances on the last day of each month from January to month t divided by (t+1).

Total capital ratio (TCR) - Total capital ratio is the institution's own funds expressed as a percentage of the total risk exposure amount.

(in EUR million and %)	NLB Group					
	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019
Numerator						
Total capital (Own funds)	1,909.6	1,903.4	1,707.8	1,495.8	1,468.6	1,469.9
Denominator						
Total risk exposure Amount (Total RWA)	8,863.2	9,301.7	9,226.7	9,185.5	9,126.1	8,935.2
Total capital ratio	21.5%	20.5%	18.5%	16.3%	16.1%	16.5%



Unaudited Condensed Interim Financial Statements of NLB Group and NLB

as at 30 September 2020

Prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'

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Condensed income statement for the period ended 30 September

in EUR thousands

	Notes	NLB Group		NLB	
		nine months ended		nine months ended	
		September 2020	September 2019	September 2020	September 2019
		unaudited	unaudited	unaudited	unaudited
Interest income, using the effective interest method		260,239	267,187	125,255	131,206
Interest income, not using the effective interest method		5,626	5,544	5,573	5,479
Interest and similar income	4.1.	265,865	272,731	130,828	136,685
Interest and similar expenses	4.1.	(41,366)	(33,939)	(26,471)	(17,698)
Net interest income		224,499	238,792	104,357	118,987
Dividend income	4.2.	104	191	743	71,221
Fee and commission income	4.3.	171,718	173,720	101,869	102,777
Fee and commission expenses	4.3.	(46,580)	(46,863)	(24,735)	(24,711)
Net fee and commission income		125,138	126,857	77,134	78,066
Gains less losses from financial assets and liabilities not measured as at fair value through profit or loss	4.4.	17,560	3,756	16,974	3,641
Gains less losses from financial assets and liabilities held for trading	4.5.	7,215	7,270	3,550	1,886
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	4,467	16,329	5,145	15,203
Fair value adjustments in hedge accounting		644	(13)	644	(13)
Foreign exchange translation gains less losses		210	871	(1,220)	656
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures		-	(111)	-	(1)
Gains less losses on derecognition of non-financial assets		894	1,770	13	33
Other net operating income	4.7.	6,062	5,759	4,243	3,058
Administrative expenses	4.8.	(192,538)	(193,704)	(120,157)	(120,135)
Cash contributions to resolution funds and deposit guarantee schemes	4.9.	(14,226)	(13,809)	(7,103)	(7,034)
Depreciation and amortisation	4.10.	(23,730)	(23,313)	(13,513)	(13,410)
Gains less losses from modification		(108)	(179)	-	-
Provisions for credit losses	4.11.	(2,591)	(2,158)	(1,964)	(2,210)
Provisions for other liabilities and charges	4.11.	(838)	(4,645)	(476)	6
Impairment of financial assets	4.12.	(46,463)	17,791	(15,617)	17,089
Impairment of non-financial assets	4.12.	(330)	(1,254)	76	3,386
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		895	4,155	-	-
Gains less losses from non-current assets held for sale	4.13.	10,852	(126)	35,234	(128)
Profit before income tax		117,716	184,229	88,063	170,301
Income tax	4.14.	(8,925)	(15,784)	(2,546)	(7,321)
Profit for the period		108,791	168,445	85,517	162,980
Attributable to owners of the parent		104,639	162,246	85,517	162,980
Attributable to non-controlling interests		4,152	6,199	-	-
Earnings per share/diluted earnings per share (in EUR per share)		5.23	8.11	4.28	8.15

Condensed income statement – for three months ended September

	Notes	in EUR thousands			
		NLB Group		NLB	
		three months ended		three months ended	
		September 2020	September 2019	September 2020	September 2019
		unaudited	unaudited	unaudited	unaudited
Interest income, using the effective interest method		86,879	89,545	41,297	43,889
Interest income, not using the effective interest method		1,737	1,856	1,696	1,799
Interest and similar income	4.1.	88,616	91,401	42,993	45,688
Interest and similar expenses	4.1.	(14,184)	(11,647)	(9,428)	(6,309)
Net interest income		74,432	79,754	33,565	39,379
Dividend income	4.2.	14	11	726	1,282
Fee and commission income	4.3.	60,618	61,922	35,928	35,795
Fee and commission expenses	4.3.	(16,934)	(17,275)	(9,062)	(8,836)
Net fee and commission income		43,684	44,647	26,866	26,959
Gains less losses from financial assets and liabilities not measured as at fair value through profit or loss	4.4.	472	716	-	626
Gains less losses from financial assets and liabilities held for trading	4.5.	2,258	2,548	1,746	403
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	2,025	1,321	2,065	1,141
Fair value adjustments in hedge accounting		375	10	375	10
Foreign exchange translation gains less losses		688	554	(625)	511
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures		-	-	-	-
Gains less losses on derecognition of non-financial assets		118	869	5	1
Other net operating income	4.7.	1,893	268	971	(334)
Administrative expenses	4.8.	(63,622)	(66,018)	(39,490)	(41,458)
Cash contributions to resolution funds and deposit guarantee schemes	4.9.	(2,375)	(2,317)	-	-
Depreciation and amortisation	4.10.	(7,826)	(7,926)	(4,354)	(4,672)
Gains less losses from modification		(108)	(73)	-	-
Provisions for credit losses	4.11.	(565)	(238)	(328)	(310)
Provisions for other liabilities and charges	4.11.	(512)	(869)	-	-
Impairment of financial assets	4.12.	(15,696)	16,592	(2,438)	14,363
Impairment of non-financial assets	4.12.	(219)	(262)	76	(47)
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		469	1,639	-	-
Gains less losses from non-current assets held for sale	4.13.	(152)	-	(218)	-
Profit before income tax		35,353	71,226	18,942	37,854
Income tax	4.14.	(3,413)	(899)	(1,234)	2,557
Profit for the period		31,940	70,327	17,708	40,411
Attributable to owners of the parent		30,970	67,920	17,708	40,411
Attributable to non-controlling interests		970	2,407	-	-

Condensed statement of comprehensive income for the period ended 30 September

		in EUR thousands			
		NLB Group		NLB	
		nine months ended		nine months ended	
		September	September	September	September
		2020	2019	2020	2019
		unaudited	unaudited	unaudited	unaudited
	Notes				
Net profit for the period after tax		108,791	168,445	85,517	162,980
Other comprehensive income after tax		(19,998)	25,925	(4,297)	12,480
<i>Items that will not be reclassified to income statement</i>					
Fair value changes of equity instruments measured at fair value through other comprehensive income		130	386	125	346
Share of other comprehensive income/(losses) of entities accounted for using the equity method		8	1,314	-	-
Income tax relating to components of other comprehensive income	5.14.	(26)	(316)	(24)	(66)
<i>Items that have been or may be reclassified subsequently to income statement</i>					
Foreign currency translation		(1,737)	763	-	-
Translation gains/(losses) taken to equity		(1,737)	763	-	-
Debt instruments measured at fair value through other comprehensive income		(7,497)	16,906	(4,383)	15,062
Valuation gains/(losses) taken to equity		(3,258)	19,395	(722)	18,350
Transferred to income statement		(4,239)	(2,489)	(3,661)	(3,288)
Share of other comprehensive income/(losses) of entities accounted for using the equity method (including transfer to income statement on disposal)		(11,026)	12,117	-	-
Income tax relating to components of other comprehensive income	5.14.	150	(5,245)	(15)	(2,862)
Total comprehensive income for the period after tax		88,793	194,370	81,220	175,460
Attributable to owners of the parent		84,883	187,896	81,220	175,460
Attributable to non-controlling interests		3,910	6,474	-	-

Condensed statement of comprehensive income – for three months ended September


		in EUR thousands			
		NLB Group		NLB	
		three months ended		three months ended	
		September	September	September	September
		2020	2019	2020	2019
		unaudited	unaudited	unaudited	unaudited
Net profit for the period after tax		31,940	70,327	17,708	40,411
Other comprehensive income/(loss) after tax		(49,407)	6,423	7,511	(345)
<i>Items that will not be reclassified to income statement</i>					
Fair value changes of equity instruments measured at fair value through other comprehensive income		146	26	145	27
Share of other comprehensive income/(losses) of entities accounted for using the equity method		-	625	-	-
Income tax relating to components of other comprehensive income		(30)	(124)	(28)	(5)
<i>Items that have been or may be reclassified subsequently to income statement</i>					
Foreign currency translation		(71)	328	-	-
Translation gains/(losses) taken to equity		(71)	328	-	-
Debt instruments measured at fair value through other comprehensive income		11,292	546	9,397	(453)
Valuation gains/(losses) taken to equity		11,039	938	8,602	74
Transferred to income statement		253	(392)	795	(527)
Share of other comprehensive income/(losses) of entities accounted for using the equity method (including transfer to income statement on disposal)		-	6,094	-	-
Income tax relating to components of other comprehensive income		(1,926)	(1,072)	(2,003)	86
Total comprehensive income for the period after tax		41,351	76,750	25,219	40,066
Attributable to owners of the parent		40,164	74,142	25,219	40,066
Attributable to non-controlling interests		1,187	2,608	-	-

Condensed statement of financial position as at 30 September and as at 31 December


in EUR thousands


	Notes	NLB Group		NLB	
		30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
		unaudited	audited	unaudited	audited
Cash, cash balances at central banks and other demand deposits at banks	5.1.	3,010,929	2,101,346	2,179,299	1,292,211
Financial assets held for trading	5.2.a)	16,794	24,038	16,970	24,085
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.	36,897	25,359	35,371	23,287
Financial assets measured at fair value through other comprehensive income	5.4.	2,277,988	2,141,428	1,833,170	1,656,657
Financial assets measured at amortised cost					
- debt securities	5.5.a)	1,477,799	1,653,848	1,269,283	1,485,166
- loans and advances to banks	5.5.b)	112,539	93,403	187,822	144,352
- loans and advances to customers	5.5.c)	7,723,320	7,589,724	4,522,605	4,568,599
- other financial assets	5.5.d)	88,836	97,415	58,938	67,279
Derivatives - hedge accounting		-	788	-	788
Fair value changes of the hedged items in portfolio hedge of interest rate risk		13,892	8,991	13,892	8,991
Investments in subsidiaries		-	-	354,893	351,883
Investments in associates and joint ventures		7,733	7,499	1,366	1,366
Tangible assets					
Property and equipment	5.7.	186,425	195,605	85,279	89,904
Investment property	5.8.	53,605	52,316	10,331	9,303
Intangible assets		37,455	39,542	23,659	25,980
Current income tax assets		2,798	6,284	1,272	5,463
Deferred income tax assets	5.13.	29,824	29,500	29,758	29,569
Other assets	5.9.	62,928	63,811	11,132	11,142
Non-current assets held for sale	5.6.	5,960	43,191	3,719	5,532
Total assets		15,145,722	14,174,088	10,638,759	9,801,557
Financial liabilities held for trading	5.2.b)	15,870	17,903	15,873	17,892
Financial liabilities measured at fair value through profit or loss	5.3.	-	7,998	-	7,746
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.11.	49,670	42,840	110,605	89,820
- borrowings from banks and central banks	5.11.	156,989	170,385	151,378	161,564
- due to customers	5.11.	12,408,795	11,612,317	8,405,567	7,760,737
- borrowings from other customers	5.11.	61,593	64,458	232	2,537
- subordinated liabilities	5.11.a)	290,031	210,569	290,031	210,569
- other financial liabilities	5.11.c)	174,090	158,484	118,573	98,342
Derivatives - hedge accounting		61,185	49,507	61,185	49,507
Provisions	5.12.	89,430	88,414	61,912	60,384
Current income tax liabilities		966	2,271	-	-
Deferred income tax liabilities	5.13.	2,313	2,833	-	-
Other liabilities	5.15.	15,100	15,212	8,958	9,234
Total liabilities		13,326,032	12,443,191	9,224,314	8,468,332
Equity and reserves attributable to owners of the parent					
Share capital		200,000	200,000	200,000	200,000
Share premium		871,378	871,378	871,378	871,378
Accumulated other comprehensive income		4,171	26,493	15,988	20,285
Profit reserves		13,522	13,522	13,522	13,522
Retained earnings		681,694	574,489	313,557	228,040
		1,770,765	1,685,882	1,414,445	1,333,225
Non-controlling interests		48,925	45,015	-	-
Total equity		1,819,690	1,730,897	1,414,445	1,333,225
Total liabilities and equity		15,145,722	14,174,088	10,638,759	9,801,557

The Management Board has authorised for issue the financial statements and the accompanying notes.


Archibald Kremser
 Member of the
 Management Board


Andreas Burkhardt
 Member of the
 Management Board


Peti Brunclik
 Member of the
 Management Board


Blaž Brodnjak
 President and CEO

Ljubljana, 12 November 2020

Condensed statement of changes in equity for the period ended 30 September

in EUR thousands

NLB Group	Share capital	Share premium	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
			Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Balance as at 1 Jan 2020	200,000	871,378	47,880	(17,055)	(4,332)	13,522	574,489	1,685,882	45,015	1,730,897
- Net profit for the period	-	-	-	-	-	-	104,639	104,639	4,152	108,791
- Other comprehensive income	-	-	(18,145)	(1,619)	8	-	-	(19,756)	(242)	(19,998)
Total comprehensive income after tax	-	-	(18,145)	(1,619)	8	-	104,639	84,883	3,910	88,793
Transfer of fair value reserve	-	-	(2,551)	-	(15)	-	2,566	-	-	-
Balance as at 30 Sep 2020	200,000	871,378	27,184	(18,674)	(4,339)	13,522	681,694	1,770,765	48,925	1,819,690

in EUR thousands

NLB Group	Share capital	Share premium	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
			Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Balance as at 1 Jan 2019	200,000	871,378	28,702	(18,275)	(2,604)	13,522	523,493	1,616,216	41,228	1,657,444
- Net profit for the period	-	-	-	-	-	-	162,246	162,246	6,199	168,445
- Other comprehensive income	-	-	24,939	711	-	-	-	25,650	275	25,925
Total comprehensive income after tax	-	-	24,939	711	-	-	162,246	187,896	6,474	194,370
Dividends paid	-	-	-	-	-	-	(142,600)	(142,600)	(4,804)	(147,404)
Balance as at 30 Sep 2019	200,000	871,378	53,641	(17,564)	(2,604)	13,522	543,139	1,661,512	42,898	1,704,410

in EUR thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income		Profit reserves	Retained earnings	Total equity
			Fair value reserve of financial assets measured at FVOCI	Other			
Balance as at 1 Jan 2020	200,000	871,378	24,444	(4,159)	13,522	228,040	1,333,225
- Net profit for the period	-	-	-	-	-	85,517	85,517
- Other comprehensive income	-	-	(4,297)	-	-	-	(4,297)
Total comprehensive income after tax	-	-	(4,297)	-	-	85,517	81,220
Balance as at 30 Sep 2020	200,000	871,378	20,147	(4,159)	13,522	313,557	1,414,445

in EUR thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income		Profit reserves	Retained earnings	Total equity
			Fair value reserve of financial assets measured at FVOCI	Other			
Balance as at 1 Jan 2019	200,000	871,378	18,620	(2,781)	13,522	194,491	1,295,230
- Net profit for the period	-	-	-	-	-	162,980	162,980
- Other comprehensive income	-	-	12,480	-	-	-	12,480
Total comprehensive income after tax	-	-	12,480	-	-	162,980	175,460
Dividends paid	-	-	-	-	-	(142,600)	(142,600)
Balance as at 30 Sep 2019	200,000	871,378	31,100	(2,781)	13,522	214,871	1,328,090

Condensed statement of cash flows for the period ended 30 September

		in EUR thousands			
		NLB Group		NLB	
		nine months ended		nine months ended	
		September 2020	September 2019	September 2020	September 2019
Notes		unaudited	unaudited	unaudited	unaudited
CASH FLOWS FROM OPERATING ACTIVITIES					
	Interest received	277,535	311,638	158,390	177,133
	Interest paid	(36,556)	(31,928)	(20,951)	(16,089)
	Dividends received	776	2,970	746	47,243
	Fee and commission receipts	170,583	171,298	99,705	100,027
	Fee and commission payments	(51,084)	(49,401)	(24,986)	(24,918)
	Realised gains from financial assets and financial liabilities not at fair value through profit or loss	17,860	3,757	17,274	3,642
	Net gains/(losses) from financial assets and liabilities held for trading	8,033	7,716	4,303	2,861
	Payments to employees and suppliers	(191,766)	(195,377)	(122,297)	(125,987)
	Other income	10,879	13,473	7,320	6,451
	Other expenses	(16,233)	(19,136)	(9,422)	(10,412)
	Income tax (paid)/received	(6,845)	(28,077)	1,991	(19,874)
	Cash flows from operating activities before changes in operating assets and liabilities	183,182	186,933	112,073	140,077
	(Increases)/decreases in operating assets	(314,419)	(438,084)	(168,219)	(241,185)
	Net (increase)/decrease in trading assets	(843)	(12,565)	(843)	(12,565)
	Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	(14,585)	22,940	(14,559)	19,850
	Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(172,825)	(146,663)	(166,394)	(51,551)
	Net (increase)/decrease in loans and receivables measured at amortised cost	(126,752)	(309,188)	13,786	(196,625)
	Net (increase)/decrease in other assets	586	7,392	(209)	(294)
	Increases/(decreases) in operating liabilities	834,856	526,965	693,067	286,552
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	834,524	526,034	693,227	285,207
	Net increase/(decrease) in other liabilities	332	931	(160)	1,345
	Net cash flows from operating activities	703,619	275,814	636,921	185,444
CASH FLOWS FROM INVESTING ACTIVITIES					
	Receipts from investing activities	424,709	169,071	385,558	160,372
	Proceeds from sale of property, equipment, and investment property	2,394	1,770	87	7
	Proceeds from sale of subsidiaries	-	8	-	3,437
	Proceeds from non-current assets held for sale	39,078	269	39,078	269
	Proceeds from disposals of debt securities measured at amortised cost	383,237	167,024	346,393	156,659
	Payments from investing activities	(262,724)	(440,061)	(174,675)	(403,384)
	Purchase of property, equipment, and investment property	(18,783)	(13,075)	(8,624)	(7,891)
	Purchase of intangible assets	(11,292)	(11,354)	(8,650)	(8,006)
	Purchase of subsidiaries and increase in subsidiaries' equity	-	-	(3,010)	(4)
	Purchase of debt securities measured at amortised cost	(232,649)	(415,632)	(154,391)	(387,483)
	Net cash flows from investing activities	161,985	(270,990)	210,883	(243,012)
CASH FLOWS FROM FINANCING ACTIVITIES					
	Proceeds from financing activities	119,222	89,595	119,222	89,595
	Issue of subordinated debt	119,222	89,595	119,222	89,595
	Payments from financing activities	(45,000)	(162,085)	(45,000)	(142,600)
	Dividends paid	-	(147,089)	-	(142,600)
	Repayments of subordinated debt	(45,000)	(14,996)	(45,000)	-
	Net cash flows from financing activities	74,222	(72,490)	74,222	(53,005)
	Effects of exchange rate changes on cash and cash equivalents	(5,078)	3,432	(1,965)	1,006
	Net increase/(decrease) in cash and cash equivalents	939,826	(67,666)	922,026	(110,573)
	Cash and cash equivalents at beginning of period	2,263,267	1,729,093	1,308,122	824,337
	Cash and cash equivalents at end of period	3,198,015	1,664,859	2,228,183	714,770

		in EUR thousands				
		NLB Group		NLB		
		30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	
Notes		unaudited	audited	unaudited	audited	
Cash and cash equivalents comprise:						
	Cash, cash balances at central banks, and other demand deposits at banks	5.1.	3,011,686	2,101,871	2,179,550	1,292,345
	Loans and advances to banks with original maturity up to 3 months		128,225	85,369	18,628	5,770
	Debt securities measured at amortised cost with original maturity up to 3 months		-	10,007	-	10,007
	Debt securities measured at fair value through other comprehensive income with original maturity up to 3 months		58,104	66,020	30,005	-
	Total		3,198,015	2,263,267	2,228,183	1,308,122

Notes to the condensed interim financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB') is a Slovenian joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in nine countries. Information on the NLB Group's structure is disclosed in note 8. Information on other related party relationships of NLB Group is provided in note 7.

NLB is incorporated and domiciled in Slovenia. The address of its registered office is Trg Republike 2, Ljubljana. NLB's shares are listed on the Ljubljana Stock Exchange and the global depositary receipts ('GDR'), representing ordinary shares of NLB, are listed on the London Stock Exchange. Five GDRs represent one share of NLB.

As at 30 September 2020 and as at 31 December 2019, the largest shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share.

All amounts in the condensed interim financial statements and in the notes to the condensed interim financial statements are expressed in thousands of euros unless otherwise stated.

2. Summary of significant accounting policies

2.1. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 'Interim financial reporting' and should be read in conjunction with the annual financial statements of NLB Group and NLB for the year ended 31 December 2019, which have been prepared in accordance with the International Financial Reporting Standards (hereinafter: 'IFRS') as adopted by the European Union.

2.2. Accounting policies

The same accounting policies and methods of computation were followed in the preparation of these consolidated condensed interim financial statements as for the year ended 31 December 2019, except for accounting standards and other amendments effective for annual periods beginning on 1 January 2020 that were endorsed by the EU and were not early adopted by the NLB Group already in year 2019.

Accounting standards and amendments to existing standards that were endorsed by the EU and adopted by NLB Group from 1 January 2020

- IAS 1 and IAS 8 (amendment) – 'Definition of Material' (effective for annual periods beginning on or after 1 January 2020);
- 'Amendments to References to the Conceptual Framework in IFRS Standards' (effective for annual periods beginning on or after 1 January 2020);
- IFRS 3 (amendment) – 'Business Combinations' (effective for annual periods beginning on or after 1 January 2020).

Accounting standards and amendments to existing standards issued but not endorsed by the EU

- IFRS 17 (new standard) – ‘Insurance Contracts’ including Amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- IAS 1 (amendment and deferral of effective date) – ‘Presentation of Financial Statements: Classification of Liabilities as Current or Non-current’ (effective for annual periods beginning on or after 1 January 2023);
- IFRS 16 (amendment) – ‘Leases COVID-19-Related Rent Concessions’ (effective for annual periods beginning on or after 1 June 2020);
- IFRS 3 (amendment) – ‘Business Combinations’ (effective for annual periods beginning on or after 1 January 2022);
- IAS 16 (amendment) – ‘Property, Plant and Equipment’ (effective for annual periods beginning on or after 1 January 2022);
- IAS 37 (amendment) – ‘Provisions, Contingent Liabilities and Contingent Assets’ (effective for annual periods beginning on or after 1 January 2022);
- Annual Improvements (amendments) 2018-2022 (effective for annual periods beginning on or after 1 January 2022);
- IFRS 4 (amendment) – ‘Insurance Contracts’ – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2021);
- IFRS 9 (amendment), IAS 39 (amendment), IFRS 7 (amendment), IFRS 4 (amendment) and IFRS 16 (amendment) – ‘Interest Rate Benchmark Reform – Phase 2’ (effective for annual periods beginning on or after 1 January 2021).

2.3. Comparative amounts

Compared to the presentation of the financial statements for the year ended 31 December 2019, the schemes for presentation of the Income Statement changed due to changed schemes prescribed by the Bank of Slovenia. Comparative amounts have been adjusted to reflect these changes in presentation.

	in EUR thousands					
	NLB Group			NLB		
	nine months ended			nine months ended		
	September 2019			September 2019		
	Old presentation	Current presentation	Change	Old presentation	Current presentation	Change
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	-	(111)	(111)	-	(1)	(1)
Gains less losses from non-current assets held for sale	(237)	(126)	111	(129)	(128)	1
Cash contributions to resolution funds and deposit guarantee schemes	-	(13,809)	(13,809)	-	(7,034)	(7,034)
Other net operating income	(10,690)	5,759	16,449	(4,958)	3,058	8,016
Administrative expenses	(191,064)	(193,704)	(2,640)	(119,153)	(120,135)	(982)

The effects from derecognition of investments in subsidiaries, associates and joint ventures (outside the scope of IFRS 5 measurement requirements) are included in the income statement as a separate item; before changing the schemes, effects were disclosed under the item titled ‘Net gains or losses from non-current assets held for sale.’

Costs associated with cash contributions to resolution funds and deposit guarantee schemes are included in the income statement as a separate item; before changing the schemes, those costs were included under the item ‘Other operating expenses.’

Expenses related to taxes, compulsory public levies, membership fees and similar fees are recognized under the item 'Administrative expenses'; before changing those expenses were disclosed under the item 'Other operating expenses.'

'Other operating income' and 'Other operating expenses' are included under the item 'Other net operating income'; before changing the schemes, those items were reported on a separate line item in the income statement.

2.4. Critical accounting estimates and judgements in applying accounting policies

Due to worsened macroeconomic environment caused by COVID-19 epidemic, NLB Group reviewed its critical accounting estimates and judgments in areas, that could be negatively affected by the epidemic, especially loan portfolio, asset quality, impairment and provisions, fair value measurement of financial assets and taxes.

a) Allowances for expected credit losses on loans and advances

Cost of risk in nine months ended 30 September 2020 increased due to the impact of worsened macroeconomic environment.

The macroeconomic scenarios used by the NLB Group for IFRS 9 are based on existing Group's stress testing framework. Scenarios under the Stress testing framework are regularly presented, challenged and discussed by the Capital Management Group (CMG), Liquidity Management Group (LMG), respective Committees (ALCO, RICO and OpRisk Committee) and Management Board. Scenarios and statistical models are the same for all NLB Group members, local specifics for subsidiaries are captured by the process of scenarios results calibration.

The IFRS 9 scenario framework is based on institutional forecasts (IMAD, EC, IMF, ECB), from which three forward looking scenarios of macroeconomic development are created (i.e. baseline, optimistic and adverse scenario). The probability-weighted expected scenario is used as a base for IFRS 9 expected credit losses calculations. Currently, NLB Group applies GDP growth rates for probability of default (PD) estimates and House prices growth for loss given default (LGD) forward looking projections.

In the situation of the COVID-19 crisis NLB Group kept up with the latest institutional projections that had kept changing throughout H1 2020. Due to the extraordinary state of the COVID-19-ridden global economy the early official forecasts were discarded in favour of the ECB June 2020 projections which were deemed more realistic. We use ECB baseline, mild and severe scenarios for Slovenia for the initial period ranging from 2020 to 2022. For the two-year period from 2023 to 2024 we resort to our normal pre-COVID-19 methodology and use IMF projections. The latter represent the baseline scenario. We use our internally developed deviations from the baseline to obtain the adverse and optimistic scenarios. Real estate price growth is estimated on the basis of an internal econometric model, using GDP forecasts as an explanatory variable.

Macroeconomic scenarios for Risk parameters explanatory variables:

Risk parameter	Scenario	Scenario weight*	GDP percentage growth 5Y projection				
			2020	2021	2022	2023	2024
PD	Baseline	60%	-6.50	4.90	3.60	2.80	2.50
	Optimistic	20%	-3.90	6.70	4.60	2.88	2.58
	Adverse	20%	-10.00	0.40	4.00	2.33	1.76
	Weighted average	-	-6.68	5.31	3.88	2.67	2.37

Risk parameter	Scenario	Scenario weight*	House prices growth 5Y projection				
			2020	2021	2022	2023	2024
LGD**	Weighted average	-	-5.20	10.90	8.99	7.36	6.96

* Scenario weights change to 60% - 35% - 5% in year 2021 and return to the original weight partitioning in the following years.

** Weighted average GDP scenario was used in internal econometric model for House prices growth forecasting.

Effects of changed risk parameters on the amount of expected credit losses are disclosed in notes 5.10. and 5.12.b).

b) Fair value of financial instruments

The volatility of prices on various markets has increased as a result of the spread of COVID-19. Therefore NLB Group decided to sell some securities with increased credit spreads as part of its strategy to manage credit risk. Most of these securities were classified as measured at fair value through other comprehensive income (EUR 227,307 thousand at NLB Group and EUR 204,487 thousand at NLB), while EUR 120,131 thousand of sold securities were measured at amortised cost. Total realised gains due to sales of securities amount to EUR 17,686 thousand at NLB Group and EUR 17,100 thousand at NLB (Note 4.4).

Due to increased frequency and values of sales of securities measured at amortised cost, NLB Group reassessed whether there has been a change in its business model for managing financial assets. Sales were made due to an increase in the assets' credit risk and are therefore consistent with a held to collect business model because the credit quality of financial assets is relevant to NLB Group's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such model.

Furthermore, the sales were made as a response to COVID-19 situation and increased volume of sales is not expected to persist. It is expected, that future sales volumes will be lower in frequency and value. Therefore no change in business model has been made.

Fair value of financial instruments is disclosed in note 5.19.

c) Impairment of investments in subsidiaries, associates and joint ventures

NLB usually performs impairment test for investments in subsidiaries, associates and joint ventures in last quarter of the year, but given the impact that COVID-19 could have on the activities of one or more Group members, the test was performed already in the second quarter and will be repeated at the end of the year. This process is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. This uncertainty significantly increases in times of epidemic.

The review of impairment represents management's best estimate of the facts and assumptions such as:

- Estimated cash flows are based on a five-year business plan, adjusted for expected effects of COVID-19;
- The growth rate in cash flows for the period following the adopted business plan is between 2.9% and 4.4%.
- The target capital adequacy ratio of an individual bank is between 14% and 18%.
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 11.11% and 15.98% (31 December 2019: between 9.66% and 15.81%).

After performing the impairment test, no impairments of investments were needed.

d) Taxes

Recognised deferred tax assets are based on profit forecasts and take the expected manner of recovery of the assets into account. NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e., within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), a lower range of expected outcomes was considered for purposes of deferred tax assets calculation as of 31 December 2019. Therefore no decrease of the amount of deferred tax assets is needed as of 30 September 2020, even taking into account the effect of COVID-19.

3. Changes in NLB Group

Nine months ended 30 September 2020

Capital changes:

There were no capital changes in nine months ended 30 September 2020.

Other changes:

- In April 2020, NLB established nonfinancial cultural heritage institute named NLB Zavod za upravljanje kulturne dediščine, Ljubljana.
- In May 2020, NLB established financial company named NLB Lease&Go, leasing, d.o.o., Ljubljana.
- In May 2020, all the suspensive conditions under the joint NLB and KBC Insurance NV sale agreement signed in December 2019 where met, therefore the sale of NLB`s 50% stake in the share capital of NLB Vita was completed (note 4.13.).

Changes in 2019

Capital changes:

- In January 2019, decrease of share capital in the amount of EUR 3,324 thousand was registered in NLB Leasing d.o.o. Sarajevo. From March 2019 the company is formally in liquidation.
- An increase in share capital in the form of a cash contribution in the amount of EUR 1,740 thousand in REAM d.o.o., Podgorica to ensure regular business operations.

Other changes:

- In January 2019, REAM d.o.o., Belgrade merged with SR-RE d.o.o., Belgrade. In April 2019, SR-RE d.o.o., Belgrade was renamed REAM d.o.o., Belgrade.
- From 1 January 2019 NLB Srbija d.o.o., Belgrade and NLB Crna Gora d.o.o., Podgorica were transferred from core to non-core members.
- In June 2019, Prospera plus d.o.o., Ljubljana – v likvidaciji and NLB Interfinanz Praha s.r.o., Prague – vo likvidaci were liquidated. In accordance with a court order, companies were removed from the court register.
- In June 2019, NLB sold its subsidiary CBS Invest d.o.o., Sarajevo.
- In December 2019 NLB and KBC Insurance NV, in a joint process, agreed to sell their respective stakes in the life insurance NLB Vita. As the sale is expected to qualify for recognition as a completed sale within one year from the end of the reporting period, investment in joint venture NLB Vita has been transferred from line 'Investments in associates and joint ventures' into line 'Non-current assets held for sale.'

4. Notes to the condensed income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Interest and similar income										
<i>Interest income, using the effective interest method</i>	86,879	89,545	260,239	267,187	-3%	41,297	43,889	125,255	131,206	-5%
Loans and advances to customers at amortised cost	78,536	78,150	233,948	232,430	1%	34,643	35,222	104,726	105,526	-1%
Securities measured at amortised cost	3,739	5,796	12,384	17,492	-29%	2,886	4,743	9,807	14,424	-32%
Financial assets measured at fair value through other comprehensive income	4,533	5,084	13,371	15,552	-14%	2,770	2,820	7,748	8,782	-12%
Loans and advances to banks measured at amortised cost	53	337	348	1,007	-65%	992	1,004	2,895	2,100	38%
Deposits with banks and central banks	18	178	188	706	-73%	6	100	79	374	-79%
<i>Interest income, not using the effective interest method</i>	1,737	1,856	5,626	5,544	1%	1,696	1,799	5,573	5,479	2%
Financial assets held for trading	1,173	1,560	4,211	4,583	-8%	1,173	1,560	4,211	4,583	-8%
Non-trading financial assets mandatorily at fair value through profit or loss	564	296	1,415	961	47%	523	239	1,362	896	52%
Total	88,616	91,401	265,865	272,731	-3%	42,993	45,688	130,828	136,685	-4%
Interest and similar expenses										
Due to customers	5,055	5,807	15,800	17,326	-9%	956	1,091	2,892	3,238	-11%
Financial liabilities held for trading	1,090	1,294	3,670	3,841	-4%	1,090	1,294	3,670	3,841	-4%
Derivatives - hedge accounting	2,327	2,334	6,976	6,571	6%	2,327	2,334	6,976	6,571	6%
Borrowings from banks and central banks	213	340	680	1,032	-34%	186	279	594	885	-33%
Borrowings from other customers	224	223	695	716	-4%	-	-	-	-	-
Subordinated liabilities	2,664	537	7,372	1,272	-	2,664	537	7,372	827	-
Negative interest	2,507	862	5,810	2,568	126%	2,184	638	4,888	1,943	152%
Interest expense on defined employee benefits	25	61	72	173	-58%	8	34	22	101	-78%
Deposits from banks and central banks	8	89	69	141	-51%	3	82	24	253	-91%
Lease liabilities	68	93	224	287	-22%	9	11	28	28	0%
Other financial liabilities	3	7	8	12	-33%	1	9	5	11	-55%
Total	14,184	11,647	41,366	33,939	22%	9,428	6,309	26,471	17,698	50%
Net interest income	74,432	79,754	224,499	238,792	-6%	33,565	39,379	104,357	118,987	-12%

4.2. Dividend income

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Financial assets measured at fair value through other comprehensive income	7	4	80	104	-23%	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	49	1,275	49	68,353	-100%
Investments in associates, and joint ventures	-	-	-	-	-	670	-	670	2,871	-76%
Non-trading financial assets mandatorily at fair value through profit or loss	7	7	24	87	-72%	7	7	24	87	-72%
Total	14	11	104	191	-46%	726	1,282	743	71,221	-99%

4.3. Fee and commission income and expenses

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Fee and commission income										
<i>Fee and commission income relating to financial instruments not at fair value through profit or loss</i>										
Credit cards and ATMs	17,594	19,321	47,696	51,660	-8%	10,024	10,523	27,290	29,478	-7%
Customer transaction accounts	16,625	15,714	48,728	44,641	9%	12,375	11,732	36,386	33,603	8%
<i>Other fee and commission income</i>										
Payments	13,115	13,689	37,189	40,327	-9%	5,424	5,713	15,639	17,614	-11%
Investment funds	4,956	4,658	14,091	12,847	10%	1,724	1,403	4,753	3,945	20%
Guarantees	2,938	2,838	8,651	8,318	4%	1,830	1,794	5,328	5,352	0%
Investment banking	2,798	2,504	7,560	6,678	13%	2,484	2,149	6,491	5,745	13%
Agency of insurance products	1,675	1,514	4,601	4,876	-6%	1,410	1,139	3,699	3,757	-2%
Other services	917	1,684	3,202	4,373	-27%	657	1,342	2,283	3,283	-30%
Total	60,618	61,922	171,718	173,720	-1%	35,928	35,795	101,869	102,777	-1%
Fee and commission expenses										
<i>Fee and commission expenses relating to financial instruments not at fair value through profit or loss</i>										
Credit cards and ATMs	12,647	13,350	35,409	35,972	-2%	7,178	7,451	20,085	20,621	-3%
<i>Other fee and commission expenses</i>										
Payments	1,649	1,893	4,399	4,915	-10%	228	308	661	737	-10%
Insurance for holders of personal accounts and golden cards	292	167	765	761	1%	155	119	564	613	-8%
Investment banking	1,351	1,170	3,682	3,268	13%	885	771	2,411	2,190	10%
Guarantees	418	31	509	92	-	398	6	454	14	-
Other services	577	664	1,816	1,855	-2%	218	181	560	536	4%
Total	16,934	17,275	46,580	46,863	-1%	9,062	8,836	24,735	24,711	0%
Net fee and commission income	43,684	44,647	125,138	126,857	-1%	26,866	26,959	77,134	78,066	-1%

4.4. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss

in EUR thousands

	NLB Group				NLB			
	three months ended		nine months ended		three months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Debt instruments measured at fair value through other comprehensive income	472	600	4,937	3,640	-	510	4,351	3,525
Debt instruments measured at amortised cost	-	116	12,749	116	-	116	12,749	116
Financial liabilities measured at amortised cost	-	-	(126)	-	-	-	(126)	-
Total	472	716	17,560	3,756	-	626	16,974	3,641

4.5. Gains less losses from financial assets and liabilities held for trading

in EUR thousands

	NLB Group				NLB			
	three months ended		nine months ended		three months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Foreign exchange trading	2,249	3,187	7,570	8,422	1,140	1,454	3,247	3,544
Debt securities	28	(166)	281	203	28	(166)	281	203
Derivatives	(19)	(473)	(636)	(1,355)	578	(885)	22	(1,861)
Total	2,258	2,548	7,215	7,270	1,746	403	3,550	1,886

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group				NLB			
	three months ended		nine months ended		three months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Equity securities	1,236	159	847	7,452	1,236	88	1,289	6,999
Debt securities	(2)	(24)	(29)	(50)	-	-	-	-
Loans and advances to customers	791	1,186	3,649	8,927	829	1,053	3,856	8,204
Total	2,025	1,321	4,467	16,329	2,065	1,141	5,145	15,203

4.7. Other net operating income

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Other operating income										
Income from non-banking services	1,710	1,634	4,673	4,971	-6%	1,511	1,504	4,163	4,270	-3%
Rental income from investment property	644	1,012	1,961	3,341	-41%	123	174	354	514	-31%
Revaluation of investment property to fair value	496	-	884	41	-	496	-	884	11	-
Other operating income	490	449	1,638	3,590	-54%	411	270	889	1,334	-33%
Total	3,340	3,095	9,156	11,943	-23%	2,541	1,948	6,290	6,129	3%
Other operating expenses										
Revaluation of investment property to fair value	85	7	112	188	-40%	81	-	87	-	-
Other operating expenses	1,362	2,820	2,982	5,996	-50%	1,489	2,282	1,960	3,071	-36%
Total	1,447	2,827	3,094	6,184	-50%	1,570	2,282	2,047	3,071	-33%
Other net operating income	1,893	268	6,062	5,759	5%	971	(334)	4,243	3,058	39%

4.8. Administrative expenses

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Employee costs	40,172	41,775	122,911	123,192	0%	25,108	26,251	77,178	77,416	0%
Other general and administrative expenses	23,450	24,243	69,627	70,512	-1%	14,382	15,207	42,979	42,719	1%
Total	63,622	66,018	192,538	193,704	-1%	39,490	41,458	120,157	120,135	0%

4.9. Cash contributions to resolution funds and deposit guarantee schemes

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Cash contributions to deposit guarantee schemes	2,375	2,317	12,574	11,759	7%	-	-	5,451	4,984	9%
Cash contributions to resolution funds	-	-	1,652	2,050	-19%	-	-	1,652	2,050	-19%
Total	2,375	2,317	14,226	13,809	3%	-	-	7,103	7,034	1%

4.10. Depreciation and amortisation

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Amortisation of intangible assets	2,409	2,562	7,768	7,573	3%	1,636	1,861	5,346	5,480	-2%
Depreciation of property and equipment:										
- own property and equipment	4,281	4,197	12,537	12,306	2%	2,512	2,608	7,542	7,367	2%
- right-of-use assets	1,136	1,167	3,425	3,434	0%	206	203	625	563	11%
Total	7,826	7,926	23,730	23,313	2%	4,354	4,672	13,513	13,410	1%

4.11. Provisions

in EUR thousands

	NLB Group				NLB			
	three months ended		nine months ended		three months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Guarantees and commitments (note 5.12.b)	565	238	2,591	2,158	328	310	1,964	2,210
Restructuring provisions	-	23	-	23	-	-	-	-
Provisions for legal risks	481	781	873	4,557	-	-	476	(6)
Other provisions	31	65	(35)	65	-	-	-	-
Total	1,077	1,107	3,429	6,803	328	310	2,440	2,204

4.12. Impairment charge

in EUR thousands

	NLB Group				NLB			
	three months ended		nine months ended		three months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Impairment of financial assets								
Cash balances at central banks, and other demand deposits at banks	16	36	242	(39)	(5)	(5)	117	(19)
Loans and advances to customers measured at amortised cost (note 5.10.a)	14,273	(16,629)	43,553	(19,618)	1,268	(14,564)	14,174	(18,153)
Loans and advances to banks measured at amortised cost (note 5.10.a)	10	(18)	18	(36)	(31)	17	16	66
Debt securities measured at fair value through other comprehensive income (note 5.10.b)	725	208	698	1,151	795	(17)	690	237
Debt securities measured at amortised cost (note 5.10.b)	22	(79)	291	245	289	62	215	316
Other financial assets measured at amortised cost (note 5.10.a)	650	(110)	1,661	506	122	144	405	464
Total	15,696	(16,592)	46,463	(17,791)	2,438	(14,363)	15,617	(17,089)
Impairment of investments in subsidiaries, associates and joint ventures								
Investments in subsidiaries	-	-	-	-	-	-	-	(3,433)
Total	-	-	-	-	-	-	-	(3,433)
Impairment of other assets								
Property and equipment	16	123	16	120	-	-	-	-
Other assets	203	139	314	1,134	(76)	47	(76)	47
Total	219	262	330	1,254	(76)	47	(76)	47
Total impairment	15,915	(16,330)	46,793	(16,537)	2,362	(14,316)	15,541	(20,475)

4.13. Gains less losses from non-current assets held for sale

in EUR thousands

	NLB Group				NLB			
	three months ended		nine months ended		three months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Gains less losses on derecognition of subsidiaries, associates and joint ventures	-	-	11,006	-	-	-	35,454	-
Gains less losses from property and equipment	(152)	-	(154)	(126)	(218)	-	(220)	(128)
Total	(152)	-	10,852	(126)	(218)	-	35,234	(128)

In May 2020, all the suspensive conditions under the joint NLB and KBC Insurance NV sale agreement signed in December 2019 where met, therefore the sale of NLB's 50% stake in the share capital of NLB Vita was completed. Effect of sale is included in the segment "Retail banking in Slovenia".

4.14. Income tax

in EUR thousands

	NLB Group					NLB				
	three months ended		nine months ended		Change	three months ended		nine months ended		Change
	September 2020	September 2019	September 2020	September 2019		September 2020	September 2019	September 2020	September 2019	
Current income tax	4,058	5,119	9,636	17,888	-46%	1,422	1,967	2,774	9,470	-71%
Deferred tax (note 5.13.)	(645)	(4,220)	(711)	(2,104)	66%	(188)	(4,524)	(228)	(2,149)	89%
Total	3,413	899	8,925	15,784	-43%	1,234	(2,557)	2,546	7,321	-65%

5. Notes to the condensed statement of financial position

5.1. Cash, cash balances at central banks and other demand deposits at banks

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Balances and obligatory reserves with central banks	2,472,399	1,569,753	58%	1,931,313	1,044,255	85%
Cash	337,562	339,897	-1%	165,727	164,725	1%
Demand deposits at banks	201,725	192,221	5%	82,510	83,365	-1%
	3,011,686	2,101,871	43%	2,179,550	1,292,345	69%
Allowance for impairment	(757)	(525)	-44%	(251)	(134)	-87%
Total	3,010,929	2,101,346	43%	2,179,299	1,292,211	69%

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Derivatives, excluding hedging instruments						
Swap contracts	14,895	18,169	-18%	15,073	18,216	-17%
Options	726	810	-10%	726	810	-10%
Forward contracts	1,173	734	60%	1,171	734	60%
Total derivatives	16,794	19,713	-15%	16,970	19,760	-14%
Securities						
Bonds	-	4,325	-	-	4,325	-
Total securities	-	4,325	-	-	4,325	-
Total	16,794	24,038	-30%	16,970	24,085	-30%

b) Trading liabilities

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Derivatives, excluding hedging instruments						
Swap contracts	14,724	17,238	-15%	14,727	17,238	-15%
Options	4	3	33%	4	3	33%
Forward contracts	1,142	662	73%	1,142	651	75%
Total	15,870	17,903	-11%	15,873	17,892	-11%

5.3. Non-trading financial instruments measured at fair value through profit or loss

Financial instruments mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Assets						
Shares	4,003	3,167	26%	4,003	2,716	47%
Investments funds	5,028	5,475	-8%	-	-	-
Bonds	2,169	1,756	24%	-	-	-
Loans and advances to companies	25,697	14,961	72%	31,368	20,571	52%
Total	36,897	25,359	45%	35,371	23,287	52%
Liabilities						
Loans and advances to companies	-	7,998	-	-	7,746	-

5.4. Financial assets measured at fair value through other comprehensive income

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Bonds	1,932,354	1,913,623	1%	1,573,656	1,509,559	4%
Shares	1,679	4,936	-66%	273	259	5%
National Resolution Fund	44,797	44,687	0%	44,797	44,687	0%
Treasury bills	243,057	112,162	117%	214,444	102,152	110%
Commercial bills	56,101	66,020	-15%	-	-	-
Total	2,277,988	2,141,428	6%	1,833,170	1,656,657	11%
Allowance for impairment (note 5.10.b)	(6,299)	(5,597)	-13%	(3,200)	(2,512)	-27%

5.5. Financial assets measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Debt securities	1,477,799	1,653,848	-11%	1,269,283	1,485,166	-15%
Loans and advances to banks	112,539	93,403	20%	187,822	144,352	30%
Loans and advances to customers	7,723,320	7,589,724	2%	4,522,605	4,568,599	-1%
Other financial assets	88,836	97,415	-9%	58,938	67,279	-12%
Total	9,402,494	9,434,390	0%	6,038,648	6,265,396	-4%

a) Debt securities

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Government	1,140,352	1,285,540	-11%	930,244	1,115,335	-17%
Companies	79,643	81,350	-2%	79,643	81,350	-2%
Banks	235,958	264,323	-11%	235,958	264,323	-11%
Financial organisations	25,270	25,775	-2%	25,270	25,775	-2%
	1,481,223	1,656,988	-11%	1,271,115	1,486,783	-15%
Allowance for impairment (note 5.10.b)	(3,424)	(3,140)	-9%	(1,832)	(1,617)	-13%
Total	1,477,799	1,653,848	-11%	1,269,283	1,485,166	-15%

b) Loans and advances to banks

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Loans	1,932	2,213	-13%	98,590	81,633	21%
Time deposits	109,739	91,076	20%	88,408	62,651	41%
Purchased receivables	981	209	-	981	209	-
	112,652	93,498	20%	187,979	144,493	30%
Allowance for impairment (note 5.10.a)	(113)	(95)	-19%	(157)	(141)	-11%
Total	112,539	93,403	20%	187,822	144,352	30%

c) Loans and advances to customers

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Loans	7,580,965	7,408,374	2%	4,432,702	4,446,843	0%
Overdrafts	325,377	328,947	-1%	167,874	179,381	-6%
Finance lease receivables	48,110	49,017	-2%	-	-	-
Credit card business	112,797	122,730	-8%	51,018	60,688	-16%
Called guarantees	2,666	3,100	-14%	532	452	18%
	8,069,915	7,912,168	2%	4,652,126	4,687,364	-1%
Allowance for impairment (note 5.10.a)	(346,595)	(322,444)	-7%	(129,521)	(118,765)	-9%
Total	7,723,320	7,589,724	2%	4,522,605	4,568,599	-1%

d) Other financial assets

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Receivables in the course of collection and other temporary accounts	18,835	28,697	-34%	15,943	25,825	-38%
Credit card receivables	13,730	18,497	-26%	10,463	12,194	-14%
Debtors	4,213	6,360	-34%	590	1,525	-61%
Fees and commissions	5,730	5,315	8%	1,674	3,524	-52%
Receivables to brokerage firms and others for the sale of securities and custody services	609	612	0%	5,736	610	-
Prepayments	79	38	108%	-	-	-
Accrued income	2,175	515	-	3,040	529	-
Dividends	-	46	-	-	46	-
Other financial assets	48,575	42,241	15%	23,058	24,867	-7%
	93,946	102,321	-8%	60,504	69,120	-12%
Allowance for impairment (note 5.10.a)	(5,110)	(4,906)	-4%	(1,566)	(1,841)	15%
Total	88,836	97,415	-9%	58,938	67,279	-12%

5.6. Non-current assets held for sale

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Property and equipment	5,960	4,308	38%	3,719	2,123	75%
Investment in joint venture	-	38,883	-	-	3,409	-
Total	5,960	43,191	-86%	3,719	5,532	-33%

5.7. Property and equipment

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Own property and equipment	171,445	179,060	-4%	82,296	87,120	-6%
Right-of-use assets	14,980	16,545	-9%	2,983	2,784	7%
Total	186,425	195,605	-5%	85,279	89,904	-5%

5.8. Investment property

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Buildings	48,708	47,333	3%	9,774	8,692	12%
Land	4,897	4,983	-2%	557	611	-9%
Total	53,605	52,316	2%	10,331	9,303	11%

5.9. Other assets

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Assets, received as collateral	47,281	51,322	-8%	5,105	5,292	-4%
Inventories	3,881	2,513	54%	180	378	-52%
Deferred expenses	7,241	6,005	21%	5,107	4,935	3%
Prepayments	2,481	1,950	27%	434	102	-
Claim for taxes and other dues	2,044	2,021	1%	306	435	-30%
Total	62,928	63,811	-1%	11,132	11,142	0%

5.10. Movements in allowance for the impairment of financial assets

a) Movements in allowance for the impairment of loans and receivables measured at amortised cost

in EUR thousands

	NLB Group						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	95	56,728	33,179	232,537	177	27	4,702
Effects of translation of foreign operations to presentation currency	-	(100)	(34)	(58)	(2)	(8)	-
Transfers	-	10,887	(14,120)	3,233	(3)	(3)	6
Increases/(Decreases) (note 4.12.)	33	(1,937)	11,142	25,294	99	(135)	1,675
Write-offs	-	(6)	(6)	(28,532)	(17)	(4)	(1,890)
Changes in models/risk parameters (note 4.12.)	(15)	1,307	15,259	1,787	(21)	166	16
Foreign exchange and other movements	-	1	5	29	(1)	-	326
Balance as at 30 Sep 2020	113	66,880	45,425	234,290	232	43	4,835
Repayments of written-off receivables (note 4.12.)	-	-	-	9,299	-	-	139

in EUR thousands

	NLB Group						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	126	41,452	35,537	376,578	182	58	7,956
Effects of translation of foreign operations to presentation currency	-	31	12	1,115	(2)	(1)	29
Transfers	-	14,879	(3,835)	(11,044)	8	(34)	26
Increases/(Decreases) (note 4.12.)	(25)	(3,792)	(223)	(6,290)	(7)	5	510
Write-offs	-	(196)	(22)	(48,561)	(2)	-	(1,181)
Changes in models/risk parameters (note 4.12.)	(11)	(2,694)	4,692	(656)	(7)	11	8
Foreign exchange and other movements	-	18	2	53	-	-	38
Disposals of subsidiaries	-	-	-	-	-	-	(2,020)
Balance as at 30 Sep 2019	90	49,698	36,163	311,195	172	39	5,366
Repayments of written-off receivables (note 4.12.)	-	-	-	10,655	-	-	14

in EUR thousands

	NLB						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	141	20,724	11,188	86,853	55	9	1,777
Transfers	-	7,227	(6,518)	(709)	-	1	(1)
Increases/(Decreases) (note 4.12.)	34	(4,895)	3,514	6,615	43	(7)	396
Write-offs	-	(6)	(6)	(6,820)	(1)	-	(680)
Changes in models/risk parameters (note 4.12.)	(18)	5,484	7,416	(484)	(25)	1	(2)
Foreign exchange and other movements	-	(11)	(1)	(50)	-	-	-
Balance as at 30 Sep 2020	157	28,523	15,593	85,405	72	4	1,490
Repayments of written-off receivables (note 4.12.)	-	-	-	3,476	-	-	1

in EUR thousands

	NLB						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	77	16,789	12,660	173,110	27	6	1,855
Transfers	-	3,372	5,929	(9,301)	12	(1)	(11)
Increases/(Decreases) (note 4.12.)	66	(341)	(7,147)	(4,429)	48	(4)	443
Write-offs	-	(4)	(19)	(23,601)	(2)	-	(450)
Changes in models/risk parameters (note 4.12.)	-	(395)	2,034	(684)	(8)	1	(2)
Foreign exchange and other movements	-	30	2	18	-	-	2
Balance as at 30 Sep 2019	143	19,451	13,459	135,113	77	2	1,837
Repayments of written-off receivables (note 4.12.)	-	-	-	7,191	-	-	14

b) Movements in allowance for the impairment of debt securities

in EUR thousands

	NLB Group			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	3,140	4,757	42	798
Effects of translation of foreign operations to presentation currency	(7)	5	1	-
Increases/(Decreases) (note 4.12.)	87	965	(5)	-
Changes in models/risk parameters (note 4.12.)	204	(253)	(9)	-
Foreign exchange and other movements	-	(2)	-	-
Balance as at 30 Sep 2020	3,424	5,472	29	798

in EUR thousands

	NLB Group			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	2,898	3,597	75	798
Effects of translation of foreign operations to presentation currency	2	(2)	(1)	-
Transfers	-	18	(18)	-
Increases/(Decreases) (note 4.12.)	300	1,315	14	-
Changes in models/risk parameters (note 4.12.)	(55)	(188)	10	-
Foreign exchange and other movements	-	2	-	-
Balance as at 30 Sep 2019	3,145	4,742	80	798

in EUR thousands

	NLB			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	1,617	1,714	-	798
Increases/(Decreases) (note 4.12.)	7	681	-	-
Changes in models/risk parameters (note 4.12.)	208	9	-	-
Foreign exchange and other movements	-	(2)	-	-
Balance as at 30 Sep 2020	1,832	2,402	-	798

in EUR thousands

	NLB			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	1,323	1,541	-	798
Increases/(Decreases) (note 4.12.)	365	248	-	-
Changes in models/risk parameters (note 4.12.)	(49)	(11)	-	-
Foreign exchange and other movements	-	2	-	-
Balance as at 30 Sep 2019	1,639	1,780	-	798

5.11. Financial liabilities measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Deposits from banks and central banks	49,670	42,840	16%	110,605	89,820	23%
- Deposits on demand	46,279	31,298	48%	110,605	86,366	28%
- Other deposits	3,391	11,542	-71%	-	3,454	-
Borrowings from banks and central banks	156,989	170,385	-8%	151,378	161,564	-6%
Due to customers	12,408,795	11,612,317	7%	8,405,567	7,760,737	8%
- Deposits on demand	10,438,373	9,463,888	10%	7,669,193	6,917,810	11%
- Other deposits	1,970,422	2,148,429	-8%	736,374	842,927	-13%
Borrowings from other customers	61,593	64,458	-4%	232	2,537	-91%
Subordinated liabilities	290,031	210,569	38%	290,031	210,569	38%
Other financial liabilities	174,090	158,484	10%	118,573	98,342	21%
Total	13,141,168	12,259,053	7%	9,076,386	8,323,569	9%

a) Subordinated liabilities

in EUR thousands

	Currency	Due date	Interest rate	NLB Group and NLB			
				30 Sep 2020		31 Dec 2019	
				Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated bonds	EUR	6.5.2029	4.2% to 6.5.2024, thereafter 5Y MS + 4.159% p.a.	45,381	45,000	45,826	45,000
	EUR	19.11.2029	3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a.	122,732	120,000	119,376	120,000
	EUR	5.2.2030	3.4% to 5.2.2025, thereafter 5Y MS + 3.658% p.a.	121,918	120,000	-	-
Subordinated loans	EUR	20.9.2029	3.826% to 20.9.2024, thereafter 5Y IRS + 4.21% p.a.	-	-	45,367	45,000
Total				290,031	285,000	210,569	210,000

b) Movement of subordinated liabilities

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 Jan	210,569	15,050	210,569	-
Exchange differences of opening balances	-	1	-	-
Cash flow items:	71,763	74,087	71,763	89,595
- new issued subordinated liabilities	119,222	89,595	119,222	89,595
- repayments of subordinated liabilities	(45,000)	(14,996)	(45,000)	-
- repayments of interests	(2,459)	(512)	(2,459)	-
Non-Cash flow items:	7,699	1,131	7,699	674
- accrued interest	7,573	1,244	7,573	800
- other	126	(113)	126	(126)
Balance as at 30 Sep	290,031	90,269	290,031	90,269

c) Other financial liabilities

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Items in the course of payment	40,898	24,124	70%	21,924	4,960	-
Debit or credit card payables	17,064	24,092	-29%	15,079	20,014	-25%
Lease liabilities	15,523	16,713	-7%	3,021	2,784	9%
Accrued expenses	26,146	17,848	46%	16,978	10,481	62%
Accrued salaries	16,392	13,011	26%	9,701	9,666	0%
Liabilities to brokerage firms and others for securities purchase and custody services	15,531	433	-	15,515	181	-
Suppliers	4,970	21,600	-77%	2,642	16,259	-84%
Unused annual leave	3,458	3,784	-9%	2,455	2,455	0%
Fees and commissions	125	1,736	-93%	67	1,660	-96%
Other financial liabilities	33,983	35,143	-3%	31,191	29,882	4%
Total	174,090	158,484	10%	118,573	98,342	21%

5.12. Provisions

a) Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Provisions for guarantees and commitments	42,037	39,421	7%	31,135	29,163	7%
Stage 1	16,702	12,909	29%	9,605	6,145	56%
Stage 2	3,248	2,444	33%	1,483	653	127%
Stage 3	22,087	24,068	-8%	20,047	22,365	-10%
Employee benefit provisions	18,363	17,704	4%	15,271	14,743	4%
Provisions for legal risks	15,683	16,627	-6%	2,459	2,211	11%
Restructuring provisions	13,251	14,500	-9%	12,962	14,182	-9%
Other provisions	96	162	-41%	85	85	0%
Total	89,430	88,414	1%	61,912	60,384	3%

b) Movements in provisions for guarantees and commitments

in EUR thousands

	NLB Group		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	12,909	2,444	24,068
Effects of translation of foreign operations to presentation currency	(1)	(6)	21
Transfers	571	(506)	(65)
Increases/(Decreases) (note 4.11.)	3,899	588	(1,907)
Changes in models/risk parameters (note 4.11.)	(676)	727	(40)
Foreign exchange and other movements	-	1	10
Balance as at 30 Sep 2020	16,702	3,248	22,087

in EUR thousands

	NLB Group		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	9,044	3,264	26,774
Effects of translation of foreign operations to presentation currency	4	1	(2)
Transfers	1,735	(1,227)	(508)
Increases/(Decreases) (note 4.11.)	1,546	1,095	342
Changes in models/risk parameters (note 4.11.)	(1,058)	245	(12)
Foreign exchange and other movements	(2)	2	16
Balance as at 30 Sep 2019	11,269	3,380	26,610

in EUR thousands

	NLB		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	6,145	653	22,365
Transfers	182	(83)	(99)
Increases/(Decreases) (note 4.11.)	3,053	551	(2,134)
Changes in models/risk parameters (note 4.11.)	228	363	(97)
Foreign exchange and other movements	(3)	(1)	12
Balance as at 30 Sep 2020	9,605	1,483	20,047

in EUR thousands

	NLB		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	4,071	821	24,624
Transfers	78	121	(199)
Increases/(Decreases) (note 4.11.)	1,922	215	679
Changes in models/risk parameters (note 4.11.)	(663)	65	(8)
Foreign exchange and other movements	-	1	16
Balance as at 30 Sep 2019	5,408	1,223	25,112

5.13. Deferred income tax

in EUR thousands

	NLB Group		NLB	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Deferred income tax assets				
Valuation of financial instruments and capital investments	36,969	36,286	36,904	36,244
Impairment of financial assets	1,156	910	956	784
Provisions for liabilities and charges	4,069	4,109	3,128	3,196
Depreciation and valuation of non-financial assets	1,076	1,087	151	154
Total deferred income tax assets	43,270	42,392	41,139	40,378
Deferred income tax liabilities				
Valuation of financial instruments	11,410	11,159	10,579	10,131
Depreciation and valuation of non-financial assets	1,513	1,296	194	201
Impairment of financial assets	2,836	3,270	608	477
Total deferred income tax liabilities	15,759	15,725	11,381	10,809
Net deferred income tax assets	29,824	29,500	29,758	29,569
Net deferred income tax liabilities	(2,313)	(2,833)	-	-

in EUR thousands

	NLB Group		NLB	
	nine months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019
Included in the income statement	711	2,104	228	2,149
- valuation of financial instruments and capital investments	120	2,256	120	2,256
- impairment of financial assets	858	80	172	104
- provisions for liabilities and charges	(40)	(151)	(68)	(214)
- depreciation and valuation of non-financial assets	(227)	(81)	4	3
Included in other comprehensive income	124	(3,009)	(39)	(2,928)
- valuation and impairment of financial assets measured at fair value through other comprehensive income	124	(3,009)	(39)	(2,928)

As at 30 September 2020, NLB recognised EUR 41,139 thousand deferred tax assets (31 December 2019: EUR 40,378 thousand). Unrecognised deferred tax assets amount to EUR 232,850 thousand (31 December 2019: EUR 235,693 thousand) of which EUR 176,839 thousand (31 December 2019: EUR 180,335 thousand) relates to unrecognised deferred tax assets from tax loss and EUR 56,011 thousand (31 December 2019: EUR 55,358 thousand) to unrecognised deferred tax assets from valuation of financial instruments and impairments of non-strategic capital investments.

5.14. Income tax relating to components of other comprehensive income

in EUR thousands

Nine months ended September 2020	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Valuation of financial assets measured at fair value through other comprehensive income	(8,063)	311	(7,752)	(4,946)	92	(4,854)
Impairment of debt instruments measured at fair value through other comprehensive income	696	(187)	509	688	(131)	557
Share of associates and joint ventures	(11,018)	-	(11,018)	-	-	-
Total	(18,385)	124	(18,261)	(4,258)	(39)	(4,297)

in EUR thousands

Nine months ended September 2019	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Valuation of financial assets measured at fair value through other comprehensive income	16,139	(2,940)	13,199	15,169	(2,882)	12,287
Impairment of debt instruments measured at fair value through other comprehensive income	1,153	(69)	1,084	239	(46)	193
Share of associates and joint ventures	13,431	(2,552)	10,879	-	-	-
Total	30,723	(5,561)	25,162	15,408	(2,928)	12,480

5.15. Other liabilities

in EUR thousands

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
Taxes payable	3,305	4,209	-21%	2,645	3,039	-13%
Deferred income	9,980	9,012	11%	6,187	6,142	1%
Payments received in advance	1,815	1,991	-9%	126	53	138%
Total	15,100	15,212	-1%	8,958	9,234	-3%

5.16. Book value per share

	NLB Group		NLB	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Total equity attributable to owners of the parents (in EUR thousand)	1,770,765	1,685,882	1,414,445	1,333,225
Number of shares (in thousands)	20,000	20,000	20,000	20,000
Book value per share (in EUR)	88.5	84.3	70.7	66.7

Book value per share is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares. NLB Group and NLB do not have any other equity instruments issued or treasury shares.

5.17. Capital adequacy ratio

in EUR thousands

	NLB Group		NLB	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Paid-up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	552,146	358,648	228,040	51,891
Current result	-	35,000	-	8,166
Accumulated other comprehensive income	4,632	14,364	15,988	20,285
Other reserves	13,522	13,522	13,522	13,522
Minority interest	25,556	-	-	-
Prudential filters: Additional Valuation Adjustments (AVA)	(2,322)	(2,194)	(1,870)	(1,701)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(33,926)	(36,013)	(23,659)	(25,980)
(-) Deduction item related to credit impairments and provisions not included in capital	(8,914)	-	(4,326)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,618,543	1,451,176	1,299,073	1,137,561
Minority interest	4,807	-	-	-
Additional Tier 1 capital	4,807	-	-	-
TIER 1 CAPITAL	1,623,350	1,451,176	1,299,073	1,137,561
Capital instruments and subordinated loans eligible as Tier 2 capital	284,595	44,595	284,595	44,595
Minority interest	1,678	-	-	-
TIER 2 CAPITAL	286,273	44,595	284,595	44,595
TOTAL CAPITAL	1,909,623	1,495,771	1,583,668	1,182,156
RWA for credit risk	7,374,356	7,720,232	4,350,281	4,344,829
RWA for market risks	534,563	523,050	270,426	274,025
RWA for credit valuation adjustment risk	175	663	175	663
RWA for operational risk	954,148	941,594	623,776	605,581
TOTAL RISK EXPOSURE AMOUNT (RWA)	8,863,242	9,185,539	5,244,658	5,225,098
Common Equity Tier 1 Ratio	18.3%	15.8%	24.8%	21.8%
Tier 1 Ratio	18.3%	15.8%	24.8%	21.8%
Total Capital Ratio	21.5%	16.3%	30.2%	22.6%

As at 30 September 2020, the CET1 ratio stood at 18.3% (2.5 p.p. YtD increase) and the total capital ratio for the Group stood at 21.5% (5.3 p.p. YtD increase).

The higher total capital adequacy derives from: firstly higher capital (EUR 413.9 million for NLB Group) mostly due to inclusion of all Tier 2 instruments in capital (EUR 240.0 million), inclusion of undistributed profit for the year 2019 (EUR 157.5 million) and inclusion of Minority interest in capital calculation (EUR 32.0 million); and secondly from decreased RWA (EUR -322.3 million). The RWA for credit risk decreased by EUR 345.9 million YtD, mainly due to effectiveness of MIGA guarantee for obligatory reserves in the Group banks (EUR -303.1 million in July) and due to changes in CRR regulation. CRR 'quick fix' brought more favourable treatment of SME (changes of prescribed SME supporting factor, effect EUR 168.3 million, mostly in Corporate segment) and temporary treatment of public debt issued in the currency of another Member State (effect EUR 57.4 million). At the beginning of 2020, Serbia was added to the list of third countries whose supervisory and regulatory requirements are considered equivalent to those of the EEA countries, which reduced RWA for exposures to the Serbian central government and central bank denominated in local currency by EUR 100.1 million. RWA declined also due to NLB Vita sale and due to the higher volume of expected credit losses formed on the performing portfolio due to the worse macro forecasts related with COVID-19. On the other hand, new production on corporate and retail segment resulted in RWA increase. The RWA increase for market risks and CVA (Credit value adjustments) (EUR

11.0 million YtD) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operational risks (EUR 12.6 million YtD) arose from the higher three-year average of relevant income, which represents the basis for the calculation.

In 2020, the Bank continued to strengthen and optimize the capital structure. On 5 February 2020, the Bank issued subordinated Tier 2 notes (10NC5) in the aggregate nominal amount of EUR 120 million. On 25 March 2020, the Bank obtained the ECB's permission to include them in the capital, so the subordinated notes have been included as of 31 March 2020. On 4 March 2020 the Bank also obtained the ECB's permission to include in the capital subordinated Tier 2 notes (10NC5) in the amount of EUR 120 million issued in November 2019. Now all existing subordinated Tier 2 notes in the total amount of EUR 284.6 million are included in the capital and contribute 3.1 p.p. to the total capital ratio. As of June 2020, also Non-controlling interest (Minority capital) in amount of EUR 31.7 million (EUR 32.0 million as of 30 September 2020) is included in capital, which at that time contributed 0.3 p.p. to the total capital ratio.

ECB measures adopted in 2020 in relation to COVID-19 pandemic allowed NLB Group to benefit from the lower capital requirements, while due to ECB Recommendation on dividend distributions during the COVID-19 pandemic towards European banks and the BoS macroprudential measure placing restrictions on banks and savings banks profit distribution, the dividend distributions timeline and capacity will be adjusted accordingly to reflect the implications of COVID-19.

5.18. Off-balance sheet liabilities

	NLB Group			NLB		
	30 Sep 2020	31 Dec 2019	Change	30 Sep 2020	31 Dec 2019	Change
	in EUR thousands					
Commitments to extend credit	1,544,807	1,346,012	15%	1,324,766	1,072,458	24%
Non-financial guarantees	570,038	532,861	7%	409,456	383,564	7%
Financial guarantees	411,527	383,597	7%	242,692	230,909	5%
Letters of credit	19,285	22,871	-16%	1,379	6,243	-78%
Other	9,093	8,742	4%	9,547	14,106	-32%
	2,554,750	2,294,083	11%	1,987,840	1,707,280	16%
Provisions (note 5.12.)	(42,037)	(39,421)	-7%	(31,135)	(29,163)	-7%
Total	2,512,713	2,254,662	11%	1,956,705	1,678,117	17%

Besides the instruments presented in the table above, NLB Group and NLB enter also into contracts related to guarantee lines. When the contract is signed, bank and a client agree on all conditions for issuing guarantees. Nevertheless, NLB Group can discontinue issuing guarantees if the client's conditions worsen. As at 30 September 2020 unused guarantee lines at the NLB Group level amount to EUR 305,190 thousand, and at the NLB level EUR 235,611 thousand (31 December 2019: NLB Group EUR 307,199 thousand and NLB EUR 247,485 thousand).

5.19. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible.

The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e., prices) or indirectly (i.e., derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates and the volatility of interest rates and foreign exchange rates, is Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g. share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. These techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuers. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities, measured at fair value in the financial statements

in EUR thousands

30 Sep 2020	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	-	16,071	723	16,794	-	16,247	723	16,970
Derivatives	-	16,071	723	16,794	-	16,247	723	16,970
Financial assets measured at fair value through other comprehensive income	1,987,400	289,750	838	2,277,988	1,780,524	52,372	274	1,833,170
Debt instruments	1,987,238	244,274	-	2,231,512	1,780,524	7,576	-	1,788,100
Equity instruments	162	45,476	838	46,476	-	44,796	274	45,070
Non-trading financial assets mandatorily at fair value through profit or loss	7,197	-	29,700	36,897	-	7,816	27,555	35,371
Debt instruments	2,169	-	-	2,169	-	-	-	-
Equity instruments	5,028	-	4,003	9,031	-	-	4,003	4,003
Loans	-	-	25,697	25,697	-	7,816	23,552	31,368
Financial liabilities								
Financial instruments held for trading	-	15,870	-	15,870	-	15,873	-	15,873
Derivatives	-	15,870	-	15,870	-	15,873	-	15,873
Derivatives - hedge accounting	-	61,185	-	61,185	-	61,185	-	61,185
Non-financial assets								
Investment properties	-	24,423	29,182	53,605	-	10,331	-	10,331
Non-current assets held for sale	-	5,960	-	5,960	-	3,719	-	3,719

in EUR thousands

31 Dec 2019	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	4,325	18,906	807	24,038	4,325	18,953	807	24,085
Debt instruments	4,325	-	-	4,325	4,325	-	-	4,325
Derivatives	-	18,906	807	19,713	-	18,953	807	19,760
Derivatives - hedge accounting	-	788	-	788	-	788	-	788
Financial assets measured at fair value through other comprehensive income	1,847,901	289,418	4,109	2,141,428	1,603,904	52,494	259	1,656,657
Debt instruments	1,847,739	244,066	-	2,091,805	1,603,904	7,807	-	1,611,711
Equity instruments	162	45,352	4,109	49,623	-	44,687	259	44,946
Non-trading financial assets mandatorily at fair value through profit or loss	7,682	-	17,677	25,359	-	7,516	15,771	23,287
Debt instruments	1,756	-	-	1,756	-	-	-	-
Equity instruments	5,926	-	2,716	8,642	-	-	2,716	2,716
Loans	-	-	14,961	14,961	-	7,516	13,055	20,571
Financial liabilities								
Financial instruments held for trading	-	17,903	-	17,903	-	17,892	-	17,892
Derivatives	-	17,903	-	17,903	-	17,892	-	17,892
Derivatives - hedge accounting	-	49,507	-	49,507	-	49,507	-	49,507
Financial liabilities measured at fair value through profit or loss	-	-	7,998	7,998	-	-	7,746	7,746
Non-financial assets								
Investment properties	-	23,383	28,933	52,316	-	9,303	-	9,303
Non-current assets held for sale	-	43,191	-	43,191	-	5,532	-	5,532

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

Fair value hierarchy	NLB Group					NLB		
	Equities	Equity stake	Funds	Debt securities	Loans	Equities	Currency	Interest
1	market value from exchange market		regular valuation by fund management company	market value from exchange market				
2				valuation model	valuation model	valuation model (underlying instrument in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model	valuation model (underlying instrument in level 3)		
Transfers								
	from level 1 to 3 equity excluded from exchange market		from level 1 to 3 fund management company stops publishing regular valuation	from level 1 to 2 debt securities excluded from exchange market	from level 2 to 3 counterparty reclassified from performig to NPL	from level 2 to 3 underlying instrument excluded from exchange market		
	from level 1 to 3 companies in insolvency proceedings		from level 3 to 1 fund management company starts publishing regular valuation	from level 1 to 2 debt securities not liquid (not trading for 6 months)	from level 3 to 2 counterparty reclassified from NPL to performig	from level 3 to 2 underlying instrument included in exchange market		
	from level 1 to 3 equity not liquid (not trading for 2 months)			from level 1 to 3 and from 2 to 3 companies in insolvency proceedings				
	from level 3 to 1 equity included in exchange market			from level 2 to 1 and from 3 to 1 start trading with debt securities on exchange market				
				from level 3 to 2 until valuation parameters are confirmed on ALCO (at least on a quarterly basis)				

For the nine months ended 30 September 2020 and 30 September 2019, NLB Group nor NLB had any significant transfers between levels of valuation of financial instruments measured at fair value in financial statements.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valued by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return;
- the National Resolution Fund.

Non-financial assets on Level 2 of the fair value hierarchy at NLB Group and NLB include investment property.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model).

At least one of the three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- equities: mainly Slovenian corporate and financial equities that are not quoted on active markets;

- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Bloomberg information system; and
- non-performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return. In defining the expected cash flows for non-performing loans, the value of collateral and other pay off estimates can be used.

Non-financial assets on Level 3 of the fair value hierarchy at NLB Group include investment property.

NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in first bullet: the income, market and cost approaches. NLB Group selects valuation model and values of unobservable input data within a reasonable possible range but uses model and input data that other market participants would use.

At least one of the three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

Movements of financial assets and liabilities at Level 3

in EUR thousands

NLB Group	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
Balance as at 1 Jan 2020	807	4,109	2,716	14,961	22,593	7,998
Effects of translation of foreign operations to presentation currency	-	59	-	-	59	-
Valuation:						
- through profit or loss	(84)	-	1,287	(4,357)	(3,154)	(8,006)
- recognised in other comprehensive income	-	18	-	-	18	-
Exchange differences	-	-	-	19	19	8
Increases	-	-	-	19,703	19,703	-
Decreases	-	(3,348)	-	(4,629)	(7,977)	-
Balance as at 30 Sep 2020	723	838	4,003	25,697	31,261	-

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
NLB Group						
Balance as at 1 Jan 2019	329	3,960	1,923	23,800	30,012	4,190
Effects of translation of foreign operations to presentation currency	-	110	-	-	110	-
Valuation:						
- through profit or loss	406	-	7,011	13,487	20,904	4,560
Exchange differences	-	-	-	-	-	19
Increases	-	-	-	6,774	6,774	-
Decreases	-	1	(17)	(28,649)	(28,665)	-
Transfers to Level 3	-	-	600	-	600	-
Balance as at 30 Sep 2019	735	4,071	9,517	15,412	29,735	8,769

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
NLB						
Balance as at 1 Jan 2020	807	259	2,716	13,055	16,837	7,746
Valuation:						
- through profit or loss	(84)	-	1,287	(4,322)	(3,119)	(7,754)
- recognised in other comprehensive income	-	15	-	-	15	-
Exchange differences	-	-	-	19	19	8
Increases	-	-	-	19,347	19,347	-
Decreases	-	-	-	(4,547)	(4,547)	-
Balance as at 30 Sep 2020	723	274	4,003	23,552	28,552	-

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
NLB						
Balance as at 1 Jan 2019	329	248	1,923	26,594	29,094	3,981
Valuation:						
- through profit or loss	406	-	7,011	12,277	19,694	4,075
Exchange differences	-	-	-	-	-	19
Increases	-	-	-	7,828	7,828	-
Decreases	-	-	(17)	(27,632)	(27,649)	-
Transfers into Level 3	-	-	600	-	600	-
Balance as at 30 Sep 2019	735	248	9,517	19,067	29,567	8,075

In nine months ended 30 September 2020 and 2019, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 30 September:

in EUR thousands

Nine months ended 30 Sep 2020

	NLB Group				
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(84)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	1,287	(4,357)	8,006
Foreign exchange translation gains less losses	-	-	-	19	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	18	-	-	-

in EUR thousands

Nine months ended 30 Sep 2019

	NLB Group				Financial liabilities measured at fair value through profit or loss
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		
			Equity instruments	Loans and other financial assets	
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	406	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	7,011	13,487	(4,560)
Foreign exchange translation gains less losses	-	-	-	-	(19)

in EUR thousands

Nine months ended 30 Sep 2020

	NLB				Financial liabilities measured at fair value through profit or loss
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		
			Equity instruments	Loans and other financial assets	
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(84)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	1,287	(4,322)	7,754
Foreign exchange translation gains less losses	-	-	-	19	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	15	-	-	-

in EUR thousands

Nine months ended 30 Sep 2019

	NLB				Financial liabilities measured at fair value through profit or loss
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		
			Equity instruments	Loans and other financial assets	
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	406	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	7,011	12,277	(4,075)
Foreign exchange translation gains less losses	-	-	-	-	(19)

Movements of non-financial assets at Level 3

in EUR thousands

	NLB Group	
	2020	2019
Investment property		
Balance as at 1 Jan	28,933	32,208
Effects of translation of foreign operations to presentation currency	(58)	61
Additions	584	460
Disposals	(252)	(2,439)
Net valuation to fair value	(25)	(151)
Balance as at 30 Sep	29,182	30,139

e) Fair value of financial instruments not measured at fair value in financial statements

Financial instruments not measured at fair value are not managed on a fair value basis. For these instruments fair values are calculated for disclosure purposes only and do not impact the NLB Group statement of financial position or income statement.

In the table below are estimated fair values of financial instruments not measured at fair value in the statement of financial position.

in EUR thousands

	NLB Group				NLB			
	30 Sep 2020		31 Dec 2019		30 Sep 2020		31 Dec 2019	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	1,477,799	1,532,793	1,653,848	1,715,350	1,269,283	1,321,547	1,485,166	1,543,518
- loans and advances to banks	112,539	112,539	93,403	93,503	187,822	208,152	144,352	150,520
- loans and advances to customers	7,723,320	7,945,166	7,589,724	7,775,128	4,522,605	4,672,425	4,568,599	4,713,622
- other financial assets	88,836	88,836	97,415	97,415	58,938	58,938	67,279	67,279
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	49,670	49,678	42,840	42,690	110,605	110,605	89,820	89,820
- borrowings from banks and central banks	156,989	153,478	170,385	178,374	151,378	155,065	161,564	169,312
- due to customers	12,408,795	12,402,916	11,612,317	11,630,157	8,405,567	8,410,818	7,760,737	7,768,365
- borrowings from other customers	61,593	56,747	64,458	63,868	232	233	2,537	2,548
- subordinated liabilities	290,031	296,415	210,569	211,889	290,031	296,415	210,569	211,889
- other financial liabilities	174,090	174,090	158,484	158,484	118,573	118,573	98,342	98,342

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing market interest rates for instruments with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings from customers

The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Debt securities measured at amortised cost and issued debt securities

The fair value of debt securities measured at amortised cost and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method and the prevailing money market interest rates.

Loan commitments

For credit facilities that are drawn soon after the NLB Group grants loans (drawn at market rates) and loan commitments to those clients that are not impaired, the fair value is close to zero. For loan commitments to clients that are impaired, fair value represents the amount of the created provisions.

Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousands

30 Sep 2020	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	1,438,375	94,418	-	1,532,793	1,227,129	94,418	-	1,321,547
- loans and advances to banks	-	112,539	-	112,539	-	208,152	-	208,152
- loans and advances to customers	-	7,945,166	-	7,945,166	-	4,672,425	-	4,672,425
- other financial assets	-	88,836	-	88,836	-	58,938	-	58,938
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	49,678	-	49,678	-	110,605	-	110,605
- borrowings from banks and central banks	-	153,478	-	153,478	-	155,065	-	155,065
- due to customers	-	12,402,916	-	12,402,916	-	8,410,818	-	8,410,818
- borrowings from other customers	-	56,747	-	56,747	-	233	-	233
- subordinated liabilities	250,827	45,588	-	296,415	250,827	45,588	-	296,415
- other financial liabilities	-	174,090	-	174,090	-	118,573	-	118,573

in EUR thousands

31 Dec 2019	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	1,464,677	250,673	-	1,715,350	1,437,771	105,747	-	1,543,518
- loans and advances to banks	-	93,503	-	93,503	-	150,520	-	150,520
- loans and advances to customers	-	7,775,128	-	7,775,128	-	4,713,622	-	4,713,622
- other financial assets	-	97,415	-	97,415	-	67,279	-	67,279
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	42,690	-	42,690	-	89,820	-	89,820
- borrowings from banks and central banks	-	178,374	-	178,374	-	169,312	-	169,312
- due to customers	-	11,630,157	-	11,630,157	-	7,768,365	-	7,768,365
- borrowings from other customers	-	63,868	-	63,868	-	2,548	-	2,548
- subordinated liabilities	166,349	45,540	-	211,889	166,349	45,540	-	211,889
- other financial liabilities	-	158,484	-	158,484	-	98,342	-	98,342

6. Analysis by segment for NLB Group

a) Segments

Nine months ended 30 September 2020

in EUR thousands

NLB Group	Corporate and						Unallocated	Total
	Retail Banking in Slovenia	Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities		
Total net income	128,477	56,163	158,558	32,878	3,834	5,379	-	385,290
<i>Net income from external customers</i>	138,177	60,504	161,866	14,397	3,460	4,907	-	383,311
<i>Intersegment net income</i>	(9,699)	(4,340)	(3,308)	18,480	374	472	-	1,979
Net interest income	61,929	25,629	119,135	16,882	945	(21)	-	224,499
<i>Net income from external customers</i>	71,989	30,344	122,069	(1,479)	1,627	(51)	-	224,499
<i>Intersegment net interest income</i>	(10,060)	(4,715)	(2,934)	18,361	(682)	30	-	-
Administrative expenses	(75,290)	(27,761)	(69,436)	(5,171)	(8,928)	(7,410)	-	(193,996)
Depreciation and amortisation	(8,760)	(2,763)	(10,425)	(451)	(788)	(1,064)	-	(24,251)
Reportable segment profit/(loss) before impairment and provision charge	44,428	25,639	78,697	27,256	(5,882)	(3,095)	-	167,043
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	895	-	-	-	-	-	-	895
Impairment and provisions charge	(9,006)	(6,772)	(33,182)	(1,306)	355	(310)	-	(50,222)
Profit/(loss) before income tax	36,317	18,867	45,515	25,949	(5,527)	(3,405)	-	117,716
<i>Owners of the parent</i>	36,317	18,867	41,363	25,949	(5,527)	(3,405)	-	113,564
<i>Non-controlling interests</i>	-	-	4,152	-	-	-	-	4,152
Income tax	-	-	-	-	-	-	(8,925)	(8,925)
Profit for the period								104,639
30 Sep 2020								
Reportable segment assets	2,510,897	2,015,510	4,953,199	5,271,090	143,310	243,984	-	15,137,989
Investments in associates and joint ventures	7,733	-	-	-	-	-	-	7,733
Reportable segment liabilities	7,049,435	1,406,946	4,177,230	589,031	6,678	96,712	-	13,326,032

Nine months ended 30 September 2019

in EUR thousands

NLB Group	Corporate and						Unallocated	Total
	Retail Banking in Slovenia	Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities		
Total net income	122,493	61,742	156,685	26,944	9,024	11,882	-	388,770
<i>Net income from external customers</i>	126,845	65,266	158,157	16,030	9,223	11,836	-	387,357
<i>Intersegment net income</i>	(4,352)	(3,524)	(1,472)	10,914	(199)	46	-	1,413
Net interest income	65,582	28,368	117,583	25,166	2,177	(84)	-	238,792
<i>Net income from external customers</i>	70,182	31,210	119,486	14,628	3,416	(130)	-	238,792
<i>Intersegment net interest income</i>	(4,600)	(2,842)	(1,903)	10,538	(1,239)	46	-	-
Administrative expenses	(75,330)	(28,769)	(68,933)	(4,751)	(9,285)	(7,578)	-	(194,646)
Depreciation and amortisation	(8,822)	(2,849)	(9,816)	(428)	(989)	(880)	-	(23,784)
Reportable segment profit/(loss) before impairment and provision charge	38,341	30,124	77,936	21,765	(1,250)	3,424	-	170,340
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	4,155	-	-	-	-	-	-	4,155
Impairment and provisions charge	(2,855)	17,817	(5,984)	(495)	1,326	(74)	-	9,734
Profit/(loss) before income tax	39,641	47,941	71,952	21,270	76	3,350	-	184,229
<i>Owners of the parent</i>	39,641	47,941	65,753	21,270	76	3,350	-	178,030
<i>Non-controlling interests</i>	-	-	6,199	-	-	-	-	6,199
Income tax	-	-	-	-	-	-	(15,784)	(15,784)
Profit for the period								162,246
31 Dec 2019								
Reportable segment assets	2,551,708	2,042,200	4,731,350	4,412,561	169,456	259,314	-	14,166,589
Investments in associates and joint ventures	7,499	-	-	-	-	-	-	7,499
Reportable segment liabilities	6,464,417	1,341,878	4,043,172	465,168	8,791	119,766	-	12,443,191

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results. NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

The business activities of NLB are divided into several segments. Interest income is reallocated between segments on the basis of fund transfer rates (FTP). Other NLB Group members are, based on their business activity, included in only one segment, except NLB Lease&Go which is according to its business activities divided into two segments.

The segments of the NLB Group are divided into core and non-core segments.

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals and asset management (NLB Skladi), and part of new subsidiary NLB Lease&Go that includes operations with retail clients as well as the contribution to the result of the associated company Bankart (in nine months of 2019 also of the joint venture NLB Vita and in nine months of 2020 realised gain on sale of the investment).
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Investment Banking and Custody, and Restructuring and Workout and part of new subsidiary NLB Lease&Go that includes operations with corporate clients.
- Strategic Foreign Markets, which consist of the operations of strategic Group banks in the strategic markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia).
- Financial Markets in Slovenia include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).
- Other accounts for the categories whose operating results cannot be allocated to specific segments as well as a new subsidiary The NLB Cultural Heritage Management Institute.

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

Data for 2019 are adjusted to changed schemes prescribed by the BoS (relocation of some items from the other net operating income to other general and administrative expenses), so there might be changes in previously reported numbers (note 2.3.).

b) Geographical information

	in EUR thousands							
	Revenues		Net income		Non-current assets		Total assets	
	nine months ended		nine months ended					
	September 2020	September 2019	September 2020	September 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
NLB Group								
Slovenia	240,272	248,326	220,748	224,490	144,902	151,934	10,108,117	9,350,558
South East Europe	197,407	197,803	162,942	160,876	140,257	142,870	5,025,301	4,811,617
North Macedonia	60,577	62,642	49,824	49,607	35,084	34,971	1,516,838	1,448,179
Serbia	26,116	24,501	21,727	17,869	25,131	25,549	703,864	639,351
Montenegro	23,259	24,647	18,759	20,602	30,390	30,089	557,025	533,849
Croatia	25	14	185	625	377	2,045	8,033	12,497
Bosnia and Herzegovina	51,901	52,891	42,980	43,908	33,524	34,246	1,400,468	1,381,718
Kosovo	35,529	33,108	29,467	28,265	15,751	15,970	839,073	796,023
Western Europe	8	513	(379)	1,990	59	158	12,304	11,913
Germany	2	6	(5)	113	58	152	1,664	1,787
Switzerland	6	507	(374)	1,877	1	6	10,640	10,126
Czech Republic	-	-	-	1	-	-	-	-
Total	437,687	446,642	383,311	387,357	285,218	294,962	15,145,722	14,174,088

The geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group members are located.

7. Related-party transactions

Related-party transactions with Management Board and other key management personnel, their family members and companies these related parties have control, joint control or significant influence

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousands

	Management Board and other key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel, or their family members have control, joint control or a significant influence		Supervisory Board	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
NLB Group and NLB								
Loans and deposits issued	2,252	2,119	451	520	1	130	312	248
Deposits received	1,493	1,579	955	871	206	193	279	198
Other financial liabilities	2,758	2,759	-	-	2	4	-	-
Guarantees issued and credit commitments	222	246	82	82	21	91	28	18
	nine months ended		nine months ended		nine months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Interest income	28	29	6	7	1	3	5	4
Interest expense	(3)	(3)	-	-	-	-	-	-
Fee income	11	8	4	5	88	4	1	-
Other income	12	14	-	-	-	-	-	-
Other expenses	(1)	(2)	-	-	(49)	(36)	-	-

Key management compensation – payments in the period

in EUR thousands

	Management Board		Other key management personnel	
	nine months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019
NLB Group and NLB				
Short-term benefits	1,149	1,269	3,963	3,730
Cost refunds	4	3	71	61
Long-term bonuses				
- severance pay	259	-	81	-
- other benefits	1	4	24	54
- variable part of payments	-	162	-	1,316
Total	1,413	1,438	4,139	5,161

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday allowances, other bonuses); and
- non-monetary benefits (company cars, health care, apartments, etc.).

The reimbursement of cost comprises food allowances and travel expenses.

Related-party transactions with subsidiaries, associates and joint ventures

in EUR thousands

	NLB Group			
	Associates		Joint ventures	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Loans and deposits issued	1,043	1,066	850	1,205
Deposits received	1,928	842	3,333	8,455
Other financial assets	4	18	-	539
Other financial liabilities	209	1,294	-	250
Guarantees issued and credit commitments	35	31	21	26
	nine months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019
Interest income	24	26	9	15
Interest expense	-	-	(45)	(46)
Fee income	10	7	924	3,321
Fee expense	(9,897)	(9,232)	(332)	(1,595)
Other income	127	135	142	95
Other expenses	(416)	(404)	(37)	(22)

in EUR thousands

	NLB					
	Subsidiaries		Associates		Joint ventures	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Loans and deposits issued	265,104	231,103	1,043	1,066	850	1,174
Deposits received	83,373	80,806	1,928	842	309	5,418
Other financial assets	6,356	984	4	18	-	539
Other financial liabilities	730	235	35	1,174	-	116
Guarantees issued and credit commitments	50,361	32,727	35	31	21	26
Received loan commitments and financial guarantees	7,427	3,297	-	-	-	-
	nine months ended		nine months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019	September 2020	September 2019
Interest income	3,783	3,442	24	26	8	14
Interest expense	(22)	(205)	-	-	-	-
Fee income	5,364	4,466	10	7	924	3,220
Fee expense	(18)	(12)	(7,768)	(7,869)	(332)	(613)
Other income	565	389	127	135	142	95
Other expenses	(626)	(304)	(412)	(404)	(37)	(22)
Gains less losses on derecognition of financial assets/liabilities held for trading	632	(425)	-	-	-	-
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	424	(32)	-	-	-	-

Related-party transactions with major shareholder with significant influence

in EUR thousands

	NLB Group Shareholder		NLB Shareholder	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
	Loans and deposits issued	23,842	28,206	23,842
Investments in securities (banking book)	799,366	849,924	711,394	777,047
Investments in securities (trading book)	-	1,041	-	1,041
Other financial assets	656	651	656	651
Other financial liabilities	6	22	6	22
Guarantees issued and credit commitments	1,211	1,168	1,211	1,168
	nine months ended		nine months ended	
	September 2020	September 2019	September 2020	September 2019
Interest income	7,157	11,824	7,400	12,095
Fee income	183	128	183	128
Fee expense	(19)	(23)	(19)	(23)
Other income	152	272	152	272
Other expenses	(3)	(5)	(3)	(5)
Gains less losses on derecognition of financial assets/liabilities not classified as at fair value through profit or loss	14,664	2,805	14,664	2,805
Gains less losses on derecognition of financial assets/liabilities held for trading	43	(263)	43	(263)

NLB Group discloses all transactions with the major shareholder with significant influence. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousands

	Amount of significant transactions concluded during the period		Number of significant transactions concluded during the period	
	nine months ended	12 months ended	nine months ended	12 months ended
	September 2020	December 2019	September 2020	December 2019
NLB Group and NLB				
Loans	-	57,113	-	1
Borrowings, deposits and business accounts	-	179,309	-	2
	Balance of all significant transactions at end of the period		Number of significant transactions at end of the period	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Loans	545,349	582,081	6	6
Debt securities measured at amortised cost	76,323	78,014	1	1
Borrowings, deposits and business accounts	70,059	115,500	1	2
	Effects in the income statement during the period			
	nine months ended			
	September 2020	September 2019		
Interest income from loans	2,755	2,215		
Fees and commissions income	17	162		
Interest income from debt securities measured at amortised cost	1,093	3,194		
Interest expense from borrowings, deposits, and business accounts	(236)	(355)		

8. Subsidiaries

NLB Group's subsidiaries as at 30 September 2020 were:

	Nature of Business	Country of Incorporation	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members						
NLB Banka a.d., Skopje	Banking	North Macedonia	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Serbia	99.997	99.997	99.997	99.997
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	100	100	100	100
NLB Lease & Go, leasing, d.o.o., Ljubljana	Finance	Slovenia	100	100	100	100
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	100	100	100	100
Non-core members						
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Slovenia	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Montenegro	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Serbia	100	100	100	100
NLB Leasing d.o.o., Sarajevo - u likvidaciji	Finance	Bosnia and Herzegovina	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Bosnia and Herzegovina	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Serbia	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Serbia	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	-	-	100	100
NLB Srbija d.o.o., Belgrade	Real estate	Serbia	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Montenegro	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Serbia	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	100	100	100	100

NLB Group's subsidiaries as at 31 December 2019 were:

	Nature of Business	Country of Incorporation	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members						
NLB Banka a.d., Skopje	Banking	North Macedonia	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Serbia	99.997	99.997	99.997	99.997
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	100	100	100	100
Non-core members						
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Slovenia	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Montenegro	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Serbia	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Bosnia and Herzegovina	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Bosnia and Herzegovina	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Serbia	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Serbia	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	-	-	100	100
NLB Srbija d.o.o., Belgrade	Real estate	Serbia	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Montenegro	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	100	100	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Serbia	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	100	100	100	100

9. Events after the end of the reporting period

No events took place after 30 September 2020 that would have had a materially significant influence on the presented condensed interim financial statements.

Glossary of Terms and Definitions

AC	Amortised Cost
ALCO	Asset-Liability Committee
ALM	Asset and Liability Management
API	Alternative Performance Indicators
BiH	Bosnia and Herzegovina
BoS	Bank of Slovenia
bps	Basis Points
CBR	Combined Buffer Requirement
CEO	Chief Operating Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost-to-Income Ratio
CIU	Collective investment undertakings
CMG	Capital Management Group
COO	Chief Operating Officer
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation
CVA	Credit Value Adjustment
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EU	European Union
EVE	Economic Value of Equity
FTP	Fund Transfer Price
FV OCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GDR	Global Depositary Receipts
GDP	Gross Domestic Product
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
IVS	International Valuation Standards
JV	Joint Venture
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LMG	Liquidity Management Group
LTD	Loan-to-Deposit Ratio
MDA	Maximum Distributable Amount
MIGA	Multilateral Investment Guarantee Agency

MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NLB or the Bank	NLB d.d., Ljubljana
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
OCR	Overall Capital Requirement
O-SII	Other Systemically Important Institution
p.p.	Percentage point(s)
PD	Probability of Default
RICO	Risk Committee
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk Weighted Assets
SEE	South-Eastern Europe
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
The Group	NLB Group
TLOF	Total Liabilities and Own Funds
TSCR	Total SREP Capital Requirement

BANK GUARANTEE **EASY** **KLIKIN** **TRUST**
DIGITAL SERVICES **B2B** **EASY** **KLIKIN** **TRUST**
24/7 LJUBLJANA **QUALITY** **TRUST** **UP TO DATE**
EMPLOYEES **B2B** **B2C** **KNOWLEDGE** **ACCESSIBILITY** **TRUST** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**
B2B **B2C** **KNOWLEDGE** **ACCESSIBILITY** **TRUST** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**
SOCIAL **STABILITY** **TRUST** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**
RESPONSIBILITY **TRUST** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**
REGIONAL PROJECTS **R&D** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**
MOBILE WALLET **NLB PAY** **BEST SERVICE**
FLEXIBILITY **TRUST** **SECURITY** **NLB TELEDOM**
BELGRADE **TRUST** **24/7** **REGIONAL PROJECTS**
FINANCIAL ADVICE **BANJA LUKA**
PURCHASE OF RECEIVABLES **BANK GUARANTEE**
5,800+ **REGIONAL PROJECTS** **B2B** **KLIKIN**
298 BRANCHES **PROFESSIONAL**
MOBILE WALLET **NLB PAY** **BEST SERVICE** **WIN-WIN**
BANK GUARANTEE **PROFESSIONAL** **B2B** **EXCELLENCE** **ACCESSIBILITY** **NLB KLIK**
PROFESSIONAL **B2B** **EASY TRUST** **UP TO DATE** **GROWTH**
EASY TRUST **KNOWLEDGE** **ACCESSIBILITY** **ECOLOGY** **PROFESSIONAL**
FINANCIAL LITERACY CARE **PODGORICA** **R&D** **SECURITY**
REGIONAL PROJECTS
EASY GROWTH **MENTORSHIP**
WIN-WIN **FINANCIAL LITERACY CARE** **EASY GROWTH** **DONATIONS**
KLIKIN **DIGITAL SERVICES** **FLEXIBILITY** **ECOLOGY** **SPONSORSHIP**
SKOPJE **B2B** **FINANCIAL LITERACY CARE** **FLEXIBILITY** **ECOLOGY** **GOOD DEEDS**
NLB KLIK **DIGITAL SERVICES** **FLEXIBILITY** **ECOLOGY** **MOBILE BANK** **TRUST** **PRISHTINA**
GROWTH **DIGITAL SERVICES** **FLEXIBILITY** **ECOLOGY** **DIGITAL SERVICES** **BANK GUARANTEE** **PURCHASE OF RECEIVABLES**
MOBILE WALLET **NLB PAY** **DIGITAL** **WIN-WIN** **HEALTH** **BANK GUARANTEE** **PURCHASE OF RECEIVABLES**
MOBILE BANKERS **DIGITAL** **24/7** **SECURITY**