NLB Group

# Pillar 3 Disclosures

Q3 2020

## Abbreviations

| | |
|---|---|
| **AT1** | Additional Tier 1 capital |
| **AVA** | Additional Valuation Adjustments |
| **CBR** | Combined Buffer Requirement |
| **CCP** | Central Counterparty |
| **CCR** | Counterparty Credit Risk |
| **CET1** | Common Equity Tier 1 Capital |
| **COVID-19** | Coronavirus disease 2019 |
| **CRD** | Capital Requirements Directive |
| **CRR** | Capital Requirements Regulation |
| **CVA** | Credit Valuation Adjustment |
| **EBA** | European Banking Authority |
| **ECB** | European Central Bank |
| **EC** | European Commission |
| **EEA** | European Economic Area |
| **EU** | European Union |
| **FX** | Foreign Exchange |
| **GDP** | Gross Domestic Product |
| **G-SII** | Global Systemically Important Institutions (Banks) |
| **HQLA** | High-Quality Liquid Assets |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **IFRS** | International Financial Reporting Standards |
| **ILAAP** | Internal Liquidity Adequacy Assessment Process |
| **IMF** | International Monetary Fund |
| **LCR** | Liquidity Coverage Ratio |
| **MDB** | Multilateral Development Bank |
| **MIGA** | Multilateral Investment Guarantee Agency |
| **MREL** | Minimum Requirement for own funds and Eligible Liabilities |
| **MS** | Mid-swap |
| **MTF** | Multilateral Trading Facility |
| **NCI** | Non-Controlling Interest (Minority) |
| **NSFR** | Net Stable Funding Ratio |
| **OCI** | Other Comprehensive Income |
| **OCR** | Overall Capital Requirement |
| **O-SII** | Other Systemically Important Institutions (banks) |
| **P2G** | Pillar 2 Guidance |
| **P1R** | Pillar 1 Requirement |
| **P2R** | Pillar 2 Requirement |
| **PFE** | Potential Future Exposure |
| **PSE** | Public Sector Entity |
| **Q&A** | Question and Answer |
| **RWA** | Risk-Weighted Assets |
| **SA** | Standardised Approach |
| **SEE** | Southeast Europe |
| **SFT** | Securities Financing Transactions |
| **SME** | Small Medium Enterprise |
| **S&P** | Standard & Poor's |
| **SREP** | Supervisory Review and Evaluation Process |
| **TC** | Total Capital |
| **T1** | Tier 1 (Capital) |
| **T2** | Tier 2 (Capital) |
| **TSCR** | Total SREP Capital Requirement |
| **UMAR** | Institute for Macroeconomic Analysis and Development |
| **ZBan-2** | Banking Act |
| **ZRPPB** | Resolution and Compulsory Dissolution of Credit Institutions Act |

## Key highlights

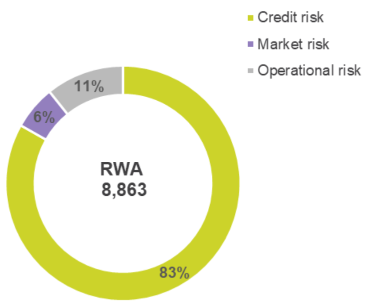
Table 1 – Key metrics

| NLB Group | 30.09.2020 | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| **Available capital** | | | |
| Common equity tier 1 (CET1) | 1,618,543 | 1,613,301 | 1,451,176 |
| Tier 1 | 1,623,350 | 1,617,113 | 1,451,176 |
| Tier 2 | 286,273 | 286,281 | 44,595 |
| Total capital | 1,909,623 | 1,903,394 | 1,495,771 |
| **Risk weighted assets** | | | |
| Total RWA | 8,863,242 | 9,301,735 | 9,185,539 |
| **Capital ratios** | | | |
| Common equity tier 1 ratio (%) | 18.3% | 17.3% | 15.8% |
| Tier 1 ratio (%) | 18.3% | 17.4% | 15.8% |
| Total capital ratio (%) | 21.5% | 20.5% | 16.3% |
| **Additional CET1 buffer requirements as a % of RWA** | | | |
| Capital conservation buffer requirement | 2.5% | 2.5% | 2.5% |
| Countercyclical buffer requirement | 0.0% | 0.0% | 0.0% |
| Bank G-SII and / or O-SII additional requirements | 1.0% | 1.0% | 1.0% |
| Combined buffer requirement | 3.5% | 3.5% | 3.5% |
| **Leverage ratio** | | | |
| Total leverage ratio exposure measure | 17,929,822 | 17,716,619 | 16,671,280 |
| Leverage ratio (%) | 9.1% | 9.1% | 8.7% |
| **Liquidity Coverage Ratio** | | | |
| Total HQLA | 4,710,397 | 4,737,670 | 3,985,017 |
| Total net cash outflow | 1,553,928 | 1,594,000 | 1,226,351 |
| LCR ratio | 303% | 297% | 325% |
| NSFR ratio | 165% | 167% | 160% |

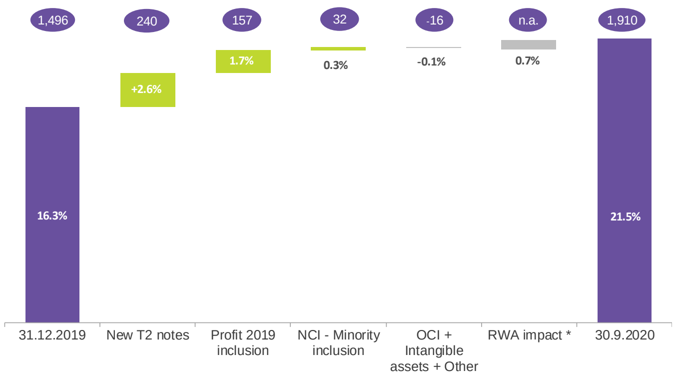
Key ratios and figures are reflected throughout the Pillar 3 disclosures and a summary is reflected in Table 1.

Changes in RWA


RWA analysis

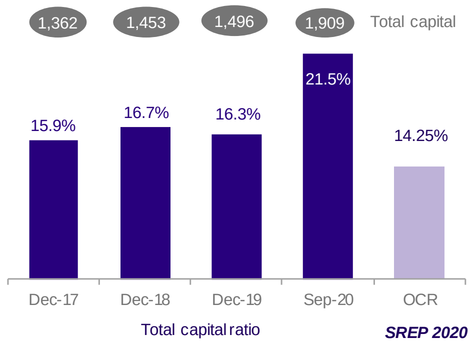



Total capital ratio changes




* detailed explanation in Chapter 3.2. Capital requirements

Total capital movement



# 1. Introduction

The purpose of this Report is to provide disclosures as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision. On the European level, these are implemented in the disclosure requirements as laid down in Part Eight of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms' (Capital Requirements Regulation, or 'CRR') and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV, or 'CRD'). The CRR had a direct effect in EU member states, while the CRD was required to be implemented through national legislation in EU member states by 31 December 2013. Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-2). On 27 June 2019, an amendment of CRR was published (Regulation (EU) No. 2019/876) with some of its provisions already valid, as well as an amendment of CRD (Directive (EU) 2019/878 – CRD V) which is yet to be transposed in Slovenian national legislation. On 26 June 2020 another amendment to CRR was published (Regulation (EU) No. 2020/873) as response to the COVID-19 pandemic.

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

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

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

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

EU banking legislation and EBA guidelines require NLB Group to disclose information at least on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. A separate Pillar 3 document is also published quarterly on the NLB's website www.nlb.si, following our Annual or Interim Reports for NLB Group disclosure.

### *Verifications and source of information*

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

It should be noted that while some quantitative information in this document is based on financial data contained in the NLB Group Interim Report Q3 2020, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the NLB Group Interim Report Q3 2020. Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 2.

## 2. Scope of application
(Articles 436 b, c, and d of CRR)

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

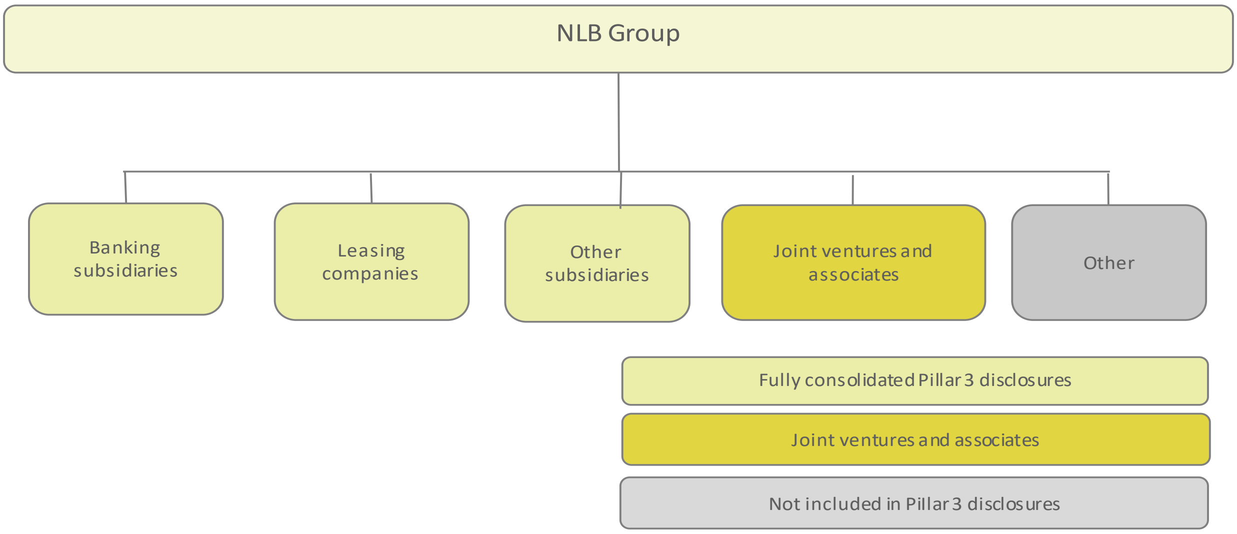



Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report Q3 2020, and under the scope of regulatory consolidation.

The consolidation for *accounting purposes* comprise all:

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

In contrast to the accounting consolidation, the *regulatory consolidation* only includes (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings and asset management companies. As regards NLB Group, this means that the regulatory consolidation does not include entity operating in the area of other activities (ZUKD – The NLB Cultural Heritage Management Institute). Also, entity operating in the area of insurance (NLB Vita), which was sold in May 2020, was not included into regulatory consolidation.

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

| 30.09.2020 | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation |
|---|---|---|
| Cash, cash balances at central banks, and other demand deposits at banks | 3,010,929 | 3,010,929 |
| Financial assets held for trading | 16,794 | 16,794 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 36,897 | 36,897 |
| Financial assets measured at fair value through other comprehensive income | 2,277,988 | 2,277,988 |
| Financial assets measured at amortised cost | | |
| - debt securities | 1,477,799 | 1,477,799 |
| - loans and advances to banks | 112,539 | 112,539 |
| - loans and advances to customers | 7,723,320 | 7,723,320 |
| - other financial assets | 88,836 | 88,836 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 13,892 | 13,892 |
| Investments in subsidiaries | - | 10 |
| Investments in associates and joint ventures | 7,733 | 7,733 |
| Tangible assets | | |
| Property and equipment | 186,425 | 186,415 |
| Investment property | 53,605 | 53,605 |
| Intangible assets | 37,455 | 37,455 |
| Current income tax assets | 2,798 | 2,798 |
| Deferred income tax assets | 29,824 | 29,824 |
| Other assets | 62,928 | 62,740 |
| Non-current assets held for sale | 5,960 | 5,960 |
| **Total assets** | **15,145,722** | **15,145,534** |
| Financial liabilities held for trading | 15,870 | 15,870 |
| Financial liabilities measured at amortised cost | | |
| - deposits from banks and central banks | 49,670 | 49,670 |
| - borrowings from banks and central banks | 156,989 | 156,989 |
| - due to customers | 12,408,795 | 12,409,022 |
| - borrowings from other customers | 61,593 | 61,593 |
| - subordinated liabilities | 290,031 | 290,031 |
| - other financial liabilities | 174,090 | 174,078 |
| Derivatives - hedge accounting | 61,185 | 61,185 |
| Provisions | 89,430 | 89,430 |
| Current income tax liabilities | 966 | 966 |
| Deferred income tax liabilities | 2,313 | 2,313 |
| Other liabilities | 15,100 | 15,099 |
| **Total liabilities** | **13,326,032** | **13,326,246** |
| **Equity and reserves attributable to owners of the parent** | | |
| Share capital | 200,000 | 200,000 |
| Share premium | 871,378 | 871,378 |
| Accumulated other comprehensive income | 4,171 | 4,632 |
| Profit reserves | 13,522 | 13,522 |
| Retained earnings | 681,694 | 680,831 |
| | **1,770,765** | **1,770,363** |
| Non-controlling interests | 48,925 | 48,925 |
| **Total equity** | **1,819,690** | **1,819,288** |
| **Total liabilities and equity** | **15,145,722** | **15,145,534** |

## 3. Capital and capital requirements

### 3.1. Capital adequacy

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

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

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

- Pillar 2 Requirement (SREP requirement): bank-specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 Requirement it represents the minimum total SREP capital requirement – TSCR);
- The applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank-specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Capital Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank-specific and is a recommendation and not obligatory. Any non-compliance does not affect dividends or other distributions from capital; however, it might lead to intensified supervision and the imposition of measures to re-establish a prudent level of capital (including preparation of capital restoration plan).

Table 3 – Capital requirements and buffers of NLB Group

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

In 2020, OCR amounts to 14.25% for the Bank on a consolidated basis, consisting of:

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

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

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

On 27 March 2020 ECB issued Recommendation on dividend distributions during the COVID-19 pandemic until the reassessment of the situation once the uncertainties COVID-19 disappear and on 27 July 2020 amended this recommendation that no dividends are paid out (or irrevocable commitment undertaken) until 1 January 2021. Bank of Slovenia followed with macroprudential restrictions on the distribution of banks' and savings banks profits on 7 April 2020 which actually limits any dividend distribution (2019 and 2020 result and previous years retained earnings) for the currently envisaged one-year period (the measure will be reassessed before end 2020). Consequently, the whole 2019 result of EUR 192.5 million is included in capital (including EUR 157.5 million undistributed profit for the year 2019).

Table 4 – Capital adequacy of NLB Group:

| | 30.09.2020 | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| Paid up capital instruments | 200,000 | 200,000 | 200,000 |
| Share premium | 871,378 | 871,378 | 871,378 |
| Retained earnings | 552,146 | 552,147 | 358,648 |
| Current result | - | - | 35,000 |
| Accumulated other comprehensive income | 4,632 | (4,589) | 14,364 |
| Other reserves | 13,522 | 13,522 | 13,522 |
| Minority interest | 25,556 | 26,157 | - |
| Prudential filters: Additional Valuation Adjustments (AVA) | (2,322) | (2,109) | (2,194) |
| (-) Goodwill | (3,529) | (3,529) | (3,529) |
| (-) Other intangible assets | (33,926) | (34,028) | (36,013) |
| (-) Deduction item related to credit impairments and provisions not included in capital | (8,914) | (5,648) | - |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **1,618,543** | **1,613,301** | **1,451,176** |
| Minority interest | 4,807 | 3,812 | - |
| **Additional Tier 1 capital** | 4,807 | 3,812 | - |
| **TIER 1 CAPITAL** | **1,623,350** | **1,617,113** | **1,451,176** |
| Capital instruments and subordinated loans eligible as T2 capital | 284,595 | 284,595 | 44,595 |
| Minority interest | 1,678 | 1,686 | - |
| **Tier 2 capital** | 286,273 | 286,281 | 44,595 |
| **TOTAL CAPITAL** | **1,909,623** | **1,903,394** | **1,495,771** |
| Risk exposure amount for credit risk | 7,374,356 | 7,787,112 | 7,720,232 |
| Risk exposure amount for market risks | 534,563 | 559,700 | 523,050 |
| Risk exposure amount for CVA | 175 | 775 | 663 |
| Risk exposure amount for operational risk | 954,148 | 954,148 | 941,594 |
| **TOTAL RISK EXPOSURE AMOUNT (RWA)** | **8,863,242** | **9,301,735** | **9,185,539** |
| Common Equity Tier 1 Ratio | 18.3% | 17.3% | 15.8% |
| Tier 1 Ratio | 18.3% | 17.4% | 15.8% |
| Total Capital Ratio | 21.5% | 20.5% | 16.3% |

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

As at 30 September 2020, the Total capital ratio for NLB Group stood at 21.5% (or 5.3 percentage points higher than at the end of 2019), and for NLB at 30.2% (or 7.6 percentage point higher than at the end of 2019). Common Equity Tier 1 ratio stood at 18.3% or 2.5 percentage points higher than at the end of 2019. The higher total capital adequacy ob NLB Group derives from: firstly, higher capital (EUR 413.9 million for NLB Group) mostly due to inclusion of all T2 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 drivers behind the differences between the RWAs in year 2020 are explained in chapter 3.2 Capital requirements in the Table 5 – EU OV1 – Overview of RWAs.

Until now, NLB Group did not undertake the calculation defined in Article 81 to 88 of the CRR, therefore the minority capital (Non-controlling interest) of the subsidiaries was not included in the consolidated capital. The calculation has been performed as of 30 June 2020 and minority capital of existing subsidiaries is since then included in Group regulatory capital, which at that time contributed 0.3 p.p. to the capital ratio.

In accordance with the ZRPPB, the NLB Group will, in future, need to meet a MREL requirement set by the Bank of Slovenia. On 9 April 2020, NLB received a decision of the Bank of Slovenia relating to this MREL requirement, which was set to 15.56% of total liabilities and own funds at the sub-consolidated level of the NLB Resolution Group (consisting of the Bank and non-core part of the Group as at 31.12.2018). The transition period to reach the MREL requirement is 31 December 2021 and from that date this requirement must be met at all times. This new decision superseded previous decision of Bank of Slovenia on MREL requirement dated 15 May 2019.

On 26 February 2020, NLB entered into a share purchase agreement with the Republic of Serbia for the acquisition of an 83.23% ordinary shares in Komercijalna Banka a.d. Beograd (KB). The consideration for the 83.23% shareholding amounts to EUR 387 million, which will be payable in cash upon completion and will be subject to a 2% annual interest rate between 1 January 2020 and closing. In accordance with Serbian bank privatisation regulations, NLB is not required to launch a mandatory tender offer for minority shareholdings in KB.

The closing of the transaction is expected in Q4 2020 and is subject to mandatory regulatory approvals from, amongst others, the European Central Bank, Bank of Slovenia and the National Bank of Serbia. Following the conclusion of the transaction, we anticipate NLB will at all times exceed the Overall Capital Requirement and Pillar 2 Guidance of 15.25%. To deliver on this objective we will use already issued capital instruments (totalling EUR 284.6 million of Tier 2 instruments) and anticipated capital accretion stemming from retained earnings and/or ongoing RWA optimisation measures; even so the Group / Bank could undertake capital market activities to further optimise their capital position in the future.

## 3.2. Capital requirements

(Article 438 c, e, and f of CRR)

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

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

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

The Table 5 shows the detailed composition of the capital requirements of NLB Group at the end of September 2020, at the end of June 2020, and at the end of 2019.

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

| | | 30.09.2020 | | 30.06.2020 | | 31.12.2019 | |
|---|---|---|---|---|---|---|---|
| | | RWA | Minimum capital requirement - 8% of RWA | RWA | Minimum capital requirement - 8% of RWA | RWA | Minimum capital requirement - 8% of RWA |
| 1 | **Credit risk (excluding CCR)** | **7,252,116** | **580,169** | **7,653,434** | **612,275** | **7,524,999** | **602,000** |
| 2 | Of which the standardised approach | **7,252,116** | **580,169** | 7,653,434 | 612,275 | 7,524,999 | 602,000 |
| 6 | **CCR** | **28,522** | **2,282** | **35,235** | **2,819** | **37,758** | **3,021** |
| 7 | Of which mark to market | 28,347 | 2,268 | 34,460 | 2,757 | 37,095 | 2,968 |
| 12 | Of which CVA | 175 | 14 | 775 | 62 | 663 | 53 |
| 19 | **Market risk** | **534,563** | **42,765** | **559,700** | **44,776** | **523,050** | **41,844** |
| 20 | Of which the standardised approach | 534,563 | 42,765 | 559,700 | 44,776 | 523,050 | 41,844 |
| 23 | **Operational risk** | **954,148** | **76,332** | **954,148** | **76,332** | **941,594** | **75,328** |
| 24 | Of which basic indicator approach | 954,148 | 76,332 | 954,148 | 76,332 | 941,594 | 75,328 |
| 27 | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **93,893** | **7,511** | **99,218** | **7,937** | **158,138** | **12,651** |
| **29** | **Total** | **8,863,242** | **709,059** | **9,301,735** | **744,139** | **9,185,539** | **734,843** |

In first three quarters of 2020 the RWA for Credit risk decreased by EUR 345.9 million (lines 2, 7, and 27 in Table 5), 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 favorable 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 increase in RWA for market risk and CVA amounted to EUR 11.0 million YtD (lines 12 and 20 in Table 5), mainly because of more opened positions in their domestic currencies arising from operations of NLB Group's non-euro subsidiary banks. These positions are long, non-trading and deliberately taken. On a consolidated level, foreign exchange translation differences from investments in foreign subsidiary companies are recognised in the consolidated capital and do not have an impact on the NLB Group's profit and loss.

The increase in the RWA for operational risks (EUR 12.6 million YtD) arose from the higher three-year average of relevant income, as defined in Article 316 of CRR, which represents the basis for the calculation.

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

In September 2020, the capital of NLB Group consisted of all three elements of capital (Common Equity Tier 1 capital, Tier 1 capital and Tier 2 capital). The only instrument included in Common Equity Tier 1 capital and Tier 1 capital are the ordinary shares of the parent entity NLB. The only instruments included in Tier 2 capital are the subordinated Tier 2 notes issued in May 2019, November 2019 and February 2020 by NLB. All three elements of capital also include Minority capital (Non-controling interest).

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

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

Subordinated liabilities for NLB Group are disclosed in the NLB Group Interim Report Q3 2020 – note 5.11 a) Subordinated liabilities (page 87).

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

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

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

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

Table 6 – Own funds for NLB Group

| | | 30.09.2020 | 30.06.2020 | 31.12.2019 |
|---|---|---|---|---|
| **Common equity Tier 1 (CET1) capital: instruments and reserves** | | | | |
| 1 | Capital instruments and the related share premium accounts | 1,071,378 | 1,071,378 | 1,071,378 |
| | of which: ordinary shares | 1,071,378 | 1,071,378 | 1,071,378 |
| 2 | Retained earnings - including current result | 552,146 | 552,147 | 393,648 |
| 3 | Accumulated other comprehensive income (and other reserves) | 18,154 | 8,933 | 27,886 |
| 5 | Minority interest (amount allowed in consolidated CET1) | 25,556 | 26,157 | - |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **1,667,234** | **1,658,615** | **1,492,912** |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | | |
| 7 | Additional value adjustments (negative amount) | (2,322) | (2,109) | (2,194) |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (37,455) | (37,557) | (39,542) |
| 27a | Deduction item related to credit imapirments and provisions not included in capital (as a part of the interim result), but are lowering the exposure in RWA calculation (BoS requirement based on EBA Q&A 2014_1087) | (8,914) | (5,648) | - |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(48,691)** | **(45,314)** | **(41,736)** |
| **29** | **Common Equity Tier 1 (CET1) capital** | **1,618,543** | **1,613,301** | **1,451,176** |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | 4,807 | 3,812 | - |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **4,807** | **3,812** | **-** |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1)** | **-** | **-** | **-** |
| **44** | **Additional Tier 1 (AT1) capital** | **4,807** | **3,812** | **-** |
| **45** | **Tier 1 capital (T1= CET1 + AT1)** | **1,623,350** | **1,617,113** | **1,451,176** |
| **Tier 2 (T2) capital: instruments and provisions** | | | | |
| 46 | Capital instruments and the related share premium accounts | 284,595 | 284,595 | 44,595 |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 1,678 | 1,686 | - |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **286,273** | **286,281** | **44,595** |
| **58** | **Tier 2 (T2) capital** | **286,273** | **286,281** | **44,595** |
| **59** | **Total capital (TC = T1 + T2)** | **1,909,623** | **1,903,394** | **1,495,771** |
| **60** | **Total risk weighted assets** | **8,863,242** | **9,301,735** | **9,185,539** |
| **Capital ratios and buffers** | | | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 18.3% | 17.3% | 15.8% |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 18.3% | 17.4% | 15.8% |
| 63 | Total capital (as a percentage of total risk exposure amount) | 21.5% | 20.5% | 16.3% |
| 64 | Institution specific buffer requirement (CET1 Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | 8.0% | 8.0% | 8.0% |
| 65 | of which: capital conservation buffer requirement | 2.5% | 2.5% | 2.5% |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | 1.0% | 1.0% | 1.0% |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount) | 10.3% | 9.3% | 7.8% |
| **Amounts below the threshold for deduction (before risk weighting)** | | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 4,554 | 3,320 | 3,248 |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 7,733 | 7,934 | 10,908 |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met) | 29,824 | 31,753 | 29,500 |

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

### 3.5. Reconciliation of items with financial statements
(Articles 437 a and f of CRR)

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

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

Table 7 – Mapping of the balance sheet items (statement of financial position items) and capital for the purpose of capital adequacy of NLB Group

| | 30.09.2020 | | 30.06.2020 | | 31.12.2019 | |
|---|---|---|---|---|---|---|
| | **Prudential consolidation** | **Included in capital** | **Prudential consolidation** | **Included in capital** | **Prudential consolidation** | **Included in capital** |
| Cash, cash balances at central banks and other demand deposits at banks | 3,010,929 | - | 3,084,554 | - | 2,101,346 | - |
| Financial assets held for trading | 16,794 | (17) | 22,648 | (23) | 24,038 | (24) |
| Non-trading financial assets mandatorily at fair value through profit or loss | 36,897 | (11) | 35,250 | (10) | 25,359 | (11) |
| Financial assets measured at fair value through other comprehensive income | 2,277,988 | (2,278) | 2,058,070 | (2,058) | 2,141,428 | (2,141) |
| Financial assets measured at amortised cost | 9,402,494 | - | 9,284,901 | - | 9,434,390 | - |
| Derivatives - hedge accounting | - | - | - | - | 788 | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 13,892 | - | 13,805 | - | 8,991 | - |
| Investments in subsidiaries | 10 | - | 10 | - | - | - |
| Investments in associates and joint ventures | 7,733 | - | 7,934 | - | 7,499 | - |
| Tangible assets | 240,020 | - | 243,624 | - | 247,921 | - |
| Intangible assets | 37,455 | (37,455) | 37,557 | (37,557) | 39,542 | (39,542) |
| *Goodwill* | 3,529 | (3,529) | 3,529 | (3,529) | 3,529 | (3,529) |
| *Other intangible assets* | 33,926 | (33,926) | 34,028 | (34,028) | 36,013 | (36,013) |
| Current income tax assets | 2,798 | - | 3,024 | - | 6,284 | - |
| Deferred income tax assets | 29,824 | - | 31,753 | - | 29,500 | - |
| *That rely on future profitability and arise from temporary differences* | 29,824 | - | 31,753 | - | 29,500 | - |
| Other assets | 62,740 | - | 64,270 | - | 63,811 | - |
| Non-current assets classified as held for sale | 5,960 | - | 4,441 | - | 7,717 | - |
| **Total assets** | **15,145,534** | | **14,891,841** | | **14,138,614** | |
| Financial liabilities held for trading | 15,870 | (16) | 17,995 | (18) | 17,903 | (18) |
| Financial liabilities measured at fair value through profit or loss | - | - | 10 | - | 7,998 | - |
| Financial liabilities measured at amortised cost | 13,141,383 | 284,595 | 12,927,587 | 284,595 | 12,259,053 | 44,595 |
| Derivatives - hedge accounting | 61,185 | - | 61,371 | - | 49,507 | - |
| Provisions | 89,430 | - | 88,847 | - | 88,414 | - |
| Current income tax liabilities | 966 | - | 642 | - | 2,271 | - |
| Deferred income tax liabilities | 2,313 | - | 2,936 | - | 2,833 | - |
| Other liabilities | 15,099 | - | 14,140 | - | 15,212 | - |
| **Total liabilities** | **13,326,246** | | **13,113,528** | | **12,443,191** | |
| Share capital | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Share premium | 871,378 | 871,378 | 871,378 | 871,378 | 871,378 | 871,378 |
| Accumulated other comprehensive income | 4,632 | 4,632 | (4,589) | (4,589) | 14,364 | 14,364 |
| Profit reserves | 13,522 | 13,522 | 13,522 | 13,522 | 13,522 | 13,522 |
| Retained earnings | 680,831 | 552,146 | 650,264 | 552,147 | 551,144 | 393,648 |
| Non-controlling interests | 48,925 | 32,041 | 47,738 | 31,655 | 45,015 | - |
| **Total equity** | **1,819,288** | | **1,778,313** | | **1,695,423** | |
| **Total liabilities and equity** | **15,145,534** | | **14,891,841** | | **14,138,614** | |
| **Sum of balance sheet items** | | **1,918,537** | | **1,909,042** | | **1,495,771** |
| Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital | | (8,914) | | (5,648) | | - |
| **Capital (Own funds)** | | **1,909,623** | | **1,903,394** | | **1,495,771** |

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

| 30.09.2020 | Equity - Prudential consolidation | Temporary exclustion of unaudited interim profit | Minority interest eligible / not eligible (-) | Prudential filters and deduction items | Regulatory capital | Item in capital and capital adequacy calculation |
|---|---|---|---|---|---|---|
| Share capital | **200,000** | - | - | - | **200,000** | Paid in capital instruments |
| Share premium | **871,378** | - | - | - | **871,378** | Share premium |
| Accumulated other comprehensive income | **4,632** | - | - | | **4,632** | Accumulated other comprehensive income |
| Profit reserves | **13,522** | - | - | - | **13,522** | Other reserves |
| Retained earnings - from previous years | **552,146** | - | - | - | **552,146** | Retained earnings - from previous years |
| Retained earnings - current results | **128,685** | (128,685) | - | - | **-** | Current results |
| Minority interest | **48,925** | - | (23,369) | - | **25,556** | Minority interest |
| | | | | (2,322) | **(2,322)** | Prudential filter: Additional Valuation Adjustment (AVA) (Article 34) |
| | | | | (3,529) | **(3,529)** | Deduction item: Goodwill (Article 36.b) |
| | | | | (33,926) | **(33,926)** | Deduction item: Other intangible assets (Article 36.b) |
| | | | | (8,914) | **(8,914)** | Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital |
| **Total equity** | **1,819,288** | **(128,685)** | **(23,369)** | **(39,777)** | **1,618,543** | **Common Equity Tier 1 (CET1) Capital** |
| | | | 4,807 | | 4,807 | Additional Tier 1 Capital |
| | | | | | **1,623,350** | **Tier 1 Capital** |
| | | | 1,678 | | 286,273 | Tier 2 Capital |
| | | | **32,041** | | **1,909,623** | **Total Capital** |

| 30.06.2020 | Equity - Prudential consolidation | Temporary exclustion of unaudited interim profit | Exclusion of minority interest not eligible | Prudential filters and deduction items | Regulatory capital | Item in capital and capital adequacy calculation |
|---|---|---|---|---|---|---|
| Share capital | **200,000** | - | - | - | **200,000** | Paid in capital instruments |
| Share premium | **871,378** | - | - | - | **871,378** | Share premium |
| Accumulated other comprehensive income | **(4,589)** | - | - | | **(4,589)** | Accumulated other comprehensive income |
| Profit reserves | **13,522** | - | - | - | **13,522** | Other reserves |
| Retained earnings - from previous years | **552,147** | - | - | - | **552,147** | Retained earnings - from previous years |
| Retained earnings - current results | **98,117** | (98,117) | - | - | **-** | Current results |
| Minority interest | **47,738** | - | (21,581) | - | **26,157** | Minority interest |
| | | | | (2,109) | **(2,109)** | Prudential filter: Additional Valuation Adjustment (AVA) (Article 34) |
| | | | | (3,529) | **(3,529)** | Deduction item: Goodwill (Article 36.b) |
| | | | | (34,028) | **(34,028)** | Deduction item: Other intangible assets (Article 36.b) |
| | | | | (5,648) | **(5,648)** | Deduction item: Exclusion of the effect of credit impairments and provisions, when they are not included in capital |
| **Total equity** | **1,778,313** | **(98,117)** | **(21,581)** | **(39,666)** | **1,613,301** | **Common Equity Tier 1 (CET1) Capital** |
| | | | 3,812 | | 3,812 | Additional Tier 1 Capital |
| | | | | | **1,617,113** | **Tier 1 Capital** |
| | | | 1,686 | | 286,281 | Tier 2 Capital |
| | | | **31,655** | | **1,903,394** | **Total Capital** |

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

During 2020 total accounting equity inreased by EUR 89 million to EUR 1,820 million as at 30 September 2020, due to higher retained earnings.

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

### Risk factors

Risk factors affecting the business outlook are (among others): the economies' sensitivity to a potential slowdown in the Euro area or globally, 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.

### 3.7. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amending regulation (two Regulations were amended) to address the impact of COVID-19 pandemic on the economy in order to maximise the capacity of credit institutions to lend and absorb losses related to the pandemic.

Amendment of CRR (EU) No. 575/2013:

- Modification of the calculation of the leverage ratio to exclude central bank reserves,
- Extension of the provisions of ECL accounting under the IFRS 9 from 2018-2022 to 2020-2024,
- Temporary treatment of public debt issued in the currency of another Member State,
- Extension of the preferential treatment regarding provisioning requirements to exposures guaranteed by the public sector for 7 years. The preferential treatment is usually only available for NPLs guaranteed of official export credit agencies.

Amendment of CRR II (EU) No. 2019/876:

- Bringing forward the implementation of:
    - Provisions on the treatment of certain loans granted by credit institutions to pensioners or employees,
    - Adjustments of risk weighted non-defaulted SME exposures (SME supporting factor)
    - The preferential treatment of exposures to entities that operate or finance physical structures or facilities, systems and networks that provide or support essential public services (Infrastructure supporting factor),
- Exempt prudently valued software assets from CET1 calculations.

The amending application applied directly the day after publication in the Official Journal, starting on 27 June 2020, only temporary exclusion of certain central bank reserves will apply from 28 June 2021.

NLB Group so far implemented:

- Changes in SME supporting factor, contributing EUR 168.3 million to RWA reduction,

- Temporary treatment of public debt issued in the currency of another Member State, contributing EUR 57.4 million to RWA reduction.

Changes in SME supporting factor were introduced in 2019 CRR II in article 501 containing reductions to the capital requirements for credit risk on exposures to SMEs. Threshold to qualify for SME supporting factor increased from EUR 1.5 million to EUR 2.5 million, with additional factor of 0.85% (add-on to previous 0.7619%).

Temporary treatment of public debt issued in the currency of another Member State is set out in new article 500a in to the CRR and applies in respect of the credit risk framework until 31 December 2024. For exposures to the central governments and central banks of Member States, where those exposures are denominated and funded in the domestic currency of another Member State, the risk weight applied shall be:

- 0% until 31 December 2022,
- 20% in 2023,
- 50% in 2024.

## 4. Leverage

(Article 451 of CRR)

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

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

The leverage ratio of NLB Group as at 30 September 2020 amounted to 9.05%, which is well above the 3% threshold defined by the Basel Committee on Banking Supervision. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not considered as material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceeding's of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Boards of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 30 September 2020 slightly decreased in comparison with the end of the previous quarter, by 0.1 percentage points. The decrease occurred primarily due to the higher value of the total leverage exposure calculated in accordance with Article 111 of the CRR by EUR 213 million. The higher amount of total leverage exposure arose from increased on-balance sheet exposures. It refers specifically to the banking book exposures treated as sovereigns and other exposures, while off-balance sheet exposures slightly decreased. Exposures in derivatives increased in comparison with the end of the previous quarter but are relatively unimportant. The impact of a capital increase on the leverage ratio was EUR 6 million.

According to Article 500b of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 and Regulation (EU) 2020/873 as regards the temporary exclusion of some central bank exposures from their total leverage exposure measure, the bank does not exercise this option related to CRR 'quick fix' amendments from 11 August 2020 till 27 June 2021.

Table 9 – Leverage ratio of NLB Group

| | 30.09.2020 | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| Tier 1 capital | 1,623,350 | 1,617,113 | 1,451,176 |
| Total leverage exposures | 17,929,822 | 17,716,619 | 16,671,280 |
| **Leverage ratio** | **9.05%** | **9.13%** | **8.70%** |

As at 30 September 2020, the leverage exposure was mainly driven by on-balance sheet exposures (96%), and other off-balance sheet exposure (3.9%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as Sovereigns (30.2%), Retail exposures (23.2%), exposures to Corporates (13.6%), and 17.9% to Other exposures.

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

| | | 30.09.2020 | 30.06.2020 | 31.12.2019 |
|---|---|---|---|---|
| | | CRR leverage ratio exposures | CRR leverage ratio exposures | CRR leverage ratio exposures |
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 17,258,269 | 17,029,239 | 16,052,013 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (48,691) | (45,314) | (41,736) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)** | **17,209,578** | **16,983,925** | **16,010,277** |
| **Derivative exposures** | | | | |
| 4 | Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin) | 16,795 | 19,873 | 20,501 |
| 5 | Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method) | 15,003 | 16,771 | 21,180 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | (61) | (55) | (2,206) |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | (6,856) | (7,435) | (9,617) |
| **11** | **Total derivative exposures** | **24,881** | **29,154** | **29,858** |
| **Securities financing transaction exposures** | | | | |
| **16** | **Total securities financing transaction exposures** | **-** | **-** | **-** |
| **Other off-balance sheet exposures** | | | | |
| 17 | Off-balance sheet exposures at gross notional amount | 2,859,941 | 2,895,367 | 2,593,312 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (2,164,578) | (2,191,827) | (1,962,167) |
| **19** | **Other off-balance sheet exposures** | **695,363** | **703,540** | **631,145** |
| **Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)** | | | | |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | - | - | - |
| **Capital and total exposures** | | | | |
| 20 | Tier 1 capital | 1,623,350 | 1,617,113 | 1,451,176 |
| **21** | **Total leverage ratio exposures** | **17,929,822** | **17,716,619** | **16,671,280** |
| **Leverage ratio** | | | | |
| **22** | **Leverage ratio** | **9.05%** | **9.13%** | **8.70%** |

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

| **LRSum: Summary reconciliation of accounting assets and leverage ratio exposures** | | 30.09.2020 | 30.06.2020 | 31.12.2019 |
|---|---|---|---|---|
| **1** | **Total assets as per published financial statements** | **15,145,722** | **14,891,857** | **14,174,088** |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | (188) | 10 | (35,474) |
| 4 | Adjustments for derivative financial instruments | 8,086 | 9,281 | 9,357 |
| 6 | Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures) | 695,363 | 703,540 | 631,145 |
| 7 | Other adjustments | 2,080,839 | 2,111,931 | 1,892,164 |
| **8** | **Leverage ratio total exposure measure** | **17,929,822** | **17,716,619** | **16,671,280** |

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

| | | CRR leverage ratio exposures | | |
|---|---|---|---|---|
| | | 30.09.2020 | 30.06.2020 | 31.12.2019 |
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **17,258,269** | **17,029,239** | **16,052,013** |
| EU-2 | Trading book exposures | - | 2,776 | 4,324 |
| EU-3 | Banking book exposures, of which: | 17,258,269 | 17,026,463 | 16,047,689 |
| EU-4 | Covered bonds | 358,742 | 355,489 | 359,324 |
| EU-5 | Exposures treated as sovereigns | 5,215,809 | 5,152,702 | 4,428,498 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns | 356,228 | 361,006 | 370,202 |
| EU-7 | Institutions | 811,422 | 629,989 | 682,651 |
| EU-8 | Secured by mortgages of immovable properties | 948,357 | 939,136 | 961,232 |
| EU-9 | Retail exposures | 3,996,466 | 3,926,418 | 3,889,344 |
| EU-10 | Corporate | 2,342,488 | 2,372,300 | 2,371,157 |
| EU-11 | Exposures in default | 131,912 | 128,514 | 111,318 |
| EU-12 | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 3,096,845 | 3,160,909 | 2,873,963 |

# 5. Appendices

## 5.1. Appendix 1
## Capital instruments main features templates

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

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

*N/A – not relevant for this instrument*

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

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

| | | |
|---|---|---|
| 1 | Issuer | NOVA LJUBLJANSKA BANKA d.d., Ljubljana |
| 2 | Unique identifier | ISIN: SI0022103855 |
| 3 | Governing law(s) of the instrument | Slovenian law |
| ***Regulatory treatment*** | | |
| 4 | Transitional CRR rules | Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation |
| 5 | Post-transitional CRR rules | Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation |
| 6 | Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated | Solo and Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation |
| 8 | Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | EUR 44,595,000 |
| 9 | Nominal amount of instrument | EUR 45,000,000 |
| 9a | Issue price | 99.1% |
| 9b | Redemption price | 100% |
| 10 | Accounting classification | financial liability |
| 11 | Original date of issuance | 6.5.2019 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 6.5.2029 |
| 14 | Issuer call subject to prior supervisory approval | The principal of the Notes cannot be prepaid upon demand of a Noteholder. No liability of the Issuer arising out of the Notes can be paid before the maturity of such liability, determined in accordance of Terms and Conditions of the Notes, except in the case of the Issuer's compulsory liquidation or bankruptcy or any other proceedings, the aim of which is compulsory winding-up of the Issuer.<br>Provided that it obtains a permission of the competent authority referred to in Article 77. of the CRR Regulation for conducting redemption, repurchase, repayment or payment of the Notes, the Issuer may pay the principal of all the Notes (but not only some) together with the interest calculated until the date of redemption, in the following cases:<br>(a) if the Issuer fails to obtain the approval of the European Central Bank for inclusion of the amount received by the Issuer as the paid-up amount or proceeds of the initial sale of the Notes (the Paid-Up Amount) in the calculation of its Tier 2 capital on or before 6.8.2019;<br>(b) if the Notes are redeemed on the Fifth Anniversary; or<br>(c) if, as a result of any change in, or amendment to, the laws or regulations or any change in the application or official interpretation of such laws or regulations which becomes effective after the Issue Date, there is a change in the tax treatment of the Notes due to which:<br>(i) the Issuer becomes (or it becomes certain that on the next Interest Payment Date the Issuer will become) required to pay additional amounts as provided or referred to in Condition 6; or<br>(ii) the Issuer ceases to be (or it becomes certain that on the next Interest Payment Date the Issuer will cease to be) entitled to treat the interest on the Notes as a tax deductible expense, either entirely or in a material part; or<br>(iii) for other reasons the tax treatment of the Notes becomes more burdensome for the Issuer than on the Issue Date; or<br>(d) if, due to a change in the conditions for inclusion of the Notes in the Tier 2 capital of the Issuer on individual and consolidated level, it becomes likely that the Paid-Up Amount, in whole or in part, will no longer qualify as Tier 2 capital of the Issuer on individual and consolidated level or will be re-classified as a lower quality form of capital. |
| 15 | Optional call date, contingent call dates and redemption amount | 6.5.2024, optional call dates in case of regulatory call and tax call |
| 16 | Subsequent call dates, if applicable | N/A |
| ***Coupons / dividends*** | | |
| 17 | Fixed or floating dividend/coupon | Fixed (see line 18 for further details) |
| 18 | Coupon rate and any related index | Interest rate means annual interest rate, which amounts to:<br>(i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%;<br>(ii) from and including the Fifth Anniversary, the sum of Reference Interest Rate, applicable on Interest Rate Determination Date, and Margin (4.159%) |
| 19 | Existence of a dividend stopper | N/A |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Noncumulative or cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | N/A |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Claims from eligible liabilities instruments (Article 72(b) of the CRR) |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

*N/A – not relevant for this instrument*

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

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

*N/A – not relevant for this instrument*

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

| | | |
|---|---|---|
| 1 | Issuer | NOVA LJUBLJANSKA BANKA d.d., Ljubljana |
| 2 | Unique identifier | ISIN: XS2113139195 |
| 3 | Governing law(s) of the instrument | German law, with the exception of status of the notes which is governed in accordance with Slovenian law |
| ***Regulatory treatment*** | | |
| 4 | Transitional CRR rules | Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation |
| 5 | Post-transitional CRR rules | Subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation |
| 6 | Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated | Solo and Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Notes have the characteristics of subordinated debt for inclusion in Tier 2 capital according to Article 63. of the CRR Regulation |
| 8 | Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | EUR 120,000,000 |
| 9 | Nominal amount of instrument | EUR 120,000,000 |
| 9a | Issue price | 100% |
| 9b | Redemption price | 100% |
| 10 | Accounting classification | financial liability |
| 11 | Original date of issuance | 5.2.2020 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 5.2.2030 |
| 14 | Issuer call subject to prior supervisory approval | The principal of the Notes cannot be prepaid upon demand of a noteholder.<br>The Issuer may redeem the Notes before maturity (in whole, but not in part, at their principal amount together with accrued and unpaid interest thereon to but excluding the date specified for the redemption at any time on the date of early redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in conditions of the Notes are met):<br>(a) if, by 31.7.2020, the Issuer does not obtain the permission of the competent authority to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the CRR II; and<br>(b) subject to the prior consent of the competent authority: (i) on the fifth anniversary of the issue date of the Notes; (ii) if there is a change in the regulatory classification of the Notes; and/or (iii) if there is a change in the applicable tax treatment of the Notes. |
| 15 | Optional call date, contingent call dates and redemption amount | Redemption amount equals to 100% of principal amount plus accrued and unpaid interest;<br>Optional call date: 5.2.2025;<br>Contingent call dates:<br>- if the issuer fails to obtain regulatory permission by 31.7.2020;<br>- early redemption for regulatory reasons;<br>- early redemption due to change in applicable tax treatment of the Notes. |
| 16 | Subsequent call dates, if applicable | No |
| ***Coupons / dividends*** | | |
| 17 | Fixed or floating dividend/coupon | Fixed (see line 18 for further details) |
| 18 | Coupon rate and any related index | Interest rate means annual interest rate, which amounts to:<br>(i) 3.40% up to but excluding 5.2.2025;<br>(ii) from and including 5.2.2025, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.658%. |
| 19 | Existence of a dividend stopper | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Noncumulative or cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | no |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Claims from eligible liabilities instruments (Article 72(b) of the CRR) |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

*N/A – not relevant for this instrument*

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

| Art. | Requirement | Chapter | Page |
|---|---|---|---|
| **436** | **Scope of application** | | |
| | (a) The name of the institution to which the requirements of this Regulation apply; | 1 | 4 |
| **437** | **Capital (Own funds)** | | |
| | (a) A full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution; | 3.5 | 12 |
| | (b) A description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution; | 3.3 | 10 |
| | (c) The full terms and conditions of all CET1, AT1 and Tier 2 instruments; | 3.3 | 10 |
| | (d) Separate disclosure of the nature and amounts of the following:<br>(i) each prudential filter applied pursuant to Articles 32 to 35;<br>(ii) each deduction made pursuant to Articles 36, 56 and 66;<br>(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79; | 3.4 | 11 |
| | (e) A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply; | 3.4 | 11 |
| **438** | **Capital requirements** | | |
| | (c) (SA approach:) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= SA categories); | 3.2 | 9 |
| | (e) (Market risks:) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3); (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk; | 3.2 | 9 |
| | (f) (Operational risk :) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately. | 3.2 | 9 |
| **451** | **Leverage** | | |
| | (a) The leverage ratio and how the institution applies Article 499(2) and (3); | 4 | 18 |
| | (b) A breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements; | 4 | 18 |
| | (d) A description of the processes used to manage the risk of excessive leverage; | 4 | 18 |
| | (e) A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers. | 4 | 18 |
| **492** | **Transitional provisions for disclosure of own funds** | | |
| 4 | During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the number of instruments that qualify as CET 1 instruments, AT1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments that are not eligible under new legislation but can be gradually excluded). | 3.4 | 11 |