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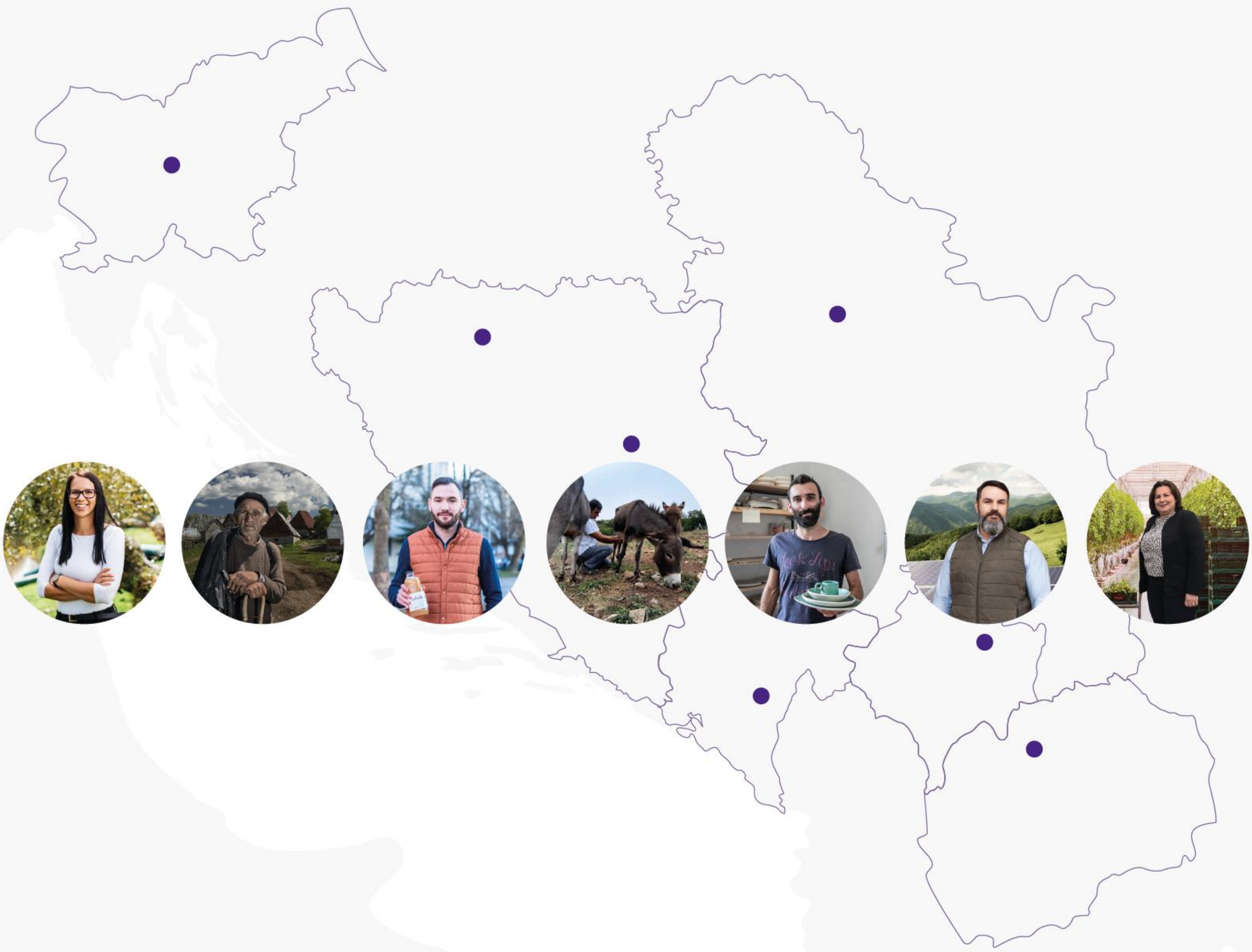
Q1 2021 | Pillar 3 Disclosures



Abbreviations

AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BoS	Bank of Slovenia
CBR	Combined buffer requirement
CCP	Central Counterparty
CCR	Counterparty credit risk
CET1	Common equity tier 1 capital
COVID-19	Coronavirus Disease 2019
CRD	Capital Requirements Directive
CRD IV or **CRD V**	Capital Requirements Directive and Regulation
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Losses
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
G-SII	Global systemically important institutions
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
JST	Joint Supervisory Team
LCR	Liquidity coverage ratio
MDA	Maximum Distributable Amount
MDB	Multilateral Development Bank
MS	Mid-swap
NCI	Non-controling interest
NPL	Non Performing Loans
NSFR	Net Stable Funding Ratio
OCR	Overall capital requirement
O-SII	Other systemically important institutions
P2G	Pillar 2 Guidance
P1R	Pillar 1 Requirement
P2R	Pillar 2 Requirement
PFE	Potential Future Exposure
PSE	Public Sector Entity
RWA	Risk-weighted assets
SA	Standardised Approach
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TC	Total Capital
TSCR	Total SREP capital requirement
ZBan-2	Banking Act
ZUKD	Zavod za upravljanje kulturne dediščine - NLB Cultural Heritage Management Institute

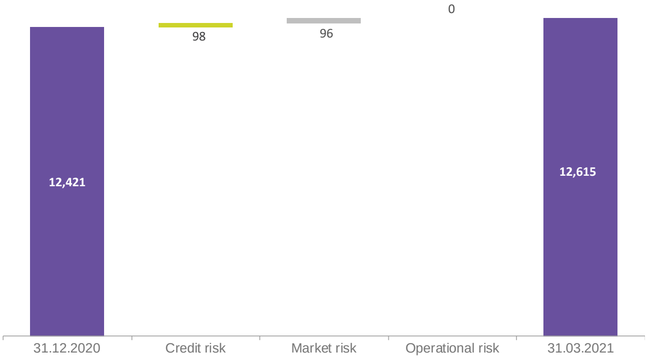
Key highlights

Table 1 – Key metrics

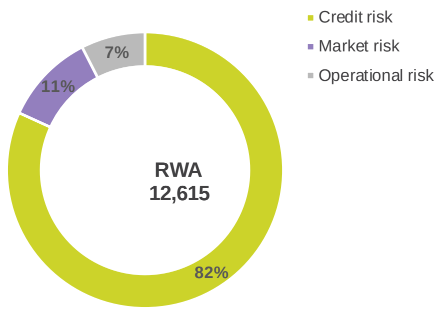
NLB Group	31.03.2021	31.12.2020
Available capital		
Common equity tier 1 (CET1)	1,734,201	1,753,448
Additional Tier 1 capital	4,874	14,614
Tier 1	1,739,075	1,768,062
Tier 2	286,362	297,401
Total capital	2,025,437	2,065,463
Risk weighted assets		
Total RWA	12,615,065	12,421,028
Capital ratios		
Common equity tier 1 ratio (%)	13.7%	14.1%
Tier 1 ratio (%)	13.8%	14.2%
Total capital ratio (%)	16.1%	16.6%
Additional CET1 buffer requirements as a % of RWA		
Capital conservation buffer requirement	2.5%	2.5%
Countercyclical buffer requirement	0.0%	0.0%
Bank G-SII and / or O-SII additional requirements	1.0%	1.0%
Combined buffer requirement	3.5%	3.5%
Leverage ratio		
Total leverage ratio exposure measure	22,958,066	22,603,903
Leverage ratio (%)	7.58%	7.82%
Liquidity Coverage Ratio		
Total HQLA	4,915,250	5,003,026
Total net cash outflow	1,876,398	1,943,104
LCR ratio	262%	257%
NSFR ratio	166%	166%

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

Picture 1: Changes in RWA

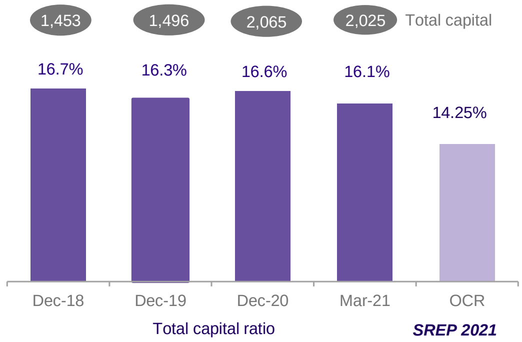


Picture 2: RWA analysis



Picture 3: Total capital ratio changes

Picture 4: 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 Pillar 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 EBA published final guidelines on the Pillar 3 disclosure requirements aimed at improving and enhancing the consistency and comparability of institutions' disclosures. These guidelines apply from 31 December 2017 and NLB Group's disclosures have been prepared in accordance with these guidelines.

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

CRD IV and EBA guidelines require NLB Group to disclose information at least on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. A separate Pillar 3 document is also published quarterly on the NLB's website https://www.nlb.si/financial-reports, 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 Q1 2021 NLB Group Interim Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the NLB Group Interim Report Q1 2021. 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 a of CRR)

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

Picture 5: NLB Group scheme

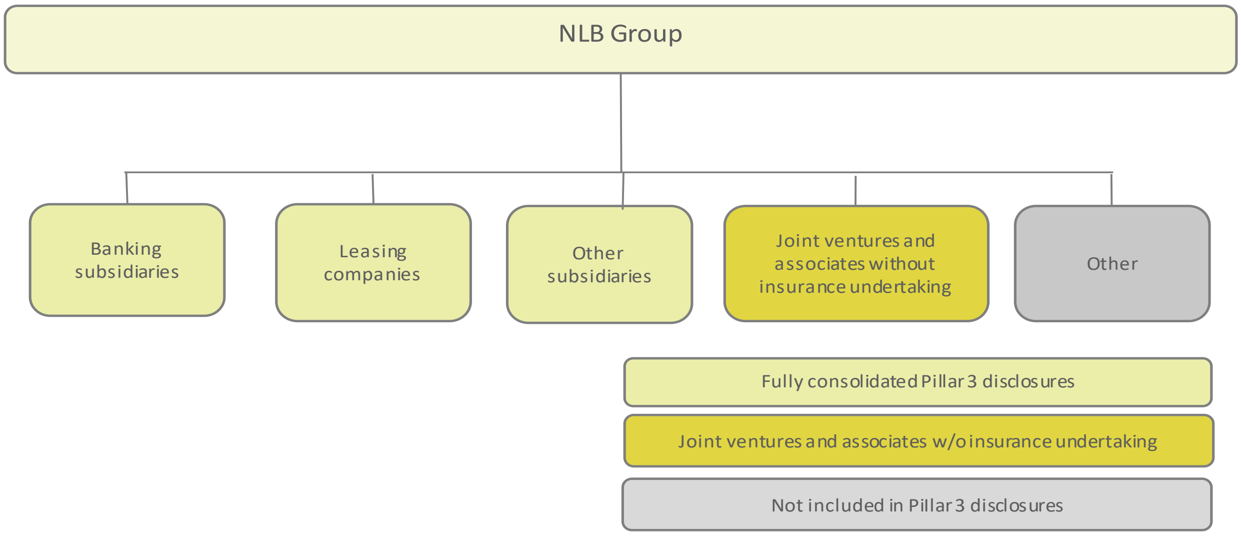


Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report Q1 2021, and under the scope of regulatory consolidation.

The consolidation for *accounting purposes* comprises all:

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

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

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

31.03.2021	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	3,918,187	3,918,187
Financial assets held for trading	75,103	75,103
Non-trading financial assets mandatorily at fair value through profit or loss	42,872	42,872
Financial assets measured at fair value through other comprehensive income	3,452,475	3,452,475
Financial assets measured at amortised cost		
- debt securities	1,831,866	1,831,866
- loans and advances to banks	204,975	204,975
- loans and advances to customers	9,798,629	9,798,629
- other financial assets	113,894	113,894
Derivatives - hedge accounting	97	97
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9,999	9,999
Investments in subsidiaries	-	10
Investments in associates and joint ventures	8,120	8,120
Tangible assets		
Property and equipment	247,289	247,279
Investment property	54,405	54,405
Intangible assets	58,225	58,225
Current income tax assets	4,367	4,367
Deferred income tax assets	30,968	30,968
Other assets	98,598	98,406
Non-current assets held for sale	8,957	8,957
Total assets	**19,959,026**	**19,958,834**
Financial liabilities held for trading	13,853	13,853
Financial liabilities measured at amortised cost		
- deposits from banks and central banks	71,945	71,945
- borrowings from banks and central banks	158,483	158,483
- due to customers	16,732,097	16,732,239
- borrowings from other customers	92,654	92,654
- subordinated liabilities	286,833	286,833
- other financial liabilities	224,198	224,184
Derivatives - hedge accounting	48,272	48,272
Provisions	118,201	118,201
Current income tax liabilities	956	956
Deferred income tax liabilities	4,375	4,375
Other liabilities	18,599	18,598
Total liabilities	**17,770,466**	**17,770,593**
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	17,246	17,707
Profit reserves	13,522	13,522
Retained earnings	911,931	911,151
	2,014,077	**2,013,758**
Non-controlling interests	174,483	174,483
Total equity	**2,188,560**	**2,188,241**
Total liabilities and equity	**19,959,026**	**19,958,834**

31.12.2020	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	3,961,812	3,961,812
Financial assets held for trading	84,855	84,855
Non-trading financial assets mandatorily at fair value through profit or loss	42,393	42,393
Financial assets measured at fair value through other comprehensive income	3,514,290	3,514,290
Financial assets measured at amortised cost		
- debt securities	1,503,087	1,503,087
- loans and advances to banks	197,005	197,005
- loans and advances to customers	9,619,860	9,619,860
- other financial assets	113,138	113,138
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13,844	13,844
Investments in subsidiaries	-	10
Investments in associates and joint ventures	7,988	7,988
Tangible assets		
Property and equipment	249,117	249,107
Investment property	54,842	54,842
Intangible assets	61,668	61,668
Current income tax assets	4,369	4,369
Deferred income tax assets	31,789	31,789
Other assets	97,140	96,948
Non-current assets held for sale	8,658	8,658
Total assets	**19,565,855**	**19,565,663**
Financial liabilities held for trading	15,485	15,485
Financial liabilities measured at amortised cost		
- deposits from banks and central banks	72,633	72,633
- borrowings from banks and central banks	158,225	158,225
- due to customers	16,397,167	16,397,355
- borrowings from other customers	91,560	91,560
- subordinated liabilities	288,321	288,321
- other financial liabilities	207,300	207,289
Derivatives - hedge accounting	61,161	61,161
Provisions	125,059	125,059
Current income tax liabilities	1,002	1,002
Deferred income tax liabilities	4,475	4,475
Other liabilities	20,427	20,426
Total liabilities	**17,442,815**	**17,442,991**
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	21,127	21,588
Profit reserves	13,522	13,522
Retained earnings	846,762	845,933
	1,952,789	**1,952,421**
Non-controlling interests	170,251	170,251
Total equity	**2,123,040**	**2,122,672**
Total liabilities and equity	**19,565,855**	**19,565,663**

3. Capital and capital requirements

3.1. Capital adequacy

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

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

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

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

		2021	from 12 March 2020 onwards	as at 1 January till 11 March 2020	2019
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%	1.55%	0.0%	0.0%
	Tier 1	2.06%	2.06%	0.0%	0.0%
	Total Capital	2.75%	2.75%	2.75%	3.25%
Total SREP Capital requirement (TSCR)	CET1	6.05%	6.05%	7.25%	7.75%
	Tier 1	8.06%	8.06%	8.75%	9.25%
	Total Capital	10.75%	10.75%	10.75%	11.25%
Combined buffer requirement (CBR)					
Conservation buffer	CET1	2.5%	2.5%	2.5%	2.5%
O-SII buffer	CET1	1.0%	1.0%	1.0%	1.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	9.55%	10.75%	11.25%
	Tier 1	11.56%	11.56%	12.25%	12.75%
	Total Capital	14.25%	14.25%	14.25%	14.75%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.55%	10.55%	11.75%	12.25%

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).

Pillar 2 Guidance (P2G) which should be comprised entirely of CET1 capital, remains at a relatively low level 1.0%.

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.

Table 4 – Capital adequacy of NLB Group:

	31.03.2021	31.12.2020
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	616,341	552,146
Current result	-	63,635
Accumulated other comprehensive income	17,707	21,588
Other reserves	13,522	13,522
Minority interest	54,265	71,562
Prudential filters: Additional Valuation Adjustments (AVA)	(3,558)	(3,632)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(31,925)	(33,222)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,734,201**	**1,753,448**
Minority interest	4,874	14,614
Additional Tier 1 capital	**4,874**	**14,614**
TIER 1 CAPITAL	**1,739,075**	**1,768,062**
Capital instruments and subordinated loans eligible as T2 capital	284,595	284,595
Minority interest	1,767	12,806
Tier 2 capital	**286,362**	**297,401**
TOTAL CAPITAL	**2,025,437**	**2,065,463**
Risk exposure amount for credit risk	10,320,572	10,222,923
Risk exposure amount for market risks	1,346,588	1,250,563
Risk exposure amount for CVA	563	200
Risk exposure amount for operational risk	947,342	947,342
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,615,065**	**12,421,028**
Common Equity Tier 1 Ratio	13.7%	14.1%
Tier 1 Ratio	13.8%	14.2%
Total Capital Ratio	16.1%	16.6%

As at 31 March 2021, the Total capital ratio for the Group stood at 16.1% (or 0.6 p.p. lower than at the end of 2020), and for NLB at 26.1% (or 1.0 p.p. lower than at the end of 2020). As at 31 March 2021, the CET1 ratio stood at 13.7% (0.4 p.p. lower than at the end of 2020). The lower total capital adequacy derives from lower capital (EUR 40.0 million for the Group) as well as higher RWA. The main effect in capital was decrease of NCI – Minority interest in the amount of EUR 38.1 million, of which EUR 43.0 million due to Komercijalna banka Beograd takeover bid, after obtaining ECB's approval. If as of 30 September 2021 NLB does not own 100% of Komercijalna banka Beograd shares, the remaining part of Minority interest will be included back into capital.

The drivers behind the differences between the RWAs in Q1 2021 are explained in Chapter 3.2 Capital requirements in the Table 5 – EU OV1– Overview of RWAs.

Acquisition of Komercijalna banka Beograd

On 10 March 2021, NLB announced the takeover bid in the Republic of Serbia for the acquisition of all remaining regular and priority shares of Komercijalna banka Beograd. As of 31 March 2021, this decreased capital for EUR 43.0 million due to decrease of Minority interest and at the same time increased RWA for market risks by increasing open positions in RSD.

The acceptance period in the takeover bid closed on 9 April. The Bank acquired additional 801,876 ordinary shares; after the closing the Bank holds combined 14,799,562 ordinary shares (87.99858% of voting rights). The Bank also acquired 57,250 preferred shares; after the closing the Bank holds 57,250 (15.32757%) of this class of shares. The purchase price was RSD 2.71 billion (EUR 23.1 million).

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

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

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

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

The Table 5 shows the detailed composition of the capital requirements of NLB Group at the end of March 2021 and at the end of 2020.

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

		31.03.2021		31.12.2020	
		RWA	Minimum capital requirement - 8% of RWA	RWA	Minimum capital requirement - 8% of RWA
1	**Credit risk (excluding CCR)**	**10,197,137**	**815,771**	**10,095,394**	**807,632**
2	Of which the standardised approach	10,197,137	815,771	10,095,394	807,632
6	**CCR**	**26,278**	**2,102**	**28,286**	**2,263**
7	Of which mark to market	25,715	2,057	28,086	2,247
12	Of which CVA	563	45	200	16
19	**Market risk**	**1,346,588**	**107,727**	**1,250,563**	**100,045**
20	Of which the standardised approach	1,346,588	107,727	1,250,563	100,045
23	**Operational risk**	**947,342**	**75,787**	**947,342**	**75,787**
24	Of which basic indicator approach	947,342	75,787	947,342	75,787
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**97,720**	**7,818**	**99,443**	**7,955**
29	**Total**	**12,615,065**	**1,009,205**	**12,421,028**	**993,682**

RWA for the Group increased in 2021 by EUR 194.0 million. RWA for credit risk increased in 2021 by EUR 97.6 million (lines 2, 7, and 27 in Table 5). Most of the increase contributed NLB (EUR 127.4 million), which is related with new production on retail and corporate segment and with investments in subordinated bonds representing Tier 2 instruments. As a result of RWA optimization some Group bank members recorded the RWA decrease. Other factors for RWA reduction are maturity of government bonds in Serbia and Montenegro, as well as lower deposits with central banks.

The increase in RWA for market risks and CVA (Credit value adjustments) in the amount of EUR 96.4 million (lines 12, 13, and 20 in Table 5) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks, especially in RSD due to Komercijalna banka Beograd takeover bid.

3.3. Capital instruments included in the capital
(Articles 437 b and c of CRR)

In 2021, 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 shares of the parent entity NLB are included in Common Equity Tier 1 capital and the subordinated Tier 2 notes issued in May 2019, November 2019, and February 2020 by NLB are included in Tier 2 capital. All three elements of capital also include Minority Capital (Non-controlling interest).

Until June 2020, 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 at 30 June 2020, and the minority capital of existing subsidiaries has since then been included in Group regulatory capital, and as at 31 March 2021 amounts to EUR 60.9 million (reduced by EUR 43.0 million due to takeover bid of Komercijalna banka Beograd). Details on main characteristics of the capital instruments are disclosed in Appendix 5.1.

Subordinated liabilities for NLB Group are disclosed in the NLB Group Interim Report Q1 2021– note 5.11. a) Subordinated liabilities (page 87).

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

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of March 2021 and at the end of 2020 in the form prescribed by the EBA implementing technical standards, published as Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2014 (Annex IV – Own funds disclosure template). A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 3.1. Capital adequacy.

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

Table 6 – Own funds for NLB Group

		31.03.2021	31.12.2020
Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,071,378	1,071,378
	of which: ordinary shares	1,071,378	1,071,378
2	Retained earnings - including current result	616,341	615,781
3	Accumulated other comprehensive income (and other reserves)	31,229	35,110
5	Minority interest (amount allowed in consolidated CET1)	54,265	71,562
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,773,213**	**1,793,831**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(3,558)	(3,632)
8	Intangible assets (net of related tax liability) (negative amount)	(35,454)	(36,751)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(39,012)**	**(40,383)**
29	**Common Equity Tier 1 (CET1) capital**	**1,734,201**	**1,753,448**
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	4,874	14,614
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**4,874**	**14,614**
44	**Additional Tier 1 (AT1) capital**	**4,874**	**14,614**
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,739,075**	**1,768,062**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	284,595	284,595
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	1,767	12,806
51	**Tier 2 (T2) capital before regulatory adjustments**	**286,362**	**297,401**
58	**Tier 2 (T2) capital**	**286,362**	**297,401**
59	**Total capital (TC = T1 + T2)**	**2,025,437**	**2,065,463**
60	**Total risk weighted assets**	**12,615,065**	**12,421,028**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.7%	14.1%
62	Tier 1 (as a percentage of total risk exposure amount)	13.8%	14.2%
63	Total capital (as a percentage of total risk exposure amount)	16.1%	16.6%
64	Institution specific buffer requirement (CET1 Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	8.0%	8.0%
65	of which: capital conservation buffer requirement	2.5%	2.5%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.0%	1.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount)	5.7%	6.1%
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)	71,185	26,325
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)	8,120	7,988
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)	30,968	31,789

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

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

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

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

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

	31.03.2021		31.12.2020	
	Prudential consolidation	Included in capital	Prudential consolidation	Included in capital
Cash, cash balances at central banks and other demand deposits at banks	3,918,187	-	3,961,812	-
Financial assets held for trading	75,103	(75)	84,855	(85)
Non-trading financial assets mandatorily at fair value through profit or loss	42,872	(17)	42,393	(17)
Financial assets measured at fair value through other comprehensive income	3,452,475	(3,452)	3,514,290	(3,514)
Financial assets measured at amortised cost	11,949,364	-	11,433,090	-
Derivatives - hedge accounting	97	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9,999	-	13,844	-
Investments in subsidiaries	10	-	10	-
Investments in associates and joint ventures	8,120	-	7,988	-
Tangible assets	301,684	-	303,949	-
Intangible assets	58,225	(35,454)	61,668	(36,751)
Goodwill	3,529	(3,529)	3,529	(3,529)
Other intangible assets	54,696	(31,925)	58,139	(33,222)
Current income tax assets	4,367	-	4,369	-
Deferred income tax assets	30,968	-	31,789	-
That rely on future profitability and arise from temporary differences	30,968	-	31,789	-
Other assets	98,406	-	96,948	-
Non-current assets classified as held for sale	8,957	-	8,658	-
Total assets	**19,958,834**		**19,565,663**	
Financial liabilities held for trading	13,853	(14)	15,485	(16)
Financial liabilities measured at amortised cost	17,566,338	284,595	17,215,383	284,595
Derivatives - hedge accounting	48,272	-	61,161	-
Provisions	118,201	-	125,059	-
Current income tax liabilities	956	-	1,002	-
Deferred income tax liabilities	4,375	-	4,475	-
Other liabilities	18,598	-	20,426	-
Total liabilities	**17,770,593**		**17,442,991**	
Share capital	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	17,707	17,707	21,588	21,588
Profit reserves	13,522	13,522	13,522	13,522
Retained earnings	911,151	616,341	845,933	615,781
Non-controlling interests	174,483	60,906	170,251	98,982
Total equity	**2,188,241**		**2,122,672**	
Total liabilities and equity	**19,958,834**		**19,565,663**	
Sum of balance sheet items		**2,025,437**		**2,065,463**
Capital (Own funds)		**2,025,437**		**2,065,463**

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

31.03.2021	Equity - Prudential consoli-dation	Retained earnings not included in the regulatory capital	Negative goodwill	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	**17,707**	-	-	-		**17,707**	Accumulated other comprehensive income
Profit reserves	**13,522**	-	-	-	-	**13,522**	Other reserves
Retained earnings - from previous years	**846,493**	(92,294)	(137,858)	-	-	**616,341**	Retained earnings - from previous years
Retained earnings - current results	**64,658**	(64,658)	-	-	-	**-**	Current results
Minority interest	**174,483**	-	-	(120,218)	-	**54,265**	Minority interest
					(3,558)	**(3,558)**	Prudential filter: Additional Valuation Adjustment (AVA) (Article 34)
					(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
					(31,925)	**(31,925)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**2,188,241**	**(156,952)**	**(137,858)**	**(120,218)**	**(39,012)**	**1,734,201**	**Common Equity Tier 1 (CET1) Capital**
				4,874		4,874	Additional Tier 1 Capital
						1,739,075	**Tier 1 Capital**
				1,767		286,362	Tier 2 Capital
				60,906		**2,025,437**	**Total Capital**

31.12.2020	Equity - Prudential consoli-dation	Retained earnings not included in the regulatory capital	Negative goodwill	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	**21,588**	-	-	-		**21,588**	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	**293,787**	(92,294)	(137,858)	-	-	**63,635**	Current results
Minority interest	**170,251**	-	-	(98,689)	-	**71,562**	Minority interest
					(3,632)	**(3,632)**	Prudential filter: Additional Valuation Adjustment (AVA) (Article 34)
					(3,529)	**(3,529)**	Deduction item: Goodwill (Article 36.b)
					(33,222)	**(33,222)**	Deduction item: Other intangible assets (Article 36.b)
Total equity	**2,122,672**	**(92,294)**	**(137,858)**	**(98,689)**	**(40,383)**	**1,753,448**	**Common Equity Tier 1 (CET1) Capital**
				14,614		14,614	Additional Tier 1 Capital
						1,768,062	**Tier 1 Capital**
				12,806		297,401	Tier 2 Capital
				98,982		**2,065,463**	**Total Capital**

During Q1 2021, total accounting equity according to prudential consolidation increased by EUR 65 million to EUR 2,188 million as at 31 March 2021, primarily due to higher retained earnings.

3.6. Risk factors and Outlook

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, potential cyber-attacks, 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 the COVID-19 pandemic. The governments in the region implemented different measures to mitigate its adverse negative impacts. In 2021, the Group's region is expected to return to growth on the back of revival in private and investment consumption assuming that consumer and investment confidence are restored when the pandemic is successfully curbed.

Based on the measures taken by the governments in Slovenia and other countries, the Group granted an option of moratoriums on the payment of obligations to all eligible borrowers due to COVID-19, which is not treated as a trigger for a significant increase in the credit risk. In accordance with the EBA guidelines, 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 did 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. During 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 had some negative impacts on the existing loan portfolio quality, namely as an increase of Stage 2 and Stage 3 exposures, and the related cost of risk. Furthermore, it also impacted new loan generation. The investment strategy of the Group, referring to the Group's bond portfolio kept for liquidity purposes, adapts to the expected market trends in accordance with the set risk appetite. The liquidity position of the Group is expected to remain very solid; the pandemic did not result in any material liquidity outflows. Special attention is paid to continuous provision of services to clients, their monitoring, health protection measures, and the prevention of cyber frauds.

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

Based on the ECB baseline the Group developed a set of mild and severe macroeconomic scenarios for the initial period. For the following two-year period, the normal pre-COVID-19 methodology and IMF projections were used. These scenarios, which are based on the expected U-crisis (severe deterioration of macroeconomic indicators in the initial year and moderate positive growth in the following period), 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 threelayer approach, considering the feasibility analysis of the measure, its impact on the Group's business model, and the strength of available measure.

Outlook

In the Euro area, GDP is seen growing 4.0% this year while in Slovenia it is seen expanding 4.5%. Supportive fiscal and monetary policies, unleashed pent-up demand and the disbursement of recovery funds should revive domestic spending while restored foreign demand should lift exports. The reopening of economies and rapid rebound, resulting in temporary supply-demand imbalances, are poised to reinforce other temporary factors effects, thereby stronger inflation prints are expected over the year. Disrupted global supply chains pose additional inflationary risks. Nevertheless, a large output gap will remain in place thereby keeping the medium-term inflationary pressures in check. The prospective winding down of job retention schemes clouds the outlook of the labour market. The Group's region is seen growing 4.6% on average this year with revival in domestic and foreign demand seen as main drivers of growth. The uncertain evolution of the pandemic still poses main downside risks.

During the COVID-19 pandemic, 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.

Following stagnation in 2020, and in line with the economic rebound, moderate loan growth in Retail Banking in Slovenia is expected in 2021, with an emphasis on mortgage lending and a slow recovery in consumer lending. Corporate and Investment Banking in Slovenia is also expected to grow with the predominance of cross-border lending. Growth in Strategic Foreign Markets will remain robust and will greatly improve due to the acquired Komercijalna banka Beograd. The customer deposit base will remain high. Revenues are expected to improve, with fee business growth returning to pre-COVID-19 levels. However, net interest income will continue to be under pressure due to shrinking margins in all markets and high balance of low-yield liquidity sources. The Group continues to strive for increasing margins over time by stimulating loan growth (especially retail) and pursuing new opportunities. In addition, the Bank as at 1 April 2021 started charging retail deposits with balances exceeding EUR 250,000; consequently, it is expected that a certain portion of retail deposits will be transferred into asset management and insurance products.

The commitment to cost containment remains strong and the Group will continue to pursue a strong cost agenda addressing both labour and non-labour cost elements. Nevertheless, costs are expected to moderately increase in 2021, given the pressure on labour cost inflation throughout the region and continued investment activities into information technology upgrades, amid the growing relevance of digital banking and, last but not least, integration cost associated with the acquired Komercijalna banka Beograd.

After a few years of negative cost of risk, the NPL stopped its multi-year declining trend in the Group. The cost of risk in 2021 is as of now expected to outperform the current outlook range (70-90 bps); including potential one-off effects. The main circumstances influencing cost of risk shall be the length and severity of COVID-19-related disruptions in corporate operations and consumer spending, and the impact of off-setting measures by governments.

Further uncertainties and the related economic slowdown might have an additional negative impact on the existing loan portfolio quality, namely as a potential increase of Stage 2 and Stage 3 exposures. However, due to the quite stable quality of the portfolio in the past period, and other precautionary measures to minimise potential future losses, including paying special attention to continuous provision of services to clients and their monitoring, this impact should not be excessive.

From 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 unfavourable liquidity scenario materialises, 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.

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. Also, in 2021 the Group will continue with the activities to further strengthen the capital position, predominantly by measures to optimize RWAs. Additionally, negative goodwill recognised at acquisition of Komercijalna banka Beograd and acknowledged by the ECB, will be included in the regulatory capital after the General Meeting of shareholders, which will be held in June.

Pursuant to the ECB recommendation of 15 December 2020, the dividend distribution in 2021 should remain prudent and below 15% of the cumulated profit for the year 2019 and 2020 and not higher than a 20 b.p. CET1 ratio for the year 2020 on consolidated basis, whichever is lower, and for which the distribution is subject to prior ECB approval. The prudent level of distribution for NLB on consolidated level amounts to approximately EUR 25 million, and JST does not object to such a distribution plan. Based on the BoS decision on macroprudential restriction on profit distribution of February 2021, the Bank is allowed to distribute dividends only in case of a positive cumulative profit achieved in Q1 2021, whereas the amount of distribution may not exceed 15% of the bank's cumulative profit for years 2019 and 2020 on an individual basis or 0.2% of the Bank' CET1 ratio on an individual basis as at the end of 2020, whereas distribution is also subject to prior BoS notification. Consequently, the envisaged dividend portion as per ECB recommendation will be split into two tranches. The first instalment in the amount of EUR 12.0 million will be payable after the General Meeting of NLB on 22 June 2021. The second instalment will be payable upon expiry of the BoS decision on 18 October 2021 in the amount of EUR 12.8 million, unless such payment would then be contrary to the regulations. In addition to the currently allowed distribution plan, the Bank envisages, subject to regulatory requirements, additional incremental dividends in 2021 to reach a cumulative payout ratio of 70% of the 2020 Group result (without considering the impact of negative goodwill) totalling EUR 92.2 million.

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 seven 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 directly applied the day after publication in the *Official Journal*, starting on 27 June 2020.

NLB Group so far implemented:

- Changes in SME supporting factor,
- Temporary treatment of public debt issued in the currency of another Member State,
- Exempt prudently valued software assets from CET1 calculations,
- Modification of the calculation of the leverage ratio to exclude central bank reserves (more on page 18).

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. The threshold to qualify for the 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 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.

In accordance with CRR article 36 (b), and Regulation (EU) 2020/2176 software assets are from December 2020 onwards partially a deduction item from capital and partially included in RWA calculation.

4. Leverage

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

The leverage ratio is calculated in line with provisions from the CRR and CRD, including the amendments published in Commission Delegated Regulation (EU) No. 2015/62, 2016/200, and 2016/428. The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk-based supplementary measure to the risk-based capital requirements. The purpose of the leverage ratio is to limit the size of bank balance sheets, and with a special emphasis on exposures, which are not weighted within the framework of the existing capital requirement calculations. Therefore, the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. From 1 January 2018 onwards, the leverage ratio is calculated in accordance with the fully phased definition of the capital measure and has become one of the mandatory minimum capital requirements.

Table 9 – Leverage ratio of NLB Group

	31.03.2021	31.12.2020
Tier 1 capital	1,739,075	1,768,062
Total leverage exposures	22,958,066	22,603,903
Leverage ratio	**7.58%**	**7.82%**

The leverage ratio of NLB Group as at 31 March 2021 amounted to 7.6%, which is well above the 3% threshold defined by the BCBS. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceedings of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Boards of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 31 March 2021 decreased in comparison with the end of December 2020, by 0.2 p.p. 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 354 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 institutions, retail, and corporate exposures, including higher other exposures. Exposures in derivatives further decreased in comparison with the end of previous year and are relatively unimportant. The impact of Tier 1 capital decrease on the leverage ratio was EUR 29 million.

As at 31 March 2021, the leverage exposure was mainly driven by on-balance sheet exposures (96.5%), and other off-balance sheet exposure (3.4%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (31.4%), retail exposures (23.6%), exposures to corporates (12.1%), and 17.5% to other exposures.

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 exercises this option related to CRR quick fix amendments from 11 August 2020 till 27 June 2021. The amount of excluded exposures as at 31 March 2021 was EUR 188 million.

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

		31.03.2021	31.12.2020
		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)	22,370,386	21,986,015
2	(Asset amounts deducted in determining Tier 1 capital)	(39,012)	(40,383)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**22,331,374**	**21,945,632**
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	15,119	16,049
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	14,896	15,245
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(45)	(56)
8	(Exempted CCP leg of client-cleared trade exposures)	(6,441)	(6,780)
11	**Total derivative exposures**	**23,529**	**24,458**
Securities financing transaction exposures			
16	**Total securities financing transaction exposures**	**-**	**-**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	3,249,336	3,282,066
18	(Adjustments for conversion to credit equivalent amounts)	(2,458,577)	(2,474,076)
19	**Other off-balance sheet exposures**	**790,759**	**807,990**
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))	(187,596)	(174,177)
Capital and total exposures			
20	Tier 1 capital	1,739,075	1,768,062
21	**Total leverage ratio exposures**	**22,958,066**	**22,603,903**
Leverage ratio			
22	**Leverage ratio**	**7.58%**	**7.82%**

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

		31.03.2021	31.12.2020
1	**Total assets as per published financial statements**	**19,959,026**	**19,565,855**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(192)	(192)
4	Adjustments for derivative financial instruments	8,410	8,409
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	790,762	807,990
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	(187,596)	(174,177)
7	Other adjustments	2,387,656	2,396,018
8	**Leverage ratio total exposure measure**	**22,958,066**	**22,603,903**

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

		CRR leverage ratio exposures	
		31.03.2021	**31.12.2020**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**22,370,386**	**21,986,015**
EU-2	Trading book exposures	60,080	68,806
EU-3	Banking book exposures, of which:	22,310,306	21,917,209
EU-4	Covered bonds	367,918	355,023
EU-5	Exposures treated as sovereigns	7,001,703	7,173,097
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	622,162	585,295
EU-7	Institutions	1,255,461	975,702
EU-8	Secured by mortgages of immovable properties	996,269	962,450
EU-9	Retail exposures	5,270,975	5,176,729
EU-10	Corporate	2,702,752	2,667,570
EU-11	Exposures in default	192,977	181,998
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	3,900,089	3,839,345

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	of the Issuer arising out of the Notes can be paid before the maturity of such liability, determined in accordance of Terms and Conditions of the Notes, except in the case of the Issuer's compulsory liquidation or bankruptcy or any other proceedings, the aim of which is compulsory winding-up of the Issuer. Provided that it obtains a permission of the competent authority referred to in Article 77. of the CRR Regulation for conducting redemption, repurchase, repayment or payment of the Notes, the Issuer may pay the principal of all the Notes (but not only some) together with the interest calculated until the date of redemption, in the following cases: (a) if the Issuer fails to obtain the approval of the European Central Bank for inclusion of the amount received by the Issuer as the paid-up amount or proceeds of the initial sale of the Notes (the Paid-Up Amount) in the calculation of its Tier 2 capital on or before 6.8.2019; (b) if the Notes are redeemed on the Fifth Anniversary; or (c) if, as a result of any change in, or amendment to, the laws or regulations or any change in the application or official interpretation of such laws or regulations which becomes effective after the Issue Date, there is a change in the tax treatment of the Notes due to which: (i) the Issuer becomes (or it becomes certain that on the next Interest Payment Date the Issuer will become) required to pay additional amounts as provided or referred to in Condition 6; or (ii) the Issuer ceases to be (or it becomes certain that on the next Interest Payment Date the Issuer will cease to be) entitled to treat the interest on the Notes as a tax deductible expense, either entirely or in a material part; or (iii) for other reasons the tax treatment of the Notes becomes more burdensome for the Issuer than on the Issue Date; or (d) if, due to a change in the conditions for inclusion of the Notes in the Tier 2 capital of the Issuer on individual and consolidated level, it becomes likely that the Paid-Up Amount, in whole or in part, will no longer qualify as Tier 2 capital of the Issuer on individual and consolidated level or will be re-classified as a lower quality form of capital.
15	Optional call date, contingent call dates and redemption amount	6.5.2024, optional call dates in case of regulatory call and tax call
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed (see line 18 for further details)
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%; (ii) from and including the Fifth Anniversary, the sum of Reference Interest Rate, applicable on Interest Rate Determination Date, and Margin (4.159%)
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Claims from eligible liabilities instruments (Article 72(b) of the CRR)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

N/A – not relevant for this instrument

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

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

N/A – not relevant for this instrument

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

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

N/A – not relevant for this instrument

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

Art.	Requirement	Chapter	Page
436	**Scope of application**		
	(a) The name of the institution to which the requirements of this Regulation apply;	1	4
437	**Capital (Own funds)**		
	(a) A full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	3.5	12
	(b) A description of the main features of the CET1 and AT1 instruments and T2 instruments issued by the institution;	3.3	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: (i) each prudential filter applied pursuant to Articles 32 to 35, (ii) each deduction made pursuant to Articles 36, 56 and 66, (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79,	3.4	11
	(e) A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	3.4	11
438	**Capital requirements**		
	(c) (SA approach:) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= SA categories);	3.2	10
	(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	10
	(f) (Operational risk :) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	3.2	10
451	**Leverage**		
	(a) The leverage ratio and how the institution applies Article 499(2) and (3);	4	17
	(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	17
	(d) A description of the processes used to manage the risk of excessive leverage;	4	17
	(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	17
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).	/	/