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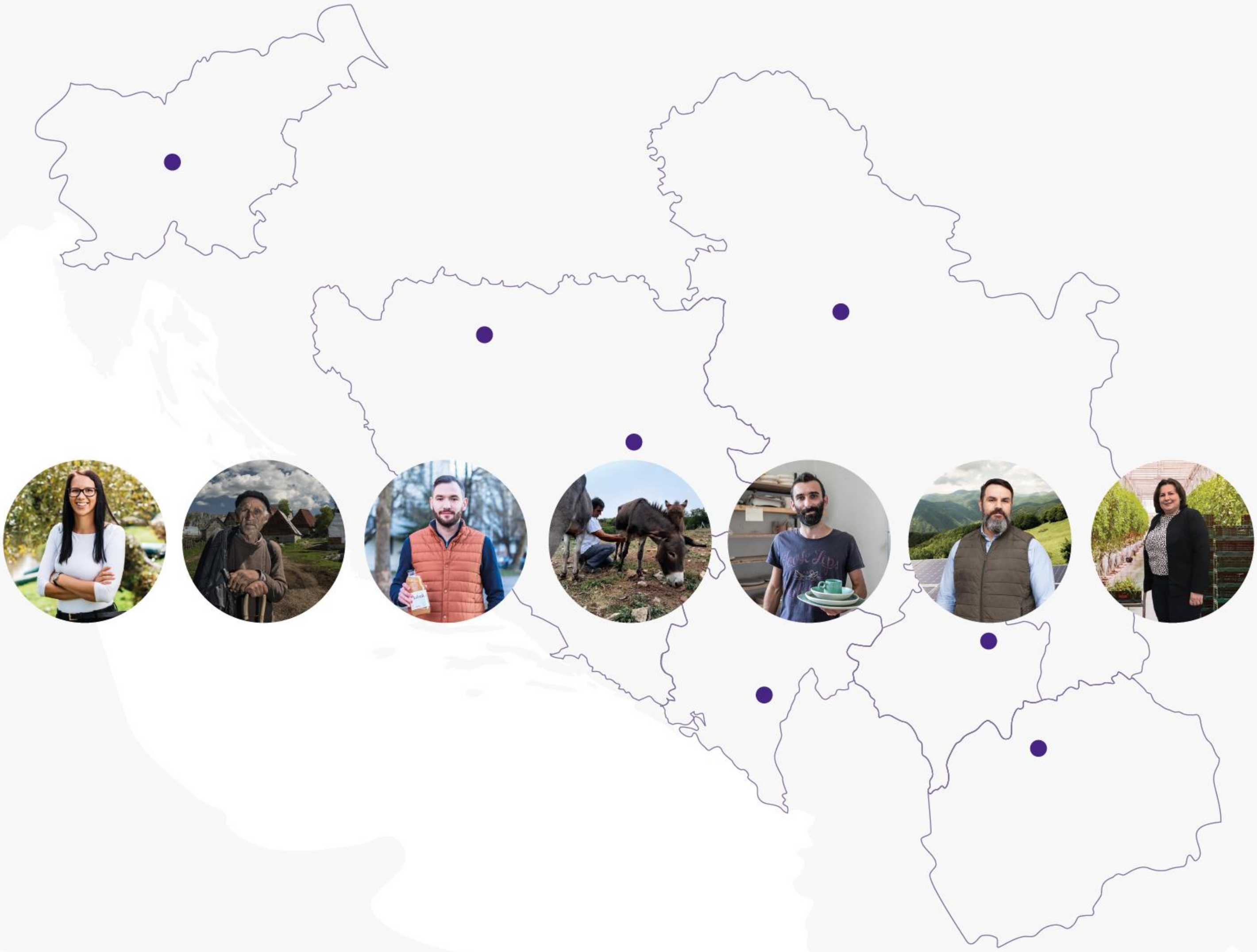
H1 2021 | Pillar 3 Disclosures



1.	**Key highlights**	**3**
2.	**Introduction**	**4**
3.	**Scope of application**	**5**
4.	**Capital and capital requirements**	**7**
4.1.	Capital adequacy	7
4.2.	Own funds (capital) requirements	9
4.3.	Detailed presentation of capital elements	10
4.4.	Capital buffers – Countercyclical buffer	11
4.5.	Risk factors and Outlook	13
4.6.	Information on COVID-19 moratoria	16
4.7.	CRR ‘Quick Fix’	18
5.	**Credit risk**	**19**
5.1.	Credit risk quality	19
5.2.	Mitigation techniques	23
5.3.	Use of standardised approach	24
6.	**Exposure to counterparty credit risk**	**28**
7.	**Exposure to market risk**	**30**
8.	**Liquidity requirements**	**31**
9.	**Leverage**	**36**
10.	**Appendices**	**38**
10.1.	Appendix 1	38
10.2.	Appendix 2	39

Abbreviations

AT1	Additional Tier 1 capital
ASF	Available Stable Funding
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BoS	Bank of Slovenia
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCP	Central Counterparty
CCR	Counterparty credit risk
CET1	Common equity tier 1 capital
COVID-19	Coronavirus Disease 2019
CRD	Capital Requirements Directive
CRD V	Capital Requirements Directive and Regulation
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Losses
EMIR	European Market Infrastructure Regulation
ESRB	European Systemic Risk Board
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
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
ISDA	International Swaps and Derivatives Association
LCR	Liquidity coverage ratio
MDA	Maximum Distributable Amount
MREL	Minimum requirement for own funds and eligible liabilities
NCI	Non-controling interest
NGW	Negative Goodwill
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
QCCP	Qualifying Central Counterparty
RC	Replacement cost
RSF	Required Stable Funding
RWA	Risk weighted amounts
RWEA	Risk weighted exposure amounts
SA	Standardised Approach
SEE	South East Europe
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
TDI	Traded Debt Instruments
TREA	Total risk exposure amounts
TSCR	Total SREP capital requirement
ZBan-3	Banking Act
ZUKD	Zavod za upravljanje kulturne dediščine - NLB Cultural Heritage Management Institute
YE	Year End

1. Key highlights

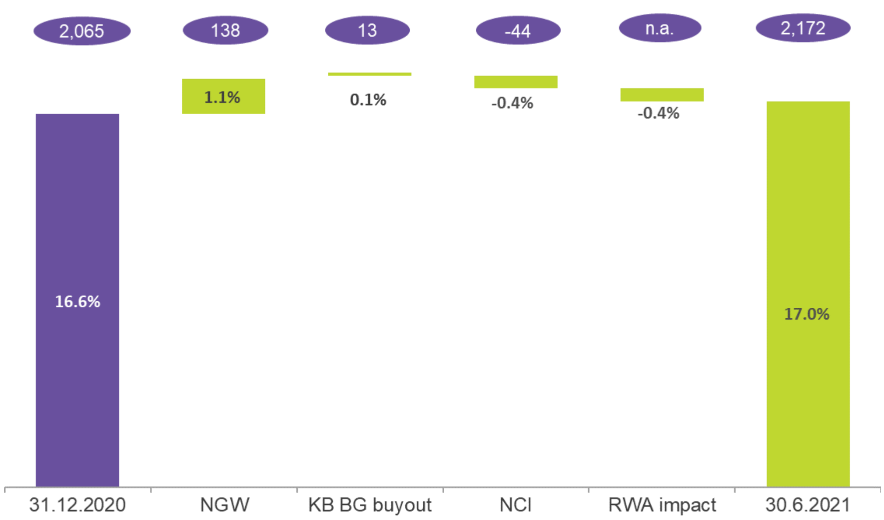
(Article 447 of CRR)

Table 1 – EU KM1 – Key metrics

		a	b	c	d	e
		30.06.2021	**31.03.2021**	**31.12.2020**	**30.09.2020**	**30.06.2020**
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,879,419	1,734,201	1,753,448	1,618,543	1,613,301
2	Tier 1 capital	1,885,268	1,739,075	1,768,062	1,623,350	1,617,113
3	Total capital	2,172,353	2,025,437	2,065,463	1,909,623	1,903,394
	Risk-weighted exposure amounts					
4	Total risk exposure amount	12,755,591	12,615,065	12,421,028	8,863,242	9,301,735
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	14.73%	13.75%	14.12%	18.26%	17.34%
6	Tier 1 ratio	14.78%	13.79%	14.23%	18.32%	17.39%
7	Total capital ratio	17.03%	16.06%	16.63%	21.55%	20.46%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.75%	2.75%	2.75%	2.75%	2.75%
EU 7b	of which: to be made up of CET1 capital	1.55%	1.55%	1.55%	1.55%	1.55%
EU 7c	of which: to be made up of Tier 1 capital	2.06%	2.06%	2.06%	2.06%	2.06%
EU 7d	Total SREP own funds requirements	10.75%	10.75%	10.75%	10.75%	10.75%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50%	2.50%	2.50%	2.50%	2.50%
EU 10a	Other Systemically Important Institution buffer	1.00%	1.00%	1.00%	1.00%	1.00%
11	Combined buffer requirement	3.50%	3.50%	3.50%	3.50%	3.50%
EU 11a	Overall capital requirements	14.25%	14.25%	14.25%	14.25%	14.25%
12	CET1 available after meeting the total SREP own funds requirements	661,252	529,462	567,240	772,103	724,985
	Leverage ratio					
13	Total exposure measure	19,147,158	22,958,066	22,603,903	17,929,822	17,716,619
14	Leverage ratio	9.85%	7.58%	7.82%	9.05%	9.13%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	5,452,822	4,915,250	5,003,026	4,710,397	4,737,670
EU 16a	Cash outflows - Total weighted value	2,595,621	2,474,875	2,413,243	1,902,299	1,890,879
EU 16b	Cash inflows - Total weighted value	595,460	598,477	470,139	348,371	296,879
16	Total net cash outflows	2,000,161	1,876,398	1,943,104	1,553,928	1,594,000
17	Liquidity coverage ratio	272.62%	261.95%	257.48%	303.13%	297.22%
	Net Stable Funding Ratio					
18	Total available stable funding	18,031,347	16,758,272	16,514,623	12,860,682	12,676,744
19	Total required stable funding	9,484,900	10,119,584	9,966,839	7,778,248	7,550,112
20	NSFR ratio	190.11%	165.60%	165.70%	165.34%	167.90%

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

Picture 1: Total capital ratio changes



2. 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. On 27 June 2019, an amendment of CRR was published (Regulation (EU) No. 2019/876), as well as an amendment of CRD (Directive (EU) 2019/878 – CRD V). Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-3). 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 own funds requirements/risk weighted exposure amounts (RWEA) 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.

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 V 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 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 H1 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 H1 2021. Some details of the key differences between the Group's accounting and regulatory exposures are set out in Table 2.

3. Scope of application

(Articles 436 a, and 437 a of CRR)

In accordance with the capital legislation, NLB d.d. (LEI Code 5493001BABFV7P27OW30) 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 2: NLB Group scheme

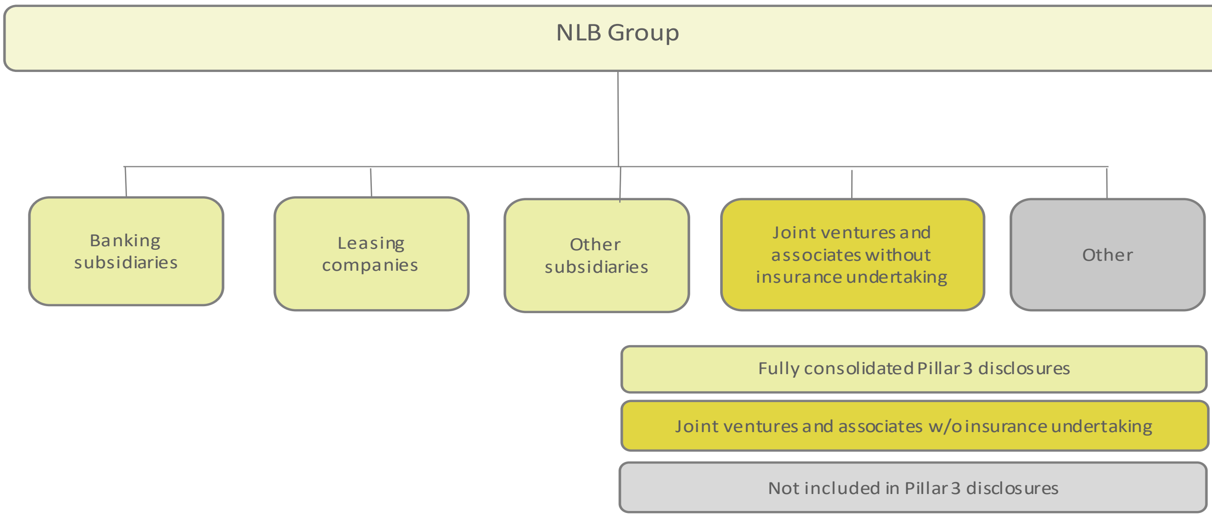


Table 2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report H1 2021, and under the scope of regulatory consolidation.

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 – EU CC2 – Reconciliation of regulatory own funds to balance sheet in the published financial statements

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to rows in CC1
		30.06.2021	**30.06.2021**	
Assets - ***Breakdown by asset clases according to the balance sheet in the published financial statements***				
1	Cash, cash balances at central banks and other demand deposits at banks	4,739,351	4,739,351	
2	Financial assets held for trading	13,534	13,534	
3	Non-trading financial assets mandatorily at fair value through profit or loss	19,075	19,075	
4	Financial assets measured at fair value through other comprehensive income	3,559,367	3,559,367	72
5	Financial assets measured at amortised cost			
6	- debt securities	1,898,941	1,898,941	72
7	- loans and advances to banks	243,360	243,360	
8	- loans and advances to customers	10,071,406	10,071,406	
9	- other financial assets	134,909	134,904	
10	Derivatives - hedge accounting	163	163	
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	9,221	9,221	
12	Investments in subsidiaries	-	10	
13	Investments in associates and joint ventures	8,411	8,411	73
14	Tangible assets			
15	Property and equipment	243,822	243,808	
16	Investment property	53,303	53,303	
17	Intangible assets	55,654	55,654	
18	*Goodwill*	3,529	3,529	8
19	*Other intangible assets*	52,125	52,125	8
20	Current income tax assets	248	248	
21	Deferred income tax assets	31,961	31,961	75
24	*That rely on future profitability and arise from temporary differences*	31,961	31,961	75
25	Other assets	95,960	95,768	
26	Non-current assets held for sale	8,618	8,618	
27	**Total assets**	**21,187,304**	**21,187,103**	
Liabilities - ***Breakdown by liability clases according to the balance sheet in the published financial statements***				
28	Financial liabilities held for trading	10,933	10,933	
29	Financial liabilities measured at amortised cost			
30	- deposits from banks and central banks	78,039	78,039	
31	- borrowings from banks and central banks	880,615	880,615	
32	- due to customers	17,142,973	17,143,034	
33	- borrowings from other customers	95,988	95,988	
34	- subordinated liabilities	287,563	287,563	46
35	- other financial liabilities	264,194	264,181	
36	Derivatives - hedge accounting	43,670	43,670	
37	Provisions	120,419	120,419	
38	Current income tax liabilities	4,150	4,150	
39	Deferred income tax liabilities	4,158	4,158	
40	Other liabilities	19,321	19,320	
41	**Total liabilities**	**18,952,023**	**18,952,070**	
Shareholders' Equity				
42	Share capital	200,000	200,000	1
43	Share premium	871,378	871,378	1
44	Accumulated other comprehensive income	18,641	19,102	3
45	Profit reserves	13,522	13,522	3
46	Retained earnings	987,903	987,194	2
		2,091,444	**2,091,196**	
47	Non-controlling interests	143,837	143,837	5; 34; 48
48	**Total shareholders' equity**	**2,235,281**	**2,235,033**	
49	**Total liabilities and shareholders' equity**	**21,187,304**	**21,187,103**	

4. Capital and capital requirements

4.1. Capital adequacy

European banking capital legislation – CRD V, 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)					
Capital 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:

	30.06.2021	31.03.2021	31.12.2020
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	766,975	616,341	552,146
Current result	-	-	63,635
Accumulated other comprehensive income	19,102	17,707	21,588
Other reserves	13,522	13,522	13,522
Minority interest	47,068	54,265	71,562
Prudential filters: Additional Valuation Adjustments (AVA)	(3,603)	(3,558)	(3,632)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(31,470)	(31,925)	(33,222)
(-) Insufficient coverage for non-performing exposures	(24)	-	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,879,419**	**1,734,201**	**1,753,448**
Minority interest	5,849	4,874	14,614
Additional Tier 1 capital	**5,849**	**4,874**	**14,614**
TIER 1 CAPITAL	**1,885,268**	**1,739,075**	**1,768,062**
Capital instruments and subordinated loans eligible as T2 capital	284,595	284,595	284,595
Minority interest	2,490	1,767	12,806
Tier 2 capital	**287,085**	**286,362**	**297,401**
TOTAL CAPITAL	**2,172,353**	**2,025,437**	**2,065,463**
Risk exposure amount for credit risk	10,595,435	10,320,572	10,222,923
Risk exposure amount for market risks	1,212,276	1,346,588	1,250,563
Risk exposure amount for CVA	538	563	200
Risk exposure amount for operational risk	947,342	947,342	947,342
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,755,591**	**12,615,065**	**12,421,028**
Common Equity Tier 1 Ratio	14.7%	13.7%	14.1%
Tier 1 Ratio	14.8%	13.8%	14.2%
Total Capital Ratio	17.0%	16.1%	16.6%

As of 30 June 2021, the Total capital ratio for the NLB Group stood at 17.0% (or 0.4 percentage points higher than at 2020 YE), and for NLB at 25.3% (or 1.8 percentage point lower than at the end of 2020). As of 30 June 2021, the CET1 ratio on Group level stood at 14.7% (0.6 p.p. higher than at 2020 YE). The higher total capital adequacy derives from higher capital (EUR 106.9 million for the NLB Group) which offset increased RWA. The main effect was inclusion of negative goodwill in retained earnings in the amount of EUR 137.9 million. On the other hand, minority interest decreased in the amount of EUR 43.6 million, of which EUR 43.0 million due to Komercijalna banka Beograd takeover bid, after obtaining ECB approval. If as of 30 September 2021 the Bank does not own 100% of Komercijalna banka Beograd shares, the remaining part of minority interest will be included back into capital.

Pursuant to the ECB/BoS regulation dividends payout in 2021 is split into two tranches. The first instalment in the amount of EUR 12.0 million was paid 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. The envisaged cumulative dividend payout in the amount of EUR 92.2 million is not included in capital calculation, therefore there is no effect on capital in case of dividend payout.

The drivers behind the differences between the RWAs in H1 2021 are explained in Chapter 4.2 Own funds (capital) requirements in the Table 5 – EU OV1– Overview of risk weighted exposure amounts of NLB Group.

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. The acceptance period in the takeover bid closed on 9 April 2021. The Bank acquired additional 801,876 ordinary shares; after the closing the Bank held combined 14,799,562 ordinary shares (87.99858% of voting rights). The Bank also acquired 57,250 preferred shares; after the closing the Bank held 57,250 (15.32757%) of this class of shares. The purchase price was RSD 2.7 billion (EUR 23.1 million). As of 31 March 2021, this decreased capital for EUR 43.0 million due to decrease of Minority interest.

In May 2021 the Bank has trough public offer acquired additional 47,485 ordinary shares (now holds 88.28093% of voting rights). The purchase price was RSD 157.4 million (EUR 1.3 million).

4.2. Own funds (capital) requirements
(Article 438 d 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 risk weighted exposure amounts of NLB Group at the end of June 2021, end of March 2021 and at the end of 2020; and also, composition of own fund (capital) requirements at the end of June 2021.

Table 5 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group

		Total risk exposure amounts (TREA)			**Total own funds requirement**
		a	**b**	**b-1**	**c**
		30.06.2021	**31.03.2021**	**31.12.2020**	**30.06.2021**
1	**Credit risk (excluding CCR)**	**10,436,124**	**10,197,137**	**10,095,394**	**834,890**
2	Of which the standardised approach	10,436,124	10,197,137	10,095,394	834,890
6	**Counterparty credit risk - CCR**	**59,586**	**26,278**	**28,286**	**4,767**
7	Of which the standardised approach	59,048	25,715	28,086	4,724
EU 8b	Of which credit valuation adjustment - CVA	538	563	200	43
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,212,276**	**1,346,588**	**1,250,563**	**96,982**
21	Of which the standardised approach	1,212,276	1,346,588	1,250,563	96,982
23	**Operational risk**	**947,342**	**947,342**	**947,342**	**75,787**
EU 23a	Of which basic indicator approach	947,342	947,342	947,342	75,787
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**100,263**	**97,720**	**99,443**	**8,021**
29	**Total**	**12,755,591**	**12,615,065**	**12,421,028**	**1,020,447**

RWA for the Group increased by EUR 334.6 million YtD or EUR 140.5 million in last quarter. RWA for credit risk increased by EUR 372.5 million YtD or EUR 274.9 million in last quarter (lines 1, 7, and 24 in Table 5). Most of the increase was contributed by the Bank (EUR 286.4 million YtD or EUR 159.0 million in last quarter), which is related to the new production in the retail and corporate segments, with investments in subordinated bonds (Tier 2) and with investments in state bonds. As the result of RWA optimisation, some banking members shifted part of their liquid assets from the central governments or CB to low risk weighted commercial banks (the largest RWA decrease is observed at Komercijalna banka Beograd).

The decrease in RWA for market risks and CVA (Credit value adjustments) in amount of EUR 37.9 million YtD or 134.3 EUR million in last quarter (lines EU 8b and 20 in Table 5) is mainly the result decreased of TDI risk in the amount EUR 79.4 million YtD or EUR 68.3 million in last quarter (a consequence of closing position of traded debt instruments in Komercijalna banka Beograd). RWA on FX risk increased by EUR 41.1 million YtD (but decreased EUR 66.0 million in last quarter) mainly due to more open positions in domestic currencies of non-euro subsidiary banks.

4.3. Detailed presentation of capital elements
(Article 437 a, d, e, and f of CRR)

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of June 2021. A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 4.1. 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 – EU CC1 – Composition of regulatory own funds for NLB Group

		30.06.2021	31.03.2021	31.12.2020	Source based on reference numbers (CC2 column b)
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	42 + 43
	of which: ordinary shares	1,071,378	1,071,378	1,071,378	42 + 43
2	Retained earnings	766,975	616,341	615,781	part of 46
3	Accumulated other comprehensive income (and other reserves)	32,624	31,229	35,110	44 + 45
5	Minority interest (amount allowed in consolidated CET1)	47,068	54,265	71,562	part of 47
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,918,045**	**1,773,213**	**1,793,831**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	(3,603)	(3,558)	(3,632)	
8	Intangible assets (net of related tax liability) (negative amount)	(34,999)	(35,454)	(36,751)	17 + part of 19
27a	Other regulatory adjustments	(24)	-	-	
27a1	Deduction item related to insufficient coverage for non-performing exposures	(24)	-	-	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(38,626)**	**(39,012)**	**(40,383)**	
29	**Common Equity Tier 1 (CET1) capital**	**1,879,419**	**1,734,201**	**1,753,448**	
Additional Tier 1 (AT1) capital: instruments					
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	5,849	4,874	14,614	part of 47
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**5,849**	**4,874**	14,614	
44	**Additional Tier 1 (AT1) capital**	**5,849**	**4,874**	**14,614**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,885,268**	**1,739,075**	**1,768,062**	
Tier 2 (T2) capital: instruments					
46	Capital instruments and the related share premium accounts	284,595	284,595	284,595	part of 34
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	2,490	1,767	12,806	part of 47
51	**Tier 2 (T2) capital before regulatory adjustments**	**287,085**	**286,362**	**297,401**	
58	**Tier 2 (T2) capital**	**287,085**	**286,362**	**297,401**	
59	**Total capital (TC = T1 + T2)**	**2,172,353**	**2,025,437**	**2,065,463**	
60	**Total risk exposure amount**	**12,755,591**	**12,615,065**	**12,421,028**	
Capital ratios and requirements including buffers					
61	Common Equity Tier 1 capital	14.73%	13.75%	14.12%	
62	Tier 1 capital	14.78%	13.79%	14.23%	
63	Total capital	17.03%	16.06%	16.63%	
64	Institution CET1 overall capital requirements	9.55%	9.55%	9.55%	
65	of which: capital conservation buffer requirement	2.50%	2.50%	2.50%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	1.00%	1.00%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	8.73%	7.75%	8.12%	
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)	70,726	71,185	26,325	part of 4 and part of 6
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 17.65% thresholds and net of eligible short positions)	8,411	8,120	7,988	13
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	31,961	30,968	31,789	24

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

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

The buffer value for exposures in Slovenia was 0% as of 30 June 2021 and stayed the same as the one that was in force from 1 January 2016. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposure in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country are 0%. Countercyclical capital rates have generally been set at 0%, except for Slovakia, Norway and Hong Kong which had as of 30 June 2021 a countercyclical capital rate of 1.0%, while Bulgaria, Czech Republic and Luxembourg rates of 0.5%.

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

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

Table 7 – EU CCyB2 – Amount of institution-specific countercyclical capital buffer for NLB Group

30.06.2021	**NLB Group**
Total risk exposure amount	12.755.591
Institution specific countercyclical buffer rate	0,00%
Institution specific countercyclical buffer requirement	-

31.12.2020	**NLB Group**
Total risk exposure amount	12.421.028
Institution specific countercyclical buffer rate	0,00%
Institution specific countercyclical buffer requirement	-

Table 8 – EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in NLB Group

	a	g	j	l	m
30.06.2021	**General credit exposures**	**Own funds requirements**		**Own funds requirement weights (%)**	**Countercyclical capital buffer rate (%)**
Country	**Exposure value under the SA**	**Relevant credit risk exposures - Credit risk**	**Total**		
Slovenia	4,544,598	257,665	257,665	0.42	-
Serbia	2,042,161	123,845	123,845	0.20	-
North Macedonia	1,068,164	67,701	67,701	0.11	-
Bosnia and Herzegovina	972,638	60,938	60,938	0.10	-
Kosovo	615,854	38,690	38,690	0.06	-
Montenegro	552,173	35,075	35,075	0.06	-
United Kingdom	79,447	6,316	6,316	0.01	-
Switzerland	27,921	3,189	3,189	0.01	-
Luxembourg	39,849	3,185	3,185	0.01	-
United States	40,532	3,016	3,016	0.00	-
Netherlands	29,042	2,319	2,319	0.00	-
Austria	20,218	1,565	1,565	0.00	-
Belgium	17,192	1,360	1,360	0.00	-
Croatia	8,134	776	776	0.00	-
Germany	7,125	553	553	0.00	-
France	640	43	43	0.00	-
Italy	381	22	22	0.00	-
China	277	17	17	0.00	-
Cyprus	432	16	16	0.00	-
Sweden	222	13	13	0.00	-
United Arab Emirates	195	12	12	0.00	-
Spain	141	8	8	0.00	-
Latvia	116	7	7	0.00	-
Russian Federation	102	6	6	0.00	-
Czech Republic	176	6	6	0.00	0.50
Turkey	86	5	5	0.00	-
Slovakia	52	4	4	0.00	1.00
Albania	66	4	4	0.00	-
Australia	44	3	3	0.00	-
Denmark	30	2	2	0.00	-
Ireland	29	2	2	0.00	-
New Zealand	62	2	2	0.00	-
Poland	20	1	1	0.00	-
Lithuania	50	1	1	0.00	-
Other	46	-	-	0.00	-
Total	**10,068,255**	**606,370**	**606,370**	**1.00**	**-**

4.5. 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 was affected by 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.

Lending growth in the corporate segment remained relatively moderate, especially in the current circumstances. On the other hand, the Group faced an increased mortgage loan financing, especially in Slovenia, but also in banking subsidiaries. The economic slowdown caused moderate credit quality deterioration. Nevertheless, the Group faced a favourable NPL movement resulting in lower percentage of NPLs. 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.,

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

During 2021, the Group 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 Group established and developed multiple scenarios (i.e., baseline, mild and severe) on the level of ECL calculation.

The baseline scenario presents a common forecast macroeconomic view for all countries that are present in the Group. This scenario is constructed with the purpose to culminate various outlooks into a unified projection of macroeconomic and financial variables for the Group. This is in line with the concept that the Bank has a consolidated view on the future of economic development in SEE. The IFRS 9 baseline scenario is based on the NLB monthly Economic Outlook that was created in April 2021.

The macroeconomic rationale behind the alternative scenarios is related to a range of plausible impacts of the COVID-19 pandemic on economic development during the next 3 years. The basis for the alternative scenarios is related to the ECB's view of economic development after the coronavirus outbreak since early 2020. Based on ECB illustration of a mild and severe scenario resolution of the pandemic crisis through the lens of possible expected impact on economic activity in the euro area, the Group developed both alternative scenarios. In general, the mild scenario envisions a resolution of the health crisis by the end of 2021 and a long-term reviving process of the economy, while a severe scenario assumes a more protracted crisis and permanent losses in economic potential. These scenarios are already included in the calculation of ECL in accordance with IFRS 9 as of 30 June 2021.

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
In the Euro area, GDP is expected to grow 4.5% this year. Growth should be driven by a rise in consumer and capital spending while reviving external demand supports exports. Expansionary monetary and fiscal policy, as well as the disbursement of EU recovery funds, should back the growth. Inflationary pressures are expected this year due to rising energy and commodity prices, production bottlenecks and input shortages, capacity constraints and supply-demand imbalances. Inflation could turn out higher in case stated inflationary pressures drivers are more persistent and their outcome is to larger extent passed through to consumers. In Slovenia, GDP is expected to grow by 5.0% with consumption, investment and foreign demand being the drivers. The Group's region is seen growing 4.9% on average this year with revival in domestic and foreign demand as main drivers. The uncertain evolution of the pandemic, notably the spread and emergence of new virus variants, poses the main downside risks.

Despite the COVID-19 related circumstances the Group ensured continuity of providing services to its clients by adjusting the Group's offer, increased use of digital channels, and enhancing customer experience. The Group is aiming to further support its clients, also by constant development including creating flexible local digital ecosystem of offering products and services.

Following stagnation in 2020, and in line with the economic rebound, strong loan growth in Retail Banking in Slovenia is expected in 2021, with emphasis on mortgage 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, however, further transfers of retail deposits to asset management and insurance products are expected to continue due to introduction of fee for high balances (as at 1 April 2021 the Bank started charging balances exceeding EUR 250,000; the threshold was decreased to EUR 100,000 as of 1 July 2021).

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 lowyield liquidity sources. The Group continues to strive for increasing revenues over time by stimulating loan growth and market shares (especially retail), strengthening leasing operations, and pursuing new opportunities.

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.

Cost of risk reduced due to more favourable macroeconomic predictions compared to the year end 2020 and strong development in NPL resolution. The cost of risk in 2021 is as of now expected to outperform the previous outlook (70-90 bps) and is expected to be in the range between 20 and 40 bps. The main circumstances influencing cost of risk shall be the length and severity of COVID-19-related potential disruptions in the H2 2021 in corporate operations and consumer spending, and the impact of off-setting measures by governments.

The Group faced favourable NPL movement due to repayment by one of the large corporate clients, and other successfully resolved smaller clients in the region. Moderation of current positive economic trends due to uncertainties steaming from potential further waves of COVID-19 and phasing out of moratoria in H2 2021 might have a 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, 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. Negative goodwill recognised at acquisition of Komercijalna banka Beograd and acknowledged by the ECB, was included in the regulatory capital as of 30 June 2021 and further improved capital position. Also, in 2021 the Group continues with the activities to optimise RWAs.

Pursuant to the ECB regulation/BoS decision, dividends payout in 2021 is split into two tranches. The first instalment in the amount of EUR 12.0 million was paid 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.

The Group might explore further value accretive M&A opportunities in its domestic and other regional markets where the Group is not yet present with the aim to increase the shareholders' value.

4.6. Information on COVID-19 moratoria

According to EBA Guidelines EBA/GL/2020/07 in tables from 9 to 11 the information about moratoria and guarantee schemes is disclosed. They include legislative moratoria and also other (non-legislative) moratoria, concluded as a consequence of COVID-19.

Table 9 – Information on loans and advances subject to legislative and non-legislative moratoria for NLB Group

30.06.2021	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	114,093	100,983	8,628	50,453	13,109	9,852	13,011	(9,629)	(3,235)	(303)	(2,327)	(6,393)	(4,739)	(6,385)	4,513
of which: Households	19,449	16,537	5,293	7,598	2,912	2,599	2,813	(1,508)	(362)	(272)	(306)	(1,146)	(965)	(1,139)	1,501
of which: Collateralised by residential immovable property	8,274	6,812	3,825	4,782	1,463	1,414	1,372	(261)	(85)	(85)	(85)	(176)	(173)	(173)	728
of which: Non-financial corporations	94,644	84,447	3,335	42,854	10,197	7,253	10,197	(8,120)	(2,874)	(31)	(2,021)	(5,247)	(3,774)	(5,247)	3,012
of which: Small and Medium-sized Enterprises	48,239	42,084	3,335	22,233	6,155	4,413	6,155	(5,621)	(2,426)	(31)	(1,709)	(3,195)	(2,333)	(3,195)	3,012
of which: Collateralised by commercial immovable property	83,203	75,350	1,432	39,965	7,853	5,337	7,853	(6,401)	(2,377)	(1)	(1,721)	(4,024)	(2,800)	(4,024)	2,898

31.12.2020	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Total	Total	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	427,950	391,187	12,702	161,866	36,763	16,743	36,366	(26,908)	(12,027)	(1,263)	(9,148)	(14,881)	(9,302)	(14,663)	17,985
of which: Households	130,186	121,069	3,529	47,464	9,117	3,347	8,757	(6,009)	(2,148)	(173)	(1,506)	(3,861)	(1,178)	(3,669)	4,189
of which: Collateralised by residential immovable property	63,889	59,207	2,230	27,547	4,682	2,820	4,608	(1,901)	(475)	(59)	(421)	(1,426)	(942)	(1,419)	1,441
of which: Non-financial corporations	297,680	270,035	9,151	114,380	27,646	13,395	27,609	(20,897)	(9,877)	(1,090)	(7,641)	(11,020)	(8,124)	(10,995)	13,796
of which: Small and Medium-sized Enterprises	169,193	147,785	9,151	55,807	21,408	8,336	21,372	(13,963)	(7,193)	(1,090)	(5,372)	(6,770)	(4,460)	(6,745)	13,796
of which: Collateralised by commercial immovable property	257,293	234,784	9,044	105,230	22,509	8,882	22,509	(15,861)	(8,626)	(1,090)	(6,877)	(7,235)	(4,678)	(7,235)	13,592

Table 10 – Breakdown of loans and advances subject to moratoria by residual maturity of moratoria for NLB Group

30.06.2021	Number of obligors	Gross carrying amount							
		Total	Of which: legislative moratoria	Of which: Expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	248,863	2,242,315							
Loans and advances subject to moratorium (granted)	222,247	1,916,508	1,640,423	1,802,415	94,678	19,019	-	-	395
of which: Households		1,098,116	1,055,581	1,078,667	17,974	1,475	-	-	-
of which: Collateralised by residential immovable property		466,378	450,856	458,104	7,625	649	-	-	-
of which: Non-financial corporations		806,768	573,279	712,124	76,704	17,544	-	-	395
of which: Small and Medium-sized Enterprises		557,265	349,846	509,026	43,751	4,093	-	-	395
of which: Collateralised by commercial immovable property		539,103	342,400	455,899	66,362	16,446	-	-	395

31.12.2020	Number of obligors	Gross carrying amount							
		Total	Of which: legislative moratoria	Of which: Expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	313,284	2,675,647							
Loans and advances subject to moratorium (granted)	278,693	2,286,878	1,963,865	1,858,928	238,989	122,944	52,910	4,295	8,812
of which: Households		1,291,415	1,238,532	1,161,229	106,378	21,261	2,373	113	61
of which: Collateralised by residential immovable property		473,846	457,305	409,957	52,509	10,297	1,083	-	-
of which: Non-financial corporations		982,410	712,350	684,729	132,611	101,599	50,537	4,182	8,751
of which: Small and Medium-sized Enterprises		711,957	460,471	542,764	64,212	55,717	40,988	4,182	4,094
of which: Collateralised by commercial immovable property		583,981	362,780	326,688	123,457	81,979	40,291	2,815	8,751

Table 11 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis for NLB Group

30.06.2021	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	108,575	49	38,288	214
of which: Households	7,441			5
of which: Collateralised by residential immovable property	-			-
of which: Non-financial corporations	101,123	49	36,482	209
of which: Small and Medium-sized Enterprises	80,308			209
of which: Collateralised by commercial immovable property	5,590			-

31.12.2020	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	134,596	49	38,439	-
of which: Households	18,532			-
of which: Collateralised by residential immovable property	17			-
of which: Non-financial corporations	116,051	49	33,980	-
of which: Small and Medium-sized Enterprises	101,641			-
of which: Collateralised by commercial immovable property	7,440			-

4.7. 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 in Chapter 9).

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.

5. Credit risk

5.1. Credit risk quality

(Article 442 c, e, f, and g of CRR)

Table 12 – EU CR1-A – Maturity of exposures

		a	b	c	d	e	f
		Net exposure value					
	30.06.2021	**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
1	Loans and advances	54,257	1,388,691	3,220,694	5,544,493	241,439	10,449,574
2	Debt securities	-	1,301,337	2,756,939	1,325,720	456	5,384,452
3	**Total**	**54,257**	**2,690,027**	**5,977,634**	**6,870,213**	**241,895**	**15,834,026**

		a	b	c	d	e	f
		Net exposure value					
	31.12.2021	**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
1	Loans and advances	72,750	1,325,928	3,148,622	5,179,748	227,866	9,954,913
2	Debt securities	-	846,843	2,721,602	1,369,108	-	4,937,554
3	**Total**	**72,750**	**2,172,771**	**5,870,224**	**6,548,856**	**227,866**	**14,892,467**

As of 30 June 2021, 43% of net on-balance exposure has remaining maturity Over 5 years, followed by the 1 year to 5 years category with 38% and Up to 1 year category with 17%. In the last year the highest increase was noticed in the Up to 1 year category.

Table 13 – EU CQ1 – Credit quality of forborne exposures

	30.06.2021	a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**68,514**	**239,438**	**239,437**	**239,437**	**(4,621)**	**(145,888)**	**130,042**	**129,454**
3	General governments	919	279	279	279	(6)	(278)	-	-
5	Other financial corporations	41	2,452	2,452	2,452	-	(2,452)	41	41
6	Non-financial corporations	44,276	204,264	204,264	204,264	(3,145)	(129,612)	97,851	97,263
7	Households	23,278	32,443	32,442	32,442	(1,470)	(13,546)	32,150	32,150
9	Loan commitments given	370	842	842	842	(6)	(387)	705	705
10	**Total**	**68,884**	**240,280**	**240,279**	**240,279**	**(4,627)**	**(146,275)**	**130,747**	**130,159**

	31.12.2020	a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**55,354**	**255,984**	**255,984**	**248,448**	**(5,761)**	**(148,908)**	**142,714**	**107,295**
3	General governments	1,050	292	292	292	(5)	(292)	-	3,131
5	Other financial corporations	50	2,375	2,375	2,375	-	(2,375)	50	-
6	Non-financial corporations	33,882	228,601	228,601	221,065	(4,739)	(137,086)	114,395	90,788
7	Households	20,372	24,716	24,716	24,716	(1,017)	(9,155)	28,269	13,376
9	Loan commitments given	942	644	644	644	(4)	(37)	1,332	582
10	**Total**	**56,296**	**256,628**	**256,628**	**249,092**	**(5,765)**	**(148,945)**	**144,046**	**107,877**

Table 14 – EU CR1 – Performing and non-performing exposures and related provisions

		a	b	c	d	f	g	h	i	j	l	m	n	o
		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Accumu-lated partial write-off	On performing exposures	On non-performing exposures
	30.06.2021	Total	Of which stage 1	Of which stage 2	Total	Of which stage 3	Total	Of which stage 1	Of which stage 2	Total	Of which stage 3			
005	Cash balances at central banks and other demand deposits	4,196,629	4,196,629	-	-	-	(1,010)	(1,010)	-	-	-	-	300,189	-
010	**Loans and advances**	**10,369,079**	**9,747,144**	**620,189**	**436,585**	**393,619**	**(94,005)**	**(62,903)**	**(31,912)**	**(261,989)**	**(259,725)**	**(277)**	**5,017,566**	**131,108**
020	Central banks	33,308	33,308	-	-	-	(81)	(81)	-	-	-	-	-	-
030	General governments	399,280	394,820	4,460	460	458	(4,785)	(4,501)	(284)	(444)	(442)	-	87,568	-
040	Credit institutions	257,696	257,695	1	13	13	(546)	(546)	-	(13)	(13)	-	10,918	-
050	Other financial corporations	152,713	151,904	811	2,936	2,936	(479)	(470)	(9)	(2,926)	(2,926)	-	18,801	3
060	Non-financial corporations	3,981,172	3,521,482	459,195	296,180	258,740	(59,747)	(36,878)	(22,965)	(180,136)	(179,136)	(277)	2,159,279	90,875
070	Of which SMEs	2,540,231	2,181,171	358,566	245,456	222,347	(48,985)	(28,256)	(20,809)	(151,774)	(151,609)	(277)	1,465,653	80,860
080	Households	5,544,910	5,387,935	155,722	136,996	131,472	(28,367)	(20,427)	(8,654)	(78,470)	(77,208)	-	2,741,000	40,230
090	**Debt securities**	**5,363,919**	**5,361,562**	**222**	**798**	**798**	**(16,525)**	**(16,439)**	**(85)**	**(798)**	**(798)**	**-**	**164,758**	**-**
100	Central banks	28,952	28,952	-	-	-	(26)	(26)	-	-	-	-	-	-
110	General governments	4,141,634	4,141,303	222	-	-	(15,197)	(15,111)	(85)	-	-	-	-	-
120	Credit institutions	1,059,192	1,059,192	-	-	-	(1,146)	(1,146)	-	-	-	-	87,318	-
130	Other financial corporations	44,155	44,155	-	798	798	(32)	(32)	-	(798)	(798)	-	7,031	-
140	Non-financial corporations	89,986	87,960	-	-	-	(124)	(124)	-	-	-	-	70,409	-
150	**Off-balance-sheet exposures**	**3,426,078**	**3,295,018**	**130,981**	**41,955**	**-28,270**	**(14,652)**	**(13,272)**	**(1,376)**	**(21,945)**	**(17,715)**	**-**	**504,706**	**8,122**
160	Central banks	129	129	-	-	-	-	-	-	-	-	-	-	-
170	General governments	131,503	131,385	112	180	(20)	(336)	(331)	(2)	(167)	(12)	-	112,372	-
180	Credit institutions	87,823	87,823	-	-	-	(45)	(45)	-	-	-	-	1,157	-
190	Other financial corporations	27,379	27,299	79	41	(41)	(51)	(51)	-	(5)	(5)	-	2,445	10
200	Non-financial corporations	2,481,203	2,358,175	123,021	38,821	(25,419)	(12,246)	(11,005)	(1,240)	(20,492)	(16,451)	-	383,464	7,944
210	Households	698,041	690,207	7,769	2,913	(2,790)	(1,974)	(1,840)	(134)	(1,281)	(1,247)	-	5,268	168
220	**Total**	**19,159,076**	**18,403,724**	**751,392**	**479,338**	**366,147**	**(125,182)**	**(92,614)**	**(33,373)**	**(284,732)**	**(278,238)**	**(277)**	**5,687,030**	**139,230**

Table 15 – EU CQ4 – Quality of non-performing exposures by geography

	30.06.2021	a	b	c	e	f	g
		Gross carrying/nominal amount				Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing				
	Exposures	**Total**	**Total**	**Of which defaulted**	**Accumulated impairment**		
1	**On-balance-sheet**	**14,841,305**	**437,381**	**437,381**	**(373,261)**	**-**	**(56)**
2	Slovenia	5,664,440	116,552	116,552	(78,521)	-	-
3	Serbia	3,483,725	67,032	67,032	(40,324)	-	(48)
4	North Macedonia	147,677	68,143	68,143	(61,760)	-	-
5	Bosnia and Herzegovina	1,330,690	66,893	66,893	(72,784)	-	(8)
6	Kosovo	740,717	17,095	17,095	(40,227)	-	-
7	Montenegro	650,210	82,384	82,384	(60,679)	-	-
8	Other countries	2,823,846	19,282	19,282	(18,966)	-	-
9	**Off-balance-sheet**	**3,468,032**	**41,956**	**41,956**	**-**	**(36,590)**	**-**
10	Slovenia	2,244,029	29,393	29,393	-	(22,478)	-
11	Serbia	516,776	8,370	8,370	-	(2,329)	-
12	North Macedonia	218,826	2,086	2,086	-	(4,705)	-
13	Bosnia and Herzegovina	186,372	749	749	-	(2,714)	-
14	Kosovo	113,390	689	689	-	(3,180)	-
15	Montenegro	103,084	663	663	-	(1,134)	-
16	Other countries	85,555	6	6	-	(50)	-
17	**Total**	**18,309,337**	**479,337**	**479,337**	**(373,261)**	**(36,590)**	**(56)**

Table 16 – EU CR2 – Changes in the stock of non-performing loans and advances

	30.06.2021	Gross carrying amount
1	**Initial stock of non-performing loans and advances**	**465,884**
2	Inflows to non-performing portfolios	106,095
3	Outflows from non-performing portfolios	(135,394)
4	Outflows due to write-offs	(15,022)
5	Outflow due to other situations	(120,371)
6	**Final stock of non-performing loans and advances**	**436,585**

Table 17 – EU CQ5 – Credit quality of loans and advances to non-financial corporations by industry

		a	b	c	e	f
		Gross carrying amount / nominal amount				
	30.06.2021	Total	Of which non-performing	Of which defaulted	Accumu-lated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
1	Agriculture, forestry and fishing	85,339	1,459	1,459	(1,934)	-
2	Mining and quarrying	77,235	35	35	(1,034)	-
3	Manufacturing	1,004,083	36,258	36,258	(33,237)	(8)
4	Electricity, gas, steam and air conditioning supply	278,718	1,204	1,204	(1,813)	-
5	Water supply	39,752	2,671	2,671	(2,739)	-
6	Construction	379,083	35,812	35,812	(30,770)	-
7	Wholesale and retail trade	884,195	73,933	73,933	(72,252)	-
8	Transport and storage	567,246	30,734	30,734	(17,839)	-
9	Accommodation and food service activities	134,112	34,348	34,348	(12,274)	-
10	Information and communication	248,222	5,963	5,963	(6,212)	-
11	Financial and insurance actvities	7,942	26	26	(283)	-
12	Real estate activities	236,769	14,843	14,843	(11,509)	-
13	Professional, scientific and technical activities	214,245	45,693	45,693	(39,358)	-
14	Administrative and support service activities	49,180	1,753	1,753	(2,335)	(48)
15	Public administration and defense, compulsory social security	1,460	1,379	1,379	(39)	-
16	Education	9,699	2,153	2,153	(1,416)	-
17	Human health services and social work activities	35,154	2,565	2,565	(1,565)	-
18	Arts, entertainment and recreation	16,966	5,052	5,052	(2,870)	-
19	Other services	7,952	299	299	(348)	-
20	**Total**	**4,277,352**	**296,180**	**296,180**	**(239,827)**	**(56)**

Table 18 – EU CQ7 – Collateral obtained by taking possession and execution processes

		a	b
		Collateral obtained by taking possession	
	30.06.2021	Value at initial recognition	Accumulated negative changes
1	Property, plant, and equipment (PP&E)	13,817	(144)
2	Other than PP&E	135,559	(27,579)
3	Residential immovable property	14,813	(1,884)
4	Commercial immovable property	119,693	(25,483)
5	Movable property (auto, shipping, etc.)	1,037	(198)
7	Other	16	(14)
8	**Total**	**149,376**	**(27,723)**

5.2. Mitigation techniques
(Article 453 f of CRR)

Table 19 – EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

			Secured carrying amount		
		Unsecured carrying amount	Total	of which secured by collateral	of which secured by financial guarantees
	30.06.2021	a	b	c	d
1	Loans and advances	9,853,620	5,148,675	4,589,732	558,943
2	Debt securities	5,199,959	164,758	-	164,758
3	**Total**	**15,053,579**	**5,313,433**	**4,589,732**	**723,701**
4	Of which non-performing exposures	306,275	131,108	130,242	866
5	Of which defaulted	306,275	131,108		

	31.12.2020	Unsecured carrying amount	Secured carrying amount: Total	of which secured by collateral	of which secured by financial guarantees
		a	b	c	d
1	Loans and advances	8,834,996	4,960,307	4,385,724	574,583
2	Debt securities	4,804,789	160,112	-	160,112
3	**Total**	**13,639,785**	**5,120,419**	**4,385,724**	**734,695**
4	Of which non-performing exposures	300,309	166,373	163,771	2,602
5	Of which defaulted	300,309	166,373		

At 30 June 2021, the secured part of the portfolio represents 26.1% of the total portfolio.

5.3. Use of standardised approach
(Article 444 e and 453 g, h, and i of CRR)

Table 20 – EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	30.06.2021	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
		a	b	c	d	e	f
1	Central governments or central banks	8,016,864	7,699	8,344,144	40,347	1,829,650	21.82%
2	Regional government or local authorities	228,605	6,920	228,605	1,888	126,940	55.07%
3	Public sector entities	281,641	35,758	277,019	8,196	245,355	86.02%
4	Multilateral development banks	95,529	-	395,718	-	-	-
5	International organisations	25,132	-	25,132	-	-	-
6	Institutions	1,272,042	106,412	1,245,640	38,554	365,913	28.49%
7	Corporates	2,779,936	1,390,280	2,296,423	340,344	2,367,264	89.78%
8	Retail	5,465,838	1,803,168	5,396,862	388,768	4,098,342	70.84%
9	Secured by mortgages on immovable property	1,022,803	31,604	1,022,803	7,287	373,116	36.22%
10	Exposures in default	160,118	20,204	158,636	4,808	200,596	122.73%
11	Exposures associated with particularly high risk	288,557	101,764	246,913	16,854	395,651	150.00%
12	Covered bonds	367,427	-	367,427	-	40,762	11.09%
14	Collective investment undertakings	56,245	-	56,245	-	17,516	31.14%
15	Equity	66,140	-	66,140	-	78,756	119.08%
16	Other items	991,191	1,236	990,362	245	455,574	45.99%
17	**Total**	**21,118,069**	**3,505,044**	**21,118,069**	**847,291**	**10,595,436**	**48.24%**

31.12.2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Exposure classes	a	b	c	d	e	f
1 Central governments or central banks	7,180,655	7,271	7,520,698	40,051	1,892,158	25.03%
2 Regional government or local authorities	214,662	4,315	214,662	1,659	135,464	62.62%
3 Public sector entities	280,426	42,264	275,462	9,530	248,807	87.30%
4 Multilateral development banks	90,506	-	393,591	-	-	-
5 International organisations	25,010	-	25,010	-	-	-
6 Institutions	951,191	88,457	923,143	23,986	311,663	32.91%
7 Corporates	2,667,631	1,249,256	2,156,027	312,347	2,224,216	90.11%
8 Retail	5,176,729	1,716,596	5,114,436	376,825	3,891,788	70.87%
9 Secured by mortgages on immovable property	962,450	38,974	962,450	8,576	355,666	36.63%
10 Exposures in default	182,796	22,800	182,123	5,879	231,457	123.11%
11 Exposures associated with particularly high risk	249,042	99,937	214,405	15,081	344,229	150.00%
12 Covered bonds	355,290	-	355,290	-	40,866	11.50%
14 Collective investment undertakings	57,694	-	57,694	-	18,654	32.33%
15 Equity	35,094	-	35,094	-	47,076	134.14%
16 Other items	986,712	1,316	985,803	261	480,880	48.77%
17 **Total**	**19,415,888**	**3,271,186**	**19,415,888**	**794,195**	**10,222,924**	**50.58%**

The table shows exposures before CRM and CCF, exposure post-CCF and -CRM and RWA for all customer segments. In H1 2021, the increase of exposures has been contributed by the Central government and central banks segment, Institutions, Corporate and in the Retail segment, which is in line with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight decreased from 50.58% in 2020 to 48.24% in 1H 2021.

Table 21 – EU CR5 – Standardised approach

		a	d	e	f	g	i	j	k	l	o	q	r
		Risk weight											
	30.06.2021	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Total**	**Of which unrated**
1	Central governments or central banks	6,549,047	-	45,564	-	34,291	-	1,723,628	-	31,961	-	8,384,491	8,384,491
2	Regional government or local authorities	47,557	-	69,993	-	-	-	112,942	-	-	-	230,493	230,493
3	Public sector entities	25,108	-	53	-	29,420	-	230,634	-	-	-	285,215	285,215
4	Multilateral development banks	395,718	-	-	-	-	-	-	-	-	-	395,718	395,718
5	International organisations	25,132	-	-	-	-	-	-	-	-	-	25,132	25,132
6	Institutions	-	-	984,376	-	261,560	-	38,258	-	-	-	1,284,194	470,204
7	Corporates	-	-	-	-	-	-	2,636,767	-	-	-	2,636,767	2,636,767
8	Retail	-	-	-	-	-	5,785,629	-	-	-	-	5,785,629	5,785,629
9	Secured by mortgages on immovable property	-	-	-	832,074	198,016	-	-	-	-	-	1,030,090	1,030,090
10	Exposures in default	-	-	-	-	-	-	89,143	74,302	-	-	163,445	163,445
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	263,767	-	-	263,767	263,767
12	Covered bonds	-	327,231	40,196	-	-	-	-	-	-	-	367,427	136,744
14	Collective investment undertakings	-	-	-	-	-	-	8,053	973	-	47,219	56,245	56,245
15	Equity	-	-	-	-	-	-	57,729	-	8,411	-	66,140	66,140
16	Other items	523,323	-	14,637	-	-	-	452,647	-	-	-	990,607	990,604
17	**Total**	**7,565,886**	**327,231**	**1,154,819**	**832,074**	**523,288**	**5,785,629**	**5,349,800**	**339,043**	**40,372**	**47,219**	**21,965,361**	**20,920,684**

		a	d	e	f	g	i	j	k	l	o	q	r
		Risk weight											**Of which**
	31.12.2020	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Total**	**unrated**
1	Central governments or central banks	5,666,133	-	43,343	-	30,669	-	1,788,816	-	31,789	-	7,560,749	7,560,749
2	Regional government or local authorities	22,770	-	72,609	-	-	-	120,943	-	-	-	216,321	216,321
3	Public sector entities	21,739	-	78	-	28,766	-	234,409	-	-	-	284,992	284,992
4	Multilateral development banks	393,591	-	-	-	-	-	-	-	-	-	393,591	393,591
5	International organisations	25,010	-	-	-	-	-	-	-	-	-	25,010	25,010
6	Institutions	-	-	599,634	-	311,518	-	35,977	-	-	-	947,129	252,391
7	Corporates	-	-	-	-	-	-	2,468,374	-	-	-	2,468,374	2,468,374
8	Retail	-	-	-	-	-	5,491,261	-	-	-	-	5,491,261	5,491,262
9	Secured by mortgages on immovable property	-	-	-	742,411	228,614	-	-	-	-	-	971,025	971,025
10	Exposures in default	-	-	-	-	-	-	101,094	86,909	-	-	188,003	188,002
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	229,486	-	-	229,486	229,486
12	Covered bonds	-	301,918	53,372	-	-	-	-	-	-	-	355,290	111,063
14	Collective investment undertakings	-	-	-	-	-	-	12,820	-	-	44,874	57,694	57,694
15	Equity	-	-	-	-	-	-	27,106	-	7,988	-	35,094	35,094
16	Other items	493,279	-	14,881	-	-	-	477,904	-	-	-	986,064	972,804
17	**Total**	**6,622,522**	**301,918**	**783,916**	**742,411**	**599,567**	**5,491,261**	**5,267,443**	**316,395**	**39,777**	**44,874**	**20,210,083**	**19,257,860**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. In 1H 2021, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government and central banks segment, on the 20% in the Institutions segment and on the 75% weight in the Retail segment.

6. Exposure to counterparty credit risk

(Articles 439 e, f, g, h, i, k, m, l and 444 e of CRR)

Table 22 – EU CCR1 – Analysis of CCR exposure by approach

		a	b	d	e	f	g	h
	30.06.2021	Replace-ment cost (RC)	Potential future exposure (PFE)	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	12,584	22,917	1.4	49,702	49,702	49,702	34,509
6	**Total**				**49,702**	**49,702**	**49,702**	**34,509**

Table 23 – EU CCR2 – Transactions subject to own funds requirements for CVA risk

		a	b
	30.06.2021	**Exposure value**	**RWEA**
4	Transactions subject to the Standardised method	2,947	538
5	**Total transactions subject to own funds requirements for CVA risk**	**2,947**	**538**

Table 24 – EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

	30.06.2021	Risk weight											
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l
1	Central governments or central banks	6,533,312	-	-	-	45,564	34,291	-	-	1,723,634	-	12,212	8,349,013
2	Regional government or local authorities	47,557	-	-	-	69,993	-	-	-	112,942	-	-	230,493
3	Public sector entities	25,108	-	-	-	53	29,420	-	-	232,754	36,002	-	323,337
4	Multilateral development banks	395,718	-	-	-	-	-	-	-	-	-	-	395,718
5	International organisations	25,132	-	-	-	-	-	-	-	-	-	-	25,132
6	Institutions	5,959	-	-	327,231	1,024,572	261,836	-	-	64,155	12	19,646	1,703,412
7	Corporates	-	-	-	-	-	45,253	-	-	1,338,551	25,422	-	1,409,226
8	Retail	9,775	-	-	-	-	152,487	-	5,785,629	1,432,166	277,607	887,807	8,545,471
10	Other items	523,323	-	-	-	14,637	-	-	-	445,597	-	-	983,557
11	**Total**	**7,565,886**	**-**	**-**	**327,231**	**1,154,819**	**523,288**	**-**	**5,785,629**	**5,349,800**	**339,043**	**919,665**	**21,965,361**

	31.12.2020	Risk weight											
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l
1	Central governments or central banks	5,659,914	-	-	-	43,343	30,669	-	-	1,788,818	1	27,457	7,550,202
2	Regional government or local authorities	22,770	-	-	-	72,609	-	-	-	120,943	-	-	216,321
3	Public sector entities	21,739	-	-	-	78	28,766	-	-	234,722	40,663	-	325,968
4	Multilateral development banks	393,591	-	-	-	-	-	-	-	-	-	-	393,591
5	International organisations	25,010	-	-	-	-	-	-	-	-	-	-	25,010
6	Institutions	-	-	-	301,918	653,006	311,837	-	-	35,977	144	4,227	1,307,109
7	Corporates	-	-	-	-	-	65,524	-	-	1,326,817	32,299	-	1,424,639
8	Retail	6,219	-	-	-	-	162,771	-	5,491,261	1,308,664	243,288	795,378	8,007,581
10	Other items	493,279	-	-	-	14,881	-	-	-	451,502	-	-	959,661
11	**Total**	**6,622,522**	**-**	**-**	**301,918**	**783,916**	**599,567**	**-**	**5,491,261**	**5,267,443**	**316,395**	**827,061**	**20,210,083**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. In 1H 2021, the highest increase was noticed on the 0% weight, due to the increase of exposure in the Central government and central banks segment, on the 20% in the Institutions segment and on the 75% weight in the Retail segment.

Table 25 – EU CCR5 – Composition of collateral for CCR exposures

	30.06.2021	a	b	c	d
		Collateral used in derivative transactions			
		Fair value of collateral received		Fair value of posted collateral	
	Collateral type	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	679	-	67,333	-
9	**Total**	**679**	**-**	**67,333**	**-**

	31.12.2020	a	b	c	d
		Collateral used in derivative transactions			
		Fair value of collateral received		Fair value of posted collateral	
	Collateral type	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	594	-	91,560	-
9	**Total**	**594**	**-**	**91,560**	**-**

Table 26 – EU CCR8 – CCR5 – Exposures to CCPs

		30.06.2021		31.12.2020	
		a	b	c	d
		Exposure value	RWEA	Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**23,905**		**6,836**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	23,905	23,905	6,836	6,836
3	(i) OTC derivatives	23,905	23,905	6,836	6,836
7	Segregated initial margin	13,317		15,889	

7. Exposure to market risk

(Article 445 of CRR)

Table 27 – EU MR1 – Market risk under the standardised approach

		30.06.2021	31.12.2020
		a	b
		RWEAs	RWEAs
	Outright products		
1	Interest rate risk (general and specific)	1,238	80,650
3	Foreign exchange risk	1,211,038	1,169,913
9	**Total**	**1,212,276**	**1,250,563**

The decrease in RWA for market risk in amount of EUR 38.3 million is mainly the result of decreased TDI risk in the amount EUR 79.4 million (a consequence of closing position of traded debt instruments in Komercijalna banka Beograd). RWA on Foreign exchange risk increased by EUR 41.1 million mainly to more open positions in domestic currencies of non-euro subsidiary banks.

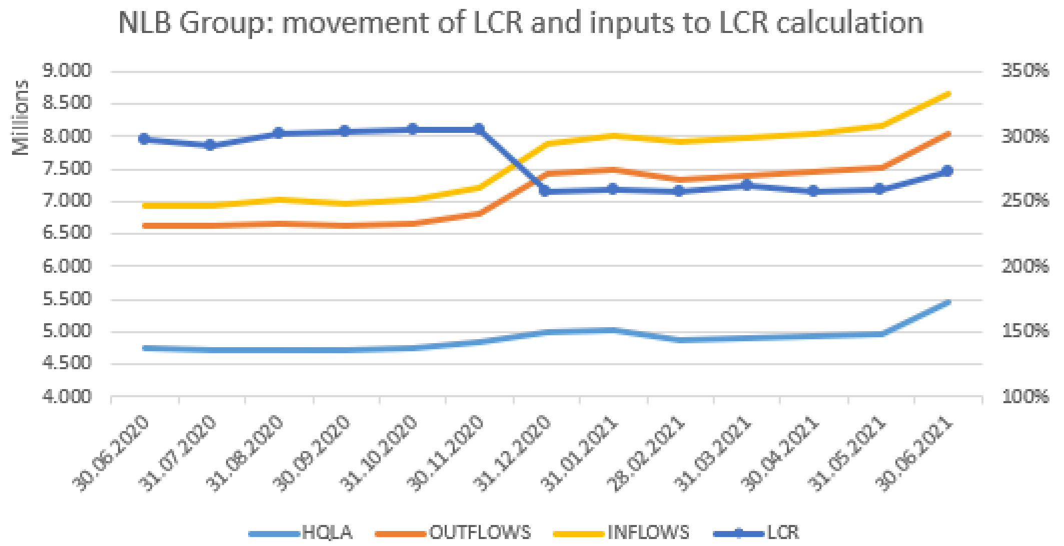
8. Liquidity requirements

(Article 451a (2) and (3) of CRR)

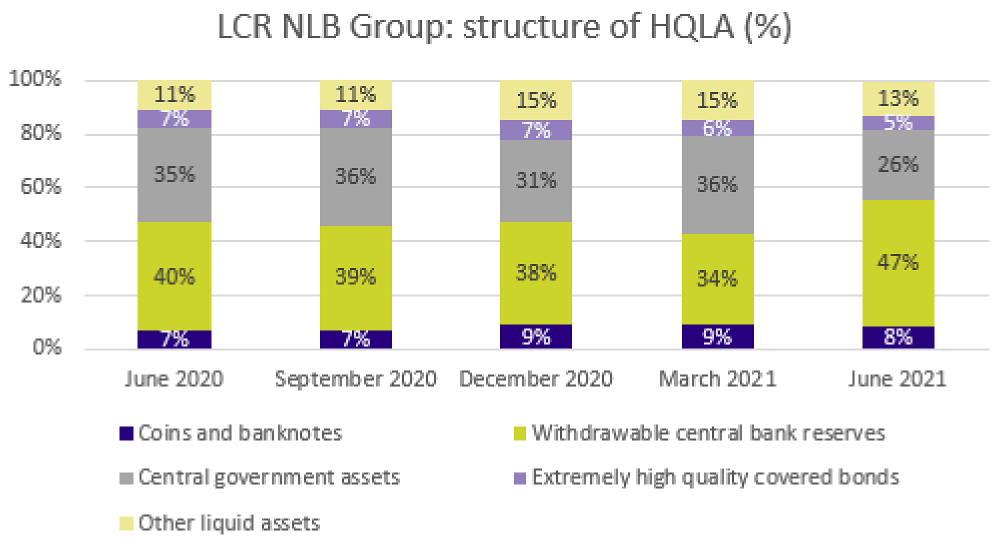
Liquidity coverage ratio

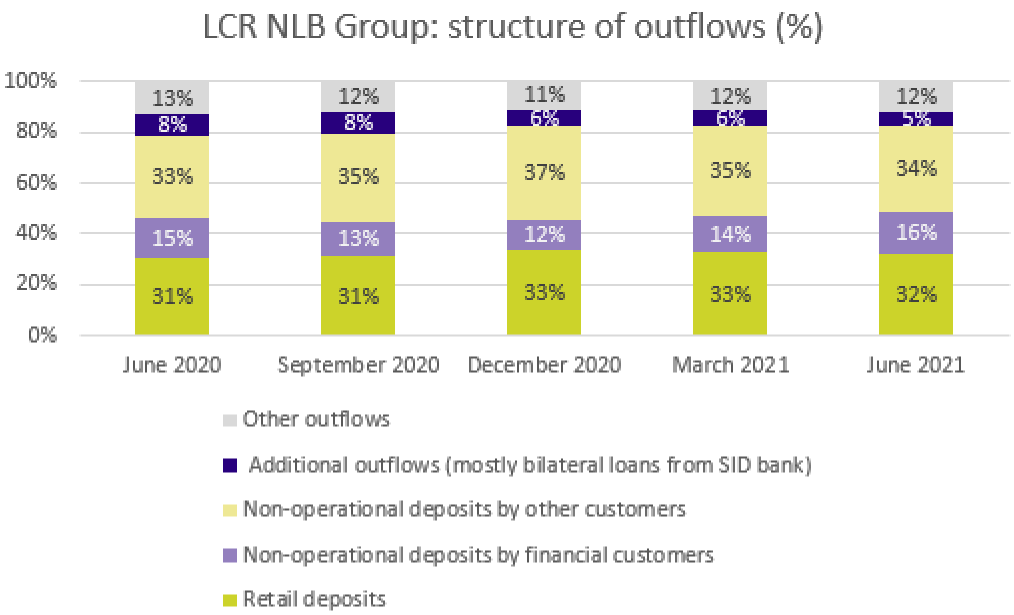
NLB Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In the past year (30 June 2020 – 30 June 2021) the LCR of NLB Group ranged between 257% and 306% (272.6% as of 30 June 2021). Surplus of HQLA is at a very high level in NLB Group, ranging between EUR 2.98 billion and EUR 3.45 billion in the past year (EUR 3.45 billion as of 30 June 2021).

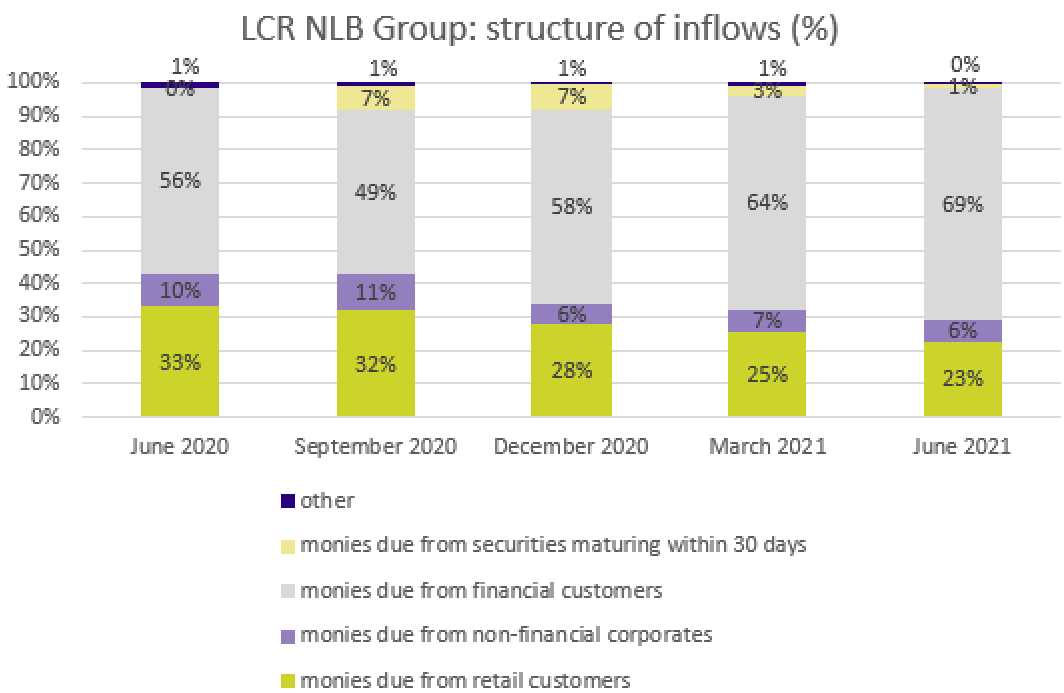
On 30 December 2020, NLB Group acquired new subsidiaries (banking members of Komercijalna banka Beograd), which caused high increase in outflows and inflows, and relatively smaller increase of HQLA due to specific rules for calculating consolidated LCR on NLB Group level, where from each subsidiary bank only HQLA in the amount of its net liquidity outflows in specific currency is included in the calculation of consolidated LCR.



The structures of HQLA, outflows and inflows over one-year time period are shown in figures below.







Concentration of funding and liquidity sources

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

Limits values are also set for other Group members as well and defined in the Group Risk Management Standards. All banking members of NLB Group must adopt limits values in their policies and comply with the limits. Any deviations from the limits must be reported and justified to the parent bank. The funding structure is presented on ALCO on a monthly basis. On NLB Group level, at the end of June 2021, the top 30 counterparties provided 3.5% of the total liabilities.

High-level description of the composition of the institution`s liquidity buffer
The liquidity buffer (LB) represents the most liquid assets which are available immediately and can be used in stressed situation within short term survival period (NLB d.d., NLB Group members: 1 month). It is composed of cash, central bank balance (excluding obligatory reserve) and internally defined unencumbered high-quality liquid assets (debt securities) which can be liquidated via repo or sale without significant value loss. There are no legal, regulatory, or operational impediments to using these assets to obtain funding.

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

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

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

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is from acquisition of KB Group on 30 December 2020 Serbian dinar (RSD), whereas before the second significant currency was the Macedonian denar (MKD). As at 30 June 2021, the aggregate liabilities in RSD represented 6.85% of total liabilities of the Group, therefore RSD qualified as a significant currency.

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

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

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

Table 28 – EU LIQ1 – Quantitative information of LCR

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				**Total weighted value (average)**			
EU 1a	**Quarter ending on**	**30.06.2021**	**31.03.2021**	**31.12.2020**	**30.09.2020**	**30.06.2021**	**31.03.2021**	**31.12.2020**	**30.09.2020**
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	4,912	4,755	4,493	4,187
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	12,465	11,416	10,121	9,364	728	664	614	595
3	*Stable deposits*	9,050	8,188	7,128	6,496	452	409	356	325
4	*Less stable deposits*	2,351	2,176	2,220	2,355	275	255	257	270
5	Unsecured wholesale funding	2,307	2,108	1,861	1,692	1,106	1,012	902	831
7	*Non-operational deposits (all*	2,306	2,108	1,861	1,692	1,105	1,011	901	831
8	*Unsecured debt*	1	1	1	-	1	1	1	-
10	Additional requirements	1,864	1,777	1,643	1,541	288	284	263	222
11	*Outflows related to derivative exposures and other collateral requirements*	148	153	144	112	148	153	144	112
13	*Credit and liquidity facilities*	1,715	1,625	1,498	1,429	139	132	118	110
14	Other contractual funding obligations	181	167	121	91	73	56	38	29
15	Other contingent funding obligations	1,089	1,042	994	963	65	62	60	60
16	**TOTAL CASH OUTFLOWS**					**2,259**	**2,079**	**1,875**	**1,738**
Cash-inflows									
18	Inflows from fully performing exposures	643	566	523	529	465	397	362	367
19	Other cash inflows	13	13	18	17	13	13	18	17
20	**TOTAL CASH INFLOWS**	**657**	**579**	**541**	**546**	**478**	**410**	**379**	**384**
EU-20c	***Inflows subject to 75% cap***	**657**	**579**	**541**	**546**	**478**	**410**	**379**	**384**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**4,912**	**4,755**	**4,493**	**4,187**
22	**TOTAL NET CASH OUTFLOWS**					**1,781**	**1,669**	**1,496**	**1,353**
23	**LIQUIDITY COVERAGE RATIO**					**277.78%**	**287.02%**	**302.88%**	**311.39%**

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				**Total weighted value (average)**			
EU 1a	**Quarter ending on**	**31.12.2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**	**31.12.2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	4,493	4,187	3,853	3,538
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	10,121	9,364	8,860	8,340	614	595	589	578
3	*Stable deposits*	7,128	6,496	6,079	5,716	356	325	304	286
4	*Less stable deposits*	2,220	2,355	2,522	2,624	257	270	285	292
5	Unsecured wholesale funding	1,861	1,692	1,557	1,414	902	831	773	707
7	*Non-operational deposits (all counterparties)*	1,861	1,692	1,557	1,414	901	831	773	707
8	*Unsecured debt*	1	-	-	-	1	-	-	-
9	Secured wholesale funding					-	-	3	9
10	Additional requirements	1,643	1,541	1,450	1,344	263	222	181	136
11	*Outflows related to derivative exposures and other collateral requirements*	144	112	78	42	144	112	78	42
13	*Credit and liquidity facilities*	1,498	1,429	1,372	1,302	118	110	103	94
14	Other contractual funding obligations	121	91	58	26	38	29	17	15
15	Other contingent funding obligations	994	963	938	908	60	60	64	68
16	**TOTAL CASH OUTFLOWS**					**1,875**	**1,738**	**1,627**	**1,513**
Cash-inflows									
18	Inflows from fully performing exposures	523	529	563	584	362	367	396	415
19	Other cash inflows	18	17	19	23	18	17	19	23
20	**TOTAL CASH INFLOWS**	**541**	**546**	**582**	**607**	**379**	**384**	**415**	**438**
EU-20c	***Inflows subject to 75% cap***	**541**	**546**	**582**	**607**	**379**	**384**	**415**	**438**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**4,493**	**4,187**	**3,853**	**3,538**
22	**TOTAL NET CASH OUTFLOWS**					**1,496**	**1,353**	**1,208**	**1,066**
23	**LIQUIDITY COVERAGE RATIO**					**302.88%**	**311.39%**	**321.25%**	**333.36%**

Table 29 – EU LIQ2 – Net Stable Funding Ratio of NLB Group

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
30.06.2021		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	**Capital items and instruments**	**2,172,353**	**-**	**-**	**-**	**2,172,353**
2	*Own funds*	2,172,353	-	-	-	2,172,353
4	**Retail deposits**		**13,270,983**	**397,702**	**674,685**	**13,520,287**
5	*Stable deposits*		10,595,006	280,697	411,147	10,743,065
6	*Less stable deposits*		2,675,977	117,005	263,538	2,777,222
7	**Wholesale funding:**		**2,641,228**	**103,425**	**1,109,653**	**2,274,381**
9	*Other wholesale funding*		2,641,228	103,425	1,109,653	2,274,381
11	**Other liabilities:**	**54,602**	**696,641**	**3,010**	**62,821**	**64,326**
12	*NSFR derivative liabilities*	54,602				
13	*All other liabilities and capital instruments not included in the above categories*		696,641	3,010	62,821	64,326
14	**Total available stable funding (ASF)**					**18,031,347**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**449,170**
17	**Performing loans and securities:**		**3,292,201**	**1,238,463**	**7,896,152**	**8,124,208**
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,527,052	1,159,062	7,045,574	7,237,338
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		34,915	51,174	960,770	679,349
22	*Performing residential mortgages, of which:*		333,372	314,084	3,361,191	2,681,063
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		26,601	37,446	862,802	765,405
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		1,765,149	79,401	850,578	886,870
26	**Other assets:**					
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*				13,316	11,319
29	*NSFR derivative assets*				12,614	12,614
30	*NSFR derivative liabilities before deduction of variation margin posted*				52,664	2,633
31	*All other assets not included in the above categories*		432,418	31,607	390,076	696,536
32	**Off-balance sheet items**		**3,082,537**	**-**	**-**	**188,420**
33	**Total RSF**					**9,484,900**
34	**Net Stable Funding Ratio (%)**					**190.11%**

9. Leverage

(Article 451(1) a, and b 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. 2020/873 and 2021/451. 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 30 – Leverage ratio of NLB Group

	30.06.2021	31.03.2021	31.12.2020
Tier 1 capital	1,885,268	1,739,075	1,768,062
Total leverage exposures	19,147,158	22,958,066	22,603,903
Leverage ratio	**9.85%**	**7.58%**	**7.82%**

The leverage ratio of NLB Group as at 30 June 2021 amounted to 9.85%, 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 30 June 2021 increased in comparison with the end of March 2021, by 2.27 percentage points by lower value of the total leverage exposure in the amount of EUR 3,811 million and increase of the capital by EUR 146 million. Lower total leverage exposure arose from change in the leverage calculation in line with the CRR 2. Off-balance sheet exposures increased by EUR 21 million, while balance sheet exposures decreased by EUR 1.229 million. Despite the decrease in the total amount of balance sheet items, the exposures to government and households increased. In contrast to the end of March 2021, derivative exposures increased but their share in the total exposure measures is very low.

As at 30 June 2021, the leverage exposure was mainly driven by on-balance sheet exposures (95.50%), and other off-balance sheet exposure (4.24%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (37.87%), retail exposures (25.85%), exposures to corporates (13.15%), and 6.80% to other exposures.

According to Article 500b of CRR as amended by 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. With the decision of the European Central Bank of 18 June 2021 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic the ECB determined further existence of exceptional circumstances in the period starting on 28 June 2021 and ending on 31 March 2022. The amount of excluded exposures as of 30 June 2021 was EUR 2,817 million.

Table 31 – LR2–LRCom - Leverage ratio common disclosure for NLB Group

		CRR leverage ratio exposures		
		a	b	c
		30.06.2021	**31.03.2021**	**31.12.2020**
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,141,043	22,370,384	21,986,015
6	(Asset amounts deducted in determining Tier 1 capital)	(38,602)	(39,012)	(40,383)
7	**Total on-balance sheet exposures (excluding derivatives, SFTs)**	**21,102,441**	**22,331,372**	**21,945,632**
Derivative exposures				
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	-	15,119	16,049
EU-9b	Exposure determined under Original Exposure Method	73,607	14,896	15,245
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(23,905)	(6,486)	(6,836)
13	**Total derivative exposures**	**49,702**	**23,529**	**24,458**
Securities financing transaction (SFT) exposures				
18	**Total securities financing transaction exposures**	**-**	**-**	**-**
Other off-balance sheet exposures				
19	Off-balance sheet exposures at gross notional amount	811,913	3,249,336	3,282,066
20	(Adjustments for conversion to credit equivalent amounts)	-	(2,458,577)	(2,474,076)
22	**Off-balance sheet exposures**	**811,913**	**790,762**	**807,990**
Excluded exposures				
EU-22l	(Excluded exposures to the central bank exempted in accordance with point (n) of Article 429a(1) CRR	(2,816,898)	(187,596)	(174,177)
EU-22k	**(Total exempted exposures)**	**(2,816,898)**	**(187,596)**	**(174,177)**
Capital and total exposure measure				
23	Tier 1 capital	1,885,268	1,734,545	1,768,062
24	**Total exposure measure**	**19,147,158**	**22,958,066**	**22,603,903**
Leverage ratio				
25	Leverage ratio	9.85%	7.56%	7.82%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans)	9.85%		
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	8.58%		
26	Regulatory minimum leverage ratio requirement	3.14%		
27	Leverage ratio buffer requirement (%)	3.14%		
EU-27a	Overall leverage ratio requirement	3.14%		
Choice on transitional arrangements and relevant exposures				
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in	Fully phased in
Disclosure of mean values				
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	19,147,158		
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	21,964,056		
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	9.85%		
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.58%		

Table 32 – LR1–LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

		a	b	c
		30.06.2021	**31.03.2021**	**31.12.2020**
1	**Total assets as per published financial statements**	**21,187,304**	**19,959,026**	**19,565,855**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(201)	(192)	(192)
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	(2,816,898)		-
8	Adjustments for derivative financial instruments	37,088	8,410	8,409
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	811,913	790,762	807,990
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(3,603)	-	-
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-	(187,596)	(174,177)
12	Other adjustments	(68,445)	2,387,656	2,396,018
13	**Total exposure measure**	**19,147,158**	**22,958,066**	**22,603,903**

Table 33 – LR3–LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) for NLB Group

		CRR leverage ratio exposures		
		30.06.2021	**31.03.2021**	**31.12.2020**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**21,141,043**	**22,370,384**	**21,986,015**
EU-2	Trading book exposures	1,082	60,080	68,806
EU-3	Banking book exposures, of which:	21,139,961	22,310,304	21,917,209
EU-4	Covered bonds	367,165	367,918	355,023
EU-5	Exposures treated as sovereigns	8,005,757	7,001,703	7,173,097
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	605,409	622,162	585,295
EU-7	Institutions	1,296,662	1,255,461	975,702
EU-8	Secured by mortgages of immovable properties	1,022,803	996,269	962,450
EU-9	Retail exposures	5,465,838	5,270,975	5,176,729
EU-10	Corporate	2,779,915	2,702,752	2,667,570
EU-11	Exposures in default	159,321	192,977	181,998
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,437,091	3,900,087	3,839,345

10. Appendices

10.1. Appendix 1

Table 34 - EU KM2: Key metrics - MREL and, where applicable, G-SII requirement for own funds and eligible liabilities for NLB Group

		Minimum requirement for own funds and eligible liabilities (MREL)
	30.06.2021	a
	Own funds and eligible liabilities, ratios and components	
1	Own funds and eligible liabilities	1,684,748
EU-1a	Of which own funds and subordinated liabilities	1,664,748
2	Total risk exposure amount of the resolution group (TREA)	5,651,466
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	29.81%
EU-3a	Of which own funds and subordinated liabilities	29.46%
4	Total exposure measure of the resolution group	14,779,668
5	Own funds and eligible liabilities as percentage of the total exposure measure	11.40%
EU-5a	Of which own funds or subordinated liabilities	11.26%
	Minimum requirement for own funds and eligible liabilities (MREL)	
EU-7	MREL requirement expressed as percentage of the total risk exposure amount *	27.29%
EU-8	Of which to be met with own funds or subordinated liabilities	27.29%
EU-9	MREL requirement expressed as percentage of the total exposure measure *	8.03%
EU-10	Of which to be met with own funds or subordinated liabilities	8.03%

* Those are final requirements valid from 1 January 2024.

10.2. Appendix 2

List of disclosures required semi-annual under Part 8 of CRR

Art.	Requirement	Chapter	Page
436	**Scope of application**		
	(a) the name of the institution to which this Regulation applies;	3	5
437	**Own funds (Capital)**		
	(a) A full reconciliation of CET1 items, AT1 items, Tier 2 items, and the filters the filters and deductions applied to own funds of the institution pursuant to Articles 32 to 36, 56, 66 and 79 with the balance sheet in the audited financial statements of the institution,	4.3	10
438	**Own funds requirements and risk weighted exposure amounts**		
	(d) the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds;	4.2	9
	(e) the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 of Article 153(5) and the on- and off-balance- sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2);	/	/
	(h) the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations.	/	/
439	**Counterparty credit risk**		
	(e) the amount of segregated and unsegregated collateral received and posted per type of collateral, further broken down between collateral used for derivatives and securities financing transactions;	6	28
	(f) for derivative transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Sections 3 to 6 of Chapter 6 of Title II of Part Three, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method;	6	28
	(g) for securities financing transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Chapters 4 and 6 of Title II of Part Three, whichever method is used, and the associated risk exposure amounts broken down by applicable method;	6	28
	(h) the exposure values after credit risk mitigation effects and the associated risk exposures for credit valuation adjustment capital charge, separately for each method as set out in Title VI of Part Three;	6	28
	(i) the exposure value to central counterparties and the associated risk exposures within the scope of Section 9 of Chapter 6 of Title II of Part Three, separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures;	6	28
	(j) the notional amounts and fair value of credit derivative transactions; credit derivative transactions shall be broken down by product type; within each product type, credit derivative transactions shall be broken down further by credit protection bought and credit protection sold;	/	/
	(k) the estimate of alpha where the institution has received the permission of the competent authorities to use its own estimate of alpha in accordance with Article 284(9);	6	28
	(l) separately, the disclosures included in point (e) of Article 444 and point (g) of Article 452;	6	28
440	**Countercyclical capital buffers**		
	(a) the geographical distribution of the exposure amounts and risk-weighted exposure amounts of its credit exposures used as a basis for the calculation of their countercyclical capital buffer;	4.4	11
	(b) the amount of their institution-specific countercyclical capital buffer.	4.4	11

442	**Credit risk and dilution risk**		
	(c) information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance-sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received;	5.1	19
	(e) the gross carrying amounts of both defaulted and non-defaulted exposures, the accumulated specific and general credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and off- balance-sheet exposures;	5.1	19
	(f) any changes in the gross amount of defaulted on- and off-balance-sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to non-defaulted status or subject to a write-off;	5.1	19
	(g) the breakdown of loans and debt securities by residual maturity.	5.1	19
444	**The use of the Standardised Approach**		
	(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Chapter 2 of Title II of Part Three, by exposure class, as well as the exposure values deducted from own funds.	5.3, 6	24, 28
445	**Market risk**		
	Institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those points. In addition, own funds requirements for the specific interest rate risk of securitisation positions shall be disclosed separately.	7	30
447	**Key metrics**		
	Institutions shall disclose the following key metrics in a tabular format: **(a)** the composition of their own funds and their own funds requirements as calculated in accordance with Article 92; **(b)** the total risk exposure amount as calculated in accordance with Article 92(3); **(c)** where applicable, the amount and composition of additional own funds which the institutions are required to hold in accordance with point (a) of Article 104(1) of Directive 2013/36/EU; **(d)** their combined buffer requirement which the institutions are required to hold in accordance with Chapter 4 of Title VII of Directive 2013/36/EU; 7.6.2019 L 150/198 Official Journal of the European Union EN **(e)** their leverage ratio and the total exposure measure as calculated in accordance with Article 429; **(f)** the following information in relation to their liquidity coverage ratio as calculated in accordance with the delegated act referred to in Article 460(1): (i) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; (ii) the average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-the- month observations over the preceding 12 months for each quarter of the relevant disclosure period; (iii) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; **(g)** the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part Six: (i) the net stable funding ratio at the end of each quarter of the relevant disclosure period; (ii) the available stable funding at the end of each quarter of the relevant disclosure period; (iii) the required stable funding at the end of each quarter of the relevant disclosure period; **(h)** their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group, where applicable.	1	3
448(1)	**Interest rate risk on positions not held in the trading book**	/	/
449	**Securitisation positions**	/	/
451(1)	**Leverage ratio**		
	(a) The leverage ratio and how the institution applies Article 499(2);	9	36

	(b) A breakdown of the total exposure measure referred to in Article 429(4), as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	9	36
451a	**Liquidity requirements**		
	2.Institutions shall disclose the following information in relation to their liquidity coverage ratio as calculated in accordance with the delegated act referred to in Article 460(1): (a) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;	8	31
	(b) the average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer;	8	31
	(c) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated in accordance with the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition.	8	31
	3.Institutions shall disclose the following information in relation to their net stable funding ratio as calculated in accord. with Title IV of Part Six: (a) quarter-end figures of their net stable funding ratio calculated in accordance with Chapter 2 of Title IV of Part Six for each quarter of the relevant disclosure period;	8	31
	(b) an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six;	8	31
	(c) an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six.	8	31
452	**IRB Approach to credit risk**	/	/
453	**Credit risk mitigation techniques**		
	(f) for institutions calculating risk-weighted exposure amounts under the SA or the IRB Approach, the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments; the disclosure set out in this point shall be made separately for loans and debt securities and including a breakdown of defaulted exposures;	5.2	23
	(g) the corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;	5.3	24
	(h) for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation;	5.3	24
	(i) for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the risk- weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure; the disclosure set out in this point shall be made separately for each exposure class;	5.3	24
	(j) for institutions calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk- weighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission.	/	/
455	**Internal market risk models**	/	/
492	**Transitional provisions for disclosure of own funds**		
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the number of instruments that qualify as CET 1, AT1 and Tier 2 instruments by virtue of applying Article 484 (capital inst. that are not eligible under new legislation but can be gradually excluded).	4.3	10

Legend:
/ not applicable