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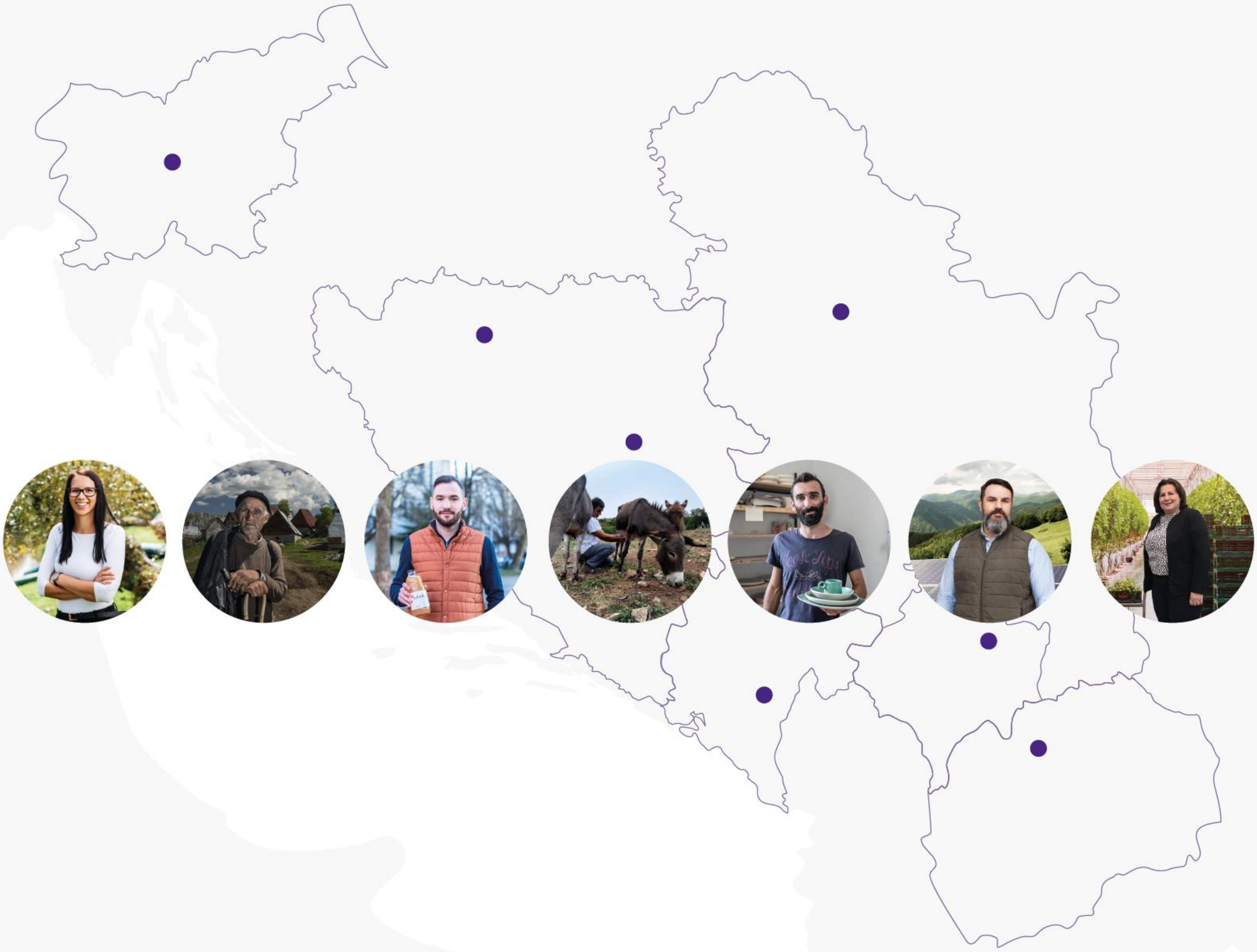
Q3 2021 | Pillar 3 Disclosures



Abbreviations

ALCO	Asset and Liability Committee
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BoS	Bank of Slovenia
CBR	Combined buffer requirement
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
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
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
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
LB	Liquidity buffer
LCR	Liquidity coverage ratio
MDA	Maximum Distributable Amount
M&A	Merger and Acquisition
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
RWA	Risk weighted amounts
RWEA	Risk weighted exposure amounts
SEE	South East Europe
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
T2	Tier 2 (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

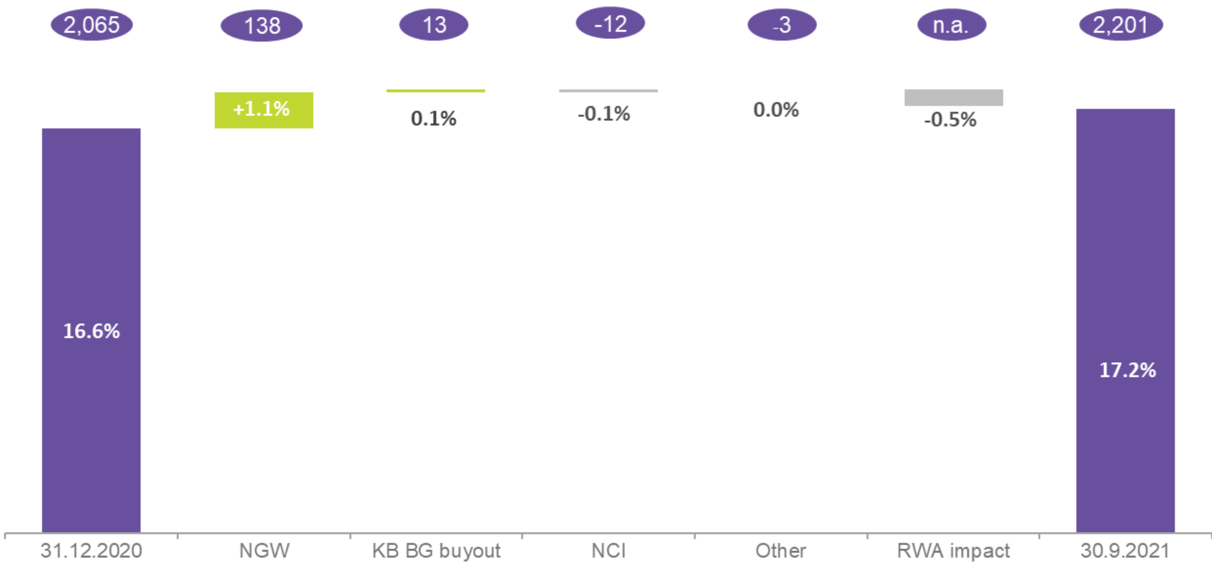
1. Key highlights
(Article 447 of CRR)

Table 1 – EU KM1 – Key metrics

		a	b	c	d	e
		30.09.2021	30.06.2021	31.03.2021	31.12.2020	30.09.2020
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,891,439	1,879,419	1,734,201	1,753,448	1,618,543
2	Tier 1 capital	1,905,247	1,885,268	1,739,075	1,768,062	1,623,350
3	Total capital	2,200,649	2,172,353	2,025,437	2,065,463	1,909,623
	Risk-weighted exposure amounts					
4	Total risk exposure amount	12,824,373	12,755,591	12,615,065	12,421,028	8,863,242
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	14.75%	14.73%	13.75%	14.12%	18.26%
6	Tier 1 ratio	14.86%	14.78%	13.79%	14.23%	18.32%
7	Total capital ratio	17.16%	17.03%	16.06%	16.63%	21.55%
	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	666,711	661,260	529,462	567,240	772,103
	Leverage ratio					
13	Total exposure measure	19,145,896	21,767,392	22,958,066	22,603,903	17,929,822
14	Leverage ratio	9.95%	8.66%	7.58%	7.82%	9.05%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	5,285,726	5,452,822	4,915,250	5,003,026	4,710,397
EU 16a	Cash outflows - Total weighted value	2,549,144	2,595,621	2,474,875	2,413,243	1,902,299
EU 16b	Cash inflows - Total weighted value	608,638	595,460	598,477	470,139	348,371
16	Total net cash outflows	1,940,506	2,000,161	1,876,398	1,943,104	1,553,928
17	Liquidity coverage ratio	272.39%	272.62%	261.95%	257.48%	303.13%
	Net Stable Funding Ratio					
18	Total available stable funding	18,170,538	18,031,347	16,758,272	16,514,623	12,860,682
19	Total required stable funding	9,667,399	9,484,900	10,119,584	9,966,839	7,778,248
20	NSFR ratio	187.96%	190.11%	165.60%	165.70%	165.34%

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. 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 requires 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.

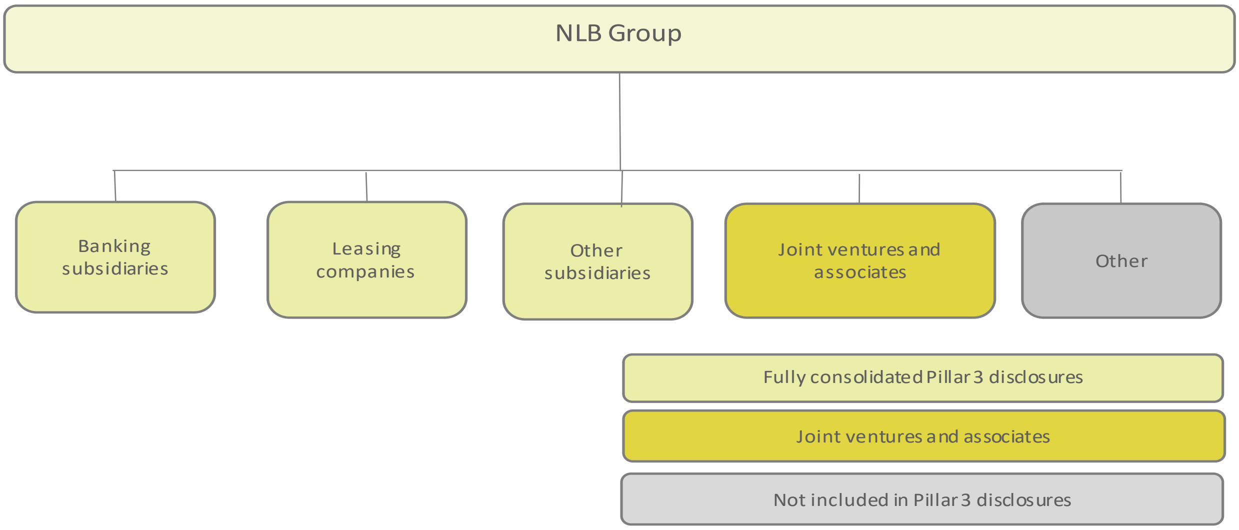
It should be noted that while some quantitative information in this document is based on financial data contained in the Q3 2021 NLB Group Interim Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the Q3 2021 NLB Group Interim Report.

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



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).

4. Capital and capital requirements

4.1. Capital adequacy

European banking capital legislation – CRD V, 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 2 – Capital requirements and buffers of NLB Group

		2021	from 12 March 2020 onwards	as at 1 January till 11 March 2020
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%
Pillar 2 (P2R)	CET1	1.55%	1.55%	0.0%
	Tier 1	2.06%	2.06%	0.0%
	Total Capital	2.75%	2.75%	2.75%
Total SREP Capital requirement (TSCR)	CET1	6.05%	6.05%	7.25%
	Tier 1	8.06%	8.06%	8.75%
	Total Capital	10.75%	10.75%	10.75%
Combined buffer requirement (CBR)				
Capital Conservation buffer	CET1	2.5%	2.5%	2.5%
O-SII buffer	CET1	1.0%	1.0%	1.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	9.55%	10.75%
	Tier 1	11.56%	11.56%	12.25%
	Total Capital	14.25%	14.25%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.55%	10.55%	11.75%

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 3 – Capital adequacy of NLB Group:

	30.09.2021	30.06.2021	31.12.2020
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	766,466	766,975	552,146
Current result	-	-	63,635
Accumulated other comprehensive income	15,756	19,102	21,588
Other reserves	13,522	13,522	13,522
Minority interest	62,029	47,068	71,562
Prudential filters: Additional Valuation Adjustments (AVA)	(3,568)	(3,603)	(3,632)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(30,522)	(31,470)	(33,222)
(-) Insufficient coverage for non-performing exposures	(93)	(24)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,891,439**	**1,879,419**	**1,753,448**
Minority interest	13,808	5,849	14,614
Additional Tier 1 capital	**13,808**	**5,849**	**14,614**
TIER 1 CAPITAL	**1,905,247**	**1,885,268**	**1,768,062**
Capital instruments and subordinated loans eligible as T2 capital	284,595	284,595	284,595
Minority interest	10,807	2,490	12,806
Tier 2 capital	**295,402**	**287,085**	**297,401**
TOTAL CAPITAL	**2,200,649**	**2,172,353**	**2,065,463**
Risk exposure amount for credit risk	10,648,018	10,595,435	10,222,923
Risk exposure amount for market risks	1,228,663	1,212,276	1,250,563
Risk exposure amount for CVA	350	538	200
Risk exposure amount for operational risk	947,342	947,342	947,342
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,824,373**	**12,755,591**	**12,421,028**
Common Equity Tier 1 Ratio	14.7%	14.7%	14.1%
Tier 1 Ratio	14.9%	14.8%	14.2%
Total Capital Ratio	17.2%	17.0%	16.6%

As at 30 September 2021, the Total capital ratio for the NLB Group stood at 17.2% (or 0.5 percentage points higher than at 2020 YE), and for NLB at 25.4% (or 1.7 percentage point lower than at the end of 2020). As at 30 September 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 135.2 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 12.3 million, mainly due to increase of shareholding in Komercijalna banka Beograd.

Pursuant to the ECB regulation/Bank of Slovenia decision, dividends payout in 2021 was split into two tranches. The first instalment in the amount of EUR 12.0 million was paid on 22 June 2021 and the second was paid upon expiry of the Bank of Slovenia decision on 18 October 2021 in the amount of EUR 12.8 million. The Bank envisages additional incremental dividends in 2021 in order to reach a cumulative payout EUR 92.2 million. The envisaged cumulative dividend payout in 2021 (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 changes of RWAs in 2021 are explained in Chapter 4.2 Own funds (capital) requirements in the Table 4 – EU OV1– Overview of risk weighted exposure amounts of NLB Group.

Increase of shareholding in 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).

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 4 shows the detailed composition of the risk weighted exposure amounts of NLB Group at the end of September 2021, end of June 2021 and at the end of 2020; and also, composition of own fund (capital) requirements at the end of September 2021.

Table 4 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group

		Total risk exposure amounts (TREA)			Total own funds requirement
		a	b	b-2	c
		30.09.2021	31.06.2021	31.12.2020	30.09.2021
1	**Credit risk (excluding CCR)**	**10,512,377**	**10,436,124**	**10,095,394**	**840,990**
2	Of which the standardised approach	10,512,377	10,436,124	10,095,394	840,990
6	**Counterparty credit risk - CCR**	**34,386**	**59,586**	**28,286**	**2,751**
7	Of which the standardised approach	34,036	59,048	28,086	2,723
EU 8b	Of which credit valuation adjustment - CVA	350	538	200	28
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,228,663**	**1,212,276**	**1,250,563**	**98,293**
21	Of which the standardised approach	1,228,663	1,212,276	1,250,563	98,293
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)**	**101,605**	**100,263**	**99,443**	**8,128**
29	**Total**	**12,824,373**	**12,755,591**	**12,421,028**	**1,025,950**

RWA for the Group increased by EUR 403.3 million YtD or EUR 68.8 million in last quarter. RWA for credit risk increased by EUR 425.1 million YtD or EUR 52.6 million in last quarter (lines 1, 7, and 24 in Table 4). Most of the increase was contributed by the Bank (EUR 273.5 million YtD, but contribution decreased by EUR 12.9 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 21.8 million YtD (in last quarter increase EUR 16.2 million) (lines EU 8b and 20 in Table 4) is mainly the result of decreased TDI risk in the amount EUR 79.5 million YtD or EUR 0.1 million in last quarter (a consequence of closing position of traded debt instruments in Komercijalna banka Beograd). RWA on FX risk increased by EUR 57.6 million YtD or EUR 16.5 million in last quarter, mainly due to more open positions in domestic currencies of non-euro subsidiary banks.

4.3. 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 returned to growth on the back of revival in private and investment consumption. However, it is not possible to assume with a high degree of confidence that such economic momentum will continue.

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, as well as in banking subsidiaries. Impacts of the COVID-19 pandemic caused moderate credit quality deterioration. Nevertheless, the Group faced a favourable NPL movement resulting in lower percentage of NPLs and positive effects from on- and off-balance sheet collection. 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 the 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 were 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 2021
In the Euro area, GDP is expected to grow 5.0% this year. Private consumption, which is the key driver of the economic recovery, is presumed to continue growing strongly in the remaining part of the year amid relaxation of containment measures and accumulated savings allowing for the release of some pent-up demand. Moreover, business investment is expected to remain resilient while recovery in external demand should support robust expansion in exports. Inflationary pressures stemming from rising energy and commodity prices, still unresolved supply chain bottlenecks and input shortages, alongside with the still lasting COVID-19 pandemic are key downside risks to the outlook. Inflation could turn out higher in case inflationary pressures turn out more persistent. In Slovenia, GDP is expected to grow by 6.5% this year with consumption, investment and foreign demand being the main growth drivers. The Group's region is seen growing 6.1% on average this year with revival in domestic and foreign demand as main growth drivers.

The Group has committed to sustainability and has been enhancing the management of environmental and social risks of its operations. It also substantially increased the use of digital channels, improved customer experience, and aims to create a flexible local digital ecosystem for offering products and services.

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 on the back of cross-border lending. Growth in Strategic Foreign Markets will remain robust and will greatly improve due to the acquired Komercijalna Banka, Beograd. Therefore, interest income improvement is primarily driven by loan book growth and successful response to continuous margin pressure in all markets, and productive use of liquid assets. Opening of the economies and introduction of high balance fees stimulated demand for fee generating products and income. All the above should result in total regular revenues of over EUR 600 million in 2021.

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 costs associated with the acquired Komercijalna Banka, Beograd.

The cost of risk in 2021 is due to more favourable macroeconomic situation compared to the 2020 YE and very strong development in NPL resolution expected to substantially outperform previous outlook guidance for 2021 (20-40 bps) and is expected to be around -20 bps.

The Group faced favourable NPL movement due to repayments in the segment of large corporate clients, and other successfully resolved smaller exposures in the region. Moderation of current positive economic trends due to uncertainties steaming from potential further waves of COVID-19 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), although growth of retail deposits has moderated in Q3 2021. 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. 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. The Bank is exploring oportunities for potential issuance of Tier 2 instrument to further strenghten and optimize its capital on solo and consolidated level and to benefit from current favourable market environment. Also, in 2021 the Group continues with the activities to optimise RWAs.

Pursuant to the ECB regulation/BoS decision, dividends payout in 2021 was split into two tranches. The first instalment in the amount of EUR 12.0 million was paid on 22 June 2021 and the second was paid upon expiry of the BoS decision on 18 October 2021 in the amount of EUR 12.8 million. The Bank envisages additional incremental dividends in 2021 in order to reach a cumulative payout 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.

4.4. Information on COVID-19 moratoria

According to EBA Guidelines EBA/GL/2020/07 in tables from 5 to 7 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 5 – Information on loans and advances subject to legislative and non-legislative moratoria for NLB Group

30.09.2021	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	25,263	20,303	689	1,221	4,960	3,723	4,960	(2,613)	(153)	(58)	(65)	(2,460)	(1,821)	(2,460)	154
of which: Households	2,347	1,491	627	915	856	834	856	(413)	(62)	(58)	(61)	(351)	(335)	(351)	154
of which: Collateralised by residential immovable property	1,031	644	272	417	387	387	387	(32)	-	-	-	(32)	(32)	(32)	103
of which: Non-financial corporations	22,916	18,812	62	306	4,104	2,889	4,104	(2,199)	(91)	(1)	(5)	(2,108)	(1,486)	(2,108)	-
of which: Small and Medium-sized Enterprises	2,897	2,872	62	306	24	24	24	(27)	(8)	(1)	(5)	(18)	(18)	(18)	-
of which: Collateralised by commercial immovable property	19,682	17,678	-	97	2,005	957	2,005	(1,116)	(84)	-	-	(1,031)	(495)	(1,031)	-

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

30.09.2021	Number of obligors	Gross carrying amount							
					Residual maturity of moratoria				
		Total	Of which: legislative moratoria	Of which: Expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	228,101	2,042,017							
Loans and advances subject to moratorium (granted)	203,705	1,745,314	1,497,513	1,720,051	24,901	-	-	362	-
of which: Households		1,013,602	975,664	1,011,255	2,347	-	-	-	-
of which: Collateralised by residential immovable property		450,992	436,649	449,961	1,031	-	-	-	-
of which: Non-financial corporations		720,790	510,954	697,874	22,554	-	-	362	-
of which: Small and Medium-sized Enterprises		515,668	322,541	512,772	2,534	-	-	362	-
of which: Collateralised by commercial immovable property		500,601	323,274	480,918	19,320	-	-	362	-

31.12.2020	Number of obligors	Gross carrying amount							
					Residual maturity of moratoria				
		Total	Of which: legislative moratoria	Of which: Expired	<= 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 7 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis for NLB Group

30.09.2021	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	199,794	49	61,996	183
of which: Households	31,767			84
of which: Collateralised by residential immovable property	14			-
of which: Non-financial corporations	168,017	49	54,317	99
of which: Small and Medium-sized Enterprises	147,540			99
of which: Collateralised by commercial immovable property	7,523			-

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			-

4.5. 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.

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:

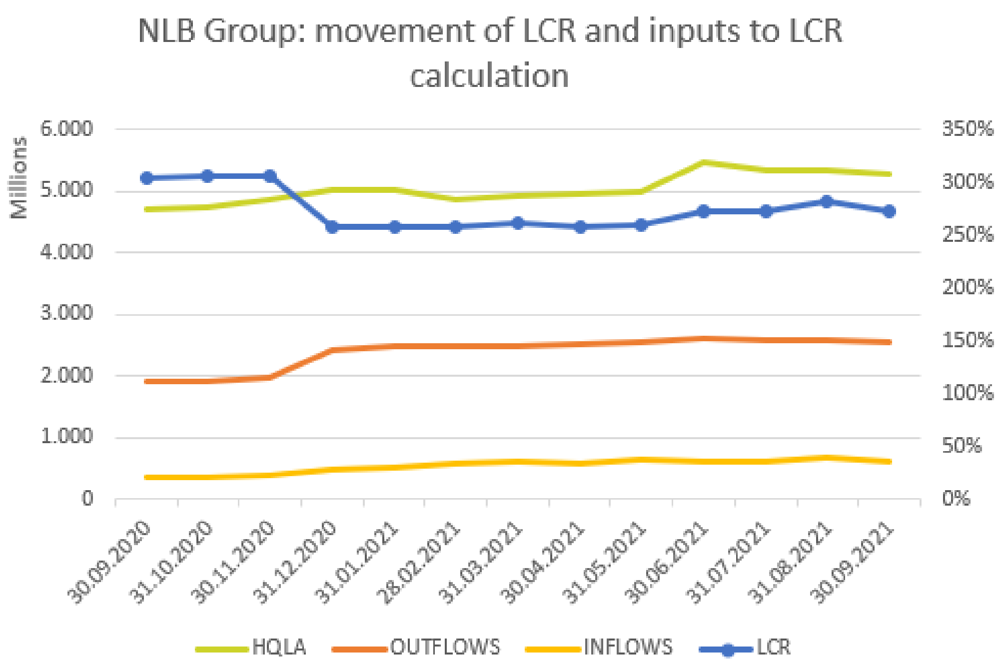
- 0% until 31 December 2022,
- 20% in 2023,
- 50% in 2024.

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.

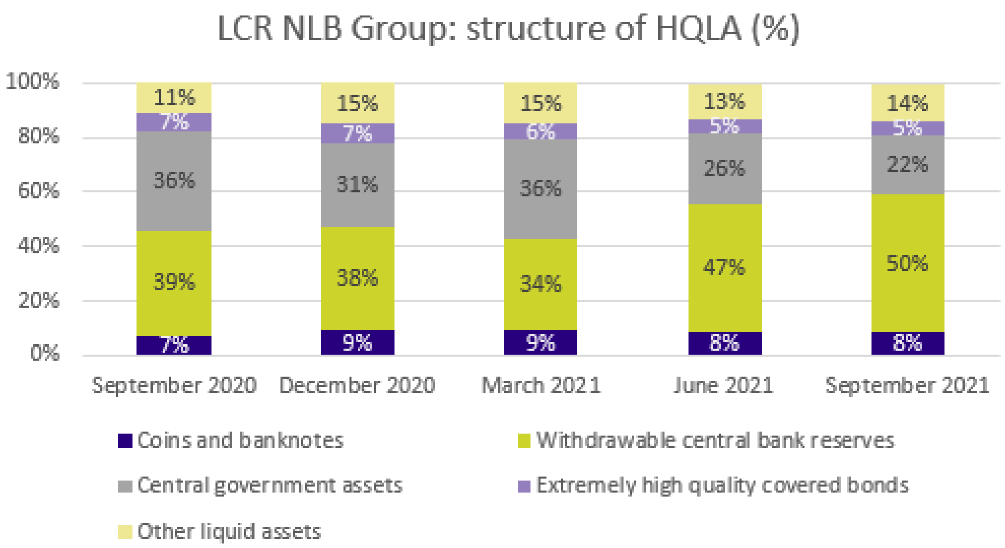
5. Liquidity requirements
(Article 451a (2) of CRR)

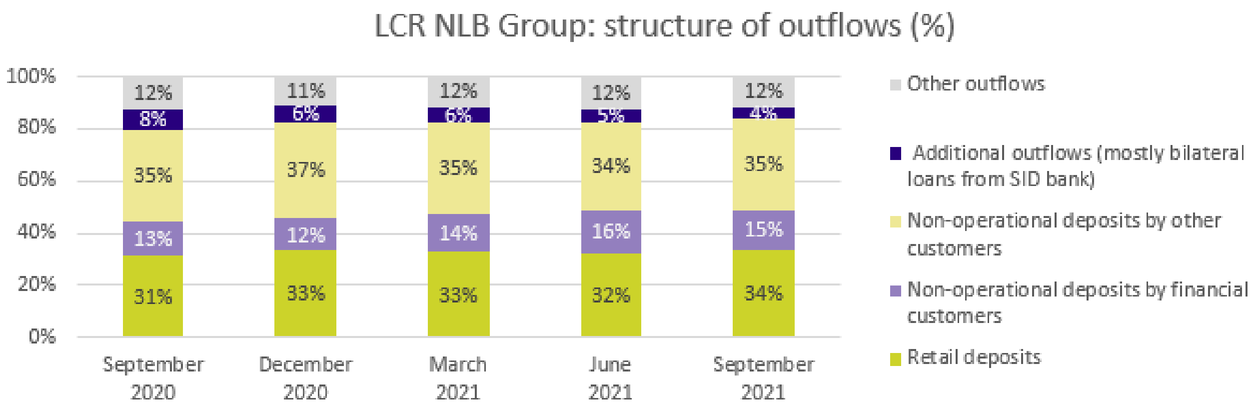
Liquidity coverage ratio
NLB Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In the past year (30 September 2020 – 30 September 2021) the LCR of NLB Group ranged between 257% and 306% (272.4% as at 30 September 2021). 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 3.35 billion as at 30 September 2021).

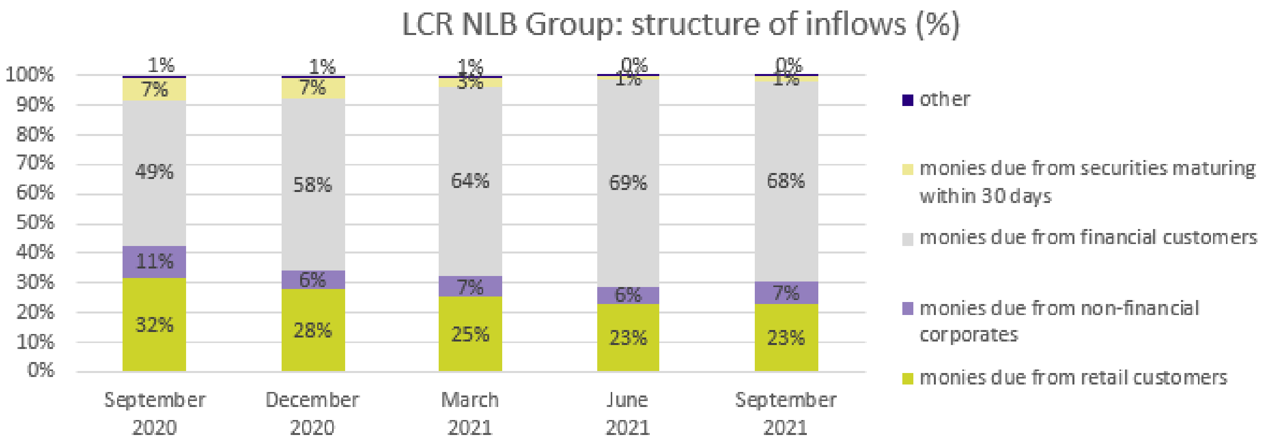
On 30 December 2020, NLB Group acquired new subsidiaries (banking members of Komercijalna banka Beograd), which caused high increase in outflows, and relatively smaller increase of HQLA due to specific rules for calculating consolidated LCR on NLB Group level, where from each subsidiary bank only HQLA 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 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 is represented by customer (non-banking sector) deposits. NLB Group's deposit base is highly stable and diversified. Due to high importance of customer deposits in the Group's funding, it is very important to limit high concentration. The desired 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 are also set for other Group members and defined in the Group Risk Management Standards. All banking members of NLB Group must adopt limit 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 September 2021, the top 30 counterparties provided 2.9% 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 September 2021, the aggregate liabilities in RSD represented 6.92% 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.

Table below illustrates 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 8 – 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**	**30.09.2021**	**30.06.2021**	**31.03.2021**	**31.12.2020**	**30.09.2021**	**30.06.2021**	**31.03.2021**	**31.12.2020**
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)	-	-	-	-	5,064	4,912	4,755	4,493
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	13,503	12,465	11,416	10,121	793	728	664	614
3	*Stable deposits*	9,889	9,050	8,188	7,128	494	452	409	356
4	*Less stable deposits*	2,551	2,351	2,176	2,220	299	275	255	257
5	Unsecured wholesale funding	2,491	2,307	2,108	1,861	1,195	1,106	1,012	902
7	*Non-operational deposits (all*	2,491	2,306	2,108	1,861	1,194	1,105	1,011	901
8	*Unsecured debt*	1	1	1	1	1	1	1	1
10	Additional requirements	1,938	1,864	1,777	1,643	285	288	284	263
11	*Outflows related to derivative exposures and other collateral requirements*	139	148	153	144	139	148	153	144
13	*Credit and liquidity facilities*	1,799	1,715	1,625	1,498	146	139	132	118
14	Other contractual funding obligations	191	181	167	121	80	73	56	38
15	Other contingent funding obligations	1,136	1,089	1,042	994	68	65	62	60
16	**TOTAL CASH OUTFLOWS**					**2,420**	**2,259**	**2,079**	**1,875**
Cash-inflows									
18	Inflows from fully performing exposures	731	643	566	523	539	465	397	362
19	Other cash inflows	11	13	13	18	11	13	13	18
20	**TOTAL CASH INFLOWS**	**742**	**657**	**579**	**541**	**550**	**478**	**410**	**379**
EU-20c	***Inflows subject to 75% cap***	**742**	**657**	**579**	**541**	**550**	**478**	**410**	**379**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**5,064**	**4,912**	**4,755**	**4,493**
22	**TOTAL NET CASH OUTFLOWS**					**1,870**	**1,781**	**1,669**	**1,496**
23	**LIQUIDITY COVERAGE RATIO**					**271.86%**	**277.78%**	**287.02%**	**302.88%**

6. Appendix

List of disclosures required quarterly 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
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	8
	(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.	/	/
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
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;	5	16
	(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;	5	16

(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.	5	16

Legend:
/ not applicable