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NLB Group Strategic Members Overview

	Slovenia		North Macedonia	Bosnia and Herzegovina		Kosovo	Montenegro	Serbia	
	NLB Group	NLB, Ljubljana	NLB Skladi, Ljubljana	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica	NLB Banka, Beograd
Market position									
Branches	301	80	-	52	53	35	34	19	28
Active clients	1,829,535	667,784	-	387,579	220,833	136,658	212,401	64,043	140,237
Total assets (in EUR million)	14,892	10,449	15,661 ⁽ⁱ⁾	1,522	781	625	825	545	687
Profit after tax (in EUR million)	73.7	67.8	2.4	11.7	4.6	3.2	8.3	0.8	2.0
Market share (by total assets)		24.2%	34.0%	16.3%	18.3% ^(ii, iv)	5.2% ^(iii, v)	17.9%	11.6% ^(vi)	1.8% ^(v)

(i) Assets under management.

(ii) Market share in the Republic of Srpska.

(iii) Market share in the Federation of BiH.

(iv) Data on market share as of 31 December 2019.

(v) Data on market share as of 31 March 2020.

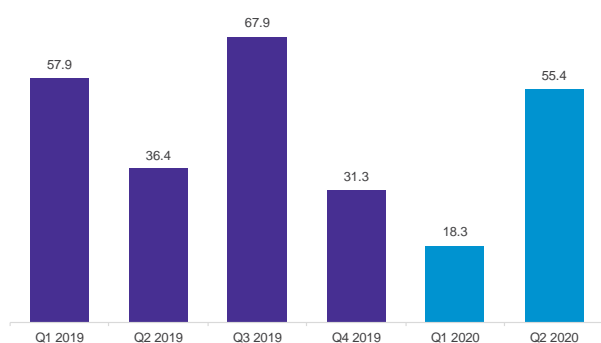
(vi) Data on market share as of 31 May 2020.



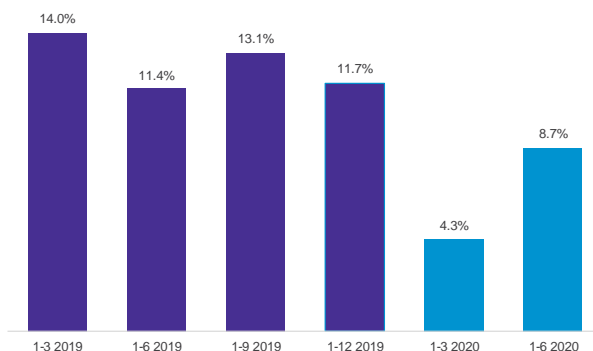
LJUBLJANA
 DIGITAL SERVICES
 PROFESSIONAL
 GOOD DEEDS
 EXCELLENCE
 TRUST
 SPORTS GAMES
 DONATIONS
 ECOLOGY
 R&D
 CULTURE
 FAMILY DAY
 CARE FOR EMPLOYEES
 FLEXIBILITY
 PROGRESSIVENESS
 CARE
 THEATRE INTERPRETER
 LOCAL COMMUNITY
 CSR
 FINANCIAL CARE
 EASY KLIKIN
 KNOWLEDGE
 FINANCIAL ADVICE
 CSR
 QUALITY OF LIFE
 LOCAL COMMUNITY
 SPORTS
 FAMILY FRIENDLY ENTERPRISE
CULTURE
 BANK GUARANTEE
 HEALTHY BANK
 FLEXIBILITY
 UNDERSTANDING
 BANKING PACKAGES
 ONLINE BANK
 DIGITAL SERVICES
 BEST SERVICE
 MOBILE WALLET
 TRUST
 CULTURE
 KLIKIN
 HEALTHY BANK
 SPORTS GAMES
 ECOLOGY
 R&D
BANJA LUKA
 DONATIONS
 FINANCIAL LITERACY
 ECOLOGY
 QUALITY OF LIFE
24/7 BELGRADE
 DONATIONS
 FINANCIAL LITERACY
 ECOLOGY
 QUALITY OF LIFE
SARAJEVO
 MENTORSHIP
 SPORTS GAMES
 TRUST
 ACCESSIBILITY
 SPONSORSHIPS
 FAMILY DAY
 NLB ORGANIC
 CULTURE
 YOUTH SPORT
 SPORTS EDUCATION
 PROGRESSIVENESS
 EASY
 ACCESSIBILITY
 5.800+ EMPLOYEES
 BEST SERVICE
 CULTURE
TRUST
 ACCESSIBILITY
 SPONSORSHIPS
 FAMILY DAY
 DIGITAL SERVICES
 SPONSORSHIPS
PRISHTINA
 CONSULTING
 5.800+ EMPLOYEES
 STABILITY
PODGORICA
 ENTREPRENEURSHIP
 PRIVATE BANKING
 DIGITAL
301 BRANCHES
 UP TO DATE
 MENTORSHIP
 ART
 DIGITAL
 TOP EMPLOYER
SKOPJE
 UNDERSTANDING
 BANKING PACKAGES
 ONLINE BANK
 STOCK MARKET
 SECURITY
 BANK GUARANTEE
 DONATIONS
 FINANCIAL LITERACY
 301 BRANCHES
 BUSINESS FORUM
 BEST SERVICE
 FAMILY FRIENDLY ENTERPRISE
 FAMILY DAY
 CULTURE
 KLIKIN
 DIGITAL SERVICES
 LOCAL COMMUNITY
 MOBILE BANK

Figures at a Glance

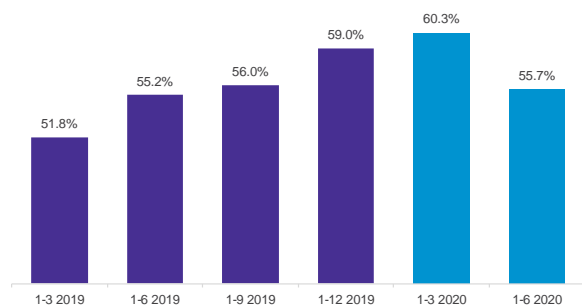
Profit a.t. - quarterly (in EUR million)



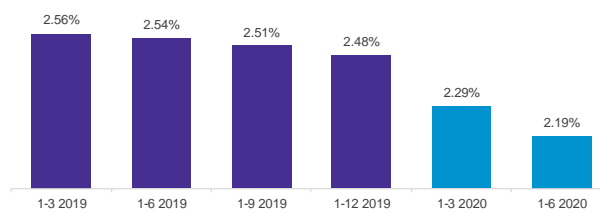
ROE a.t. (in %)



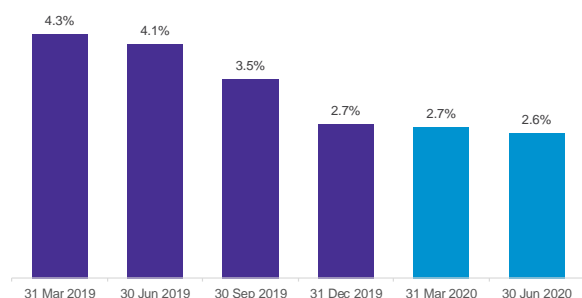
Cost/income ratio - CIR⁽ⁱ⁾ (in %)



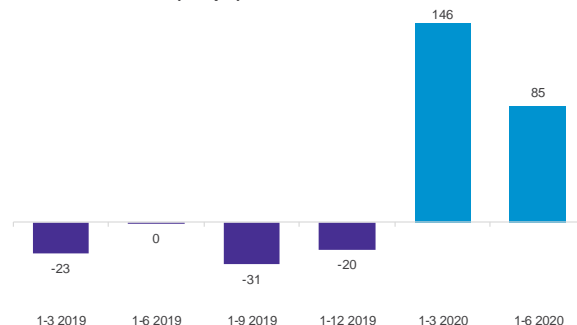
Interest margin (in %)



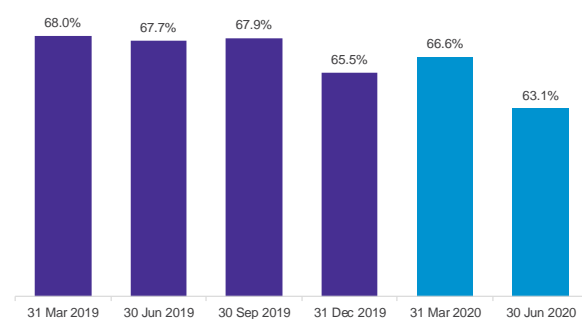
NPE ratio - EBA def. (in %)



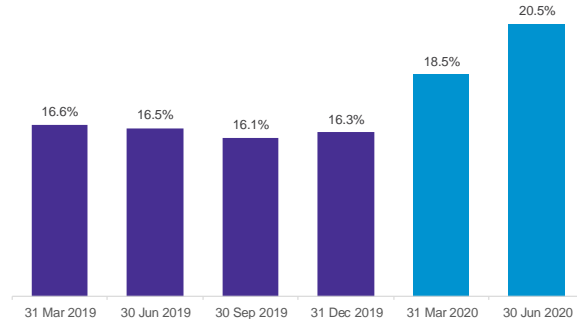
Cost of risk net⁽ⁱⁱ⁾ (in bps)



Loan to deposit ratio - LTD (in %)



Total capital ratio (in %)



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

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

Key Financial Indicators

Table 1: Key Financial Indicators of NLB Group

NLB Group						
in EUR million / % / bps	1-6 2020	1-6 2019	Change YoY	Q2 2020	Q1 2020	Q2 2019
Key Income Statement Data						
Net operating income ⁽ⁱ⁾	260.0	259.0	0%	136.2	123.8	124.5
Net interest income	150.1	159.0	-6%	72.7	77.4	79.7
Net non-interest income	109.9	100.0	10%	63.5	46.4	44.9
Total costs ⁽ⁱ⁾	-144.8	-143.1	-1%	-70.2	-74.6	-73.4
Result before impairments and provisions	115.2	116.0	-1%	66.0	49.2	51.2
Impairments and provisions	-33.2	-5.5	-	-4.9	-28.3	-4.9
Result after tax	73.7	94.3	-22%	55.4	18.3	36.4
Key Financial Indicators						
Return on equity after tax (ROE a.t.)	8.7%	11.4%	-2.7 p.p.			
Return on assets after tax (ROA a.t.)	1.0%	1.4%	-0.4 p.p.			
Interest margin (on interest bearing assets)	2.19%	2.54%	-0.35 p.p.			
Interest margin (on total assets - BoS ratio)	2.10%	2.46%	-0.36 p.p.			
Cost-to-income ratio (CIR) ⁽ⁱⁱ⁾	55.7%	55.2%	0.5 p.p.			
Cost of risk net (bps) ⁽ⁱⁱⁱ⁾	85	0	85			

in EUR million / %	30 Jun 2020	31 Dec 2019	30 Jun 2019	Change YtD	Change YoY
Key Financial Position Statement Data					
Total assets	14,891.9	14,174.1	13,164.4	5%	13%
Gross loans to customers	8,048.9	7,938.3	7,721.1	1%	4%
Net loans to customers	7,686.7	7,604.7	7,280.8	1%	6%
Deposits from customers	12,190.8	11,612.3	10,753.5	5%	13%
Equity (without non-controlling interests)	1,730.6	1,685.9	1,587.4	3%	9%
Other Key Financial Indicators					
LTD ^(iv)	63.1%	65.5%	67.7%	-2.4 p.p.	-4.7 p.p.
Common Equity Tier 1 Ratio	17.3%	15.8%	16.0%	1.5 p.p.	1.4 p.p.
Total capital ratio	20.5%	16.3%	16.5%	4.2 p.p.	4.0 p.p.
Total risk weighted assets	9,301.7	9,185.5	8,935.2	0%	4%
NPL volume ^(v)	401.3	374.7	542.4	0%	-26%
NPL coverage ratio 1 ^(vi)	90.2%	89.2%	81.2%	1.0 p.p.	9.0 p.p.
NPL coverage ratio 2 ^(vii)	62.6%	65.0%	66.2%	-2.4 p.p.	-3.5 p.p.
NPL ratio (internal def.) ^(viii)	3.7%	3.8%	6.0%	-0.1 p.p.	-2.3 p.p.
Net NPL ratio (internal def.) ^(ix)	1.4%	1.4%	2.1%	0.0 p.p.	-0.7 p.p.
NPL ratio (EBA def.) ^(x)	4.8%	4.6%	6.8%	0.2 p.p.	-2.0 p.p.
NPE ratio (EBA def.) ^(xi)	2.6%	2.7%	4.1%	-0.1 p.p.	-1.5 p.p.
Employees					
Number of employees	5,816	5,878	5,823	-62	-7

⁽ⁱ⁾ Data for 2019 are adjusted to changed schemes prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses). More details are available in note 2.3 in the section Unaudited condensed interim financial statements of NLB Group and NLB.

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

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

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

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

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

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

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

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

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

International credit ratings NLB	30 Jun 2020	31 Dec 2019	Outlook
Standard & Poor's	BBB-	BBB-	Negative
Fitch	BB+	BB+	Negative
Moody's ⁽ⁱ⁾	Baa2	Baa2	Stable

⁽ⁱ⁾ Unsolicited rating.

Macroeconomic Environment

Macroeconomic summary and outlook

Governments across the globe and in the EU introduced several response measures to contain the COVID-19 pandemic, including various forms of confinement with significant economic consequences. The Eurozone economy contracted sharply in Q1 2020 (-3.6% QoQ; -3.1% YoY) and it took even more severe hit in Q2 2020. The preliminary flash estimate published by Eurostat indicates that the Eurozone economy contracted by 12.1% QoQ (-15.0% YoY) in Q2 2020. Policymakers resorted to liquidity and monetary stimulus, aimed at supporting financial sector resilience and lending, to address severe strains in key funding markets. The ECB, and other major central banks, stick to 'whatever it takes' commitments, implementing accommodative monetary policy measures. As a part of efforts to support liquidity conditions and the economy, the ECB decreased the rates on long-term refinancing operations, introduced special pandemic emergency long-term refinancing operations and increased the envelope for its emergency QE program. National authorities implemented a broad range of measures, such as legislative moratoria on loan repayments aimed at supporting the operational and liquidity challenges. As a response to COVID-19 crisis, authorities took capital, liquidity and borrower-based macroprudential measures to support banks in facilitating the real economy. In general, they can be categorized into (i) temporary reliefs for regulatory capital buffers, (ii) temporary restrictions imposed on dividends, share buy-backs and bonuses to boost banks' resilience, (iii) temporary reliefs for liquidity buffers, and (iv) relaxation of borrower-based macroprudential constraints to support lending. Large fiscal measures aimed at helping companies and households to overcome the COVID-19 crisis adopted at the national level were complemented by a common European rescue package aiming at cushioning the economic impact of the crisis. It amounts to about EUR 540 billion, including (i) precautionary credit lines for Member States, (ii) a program to finance loans to businesses, and (iii) a jobs support program. Moreover, EU leaders agreed on a post-crisis stimulus in the form of EU recovery fund worth EUR 750 billion, with funds to be distributed in the form of loans and grants. In conjunction with the revised EU long-term budget of EUR 1,074 billion it holds the key to Europe's future prosperity and resilience.

In the Eurozone, the economy could contract 7.5% in 2020 with the health crisis suppressing investment activity and consumer spending. Large fiscal responses to the crisis could complicate fiscal sustainability in fiscally less prudent countries. However, stimulus and recovery measures at national and EU level could cushion the overall impact of COVID-19. Furthermore, agreement on the EU recovery plan is boding well for European economic recovery and resilience. In Slovenia, the economy is expected to contract 5.7% in 2020, while the economic output in the Group's region could on average contract 4.9% in 2020. Since the virus is still present and several restrictions remain in place, the recovery will be gradual and uneven across countries. Recurrences of major outbreaks of the epidemic and potential reinstatement of rigorous measures to contain the spread of the COVID-19 represent a key downside risk to the outlook. Therefore, the economic outlook is highly dependent on the capacity of countries to deal with the second wave of infections.

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

	GDP (annual growth rate in %)				Average inflation (in %)				Unemployment rate (in %)			
	2019	Q1 2020	2020	2021	2019	H1 2020	2020	2021	2019	Q1 2020	2020	2021
Euro area	1.2	-15.0*	-7.5	4.5	1.2	0.7	0.6	1.2	7.6	7.2	10.0	9.5
Slovenia	2.4	-2.3	-5.7	4.6	1.7	0.3	0.5	1.5	4.5	4.6	7.5	7.0
BiH	2.6	2.0	-4.1	3.6	0.6	-0.6	0.1	1.5	33.3	32.6	36.0	35.0
Montenegro	3.6	2.7	-6.7	3.6	0.4	0.1	0.9	1.7	15.1	15.9**	18.0	17.5
N. Macedonia	3.6	0.2	-4.0	3.8	0.8	0.5	0.6	1.5	17.3	16.2	20.0	19.0
Serbia	4.2	5.0	-2.8	3.6	1.9	1.4	1.5	2.5	10.4	9.7	14.5	14.0
Kosovo	4.2	1.3	-6.3	3.8	2.7	0.6	1.8	1.8	25.7	25.9**	30.0	28.5

Source: Statistical offices, NLB Research.

Note: Registered unemployment data used for BiH; NLB Forecasts highlighted in green. *Data for Q2 2020; **Data for Q4 2019.

EXCELLENCE
BEST SERVICE
ENTREPRENEURSHIP
INTEGRITY
QUALITY OF LIFE
MOBILE BANKERS
WIN-WIN
UP TO DATE
5.800+ EMPLOYEES
TOP EMPLOYER
PROFESSIONAL
GROWTH
ASSETS
TRUST
STOCK MARKET
FINANCIAL ADVICE

PROFESSIONAL
PURCHASE OF RECEIVABLES
301 BRANCHES
REGIONAL PROJECTS
DIGITAL
CONTACT CENTRE
MOBILE WALLET
NLB PAY
KNOWLEDGE
24/7
STRATEGY
NLB TELEDOM

Business Report

Key Developments

EUR 73.7 million

Result after tax amounted to EUR 73.7 million, a decrease by EUR 20.7 million or 22% YoY, mainly due to net establishment of impairments and provisions related to COVID-19 outbreak in Q1 2020.

20.5%

Total capital ratio
The total capital ratio of the Group reached 20.5% (including inclusion of EUR 240 million of subordinated Tier 2 instruments in 2020 and EUR 157.5 million of 2019 undistributed profit) and was well above the regulatory thresholds.

EUR 32.7 million

Strategic Foreign Markets contributed 40% to the Group profit before tax.

2.6%

NPE (EBA def.)
Further solid quality of the loan portfolio still reflected in relatively stable and low level of NPLs at the end of H1 2020. Consequently, the NPL ratio stood at 3.7%, while the internationally more comparable NPE ratio (EBA def.) was reduced from 2.7% to 2.6%.

EUR 150.1 million

Net interest income decreased by 6% YoY, mostly related to sale of debt securities, higher volume of cash and balances with central bank, new subordinated Tier 2 instruments and continued pressure on achieved interest margins.

EUR 109.9 million

10% increase YoY in **net non-interest income** due to non-recurring income (sale of NLB Vita and sale of debt securities).

EUR 33.2 million

Established **Impairments and provisions** in total net amount of EUR 33.2 million, mostly due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.

55.7%

CIR stood at 55.7%, 0.5 p.p. higher YoY.

Key Events

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

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

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

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

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

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

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

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

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

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

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

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

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

On 26 June, the members of the Supervisory Board of the Bank elected Primož Karpe as their Chairman for the second time in a row. Andreas Klingen remains his deputy. The Supervisory Board of the Bank consist of 11 members, of which 8 are shareholders' representatives and 3 are workers' representatives.

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

NLB Shareholder Structure

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

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

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders ⁽ⁱ⁾	12,078,490	60.39
• of which Brandes Investment Partners, L.P. ⁽ⁱⁱ⁾	n.a.	>5 and <10
• of which European Bank for Reconstruction and Development (EBRD) ⁽ⁱⁱ⁾	n.a.	>5 and <10
• of which Schroders plc ⁽ⁱⁱ⁾	n.a.	>5 and <10
Republic of Slovenia (RoS)	5,000,001	25.00
Other shareholders	2,921,509	14.61
Total	20,000,000	100.00

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

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

Notes:

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

Financial Performance

Table 4: Income statement of NLB Group²

in EUR million	NLB Group								
	1-6 2020	1-6 2019	Change YoY		Q2 2020	Q1 2020	Q2 2019	Change QoQ	
Net interest income	150.1	159.0	-9.0	-6%	72.7	77.4	79.7	-4.7	-6%
Net fee and commission income	81.5	82.2	-0.8	-1%	39.0	42.4	42.1	-3.4	-8%
Dividend income	0.1	0.2	-0.1	-50%	0.1	0.0	0.1	0.1	-
Net income from financial transactions	24.3	23.0	1.3	6%	20.5	3.8	10.7	16.7	-
Net other income	4.1	-5.3	9.4	-	3.9	0.2	-8.0	3.6	-
Net non-interest income	109.9	100.0	9.9	10%	63.5	46.4	44.9	17.1	37%
Total net operating income	260.0	259.0	0.9	0%	136.2	123.8	124.5	12.4	10%
Employee costs	-82.7	-81.4	-1.3	-2%	-39.8	-42.9	-41.4	3.1	7%
Other general and administrative expenses	-46.2	-46.3	0.1	0%	-22.5	-23.7	-24.3	1.1	5%
Depreciation and amortisation	-15.9	-15.4	-0.5	-3%	-7.9	-8.1	-7.7	0.2	2%
Total costs	-144.8	-143.1	-1.7	-1%	-70.2	-74.6	-73.4	4.4	6%
Result before impairments and provisions	115.2	116.0	-0.8	-1%	66.0	49.2	51.2	16.8	34%
Impairments and provisions for credit risk	-32.8	-0.7	-32.1	-	-4.6	-28.2	-4.0	23.5	84%
Other impairments and provisions	-0.4	-4.8	4.3	91%	-0.3	-0.2	-0.8	-0.1	-47%
Impairments and provisions	-33.2	-5.5	-27.7	-	-4.9	-28.3	-4.9	23.4	83%
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	0.4	2.5	-2.1	-83%	0.2	0.2	1.4	0.0	-5%
Result before tax	82.4	113.0	-30.6	-27%	61.3	21.0	47.7	40.3	191%
Income tax	-5.5	-14.9	9.4	63%	-3.9	-1.6	-9.5	-2.4	-150%
Result of non-controlling interests	3.2	3.8	-0.6	-16%	2.0	1.2	1.8	0.9	74%
Result after tax	73.7	94.3	-20.7	-22%	55.4	18.3	36.4	37.0	-

Profit

The Group generated EUR 73.7 million of profit after tax, which is EUR 20.7 million lower YoY.

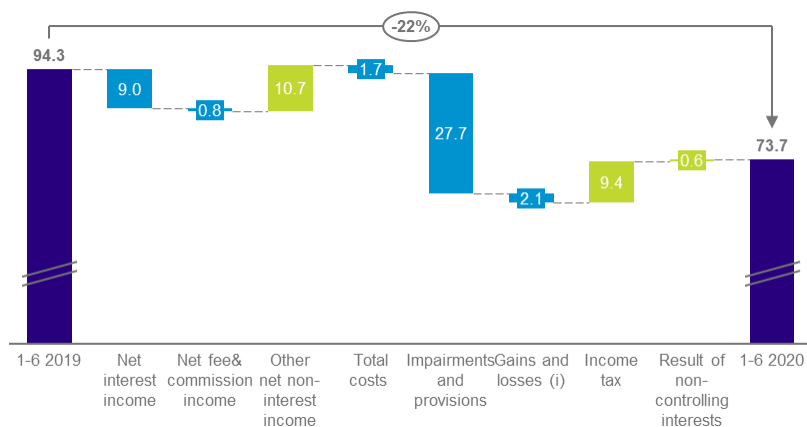
The result was based on the following key drivers and YoY evolution:

- **Net interest income** lower by EUR 9.0 million (6%): lower interest income, mostly related to sale of debt securities (realized non-recurring profit in amount of EUR 17.2 million) and higher volume of cash and balances with central bank, while higher interest expenses related to the new subordinated Tier 2 instruments. The pressure on interest margins in the Bank and banking members in SEE is continuing.
- Lower **net fee and commission income**, EUR 0.8 million (1%) due to COVID-19 outbreak, mainly on payment transactions and card operations and bancassurance business.
- **Non-recurring net income from the financial transaction** affected by the sale of debt securities in the Bank (EUR 17.2 million), while in 2019 by partial repayment of a large exposure measured at fair value through profit and loss in the amount of EUR 5.1 million and revaluation of a non-core equity stake in the amount of EUR 6.3 million. **Non-recurring net other income** affected by the sale of NLB Vita with positive effect of EUR 11.0 million in May 2020.
- **Total costs** were EUR 1.7 million (1%) higher due to higher employee costs.
- Net established **impairments and provisions** were EUR 33.2 million, while EUR 5.5 million in H1 2019. New credit impairments and provisions in the total amount of EUR 20.0 million were established in H1 2020 due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.

Notes:

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

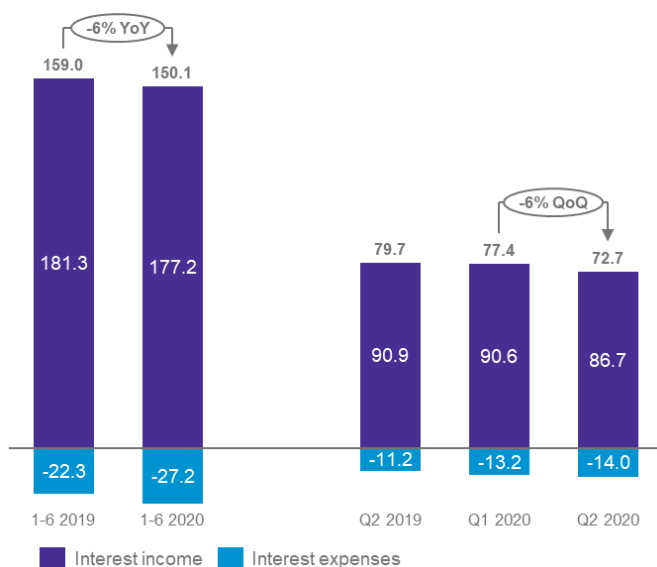
Figure 1: Profit after tax of NLB Group – evolution YoY (in EUR million)



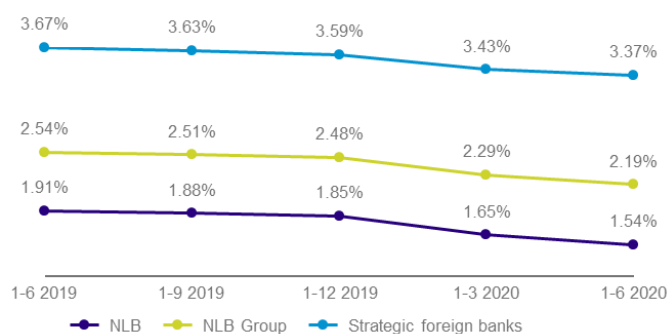
⁽ⁱ⁾ Gains less losses from capital investments in the subsidiaries, associates, and joint ventures.

Net Interest Income

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



Net interest income totalled EUR 150.1 million and decreased by EUR 9.0 million or 6% YoY, due to lower interest income, mostly related to the sale of debt securities in the Bank, higher volume of cash and balances with the central bank and continued pressure on achieved interest rates on loan portfolio in the Bank and Group banking members in SEE region. Higher interest expenses are related to the new subordinated Tier 2 instruments raised by the Bank to optimize the capital structure. Interest expenses for customer deposits were decreasing. On QoQ basis in addition, lower interest income was caused also by decrease in loans to customers and overdrafts.

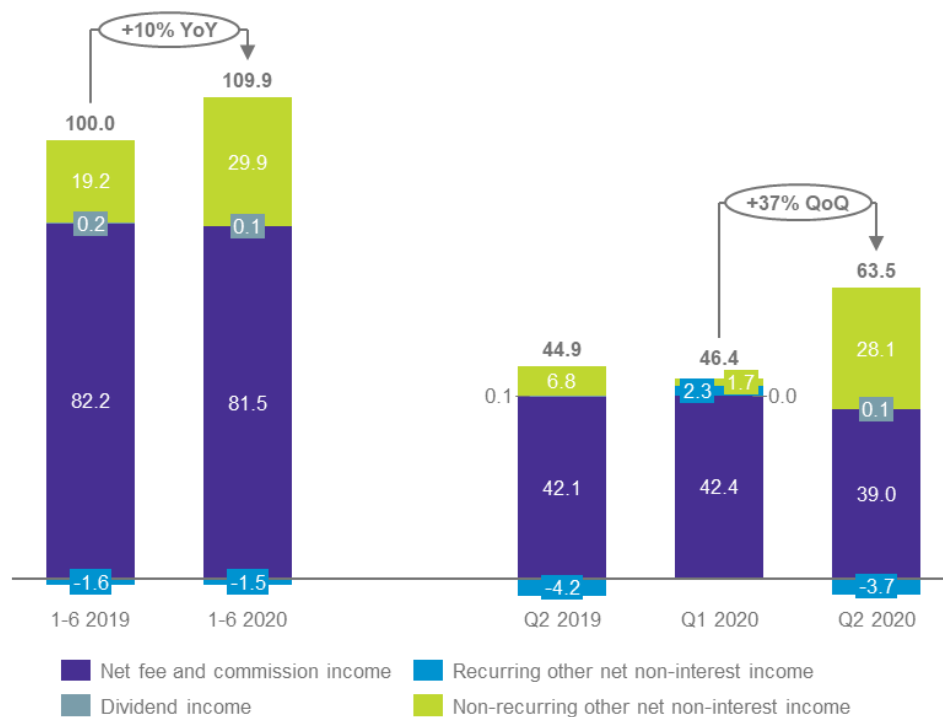
Figure 3: Net interest margin of NLB Group³ (in %)

The net interest margin in the Group of 2.19% decreased YoY. The interest margin for the Bank and the Group banking members in SEE region decreased YoY, totalling 1.54% and 3.37% respectively. A substantial YoY decrease in the interest margin was recorded due to:

- lower yields on the securities, due to the sale of debt securities in the amount of EUR 329.2 million in H1 2020 (realized one-off effect in the amount of EUR 17.2 million) in the Bank;
- higher cost of funding in the amount of EUR 4.3 million due to new subordinated Tier 2 instruments issued in the Bank;
- higher volume of cash and balances with the central bank (1,623.8 million YoY);
- continued pressure on interest rates in the Bank and banking members in SEE.

Net Non-Interest Income⁴

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



Notes:

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

⁴ Please refer to note 2.

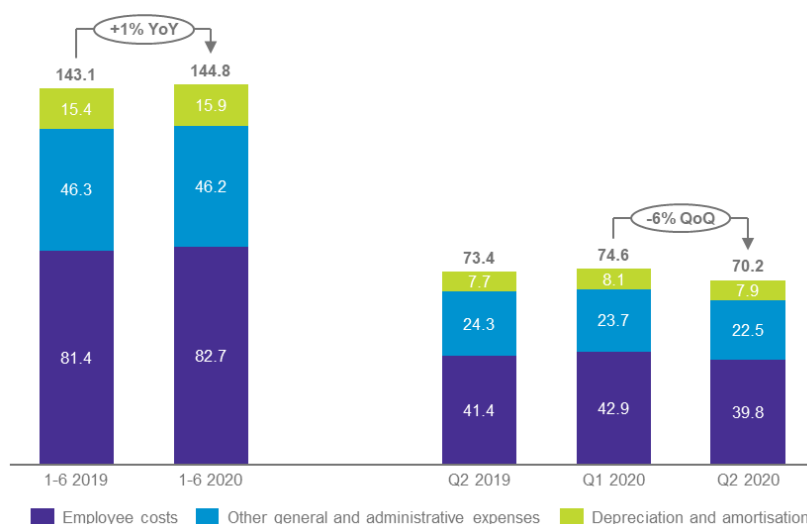
Net non-interest income reached EUR 109.9 million and increased by EUR 9.9 million or 10% YoY. The YoY dynamic was influenced by the following factors:

- **Net fee and commission income** lower by EUR 0.8 million (1%) YoY, mostly related to COVID-19 outbreak and its negative impact on payment transactions and card operations (lower consumption by clients). June results are already normalizing to pre COVID-19 income.
- **Non-recurring net income from financial transactions** was affected by the **sale of debt securities** in the Bank as a consequence of perceived higher risk during the COVID-19 pandemic. As the volatility of prices on various markets has increased, the Group sold debt securities with increased credit spreads in the amount of EUR 209.1 million measured as FV OCI (fair value through other comprehensive income) and EUR 120.1 million measured at AC (amortised cost). Total realised gains amounted to EUR 17.2 million (EUR 4.5 million from FV OCI and EUR 12.7 million from AC portfolio). In 2019, the Group made a non-recurring net income by partial repayment of a large exposure measured at fair value through profit and loss (EUR 5.1 million) and revaluation of a non-core equity stake (EUR 6.3 million, sold in Q4 2019).
- **Non-recurring net other income** affected by the sale of NLB Vita with a positive effect of EUR 11.0 million on the Group level (EUR 35.5 million on the level of the Bank).

QoQ increase is mainly related to non-recurring net non-interest income (sale of NLB Vita and sale of debt securities in the Bank), partially neutralized by lower net fee and commission income related to COVID-19 outbreak (negative impact on lower consumption and investment activities) and regulatory costs in the Bank (EUR 1.7 million for SRF and EUR 5.5 million for DGS) recognized in June.

Total Costs⁵

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



Total costs amounted to EUR 144.8 million, EUR 1.7 million or 1% higher YoY, mostly due to higher employee costs. QoQ decrease of employee costs related to COVID-19 outbreak measures expected to be valid by the end

Notes:

⁵ Please refer to note 2.

of 2020. The Group is undertaking several strategic initiatives (channel strategy, digitalization, paperless, lean process, branch network optimization, etc.) to maintain the sustainable cost base going forward.

CIR stood at 55.7%, an 0.5 p.p. YoY increase.

Net Impairments and Provisions

In H1 2020, the Group established EUR 33.2 million of net impairments and provisions, of which EUR 32.8 million for credit risk (cost of risk 85 bps). EUR 20.0 million were established due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.

In the same period of previous year, the net impairments and provisions amounted to EUR 5.5 million, of which EUR 0.7 million was for credit risk (cost of risk close to 0 bps).

Financial Position

Table 5: Statement of financial position of NLB Group

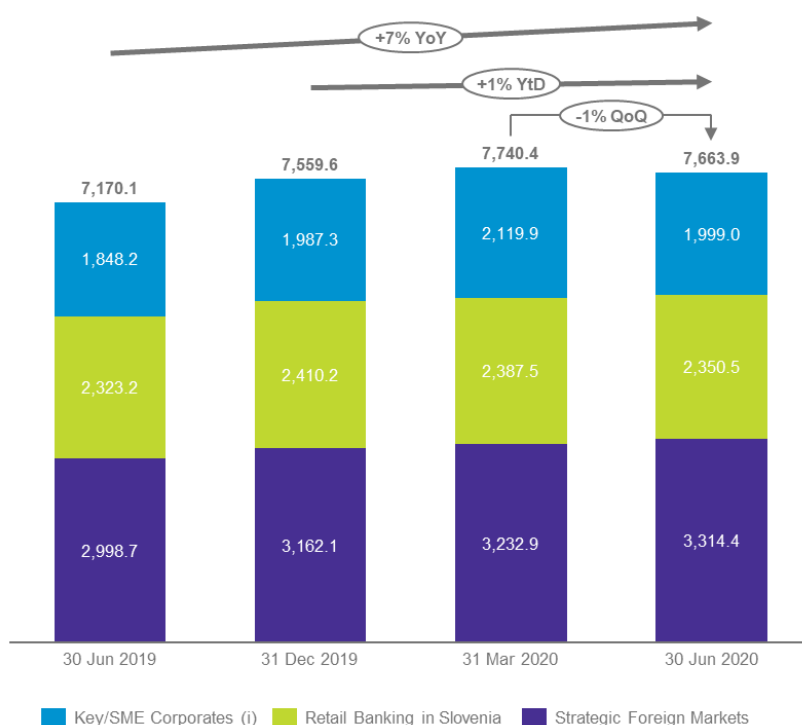
in EUR million	NLB Group									
	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Jun 2019	Change YTD	Change YoY	Change QoQ			
ASSETS										
Cash, cash balances at central banks, and other demand deposits at banks	3,084.6	2,095.4	2,101.3	1,460.7	983.2	47%	1,623.8	111%	989.1	47%
Loans to banks	94.9	93.6	93.4	108.1	1.5	2%	-13.2	-12%	1.3	1%
Net loans to customers	7,686.7	7,759.8	7,604.7	7,280.8	82.0	1%	405.9	6%	-73.1	-1%
Gross loans to customers	8,048.9	8,125.6	7,938.3	7,721.1	110.6	1%	327.9	4%	-76.7	-1%
- Corporate	3,751.7	3,823.6	3,646.3	3,565.7	105.4	3%	185.9	5%	-71.9	-2%
- Individuals	4,002.6	4,016.1	4,013.5	3,842.1	-10.9	0%	160.5	4%	-13.5	0%
- State	294.7	286.0	278.6	313.3	16.1	6%	-18.6	-6%	8.7	3%
Impairments and valuation of loans to customers	-362.2	-365.8	-333.6	-440.2	-28.6	-9%	78.0	18%	3.6	1%
Financial assets	3,504.8	3,711.2	3,829.7	3,787.4	-324.9	-8%	-282.6	-7%	-206.4	-6%
- Trading book	22.6	25.6	24.0	116.9	-1.4	-6%	-94.3	-81%	-2.9	-11%
- Non-trading book	3,482.2	3,685.6	3,805.7	3,670.5	-323.5	-9%	-188.3	-5%	-203.5	-6%
Investments in subsidiaries, associates, and joint ventures	7.9	7.7	7.5	42.3	0.4	6%	-34.4	-81%	0.2	3%
Property and equipment, investment property	243.6	245.4	247.9	251.6	-4.3	-2%	-8.0	-3%	-1.8	-1%
Intangible assets	37.6	37.9	39.5	33.5	-2.0	-5%	4.1	12%	-0.3	-1%
Other assets	231.7	337.2	250.0	199.9	-18.2	-7%	31.9	16%	-105.4	-31%
TOTAL ASSETS	14,891.9	14,288.3	14,174.1	13,164.4	717.8	5%	1,727.4	13%	603.5	4%
LIABILITIES										
Deposits from customers	12,190.8	11,652.9	11,612.3	10,753.5	578.5	5%	1,437.3	13%	538.0	5%
- Corporate	2,781.2	2,641.7	2,772.0	2,294.6	9.2	0%	486.6	21%	139.5	5%
- Individuals	9,146.9	8,728.6	8,582.9	8,178.9	564.0	7%	968.0	12%	418.3	5%
- State	262.7	282.5	257.4	280.0	5.3	2%	-17.3	-6%	-19.9	-7%
Deposits from banks and central banks	54.3	63.1	42.8	44.8	11.5	27%	9.6	21%	-8.8	-14%
Borrowings	220.9	232.5	234.8	306.8	-14.0	-6%	-85.9	-28%	-11.6	-5%
Other liabilities	360.1	328.4	342.6	386.8	17.5	5%	-26.6	-7%	31.7	10%
Subordinated liabilities	287.4	286.6	210.6	44.9	76.8	36%	242.5	-	0.7	0%
Equity	1,730.6	1,678.9	1,685.9	1,587.4	44.7	3%	143.2	9%	51.7	3%
Non-controlling interests	47.7	45.9	45.0	40.3	2.7	6%	7.4	18%	1.9	4%
TOTAL LIABILITIES AND EQUITY	14,891.9	14,288.3	14,174.1	13,164.4	717.8	5%	1,727.4	13%	603.5	4%

Balance sheet volume of the Group increased by EUR 717.8 million YtD totalling EUR 14,891.9 million, mainly due to the continued inflows of deposits from individuals (EUR 564.0 million), higher subordinated debt (EUR 76.8 million) and higher equity (EUR 44.7 million) on source of funding. On the assets side debt securities decreased in the amount of EUR 324.9 million, mainly due to the before-mentioned sales of portfolio whereas net loans to customers increased by EUR 82.0 million. The net liquidity was deposited to the account with the central bank (EUR 983.2 million increase YtD).

Gross loans to customers at the Group level amounted to EUR 8,048.9 million (4% higher YoY), a growth was recorded in gross loans to the corporate clients (EUR 185.9 million or 5% YoY) and individuals (EUR 160.5 million or 4% YoY). In H1 2020, the COVID-19 outbreak had an adverse effect on the new production of loans to individuals (EUR 10.9 million drop of retail loan book YtD) while the demand for working capital loans, revolving loans and limits for the daily liquidity from corporate clients increased (EUR 105.4 million or 3% growth in corporate loan book YtD). Corporate liquidity lines drawn in March were partially already reversed which resulted in a slight drop in the total corporate loans in Q2.

The LTD ratio (net) was 63.1% at the Group level; a decrease of 4.7 p.p. YoY as a result of increased deposits, which was partially neutralized by growing, but still moderate demand for loans.

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



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

Key business activities recorded 7% and 1% increase of gross loans to customers YoY and YtD respectively, totalling EUR 7,663.9 million.

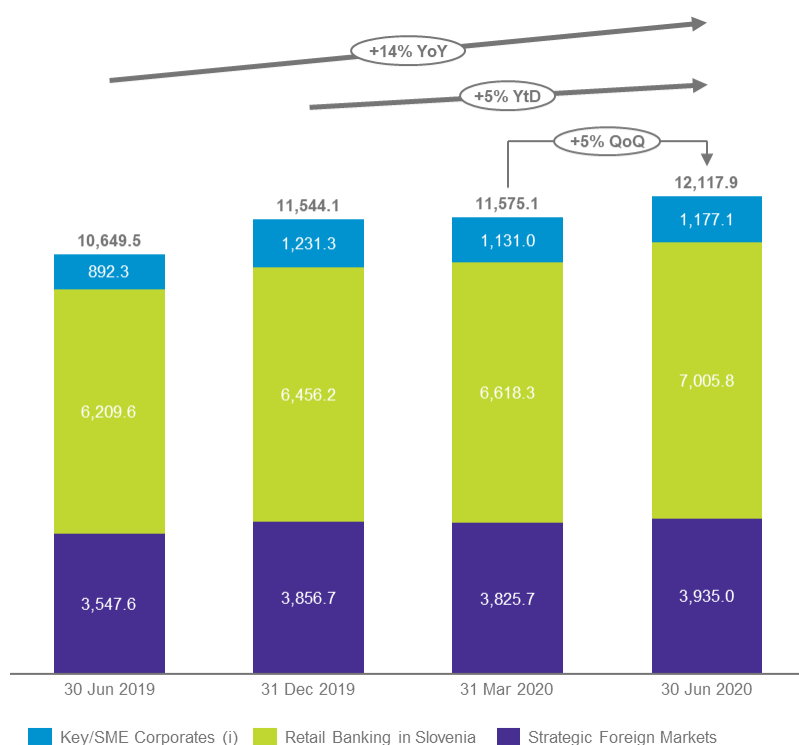
YoY increase of gross loans to customers was reported in the Strategic Foreign Markets (EUR 315.7 million or 11%), Key/SME corporate segment (EUR 150.8 million or 8%), and in Retail Banking in Slovenia (EUR 27.3 million or 1%).

YtD increase was recorded in the Strategic Foreign Markets (EUR 152.3 million or 5%). The trends of increasing business volumes in Q2 slowed down significantly in the region after the COVID-19 outbreak however still remaining loan demand especially in retail segment preserved the general increasing trend. Compared to 2019 YE the gross loans to customers grew in all subsidiaries; the largest increase was reported by NLB Banka, Beograd (12.4%), followed by NLB Banka, Podgorica (9.1%) and NLB Banka, Prishtina (4.6%).

The Key and SME Corporates recorded a slight increase (EUR 11.7 million or 1%) in COVID-19 outbreak due to a higher demand for daily liquidity. In Q2 the liquidity lines, drawn in March, were partly repaid which resulted in a slight drop in total corporate loans in Q2 2020.

In the Retail Banking in Slovenia, the loan portfolio decreased by EUR 59.7 million or 2%, due to poor new production of consumer loans (EUR 86.3 million in H1 2020 compared to EUR 198.8 million in H1 2019) mainly in March and April, while the last two months have seen a recovery. Lower volume of overdrafts (EUR 52 million YtD) is related to received social transfers (COVID-19 measures) and holiday payments combined with lower consumption. On the other hand the volume of housing loans increased (EUR 25.6 million YtD and EUR 60.5 million YoY), also due to more attractive offers for clients.

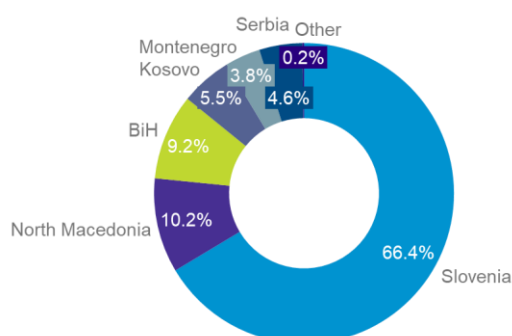
Figure 7: NLB Group deposits from customers by Key business activities (in EUR million)



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

Deposits from customers in the Key business activities increased by 14% YoY and 5% YtD.

Key/SME Corporate recorded 32% increase YoY, but 4% decrease YtD, due to one-off corporate deposit at the end of 2019, which was transferred from the Bank during Q1 2020. The Retail Banking in Slovenia recorded a 13% increase of deposits YoY and 9% YtD, while the Strategic Foreign Markets 11% YoY and 2% YtD.

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

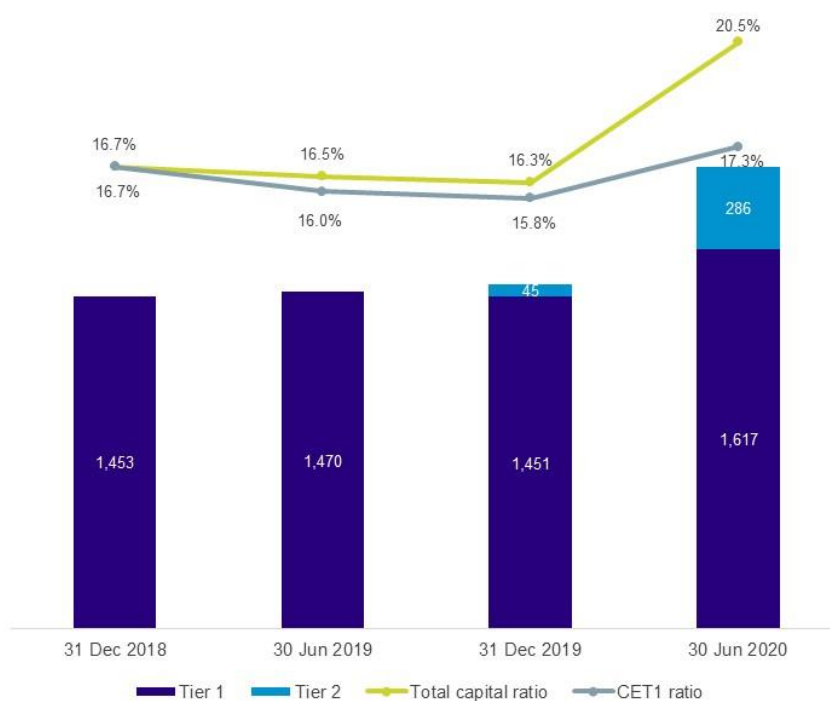
Notes:

⁶ Geographical analysis based on the booking entity.

Capital and Liquidity

Capital

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



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

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

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

Several measures have been taken by the ECB in relation to COVID-19. The ECB has effectively, as of 12 March 2020, amended the applicable decision for NLB in relation to the Pillar 2 Requirement composition, whereas Pillar 2 Requirement shall be held in the form of 56.25% of CET1 capital and 75% of Tier 1 capital as a minimum, and not entirely as CET1 capital as required in the previous years.

Table 6: NLB Group capital requirements and buffers

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

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

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

As at 30 June 2020, the CET1 ratio stood at 17.3% (1.5 p.p. YtD increase) and the total capital ratio for the Group stood at 20.5% (4.2 p.p. YtD increase) mostly due to the inclusion of subordinated Tier 2 notes (EUR 240 million) and inclusion of undistributed profit for year 2019 (EUR 157.5 million).

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

	30 Jun 2020	31 Dec 2019	31 Dec 2018	Change YtD
Total risk exposure amount (RWA)	9,302	9,186	8,678	1.3%
RWA for credit risk	7,787	7,720	7,180	0.9%
RWA for market risks + CVA	560	524	544	7.0%
RWA for operational risk	954	942	953	1.3%

The RWA for credit risk increased by EUR 66.9 million YtD, mainly as a result of new loan production on the corporate and retail segment. In 2020, Serbia was added to the list of third countries whose supervisory and regulatory requirements are considered equivalent to those of the EEA countries, which reduced RWA for exposures to the Serbian central government and central bank denominated in local currency by EUR 100.3 million. Furthermore, the higher volume of provisions formed on the performing portfolio due to the worse macro

forecasts related to COVID-19 further contributed to the RWA decrease. The RWA increase for market risks and CVA (Credit value adjustments) (EUR 36.8 million) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operational risks (EUR 12.6 million) arose from the higher three-year average of relevant income, which represents the basis for the calculation.

Liquidity

The liquidity position of the Group remains strong, with LTD ratio (net) of 63.1% (2019 YE: 65.5%), thus meeting the liquidity indicators high above the regulatory requirements, as well as confirming the low liquidity risk tolerance of the Group.

Liquid assets of the Group amounted to EUR 7.2 billion (48.2% of total assets; 2019 YE: EUR 6.5 billion, 45.8% of total assets), of which EUR 0.6 billion (2019 YE: EUR 0.5 billion) were encumbered due to operational and regulatory requirements.

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



The banking book securities portfolio, which represented 47.7% of the Group's liquid assets (2019 YE: 57.7%), was dispersed appropriately in terms of issuers, countries, and remaining maturity, with the aim of adequate liquidity and interest risk management.

As a result of the COVID-19 crisis the Group started to moderately adjust its positioning in the market with regard to its investments in securities by increasing the cash allocation ratio and allowing for future reinvestment at new stabilised spread levels.

Driven by the low interest rate environment, the main change in the funding structure of the Group was the continued transformation of term-to-sight customer deposits, representing the key funding base. The share of sight customer deposits was 68.5% of the total assets (2019 YE: 66.8%).

Related-Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions mainly consists of loans and deposits issued and deposits received. A detailed volume of those transactions is disclosed in the financial part of this report in section 7.

Segment Analysis

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

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals and asset management (NLB Skladi), as well as the contribution to the result of the associated company Bankart (in H1 2019 also of the joint venture NLB Vita⁷ and in H1 2020 realised gain on sale of the investment).
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Investment Banking and Custody, and Restructuring and Workout and part of new subsidiary Lease&Go that includes operations with corporate clients.
- Financial Markets in Slovenia include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).
- Strategic Foreign Markets, which include the operations of strategic Group banks in strategic markets (Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia, and Serbia).
- Other accounts for the categories whose operating results cannot be allocated to specific segments, such as the external realization, rents and impairments on real estates, restructuring costs and income and tax.

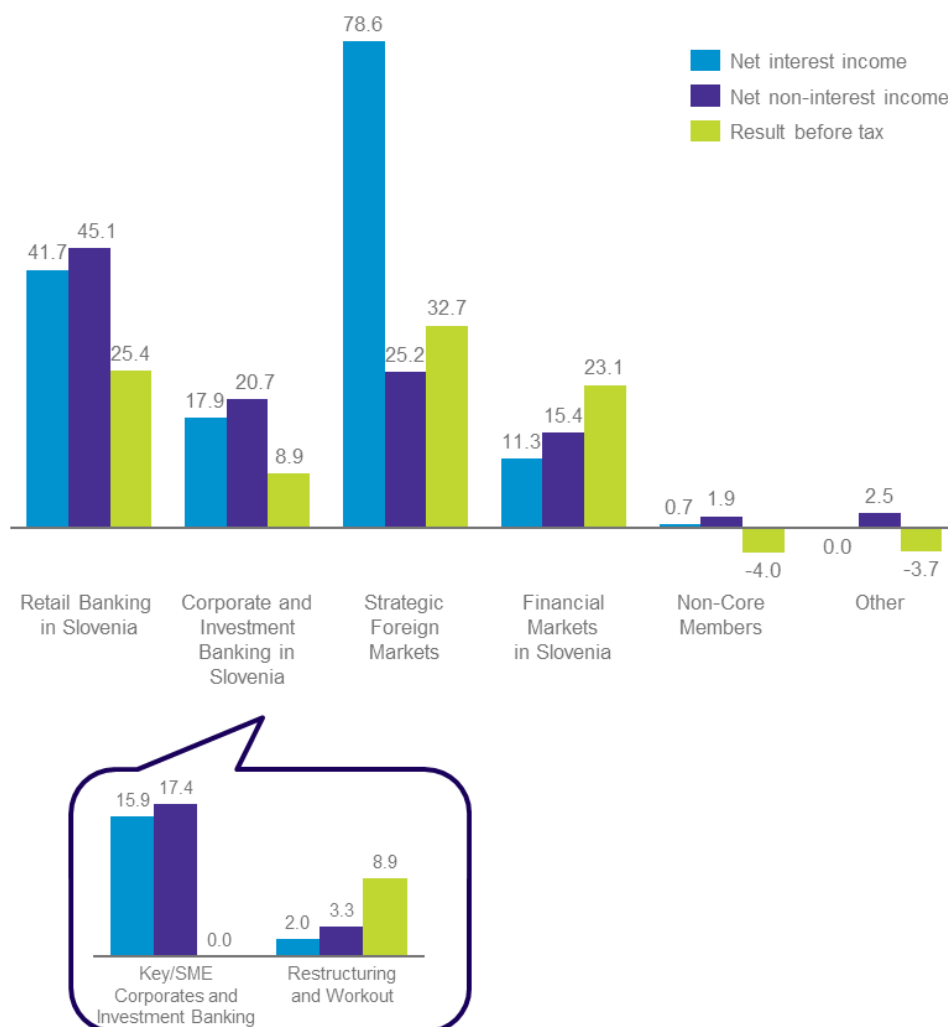
Non-Core Members include the operations of non-core Group members, namely REAM and leasing entities, NLB Srbija and NLB Crna Gora.

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

Notes:

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

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



The core markets and activities made a profit before tax of EUR 86.3 million. The Strategic Foreign Markets contributed the largest share to the Group's profit before tax in the amount of EUR 32.7 million, followed by Retail Banking in Slovenia with EUR 25.4 million, Financial Markets in Slovenia with EUR 23.1 million and Corporate and Investment Banking in Slovenia with EUR 8.9 million, while the segment Other made a loss in the amount of EUR 3.7 million.

Non-Core Members recorded a loss before tax in the amount of EUR 4.0 million.

Retail Banking in Slovenia

Financial Highlights

- The segment's **profit before tax** amounted to EUR 25.4 million, a 2% increase YoY; increase is mostly related to the sale of NLB Vita (EUR 11.0 million), while the decrease is due to credit impairments and provisions built as a result of the changed risk parameters that incorporate estimated impacts of COVID-19 outbreak, lower net interest income, lower revenues from payments and card operations, and lower contribution from NLB Skladi and NLB Vita⁸.
- **Net interest income** was 6% lower YoY. Due to over liquidity of the Bank, the policy to de-stimulate the deposit collection triggered the retail deposits margin after transfer price (FTP) reduction, which resulted in EUR 4.7 million YoY lower interest income from deposits. Interest income from loans to individuals was EUR 2.2 million higher YoY due to higher volume and higher interest margin. In H1 2020 COVID-19 outbreak negatively affected new production of loans to individuals, as well as change of legislation that tightened the measures in consumer lending (at the end of 2019). The production of new consumer loans in H1 2020 was therefore lower than in the same period of the previous year and amounted to EUR 86.3 million (EUR 198.8 million in H1 2019). The YtD decline in balance of consumer loans (EUR 26.8 million) is largely due to lower production of new consumer loans, especially in March and April, while the last two months have seen a recovery. Larger decrease was recorded also in the portfolio of overdrafts and cards (EUR 52 million YtD); the EUR 25.2 million decline in June is partially related to social transfers (COVID-19 measures) and holiday payments. Housing loans recorded an increase in the portfolio (EUR 25.6 million and EUR 60.5 million YoY), of which EUR 15.2 million in Q2, also as a result of a more attractive offer for clients.
- The segment recorded EUR 45.1 million of **net non-interest income**, EUR 9.9 million (28%) increase YoY, due to the sale of NLB Vita.
- **Total costs** were EUR 1.0 million (2%) higher YoY.
- **Net impairments and provisions** were established in the amount of EUR 5.6 million related mostly to additional credit impairments and provisions, due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.
- **Deposits from customers** increased by EUR 796.2 million or 13% YoY (EUR 549.6 million or 9% YtD).
- Exposures subject to COVID-19 moratorium were concluded in the amount of EUR 110.6 million (4.6% of total retail exposure).

Business Highlights

- The Bank further extended the set of products and services offered to clients using digital channels, among them new NLB Package Digital.
- Flik, a peer to peer money transfer, is possible in the upgraded m-wallet NLB Pay, available also to iOS users.
- New possibility of opening an account and application for housing or consumer loan through video call in NLB Contact Centre.
- Purchase in instalments with pay-later cards is possible up to 60 months.

Notes:

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

Table 8: Key financials of Retail Banking in Slovenia

in EUR million consolidated		Retail Banking in Slovenia							
	1-6 2020	1-6 2019	Change YoY		Q2 2020	Q1 2020	Q2 2019	Change QoQ	
Net interest income	41.7	44.1	-2.5	-6%	20.4	21.3	21.2	-4%	
Net non-interest income	45.1	35.2	9.9	28%	26.5	18.6	15.2	42%	
o/w Net fee and commission income	39.7	39.9	-0.2	0%	20.4	19.3	20.4	6%	
Total net operating income	86.8	79.4	7.4	9%	46.8	39.9	36.3	17%	
Total costs	-56.1	-55.2	-1.0	-2%	-27.6	-28.6	-28.4	4%	
Result before impairments and provisions	30.6	24.2	6.5	27%	19.3	11.4	7.9	70%	
Impairments and provisions	-5.6	-1.8	-3.9	-	-1.1	-4.6	-0.7	76%	
Net gains from investments in subsidiaries, associates, and JVs'	0.4	2.5	-2.1	-83%	0.2	0.2	1.4	-5%	
Result before tax	25.4	24.9	0.5	2%	18.4	7.0	8.6	162%	

	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Jun 2019	Change YtD		Change YoY		Change QoQ
Net loans to customers	2,322.0	2,357.4	2,385.1	2,296.6	-63.1	-3%	25.4	1%	-2%
Gross loans to customers	2,350.5	2,387.5	2,410.2	2,323.2	-59.7	-2%	27.3	1%	-2%
Housing loans	1,450.7	1,435.4	1,425.0	1,390.2	25.6	2%	60.5	4%	1%
Interest rate on housing loans	2.52%	2.51%	2.54%	2.54%	-0.02 p.p.		-0.02 p.p.		0.01 p.p.
Consumer loans	661.5	679.6	688.3	656.5	-26.8	-4%	5.0	1%	-3%
Interest rate on consumer loans	6.32%	6.35%	6.33%	6.29%	-0.01 p.p.		0.03 p.p.		-0.03 p.p.
Other	238.3	272.5	296.9	276.6	-58.6	-20%	-38.3	-14%	-13%
Deposits from customers	7,005.8	6,618.3	6,456.2	6,209.6	549.6	9%	796.2	13%	6%
Interest rate on deposits	0.05%	0.05%	0.05%	0.06%	0.00 p.p.		-0.01 p.p.		0.00 p.p.
Non-performing loans (gross)	43.0	43.0	40.8	43.0	2.2	5%	0.0	0%	0%

	1-6 2020	1-6 2019	Change YoY
Cost of risk (in bps) ⁽⁶⁾	48	16	32
CIR	64.7%	69.5%	-4.8 p.p.
Interest margin	1.85%	2.12%	-0.27 p.p.

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

The Bank maintained the leading position with a market share of 22.9% in retail lending (2019 YE: 23.1%) and 31.1% (2019 YE: 30.5%) in deposit-taking.

In spite of the COVID-19 pandemic the Bank managed to provide 24/7 client support by enhancing availability of digital channels and adjusting operations in the period of lock-down. In response to the circumstances the clients were more prone to use online and mobile banking services. Changed clients' habits affected the visits of the Bank's branch offices and this is expected to have effects also in the future, therefore the Bank decided to further optimize the branch office network by closing 10 branch offices.

COVID-19 had a negative impact on daily operations with the largest effect on decreased sales of consumer and housing loans. The Bank quickly adapted the sales process during the pandemic lock-down period (ending June 1, 2020) by introducing changes to its offer, namely approval of new extraordinary overdrafts was made possible via digital channels, prolongation of extraordinary overdrafts with no personal presence of the client necessary and allowing clients to onboard to m- and e-bank via video call.

The number of digital users (unique users of e- and m-bank) in H1 2020 increased by 7% YoY. The number of m-bank Klikin users in February surpassed the number of e-bank NLB Klik users for the first time, both recording YoY increase, m-bank 15% and e-bank 3%. The total volume of payments in e- and m-bank increased in H1 2020 by 9% YoY. The number of payments via e- and m-bank increased by 13% YoY, indicating clients are opting for digital payments over in-person payments via branch offices.

The NLB Contact Centre offers full customer support and in H1 2020 it experienced extensive growth across all channels of communication. YoY comparison shows increases of 8% in inbound calls, 38% in chats and even 163% in video call usage were recorded. The role of NLB Contact Centre increased also in sales process by accepting applications for consumer and housing loans via video call.

Figure 12: Use of the video call functionality (no. of contacts)

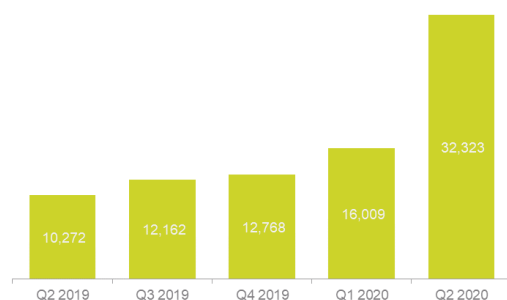
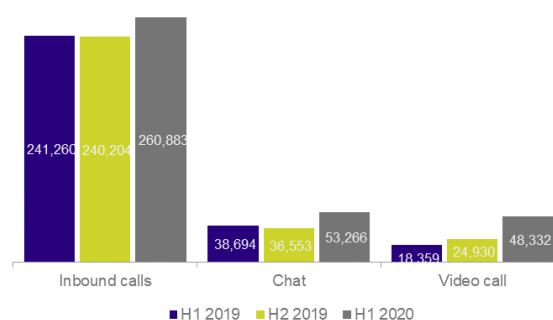


Figure 13: NLB Contact Centre contacts



To follow up on the good clients' feedback from the pandemic period measures undertaken by the Bank, new NLB Package Digital was introduced in June, which also includes m-bank Klikin.

M-wallet NLB Pay was upgraded with a new payment method Flik, an instant payment from personal account among different banks' clients through contacts in the mobile device. Special version of NLB Pay including Flik is now also available to iOS users.

The period for instalment purchases using pay-later payment cards was prolonged from 24 months to 60 months.

As the first bank in Slovenia clients receive PIN via SMS for all new NLB cards (Maestro, Mastercard, Visa). The clients are also no longer receiving new PIN number upon renewal of the NLB cards to contactless card, the existing PIN number stays valid.

The Bank noticed increased inquiry from merchants for e-commerce card acceptance. Although the volume of the card transactions with NLB cards in H1 2020 decreased by almost 2% YoY, with the effect of the lock-down, in Q2 2020 a pick up of 7% QoQ was already noticed. A similar trend was observed in cash withdrawals at ATMs.

At the end of March an Intervention Act was adopted, stipulating the possibility to defer payment obligations of borrowers with a moratorium of up to 12 months. The Bank prepared the relevant measures with all the necessary instructions and processes.⁹

NLB Skladi market share increased to 34% (30 June 2019: 33%). With EUR 40.0 million of net inflows the company ranked first among comparable companies in Slovenia. The company remained the largest asset management company and ranked as second largest mutual funds management company in Slovenia. Total assets under management amounted to EUR 1,448.3 million (30 June 2019: EUR 1,381.4 million) of which EUR 975.8 million consisted of mutual funds (30 June 2019: EUR 909.6 million) and EUR 472.5 million in the discretionary portfolio (30 June 2019: EUR 471.8 million).

Insurance company Vita remains the Bank's strategic partner. Savings and investment insurance products, risk and health insurance products are sold through the Bank's branch network. Non-life insurance products, including car and home insurance, are provided to the clients in cooperation with GENERALI Zavarovalnica.

Notes:

⁹ Further details are available in the Risk Management chapter.

Corporate and Investment Banking in Slovenia

Financial Highlights

- The segment's **profit before tax** amounted to EUR 8.9 million, EUR 17.4 million decrease YoY. The decrease is mostly due to establishment of credit impairments and provisions related to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak and lower non-interest income due to a positive one-off effect of partial repayment of a larger exposure measured at fair value through profit and loss in Q1 2019.
- Net interest income** decreased EUR 1.8 million YoY, due to lower interest rates on loans, despite the EUR 58.2 million increase in gross loans to customers YoY (EUR 17.3 million YtD). Key and SME clients recorded a growth in gross loans (EUR 175.6 million), while gross loans in Restructuring and Workout and gross loans to state recorded a decrease YoY (EUR 93.3 million and EUR 25.0 million, respectively). YtD increase in corporate loans is partially linked to the COVID-19 situation (additional demand for the daily liquidity in the beginning of the outbreak, which was already partially reversed in Q2 2020). New COVID-19 related financing to companies was recorded in the amount of EUR 30.8 million (without public guarantee schemes, as legislation is still in the harmonisation phase).
- Net fee and commission income** stayed on the same level YoY.
- Total costs** decreased EUR 0.4 million (2%) YoY.
- Net impairments and provisions** were established in the amount of EUR 9.3 million related mostly to additional credit impairments and provisions, due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.
- The **Investment Banking and Custody** recorded non-interest income in the amount of EUR 2.1 million, an increase of EUR 0.4 million YoY. Total income growth is the result of a larger volume of transactions and tariff adjustments. The total value of assets under custody increased to EUR 15.5 billion (2019 YE: EUR 14.8 billion).
- Exposures subject to COVID-19 moratorium were concluded in the amount of EUR 306.8 million (17.0% of total corporate exposure).

Business Highlights

- Supporting the largest infrastructure project in Slovenia.
- 'Help Framework' project for small and micro segment started.
- Successful organization of EUR 143.3 million of syndicated loans and EUR 126.5 million issuance of instruments on debt capital markets.
- Adequate responsive measures to ease clients' operations to overcome and mitigate the impact of COVID-19.

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

in EUR million consolidated		Corporate and Investment Banking in Slovenia							
	1-6 2020	1-6 2019	Change YoY		Q2 2020	Q1 2020	Q2 2019	Change QoQ	
Net interest income	17.9	19.7	-1.8	-9%	8.5	9.4	8.9	-9%	
Net non-interest income	20.7	24.5	-3.8	-15%	9.8	10.9	9.0	-9%	
o/w Net fee and commission income	16.1	16.1	0.0	0%	7.4	8.7	7.9	-15%	
Total net operating income	38.6	44.2	-5.6	-13%	18.4	20.2	17.9	-9%	
Total costs	-20.5	-20.9	0.4	2%	-10.0	-10.5	-10.7	5%	
Result before impairments and provisions	18.1	23.3	-5.2	-22%	8.4	9.7	7.2	-14%	
Impairments and provisions	-9.3	2.9	-12.2	-	0.4	-9.7	-0.4	-	
Result before tax	8.9	26.2	-17.4	-66%	8.8	0.0	6.8	-	

	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Jun 2019	Change YtD		Change YoY		Change QoQ
Net loans to customers	2,053.8	2,168.8	2,049.6	1,947.9	4.2	0%	105.9	5%	-5%
Gross loans to customers	2,168.2	2,287.5	2,150.9	2,110.0	17.3	1%	58.2	3%	-5%
Corporate	2,005.3	2,124.0	1,976.8	1,922.1	28.4	1%	83.2	4%	-6%
Key/SME Corporates	1,842.0	1,962.4	1,819.3	1,666.4	22.7	1%	175.6	11%	-6%
Interest rate on Key/SME Corporates loans	1.81%	1.82%	1.82%	1.85%	-0.01 p.p.		-0.04 p.p.		-0.01 p.p.
Investment banking*	0.2	0.2	0.1	0.1	0.1	57%	0.1	57%	
Restructuring and Workout	162.2	161.4	157.4	255.6	4.8	3%	-93.3	-37%	1%
NLB Lease&Go, Ljubljana	0.8				0.8	-	0.8	-	
State	162.5	163.1	173.6	187.6	-11.1	-6%	-25.0	-13%	0%
Interest rate on State loans	2.45%	3.24%	1.88%	2.19%	0.57 p.p.		0.26 p.p.		-0.79 p.p.
Deposits from customers	1,248.5	1,203.5	1,299.1	992.3	-50.6	-4%	256.2	26%	4%
Interest rate on deposits	0.06%	0.07%	0.07%	0.07%	-0.01 p.p.		-0.01 p.p.		-0.01 p.p.
Non-performing loans (gross)	136.0	145.5	128.7	231.4	7.3	6%	-95.4	-41%	-7%

	1-6 2020	1-6 2019	Change YoY
Cost of risk (in bps) ⁽¹⁾	87	-24	112
CIR	53.0%	47.2%	5.8 p.p.
Interest margin	2.05%	2.32%	-0.27 p.p.

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

The Bank is the leading bank in servicing corporate clients in Slovenia with by far the largest client base. It has a 17.4% market share in corporate loans (2019 YE: 17.5%), and 31.4% (2019 YE: 30.0%) in guarantees and letters of credit (including guarantee lines). The Bank is increasingly focused on mid-sized and small enterprises.

Following the development of the COVID-19 outbreak, the Bank envisaged and prepared adequate responsive measures by approving measures for prevention of clients' financial problems and liquidity issues. The Bank also fully implemented the relevant Intervention Act by adopting special processes, while the moratorium of payments by clients is also possible under the Bank's regular offer.¹⁰

Micro and small enterprises present an important pillar of the Slovenian economy, and since they are expected to be the most affected by the economic cool down due to the COVID-19 pandemic, the Bank is supporting them through the project Help Framework ('Okvir pomoči'). This is a project of the Bank and its partners aimed at giving the initiative to these enterprises and helping them to restart.

NLB Odkup terjatev application provides the Bank's clients with digitized receivables finance solution with the working capital financing option, financing domestic and cross-border receivables, import and export. This solution is well incorporated in the framework of easing potential liquidity problems clients face due to the COVID-19 pandemic.

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

The number of m-bank Klikpro users constantly increases (YoY by 11%) indicating that clients are more prone to digital banking.

Large infrastructure projects are extremely important for the economy due to their multiplier effects. In this respect the Bank managed to gain trust and have the opportunity to participate in financing the construction of the second rail track in Slovenia with a long term loan of EUR 112.5 million.

Notes:

¹⁰ Further details are available in the section Risk Factors and Risk Management.

The Group's goal is to build up clients' trust and satisfaction also on the basis of proactive support and collaboration among the Group banking members. Such teamwork creates added-value opportunities to facilitate clients' plans across the Group's home region in SEE. In H1 2020 a total of EUR 38.5 million loan facilities were approved for projects in home region, of which the Bank participated with EUR 20 million, and other Group members with EUR 18.5 million. An important contribution can be made by those business systems that are going digital and using the Group's business solutions to enhance processes and customer experience.

The Bank as a mandated lead arranger successfully organized syndicated loans of EUR 143.3 million and as a lead manager or joint lead manager successfully organized issuance of long-term and short-term instruments in the amount of EUR 126.5 million in the domestic and international markets.

Within the scope of brokerage services, the Bank executed clients' buy and sell orders in a total amount of EUR 589.6 million (H1 2019: EUR 465.6 million), while in the area of dealing in financial instruments the Bank executed foreign exchange spot deals in total amount of EUR 364.8 million (H1 2019: EUR 383.0 million) and for EUR 133.0 million (H1 2019: EUR 139.5 million) worth of deals with derivatives.

The Bank remains one of the top Slovenian players in custodian services for Slovenian and international customers. The total value of assets under custody, together with the fund administration services, was EUR 15.5 billion (30 June 2019: EUR 15.6 billion).

Strategic Foreign Markets

Financial Highlights

- The segment's **profit before tax** amounted to EUR 32.7 million, 25% decrease YoY, related mostly to additional credit impairments and provisions, due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.
- Increase of **net interest income** by EUR 0.7 million (1%) YoY was recorded due to the higher loan volume (increase of gross loans to customers by 11% YoY), despite the decreasing trend of interest margins.
- **Net non-interest income** increased by EUR 0.7 million or 3% YoY while **net fee and commission income** decreased slightly, by EUR 0.2 million or 1% YoY, mostly related to COVID-19 outbreak and its negative impact on payment transactions and card operations (lower consumption by clients).
- **Total costs** increased by EUR 1.5 million or 3% YoY, mostly due to the increase in employee costs (EUR 0.7 million YoY).
- **Net impairments and provisions** established in the amount of EUR 17.8 million, related mostly to additional credit impairments and provisions, due to changed risk parameters that incorporate estimated impacts of COVID-19 outbreak.
- **Gross loans to customers** increased by EUR 152.3 million (5%) YtD due to the increase in gross loans in all subsidiary banks; the largest YtD increases were recorded in NLB Banka, Beograd (EUR 51.8 million - from which EUR 31.2 million under public guarantee scheme, which is providing EUR 9.5 million of state guarantee), NLB Banka, Podgorica (EUR 32.7 million), and NLB Banka, Skopje (EUR 31.7 million).
- In Strategic Foreign Markets different moratorium schemes were implemented (opt-in, opt-out), the total amount of moratorium outstanding was EUR 1,029.7 million. Moratorium maturity is 3-6 months.

Business Highlights

- All subsidiary banks reported profit and contributed significantly to the Group's result a.t. (35%).
- New COVID-19 related financing in the amount of EUR 34.9 million (under public guarantee schemes or Group scheme).

Table 10: Key Financials of Strategic Foreign Markets

in EUR million consolidated		Strategic Foreign Markets							
	1-6 2020	1-6 2019	Change YoY		Q2 2020	Q1 2020	Q2 2019	Change QoQ	
Net interest income	78.6	77.9	0.7	1%	38.7	39.8	39.2	-3%	
Net non-interest income	25.2	24.6	0.7	3%	12.2	13.0	12.1	-6%	
o/w Net fee and commission income	25.6	25.8	-0.2	-1%	12.3	13.3	13.5	-8%	
Total net operating income	103.8	102.4	1.4	1%	50.9	52.8	51.3	-4%	
Total costs	-53.3	-51.9	-1.5	-3%	-25.8	-27.6	-26.1	6%	
Result before impairments and provisions	50.5	50.6	-0.1	0%	25.2	25.3	25.2	0%	
Impairments and provisions	-17.8	-7.1	-10.7	-150%	-3.8	-13.9	-3.9	72%	
Result before tax	32.7	43.4	-10.8	-25%	21.3	11.3	21.3	88%	
o/w Result of minority shareholders	3.2	3.8	-0.6	-16%	2.0	1.2	1.8	74%	

	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Jun 2019	Change YtD		Change YoY		Change QoQ
Net loans to customers	3,165.3	3,086.7	3,024.6	2,835.6	140.6	5%	329.6	12%	3%
Gross loans to customers	3,314.4	3,232.9	3,162.1	2,998.7	152.3	5%	315.7	11%	3%
Individuals	1,658.2	1,632.3	1,603.8	1,514.6	54.4	3%	143.6	9%	2%
Interest rate on retail loans	6.39%	6.48%	6.71%	6.78%	-0.32 p.p.		-0.39 p.p.		-0.09 p.p.
Corporate	1,540.6	1,494.8	1,470.3	1,400.0	70.3	5%	140.6	10%	3%
Interest rate on corporate loans	4.21%	4.29%	4.49%	4.62%	-0.28 p.p.		-0.41 p.p.		-0.08 p.p.
State	115.6	105.9	88.0	84.1	27.6	31%	31.5	37%	9%
Interest rate on state loans	3.12%	3.34%	4.00%	4.21%	-0.88 p.p.		-1.08 p.p.		-0.22 p.p.
Deposits from customers	3,935.0	3,825.7	3,856.7	3,547.6	78.3	2%	387.4	11%	3%
Interest rate on deposits	0.46%	0.48%	0.53%	0.55%	-0.07 p.p.		-0.08 p.p.		-0.02 p.p.
Non-performing loans (gross)	126.3	111.5	111.6	147.0	14.7	13%	-20.7	-14%	13%

	1-6 2020	1-6 2019	Change YoY
Cost of risk (in bps) ⁽¹⁾	116	20	96
CIR	51.4%	50.6%	0.7 p.p.
Interest margin	3.37%	3.67%	-0.30 p.p.

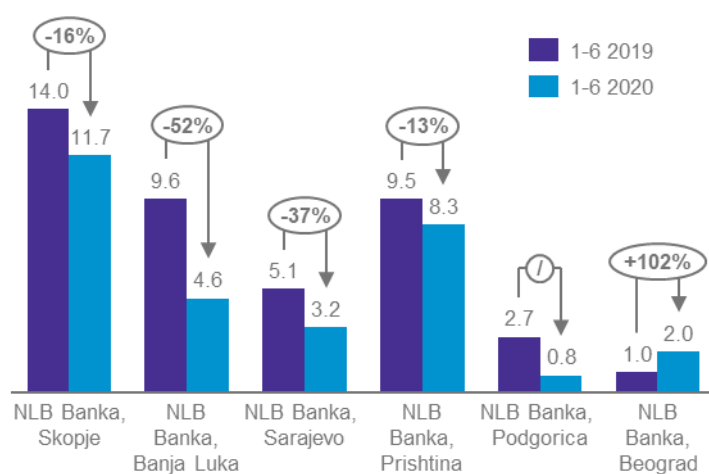
⁽¹⁾ Cost of risk for 2019 is adjusted to new methodology.

During the pandemic the business continuity was ensured in all markets, safe working environment established and sufficient service offered to clients. All the markets are still faced with certain restrictions and limitations in normal business operations.

In the difficult circumstances arising from COVID-19 pandemic the subsidiary banks implemented a series of activities in a very short time aiming to facilitate the transition from traditional to digital banking. Those activities were targeting protection of clients as well as easing the banking business operations, among others the limited free electronic and mobile banking for private individuals was introduced, various educational tutorials were prepared to use the digital functionalities, free card delivery at home was offered, etc. All these measures resulted in a significant increase in the use of digital channels, with high two digit growth in certain segments compared to the same period last year.

In accordance with the local regulatory frameworks put in place for private individuals and companies in the markets where the Group's subsidiary banks operate, the banks offered its clients support for them to cope with the economic implications caused by the pandemic.¹¹

Figure 14: Net profit of strategic NLB Group banks¹² (in EUR million)



Notes:

¹¹ Further details are available in subchapter Risk Factors and Risk Management chapter.

¹² Data on the stand-alone basis as included in the consolidated financial statements of the Group.

The realized net profit of the subsidiary banks in H1 was EUR 30.6 million in total, as the actual banks' operations in Q2 have proven to be more resilient than the initial after COVID-19 assessments. The trends of increasing business volumes in Q2 slowed down significantly in the region after the COVID-19 outbreak however still remaining loan demand especially in retail segment preserved the general increasing trend. The average CIR of the Strategic foreign market segment reached 51.4% at the end of H1 however three banks NLB Banka, Prishtina, NLB Banka, Skopje and NLB Banka, Banja Luka with the highest cost awareness in the Group managed to reach a favourable CIR of 31.4%, 41.1% and 47% respectfully. Net profit (IFRS) of NLB Banka, Podgorica was additionally impacted by forming provisions for a legal dispute.

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

Financial Markets in Slovenia

Financial Highlights

- **Net interest income** was EUR 4.6 million (29%) lower YoY, due to the maturities and sale of high yielding securities which also resulted in lower balance of the banking book securities portfolio (around EUR 200 million YoY). The sale of securities was a consequence of perceived higher risk during the COVID-19 pandemic.
- Higher **net non-interest income**, EUR 13.9 million YoY, mainly due to the sale of high yielding securities in order to lower the high exposure toward some issuers or reduce the high risk exposures. Total P&L effect from securities sold amounted to EUR 17.2 million (EUR 4.5 million EUR from FV OCI and EUR 12.7 million from AC portfolio). At the time of sale, the book value of divested securities from FV OCI and AC portfolios was EUR 209.1 million and EUR 120.1 million, respectively.
- In H1 2020, the revaluation of FV OCI securities portfolio decreased by EUR 14.3 million.
- Increase in **balances with central banks** (EUR 1,470.7 million YoY and EUR 946.8 million YtD), while **Banking book securities** decreased substantially YtD (EUR 319.6 million). Change in the position reflects the growth of deposits from individuals as the consequence of the COVID-19 outbreak (around EUR 500 million YtD) and the proceeds of the securities' sale in 2020 were placed with the ECB (around EUR 300 million).

Business Highlights

- The Bank issued Tier 2 subordinated bonds in the total amount of EUR 120 million on international capital markets.
- Risk mitigation contracts concluded with MIGA in the total amount of EUR 303.1 million.

Table 11: Key Financials of Financial Markets in Slovenia

in million EUR consolidated									
Financial Markets in Slovenia									
	1-6 2020	1-6 2019	Change YoY		Q2 2020	Q1 2020	Q2 2019	Change QoQ	
Net interest income	11.3	15.9	-4.6	-29%	4.7	6.5	9.9	-27%	
Net non-interest income	15.4	1.5	13.9	-	14.3	1.2	-0.6	-	
Total net operating income	26.7	17.4	9.3	54%	19.0	7.7	9.3	147%	
Total costs	-3.6	-3.6	0.0	-1%	-1.7	-1.9	-1.9	8%	
Result before impairments and provisions	23.1	13.8	9.3	67%	17.3	5.8	7.4	197%	
Impairments and provisions	0.0	-0.5	0.4	96%	0.0	0.0	-0.1	89%	
Result before tax	23.1	13.4	9.7	73%	17.3	5.8	7.3	198%	
	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Jun 2019	Change YtD		Change YoY		Change QoQ
Balances with Central banks	1,991.0	1,082.0	1,044.1	520.2	946.8	91%	1,470.7	-	84%
Banking book securities	2,774.0	2,977.5	3,093.6	2,983.4	-319.6	-10%	-209.4	-7%	-7%
<i>Interest rate on banking book securities</i>	<i>0.78%</i>	<i>0.80%</i>	<i>1.03%</i>	<i>1.07%</i>	<i>-0.25 p.p.</i>		<i>-0.29 p.p.</i>		<i>-0.02 p.p.</i>
Wholesale funding ⁽¹⁾	152.5	161.5	161.6	235.3	-9.1	-6%	-82.8	-35%	-6%
<i>Interest rate on wholesale funding⁽¹⁾</i>	<i>0.56%</i>	<i>0.57%</i>	<i>0.50%</i>	<i>0.49%</i>	<i>0.06 p.p.</i>		<i>0.07 p.p.</i>		<i>-0.01 p.p.</i>
Subordinated liabilities	287.4	286.6	210.6	44.9	76.8	36%	242.5	-	0.0
<i>Interest rate on subordinated liabilities</i>	<i>3.56%</i>	<i>3.41%</i>	<i>4.03%</i>	<i>4.20%</i>	<i>-0.47 p.p.</i>		<i>-0.64 p.p.</i>		<i>0.15 p.p.</i>

⁽¹⁾ Item includes only borrowings, till 30 June 2019 it included also deposits from banks.

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

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

Non-Core Members

Financial Highlights

- A substantial decrease in **total assets** of the segment YoY (EUR 55.3 million) which is in line with the divestment strategy of the non-core segment, hence EUR 3.5 million YoY decrease of **net operating income**.
- The segment recorded EUR 4.0 million of **loss before tax**.
- Lower **net non-interest income** mostly due to the effect of contractual penalty (EUR 1.3 million) positively influencing financials in Q1 2019.

Business Highlights

- Non-core members continued their endeavors to monetize assets in their ownership in line with the liquidation plans, however, due to the circumstances surrounding the COVID-19, such endeavors have been gravely impeded in Q2 2020 due to court enforcements put on hold in most of the markets.

Table 12: Key Financials of Non-Core members

in EUR million consolidated		Non-Core Members							
	1-6 2020	1-6 2019	Change YoY		Q2 2020	Q1 2020	Q2 2019	Change QoQ	
Net interest income	0.7	1.6	-0.8	-54%	0.3	0.4	0.6	-11%	
Net non-interest income	1.9	4.6	-2.7	-58%	0.9	1.0	1.7	-12%	
Total net operating income	2.6	6.2	-3.5	-57%	1.2	1.4	2.3	-12%	
Total costs	-6.5	-6.8	0.3	4%	-3.1	-3.4	-3.6	11%	
Result before impairments and provisions	-3.8	-0.6	-3.2	-	-1.8	-2.0	-1.3	10%	
Impairments and provisions	-0.1	1.0	-1.1	-	0.1	-0.2	0.3	-	
Result before tax	-4.0	0.4	-4.4	-	-1.7	-2.2	-1.0	23%	

	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Jun 2019	Change YtD		Change YoY		Change QoQ
Segment assets	150.5	158.7	169.5	205.8	-19.0	-11%	-55.3	-27%	-5%
Net loans to customers	58.4	60.2	67.4	93.3	-9.0	-13%	-34.8	-37%	-3%
Gross loans to customers	128.5	130.9	137.2	181.6	-8.7	-6%	-53.1	-29%	-2%
Investment property and property & equipment received for repayment of loans	74.5	74.5	75.6	84.4	-1.1	-1%	-10.0	-12%	0%
Other assets	17.6	24.0	26.5	28.1	-8.9	-34%	-10.5	-37%	-27%
Non-performing loans (gross)	95.9	93.4	93.6	121.1	2.3	2%	-25.1	-21%	3%

	1-6 2020	1-6 2019	Change YoY
Cost of risk (in bps) ⁽¹⁾	18	-264	283
CIR	244.7%	109.8%	134.9 p.p.

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

The main objective of the non-core segment remained rigorous wind-down of all non-core portfolios and subsequent reduction of costs.

Strategic Mid-Term Targets, Risk Factors and Outlook 2020

Strategic Mid-Term Targets

Strategic mid-term targets that the Group pursued and reported in previous reports are in the process of review and analysis due to COVID-19 effects, as it is expected that the pandemic will have a negative impact on delivering targets within the originally foreseen timeframe (by 2023).

Table 13: Key performance indicators

	1-6/30 June 2020	1-6/30 June 2019	Mid-term Targets ^(iv)
Net interest margin (NIM) ⁽ⁱ⁾	2.19%	2.54%	> 2.7%
Loan to deposit (LTD) ratio	63.1%	67.7%	< 95.0%
Total capital ratio	20.5%	16.5%	15.75% ⁽ⁱⁱⁱ⁾
Costs to income ratio (CIR)	55.7%	55.2% ⁽ⁱⁱ⁾	~ 50.0%
Cost of risk Net (bps)	85	0	< 90
NPE ratio (EBA definition)	2.6%	4.1%	< 4.0%
Return on equity after tax (ROE a.t.)	8.7%	11.4%	~12.0%

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

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

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

(iv) Mid-term targets are subject to review as COVID-19 will likely have a negative impact on achievement of the targets within the originally foreseen timeframe (2023).

Regardless of the changed circumstances and economic uncertainty caused by the COVID-19 pandemic, the Group continues to pursue its strategic objectives and is focused on delivering its refreshed 5-year strategy that was approved in November 2019. The COVID-19 pandemic has intensified recently, mostly in countries that represent the Group's core markets, therefore it is expected to continue to influence the delivery of all strategic objectives and their timeline. The Group has already responded swiftly and decisively to the pandemic outbreak and delivered all the necessary measures to protect both customers and employees, and at the same time ensured undisrupted services. It is therefore prepared for a potential continuation of the pandemic. As the spread of COVID-19 continues, it is difficult to estimate the full extent and the duration of its negative business and economic effects.

Digitalization will remain one of the key strategic objectives, especially in the post COVID-19 period. The new circumstances affected the growth of digital channel users, for which the Group, as a leading provider and innovator, was very well prepared. The Group will continue to introduce banking IT innovations in Slovenia and will aim to transfer its developments to its key markets, thus enabling business synergies.

An important part of the strategy is also to exploit the full potential of synergies within the Group. The Group is active in the field of strategic business synergies, both in terms of costs and operations. We are convinced that synergies and operational efficiency will, to a certain extent, help mitigate the negative effects of the pandemic on the Group's future business results.

With the withdrawal of its commitments towards the European Commission, the Group resumed M&A activities. Accordingly, the Group continues with activities related to the completion of acquiring Komercijalna banka a.d. Beograd in Serbia. The process is expected to be completed in the last quarter of 2020 (subject to, among other things, numerous regulatory approvals). With its completion, the Group will significantly increase its presence in

Serbia (which is the largest country among its key markets). Therefore it should benefit from opportunities for superior levels of growth and profitability in the long term, and realise numerous synergies. At the same time, the process of selling the insurance part of the Group (NLB Vita) has been completed, with NLB continuing to distribute the insurance products of NLB Vita.

As a systemic player in the SEE markets, the Group also plays an important social role and actively contributes to a better quality of life in the region. The Group will remain focused solely on SEE markets.

As changes in these new circumstances are the only constant, the Group will continue to make strategic alterations. We expect further changes in market conditions, mainly due to possible shifts in the monetary policy and the overall macroeconomic picture as a result of the COVID-19 pandemic, both in Slovenia and SEE, as well as in Europe as a whole. At the same time, changed market conditions will bring new opportunities for which the Group is strategically well prepared and positioned.

Risk Factors

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

Economic momentum in the region where the Group operates has worsened due to COVID-19 pandemic that started at the end of Q1 2020. Governments in the region implemented different mitigation measures, with the aim of mitigating adverse negative impacts of the pandemic. Substantial drop in the economic activity, lower industrial production and consumer spending are expected to cause an economic slowdown and increased unemployment in the region.

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

The economic slowdown is expected to have a negative impact on the existing loan portfolio quality, related cost of risk and new loan generation. Credit spread widening, arising from the Group's bond portfolio kept for liquidity purposes, influenced the valuation effects, but with less negative impact than at the end of Q1 2020. Therefore, the related investment strategy of the Group adapts to the expected market trends in accordance with the set risk appetite. Liquidity position of the Group is expected to remain solid, the pandemic did not result in any material liquidity outflows. However, such circumstances are expected to have a negative impact on the Group's current operating results and related profitability. In this regard, the Group closely follows the macroeconomic indicators relevant to its operations:

- GDP trends and forecasts,
- Economic sentiment,
- Unemployment rate,
- Consumer confidence,

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

The Group developed a set of new macroeconomic scenarios, based on the forecasts prepared by the EC, IMF, IMAD, BoS and other reliable experts, and related off-set measures, approved by the governments in the region. These scenarios, which are currently based on the expected U-crisis (severe deterioration of macroeconomic indicators in 2020 and moderate positive growth in 2021), and integrating government mitigation measures are included in the calculation of expected credit losses in accordance with IFRS 9.

The Group established a comprehensive internal stress testing framework and early warning systems in different risk areas with built-in risk factors, relevant to the Group's business model. Stress testing framework is integrated into Risk Appetite, ICAAP, ILAAP and Recovery Plan to determine how severely unexpected changes in the business and macro environment might affect the Group's capital adequacy or liquidity position. Both, 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 different internal policies, and are applied when necessary. Moreover, selection and application of mitigation measures follows a three-layer approach, considering feasibility analysis of the measure, its impact on the Group's business model and the strength of available measure.

Outlook 2020

In the Eurozone, the economy could contract 7.5% in 2020 with the health crisis suppressing investment activity and consumer spending. Large fiscal responses to the crisis could complicate fiscal sustainability in fiscally less prudent countries. However, stimulus and recovery measures at national and EU level could cushion the overall impact of COVID-19. In Slovenia, the economy is expected to contract 5.7% in 2020, while the economic output in the Group's region could on average contract 4.9% in 2020. Since the virus is still present and several restrictions remain in place, the recovery will be gradual and uneven across the countries. Recurrences of major outbreaks of the epidemic and potential reinstatement of rigorous measures to contain the spread of the COVID-19 represent a key downside risk to the outlook. The latter is therefore highly dependent on the capacity of countries to deal with the second wave of infections.

Following the indications of the outbreak of the COVID-19 in March in Slovenia and SEE, the Group has taken the necessary measures to protect its customers and employees by ensuring the relevant safety conditions and making sure services offered by the Group are provided without disruptions. As the presence of the COVID-19 continues, it is challenging to predict the full extent and duration of its business and economic implications.

The overall slow-down of the economy is expected to have a negative impact on new loan generation and consequently lower net interest income than previously expected. Margins are expected to be under further pressure. Additional pressure on interest income in retail market in Slovenia is expected due to regulatory

restrictions on consumer lending put in place by the end of 2019. A negative effect is expected also on fees and commissions because of lower volumes of payment and card operations and bancassurance products.

Nevertheless, the Group continues to strive for increasing margins over time by emphasising higher margin activities and pursuing new opportunities such as leasing (the newly established company NLB Lease&Go started its operations in Q2 2020).

Due to slower business operations linked to moratoriums and the crisis, some of the activities of the Group are expected to be cancelled or postponed, which is expected to result in lower costs. On the other hand, costs related to protection of health - hygiene, safety products and transportation, resulting from the current situation, are expected to increase. The Group is taking active measures to further reduce the operating costs.

Due to the impact of worsened macroeconomic environment in H1 2020, the Group made a one-off adjustment of expected credit losses in accordance with the new macro forecasts, resulting in an increase of cost of risk. The cost of risk for 2020 is, based on the current understanding and anticipated consequences, expected to be in the range up to 150 bps, although this will depend on the length and severity of disruption in corporate operations and consumer spending. An important factor, however in its magnitude still hard to assess, is expected to be the impact of off-setting measures imposed by the governments, where special focus is on retail automatic stabilisers (special social transfers for employees and the self-employed affected by the crisis) and public guarantee schemes ensuring liquidity for companies. While there are currently not yet indications which would allow to relax assumptions on cost of risk in 2020 at Strategic Foreign Markets of the Group, Slovenia has so far managed the COVID-19 situation very well, among others due to a variety of decisive governmental measures. Due to the fact that the Group has still the majority of its business activities in Slovenia, there are first indications, that if the positive trend in Slovenia continues, the Group might not entirely utilize the range of up to 150 bps cost of risk in 2020.

Clients who apply for a moratorium, in response to COVID-19 epidemic in the region where the Group operates, will not automatically fall into the forbearance category, as per IFRS 9 and the definition of default. The Group regularly assesses the credit quality of the exposures benefiting from these measures and identifies any situation of unlikelihood to pay. In H1 2020 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.

From liquidity perspective the Group did not register any material liquidity outflows, on the contrary, deposits at the Group level are still increasing (in the Bank and in subsidiary banks). Even if a highly unfavourable liquidity scenario materialized, the Group holds sufficient liquidity reserves in the form of placements at the ECB, prime debt securities, and money market placements. However, significant deposit inflows are putting additional pressure on the profitability.

The Group's capital position was due to the inclusion of subordinated Tier 2 notes and inclusion of undistributed profit for year 2019 even stronger at the end of H1 2020 and stood at 20.5%; it represents a strong base to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance, also in the aggravated circumstances during COVID-19 pandemic. The recently adopted ECB measures allow the Group to benefit from the lower capital requirements, while due to the ECB Recommendation on dividend distributions during the COVID-19 pandemic for the European banks, accompanied also with the BoS restriction on dividend distributions applicable for Slovenian banks, the Bank is not expected to pay out any dividends in 2020. As of 31 July 2020, the capital position was further strengthened by the implementation of RWA

reduction measure (MIGA guarantee with EUR 303.1 million RWA reduction, and SME supporting factor with app. EUR 170 million RWA reduction).

Regarding the process of acquisition of Komercijalna banka a.d. Beograd in Serbia (share purchase agreement signed in February 2020, closing process pending), the timing and eventual outcome of the transaction is still subject to regulatory and anti-trust approvals in multiple jurisdictions, as well as other factors, some of which are also related to the wider implications of COVID-19. Therefore any potential effects the aforementioned acquisition might have are not included in the outlook.

Risk Management

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

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

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

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

In H1 2020 the Group reviewed IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and related future impacts.

Figure 15: NLB Group structure of the credit portfolio (gross loans) by segment and rating¹³



Notes:

¹³ Gross exposures also include reserves at central banks and demand deposits at banks.

The current structure of credit portfolio (gross loans) consists of 37% of retail clients, 17% of large corporate clients, 19% of SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. There is no large concentration in any specific industry or client segment.

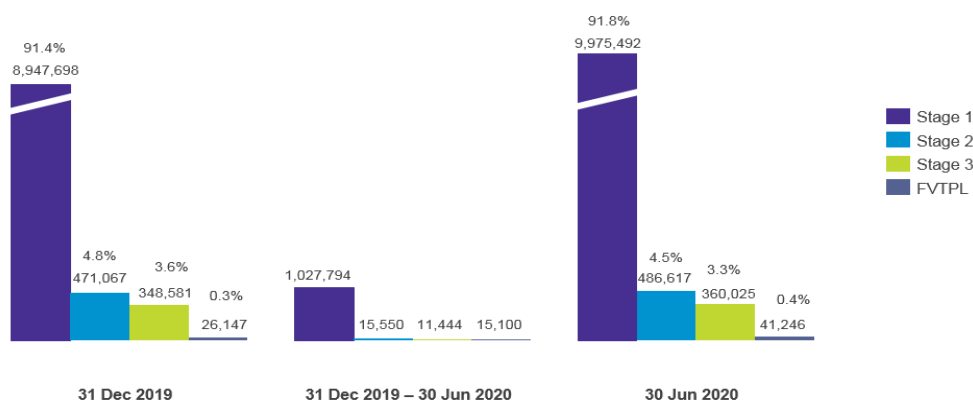
Table 14: NLB Group corporate performing loan portfolio by industry as at 30 June 2020; in EUR thousand

Corporate sector, industry structure	Performing loans	%	Manufacturing activities referring to main activities of automotive sector	Performing loans	%
Accommodation and food service activities	95,349.7	2.6%	Manufacture of electric motors, generators and transformers	33,361.6	0.9%
Hotels and similar	63,266.3	1.7%	Manufacture of other parts and accessories for motor vehicles	22,790.8	0.6%
Accommodation, Restaurants and mobile food	23,372.5	0.6%	Manufacture of metal structures and parts of structures	22,625.9	0.6%
Others	8,710.9	0.2%	Casting of light metals	21,155.7	0.6%
Act. of extraterritorial org. and bodies	0.0	0.0%	Manufacture of batteries and accumulators	11,114.9	0.3%
Administrative and support service activ	112,253.9	3.1%	Manufacture of electricity distribution and control apparatus	9,043.3	0.2%
Agriculture, forestry and fishing	147,363.0	4.0%	Manufacture of other pumps and compressors	4,712.7	0.1%
Arts, entertainment and recreation	14,264.7	0.4%	Manufacture of fluid power equipment	2,687.2	0.1%
Construction industry	261,453.6	7.2%	Total main manufacturing activities	127,492.0	3.5%
Education	14,057.1	0.4%			
Electricity, gas, steam and air conditio	147,292.6	4.0%			
Finance	109,594.4	3.0%	Transport	Performing loans	%
Human health and social work activities	22,980.0	0.6%	Exposure to companies with state guarantee as collateral	372,187.2	10.2%
Information and communication	184,638.6	5.1%	Land transport (freight and pipelines)	69,675.7	1.9%
Manufacturing	899,636.0	24.7%	Land transport (passenger)	25,548.0	0.7%
Mining and quarrying	20,621.3	0.6%	Postal services	17,783.4	0.5%
Professional, scientific and techn. Acti	83,679.1	2.3%	Air transport (all)	1,706.1	0.0%
Public admin., defence, compulsory socia	122,207.0	3.4%	Water transport (all)	1,705.4	0.0%
Real estate activities	153,197.4	4.2%	Total Transport	488,605.8	13.4%
Services	15,075.2	0.4%			
Transport and storage	540,974.1	14.9%			
Water supply	26,717.6	0.7%			
Wholesale and retail trade	667,597.7	18.3%			
Other	128.2	0.0%			
Total	3,639,081.3	100.0%			

Group has limited exposure to sectors considered as COVID-19 sensitive. Accommodation, Manufacturing (related to Car industry only) and Transport represented 9.32% (EUR 0.34 billion) of corporate performing loans (excl. loans to corporate clients with state guarantee) as at the end of H1 2020.

The majority of the Group's loan portfolio is classified as Stage 1 (91.8%), a relatively small portion as Stage 2 (4.5%) and Stage 3 (3.3%). Loans in stages from 1 to 3 are measured at amortized cost, while the remaining minor part (0.4%) represents FVTPL. The portfolio quality remains very stable with increasing Stage 1 exposures and a relatively low percentage of NPL loans, which are below the Slovenian average. The high percentage of Stage 1 loan portfolio is a result of cautious lending policy, while the volume of Stage 2 and 3 loans is quite limited. Additional credit quality deterioration is to be expected in H2 2020, however due to the very stable portfolio quality before the crisis, the impact should not be excessive.

Figure 16: NLB Group loan portfolio (valued at amortized cost) by stages



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

In accordance with the Intervention Measure Act on Deferred Payments of Borrowers' Obligations (ZIUOPOK) in Slovenia, by the end of H1 2020 the Bank granted COVID-19 moratoriums in the total amount EUR 417.5 million, of which EUR 306.8 million to its corporate clients and EUR 110.6 million to its retail clients.

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

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

The moratorium applies to a large group of obligors predefined on the basis of broad criteria, and envisages only changes to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time. Moratoriums are granted for the period between 3 to 12 months, subject to applicable government measure. Based on that banks in Strategic Foreign Markets have approved EUR 1,276.1 million of moratoriums, of which EUR 246.4 million expired by the end of H1 2020.

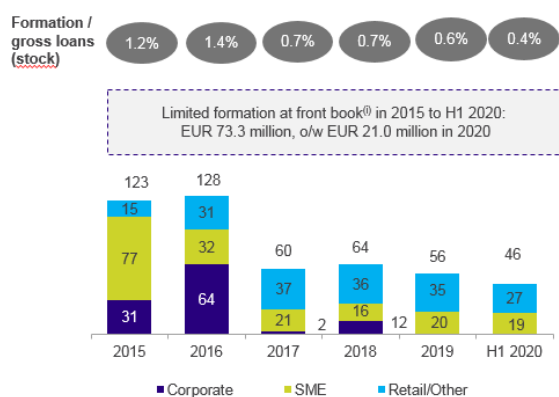
The Group is actively present on the market in the SEE region, financing the existing and new creditworthy clients. Lending growth in corporate segment remained relatively moderate, especially in the current specific circumstances. Besides that, COVID-19 situation contributed to a temporary slowdown in the growth of retail segment. Apart from moratoriums, the Group is also providing additional liquidity by granting new loans to help with the specific situation due to COVID-19 crisis. The loans are granted to the Bank's existing clients with solid credit potential. The volume of such loans was EUR 31 million in the Bank and close to EUR 4 million in other banking members of the Group. In addition the new COVID-19 loans subject to public guarantee schemes were granted in the amount of EUR 31 million by NLB Banka, Beograd. The legislation in Slovenia is still in the harmonization phase, while in Serbia the volume of such loans is increasing as the government is granting new tranches.

Table 15: NLB Group COVID-19 Related Transactions (Moratoriums and New Financings); in EUR thousand

NLB Group member	COVID-19 Moratorium					COVID-19 New Financing					Total COVID-19 Related Transactions	
	Number of clients	Exposure	Of which: expired by 30 June 2020	% of Exposure	% of Exposure (excl. expired moratoriums)	Number of clients	Exposure	Of which: expired by 30 June 2020	Of which: subject to public guarantee schemes	% of Exposure	Exposure	Of which: expired by 30 June 2020
NLB, Ljubljana	3,427	417,450.8	0.9	6.2%	6.2%	130	31,343.8	0.0	0.0	0.5%	448,794.6	0.9
Retail	3,091	110,591.5	0.9	1.6%	1.6%	20	518.6	0.0	0.0	0.0%	111,110.0	0.9
o/w Housing	1,153	72,641.2	0.0	1.1%	1.1%	0	0.0	0.0	0.0	0.0%	72,641.2	0.0
o/w Consumer	2,254	37,950.3	0.9	0.6%	0.6%	20	518.6	0.0	0.0	0.0%	38,468.8	0.9
Non-financial corporations	334	306,776.5	0.0	4.5%	4.5%	109	30,824.5	0.0	0.0	0.5%	337,601.0	0.0
o/w Secured loans	188	234,275.3	0.0	3.5%	3.5%	10	1,299.2	0.0	0.0	0.0%	235,574.5	0.0
o/w Unsecured loans	193	72,501.2	0.0	1.1%	1.1%	99	29,525.3	0.0	0.0	0.4%	102,026.5	0.0
Other	2	82.9	0.0	0.0%	0.0%	1	0.7	0.0	0.0	0.0%	83.5	0.0
NLB Banka, Beograd	42,413	297,968.6	0.0	51.2%	51.2%	107	31,164.3	0.0	31,164.3	5.4%	329,132.8	0.0
Retail	41,763	177,127.9	0.0	30.4%	30.4%	8	368.9	0.0	368.9	0.1%	177,496.8	0.0
o/w Housing	723	25,135.0	0.0	4.3%	4.3%	0	0.0	0.0	0.0	0.0%	25,135.0	0.0
o/w Consumer	41,415	151,992.9	0.0	26.1%	26.1%	8	368.9	0.0	368.9	0.1%	152,361.8	0.0
Non-financial corporations	648	120,814.1	0.0	20.8%	20.8%	99	30,795.4	0.0	30,795.4	5.3%	151,609.5	0.0
o/w Secured loans	131	47,494.8	0.0	8.2%	8.2%	97	29,400.1	0.0	29,400.1	5.1%	76,894.9	0.0
o/w Unsecured loans	573	73,319.3	0.0	12.6%	12.6%	2	1,395.2	0.0	1,395.2	0.2%	74,714.6	0.0
Other	2	26.6	0.0	0.0%	0.0%	0	0.0	0.0	0.0	0.0%	26.6	0.0
NLB Banka, Podgorica	8,100	184,505.5	160,935.4	39.5%	5.1%	18	1,930.3	0.0	0.0	0.4%	186,435.9	160,935.4
Retail	7,825	127,722.4	107,757.5	27.4%	4.3%	0	0.0	0.0	0.0	0.0%	127,722.4	107,757.5
o/w Housing	1,792	71,522.5	58,599.5	15.3%	2.8%	0	0.0	0.0	0.0	0.0%	71,522.5	58,599.5
o/w Consumer	6,667	56,199.9	49,158.0	12.0%	1.5%	0	0.0	0.0	0.0	0.0%	56,199.9	49,158.0
Non-financial corporations	273	53,396.2	49,790.9	11.4%	0.8%	18	1,930.3	0.0	0.0	0.4%	55,326.5	49,790.9
o/w Secured loans	162	41,468.0	38,950.0	8.9%	0.5%	1	20.0	0.0	0.0	0.0%	41,488.0	38,950.0
o/w Unsecured loans	167	11,928.2	10,841.0	2.6%	0.2%	17	1,910.3	0.0	0.0	0.4%	13,838.5	10,841.0
Other	2	3,387.0	3,387.0	0.7%	0.0%	0	0.0	0.0	0.0	0.0%	3,387.0	3,387.0
NLB Banka, Banja Luka	631	68,879.5	46.2	12.2%	12.2%	15	1,553.4	0.0	0.0	0.3%	70,432.9	46.2
Retail	472	9,264.5	46.2	1.6%	1.6%	9	159.9	0.0	0.0	0.0%	9,424.4	46.2
o/w Housing	131	4,529.3	0.0	0.8%	0.8%	0	0.0	0.0	0.0	0.0%	4,529.3	0.0
o/w Consumer	365	4,735.2	46.2	0.8%	0.8%	9	159.9	0.0	0.0	0.0%	4,895.1	46.2
Non-financial corporations	154	42,518.7	0.0	7.5%	7.5%	6	1,393.6	0.0	0.0	0.2%	43,912.2	0.0
o/w Secured loans	113	32,522.7	0.0	5.8%	5.8%	1	1,228.8	0.0	0.0	0.2%	33,751.5	0.0
o/w Unsecured loans	59	9,996.0	0.0	1.8%	1.8%	5	164.7	0.0	0.0	0.0%	10,160.7	0.0
Other	5	17,096.3	0.0	3.0%	3.0%	0	0.0	0.0	0.0	0.0%	17,096.3	0.0
NLB Banka, Skopje	81,701	416,262.8	0.0	34.8%	34.8%	2	97.8	0.0	0.0	0.0%	416,360.6	0.0
Retail	81,070	309,304.2	0.0	25.9%	25.9%	0	0.0	0.0	0.0	0.0%	309,304.2	0.0
o/w Housing	2,278	87,711.7	0.0	7.3%	7.3%	0	0.0	0.0	0.0	0.0%	87,711.7	0.0
o/w Consumer	79,972	221,592.5	0.0	18.5%	18.5%	0	0.0	0.0	0.0	0.0%	221,592.5	0.0
Non-financial corporations	630	106,942.2	0.0	8.9%	8.9%	2	97.8	0.0	0.0	0.0%	107,040.0	0.0
o/w Secured loans	207	86,129.2	0.0	7.2%	7.2%	2	97.8	0.0	0.0	0.0%	86,226.9	0.0
o/w Unsecured loans	468	20,813.1	0.0	1.7%	1.7%	0	0.0	0.0	0.0	0.0%	20,813.1	0.0
Other	1	16.4	0.0	0.0%	0.0%	0	0.0	0.0	0.0	0.0%	16.4	0.0
NLB Banka, Sarajevo	1,422	39,261.0	25,349.7	7.4%	2.6%	0	0.0	0.0	0.0	0.0%	39,261.0	25,349.7
Retail	1,334	11,372.3	11,231.1	2.2%	0.0%	0	0.0	0.0	0.0	0.0%	11,372.3	11,231.1
o/w Housing	58	1,105.2	1,045.2	0.2%	0.0%	0	0.0	0.0	0.0	0.0%	1,105.2	1,045.2
o/w Consumer	1,306	10,267.1	10,185.9	1.9%	0.0%	0	0.0	0.0	0.0	0.0%	10,267.1	10,185.9
Non-financial corporations	87	26,050.4	14,118.7	4.9%	2.3%	0	0.0	0.0	0.0	0.0%	26,050.4	14,118.7
o/w Secured loans	29	16,292.0	10,706.9	3.1%	1.1%	0	0.0	0.0	0.0	0.0%	16,292.0	10,706.9
o/w Unsecured loans	64	9,758.5	3,411.8	1.8%	1.2%	0	0.0	0.0	0.0	0.0%	9,758.5	3,411.8
Other	1	1,838.3	0.0	0.3%	0.3%	0	0.0	0.0	0.0	0.0%	1,838.3	0.0
NLB Banka, Prishtina	6,383	269,247.6	60,085.4	35.9%	27.9%	3	148.6	0.0	0.0	0.0%	269,396.2	60,085.4
Retail	5,010	59,506.1	13,644.4	7.9%	6.1%	2	31.4	0.0	0.0	0.0%	59,537.5	13,644.4
o/w Housing	2,238	43,836.6	8,479.2	5.9%	4.7%	1	31.0	0.0	0.0	0.0%	43,867.6	8,479.2
o/w Consumer	4,180	15,669.5	5,165.2	2.1%	1.4%	1	0.4	0.0	0.0	0.0%	15,669.5	5,165.2
Non-financial corporations	1,368	209,683.1	46,436.2	28.0%	21.8%	1	117.2	0.0	0.0	0.0%	209,800.3	46,436.2
o/w Secured loans	1,361	209,596.7	46,377.3	28.0%	21.8%	1	117.2	0.0	0.0	0.0%	209,713.9	46,377.3
o/w Unsecured loans	9	86.5	58.9	0.0%	0.0%	0	0.0	0.0	0.0	0.0%	86.5	58.9
Other	5	58.4	4.7	0.0%	0.0%	0	0.0	0.0	0.0	0.0%	58.4	4.7
TOTAL NLBG	144,077	1,693,575.8	246,417.6	15.6%	13.4%	275	66,238.2	0.0	31,164.3	0.6%	1,759,814.0	246,417.6

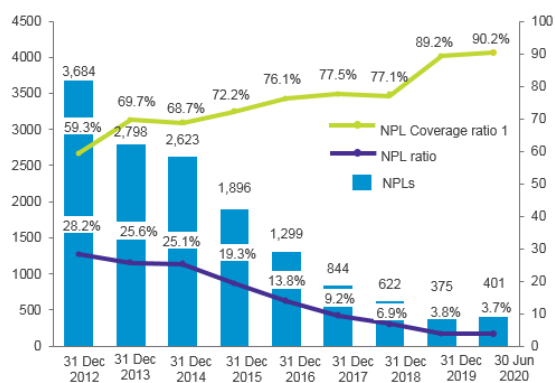
The combination of high quality portfolio, COVID-19 legislative options and uncertain macroeconomic conditions led to cumulatively new NPLs formation in the amount of EUR 46 million, which represents 0.4% of the total portfolio. Additionally, macroeconomic environment across the region, affected by the economic slowdown in H1 2020, resulted in an increased cost of risk, which might additionally increase depending on the economic circumstances caused by COVID-19 pandemic in H2 2020.

Figure 17: NLB Group gross NPL formation (in EUR million)



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

Precisely set targets in the Group's NPL Strategy and different proactive workout approaches supported the management of the non-performing portfolio. The Group's approach to NPL management gives strong emphasis to restructuring and use of other active NPL management tools such as foreclosure of collateral, the sale of claims and pledged assets. The existing non-performing credit portfolio stock in the Group slightly increased at the end of H1 2020 to EUR 401 million (2019 YE: EUR 375 million). The combined result of all of the effects resulted in 3.7% of NPLs, while the internationally more comparable NPE ratio, based on the EBA methodology, was reduced from 2.7% to 2.6% YtD. The Group's indicator gross NPL ratio, defined by the EBA, increased by 0.2 p.p. to 4.8% YtD, and is below the regulatory defined threshold for establishment of NPL strategy framework.

Figure 18: NLB Group NPL, NPL ratio and Coverage ratio¹⁴

Due to the extensive experience in the last years to deal with clients with financial difficulties, resulting primarily from legacy portfolios, the Group has developed an extensive knowledge both in the prevention of financial difficulties for clients, to restructure viable clients in case of need, and to efficiently work out exposures with no realistic prospects to recover. This extensive knowledge is available throughout the Group, and risk units as well as restructuring and workout teams are properly staffed and have the capacity to deal, in case of need, with considerable increased volumes in a professional and efficient manner. Due to this fact, as well as due to implemented early warning tools, and due to efficient analysis and reporting mechanisms, which allows the Group to proactively identify and engage with potentially distressed borrowers, the Group estimates that it is well

Notes:

¹⁴ By internal definition.

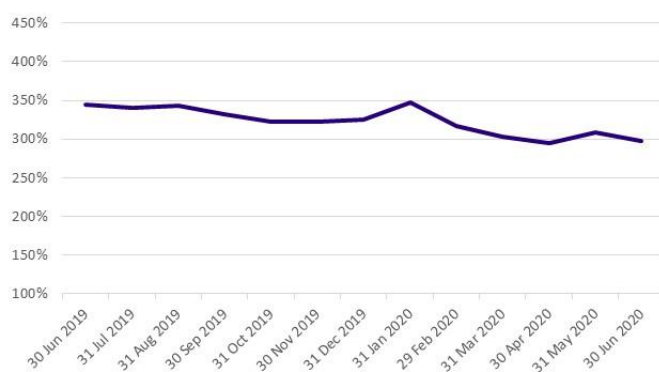
prepared to deal proactively with potentially distressed debtors also in the context of COVID-19, while properly differentiating between viable and not viable clients, in order to minimize the impact on the quality of its credit portfolio.

An important Group's strength is the NPL coverage ratio 1 (coverage of gross NPL with impairments for all loans), which remains high at 90.2%. Furthermore, the Group's NPL coverage ratio 2 (coverage of gross NPL with impairments for NPL) stands at 62.6%, which is well above the EU average as published by the EBA (44.7% for Q4 2019). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years.

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

Liquidity position of the Group remained very solid, impacts of the pandemic did not cause any material liquidity outflows. The Group holds a very strong liquidity position at the Group and individual subsidiary bank level, which is well above the risk appetite with the LCR of 297% and unencumbered eligible reserves in the amount of EUR 6,657 million in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank level predominately entails customer deposits, namely in the retail segment, representing a very stable and constantly growing base. A very comfortable level of LTD at 63.1% gives the Group the potential for further customer loan placements.

Figure 19: NLB Group's LCR

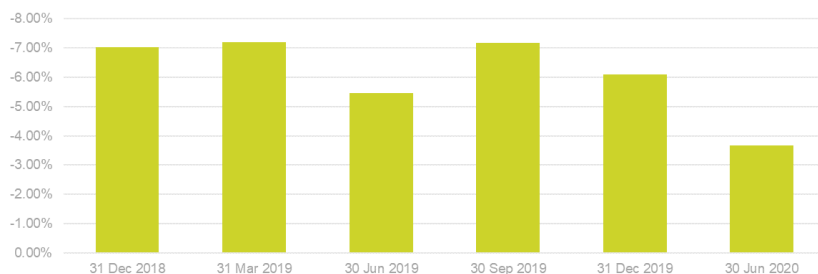


The Group's net open FX position from transactional risk is low at less than 1.83% of capital. With regards to structural FX positions on a consolidated basis, which are recognized in the other comprehensive income, there were no major fluctuations of relevant currencies.

The Group's interest rate positions were slightly affected by moratoriums, which are mostly short-term from 3 to 6 months. In response to the COVID-19 situation, the Group reduced some of its bond exposures and temporarily increased cash position, which in turn had a favourable effect on interest rate risk exposure from the EVE perspective. Interest rate exposure to interest rate risk remains modest, within the risk appetite limits. Net interest income sensitivity of the Group would amount to EUR 16.4 million, if market interest rates increased by 50 bps, whereas if they decreased, the exposure would be lower due to zero floor clauses included in the loan contracts

(EUR 14.9 million). From the EVE perspective, the capital sensitivity of 200 bps equals 3.7% of the Group's capital.

Figure 20: NLB Group's EVE evolution



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

Corporate Governance

Management Board

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

The Management Board was already strengthened in 2016 when the Supervisory Board unanimously elected Blaž Brodnjak as president of the Management Board of the Bank. Furthermore, the Supervisory Board appointed László Pelle, Andreas Burkhardt and Archibald Kremser as members of the Management Board for a five-year period.

On 30 October 2019, the Supervisory Board and László Pelle, member of the Management Board and COO, agreed on the termination of his office effective from 31 January 2020. Therefore, on 29 November 2019, the Supervisory Board appointed Petr Brunclík as member of the Management Board. Petr Brunclík joined the Bank on 2 February 2020 in a function of Executive Assistant to the Management Board. After receiving consent by the ECB (13 May 2020) to the appointment as member of the Management Board he assumed the function of COO. His five-year term of office started upon the signing of his employment agreement (as of 18 May 2020).

As at 30 June 2020 the Management Board consisted of: Blaž Brodnjak (a member since 1 December 2012, Deputy President since 5 February 2016, and President, CEO and CMO since 6 July 2016, with a new five-year term of office as at 6 July 2016); and members Archibald Kremser, acting as CFO (since 31 July 2013 and with a new five-year term of office as at 6 July 2016); Andreas Burkhardt acting as CRO (since 18 September 2013 and with a new five-year term of office as at 6 July 2016); and Petr Brunclík, acting as COO (since 18 May 2020). The five-year term of office of the President of the Management Board, Blaž Brodnjak, and the members of the Management Board, Archibald Kremser, and Andreas Burkhardt expires on 6 July 2021, while the five-year term of office of Petr Brunclík expires on 18 May 2025.

Supervisory Board

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

As the term of office of several members of the Supervisory Board was about to expire, the General Meeting of NLB (General Meeting) decided on the election of its members on 15 June 2020. A new term of office was confirmed to the current members of the Supervisory Board Primož Karpe and David Eric Simon. The term of office was terminated for two members of the Supervisory Board - László Urbán and Alexander Bayr. Verica Trstenjak was also elected as member of the Supervisory Board. All three were appointed for a four-year term, which begins on the day of their appointment and lasts until the conclusion of the Annual General Meeting of NLB that decides on the allocation of distributable profit for the fourth financial year after their election, counting the year in which they were appointed as the first one.

On 13 June 2019, at the initiative of the Works Council of NLB (Works Council), the Constitutional Court of the Republic of Slovenia annulled the fourth paragraph of Article 33 of the Banking Act (ZBan-2), which as a special regulation stipulated that the provisions of the law governing the participation of workers in management with respect to employee representatives in a bank's management board and supervisory board would not apply to banks. The Bank fully implemented the above Decision of the Constitutional Court, as the General Meeting at its meeting on 15 June 2020, following a proposal by the Management Board and the Supervisory Board, adopted the amendments to the Articles of Association of NLB, which enables workers' participation in the management bodies.

In June 2020, the Works Council elected and appointed Petra Kakovič Bizjak, Sergeja Kočar and Bojana Šteblaj as members of the Supervisory Board – representatives of employees. Their four-year term of office began on the day of the registration of the changes to the Articles of Association of NLB into the court register (17 June 2020).

On 26 June 2020, members of the Supervisory Board elected chairman of this body at its first meeting. Primož Karpe was elected chairman for the second time in a row and Andreas Klíngen remains his deputy. The Supervisory Board of NLB now consists of 11 members, of which 8 are representatives of shareholders (in addition to the above: Gregor Rok Kastelic, Mark William Lane Richards, Shrenik Dhirajjal Davda, Peter Groznik, David Eric Simon and Verica Trstenjak) and 3 are representatives of employees (Petra Kakovič Bizjak, Sergeja Kočar and Bojana Šteblaj). The amended Articles of Association of NLB, adopted at the General Meeting on 15 June 2020, allow for 12 members (8 representatives of the capital and 4 representatives of employees). In view of the changed membership, in addition to the appointment of the Chairman and his Deputy, the Supervisory Board also appointed members to the five committees operating within its framework: Audit Committee, Risk Committee, Operations and IT Committee, Nomination Committee, and Remuneration Committee.

General Meeting

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

On 15 June 2020, shareholders of the Bank took note of the approved NLB Group 2019 Annual Report, Report of the Supervisory Board of NLB on the Results of the Examination of the NLB Group 2019 Annual Report, and Information on the Income of Members of the Management Board and Supervisory Board of NLB during last year. The shareholders also decided on the allocation of distributable profit for 2019 and granting a discharge from liability to the Management Board and Supervisory Board, amendments to the Articles of Association of NLB, election of members of the Supervisory Board of NLB, and other points on the agenda.

The distributable profit for 2019 in the amount of EUR 228,039,879.73, which consists of net profit for 2019 in the amount of EUR 176,148,615.15 and retained earnings from previous years in the amount of EUR 51,891,264.58, remain undistributed, representing the profit carried over.

The decision of the BoS on the macroprudential restrictions on the distribution of banks' profits introduces an instrument restricting the distribution of profits to banks and savings banks due to the impact and consequences of the COVID-19 epidemic. The purpose of the measure is to preserve capital so that the banking system can more easily withstand potential losses and continue to provide the economy and citizens with loans. The measure limiting the distribution of profits refers to the profits of banks and savings banks generated in 2019 and 2020, as well as to retained earnings and reserves from previous years. It is expected to be in effect for one year, but the BoS may also shorten or extend this measure depending on the situation. In continuation, the General Meeting granted discharge to the members of the management and supervisory bodies for the 2019 financial year.

Because the term of office of several members of the Supervisory Board was about to expire, the General Meeting also decided on the election of its members.

The General Meeting adopted the proposed amendments to the Articles of Association of NLB relating to the above decision passed by the Constitutional Court of the Republic of Slovenia. Amendments to the Articles of Association allow the Works Council to appoint 4 representatives to the Supervisory Board of NLB and grant the possibility to propose appointing a worker director. As a result, the Articles of Association were amended in the Article governing the number of members of the Management Board of the Bank. In addition, an amendment was adopted that allows the Management Board of NLB to convene the General Meeting by electronic means without the physical presence of shareholders.

General Meeting of NLB also passed decisions on other items on the agenda. All adopted resolutions together with voting results are available to interested parties at the Bank's website.

Guidelines on Disclosure for Listed Companies

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

Events after 30 June 2020

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Alternative Performance Indicators

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

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

(in EUR million and bps)	NLB Group					
	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019	1-3 2019
Numerator						
Credit impairments and provisions*	-65.2	-111.9	14.5	22.3	0.3	16.3
Denominator						
Average net loans to customers**	7,666.5	7,660.6	7,339.4	7,269.6	7,212.2	7,184.0
Cost of risk	85	146	-20	-31	0	-23

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

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

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

(in EUR million and %)	NLB Group					
	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019	1-3 2019
Numerator						
Total cost	144.8	74.6	305.0	217.0	143.1	69.7
Denominator						
Total net operating income	260.0	123.8	517.2	387.4	259.0	134.5
Cost to income ratio (CIR)	55.7%	60.3%	59.0%	56.0%	55.2%	51.8%

CIR is adjusted to changed schemes prescribed by the BoS.

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

IFRS 9 classification into stages for loan portfolio:

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

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

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

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

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

The remaining minor part (0.4 per cent in the first half of 2020; 0.3 per cent. December 2019) represents FVTPL. Classification into stages is calculated in internal data source, by which the Group measures the loan portfolio quality and is also published in Business Report of Annual and Interim Reports.

(in EUR million and %)	NLB Group	
	30 Jun 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 1	9,975.5	8,947.7
Denominator		
Total gross loans and advances	10,863.4	9,793.5
IFRS 9 classification into Stage 1	91.8%	91.4%

(in EUR million and %)	NLB Group	
	30 Jun 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 2	486.6	471.1
Denominator		
Total gross loans and advances	10,863.4	9,793.5
IFRS 9 classification into Stage 2	4.5%	4.8%

(in EUR million and %)	NLB Group	
	30 Jun 2020	31 Dec 2019
Numerator		
Total (AC) loans in Stage 3	360.0	348.6
Denominator		
Total gross loans and advances	10,863.4	9,793.5
IFRS 9 classification into Stage 3	3.3%	3.6%

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

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

(in EUR million and %)	NLB Group	
	30 Jun 2020	30 Jun 2019
Numerator		
Stock of HQLA	4,737.7	3,307.9
Denominator		
Net liquidity outflow	1,594.0	962.8
LCR	297.2%	343.6%

Based on the EC's Delegated Act on LCR.

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

(in EUR million and %)	NLB Group					
	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019
Numerator						
Net loans to customers	7,686.7	7,759.8	7,604.7	7,496.0	7,280.8	7,264.3
Denominator						
Deposits from customers	12,190.8	11,652.9	11,612.3	11,038.2	10,753.5	10,675.8
Net loan to deposit ratio (LTD)	63.1%	66.6%	65.5%	67.9%	67.7%	68.0%

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

(in EUR million and %)	NLB Group					
	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019	1-3 2019
Numerator						
Net interest income*	301.8	311.2	318.5	319.3	320.7	321.8
Denominator						
Average interest bearing assets**	13,791.1	13,560.3	12,845.9	12,714.6	12,617.0	12,585.6
Net interest margin on interest bearing assets	2.19%	2.29%	2.48%	2.51%	2.54%	2.56%

(in EUR million and %)	SEE banks total				
	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019
Numerator					
Net interest income*	158.0	160.1	157.5	157.2	157.0
Denominator					
Average interest bearing assets**	4,694.1	4,669.5	4,390.9	4,333.0	4,275.5
Net interest margin on interest bearing assets	3.37%	3.43%	3.59%	3.63%	3.67%

(in EUR million and %)	NLB				
	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019
Numerator					
Net interest income*	142.4	149.5	158.1	159.1	160.5
Denominator					
Average interest bearing assets**	9,270.3	9,078.0	8,537.8	8,461.6	8,407.5
Net interest margin on interest bearing assets	1.54 %	1.65%	1.85%	1.88%	1.91%

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

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

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

(in EUR million and %)	NLB Group	
	1-6 2020	1-6 2019
Numerator		
Net interest income*	301.8	320.7
Denominator		
Average total assets**	14,383.8	13,021.2
Net interest margin on total assets	2.10%	2.46%

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

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

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

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

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

Below presented calculations are based on internal data sources.

(in EUR million and %)	NLB Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Numerator			
Total Non-Performing on-balance and off-balance Exposure in Finrep18	443.1	432.7	605.6
Denominator			
Total on-balance and off-balance exposures in Finrep18	17,309.4	16,228.5	14,816.3
NPE per cent.	2.6%	2.7%	4.1%

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

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

(in EUR million and %)	NLB Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Numerator			
Total Non-Performing Loans	401.3	374.7	542.4
Denominator			
Total gross loans	10,863.4	9,793.5	8,987.6
NPL per cent.	3.7%	3.8%	6.0%

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

(in EUR million and %)	NLB Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Numerator			
Loan loss allowances entire loan portfolio	362.1	334.2	440.7
Denominator			
Total Non-Performing Loans	401.3	374.7	542.4
NPL coverage ratio 1 (NPL CR 1)	90.2%	89.2%	81.2%

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

(in EUR million and %)	NLB Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Numerator			
Loan loss allowances non-performing loan portfolio	251.3	243.7	358.8
Denominator			
Total Non-Performing Loans	401.3	374.7	542.4
NPL coverage ratio 2 (NPL CR 2)	62.6%	65.0%	66.2%

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

(in EUR million and %)	NLB Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Numerator			
Net volume of non-performing loans	150.0	131.0	183.6
Denominator			
Total Net Loans	10,501.3	9,459.2	8,546.8
Net NPL ratio per cent. (%Net NPL)	1.4%	1.4%	2.1%

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

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

(in EUR million and %)	NLB Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Numerator			
Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits	396.1	372.9	540.6
Denominator			
Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits	8,251.8	8,127.5	7,926.1
Gross NPL ratio per cent. (%NPL)	4.8%	4.6%	6.8%

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

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

(in EUR thousand and %)	NLB Group	
	30 Jun 2020	30 Jun 2019
Numerator		
Interest risk in banking book – EVE	59,547	77,841
Denominator		
Equity (Tier I)	1,616,921	1,425,298
EVE as % of Equity	3.68%	5.46%

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

(in EUR million and %)	NLB Group					
	1-6 2020	1-3 2020	1-12 2019	1-9 2019	1-6 2019	1-3 2019
Numerator						
Result after tax*	147.3	73.2	193.6	216.3	188.7	231.6
Denominator						
Average equity**	1,703.2	1,697.7	1,658.0	1,651.3	1,656.6	1,648.3
ROE a.t.	8.7%	4.3%	11.7%	13.1%	11.4%	14.0%

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

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

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

(in EUR million and %)	NLB Group	
	1-6 2020	1-6 2019
Numerator		
Result after tax*	147.3	188.7
Denominator		
Average total assets**	14,383.8	13,021.2
ROA a.t.	1.0%	1.4%

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

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

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

(in EUR million and %)	NLB Group					
	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019
Numerator						
Total capital (Own funds)	1,903.4	1,707.8	1,495.8	1,468.6	1,469.9	1,460.1
Denominator						
Total risk exposure Amount (Total RWA)	9,301.7	9,226.7	9,185.5	9,126.1	8,935.2	8,811.6
Total capital ratio	20.5%	18.5%	16.3%	16.1%	16.5%	16.6%



Unaudited Condensed Interim Financial Statements of NLB Group and NLB

as at 30 June 2020

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

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Condensed income statement for the period ended 30 June

		in EUR thousands			
		NLB Group		NLB	
		six months ended		six months ended	
		June 2020	June 2019	June 2020	June 2019
		unaudited	unaudited	unaudited	unaudited
Notes					
	Interest income, using the effective interest method	173,360	177,642	83,958	87,317
	Interest income, not using the effective interest method	3,889	3,688	3,877	3,680
	Interest and similar income	177,249	181,330	87,835	90,997
	Interest and similar expenses	(27,182)	(22,292)	(17,043)	(11,389)
	Net interest income	150,067	159,038	70,792	79,608
	Dividend income	90	180	17	69,939
	Fee and commission income	111,100	111,798	65,941	66,982
	Fee and commission expenses	(29,646)	(29,588)	(15,673)	(15,875)
	Net fee and commission income	81,454	82,210	50,268	51,107
	Gains less losses from financial assets and liabilities not measured as at fair value through profit or loss	17,088	3,040	16,974	3,015
	Gains less losses from financial assets and liabilities held for trading	4,957	4,722	1,804	1,483
	Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	2,442	15,008	3,080	14,062
	Fair value adjustments in hedge accounting	269	(23)	269	(23)
	Foreign exchange translation gains less losses	(478)	317	(595)	145
	Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	-	(111)	-	(1)
	Gains less losses on derecognition of non-financial assets	776	901	8	32
	Other net operating income	4,169	5,491	3,272	3,392
	Administrative expenses	(128,916)	(127,686)	(80,667)	(78,677)
	Cash contributions to resolution funds and deposit guarantee schemes	(11,851)	(11,492)	(7,103)	(7,034)
	Depreciation and amortisation	(15,904)	(15,387)	(9,159)	(8,738)
	Gains less losses from modification	-	(106)	-	-
	Provisions for credit losses	(2,026)	(1,920)	(1,636)	(1,900)
	Provisions for other liabilities and charges	(326)	(3,776)	(476)	6
	Impairment of financial assets	(30,767)	1,199	(13,179)	2,726
	Impairment of non-financial assets	(111)	(992)	-	3,433
	Share of profit from investments in associates and joint ventures (accounted for using the equity method)	426	2,516	-	-
	Gains less losses from non-current assets classified as held for sale	11,004	(126)	35,452	(128)
	Profit before income tax	82,363	113,003	69,121	132,447
	Income tax	(5,512)	(14,885)	(1,312)	(9,878)
	Profit for the period	76,851	98,118	67,809	122,569
	Attributable to owners of the parent	73,669	94,326	67,809	122,569
	Attributable to non-controlling interests	3,182	3,792	-	-
	Earnings per share/diluted earnings per share (in EUR per share)	3.68	4.72	3.39	6.13

Condensed income statement – for three months ended June

in EUR thousands

	Notes	NLB Group		NLB	
		three months ended		three months ended	
		June 2020	June 2019	June 2020	June 2019
		unaudited	unaudited	unaudited	unaudited
Interest income, using the effective interest method		84,835	88,923	40,850	43,664
Interest income, not using the effective interest method		1,858	1,968	1,847	1,957
Interest and similar income	4.1.	86,693	90,891	42,697	45,621
Interest and similar expenses	4.1.	(13,990)	(11,203)	(9,070)	(5,770)
Net interest income		72,703	79,688	33,627	39,851
Dividend income	4.2.	79	101	9	65,541
Fee and commission income	4.3.	53,290	57,956	31,857	34,333
Fee and commission expenses	4.3.	(14,249)	(15,829)	(7,672)	(8,446)
Net fee and commission income		39,041	42,127	24,185	25,887
Gains less losses from financial assets and liabilities not measured as at fair value through profit or loss	4.4.	14,726	473	14,612	448
Gains less losses from financial assets and liabilities held for trading	4.5.	2,345	2,071	1,096	367
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	2,916	7,801	2,400	7,612
Fair value adjustments in hedge accounting		104	33	104	33
Foreign exchange translation gains less losses		421	284	92	78
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures		-	(6)	-	-
Gains less losses on derecognition of non-financial assets		445	508	1	8
Other net operating income	4.7.	1,897	897	1,630	1,536
Administrative expenses	4.8.	(62,342)	(65,702)	(38,994)	(40,778)
Cash contributions to resolution funds and deposit guarantee schemes	4.9.	(9,487)	(9,305)	(7,103)	(7,034)
Depreciation and amortisation	4.10.	(7,853)	(7,659)	(4,507)	(4,406)
Gains less losses from modification		-	-	-	-
Provisions for credit losses	4.11.	(1,521)	(2,825)	(2,461)	(2,543)
Provisions for other liabilities and charges	4.11.	(191)	(789)	(476)	6
Impairment of financial assets	4.12.	(3,117)	(1,197)	1,851	561
Impairment of non-financial assets	4.12.	(69)	(53)	-	104
Share of profit from investments in associates and joint ventures (accounted for using the equity method)		208	1,386	-	-
Gains less losses from non-current assets classified as held for sale	4.13.	11,009	(123)	35,457	(128)
Profit before income tax		61,314	47,710	61,523	87,143
Income tax	4.14.	(3,937)	(9,451)	(1,190)	(6,784)
Profit for the period		57,377	38,259	60,333	80,359
Attributable to owners of the parent		55,358	36,433	60,333	80,359
Attributable to non-controlling interests		2,019	1,826	-	-

Condensed statement of comprehensive income for the period ended 30 June

in EUR thousands

	Note	NLB Group		NLB	
		six months ended		six months ended	
		June 2020	June 2019	June 2020	June 2019
		unaudited	unaudited	unaudited	unaudited
Net profit for the period after tax		76,851	98,118	67,809	122,569
Other comprehensive income after tax		(29,409)	19,502	(11,808)	12,825
<i>Items that will not be reclassified to income statement</i>					
Fair value changes of equity instruments measured at fair value through other comprehensive income		(16)	360	(20)	319
Share of other comprehensive income/(losses) of entities accounted for using the equity method		8	689	-	-
Income tax relating to components of other comprehensive income	5.14.	4	(192)	4	(61)
<i>Items that have been or may be reclassified subsequently to income statement</i>					
Foreign currency translation		(1,666)	435	-	-
Translation gains/(losses) taken to equity		(1,666)	435	-	-
Debt instruments measured at fair value through other comprehensive income		(18,789)	16,360	(13,780)	15,515
Valuation gains/(losses) taken to equity		(14,297)	18,457	(9,324)	18,276
Transferred to income statement		(4,492)	(2,097)	(4,456)	(2,761)
Share of other comprehensive income/(losses) of entities accounted for using the equity method (including transfer to income statement on disposal)		(11,026)	6,023	-	-
Income tax relating to components of other comprehensive income	5.14.	2,076	(4,173)	1,988	(2,948)
Total comprehensive income for the period after tax		47,442	117,620	56,001	135,394
Attributable to owners of the parent		44,719	113,754	56,001	135,394
Attributable to non-controlling interests		2,723	3,866	-	-

Condensed statement of comprehensive income – for three months ended June

in EUR thousands

	Note	NLB Group		NLB	
		three months ended		three months ended	
		June 2020	June 2019	June 2020	June 2019
		unaudited	unaudited	unaudited	unaudited
Net profit for the period after tax		57,377	38,259	60,333	80,359
Other comprehensive income/(loss) after tax		(3,775)	9,796	10,016	8,065
<i>Items that will not be reclassified to income statement</i>					
Fair value changes of equity instruments measured at fair value through other comprehensive income		411	148	439	146
Share of other comprehensive income/(losses) of entities accounted for using the equity method		-	(317)	-	-
Income tax relating to components of other comprehensive income		(83)	32	(83)	(28)
<i>Items that have been or may be reclassified subsequently to income statement</i>					
Foreign currency translation		(12)	964	-	-
Translation gains/(losses) taken to equity		(12)	964	-	-
Debt instruments measured at fair value through other comprehensive income		7,145	9,762	10,050	9,811
Valuation gains/(losses) taken to equity		9,451	10,088	12,209	10,184
Transferred to income statement		(2,306)	(326)	(2,159)	(373)
Share of other comprehensive income/(losses) of entities accounted for using the equity method (including transfer to income statement on disposal)		(11,026)	1,275	-	-
Income tax relating to components of other comprehensive income		(210)	(2,068)	(390)	(1,864)
Total comprehensive income for the period after tax		53,602	48,055	70,349	88,424
Attributable to owners of the parent		51,717	46,147	70,349	88,424
Attributable to non-controlling interests		1,885	1,908	-	-

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

in EUR thousands

	Notes	NLB Group		NLB	
		30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
		unaudited	audited	unaudited	audited
Cash, cash balances at central banks and other demand deposits at banks	5.1.	3,084,554	2,101,346	2,239,865	1,292,211
Financial assets held for trading	5.2.a)	22,648	24,038	22,677	24,085
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.	35,250	25,359	33,292	23,287
Financial assets measured at fair value through other comprehensive income	5.4.	2,058,070	2,141,428	1,616,320	1,656,657
Financial assets measured at amortised cost					
- debt securities	5.5.a)	1,413,765	1,653,848	1,205,824	1,485,166
- loans and advances to banks	5.5.b)	94,910	93,403	214,161	144,352
- loans and advances to customers	5.5.c)	7,661,801	7,589,724	4,495,637	4,568,599
- other financial assets	5.5.d)	114,451	97,415	81,452	67,279
Derivatives - hedge accounting		-	788	-	788
Fair value changes of the hedged items in portfolio hedge of interest rate risk		13,805	8,991	13,805	8,991
Investments in subsidiaries		-	-	354,893	351,883
Investments in associates and joint ventures		7,934	7,499	1,366	1,366
Tangible assets					
Property and equipment	5.7.	190,484	195,605	87,629	89,904
Investment property	5.8.	53,140	52,316	9,916	9,303
Intangible assets		37,557	39,542	24,170	25,980
Current income tax assets		3,024	6,284	1,203	5,463
Deferred income tax assets	5.13.	31,753	29,500	31,601	29,569
Other assets	5.9.	64,270	63,811	12,626	11,142
Non-current assets classified as held for sale	5.6.	4,441	43,191	2,108	5,532
Total assets		14,891,857	14,174,088	10,448,545	9,801,557
Financial liabilities held for trading	5.2.b)	17,995	17,903	18,014	17,892
Financial liabilities measured at fair value through profit or loss	5.3.	10	7,998	10	7,746
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.11.	54,310	42,840	89,461	89,820
- borrowings from banks and central banks	5.11.	159,265	170,385	152,451	161,564
- due to customers	5.11.	12,190,847	11,612,317	8,266,293	7,760,737
- borrowings from other customers	5.11.	61,616	64,458	232	2,537
- subordinated liabilities	5.11.a)	287,368	210,569	287,368	210,569
- other financial liabilities	5.11.c)	174,171	158,484	112,639	98,342
Derivatives - hedge accounting		61,371	49,507	61,371	49,507
Provisions	5.12.	88,847	88,414	61,989	60,384
Current income tax liabilities		642	2,271	-	-
Deferred income tax liabilities	5.13.	2,936	2,833	-	-
Other liabilities	5.15.	14,140	15,212	9,491	9,234
Total liabilities		13,113,518	12,443,191	9,059,319	8,468,332
Equity and reserves attributable to owners of the parent					
Share capital		200,000	200,000	200,000	200,000
Share premium		871,378	871,378	871,378	871,378
Accumulated other comprehensive income		(5,023)	26,493	8,477	20,285
Profit reserves		13,522	13,522	13,522	13,522
Retained earnings		650,724	574,489	295,849	228,040
		1,730,601	1,685,882	1,389,226	1,333,225
Non-controlling interests		47,738	45,015	-	-
Total equity		1,778,339	1,730,897	1,389,226	1,333,225
Total liabilities and equity		14,891,857	14,174,088	10,448,545	9,801,557

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

in EUR thousands

NLB Group	Share capital	Share premium	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
			Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Balance as at 1 Jan 2020	200,000	871,378	47,880	(17,055)	(4,332)	13,522	574,489	1,685,882	45,015	1,730,897
- Net profit for the period	-	-	-	-	-	-	73,669	73,669	3,182	76,851
- Other comprehensive income	-	-	(27,404)	(1,554)	8	-	-	(28,950)	(459)	(29,409)
Total comprehensive income after tax	-	-	(27,404)	(1,554)	8	-	73,669	44,719	2,723	47,442
Transfer of fair value reserve	-	-	(2,551)	-	(15)	-	2,566	-	-	-
Balance as at 30 Jun 2020	200,000	871,378	17,925	(18,609)	(4,339)	13,522	650,724	1,730,601	47,738	1,778,339

in EUR thousands

NLB Group	Share capital	Share premium	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
			Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Balance as at 1 Jan 2019	200,000	871,378	28,702	(18,275)	(2,604)	13,522	523,493	1,616,216	41,228	1,657,444
- Net profit for the period	-	-	-	-	-	-	94,326	94,326	3,792	98,118
- Other comprehensive income	-	-	18,993	435	-	-	-	19,428	74	19,502
Total comprehensive income after tax	-	-	18,993	435	-	-	94,326	113,754	3,866	117,620
Dividends paid	-	-	-	-	-	-	(142,600)	(142,600)	(4,800)	(147,400)
Balance as at 30 Jun 2019	200,000	871,378	47,695	(17,840)	(2,604)	13,522	475,219	1,587,370	40,294	1,627,664

in EUR thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income		Profit reserves	Retained earnings	Total equity
			Fair value reserve of financial assets measured at FVOCI	Other			
Balance as at 1 Jan 2020	200,000	871,378	24,444	(4,159)	13,522	228,040	1,333,225
- Net profit for the period	-	-	-	-	-	67,809	67,809
- Other comprehensive income	-	-	(11,808)	-	-	-	(11,808)
Total comprehensive income after tax	-	-	(11,808)	-	-	67,809	56,001
Balance as at 30 Jun 2020	200,000	871,378	12,636	(4,159)	13,522	295,849	1,389,226

in EUR thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income		Profit reserves	Retained earnings	Total equity
			Fair value reserve of financial assets measured at FVOCI	Other			
Balance as at 1 Jan 2019	200,000	871,378	18,620	(2,781)	13,522	194,491	1,295,230
- Net profit for the period	-	-	-	-	-	122,569	122,569
- Other comprehensive income	-	-	13,296	(471)	-	-	12,825
Total comprehensive income after tax	-	-	13,296	(471)	-	122,569	135,394
Dividends paid	-	-	-	-	-	(142,600)	(142,600)
Balance as at 30 Jun 2019	200,000	871,378	31,916	(3,252)	13,522	174,460	1,288,024

Condensed statement of cash flows for the period ended 30 June

in EUR thousands

	Notes	NLB Group		NLB	
		six months ended		six months ended	
		June 2020	June 2019	June 2020	June 2019
		unaudited	unaudited	unaudited	unaudited
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		196,466	213,611	113,936	124,516
Interest paid		(26,132)	(21,653)	(14,056)	(11,065)
Dividends received		100	2,262	27	36,135
Fee and commission receipts		111,312	110,343	65,466	65,574
Fee and commission payments		(31,563)	(31,184)	(15,953)	(16,150)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss		17,388	3,041	17,274	3,016
Net gains/(losses) from financial assets and liabilities held for trading		4,794	4,649	1,748	1,433
Payments to employees and suppliers		(133,309)	(133,604)	(85,690)	(86,005)
Other income		9,344	9,594	4,981	4,099
Other expenses		(12,870)	(14,050)	(7,576)	(8,067)
Income tax (paid)/received		(3,577)	(21,159)	3,280	(16,466)
Cash flows from operating activities before changes in operating assets and liabilities		131,953	121,850	83,437	97,020
(Increases)/decreases in operating assets		(111,923)	(301,730)	11,971	(149,094)
Net (increase)/decrease in trading assets		595	(44,607)	595	(44,607)
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		(14,969)	10,955	(14,586)	9,549
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		12,622	(146,366)	17,886	(63,215)
Net (increase)/decrease in loans and receivables measured at amortised cost		(114,268)	(123,398)	7,841	(50,114)
Net (increase)/decrease in other assets		4,097	1,686	235	(707)
Increases/(decreases) in operating liabilities		612,940	353,797	520,891	249,707
Net increase/(decrease) in deposits and borrowings measured at amortised cost		612,481	354,514	520,866	250,328
Net increase/(decrease) in other liabilities		459	(717)	25	(621)
Net cash flows from operating activities		632,970	173,917	616,299	197,633
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities					
Proceeds from sale of property, equipment, and investment property		390	1,508	81	6
Proceeds from sale of subsidiaries		-	8	-	3,437
Proceeds from non-current assets held for sale		39,078	269	39,078	269
Proceeds from disposals of debt securities measured at amortised cost		348,043	137,356	311,213	127,008
Payments from investing activities		(159,489)	(326,518)	(73,399)	(292,904)
Purchase of property, equipment, and investment property		(16,207)	(9,436)	(7,423)	(5,478)
Purchase of intangible assets		(9,649)	(4,941)	(7,596)	(3,402)
Purchase of subsidiaries and increase in subsidiaries' equity		-	-	(3,010)	(4)
Purchase of debt securities measured at amortised cost		(133,633)	(312,141)	(55,370)	(284,020)
Net cash flows from investing activities		228,320	(187,377)	276,973	(162,184)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financing activities					
Issue of subordinated debt	5.11.b)	119,222	44,595	119,222	44,595
Payments from financing activities		(45,000)	(161,995)	(45,000)	(142,600)
Dividends paid		-	(147,003)	-	(142,600)
Repayments of subordinated debt	5.11.b)	(45,000)	(14,992)	(45,000)	-
Net cash flows from financing activities		74,222	(117,400)	74,222	(98,005)
Effects of exchange rate changes on cash and cash equivalents		(3,737)	1,045	(1,572)	173
Net increase/(decrease) in cash and cash equivalents		935,512	(130,860)	967,494	(62,556)
Cash and cash equivalents at beginning of period		2,263,267	1,729,093	1,308,122	824,337
Cash and cash equivalents at end of period		3,195,042	1,599,278	2,274,044	761,954

in EUR thousands

	Notes	NLB Group		NLB	
		30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
		unaudited	audited	unaudited	audited
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	3,085,301	2,101,871	2,240,121	1,292,345
Loans and advances to banks with original maturity up to 3 months		82,122	85,369	33,923	5,770
Debt securities measured at amortised cost with original maturity up to 3 months		-	10,007	-	10,007
Debt securities measured at fair value through other comprehensive income with original maturity up to 3 months		27,619	66,020	-	-
Total		3,195,042	2,263,267	2,274,044	1,308,122

Statement of management's responsibility

The Management Board hereby confirms and approves the release of the condensed interim financial statements of NLB Group and NLB for the six months ending 30 June 2020, the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34 'Interim financial reporting' as adopted by the European Union in order to give a true and fair view of the financial position of NLB Group and NLB as at 30 June 2020, and their financial results and cash flows for the period then ended.

The Management Board also confirms that appropriate accounting policies were consistently applied, and that the accounting estimates were prepared in accordance with the principles of prudence and good management. The Management Board further confirms that the condensed interim financial statements of NLB Group and NLB have been prepared on a going-concern basis for NLB Group and NLB, and are in line with valid legislation and IAS 34 'Interim financial reporting.'

The Management Board is also responsible for appropriate accounting practices, the adoption of appropriate measures for the safeguarding of assets, and the prevention and identification of fraud and other irregularities or illegal acts.

Management Board

			
Archibald Kremser Member of the Management Board	Andreas Burkhardt Member of the Management Board	Petr Brunclík Member of the Management Board	Blaž Brodnjak President and CEO

Ljubljana, 13 August 2020

Notes to the condensed interim financial statements

1. General information

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

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

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

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

2. Summary of significant accounting policies

2.1. Statement of compliance

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

2.2. Accounting policies

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

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

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

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

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

2.3. Comparative amounts

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

in EUR thousands

	NLB Group			NLB		
	six months ended			six months ended		
	June 2019			June 2019		
	Old presentation	Current presentation	Change	Old presentation	Current presentation	Change
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	-	(111)	(111)	-	(1)	(1)
Gains less losses from non-current assets held for sale	(237)	(126)	111	(129)	(128)	1
Cash contributions to resolution funds and deposit guarantee schemes	-	(11,492)	(11,492)	-	(7,034)	(7,034)
Other net operating income	(7,688)	5,491	13,179	(4,254)	3,392	7,646
Administrative expenses	(125,999)	(127,686)	(1,687)	(78,065)	(78,677)	(612)

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

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

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

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

2.4. Critical accounting estimates and judgements in applying accounting policies

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

a) Allowances for expected credit losses on loans and advances

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

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

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

In the situation of the COVID-19 crisis, the NLB Group relied primarily on IMAD forecasts for GDP decline in 2020, which were available at the time of the development of scenarios in the new situation. Deviations in the GDP growth rate in three different scenarios are linked to the volume of fiscal COVID-19 packages. In the second projection year, the cross-section of the lower level of the EC and IMAD forecasts is taken as a basis. Depending on the selected scenario, this forecast is adjusted by the amount of ICAAP stress deviations. For the last three years of scenario projections, IMF forecasts are used, which are also corrected using ICAAP stress deviations. Real estate price growth is estimated on the basis of an internal econometric model, using GDP forecasts as an explanatory variable.

Macroeconomic scenarios for Risk parameters explanatory variables:

Risk parameter	Scenario	Scenario weight*	GDP percentage growth 5Y projection				
			2020	2021	2022	2023	2024
PD	Baseline	60%	0.14	1.96	2.31	2.24	2.12
	Optimistic	20%	3.00	2.70	2.39	2.32	2.20
	Adverse	20%	(7.00)	(2.00)	1.57	1.50	1.38
	Weighted average	-	(0.71)	2.02	1.79	2.24	1.80

Risk parameter	Scenario	Scenario weight*	House prices growth 5Y projection				
			2020	2021	2022	2023	2024
LGD**	Weighted average	-	(4.19)	3.68	(0.32)	0.60	(0.59)

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

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

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

b) Fair value of financial instruments

The volatility of prices on various markets has increased as a result of the spread of COVID-19. Therefore NLB Group decided to sell some securities with increased credit spreads as part of its strategy to manage credit risk. Most of these securities were classified as measured at fair value through other comprehensive income (EUR 209,071 thousand at NLB Group and EUR 204,487 thousand at NLB), while EUR 120,131 thousand of sold securities were measured at amortised cost. Total realised gains due to sales of securities amount to EUR 17,214 thousand at NLB Group and EUR 17,100 thousand at NLB (Note 4.4).

Due to increased frequency and values of sales of securities measured at amortised cost, NLB Group reassessed whether there has been a change in its business model for managing financial assets.

Sales in six months ended June 2020 were made due to an increase in the assets' credit risk and are therefore consistent with a held to collect business model because the credit quality of financial assets is relevant to NLB Group's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such model.

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

Fair value of financial instruments is disclosed in note 5.19.

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

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

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

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

d) Taxes

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

3. Changes in NLB Group

Six months ended 30 June 2020

Capital changes:

There were no capital changes in six months ended 30 June 2020.

Other changes:

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

Changes in 2019

Capital changes:

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

Other changes:

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

4. Notes to the condensed income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Interest and similar income										
<i>Interest income, using the effective interest method</i>	84,835	88,923	173,360	177,642	-2%	40,850	43,664	83,958	87,317	-4%
Loans and advances to customers at amortised cost	76,651	77,221	155,412	154,280	1%	34,316	35,001	70,083	70,304	0%
Securities measured at amortised cost	3,980	5,803	8,645	11,696	-26%	3,171	5,088	6,921	9,681	-29%
Financial assets measured at fair value through other comprehensive income	4,080	5,343	8,838	10,468	-16%	2,381	2,842	4,978	5,962	-17%
Loans and advances to banks measured at amortised cost	66	328	235	670	-56%	974	616	1,903	1,096	74%
Deposits with banks and central banks	38	228	170	528	-68%	8	117	73	274	-73%
<i>Interest income, not using the effective interest method</i>	1,858	1,968	3,889	3,688	5%	1,847	1,957	3,877	3,680	5%
Financial assets held for trading	1,441	1,444	3,038	3,023	0%	1,441	1,444	3,038	3,023	0%
Non-trading financial assets mandatorily at fair value through profit or loss	417	524	851	665	28%	406	513	839	657	28%
Total	86,693	90,891	177,249	181,330	-2%	42,697	45,621	87,835	90,997	-3%
Interest and similar expenses										
Due to customers	5,159	5,747	10,745	11,519	-7%	878	1,067	1,936	2,147	-10%
Financial liabilities held for trading	1,215	1,224	2,580	2,547	1%	1,215	1,224	2,580	2,547	1%
Derivatives - hedge accounting	2,284	2,157	4,649	4,237	10%	2,284	2,157	4,649	4,237	10%
Borrowings from banks and central banks	224	325	467	692	-33%	196	300	408	606	-33%
Borrowings from other customers	228	242	461	493	-6%	-	-	-	-	-
Subordinated liabilities	2,617	494	4,708	735	-	2,617	290	4,708	290	-
Negative interest	2,138	854	3,303	1,706	94%	1,863	601	2,704	1,305	107%
Interest expense on defined employee benefits	24	54	47	112	-58%	7	33	14	67	-79%
Deposits from banks and central banks	16	2	61	52	17%	-	87	21	171	-88%
Lease liabilities	84	100	156	194	-20%	10	10	19	17	12%
Other financial liabilities	1	4	5	5	0%	-	1	4	2	100%
Total	13,990	11,203	27,182	22,292	22%	9,070	5,770	17,043	11,389	50%
Net interest income	72,703	79,688	150,067	159,038	-6%	33,627	39,851	70,792	79,608	-11%

4.2. Dividend income

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Financial assets measured at fair value through other comprehensive income	70	95	73	100	-27%	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	65,535	-	67,078	-
Investments in associates, and joint ventures	-	-	-	-	-	-	-	-	2,781	-
Non-trading financial assets mandatorily at fair value through profit or loss	9	6	17	80	-79%	9	6	17	80	-79%
Total	79	101	90	180	-50%	9	65,541	17	69,939	-100%

4.3. Fee and commission income and expenses

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Fee and commission income										
<i>Fee and commission income relating to financial instruments not at fair value through profit or loss</i>										
Credit cards and ATMs	14,478	17,018	30,102	32,339	-7%	8,557	9,871	17,266	18,955	-9%
Customer transaction accounts	16,009	15,270	32,103	28,927	11%	11,939	11,521	24,011	21,871	10%
<i>Other fee and commission income</i>										
Payments	11,546	13,731	24,074	26,638	-10%	4,949	5,898	10,215	11,901	-14%
Investment funds	4,201	4,165	9,135	8,189	12%	1,271	1,345	3,029	2,542	19%
Guarantees	2,827	2,721	5,713	5,480	4%	1,737	1,756	3,498	3,558	-2%
Investment banking	1,973	2,099	4,762	4,174	14%	1,639	1,786	4,007	3,596	11%
Agency of insurance products	1,275	1,601	2,926	3,362	-13%	1,001	1,167	2,289	2,618	-13%
Other services	981	1,351	2,285	2,689	-15%	764	989	1,626	1,941	-16%
Total	53,290	57,956	111,100	111,798	-1%	31,857	34,333	65,941	66,982	-2%
Fee and commission expenses										
<i>Fee and commission expenses relating to financial instruments not at fair value through profit or loss</i>										
Credit cards and ATMs	11,031	12,011	22,762	22,622	1%	6,271	6,976	12,907	13,170	-2%
<i>Other fee and commission expenses</i>										
Payments	1,117	1,612	2,750	3,022	-9%	162	222	433	429	1%
Insurance for holders of personal accounts and golden cards	199	236	473	594	-20%	172	195	409	494	-17%
Investment banking	1,246	1,202	2,331	2,098	11%	862	856	1,526	1,419	8%
Guarantees	38	18	91	61	49%	25	1	56	8	-
Other services	618	750	1,239	1,191	4%	180	196	342	355	-4%
Total	14,249	15,829	29,646	29,588	0%	7,672	8,446	15,673	15,875	-1%
Net fee and commission income	39,041	42,127	81,454	82,210	-1%	24,185	25,887	50,268	51,107	-2%

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

in EUR thousands

	NLB Group				NLB			
	three months ended		six months ended		three months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Debt instruments measured at fair value through other comprehensive income	2,200	473	4,465	3,040	2,086	448	4,351	3,015
Debt instruments measured at amortised cost	12,526	-	12,749	-	12,526	-	12,749	-
Financial liabilities measured at amortised cost	-	-	(126)	-	-	-	(126)	-
Total	14,726	473	17,088	3,040	14,612	448	16,974	3,015

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

in EUR thousands

	NLB Group				NLB			
	three months ended		six months ended		three months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Foreign exchange trading	2,560	2,789	5,321	5,235	999	1,118	2,107	2,090
Debt instruments	78	62	253	369	78	62	253	369
Derivatives	(293)	(780)	(617)	(882)	19	(813)	(556)	(976)
Total	2,345	2,071	4,957	4,722	1,096	367	1,804	1,483

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

in EUR thousands

	NLB Group				NLB			
	three months ended		six months ended		three months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Equity securities	802	6,666	(389)	7,293	381	6,597	53	6,911
Debt securities	(9)	(13)	(27)	(26)	-	-	-	-
Loans and advances to customers	2,123	1,148	2,858	7,741	2,019	1,015	3,027	7,151
Total	2,916	7,801	2,442	15,008	2,400	7,612	3,080	14,062

4.7. Other net operating income

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Other operating income										
Income from non-banking services	1,280	1,715	2,963	3,337	-11%	1,158	1,461	2,652	2,766	-4%
Rental income from investment property	633	1,109	1,317	2,329	-43%	112	237	231	340	-32%
Revaluation of investment property to fair value	388	11	388	41	-	388	11	388	11	-
Other operating income	337	580	1,148	3,141	-63%	122	274	478	1,064	-55%
Total	2,638	3,415	5,816	8,848	-34%	1,780	1,983	3,749	4,181	-10%
Other operating expenses										
Revaluation of investment property to fair value	6	166	27	181	-85%	6	-	6	-	-
Other operating expenses	735	2,352	1,620	3,176	-49%	144	447	471	789	-40%
Total	741	2,518	1,647	3,357	-51%	150	447	477	789	-40%
Other net operating income	1,897	897	4,169	5,491	-24%	1,630	1,536	3,272	3,392	-4%

4.8. Administrative expenses

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Employee costs	39,820	41,359	82,739	81,417	2%	24,936	26,185	52,070	51,165	2%
Other general and administrative expenses	22,522	24,343	46,177	46,269	0%	14,058	14,593	28,597	27,512	4%
Total	62,342	65,702	128,916	127,686	1%	38,994	40,778	80,667	78,677	3%

4.9. Cash contributions to resolution funds and deposit guarantee schemes

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Cash contributions to deposit guarantee schemes	7,835	7,255	10,199	9,442	8%	5,451	4,984	5,451	4,984	9%
Cash contributions to resolution funds	1,652	2,050	1,652	2,050	-19%	1,652	2,050	1,652	2,050	-19%
Total	9,487	9,305	11,851	11,492	3%	7,103	7,034	7,103	7,034	1%

4.10. Depreciation and amortisation

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Amortisation of intangible assets	2,581	2,583	5,359	5,011	7%	1,808	1,843	3,710	3,619	3%
Depreciation of property and equipment:										
- own property and equipment	4,128	3,921	8,256	8,109	2%	2,492	2,374	5,030	4,759	6%
- right-of-use assets	1,144	1,155	2,289	2,267	1%	207	189	419	360	16%
Total	7,853	7,659	15,904	15,387	3%	4,507	4,406	9,159	8,738	5%

4.11. Provisions

in EUR thousands

	NLB Group				NLB			
	three months ended		six months ended		three months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Guarantees and commitments (note 5.12.b)	1,521	2,825	2,026	1,920	2,461	2,543	1,636	1,900
Provisions for legal risks	257	789	392	3,776	476	(6)	476	(6)
Other provisions	(66)	-	(66)	-	-	-	-	-
Total	1,712	3,614	2,352	5,696	2,937	2,537	2,112	1,894

4.12. Impairment charge

in EUR thousands

	NLB Group				NLB			
	three months ended		six months ended		three months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Impairment of financial assets								
Cash balances at central banks, and other demand deposits at banks	140	(48)	226	(75)	114	(23)	122	(14)
Loans and advances to customers measured at amortised cost (note 5.10.a)	2,505	732	29,280	(2,989)	(1,928)	(901)	12,906	(3,589)
Loans and advances to banks measured at amortised cost (note 5.10.a)	(4)	(35)	8	(18)	30	48	47	49
Debt securities measured at fair value through other comprehensive income (note 5.10.b)	(105)	147	(27)	943	(73)	75	(105)	254
Debt securities measured at amortised cost (note 5.10.b)	168	69	269	324	(128)	113	(74)	254
Other financial assets measured at amortised cost (note 5.10.a)	413	332	1,011	616	134	127	283	320
Total	3,117	1,197	30,767	(1,199)	(1,851)	(561)	13,179	(2,726)
Impairment of investments in subsidiaries, associates and joint ventures								
Investments in subsidiaries	-	-	-	-	-	(104)	-	(3,433)
Total	-	-	-	-	-	(104)	-	(3,433)
Impairment of other assets								
Property and equipment	-	(3)	-	(3)	-	-	-	-
Other assets	69	56	111	995	-	-	-	-
Total	69	53	111	992	-	-	-	-
Total impairment	3,186	1,250	30,878	(207)	(1,851)	(665)	13,179	(6,159)

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

in EUR thousands

	NLB Group				NLB			
	three months ended		six months ended		three months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Gains less losses on derecognition of subsidiaries, associates and joint ventures	11,006	-	11,006	-	35,454	-	35,454	-
Gains less losses from property and equipment	3	(123)	(2)	(126)	3	(128)	(2)	(128)
Total	11,009	(123)	11,004	(126)	35,457	(128)	35,452	(128)

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

4.14. Income tax

in EUR thousands

	NLB Group					NLB				
	three months ended		six months ended		Change	three months ended		six months ended		Change
	June 2020	June 2019	June 2020	June 2019		June 2020	June 2019	June 2020	June 2019	
Current income tax	4,026	8,366	5,578	12,769	-56%	1,206	5,436	1,352	7,503	-82%
Deferred tax (note 5.13.)	(89)	1,085	(66)	2,116	-	(16)	1,348	(40)	2,375	-
Total	3,937	9,451	5,512	14,885	-63%	1,190	6,784	1,312	9,878	-87%

5. Notes to the condensed statement of financial position

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

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Balances and obligatory reserves with central banks	2,533,038	1,569,753	61%	1,991,207	1,044,255	91%
Cash	370,193	339,897	9%	162,961	164,725	-1%
Demand deposits at banks	182,070	192,221	-5%	85,953	83,365	3%
Total	3,085,301	2,101,871	47%	2,240,121	1,292,345	73%
Allowance for impairment	(747)	(525)	-42%	(256)	(134)	-91%
Total	3,084,554	2,101,346	47%	2,239,865	1,292,211	73%

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Derivatives, excluding hedging instruments						
Swap contracts	18,186	18,169	0%	18,215	18,216	0%
Options	744	810	-8%	744	810	-8%
Forward contracts	942	734	28%	942	734	28%
Total derivatives	19,872	19,713	1%	19,901	19,760	1%
Securities						
Bonds	2,776	4,325	-36%	2,776	4,325	-36%
Total securities	2,776	4,325	-36%	2,776	4,325	-36%
Total	22,648	24,038	-6%	22,677	24,085	-6%

b) Trading liabilities

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Derivatives, excluding hedging instruments						
Swap contracts	17,119	17,238	-1%	17,138	17,238	-1%
Options	4	3	33%	4	3	33%
Forward contracts	872	662	32%	872	651	34%
Total	17,995	17,903	1%	18,014	17,892	1%

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

Financial instruments mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Assets						
Shares	2,769	3,167	-13%	2,769	2,716	2%
Investments funds	5,028	5,475	-8%	-	-	-
Bonds	2,527	1,756	44%	-	-	-
Loans and advances to companies	24,926	14,961	67%	30,523	20,571	48%
Total	35,250	25,359	39%	33,292	23,287	43%
Liabilities						
Loans and advances to companies	10	7,998	-100%	10	7,746	-100%

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

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Bonds	1,625,441	1,913,623	-15%	1,258,929	1,509,559	-17%
Shares	1,678	4,936	-66%	273	259	5%
National Resolution Fund	44,652	44,687	0%	44,652	44,687	0%
Treasury bills	333,147	112,162	197%	312,466	102,152	-
Commercial bills	53,152	66,020	-19%	-	-	-
Total	2,058,070	2,141,428	-4%	1,616,320	1,656,657	-2%
Allowance for impairment (note 5.10.b)	(5,576)	(5,597)	0%	(2,406)	(2,512)	4%

5.5. Financial assets measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Debt securities	1,413,765	1,653,848	-15%	1,205,824	1,485,166	-19%
Loans and advances to banks	94,910	93,403	2%	214,161	144,352	48%
Loans and advances to customers	7,661,801	7,589,724	1%	4,495,637	4,568,599	-2%
Other financial assets	114,451	97,415	17%	81,452	67,279	21%
Total	9,284,927	9,434,390	-2%	5,997,074	6,265,396	-4%

a) Debt securities

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Government	1,070,519	1,285,540	-17%	860,720	1,115,335	-23%
Companies	79,448	81,350	-2%	79,448	81,350	-2%
Banks	241,922	264,323	-8%	241,922	264,323	-8%
Financial organisations	25,277	25,775	-2%	25,277	25,775	-2%
Total	1,417,166	1,656,988	-14%	1,207,367	1,486,783	-19%
Allowance for impairment (note 5.10.b)	(3,401)	(3,140)	-8%	(1,543)	(1,617)	5%
Total	1,413,765	1,653,848	-15%	1,205,824	1,485,166	-19%

b) Loans and advances to banks

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Loans	2,140	2,213	-3%	98,468	81,633	21%
Time deposits	91,815	91,076	1%	114,825	62,651	83%
Purchased receivables	1,056	209	-	1,056	209	-
Total	95,011	93,498	2%	214,349	144,493	48%
Allowance for impairment (note 5.10.a)	(101)	(95)	-6%	(188)	(141)	-33%
Total	94,910	93,403	2%	214,161	144,352	48%

c) Loans and advances to customers

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Loans	7,549,631	7,408,374	2%	4,426,321	4,446,843	0%
Overdrafts	307,383	328,947	-7%	149,532	179,381	-17%
Finance lease receivables	37,959	49,017	-23%	-	-	-
Credit card business	109,567	122,730	-11%	49,791	60,688	-18%
Called guarantees	3,150	3,100	2%	427	452	-6%
Total	8,007,690	7,912,168	1%	4,626,071	4,687,364	-1%
Allowance for impairment (note 5.10.a)	(345,889)	(322,444)	-7%	(130,434)	(118,765)	-10%
Total	7,661,801	7,589,724	1%	4,495,637	4,568,599	-2%

d) Other financial assets

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Receivables in the course of collection and other temporary accounts	42,772	28,697	49%	39,854	25,825	54%
Credit card receivables	17,429	18,497	-6%	12,647	12,194	4%
Debtors	4,260	6,360	-33%	334	1,525	-78%
Fees and commissions	5,574	5,315	5%	1,658	3,524	-53%
Receivables to brokerage firms and others for the sale of securities and custody services	1,576	612	158%	1,574	610	158%
Prepayments	2,641	38	-	-	-	-
Accrued income	1,319	515	156%	1,942	529	-
Dividends	-	46	-	-	46	-
Other financial assets	44,158	42,241	5%	25,057	24,867	1%
Total	119,729	102,321	17%	83,066	69,120	20%
Allowance for impairment (note 5.10.a)	(5,278)	(4,906)	-8%	(1,614)	(1,841)	12%
Total	114,451	97,415	17%	81,452	67,279	21%

5.6. Non-current assets classified as held for sale

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Property and equipment	4,441	4,308	3%	2,108	2,123	-1%
Investment in joint venture	-	38,883	-	-	3,409	-
Total	4,441	43,191	-90%	2,108	5,532	-62%

5.7. Property and equipment

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Own property and equipment	174,922	179,060	-2%	85,162	87,120	-2%
Right-of-use assets	15,562	16,545	-6%	2,467	2,784	-11%
Total	190,484	195,605	-3%	87,629	89,904	-3%

5.8. Investment property

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Buildings	48,126	47,333	2%	9,288	8,692	7%
Land	5,014	4,983	1%	628	611	3%
Total	53,140	52,316	2%	9,916	9,303	7%

5.9. Other assets

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Assets, received as collateral	49,035	51,322	-4%	5,029	5,292	-5%
Inventories	2,000	2,513	-20%	378	378	0%
Deferred expenses	9,542	6,005	59%	6,647	4,935	35%
Prepayments	2,231	1,950	14%	276	102	171%
Claim for taxes and other dues	1,462	2,021	-28%	296	435	-32%
Total	64,270	63,811	1%	12,626	11,142	13%

5.10. Movements in allowance for the impairment of financial assets

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

	NLB Group						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	95	56,728	33,179	232,537	177	27	4,702
Effects of translation of foreign operations to presentation currency	(2)	(92)	(32)	851	-	2	1
Transfers	-	9,096	(10,563)	1,467	(14)	8	6
Increases/(Decreases) (note 4.12.)	15	(4,104)	6,724	12,887	171	(157)	939
Write-offs	-	(5)	(4)	(12,711)	(7)	-	(720)
Changes in models/risk parameters (note 4.12.)	(7)	6,194	12,819	953	(23)	161	5
Foreign exchange and other movements	-	27	6	(68)	-	-	-
Balance as at 30 Jun 2020	101	67,844	42,129	235,916	304	41	4,933
Repayments of written-off receivables (note 4.12.)	-	-	-	6,193	-	-	85

in EUR thousands

	NLB Group						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	126	41,452	35,537	376,578	182	58	7,956
Effects of translation of foreign operations to presentation currency	-	12	2	471	-	2	(8)
Transfers	-	10,358	(8,249)	(2,109)	(1)	2	(1)
Increases/(Decreases) (note 4.12.)	(7)	(3,533)	3,994	(123)	34	(3)	601
Write-offs	-	(187)	(6)	(28,967)	(1)	-	(616)
Changes in models/risk parameters (note 4.12.)	(11)	(2,694)	4,692	(656)	(7)	11	8
Foreign exchange and other movements	1	(2)	4	225	-	-	-
Disposals of subsidiaries	-	-	-	-	-	-	(2,020)
Balance as at 30 Jun 2019	109	45,406	35,974	345,419	207	70	5,920
Repayments of written-off receivables (note 4.12.)	-	-	-	4,669	-	-	28

in EUR thousands

	NLB						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	141	20,724	11,188	86,853	55	9	1,777
ExChange differences on opening balance	-	-	-	-	-	-	-
Transfers	-	5,791	(4,746)	(1,045)	2	1	(3)
Increases/(Decreases) (note 4.12.)	58	(3,220)	2,473	2,244	131	(9)	190
Write-offs	-	(5)	(4)	(3,623)	(1)	-	(509)
Changes in models/risk parameters (note 4.12.)	(11)	5,364	8,338	130	(29)	1	(1)
Foreign exchange and other movements	-	7	-	(35)	-	-	-
Balance as at 30 Jun 2020	188	28,661	17,249	84,524	158	2	1,454
Repayments of written-off receivables (note 4.12.)	-	-	-	2,423	-	-	-

in EUR thousands

	NLB						
	Loans and advances to banks	Loans and advances to customers			Other financial assets		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	77	16,789	12,660	173,110	27	6	1,855
Transfers	-	2,235	(1,386)	(849)	-	-	-
Increases/(Decreases) (note 4.12.)	49	(1,349)	(949)	740	98	(1)	260
Write-offs	-	-	(2)	(21,938)	(1)	-	(295)
Changes in models/risk parameters (note 4.12.)	-	(395)	2,034	(684)	(8)	1	(2)
Foreign exchange and other movements	-	2	-	17	-	-	-
Balance as at 30 Jun 2019	126	17,282	12,357	150,396	116	6	1,818
Repayments of written-off receivables (note 4.12.)	-	-	-	2,986	-	-	28

b) Movements in allowance for the impairment of debt securities

in EUR thousands

	NLB Group			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	3,140	4,757	42	798
Effects of translation of foreign operations to presentation currency	(8)	6	-	-
Increases/(Decreases) (note 4.12.)	241	161	-	-
Changes in models/risk parameters (note 4.12.)	28	(186)	(2)	-
Balance as at 30 Jun 2020	3,401	4,738	40	798

in EUR thousands

	NLB Group			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	2,898	3,597	75	798
Effects of translation of foreign operations to presentation currency	1	(3)	-	-
Transfers	-	3	(3)	-
Increases/(Decreases) (note 4.12.)	379	1,102	19	-
Changes in models/risk parameters (note 4.12.)	(55)	(188)	10	-
Foreign exchange and other movements	-	1	-	-
Balance as at 30 Jun 2019	3,223	4,512	101	798

in EUR thousands

	NLB			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	1,617	1,714	-	798
Increases/(Decreases) (note 4.12.)	(105)	(94)	-	-
Changes in models/risk parameters (note 4.12.)	31	(11)	-	-
Foreign exchange and other movements	-	(1)	-	-
Balance as at 30 Jun 2020	1,543	1,608	-	798

in EUR thousands

	NLB			
	Debt securities measured at amortised cost	Debt securities measured at fair value through other comprehensive income		
	12-month expected credit losses	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	1,323	1,541	-	798
Increases/(Decreases) (note 4.12.)	303	265	-	-
Changes in models/risk parameters (note 4.12.)	(49)	(11)	-	-
Foreign exchange and other movements	-	1	-	-
Balance as at 30 Jun 2019	1,577	1,796	-	798

5.11. Financial liabilities measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Deposits from banks and central banks	54,310	42,840	27%	89,461	89,820	0%
- Deposits on demand	48,168	31,298	54%	89,458	86,366	4%
- Other deposits	6,142	11,542	-47%	3	3,454	-100%
Borrowings from banks and central banks	159,265	170,385	-7%	152,451	161,564	-6%
Due to customers	12,190,847	11,612,317	5%	8,266,293	7,760,737	7%
- Deposits on demand	10,200,989	9,463,888	8%	7,512,817	6,917,810	9%
- Other deposits	1,989,858	2,148,429	-7%	753,476	842,927	-11%
Borrowings from other customers	61,616	64,458	-4%	232	2,537	-91%
Subordinated liabilities	287,368	210,569	36%	287,368	210,569	36%
Other financial liabilities	174,171	158,484	10%	112,639	98,342	15%
Total	12,927,577	12,259,053	5%	8,908,444	8,323,569	7%

a) Subordinated liabilities

in EUR thousands

	Currency	Due date	Interest rate	NLB Group and NLB			
				30 Jun 2020		31 Dec 2019	
				Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated bonds							
	EUR	6.5.2029	4.2% to 6.5.2024, thereafter 5Y MS + 4.159% p.a.	44,900	45,000	45,826	45,000
	EUR	19.11.2029	3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a.	121,594	120,000	119,376	120,000
	EUR	5.2.2030	3.4% to 5.2.2025, thereafter 5Y MS + 3.658% p.a.	120,874	120,000	-	-
Subordinated loans							
	EUR	20.9.2029	3.826% to 20.9.2024, thereafter 5Y IRS + 4.21% p.a.	-	-	45,367	45,000
Total				287,368	285,000	210,569	210,000

b) Movement of subordinated liabilities

in EUR thousands

	NLB Group		NLB	
	2020	2019	2020	2019
Balance as at 1 Jan	210,569	15,050	210,569	-
Exchange differences of opening balances	-	(4)	-	-
Cash flow items:				
- new issued subordinated liabilities	71,763	29,091	71,763	44,595
- repayments of subordinated liabilities	119,222	44,595	119,222	44,595
- repayments of interests	(45,000)	(14,992)	(45,000)	-
Non-Cash flow items:				
- accrued interest	(2,459)	(512)	(2,459)	-
- other	5,036	724	5,036	266
- other	4,910	733	4,910	289
Balance as at 30 Jun	287,368	44,861	287,368	44,861

c) Other financial liabilities

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Items in the course of payment	45,013	24,124	87%	25,467	4,960	-
Debit or credit card payables	21,218	24,092	-12%	18,020	20,014	-10%
Lease liabilities	15,952	16,713	-5%	2,504	2,784	-10%
Accrued expenses	24,733	17,848	39%	16,156	10,481	54%
Accrued salaries	15,741	13,011	21%	9,537	9,666	-1%
Suppliers	8,407	21,600	-61%	5,170	16,259	-68%
Unused annual leave	3,502	3,784	-7%	2,455	2,455	0%
Fees and commissions	93	1,736	-95%	36	1,660	-98%
Other financial liabilities	39,512	35,576	11%	33,294	30,063	11%
Total	174,171	158,484	10%	112,639	98,342	15%

5.12. Provisions

a) Analysis by type

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Provisions for guarantees and commitments	41,450	39,421	5%	30,807	29,163	6%
Stage 1	16,559	12,909	28%	9,258	6,145	51%
Stage 2	3,212	2,444	31%	1,644	653	152%
Stage 3	21,679	24,068	-10%	19,905	22,365	-11%
Employee benefit provisions	18,158	17,704	3%	15,104	14,743	2%
Provisions for legal risks	15,548	16,627	-6%	2,687	2,211	22%
Restructuring provisions	13,595	14,500	-6%	13,306	14,182	-6%
Other provisions	96	162	-41%	85	85	0%
Total	88,847	88,414	0%	61,989	60,384	3%

b) Movements in provisions for guarantees and commitments

in EUR thousands

	NLB Group		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	12,909	2,444	24,068
Effects of translation of foreign operations to presentation currency	(7)	(5)	5
Transfers	499	(407)	(92)
Increases/(Decreases) (note 4.11.)	3,365	845	(2,307)
Changes in models/risk parameters (note 4.11.)	(207)	334	(4)
Foreign exchange and other movements	-	1	9
Balance as at 30 Jun 2020	16,559	3,212	21,679

in EUR thousands

	NLB Group		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	9,044	3,264	26,774
Effects of translation of foreign operations to presentation currency	-	1	1
Transfers	355	(117)	(238)
Increases/(Decreases) (note 4.11.)	616	960	1,169
Changes in models/risk parameters (note 4.11.)	(1,058)	245	(12)
Foreign exchange and other movements	-	-	3
Balance as at 30 Jun 2019	8,957	4,353	27,697

in EUR thousands

	NLB		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2020	6,145	653	22,365
Transfers	62	19	(81)
Increases/(Decreases) (note 4.11.)	2,960	829	(2,363)
Changes in models/risk parameters (note 4.11.)	92	143	(25)
Foreign exchange and other movements	(1)	-	9
Balance as at 30 Jun 2020	9,258	1,644	19,905

in EUR thousands

	NLB		
	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Balance as at 1 Jan 2019	4,071	821	24,624
Transfers	107	6	(113)
Increases/(Decreases) (note 4.11.)	894	(95)	1,707
Changes in models/risk parameters (note 4.11.)	(663)	65	(8)
Foreign exchange and other movements	-	-	3
Balance as at 30 Jun 2019	4,409	797	26,213

5.13. Deferred income tax

in EUR thousands

	NLB Group		NLB	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Deferred income tax assets				
Valuation of financial instruments and capital investments	37,313	36,286	37,229	36,244
Impairment provisions	913	910	750	784
Employee benefit provisions	4,084	4,109	3,146	3,196
Depreciation and valuation of non-financial assets	1,082	1,087	154	154
Total deferred income tax assets	43,392	42,392	41,279	40,378
Deferred income tax liabilities				
Valuation of financial instruments	9,987	11,159	9,020	10,131
Depreciation and valuation of non-financial assets	1,400	1,296	201	201
Impairment provisions	3,188	3,270	457	477
Total deferred income tax liabilities	14,575	15,725	9,678	10,809
Net deferred income tax assets	31,753	29,500	31,601	29,569
Net deferred income tax liabilities	(2,936)	(2,833)	-	-

in EUR thousands

	NLB Group		NLB	
	six months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019
Included in the income statement	66	(2,116)	40	(2,375)
- valuation of financial instruments and capital investments	124	(2,322)	124	(2,322)
- impairment provisions	76	341	(34)	95
- employee benefit provisions	(25)	(102)	(50)	(150)
- depreciation and valuation of non-financial assets	(109)	(33)	-	2
Included in other comprehensive income	2,080	(3,090)	1,992	(3,009)
- valuation and impairment of financial assets measured at fair value through other comprehensive income	2,080	(3,090)	1,992	(3,009)

As at 30 June 2020, NLB recognised EUR 41,279 thousand deferred tax assets (31 December 2019: EUR 40,378 thousand). Unrecognised deferred tax assets amount to EUR 234,194 thousand (31 December 2019: EUR 235,693 thousand) of which EUR 178,435 thousand (31 December 2019: EUR 180,335 thousand) relates to unrecognised deferred tax assets from tax loss and EUR 55,759 thousand (31 December 2019: EUR 55,358 thousand) to unrecognised deferred tax assets from valuation of financial instruments and impairments of non-strategic capital investments.

5.14. Income tax relating to components of other comprehensive income

in EUR thousands

Six months ended June 2020	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Financial assets measured at fair value through other comprehensive income	(18,805)	2,080	(16,725)	(13,800)	1,992	(11,808)
Share of associates and joint ventures	(11,018)	-	(11,018)	-	-	-
Total	(29,823)	2,080	(27,743)	(13,800)	1,992	(11,808)

in EUR thousands

Six months ended June 2019	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Financial assets measured at fair value through other comprehensive income	16,720	(3,090)	13,630	15,834	(3,009)	12,825
Share of associates and joint ventures	6,712	(1,275)	5,437	-	-	-
Total	23,432	(4,365)	19,067	15,834	(3,009)	12,825

5.15. Other liabilities

in EUR thousands

	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Taxes payable	3,687	4,209	-12%	2,893	3,039	-5%
Deferred income	8,760	9,012	-3%	6,445	6,142	5%
Payments received in advance	1,693	1,991	-15%	153	53	189%
Total	14,140	15,212	-7%	9,491	9,234	3%

5.16. Book value per share

	NLB Group		NLB	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Total equity attributable to owners of the parents (in EUR thousand)	1,730,601	1,685,882	1,389,226	1,333,225
Number of shares (in thousands)	20,000	20,000	20,000	20,000
Book value per share (in EUR)	86.5	84.3	69.5	66.7

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

5.17. Capital adequacy ratio

	in EUR thousands			
	NLB Group		NLB	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Paid-up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	552,147	358,648	228,040	51,891
Current result	-	35,000	-	8,166
Accumulated other comprehensive income	(4,589)	14,364	8,477	20,285
Other reserves	13,522	13,522	13,522	13,522
Minority interest	26,157	-	-	-
Prudential filters: Additional Valuation Adjustments (AVA)	(2,109)	(2,194)	(1,660)	(1,701)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(34,028)	(36,013)	(24,170)	(25,980)
(-) Deduction item related to credit impairments and provisions not included in capital	(5,648)	-	(3,571)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	1,613,301	1,451,176	1,292,016	1,137,561
Minority interest	3,812	-	-	-
Additional Tier 1 capital	3,812	-	-	-
TIER 1 CAPITAL	1,617,113	1,451,176	1,292,016	1,137,561
Capital instruments and subordinated loans eligible as T2 capital	284,595	44,595	284,595	44,595
Minority interest	1,686	-	-	-
TIER 2 CAPITAL	286,281	44,595	284,595	44,595
TOTAL CAPITAL	1,903,394	1,495,771	1,576,611	1,182,156
RWA for credit risk	7,787,112	7,720,232	4,415,990	4,344,829
RWA for market risks	559,700	523,050	275,338	274,025
RWA for credit valuation adjustment risk	775	663	775	663
RWA for operational risk	954,148	941,594	623,776	605,581
TOTAL RISK EXPOSURE AMOUNT (RWA)	9,301,735	9,185,539	5,315,879	5,225,098
Common Equity Tier 1 Ratio	17.3%	15.8%	24.3%	21.8%
Tier 1 Ratio	17.4%	15.8%	24.3%	21.8%
Total Capital Ratio	20.5%	16.3%	29.7%	22.6%

As at 30 June 2020, the CET1 ratio stood at 17.3% (1.5 p.p. YtD increase) and the total capital ratio for the Group at 20.5% (4.2 p.p. YtD increase).

The higher total capital adequacy derives from higher capital (EUR 407.6 million for NLB Group) mostly due to inclusion of all Tier 2 instruments in capital (EUR 240.0 million), inclusion of undistributed profit for the year 2019 (EUR 157.5 million) and inclusion of Minority interest in capital calculation (EUR 31.7 million). The RWA for credit risk increased by EUR 66.9 million YtD, mainly as a result of new loan production on the corporate and retail segment. In year 2020, Serbia was included to the lists of third countries whose supervisory and regulatory requirements are considered equivalent to those of the EEA countries, which reduced RWA for exposures to the Serbian central government and central bank denominated in local currency by EUR -100.3 million. Furthermore, the higher volume of impairments and provisions formed on the performing portfolio due to the worse macro forecasts related with COVID-19, contributed also to the RWA decrease. The increase in RWA for market risks and CVA (Credit value

adjustments) (EUR 36.8 million) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operational risks (EUR 12.6 million) arose from the higher three-year average of relevant income, which represents the basis for the calculation.

In 2020 the Bank continued with strengthening and optimizing the capital structure, so on 5 February 2020, the Bank issued subordinated Tier 2 notes (10NC5) in the aggregate nominal amount of EUR 120 million. The fixed coupon of the notes during the first five years is 3.40% p.a., thereafter it will be reset to the sum of the then applicable 5Y MS and the fixed margin as defined by the terms and conditions of the notes (i.e., 3.658% p.a.). The notes with ISIN code XS2113139195 and rated BB by S&P rating agency were admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. On 25 March 2020 NLB obtained ECB permission for its inclusion in the capital, so the instrument is included in capital as of 31 March 2020. The Bank also obtained on 4 March 2020 permission by ECB to include in capital Tier 2 notes issued in November 2019. Now all existing Tier 2 instruments are included in capital.

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

5.18. Off-balance sheet liabilities

	in EUR thousands					
	NLB Group			NLB		
	30 Jun 2020	31 Dec 2019	Change	30 Jun 2020	31 Dec 2019	Change
Commitments to extend credit	1,593,402	1,346,012	18%	1,377,840	1,072,458	28%
Non-financial guarantees	556,662	532,861	4%	408,010	383,564	6%
Financial guarantees	402,081	383,597	5%	231,613	230,909	0%
Letters of credit	20,291	22,871	-11%	1,431	6,243	-77%
Other	9,133	8,742	4%	10,299	14,106	-27%
	2,581,569	2,294,083	13%	2,029,193	1,707,280	19%
Provisions (note 5.12.)	(41,450)	(39,421)	-5%	(30,807)	(29,163)	-6%
Total	2,540,119	2,254,662	13%	1,998,386	1,678,117	19%

Besides the instruments presented in the table above, NLB Group and NLB enter also into contracts related to guarantee lines. When the contract is signed, bank and a client agree on all conditions for issuing guarantees. Nevertheless, NLB Group can discontinue issuing guarantees if the client's conditions worsen. As at 30 June 2020 unused guarantee lines at the NLB Group level amount to EUR 313,807 thousand, and at the NLB level EUR 247,613 thousand (31 December 2019: NLB Group EUR 307,199 thousand and NLB EUR 247,485 thousand).

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

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

reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

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

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

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

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

in EUR thousands

30 Jun 2020	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	2,776	19,131	741	22,648	2,776	19,160	741	22,677
<i>Debt instruments</i>	2,776	-	-	2,776	2,776	-	-	2,776
<i>Derivatives</i>	-	19,131	741	19,872	-	19,160	741	19,901
Derivatives - hedge accounting	-	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	1,750,342	306,890	838	2,058,070	1,563,632	52,414	274	1,616,320
<i>Debt instruments</i>	1,750,180	261,559	-	2,011,739	1,563,632	7,763	-	1,571,395
<i>Equity instruments</i>	162	45,331	838	46,331	-	44,651	274	44,925
Non-trading financial assets mandatorily at fair value through profit or loss	7,555	-	27,695	35,250	-	7,670	25,622	33,292
<i>Debt instruments</i>	2,527	-	-	2,527	-	-	-	-
<i>Equity instruments</i>	5,028	-	2,769	7,797	-	-	2,769	2,769
<i>Loans</i>	-	-	24,926	24,926	-	7,670	22,853	30,523
Financial liabilities								
Financial instruments held for trading	-	17,995	-	17,995	-	18,014	-	18,014
<i>Derivatives</i>	-	17,995	-	17,995	-	18,014	-	18,014
Derivatives - hedge accounting	-	61,371	-	61,371	-	61,371	-	61,371
Financial liabilities measured at fair value through profit or loss	-	-	10	10	-	-	10	10
Non-financial assets								
Investment properties	-	23,973	29,167	53,140	-	9,916	-	9,916
Non-current assets classified as held for sale	-	4,441	-	4,441	-	2,108	-	2,108

in EUR thousands

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

b) Significant transfers of financial instruments between levels of valuation

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

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

For the six months ended 30 June 2020 and 30 June 2019, NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

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

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

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

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

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

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

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

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

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

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

- equities: mainly Slovenian corporate and financial equities that are not quoted on active markets;
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model and Black-Scholes model). Unobservable

inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Bloomberg information system; and

- non-performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return. In defining the expected cash flows for non-performing loans, the value of collateral and other pay off estimates can be used.

Non-financial assets on Level 3 of the fair value hierarchy at NLB Group include investment property. NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in first bullet: the income, market and cost approaches. NLB Group selects valuation model and values of unobservable input data within a reasonable possible range but uses model and input data that other market participants would use.

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

Movements of financial assets and liabilities at Level 3

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
NLB Group						
Balance as at 1 Jan 2020	807	4,110	2,716	14,960	22,593	7,998
Effects of translation of foreign operations to presentation currency	-	70	-	-	70	-
Valuation:						
- through profit or loss	(66)	-	53	(5,138)	(5,151)	(7,996)
- recognised in other comprehensive income	-	18	-	-	18	-
Exchange differences	-	-	-	8	8	8
Increases	-	-	-	18,858	18,858	-
Decreases	-	(3,360)	-	(3,762)	(7,122)	-
Balance as at 30 Jun 2020	741	838	2,769	24,926	29,274	10

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
NLB Group						
Balance as at 1 Jan 2019	329	3,960	1,923	23,800	30,012	4,190
Effects of translation of foreign operations to presentation currency	-	37	-	-	37	-
Valuation:						
- through profit or loss	424	-	6,922	12,061	19,407	4,323
Exchange differences	-	-	-	-	-	3
Increases	-	-	-	6,743	6,743	-
Decreases	-	-	(17)	(16,415)	(16,432)	-
Transfers to Level 3	-	-	600	-	600	-
Balance as at 30 Jun 2019	753	3,997	9,428	26,189	40,367	8,516

in EUR thousands

NLB	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
Balance as at 1 Jan 2020	807	259	2,716	13,055	16,837	7,746
Valuation:						
- through profit or loss	(66)	-	53	(5,033)	(5,046)	(7,744)
- recognised in other comprehensive income	-	15	-	-	15	-
Exchange differences	-	-	-	8	8	8
Increases	-	-	-	18,503	18,503	-
Decreases	-	-	-	(3,680)	(3,680)	-
Balance as at 30 Jun 2020	741	274	2,769	22,853	26,637	10

in EUR thousands

NLB	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets		Loans and other financial liabilities
Balance as at 1 Jan 2019	329	248	1,923	21,596	24,096	3,981
Valuation:						
- through profit or loss	424	-	6,922	11,466	18,812	4,396
Exchange differences	-	-	-	-	-	3
Increases	-	-	-	6,564	6,564	-
Decreases	-	-	(17)	(15,391)	(15,408)	-
Transfers into Level 3	-	-	600	-	600	-
Balance as at 30 Jun 2019	753	248	9,428	24,235	34,664	8,380

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

in EUR thousands

Six months ended 30 Jun 2020

	NLB Group				
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(66)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	53	(5,138)	7,996
Foreign exchange translation gains less losses	-	-	-	8	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	18	-	-	-

in EUR thousands

Six months ended 30 Jun 2019

	NLB Group				
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Financial liabilities measured at fair value through profit or loss
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	424	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	6,922	12,061	(4,323)
Foreign exchange translation gains less losses	-	-	-	-	(3)

in EUR thousands

Six months ended 30 Jun 2020

	NLB				
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss	
				Loans and other financial assets	Loans and other financial liabilities
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(66)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	53	(5,033)	7,744
Foreign exchange translation gains less losses	-	-	-	8	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	15	-	-	-

in EUR thousands

Six months ended 30 Jun 2019

	NLB				
	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss	
				Loans and other financial assets	Loans and other financial liabilities
	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	424	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	6,922	11,466	(4,396)
Foreign exchange translation gains less losses	-	-	-	-	(3)

Movements of non-financial assets at Level 3

in EUR thousands

	NLB Group	
	2020	2019
Investment property		
Balance as at 1 Jan	28,933	32,208
Effects of translation of foreign operations to presentation currency	(51)	39
Additions	329	466
Disposals	(23)	(797)
Net valuation to fair value	(21)	(151)
Balance as at 30 Jun	29,167	31,765

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

in EUR thousands

	NLB Group				NLB			
	30 Jun 2020		31 Dec 2019		30 Jun 2020		31 Dec 2019	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	1,413,765	1,462,591	1,653,848	1,715,350	1,205,824	1,251,462	1,485,166	1,543,518
- loans and advances to banks	94,910	94,976	93,403	93,503	214,161	220,791	144,352	150,520
- loans and advances to customers	7,661,801	7,888,231	7,589,724	7,775,128	4,495,637	4,698,281	4,568,599	4,713,622
- other financial assets	114,451	114,451	97,415	97,415	81,452	81,452	67,279	67,279
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	54,310	54,323	42,840	42,690	89,461	89,461	89,820	89,820
- borrowings from banks and central banks	159,265	168,370	170,385	178,374	152,451	160,592	161,564	169,312
- due to customers	12,190,847	12,198,516	11,612,317	11,630,157	8,266,293	8,274,045	7,760,737	7,768,365
- borrowings from other customers	61,616	56,922	64,458	63,868	232	233	2,537	2,548
- subordinated liabilities	287,368	294,440	210,569	211,889	287,368	294,440	210,569	211,889
- other financial liabilities	174,171	174,171	158,484	158,484	112,639	112,639	98,342	98,342

Loans and advances to banks

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

Loans and advances to customers

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

Deposits and borrowings from customers

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

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

Debt securities measured at amortised cost and issued debt securities

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

Loan commitments

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

Other financial assets and liabilities

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

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

in EUR thousands

30 Jun 2020	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	1,369,695	92,896	-	1,462,591	1,158,566	92,896	-	1,251,462
- loans and advances to banks	-	94,976	-	94,976	-	220,791	-	220,791
- loans and advances to customers	-	7,888,231	-	7,888,231	-	4,698,281	-	4,698,281
- other financial assets	-	114,451	-	114,451	-	81,452	-	81,452
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	54,323	-	54,323	-	89,461	-	89,461
- borrowings from banks and central banks	-	168,370	-	168,370	-	160,592	-	160,592
- due to customers	-	12,198,516	-	12,198,516	-	8,274,045	-	8,274,045
- borrowings from other customers	-	56,922	-	56,922	-	233	-	233
- subordinated liabilities	294,440	-	-	294,440	294,440	-	-	294,440
- other financial liabilities	-	174,171	-	174,171	-	112,639	-	112,639

in EUR thousands

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

6. Analysis by segment for NLB Group

a) Segments

Six months ended 30 June 2020

in EUR thousands

NLB Group	Corporate and						Unallocated	Total
	Retail Banking in Slovenia	Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities		
Total net income	86,756	38,589	103,782	26,725	2,649	2,533	-	261,034
<i>Net income from external customers</i>	92,646	41,622	105,568	15,171	2,472	2,509	-	259,987
<i>Intersegment net income</i>	(5,890)	(3,032)	(1,786)	11,554	177	24	-	1,047
Net interest income	41,666	17,871	78,552	11,279	707	(8)	-	150,067
<i>Net income from external customers</i>	47,778	20,710	80,492	(45)	1,165	(33)	-	150,067
<i>Intersegment net interest income</i>	(6,112)	(2,838)	(1,940)	11,324	(458)	24	-	-
Administrative expenses	(50,201)	(18,641)	(46,423)	(3,294)	(5,930)	(5,134)	-	(129,623)
Depreciation and amortisation	(5,941)	(1,819)	(6,894)	(303)	(553)	(735)	-	(16,244)
Reportable segment profit/(loss) before impairment and provision charge	30,615	18,130	50,465	23,128	(3,834)	(3,336)	-	115,167
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	426	-	-	-	-	-	-	426
Impairment and provisions charge	(5,647)	(9,272)	(17,789)	(21)	(135)	(366)	-	(33,230)
Profit/(loss) before income tax	25,394	8,858	32,676	23,107	(3,969)	(3,703)	-	82,363
<i>Owners of the parent</i>	25,394	8,858	29,494	23,107	(3,969)	(3,703)	-	79,181
<i>Non-controlling interests</i>	-	-	3,182	-	-	-	-	3,182
Income tax	-	-	-	-	-	-	(5,512)	(5,512)
Profit for the period								73,669
30 Jun 2020								
Reportable segment assets	2,445,560	2,041,788	4,911,796	5,068,816	150,485	265,477	-	14,883,923
Investments in associates and joint ventures	7,934	-	-	-	-	-	-	7,934
Reportable segment liabilities	7,017,321	1,305,607	4,100,884	572,907	7,724	109,074	-	13,113,518

Six months ended 30 June 2019

in EUR thousands

NLB Group	Corporate and						Unallocated	Total
	Retail Banking in Slovenia	Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities		
Total net income	79,351	44,166	102,412	17,390	6,127	10,327	-	259,773
<i>Net income from external customers</i>	81,070	46,382	103,022	11,778	6,501	10,296	-	259,049
<i>Intersegment net income</i>	(1,719)	(2,216)	(610)	5,612	(374)	31	-	724
Net interest income	44,148	19,669	77,855	15,867	1,553	(54)	-	159,038
<i>Net income from external customers</i>	46,015	21,475	78,830	10,397	2,406	(85)	-	159,038
<i>Intersegment net interest income</i>	(1,867)	(1,806)	(975)	5,470	(853)	31	-	-
Administrative expenses	(49,470)	(18,966)	(45,296)	(3,273)	(6,079)	(5,021)	-	(128,105)
Depreciation and amortisation	(5,719)	(1,888)	(6,561)	(288)	(653)	(584)	-	(15,692)
Reportable segment profit/(loss) before impairment and provision charge	24,162	23,313	50,555	13,830	(605)	4,721	-	115,976
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	2,516	-	-	-	-	-	-	2,516
Impairment and provisions charge	(1,791)	2,929	(7,113)	(467)	998	(44)	-	(5,489)
Profit/(loss) before income tax	24,887	26,241	43,442	13,362	393	4,677	-	113,003
<i>Owners of the parent</i>	24,887	26,241	39,650	13,362	393	4,677	-	109,211
<i>Non-controlling interests</i>	-	-	3,792	-	-	-	-	3,792
Income tax	-	-	-	-	-	-	(14,885)	(14,885)
Profit for the period								94,326
31 Dec 2019								
Reportable segment assets	2,551,708	2,042,200	4,731,350	4,412,561	169,456	259,314	-	14,166,589
Investments in associates and joint ventures	7,499	-	-	-	-	-	-	7,499
Reportable segment liabilities	6,464,417	1,341,878	4,043,172	465,168	8,791	119,766	-	12,443,191

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

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

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

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals and asset management (NLB Skladi), as well as the contribution to the result of the associated company Bankart (in H1 2019 also of the joint venture NLB Vita and in H1 2020 realised gain on sale of the investment).
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Investment Banking and Custody, and Restructuring and Workout and part of new subsidiary Lease&Go that includes operations with corporate clients.
- Financial Markets in Slovenia include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).
- Strategic Foreign Markets, which include the operations of strategic Group banks in strategic markets (Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia, and Serbia).
- Other accounts for the categories whose operating results cannot be allocated to specific segments.

Non-core members include the operations of non-core Group members, REAM and leasing entities, NLB Srbija and NLB Crna Gora.

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

b) Geographical information

in EUR thousands

	Revenues		Net income		Non-current assets		Total assets	
	six months ended		six months ended		30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	June 2020	June 2019	June 2020	June 2019				
NLB Group								
Slovenia	158,727	164,082	153,941	152,748	147,547	151,934	9,893,335	9,350,558
South East Europe	129,709	128,911	106,308	104,576	141,418	142,870	4,985,948	4,811,617
North Macedonia	39,834	41,346	32,875	32,693	35,011	34,971	1,515,066	1,448,179
Serbia	16,840	15,938	13,270	11,231	25,498	25,549	693,342	639,351
Montenegro	15,273	15,696	12,056	13,285	30,107	30,089	568,237	533,849
Croatia	13	-	184	376	550	2,045	9,085	12,497
Bosnia and Herzegovina	34,309	34,662	28,413	28,837	34,065	34,246	1,373,859	1,381,718
Kosovo	23,440	21,269	19,510	18,154	16,187	15,970	826,359	796,023
Western Europe	3	315	(262)	1,724	150	158	12,574	11,913
Germany	1	4	69	96	147	152	2,007	1,787
Switzerland	2	311	(331)	1,628	3	6	10,567	10,126
Czech Republic	-	-	-	1	-	-	-	-
Total	288,439	293,308	259,987	259,049	289,115	294,962	14,891,857	14,174,088

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

7. Related-party transactions

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

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

in EUR thousands

NLB Group and NLB	Management Board and other key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel, or their family members have control, joint control or a significant influence		Supervisory Board	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	six months ended		six months ended		six months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Loans and deposits issued	2,032	2,119	459	520	4	130	330	248
Deposits received	1,701	1,579	978	871	191	193	221	198
Other financial liabilities	2,759	2,759	-	-	1	4	-	-
Guarantees issued and credit commitments	232	246	84	82	8	91	29	18
Interest income	19	19	4	5	1	2	4	2
Interest expense	(2)	(2)	-	-	-	-	-	-
Fee income	6	4	3	3	77	3	-	-
Other income	7	9	-	-	-	-	-	-
Other expenses	(6)	(2)	-	-	(29)	(23)	-	-

Key management compensation – payments in the period

in EUR thousands

NLB Group and NLB	Management Board		Other key management personnel	
	six months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019
Short-term benefits	802	864	2,705	2,449
Cost refunds	2	2	49	41
Long-term bonuses				
- severance pay	259	-	48	-
- other benefits	1	3	24	35
- variable part of payments	-	162	-	1,316
Total	1,064	1,031	2,826	3,841

Short-term benefits include:

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

The reimbursement of cost comprises food allowances and travel expenses.

Related-party transactions with subsidiaries, associates and joint ventures

in EUR thousands

	NLB Group			
	Associates		Joint ventures	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Loans and deposits issued	1,046	1,066	850	1,205
Deposits received	1,717	842	3,332	8,455
Other financial assets	1	18	-	539
Other financial liabilities	864	1,294	-	250
Guarantees issued and credit commitments	38	31	21	26
	six months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019
Interest income	16	17	6	11
Interest expense	-	-	(29)	(25)
Fee income	6	4	981	2,159
Fee expense	(5,923)	(5,641)	(952)	(1,107)
Other income	79	82	140	62
Other expenses	(264)	(351)	(37)	(22)

in EUR thousands

	NLB					
	Subsidiaries		Associates		Joint ventures	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Loans and deposits issued	285,779	231,103	1,046	1,066	850	1,174
Deposits received	58,540	80,806	1,717	842	366	5,418
Other financial assets	724	984	1	18	-	539
Other financial liabilities	790	235	34	1,174	-	116
Guarantees issued and credit commitments	69,842	32,727	38	31	21	26
Received loan commitments and financial guarantees	7,007	3,297	-	-	-	-
	six months ended		six months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019	June 2020	June 2019
Interest income	2,526	1,980	16	17	5	10
Interest expense	(19)	(145)	-	-	-	-
Fee income	3,421	2,863	6	4	923	2,094
Fee expense	(11)	(9)	(4,569)	(4,766)	(332)	(494)
Other income	229	218	79	82	140	62
Other expenses	(129)	(128)	(260)	(351)	(37)	(22)
Gains less losses on derecognition of financial assets/liabilities held for trading	56	(165)	-	-	-	-
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	317	80	-	-	-	-

Related-party transactions with major shareholder with significant influence

in EUR thousands

	NLB Group Shareholder		NLB Shareholder	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	Loans and deposits issued	24,245	28,206	24,245
Investments in securities (banking book)	816,947	849,924	726,273	777,047
Investments in securities (trading book)	2,100	1,041	2,100	1,041
Other financial assets	648	651	648	651
Other financial liabilities	19	22	19	22
Guarantees issued and credit commitments	1,259	1,168	1,259	1,168
	six months ended		six months ended	
	June 2020	June 2019	June 2020	June 2019
Interest income	5,354	8,432	5,524	8,536
Fee income	109	92	109	92
Fee expense	(12)	(15)	(12)	(15)
Other income	104	225	104	225
Other expenses	(1)	(4)	(1)	(4)
Gains less losses on derecognition of financial assets/liabilities not classified as at fair value through profit or loss	14,664	2,314	14,664	2,314
Gains less losses on derecognition of financial assets/liabilities held for trading	44	(87)	44	(87)

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

in EUR thousands

NLB Group and NLB	Amount of significant transactions concluded during the period		Number of significant transactions concluded during the period	
	six months ended	12 months ended	six months ended	12 months ended
	June 2020	December 2019	June 2020	December 2019
Loans	-	57,113	-	1
Borrowings, deposits and business accounts	-	179,309	-	2
	Balance of all significant transactions at end of the period		Number of significant transactions at end of the period	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Loans	549,089	582,081	6	6
Debt securities measured at amortised cost	76,144	78,014	1	1
Borrowings, deposits and business accounts	70,005	115,500	1	2
	Effects in the income statement during the period			
	six months ended			
	June 2020	June 2019		
Interest income from loans	1,805	1,402		
Fees and commissions income	14	162		
Interest income from debt securities measured at amortised cost	914	2,362		
Interest expense from borrowings, deposits, and business accounts	(183)	(205)		

8. Subsidiaries

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

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

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

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

9. Events after the end of the reporting period

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

Glossary of Terms and Definitions

ALCO	Asset-Liability Committee
ALM	Asset and Liability Management
API	Alternative Performance Indicators
BiH	Bosnia and Herzegovina
BoS	Bank of Slovenia
bps	Basis Points
CBR	Combined Buffer Requirement
CEO	Chief Operating Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost-to-Income Ratio
CMO	Chief Marketing Officer
COO	Chief Operating Officer
CRO	Chief Risk Officer
CVA	Credit Value Adjustment
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EU	European Union
EVE	Economic Value of Equity
FTP	Fund Transfer Price
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GDR	Global Depositary Receipts
GDP	Gross Domestic Product
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
JV	Joint Venture
LCR	Liquidity Coverage Ratio
LTD	Loan-to-Deposit Ratio
MDA	Maximum Distributable Amount
MIGA	Multilateral Investment Guarantee Agency
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NLB or the Bank	NLB d.d., Ljubljana
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
OCR	Overall Capital Requirement
O-SII	Other Systemically Important Institution
p.p.	Percentage point(s)
P1R	Pillar 1 Requirement

P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
QE	Quantitative Easing
RICO	Risk Committee
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk Weighted Assets
SEE	South-Eastern Europe
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
The Group	NLB Group
TLOF	Total Liabilities and Own Funds
TSCR	Total SREP Capital Requirement

BANK GUARANTEE **DIGITAL SERVICES** **B2B** **EASY** **KLIKIN** **TRUST** **UP TO DATE** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**

24/7 LJUBLJANA **QUALITY**

EMPLOYEES **B2B** **B2C** **KNOWLEDGE** **ACCESSIBILITY** **TRUST** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **FLEXIBILITY** **CONSULTING** **STABILITY** **TRUST** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**

SOCIAL RESPONSIBILITY

REGIONAL PROJECTS **R&D** **FINANCIAL LITERACY** **REGIONAL PROJECTS** **EXCELLENCE** **PRIVATE BANKING** **PURCHASE OF RECEIVABLES**

MOBILE WALLET **NLB PAY** **BEST SERVICE**

FLEXIBILITY **TRUST** **SECURITY** **NLB TELEDOM**

BELGRADE **24/7** **REGIONAL PROJECTS**

FINANCIAL ADVICE **BANJA LUKA**

PURCHASE OF RECEIVABLES **BANK GUARANTEE**

5-800+ **REGIONAL PROJECTS** **B2B** **KLIKIN**

301 BRANCHES **PROFESSIONAL**

MOBILE WALLET **NLB PAY** **BEST SERVICE** **WIN-WIN**

BANK GUARANTEE **PROFESSIONAL** **B2B** **EASY** **TRUST** **EXCELLENCE** **ACCESSIBILITY** **NLB KLIK**

UP TO DATE **KNOWLEDGE** **ACCESSIBILITY** **GROWTH**

PODGORICA **R&D** **SECURITY** **ECOLOGY**

REGIONAL PROJECTS **PROFESSIONAL**

EASY GROWTH **MENTORSHIP** **PRISHTINA**

WIN-WIN **FINANCIAL LITERACY** **CARE** **EXCELLENCE** **ACCESSIBILITY** **NLB KLIK**

KLKIN **DIGITAL SERVICES** **FLEXIBILITY** **ECOLOGY** **DONATIONS** **GROWTH**

SKOPJE **B2B** **FINANCIAL LITERACY** **CARE** **EXCELLENCE** **ACCESSIBILITY** **NLB KLIK**

NLB KLIK **DIGITAL SERVICES** **FLEXIBILITY** **ECOLOGY** **SPONSORSHIP** **PRISHTINA**

GROWTH **FINANCIAL LITERACY** **CARE** **EXCELLENCE** **ACCESSIBILITY** **NLB KLIK**

MOBILE WALLET **NLB PAY** **BEST SERVICE** **WIN-WIN**

MOBILE BANKERS **DIGITAL** **WIN-WIN** **24/7** **HEALTH** **BANK GUARANTEE** **PURCHASE OF RECEIVABLES**

SECURITY