

Unaudited
Annual
Financial
Statements

2019

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Key Financial Caption

Table 1: Key Financial Caption of NLB Group

NLB Group						
in EUR million / % / bps	2019	2018	Change YoY	Q4 2019	Q3 2019	Q4 2018
Key Income Statement Data						
Net operating income	513.6	493.3	4%	128.9	127.4	124.3
Net interest income	318.5	312.9	2%	79.7	79.8	81.0
Net non-interest income	195.1	180.4	8%	49.2	47.6	43.3
Total costs	-301.4	-288.7	-4%	-87.0	-73.0	-78.3
Result before impairments and provisions	212.2	204.6	4%	41.9	54.4	46.0
Impairments and provisions	-1.0	23.3	-	-10.7	15.2	4.3
Result after tax	193.6	203.6	-5%	31.3	67.9	45.3
Key Financial Indicators						
Return on equity after tax (ROE a.t.)	11.7%	11.8%	-0.1 p.p.			
Return on assets after tax (ROA a.t.)	1.5%	1.6%	-0.2 p.p.			
RORAC a.t. ¹	15.3%	15.3%	0.0 p.p.			
Interest margin (on interest bearing assets) ²	2.48%	2.56%	-0.08 p.p.			
Interest margin (on total assets - BoS ratio)	2.39%	2.50%	-0.11 p.p.			
Cost-to-income ratio (CIR)	58.7%	58.5%	0.2 p.p.			
Cost of risk net (bps) ³	-20	-43	23			

in EUR million / %	31 Dec 2019	31 Dec 2018	Change YoY
Key Financial Position Statement Data			
Total assets	14,174.1	12,740.0	11%
Loans to customers (gross)	7,938.3	7,627.5	4%
Loans to customers (net)	7,604.7	7,148.4	6%
Deposits from customers	11,612.3	10,464.0	11%
Equity (without non-controlling interests)	1,685.9	1,616.2	4%
Other Key Financial Indicators			
LTD (Net loans to customers/Deposits from customers)	65.5%	68.3%	-2.8 p.p.
Common Equity Tier 1 Ratio	15.8%	16.7%	-1.0 p.p.
Total capital ratio	16.3%	16.7%	-0.5 p.p.
Total risk weighted assets	9,185.5	8,677.6	6%
NPL volume ⁴	374.7	622.3	-40%
NPL coverage ratio ^{1 5}	89.2%	77.1%	12.1 p.p.
NPL coverage ratio ^{2 6}	65.0%	64.6%	0.4 p.p.
NPL ratio (internal def.) ⁷	3.8%	6.9%	-3.1 p.p.
Net NPL ratio (internal def.) ⁸	1.4%	2.6%	-1.2 p.p.
NPL ratio (EBA def.) ⁹	4.7%	8.0%	-3.3 p.p.
NPE ratio (EBA def.) ¹⁰	2.7%	4.7%	-2.0 p.p.
Employees			
Number of employees	5,878	5,887	-9

¹ Result a.t. / average capital requirement normalized at 15.38% RWA for 2018 and 14.25% for 2019.

² Interest margin data for 2018 are adjusted to the new methodology (calculation based on the number of days for the period); further analyses of interest margins are based on interest bearing assets.

³ Credit impairments and provisions (annualised level) / average net loans to non-banking sector.

⁴ 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).

⁵ Coverage of gross non-performing loans with impairments for all loans.

⁶ Coverage of gross non-performing loans with impairments for non-performing loans.

⁷ NPL ratio as per internal definition is calculated as follows: (i) Numerator: total gross non-performing loans; (ii) Denominator: total gross loans.

⁸ Net NPL ratio as per internal definition is calculated as follows: (i) Numerator: net non-performing loans; (ii) Denominator: total net loans.

⁹ 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 Finrep 18 without loans held for sale, cash balances at central banks and other demand deposits.

¹⁰ 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	31 December 2019	31 December 2018	Outlook
Standard & Poor's	BBB-	BB+	Stable
Fitch	BB+	BB+	Stable
Moody's*	Baa2	Baa2	Positive

* Unsolicited rating.



Business Report

Financial Performance

Table 2: Income Statement of NLB Group

in EUR million	NLB Group				Q4 2019	Q3 2019	Q4 2018	Change QoQ	
	2019	2018	Change YoY						
Net interest income	318.5	312.9	5.6	2%	79.7	79.8	81.0	-0.1	0%
Net fee and commission income	170.3	160.6	9.7	6%	43.5	44.6	40.7	-1.2	-3%
Dividend income	0.2	0.1	0.1	76%	0.0	0.0	0.0	0.0	55%
Net income from financial transactions	33.8	14.7	19.1	130%	5.8	5.1	3.1	0.7	14%
Net other income	-9.3	4.9	-14.2	-	-0.1	-2.1	-0.5	2.0	94%
Net non-interest income	195.1	180.4	14.8	8%	49.2	47.6	43.3	1.6	3%
Total net operating income	513.6	493.3	20.3	4%	128.9	127.4	124.3	1.5	1%
Employee costs	-171.2	-165.1	-6.1	-4%	-48.0	-41.8	-43.2	-6.2	-15%
Other general and administrative expenses	-99.3	-96.3	-3.0	-3%	-31.4	-23.3	-28.4	-8.1	-35%
Depreciation and amortisation	-31.0	-27.2	-3.7	-14%	-7.7	-7.9	-6.7	0.3	3%
Total costs	-301.4	-288.7	-12.8	-4%	-87.0	-73.0	-78.3	-14.0	-19%
Result before impairments and provisions	212.2	204.6	7.6	4%	41.9	54.4	46.0	-12.5	-23%
Impairments and provisions for credit risk	13.3	30.2	-16.9	-56%	-2.3	16.4	7.0	-18.7	-
Other impairments and provisions	-14.3	-6.9	-7.4	-107%	-8.4	-1.1	-2.7	-7.3	-
Impairments and provisions	-1.0	23.3	-24.3	-	-10.7	15.2	4.3	-26.0	-
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	4.2	5.4	-1.2	-23%	0.0	1.6	1.3	-1.6	-97%
Result before tax	215.4	233.3	-17.9	-8%	31.2	71.2	51.7	-40.1	-56%
Income tax	-13.6	-21.8	8.2	38%	2.2	-0.9	-5.1	3.1	-
Result of non-controlling interests	8.2	7.9	0.3	4%	2.0	2.4	1.2	-0.4	-15%
Result after tax	193.6	203.6	-10.1	-5%	31.3	67.9	45.3	-36.6	-54%

Profit

The Group generated EUR 193.6 million of profit after tax, which is EUR 10.1 million lower YoY.

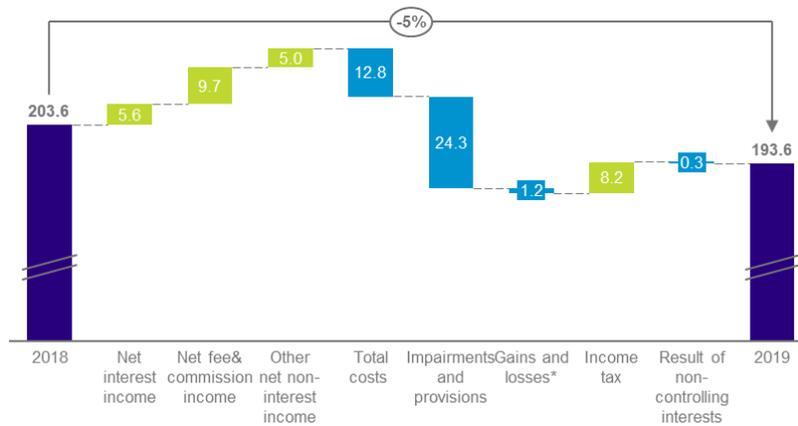
The result was based on the following key drivers and YoY evolution:

- Net interest income higher by EUR 5.6 million (2%), mainly due to loan volume growth, especially in the Group banking subsidiaries in SEE and Retail Banking in Slovenia, and lower interest expenses due to a decrease in average deposit rates in the Bank and also in most of the Group banking subsidiaries in SEE.
- Net fee and commission income higher by EUR 9.7 million or 6%, mainly from the Retail Banking in Slovenia and in the banking subsidiaries in SEE. Most of the foreign banks recorded an increase in number of customers.
- Net non-interest income was positively impacted by non-recurring income as a repayment of a larger exposure measured at fair value through profit and loss and active management of banking book securities in the amount of EUR 4.5 million.
- In 2019, positive one-off effect from the revaluation of a non-core equity stake was realized in the amount of EUR 6.3 million in Q2 (sale of this stake in Q4); whereas in the same period of 2018, the net non-interest income was positively impacted by the sale of NLB Nov penziskzi fond, Skopje in the amount of EUR 12.2 million and negatively impacted by the sale of a 28.13% minority stake in Skupna pokojninska družba in the amount of EUR 0.5 million.
- Costs higher by EUR 12.8 million or 4%, mostly due to higher employee (adjustments on management board and senior management post-privatization compensation), technology (mainly licenses), consulting, and supervision costs.
- EUR 1.0 million of net provisions and impairments were established in 2019, while EUR 23.3 million were released in 2018. Release of impairments and provision for credit risk was EUR 16.9 million lower YoY while establishment of other impairments and provisions was EUR 7.4 million higher (in 2019 established human resource provisions for reorganization in the Bank in the

amount of EUR 5.5 million, pending legal disputes in the amount of EUR 5.7 million, and impairments of non-financial assets in the amount of EUR 3.2 million).

- Income tax was EUR 8.2 million lower, mainly due to an increase of recognized deferred tax assets (DTA) (based on stable results and profit projection in the Bank, estimated 5 years DTA utilization increased).

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

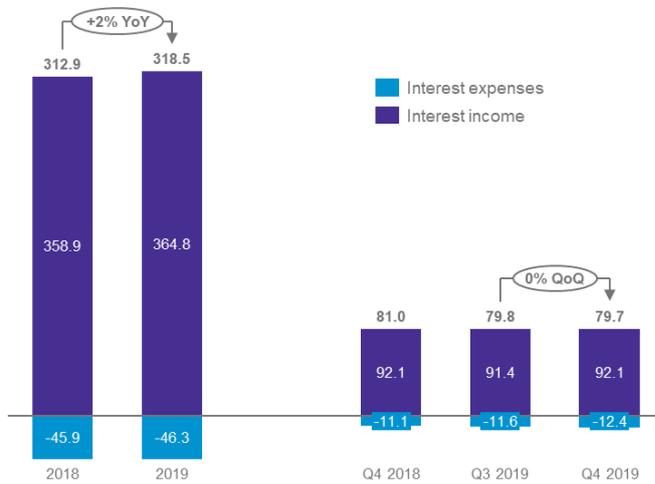


* Gains less losses from capital investments in subsidiaries, associates, and joint ventures.

Profit before impairments and provisions totalled EUR 212.2 million, which is EUR 7.6 million or 4% higher YoY, mostly due to higher net operating income (EUR 20.3 million or 4%).

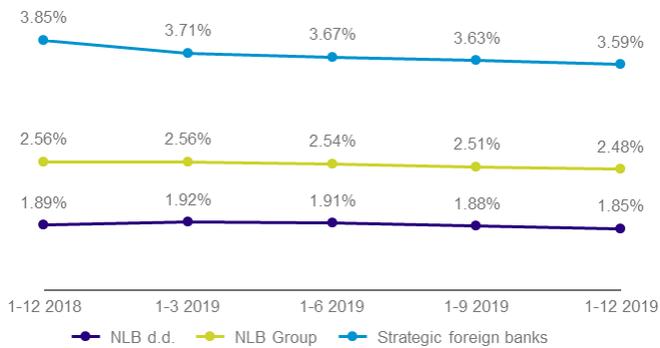
Net Interest Income

Figure 2: Net Interest Income of NLB Group (in EUR million)



Net interest income totalled EUR 318.5 million and increased by EUR 5.6 million or 2% YoY due to an increase of interest income in most of the banks of the Group, supported by loan book growth. Higher interest expenses in Q3 and Q4 were due to new subordinated Tier 2 instruments raised by the Bank, while interest expenses for customer deposits were decreasing.

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



* Interest margin data for the Group and Strategic foreign banks for 2018 are adjusted to the new methodology (calculation based on the number of days for the period).

Net interest margin (NIM) in the Group decreased YoY and amounted to 2.48%. The interest margin for the Bank and the Group banking members in SEE (strategic foreign banks) decreased YoY and amounted to 1.85% and 3.59%, respectively.

Net Non-Interest Income

Figure 4: Net Non-Interest Income of NLB Group (in EUR million)¹



Net non-interest income reached EUR 195.1 million and increased by EUR 14.8 million or 8% YoY. The YoY dynamic was influenced by the following factors:

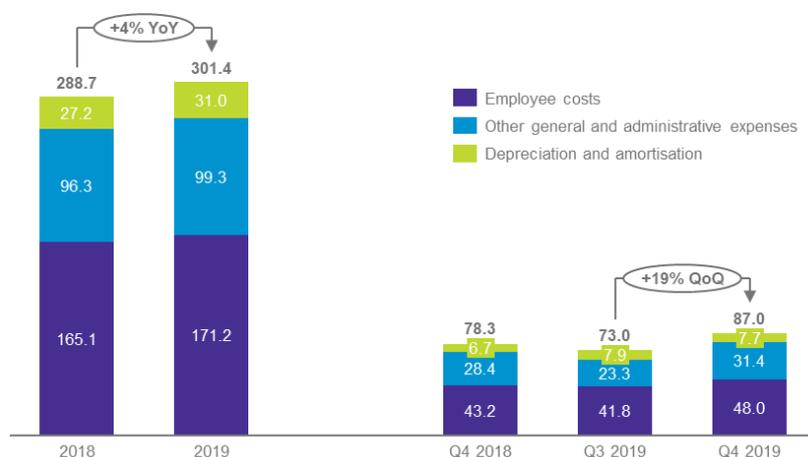
- Net fee and commission income higher by EUR 9.7 million or 6% YoY, mostly as a result of an increased fee and commission income in Retail Banking in Slovenia and Strategic Foreign Markets (increase in number of customers in most of the Group banking members in SEE).
- Recurring other net non-interest income amounted to EUR 3.9 million (EUR -1.2 million YoY) and was affected mainly by the regulatory costs (SRF and DGS) in the total amount of EUR 16.2 million and higher net gains from FX trading.
- Net non-interest income was positively impacted by non-recurring income as a partial repayment of a larger exposure measured at fair value through profit and loss and active management of banking book securities in the amount of EUR 4.5 million.
- In 2019, a positive one-off effect from revaluation of a non-core equity stake was realized in the amount of EUR 6.3 million in Q2; whereas in the same period of 2018, the net non-interest income was positively impacted by the sale of NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million and negatively impacted by the sale of 28.13% minority stake in Skupna pokojninska družba in the amount of EUR 0.5 million.

Notes:

¹ From June 2019 on, different presentation of non-recurring items is in use.

Total Costs

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



Total costs amounted to EUR 301.4 million (of which EUR 1.6 million were comprised of non-recurring costs related to restructuring, as well as EUR 3.0 million of performance rewards paid in December) and are thus by EUR 12.8 million or 4% higher YoY. The increase was mostly due to higher employee costs in the amount of EUR 6.1 million (adjustments on management board and senior management post-privatization compensation) and other general and administrative costs (licences, consulting and supervision).

CIR stood at 58.7%, a 0.2 p.p. YoY increase driven by higher income.

Net Impairments and Provisions

In 2019, the Group established EUR 1.0 million of net impairments and provisions, while in 2018 EUR 23.3 million were released.

Impairments and provisions for credit risk were net released in the amount of EUR 13.3 million and thus the cost of risk of was negative, -20 bps.

Other impairments and provisions in 2019 were net established in the amount of EUR 14.3 million (of which established human resource provisions for reorganization in the Bank in the amount of EUR 5.5 million, pending legal disputes in the amount of EUR 5.7 million, and impairments of non-financial assets in the amount of EUR 3.2 million), while in 2018 they were net established in the amount of EUR 6.9 million.

Financial Position

Table 3: Statement of financial position of NLB Group

in EUR million	NLB Group						
	31 Dec 2019	30 Sep 2019	31 Dec 2018	Change YoY		Change QoQ	
ASSETS							
Cash, cash balances at central banks, and other demand deposits at banks	2,101.3	1,531.4	1,588.3	513.0	32%	570.0	37%
Loans to banks	93.4	90.3	118.7	-25.3	-21%	3.1	3%
Loans to customers	7,604.7	7,496.0	7,148.4	456.3	6%	108.7	1%
Gross loans	7,938.3	7,905.1	7,627.5	310.8	4%	33.2	0%
- Corporate	3,646.3	3,661.5	3,540.4	105.8	3%	-15.2	0%
- Individuals	4,013.5	3,931.5	3,726.5	287.0	8%	82.0	2%
- State	278.6	312.1	360.5	-82.0	-23%	-33.5	-11%
Impairments and valuation of loans to customers	-333.6	-409.0	-479.0	145.4	30%	75.4	18%
Financial assets	3,829.7	3,841.4	3,399.2	430.5	13%	-11.7	0%
- Trading book	24.0	87.6	63.6	-39.6	-62%	-63.5	-73%
- Non-trading book	3,805.7	3,753.9	3,335.6	470.0	14%	51.8	1%
Investments in subsidiaries, associates, and joint ventures	7.5	7.5	37.1	-29.6	-80%	0.0	-1%
Property and equipment, investment property	247.9	247.5	236.0	11.9	5%	0.5	0%
Intangible assets	39.5	35.7	35.0	4.6	13%	3.9	11%
Other assets	250.0	239.8	177.1	72.8	41%	10.2	4%
TOTAL ASSETS	14,174.1	13,489.5	12,740.0	1,434.1	11%	684.5	5%
LIABILITIES							
Deposits from customers	11,612.3	11,038.2	10,464.0	1,148.3	11%	574.1	5%
- Corporate	2,772.0	2,429.9	2,337.3	434.7	19%	342.1	14%
- Individuals	8,582.9	8,330.2	7,865.6	717.3	9%	252.7	3%
- State	257.4	278.0	261.1	-3.7	-1%	-20.7	-7%
Deposits from banks and central banks	42.8	56.3	26.8	16.1	60%	-13.5	-24%
Borrowings	234.8	242.7	320.3	-85.4	-27%	-7.9	-3%
Other liabilities	342.6	357.6	256.5	86.1	34%	-15.0	-4%
Subordinated liabilities	210.6	90.3	15.1	195.5	-	120.3	133%
Equity	1,685.9	1,661.5	1,616.2	69.7	4%	24.4	1%
Non-controlling interests	45.0	42.9	41.2	3.8	9%	2.1	5%
TOTAL LIABILITIES AND EQUITY	14,174.1	13,489.5	12,740.0	1,434.1	11%	684.6	5%

Total assets increased by EUR 1,434.1 million YoY and totalled EUR 14,174.1 million, mainly due to the continued inflows of deposits. On the asset side the funds were placed in the securities for the banking book, loans to customers and other liquid assets.

Total net loans to customers increased by 6% YoY to EUR 7,604.7 million (gross loans to customers: EUR 7,938.3 million, 4% higher YoY).

Deposits from customers increased by 11% YoY or EUR 1,148.3 million and derive mostly from an increase of deposits from individuals (EUR 717.3 million or 9%). Corporate deposit increase (19% YoY) was to a large extent related to a one-off event at the end of 2019.

In 2019, the Bank raised three subordinated Tier 2 instruments in the cumulative amount of EUR 210.6 million (carrying amount). As the Bank had not obtained the ECB's approval to count the subordinated Tier 2 loan in the amount of EUR 45 million towards its capital by the end of 2019 and was not reasonably expected to receive it in the near future, the Bank exercised early repayment of this loan on 17 January 2020.

The LTD ratio (net) was 65.5% at the Group level; a decrease of 2.8 p.p. YoY as a result of increased deposits, which was partially neutralized by growing, but still moderate demand for loan.

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



* Including Gross loans to Corporate and to State.

Key business activities recorded an 8% increase of gross loans to customers YoY to EUR 7,559.6 million. YoY increase of gross loans to customers was recorded in Strategic Foreign Markets (EUR 229.4 million), in Retail Banking in Slovenia (EUR 166.8 million, of which a EUR 38.1 million increase relates to the transfer of micro clients from the Corporate and Investment Banking in Slovenia segment) and in the Key/SME corporate segment (EUR 143.9 million).

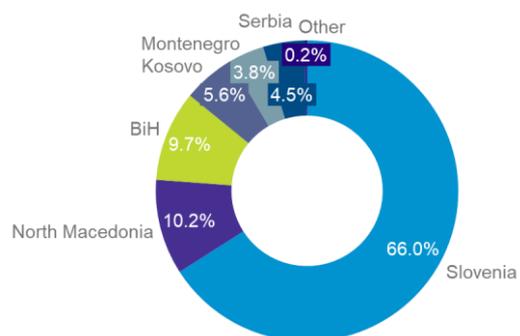
Figure 7: NLB Group deposits from customers by Key business activities (in EUR million)



* Including Deposits from Corporate and from State.

Deposits from customers in Key business activities increased by 12% YoY, with Strategic Foreign Markets and Retail Banking in Slovenia recording a substantial increase (EUR 158.0 million and EUR 136.2 million on QoQ or EUR 418.6 million and EUR 641.7 million YoY). Corporate deposit increase was related to the one-off event at the end of 2019.

Figure 8: Total assets of NLB Group by booking entity (in %)²

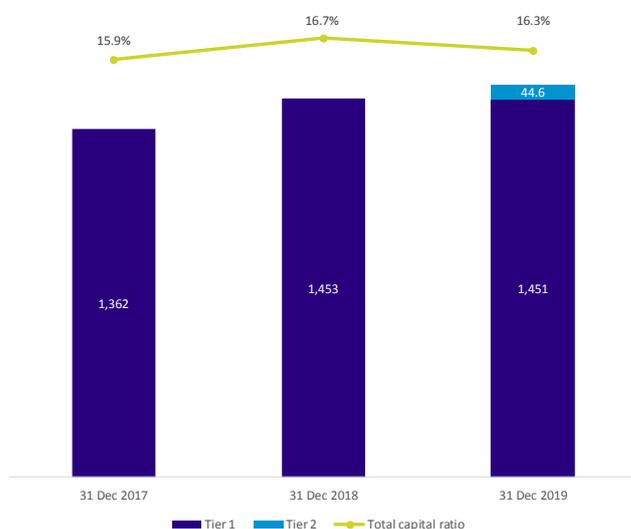


Notes:

² Geographical analysis based on the booking entity.

Capital

Figure 9: NLB Group Capital (in EUR million) and Total Capital Ratio (in %)



The Overall Capital Requirement (OCR) amounted to 14.75% for the Bank on a consolidated basis, consisting of:

- 11.25% TSCR (8% Pillar 1 Requirement and 3.25% 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 2019 was raised to 14.75%, due to the gradual phase-in of the Capital Conservation Buffer as prescribed by the law and introduction of the O-SII Buffer. On the other hand, Pillar 2 Requirement decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment. Pillar 2 Guidance (P2G) amounts to 1.0% of CET1.

From 1 January 2020, NLB is required to maintain the OCR at the level of 14.25% on a consolidated basis, consisting of:

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

Pillar 2 Requirement decreased by 0.5 p.p. to 2.75%, as a result of better overall SREP assessment.

Table 4: NLB Group Capital requirements and buffers

		2020	2019	2018
Pillar 1	CET1	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%
	Tier 2	2.0%	2.0%	2.0%
Pillar 2 (P2R)	CET1	2.75%	3.25%	3.5%
Total SREP Capital Requirement (TSCR)	CET1	7.25%	7.75%	8.0%
	Tier 1	8.75%	9.25%	9.5%
	Total Capital	10.75%	11.25%	11.5%
Combined Buffer requirement (CBR)				
Conservation buffer	CET1	2.5%	2.5%	1.875%
O-SII buffer	CET1	1.0%	1.0%	0.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%
	CET1	10.75%	11.25%	9.875%
Overall capital requirement (OCR) = MDA threshold	Tier 1	12.25%	12.75%	11.375%
	Total Capital	14.25%	14.75%	13.375%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.5%
OCR + P2G	CET1	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 P2G.

To strengthen and optimize the capital structure, the Bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million on 6 May 2019; the instrument has been included in the capital since 30 June 2019. In addition to that, on 19 November 2019, the bank issued 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million, which are still subject to the BoS/ECB approval process and therefore not included in the capital as of 31 December 2019.

On 17 September 2019, the Bank entered into a loan agreement to raise EUR 45 million of subordinated Tier 2 debt. As the Bank had not obtained the ECB's approval to count the Tier 2 loan towards its capital by the end of 2019 and was not reasonably expected to receive it in the near future, the Bank exercised early repayment of the loan on 17 January 2020.

As at 31 December, the Total Capital Ratio for the Group stood at 16.3% (or 0.5 p.p. lower than at the end of 2018), and for NLB at 22.6% (or 1.4 p.p. lower than at the end of 2018). The Tier 1 ratio and CET1 ratio (15.8% or 0.9 p.p. lower than at the end of 2018) differs from the Total Capital Ratio due to the subordinated Tier 2 notes issuance conducted in May. The lower capital adequacy compared to the end of 2018 derives from higher RWA YoY (EUR 507.9 million for the Group). In June 2019, NLB paid out dividends in the total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. Total capital increased by EUR 42.4 million, mainly due to inclusion of the Tier 2 notes (EUR 44.6 million).

Table 5: Total Risk Exposure (in EUR million) for NLB Group

	31 Dec 2019	31 Dec 2018	31 Dec 2017	Change YoY
Total risk exposure amount (RWA)	9,186	8,678	8,546	5.9%
RWA for credit risk	7,720	7,180	7,096	7.5%
RWA for market risks + CVA	524	544	501	-3.8%
RWA for operational risk	942	953	949	-1.2%

The RWA for credit risk increased by EUR 540.6 million YoY, mainly in the Corporate and Retail segment³ in the amount of EUR 397.3 million due to loan growth.

Notes:

³ Based on COREP segmentation.

Segment Analysis

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, as well as the results of the jointly-controlled company NLB Vita and the associated company Bankart.
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Investment Banking and Custody, and Restructuring and Workout.
- 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 according to the EC commitments, REAM entities, NLB Srbija and NLB Crna Gora.

From 2019, some shifts in reporting of business segments have been applied, following the completion of the restructuring process imposed by the EC and also reflecting strategic streamlining of business operations within the corporate segment as follows:

- Results from Investment Banking and Custody Services have been transferred from Financial Markets in Slovenia to the enlarged Corporate and Investment Banking in Slovenia.
- Micro clients in Slovenia have been transferred from Corporate and Investment Banking in Slovenia to Retail Banking in Slovenia.
- Corporate exposures previously reported in Non-Core Markets and Activities have been transferred to Corporate and Investment Banking in Slovenia given that special reporting requirements from the EC commitments have ceased to apply. The remaining segment has been renamed Non-Core Members and contains non-core subsidiaries mostly in liquidation.
- Further, the SPVs established for NPLs from banks in Serbia and Montenegro, NLB Srbija and NLB Crna Gora, have been transferred from Strategic Foreign Markets to Non-Core Members.

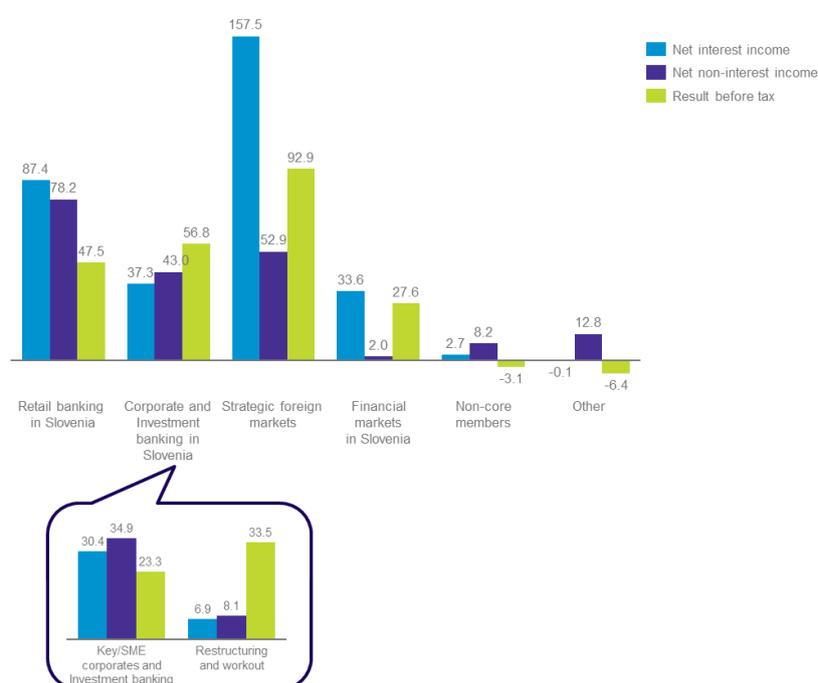
Due to the new methodology, the segment results for 2019 are not directly comparable to the segment results from the previous year. The table below presents the estimated effects due to the segment changes for the full year 2018.

Table 6: Estimated effects of the segment methodology changes for 2018

in EUR million	Retail banking in Slovenia	Corporate and Investment banking in Slovenia	Strategic foreign markets	Financial markets in Slovenia	Non-core members	Other
Net interest income	3.1	1.8	0.5	-0.3	-5.1	
Net non-interest income	4.6	2.3	-1.8	-8.2	3.2	
Total costs*	-6.1	-4.4	1.4	6.1	3.0	no effects
Impairments and provisions*	-0.9	6.6	1.4	0.0	-7.1	
Result before tax	0.7	6.3	1.5	-2.4	-6.1	
Total assets	37.1	-9.5	-43.5	47.9	-32.1	
Gross loans to customers	38.1	111.8	-69.0	-0.1	-80.8	no effects
Deposit from customers	188.1	-107.6	0.0	-71.0	-9.6	

*negative value=increase, positive value=decrease

Figure 10: Segment results of NLB Group (in EUR million)



The Core markets and activities achieved a profit before tax of EUR 218.5 million. Strategic Foreign Markets contributed the largest share to positive profit before tax in the amount of EUR 92.9 million, followed by the segment of Corporate and Investment Banking in Slovenia with EUR 56.8 million, Retail Banking in Slovenia with EUR 47.5 million, Financial Markets in Slovenia with EUR 27.6 million and segment Other with loss before tax in the amount of EUR 6.4 million.

Retail Banking in Slovenia

Table 7: Key financials of Retail Banking in Slovenia⁴

in EUR million consolidated		Retail banking in Slovenia					
	2019	2018	Change YoY		Q4 2019	Q3 2019	Change QoQ
Net interest income	87.4	79.3	8.1	10%	21.8	21.4	2%
Net non-interest income	78.2	67.1	11.1	17%	21.4	21.7	-2%
o/w Net fee and commission income	81.9	73.2	8.8	12%	20.9	21.2	-2%
Total net operating income	165.6	146.4	19.2	13%	43.2	43.1	0%
Total costs	-117.9	-107.3	-10.6	-10%	-33.8	-28.9	-17%
Result before impairments and provisions	47.7	39.1	8.6	22%	9.3	14.2	-34%
Impairments and provisions	-4.4	-3.7	-0.7	-19%	-1.5	-1.1	-44%
Net gains from investments in subsidiaries, associates, and JVs	4.2	5.4	-1.2	-23%	0.0	1.6	-97%
Result before tax	47.5	40.9	6.6	16%	7.9	14.8	-47%

	31 Dec 2019	30 Sep 2019	31 Dec 2018	Change YoY	Change QoQ
Net loans to customers	2,385.1	2,347.5	2,217.4	167.7	8%
Gross loans to customers	2,410.2	2,375.3	2,243.4	166.8	7%
Housing loans	1,425.0	1,401.9	1,374.6	50.5	4%
Interest rate on housing loans	2.54%	2.55%	2.50%	0.04 p.p.	-0.01 p.p.
Consumer loans	688.3	682.2	599.0	89.3	15%
Interest rate on consumer loans	6.33%	6.32%	5.88%	0.45 p.p.	0.01 p.p.
Other	296.9	291.1	269.9	27.0	10%
Deposits from customers	6,456.2	6,320.0	5,814.5	641.7	11%
Interest rate on deposits	0.05%	0.05%	0.08%	-0.03 p.p.	0.00 p.p.
Non-performing loans (gross)	40.8	43.3	43.0	-2.2	-5%

	2019	2018	Change YoY
Cost of risk (in bps)	19	17	2
CIR	71.2%	73.3%	-2.1 p.p.
Interest margin	2.04%	2.02%	0.02 p.p.

Profit before tax amounted to EUR 47.5 million, 16% increase YoY, mostly due to higher net interest and net non-interest income.

Net interest income was 10% higher YoY due to higher interest rates and growth in volume of gross loans in the amount of EUR 166.8 million YoY, of which EUR 38.1 million increase relates to the transfer of micro clients from the Corporate segment. The production of new consumer loans amounted to EUR 368.6 million (EUR 336.2 million in 2018), which led to an increase of balance of EUR 89.3 million YoY. Housing loans increased by EUR 50.5 million YoY. The share of consumer loans in all gross loans increased to 29% (from 27% at the end 2018).

The segment recorded EUR 78.2 million of **net non-interest income**. The comparison shows EUR 11.1 million (17%) increase YoY, EUR 8.8 million due to an increase in net fee and commission income, of which EUR 0.5 million increase is related to NLB Skladi and EUR 0.6 million to bancassurance business. The effect of the transfer of micro clients from Corporate to Retail segment is assessed to amount to EUR 4.6 million.

Considering the effect of the change in segment presentation (approximately EUR 6.1 million) **the total costs** were EUR 10.6 million higher YoY.

The presentation of the increase in **deposits from customers** YoY (EUR 641.7 million) is mostly due to an increase in demand deposits from retail clients and transfer of micro clients from Corporate segment (EUR 188.1 million).

Notes:

⁴ Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year. The quarterly results of the segment as presented here are comparable.

Corporate and Investment Banking in Slovenia

Table 8: Key Financials of Corporate and Investment Banking in Slovenia⁵

in EUR million consolidated							
Corporate and Investment banking in Slovenia							
	2019	2018	Change YoY		Q4 2019	Q3 2019	Change QoQ
Net interest income	37.3	42.5	-5.3	-12%	8.9	8.7	2%
Net non-interest income	43.0	34.1	8.8	26%	9.6	8.9	8%
o/w Net fee and commission income	32.4	29.9	2.5	8%	7.7	8.5	-9%
Total net operating income	80.2	76.7	3.6	5%	18.5	17.6	5%
Total costs	-44.4	-43.0	-1.5	-3%	-12.8	-10.8	-19%
Result before impairments and provisions	35.8	33.7	2.1	6%	5.7	6.8	-17%
Impairments and provisions	21.0	26.6	-5.6	-21%	3.2	14.9	-78%
Result before tax	56.8	60.4	-3.5	-6%	8.9	21.7	-59%

	31 Dec 2019	30 Sep 2019	31 Dec 2018	Change YoY		Change QoQ
Net loans to customers	2,049.6	2,031.2	1,950.4	99.2	5%	1%
Gross loans to customers	2,150.9	2,179.5	2,061.0	89.9	4%	-1%
Corporate	1,976.8	1,998.8	1,854.4	122.4	7%	-1%
Key/SME Corporates	1,819.3	1,779.0	1,643.2	176.1	11%	2%
Interest rate on Key/SME Corporates loans	1.82%	1.83%	1.88%	-0.06 p.p.		-0.01 p.p.
Investment banking*	0.1	0.1	0.1	-		-
Restructuring and Workout	157.4	219.7	211.2	-53.8	-25%	-28%
State	173.6	180.3	206.1	-32.5	-16%	-4%
Interest rate on State loans	1.88%	1.98%	1.69%	0.19 p.p.		-0.10 p.p.
Deposits from customers	1,299.1	1,014.5	1,120.8	178.3	16%	28%
Interest rate on deposits	0.07%	0.07%	0.07%	0.00 p.p.		0.00 p.p.
Non-performing loans (gross)	128.7	188.2	179.7	-51.1	-28%	-32%

	2019	2018	Change YoY
Cost of risk (in bps)	-103	-135	32
CIR	55.4%	56.0%	-0.6 p.p.
Interest margin	2.20%	2.61%	-0.41 p.p.

*Investment banking was shown as separate part of this segment before 2019. Profit before tax of Investment banking for year 2018 in amount EUR 2.8 million.

Profit before tax amounted to EUR 56.8 million, 6% decrease YoY, of which a positive effect of EUR 6.3 million was recorded due to the change in segment presentation.

Net interest income decreased EUR 5.3 million YoY, mostly due to decrease in balances in restructuring and workout loans and partly because of lower interest margins. EUR 89.9 million increase of gross loans to customers was affected by the change in segment presentation in net amount of EUR 111.8 million (EUR 149.8 million due to transfer from NLB Non-Core and EUR -38.1 million from transfer of micro clients to Retail). Key and SME clients recorded the growth in gross loans mostly due to production of new long-term loans, especially in H2 2019. The gross loans to state recorded a decrease of EUR 32.5 million YoY.

Net fee and commission income increased EUR 2.5 million YoY, of which most represents the effect of the change in segment presentation (positive effects of EUR 5.0 million and EUR 0.6 million due to inclusion of Investment Banking and previously Non-Core Corporate exposures in the segment, respectively, and negative effect of EUR -3.6 million due to the transfer of micro clients to Retail).

Total costs increased EUR 1.5 million YoY, mostly due to the change in segment presentation (EUR 4.4 million).

Impairments and provisions were released in the amount of EUR 21.0 million as a result of successful restructuring and sale of pledged real-estate.

Notes:

⁵ Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year. The quarterly results of the segment as presented here are comparable.

Strategic Foreign Markets

Table 9: Key Financials of Strategic Foreign Markets⁶

in EUR million consolidated		Strategic foreign markets					
	2019	2018	Change YoY		Q4 2019	Q3 2019	Change QoQ
Net interest income	157.5	150.1	7.4	5%	40.0	39.7	1%
Net non-interest income	52.9	63.9	-11.0	-17%	15.0	14.1	7%
o/w Net fee and commission income	55.0	50.1	4.9	10%	14.5	14.7	-2%
Total net operating income	210.4	214.0	-3.6	-2%	55.0	53.8	2%
Total costs	-106.2	-100.0	-6.2	-6%	-28.7	-26.4	-9%
Result before impairments and provisions	104.2	114.0	-9.8	-9%	26.3	27.4	-4%
Impairments and provisions	-11.3	-14.3	3.0	21%	-5.3	1.1	-
Result before tax	92.9	99.7	-6.8	-7%	21.0	28.5	-26%
o/w Result of minority shareholders	8.2	7.9	0.3	4%	2.0	2.4	-15%

	31 Dec 2019	30 Sep 2019	31 Dec 2018	Change YoY		Change QoQ
Net loans to customers	3,024.6	2,907.9	2,718.0	306.6	11%	4%
Gross loans to customers	3,162.1	3,059.9	2,932.7	229.4	8%	3%
Individuals	1,603.8	1,555.2	1,438.1	165.7	12%	3%
<i>Interest rate on retail loans</i>	6.71%	6.76%	7.09%	-0.38 p.p.		-0.05 p.p.
Corporate	1,470.3	1,414.7	1,405.0	65.3	5%	4%
<i>Interest rate on corporate loans</i>	4.49%	4.54%	4.92%	-0.43 p.p.		-0.05 p.p.
State	88.0	90.0	89.6	-1.7	-2%	-2%
<i>Interest rate on state loans</i>	4.00%	4.12%	4.33%	-0.32 p.p.		-0.12 p.p.
Deposits from customers	3,856.7	3,698.6	3,438.1	418.6	12%	4%
<i>Interest rate on deposits</i>	0.53%	0.54%	0.61%	-0.09 p.p.		-0.01 p.p.
Non-performing loans (gross)	111.6	132.6	219.9	-108.3	-49%	-16%

	2019	2018	Change YoY
Cost of risk (in bps)	17	35	-18
CIR	50.5%	46.7%	3.7 p.p.
Interest margin	3.59%	3.85%	-0.26 p.p.

Profit before tax amounted to EUR 92.9 million, 7% decrease YoY, due to one-off effect of the sale of NLB Nov penziski fond in Q1 2018.

Increase of **net interest income** by EUR 7.4 million YoY was recorded on behalf of higher volume (EUR 229.4 million increase of gross loans to customers YoY), despite the decreasing trend of interest margins.

Regular part of **net non-interest income**— net fee and commission income increased by EUR 4.9 million or 10%. Nevertheless, total net non-interest income decreased EUR 11.0 million YoY, due to one-off positive effect of the sale of NLB Nov penziski fond in Q1 2018.

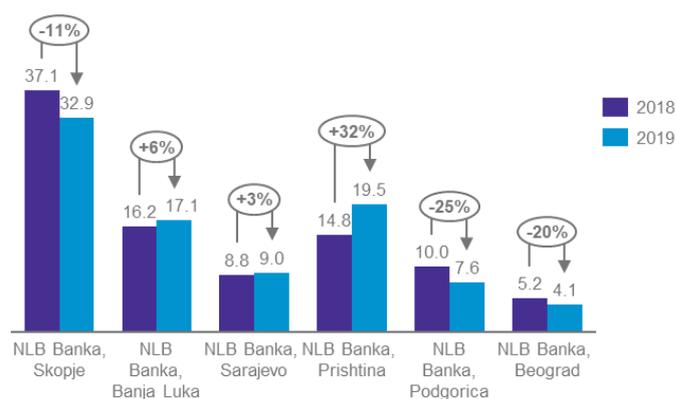
Total costs increased by EUR 6.2 million YoY, despite EUR 1.4 million decrease due to the change in segment presentation.

Net impairments and provisions were established in the amount of EUR 11.3 million in 2019 (of which EUR 3.1 million due to established provisions for pending legal disputes in NLB Banka, Podgorica), while in 2018 in the amount of EUR 14.3 million.

Gross loans to customers increased by EUR 229.4 million YoY due to an increase in gross loans in most subsidiary banks, whereas the largest increases were recorded in NLB Banka, Beograd (EUR 91.7 million) and NLB Banka, Prishtina (EUR 73.2 million). High increase was negatively affected by the change in segment presentation (EUR -69.0 million).

Notes:

⁶ Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year. The quarterly results of the segment as presented here are comparable.

Figure 11: Net profit of strategic NLB Group banks⁷ (in EUR million)

All SEE subsidiary banks reported profits and contributed substantially (43%) to the Group's result (2018: 39%).

All the subsidiary banks finished the year with net profit (the fifth year in a row, EUR 90.2 million in total) as a result of increased business volumes, cost efficiency management and favourable cost of risk. The largest increase in loans to non-banking sector was realized by NLB Banka, Beograd (29% increase YoY) and NLB Banka, Prishtina (16% increase YoY), while in the retail segment the double-digit growth rates were recorded in four out of six banks. Implemented cost efficiency measures resulted in NLB Banka, Prishtina reaching the group-wide best CIR of 31.9%, followed by NLB Banka, Skopje (41.0%), NLB Banka, Banja Luka (43.2%) and NLB Banka, Podgorica (51.4%). Compared to 2018 less new provisions were created, EUR 3 million in total; in addition, NLB Banka, Banja Luka even evidenced a net release of impairments. Net profit (IFRS) of NLB Banka, Podgorica and NLB Banka, Beograd was impacted by provisioning against the potential impact of certain pending legal disputes.

Notes:

⁷ Data on the stand-alone basis as included in the consolidated financial statements of the Group.

Financial Markets in Slovenia

Table 10: Key Financials of Financial Markets in Slovenia⁸

in million EUR consolidated		Financial markets in Slovenia					
	2019	2018	Change YoY		Q4 2019	Q3 2019	Change QoQ
Net interest income	33.6	31.4	2.1	7%	8.4	9.3	-10%
Net non-interest income	2.0	-1.1	3.1	-	0.3	0.2	3%
Total net operating income	35.6	30.3	5.3	17%	8.7	9.5	-9%
Total costs	-7.5	-6.5	-1.0	-15%	-2.3	-1.6	-44%
Result before impairments and provisions	28.1	23.8	4.3	18%	6.3	7.9	-20%
Impairments and provisions	-0.5	0.2	-0.7	-	0.0	0.0	-
Result before tax	27.6	24.0	3.6	15%	6.4	7.9	-20%
	31 Dec 2019	30 Sep 2019	31 Dec 2018	Change YoY		Change QoQ	
Balances with Central banks	1,044.1	468.8	575.0	469.1	82%	123%	
Banking book securities	3,093.6	3,053.1	2,755.2	338.3	12%	1%	
<i>Interest rate on banking book securities</i>	<i>1.03%</i>	<i>1.04%</i>	<i>1.25%</i>	<i>-0.22 p.p.</i>		<i>-0.01 p.p.</i>	
Wholesale funding*	161.6	170.6	244.1	-82.6	-34%	-5%	
<i>Interest rate on wholesale funding*</i>	<i>0.50%</i>	<i>0.48%</i>	<i>0.50%</i>	<i>0.00 p.p.</i>		<i>0.02 p.p.</i>	
Subordinated liabilities	210.6	90.3		-		-	
<i>Interest rate on subordinated liabilities</i>	<i>4.03%</i>	<i>4.22%</i>		-		-	

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

Profit before tax amounted to EUR 27.6 million, 15% increase YoY, despite negative effect of EUR -2.4 million recorded due to the change in segment presentation.

Net interest income EUR 2.1 million higher YoY, mostly due to higher volumes, since the yields on securities decreased YoY.

Higher **net non-interest income**, EUR 3.1 million YoY, mostly due to active management of banking book securities, which positively affected the net income from financial transactions mostly in Q1 2019.

Increase in **balances with the central bank** (EUR 469.1 million YoY) due to high inflow of deposits (one-off item). Increase in **banking book securities** (EUR 338.3 million YoY) due to surplus in liquidity.

Notes:

⁸ The segment Financial Markets in Slovenia was in the previous reports shown without Investment Banking, so the results are comparable with the previous year.

Non-Core Members

Table 11: Key Financials of Non-Core members⁹

in EUR million consolidated		Non-core members					
	2019	2018	Change YoY		Q4 2019	Q3 2019	Change QoQ
Net interest income	2.7	9.3	-6.6	-71%	0.6	0.6	-10%
Net non-interest income	8.2	5.2	3.0	59%	1.7	2.2	-19%
Total net operating income	11.0	14.5	-3.5	-24%	2.3	2.8	-17%
Total costs	-14.0	-18.2	4.3	23%	-4.0	-3.4	-18%
Result before impairments and provisions	-3.0	-3.7	0.7	19%	-1.7	-0.6	-169%
Impairments and provisions	-0.1	11.9	-12.0	-	-1.4	0.3	-
Result before tax	-3.1	8.2	-11.3	-	-3.2	-0.3	-
	31 Dec 2019	30 Sep 2019	31 Dec 2018	Change YoY	Change QoQ		
Segment assets	169.5	192.9	263.7	-94.2	-36%	-12%	
Net loans to customers	67.4	83.8	160.9	-93.5	-58%	-20%	
Gross loans to customers	137.2	164.7	288.6	-151.4	-52%	-17%	
Investment property and property & equipment received for repayment of loans	75.6	81.1	68.5	7.0	10%	-7%	
Other assets	26.5	27.9	34.3	-7.8	-23%	-5%	
Deposits from customers	0.0	0.0	9.6	-9.6	-	-	
Non-performing loans (gross)	93.6	112.2	179.7	-86.1	-48%	-17%	
	2019	2018	Change YoY				
Cost of risk (in bps)	-218	-705	487				
CIR	127.2%	125.5%	1.7 p.p.				

The segment recorded EUR 3.5 million decrease of **net operating income**, which included a transfer of the NLB Non-Core part to Corporate and Investment Banking segment (approximately EUR -3.3 million) and a transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets (EUR 1.3 million); effect on **net non-interest income** from contractual penalty (EUR 1.3 million) in Q1 2019.

Decrease in **total costs**, EUR 4.3 million YoY, due to positive effect of divestment of non-strategic Group members, transfer of NLB Non-Core part to Corporate (approximately EUR 4.4 million) and negative effect of transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets (EUR 1.4 million).

A substantial decrease in **total assets** of the segment YoY (EUR 94.2 million, of which EUR 32.1 million due to the change in segment presentation), which is in line with the divestment strategy of the Non-Core segment.

Notes:

⁹ Due to the new methodology, the results of this segment for 2019 are not directly comparable to its results from the previous year. The quarterly results of the segment as presented here are comparable.

Mid-Term Targets, Risk Factors and Outlook 2020

Mid-Term Targets by 2023

Table 12: Key performance indicators

	1-12/31 Dec. 2019	1-12/31 Dec. 2018	Mid-term Targets
Net interest margin (NIM)	2.48%	2.56%*	> 2.7%
Loan to deposit (LTD) ratio	65.5%	68.3%	< 95.0%
Total capital ratio	16.3%**	16.7%	16.25%***
Costs to income ratio (CIR)	58.7%	58.5%	~ 50.0%
Cost of risk Net (bps)	-20	-43	< 90
NPE ratio (EBA definition)	2.7%	4.7%	< 4.0%
Return on equity after tax (ROE a.t.)	11.7%	11.8%	~12.0%

* Interest margin data for 2018 are adjusted to the new methodology (calculation based on the number of days for the period).

** The ratio is above applicable OCR requirement for 2019.

*** Target total capital ratio is regularly revised by the competent bodies to reflect each time the applicable capital requirements.

In line with the strategic mid-term targets by 2023, the Group is pursuing a range of activities to achieve all its strategic financial objectives. The environment has visibly changed, especially in the eurozone, given adverse interest rate outlook and possible further decreases of the ECB deposit rates.

In November 2019, the Group approved its new, comprehensive five-year strategy aimed to protect and strengthen its market position in its home region and actively participate in the growth and consolidation of the market. As the leading player, the Bank would like to best serve its clients' financial needs. In retail banking, the Bank is striving to get closer to its clients through anchor products and by offering personalised digital services (e.g. omni-channel, marketplace) to suit their lifestyle. In corporate banking the Bank is looking to cover more complex, cross-border needs of clients and find entry points to suit all the clients' needs.

Risk Factors

Risk factors affecting the business outlook are (among others): the economies' sensitivity to a potential slowdown in the eurozone, worsened interest rate outlook, regulatory and tax measures impacting the banks, and geopolitical uncertainties.

Economic momentum in the region where the Group operates is gradually slowing down, as a consequence of the global and eurozone economic slowdown, nevertheless it remains favourable. The economic growth of the Group's region remains solid. In addition to that, structural unbalances and the economic slowdown in this region might decrease consumer spending and industrial production and increase unemployment. Further consolidation of the banking sector in Slovenia may have an impact on the market competition.

Such circumstances could have an adverse impact on the Group's current operating results and related profitability, although no material impact is currently anticipated. Potential negative impacts could primarily be caused by the unfavourable low interest rate environment, lower interest margins, further deterioration of macroeconomic circumstances, and instability in financial markets.

In this regard, the Group closely follows macroeconomic indicators relevant to the Group's operations:

- GDP trends,
- Growth of loans in the banking sector,
- Economic sentiment,
- Unemployment,
- Consumer confidence,
- Construction sentiment,
- FX rates,
- Interest rate development and related future forecasts,
- Other relevant market indicators.

The Group established 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 severe unexpected changes in the business and macro environment might affect the Group's capital adequacy or liquidity position. Both, stress testing framework and early warning systems, support proactive management of the Group's overall risk profile, namely capital and liquidity position 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

The macro outlook suggests that the countries where the Group operates are likely to experience growth at around three percent, if supported by loose monetary conditions, fiscal easing and solid domestic demand. The public debt in all those markets is below the EU average, accompanied by low household indebtedness and solid savings performance.

Considering these circumstances, continued loan growth is expected in all geographies where the Group is present, safe for the retail market in Slovenia where new regulatory lending restrictions have been put in place by end 2019. Margins are expected to be under further pressure as observed in 2019, with business in retail lending being more resilient compared to corporate lending. The Group continues to strive for increasing margins over time by emphasizing higher margin activities and pursuing new opportunities such as leasing. Losses in rate revenues will be partially mitigated by further emphasis on fee income.

While it is too early to conclude, more challenges to grow revenues in retail business in Slovenia are expected given the new imposed lending restrictions. Strategic foreign markets should grow on similar pace as in 2019. It needs to be emphasized that in the past years net non-interest income included non-recurring components which are by nature unpredictable.

Costs are expected to continue growing with the same magnitude as in 2019 but are expected to plateau after that. Increased investments on IT upgrades, strategy implementation and labour cost inflation should result in similar relative increases in employee costs and other general administrative costs.

The cost of risk is expected to continue to normalize, but should stay at a reasonably low level. Asset quality is stable, and no material deterioration is foreseen.

NLB is currently in the process of a potential acquisition of Komercijalna banka in Serbia. As the outcome of the transaction is not clear, any potential effects are not included in the outlook.

Asset Quality

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 investments 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.

Figure 12: NLB Group structure of the credit portfolio (gross loans and advances) by segment and rating¹⁰

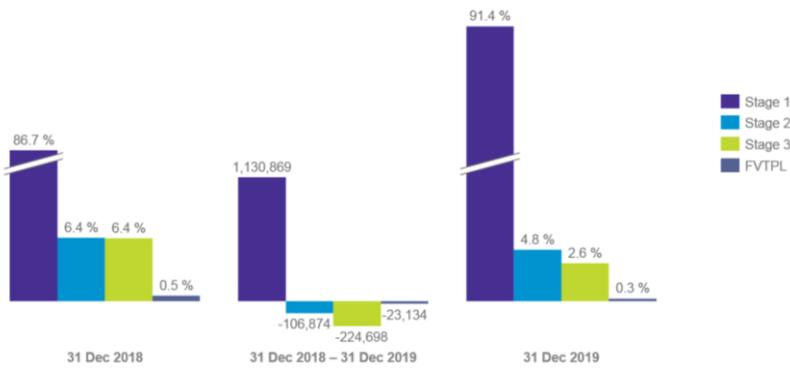


The current structure of credit portfolio (gross loans) consists of 41% of retail clients, 19% of large corporate clients, 20% of SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. In comparison with the previous year, credit portfolio structure has changed in favour of retail loans. There is no large concentration in any specific industry or client segment. The majority of the Group's loan portfolio is classified as Stage 1 (91.4%), a relatively small portion as Stage 2 (4.8%) and Stage 3 (3.6%). Loans in stages from 1 to 3 are measured at amortized cost, while the remaining minor part (0.3%) represents fair value loans through P&L (FVTPL). The portfolio quality was very stable with increasing Stage 1 exposures and a reduction of NPL loans, which are below the Slovenian average. High Notes:

¹⁰ Gross exposures also include reserves at central banks and demand deposits at banks.

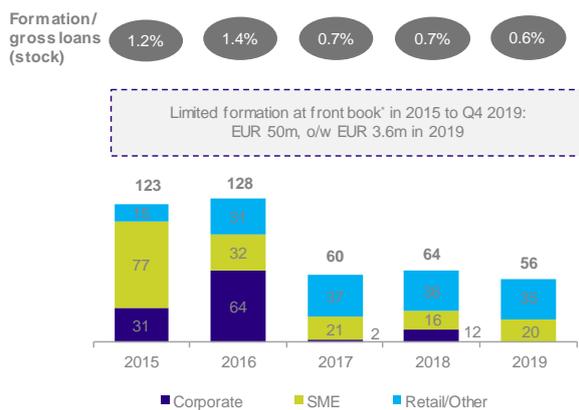
percentage of Stage 1 loan portfolio is a result of cautious lending policy, while the volume of Stage 2 loans is quite limited, this decrease in the past year occurred due to positive resolving of exposures in this stage.

Figure 13: NLB Group loan portfolio (valued at amortized cost) by stages



The Group is actively present on the market in the SEE region, financing existing and new creditworthy clients. The successful deleveraging of companies and new investment projects in Slovenia have had a positive influence on the approval of new loans, but nevertheless lending growth in corporate segment remained relatively moderate. In the retail segment, especially in the consumer loan segment, positive trends have been recorded throughout the region. The low unemployment rate and relatively high wage growth reflected in the increased household consumption alongside with the increasing residential real-estate prices. Efforts led to cumulatively very low new NPLs formation in the amount of EUR 55.8 million, which represents 0.6% of the total portfolio. In addition, a stable macroeconomic environment across the region resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and below mid-term strategic orientations.

Figure 14: Gross NPL formation



* Refers to Corporate loans disbursed since 2014 and Retail loans disbursed since 2015.

Precisely set targets in the Group’s NPL Strategy, an active workout and positive macroeconomic trends supported a further substantial reduction in the volume of the non-performing portfolio. The active approach to NPL management gives strong emphasis on 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 was reduced from EUR 622 million to EUR 375 million YoY. The combined result of all of the effects resulted in a lower share of NPLs from 6.9% to 3.8% YoY, while the internationally more comparable NPE ratio based on the EBA methodology dropped from 4.7% to 2.7% YoY. In addition, Group's indicator Gross NPL ratio, defined by EBA, decreased to 4.7%, and thus moved below the regulatory defined threshold for establishment of NPL strategy framework.

Figure 15: NLB Group NPL % and NPL coverage ratio %



* By internal definition.

An important Group's strength is the NPL coverage ratio 1, which remains high at 89.2%. Furthermore, the Group's NPL coverage ratio 2 stands at 65.0%, which is well above the EU average as published by the EBA (44.6% for Q3 2019). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years. Moreover, it proves that past reduction was done on average without a negative impact to the profit and loss account.

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 the other most frequent loan collateral types are insurance companies and guarantors.

Events after 31 December 2019

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 admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange on 5 February.

Financial Statements

Unaudited Annual Financial Statements of NLB Group
and NLB

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Income Statement

in EUR thousand

	NLB Group		NLB	
	2019	2018	2019	2018
Interest income, using the effective interest method	357,412	351,773	175,598	174,296
Interest income, not using the effective interest method	7,406	7,084	7,310	7,135
Interest and similar income	364,818	358,857	182,908	181,431
Interest and similar expense	(46,331)	(45,947)	(24,782)	(23,399)
Net interest income	318,487	312,910	158,126	158,032
Dividend income	208	118	71,231	49,692
Fee and commission income	234,979	218,559	137,898	132,677
Fee and commission expense	(64,640)	(57,944)	(33,943)	(32,514)
Net fee and commission income	170,339	160,615	103,955	100,163
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4,643	45	4,512	(365)
Gains less losses from financial assets and liabilities held for trading	10,465	9,500	3,335	2,885
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	18,765	4,036	16,289	5,284
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	-	(56)	-	(56)
Fair value adjustments in hedge accounting	(555)	472	(555)	472
Foreign exchange translation gains less losses	706	745	396	218
Gains less losses on derecognition of assets	3,355	2,644	432	123
Other operating income	16,270	18,680	8,508	9,768
Other operating expenses	(28,214)	(28,268)	(12,347)	(14,637)
Administrative expenses	(270,442)	(261,432)	(171,749)	(161,439)
Depreciation and amortisation	(30,964)	(27,224)	(18,046)	(17,531)
Gains less losses from modification	(182)	-	-	-
Provisions for credit losses	(312)	3,156	368	1,157
Provisions for other liabilities and charges	(11,135)	(1,512)	(5,586)	2,258
Impairment of financial assets	13,630	27,047	16,661	28,659
Impairment of non-financial assets	(3,177)	(5,414)	2,795	981
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	4,197	5,446	-	-
Gains less losses from non-current assets held for sale	(687)	11,828	(579)	11,822
Profit before income tax	215,397	233,336	177,746	177,486
Income tax	(13,579)	(21,759)	(1,597)	(12,187)
Profit for the year	201,818	211,577	176,149	165,299
Attributable to owners of the parent	193,576	203,647	176,149	165,299
Attributable to non-controlling interests	8,242	7,930	-	-
Earnings per share/diluted earnings per share (in EUR per share)	9.7	10.2	8.8	8.3

Statement of Comprehensive Income

in EUR thousand

	NLB Group		NLB	
	2019	2018	2019	2018
Net profit for the year after tax	201,818	211,577	176,149	165,299
Other comprehensive income after tax	19,040	(14,337)	4,446	(8,361)
<i>Items that will not be reclassified to income statement</i>				
Actuarial gains/(losses) on defined benefit pensions plans	(1,777)	1,166	(1,523)	884
Fair value changes of equity instruments measured at fair value through other comprehensive income	284	1,015	213	(10)
Share of other comprehensive income/(losses) of entities accounted for using the equity method	1,233	(1,120)	-	-
Income tax relating to components of other comprehensive income	(146)	141	104	(73)
<i>Items that may be reclassified subsequently to income statement</i>				
Foreign currency translation	1,299	(1,128)	-	-
Translation gains/(losses) taken to equity	1,299	(1,128)	-	-
Debt instruments measured at fair value through other comprehensive income	13,129	(12,343)	6,977	(11,311)
Valuation gains/(losses) taken to equity	16,526	(12,073)	11,202	(11,371)
Transferred to income statement	(3,397)	(270)	(4,225)	60
Share of other comprehensive income/(losses) of entities accounted for using the equity method	8,440	(5,375)	-	-
Income tax relating to components of other comprehensive income	(3,422)	3,307	(1,325)	2,149
Total comprehensive income for the year after tax	220,858	197,240	180,595	156,938
Attributable to owners of the parent	212,266	189,430	180,595	156,938
Attributable to non-controlling interests	8,592	7,810	-	-

Statement of Financial Position

in EUR thousand

	NLB Group		NLB	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Cash, cash balances at central banks, and other demand deposits at banks	2,101,346	1,588,349	1,292,211	795,102
Financial assets held for trading	24,038	63,609	24,085	63,611
Non-trading financial assets mandatorily at fair value through profit or loss	25,359	32,389	23,287	29,141
Financial assets measured at fair value through other comprehensive income	2,141,428	1,898,079	1,656,657	1,528,314
Financial assets measured at amortised cost				
- debt securities	1,653,848	1,428,962	1,485,166	1,274,978
- loans and advances to banks	93,403	118,696	144,352	110,297
- loans and advances to customers	7,589,724	7,124,633	4,568,599	4,451,477
- other financial assets	97,415	75,171	67,279	42,741
Derivatives - hedge accounting	788	417	788	417
Fair value changes of the hedged items in portfolio hedge of interest rate risk	8,991	2,517	8,991	2,517
Investments in subsidiaries	-	-	351,883	350,733
Investments in associates and joint ventures	7,499	37,147	1,366	4,777
Tangible assets				
Property and equipment	195,605	177,404	89,904	86,934
Investment property	52,316	58,644	9,303	12,026
Intangible assets	39,542	34,968	25,980	23,391
Current income tax assets	6,284	877	5,463	-
Deferred income tax assets	29,500	22,847	29,569	22,234
Other assets	63,811	70,971	11,142	10,637
Non-current assets classified as held for sale	43,191	4,349	5,532	1,720
Total assets	14,174,088	12,740,029	9,801,557	8,811,047
Trading liabilities	17,903	12,300	17,892	12,256
Financial liabilities measured at fair value through profit or loss	7,998	4,190	7,746	3,981
Financial liabilities measured at amortised cost				
- deposits from banks and central banks	42,840	26,775	89,820	48,903
- borrowings from banks and central banks	170,385	258,423	161,564	244,133
- due to customers	11,612,317	10,464,017	7,760,737	7,033,409
- borrowings from other customers	64,458	61,844	2,537	4,128
- subordinated liabilities	210,569	15,050	210,569	-
- other financial liabilities	158,484	100,887	98,342	62,212
Derivatives - hedge accounting	49,507	29,474	49,507	29,474
Provisions	88,414	80,134	60,384	56,994
Current income tax liabilities	2,271	12,152	-	10,784
Deferred income tax liabilities	2,833	2,499	-	-
Other liabilities	15,212	14,840	9,234	9,543
Total liabilities	12,443,191	11,082,585	8,468,332	7,515,817
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	26,493	7,823	20,285	15,839
Profit reserves	13,522	13,522	13,522	13,522
Retained earnings	574,489	523,493	228,040	194,491
	1,685,882	1,616,216	1,333,225	1,295,230
Non-controlling interests	45,015	41,228	-	-
Total equity	1,730,897	1,657,444	1,333,225	1,295,230
Total liabilities and equity	14,174,088	12,740,029	9,801,557	8,811,047

Statement of Changes in Equity

in EUR thousand

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 January 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 year	-	-	-	-	-	-	193,576	193,576	8,242	201,818
- Other comprehensive income	-	-	19,178	1,220	(1,708)	-	-	18,690	350	19,040
Total comprehensive income after tax	-	-	19,178	1,220	(1,708)	-	193,576	212,266	8,592	220,858
Dividends paid	-	-	-	-	-	-	(142,600)	(142,600)	(4,805)	(147,405)
Transfer of actuarial gains	-	-	-	-	(20)	-	20	-	-	-
Balance as at 31 December 2019	200,000	871,378	47,880	(17,055)	(4,332)	13,522	574,489	1,685,882	45,015	1,730,897

in EUR thousand

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 January 2018	200,000	871,378	45,143	(17,248)	(3,595)	13,522	588,186	1,697,386	36,891	1,734,277
- Net profit for the year	-	-	-	-	-	-	203,647	203,647	7,930	211,577
- Other comprehensive income	-	-	(14,200)	(1,027)	1,010	-	-	(14,217)	(120)	(14,337)
Total comprehensive income after tax	-	-	(14,200)	(1,027)	1,010	-	203,647	189,430	7,810	197,240
Dividends paid	-	-	-	-	-	-	(270,600)	(270,600)	(3,133)	(273,733)
Transfer of fair value reserve	-	-	(2,241)	-	(19)	-	2,260	-	-	-
Other	-	-	-	-	-	-	-	-	(340)	(340)
Balance as at 31 December 2018	200,000	871,378	28,702	(18,275)	(2,604)	13,522	523,493	1,616,216	41,228	1,657,444

in EUR thousand

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 January 2019	200,000	871,378	18,620	(2,781)	13,522	194,491	1,295,230
- Net profit for the year	-	-	-	-	-	176,149	176,149
- Other comprehensive income	-	-	5,824	(1,378)	-	-	4,446
Total comprehensive income after tax	-	-	5,824	(1,378)	-	176,149	180,595
Dividends paid	-	-	-	-	-	(142,600)	(142,600)
Balance as at 31 December 2019	200,000	871,378	24,444	(4,159)	13,522	228,040	1,333,225

in EUR thousand

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 January 2018	200,000	871,378	27,741	(3,497)	13,522	299,748	1,408,892
- Net profit for the year	-	-	-	-	-	165,299	165,299
- Other comprehensive income	-	-	(9,077)	716	-	-	(8,361)
Total comprehensive income after tax	-	-	(9,077)	716	-	165,299	156,938
Dividends paid	-	-	-	-	-	(270,600)	(270,600)
Transfer of fair value reserve	-	-	(44)	-	-	44	-
Balance as at 31 December 2018	200,000	871,378	18,620	(2,781)	13,522	194,491	1,295,230

Statement of Cash Flows

in EUR thousand

	NLB Group		NLB	
	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	407,372	390,588	228,618	216,528
Interest paid	(44,062)	(46,022)	(21,335)	(23,503)
Dividends received	2,985	1,830	71,229	49,692
Fee and commission receipts	232,860	216,603	134,530	130,488
Fee and commission payments	(68,000)	(62,739)	(34,041)	(32,535)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	4,644	1,201	4,513	791
Net gains/(losses) from financial assets and liabilities held for trading	10,776	10,045	4,072	3,819
Payments to employees and suppliers	(262,000)	(260,052)	(169,181)	(163,014)
Other income	18,378	21,462	7,859	8,252
Other expenses	(26,698)	(24,758)	(12,724)	(14,843)
Income tax (paid)/received	(34,225)	(12,262)	(23,283)	(335)
Cash flows from operating activities before changes in operating assets and liabilities (Increases)/decreases in operating assets	242,030	235,896	190,257	175,340
Net (increase)/decrease in trading assets	44,214	10,773	44,214	10,773
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	29,084	3,288	25,948	8,464
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(250,506)	(266,865)	(126,152)	(266,349)
Net (increase)/decrease in loans and receivables measured at amortised cost	(411,170)	148,042	(173,964)	454,865
Net (increase)/decrease in other assets	12,391	19,527	478	1,263
Increase/(decrease) in operating liabilities	1,067,045	525,311	679,366	160,647
Net increase/(decrease) in financial liabilities measured at fair value through profit or loss	-	(691)	-	(691)
Net increase/(decrease) in deposits and borrowings measured at amortised cost	1,067,440	527,007	679,366	161,004
Net increase/(decrease) in other liabilities	(395)	(1,005)	-	334
Net cash used in operating activities	733,088	675,972	640,147	545,003
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	251,424	498,388	224,834	409,337
Proceeds from sale of property, equipment, and investment property	6,556	5,841	3,684	80
Proceeds from sale of subsidiaries	8	19,629	3,437	12,526
Proceeds from sale of associates and joint ventures	-	4,600	-	4,600
Proceeds from non-current assets held for sale	269	301	269	158
Proceeds from disposals of debt securities measured at amortised cost	244,591	468,017	217,444	391,973
Payments from investing activities	(500,106)	(634,727)	(448,106)	(521,369)
Purchase of property, equipment, and investment property	(19,257)	(16,962)	(10,787)	(10,442)
Purchase of intangible assets	(13,311)	(12,671)	(9,125)	(9,931)
Purchase of subsidiaries and increase in subsidiaries' equity	-	-	(1,744)	(2,100)
Purchase of debt securities measured at amortised cost	(467,538)	(605,094)	(426,450)	(498,896)
Net cash flows used in investing activities	(248,682)	(136,339)	(223,272)	(112,032)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	208,321	-	208,321	-
Issue of subordinated debt	208,321	-	208,321	-
Payments from financing activities	(162,246)	(285,708)	(142,600)	(270,600)
Dividends paid	(147,244)	(273,733)	(142,600)	(270,600)
Repayments of subordinated debt	(15,002)	(11,975)	-	-
Net cash from financing activities	46,075	(285,708)	65,721	(270,600)
Effects of exchange rate changes on cash and cash equivalents	3,693	(546)	1,189	(453)
Net increase/(decrease) in cash and cash equivalents	530,481	253,925	482,596	162,371
Cash and cash equivalents at beginning of year	1,729,093	1,475,714	824,337	662,419
Cash and cash equivalents at end of year	2,263,267	1,729,093	1,308,122	824,337

Glossary of Terms and Definitions

ALM	Asset and Liability Management
AT1	Additional Tier 1
BoS	Bank of Slovenia
bps	Basis Points
CBR	Combined Buffer Requirement
CET1	Common Equity Tier 1
CIR	Cost-to-Income Ratio
CVA	Credit Value Adjustment
DGS	Deposit Guarantee Scheme
DTA	Deferred Tax Assets
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
FVTPL	Fair Value Loans Through Profit or Loss
FX	Foreign Exchange
GDP	Gross Domestic Product
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
JV	Joint Venture
LTD	Loan-to-Deposit Ratio
MDA	Maximum Distributable Amount
NIM	Net Interest Margin
NLB or the Bank	NLB d.d.
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
OCR	Overall Capital Requirement
O-SII	Other Systemically Important Institution
p.p.	Percentage point(s)
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
ROA	Return on Assets
ROE	Return on Equity
RORAC	Return on Risk-Adjusted Capital
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
TSCR	Total SREP Capital Requirement

