Creating better footprints.

Pillar III Disclosures | 2022

Contents

1. Key highlights 5

Statement of Management of Risk 7

2. Introduction 10

3. Scope of application 12

4. Capital and capital requirements 17

4.1. Capital adequacy 17

4.2. Detailed presentation of capital elements 19

4.3. Capital requirements 21

4.4. MREL requirement – Key metrics of own funds and eligible liabilities 22

4.5. Summary of the approach to assessing the internal capital needed for current and planned activities 27

4.6. Capital instruments included in the capital 27

4.7. Risk factors and Outlook 28

4.8. Information on COVID-19 moratoria 32

4.9. Capital buffers – Countercyclical buffer 32

4.10. CRR ‘Quick Fix’ 34

4.11. Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income for sovereign securities, due to the COVID-19 pandemic 35

5. Risk management, objectives, and policies 36

5.1. General information on risk management, objectives, and policies 36

5.2. The number of directorships held by members of the management body 48

5.3. The recruitment policy for the selection of the management body and their actual knowledge, skills, and expertise 48

5.4. The policy on diversity with regard to selection of members of the management body, its objectives, and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved 51

6. Credit risk and general information on CRM 54

6.1. General qualitative information on credit risk 54

6.2. Credit risk quality 58

6.3. Non-performing and forborne exposures 58

6.4. Credit risk mitigation techniques 63

7. Credit risk – standardised approach 67

8. Exposure to counterparty credit risk 71

8.1. Goals and Principles of Counterparty Credit Risk Management 71

8.2. Risk mitigation – netting and collaterals 72

8.3. Internal capital allocation and definition of credit limits for CCR exposures 72

8.4. Securing of collateral and establishing of reserves 72

8.5. Wrong-way risk management 72

8.6. Downgrading impacts on collaterisation 73

9. Exposure to market risk 76

9.1. Goals and principles of market risk management 76

9.2. Policies for hedging or mitigating risk 78

10. Interest rate risk on positions not included in the trading book 81

10.1. A description of how the institution defines IRRBB for purposes of risk control and measurement 81
10.2. A description of the institution’s overall IRRBB management and mitigation strategies 81
10.3. The periodicity of the calculation of the institution’s IRRBB measures, and a description of the specific measures that the institution uses to gauge its sensitivity to IRRBB 81
10.4. A description of the interest rate shock and stress scenarios that the institution uses to estimate changes in the economic value and in net interest income (if applicable) 82
10.5. A description of the key modelling and parametric assumptions different from those used for disclosure of template EU IRRBB1 (if applicable) 82
10.6. A high-level description of how the Institution hedges its IRRBB, as well as the associated accounting treatment (if applicable) 82
10.7. A description of key modelling and parametric assumptions used for the IRRBB measures in template EU IRRBB1 (if applicable) 82
10.8. Explanation of the significance of the IRRBB measures and of their significant variations since previous disclosures 82
10.9. Any other relevant information regarding the IRRBB measures disclosed in template EU IRRBB1 (optional) 82
10.10. Disclosure of the average and longest repricing maturity assigned to non-maturity deposits 82

11. Liquidity risk management, requirements, and LCR 84

12. Unencumbered assets 93

13. Operational risk management 95

13.1. Approaches for the assessment of own funds requirements for operational risk 95
13.2. Description of other internal approaches and methodologies in the area of operational risk 95

14. ESG risks 97

14.1. Environmental risk 97
14.1.1. Business strategy and processes 97
14.1.2. Governance 102
14.1.3. Risk management 107
14.2. Social risks 113
14.2.1. Business strategy and processes 113
14.2.2. Governance 116
14.2.3. Risk management 118
14.3. Governance risk 119
14.3.1. Governance and Risk Management 119
14.4. Credit quality of exposures 121
14.5. Energy efficiency of the collateral 129
14.6. Exposures to top 20 carbon-intensive firms 130
14.7. Exposures subject to physical risk 131

15. Leverage ratio 133

16. Remuneration policy 136

16.1. The bodies that oversee remuneration 136
16.2. Design and structure of the remuneration system for identified staff 136
16.3. The ways in which current and future risks are considered in the remuneration processes 140
16.4. The ratio between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD 140
16.5. Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration 142
16.6. The ways in which the institution seeks to adjust remuneration to take account of long-term performance 147
16.7. Main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR 151
16.8. The total remuneration for each member of the management body or senior management 151

16.9. Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR 151

16.10. Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR 151

16.11. Quantitative information on remuneration 152

17. Appendices 154

17.1. Appendix 1 154

17.2. Appendix 2 154

17.3. Appendix 3 155

17.4. Appendix 4 156

17.5. Appendix 5 160

17.6. Appendix 6 160

17.7. Appendix 7 161

17.8. Appendix 8 162

17.9. Appendix 9 163

17.10. Appendix 10 164

1. Key highlights
(Article 438 b and 447 of CRR)

Table 1 – EU KM Key metrics template of NLB Group

		31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2021
		a	b	c	d	e
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	2,208,219	2,076,606	2,043,477	1,901,470	1,959,601
2	Tier 1 capital	2,295,700	2,082,130	2,048,928	1,906,565	1,965,551
3	Total capital	2,806,375	2,369,623	2,336,205	2,193,990	2,252,490
	Risk-weighted exposure amounts					
4	Total risk exposure amount (TREA)	14,653,059	14,283,739	14,172,549	13,843,373	12,667,408
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	15.07%	14.54%	14.42%	13.74%	15.47%
6	Tier 1 ratio	15.67%	14.58%	14.46%	13.77%	15.52%
7	Total capital ratio	19.15%	16.59%	16.48%	15.85%	17.78%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.60%	2.60%	2.60%	2.60%	2.75%
EU 7b	of which: to be made up of CET1 capital	1.46%	1.46%	1.46%	1.46%	1.55%
EU 7c	of which: to be made up of Tier 1 capital	1.95%	1.95%	1.95%	1.95%	2.06%
EU 7d	Total SREP own funds requirements	10.60%	10.60%	10.60%	10.60%	10.75%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50%	2.50%	2.50%	2.50%	2.50%
EU 10a	Other Systemically Important Institution buffer	1.00%	1.00%	1.00%	1.00%	1.00%
11	Combined buffer requirement	3.50%	3.50%	3.50%	3.50%	3.50%
EU 11a	Overall capital requirements	14.10%	14.10%	14.10%	14.10%	14.25%
12	CET1 available after meeting the total SREP own funds requirements	822,040	725,364	702,754	591,887	749,864
	Leverage ratio					
13	Total exposure measure	25,240,506	24,509,522	23,711,555	20,854,558	19,229,497
14	Leverage ratio	9.10%	8.50%	8.64%	9.14%	7.58%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Total SREP leverage ratio requirements	3.00%	3.00%	3.00%	3.14%	3.14%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	3.00%	3.00%	3.00%	3.14%	3.14%
EU 14e	Overall leverage ratio requirement	3.00%	3.00%	3.00%	3.14%	3.14%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	5,647,162	5,526,560	5,445,021	5,336,395	5,174,269
EU 16a	Cash outflows - Total weighted value	3,008,960	2,871,465	2,737,213	2,623,971	2,551,704
EU 16b	Cash inflows - Total weighted value	512,851	521,447	545,620	577,103	590,383
16	Total net cash outflows	2,496,109	2,350,018	2,191,593	2,046,825	1,961,279
17	Liquidity coverage ratio	227.15%	236.85%	250.65%	261.43%	263.92%
	Net Stable Funding Ratio					
18	Total available stable funding	20,409,092	19,628,877	19,031,012	19,268,104	18,446,656
19	Total required stable funding	11,154,678	11,010,637	10,835,911	11,072,422	9,960,818
20	NSFR ratio	182.96%	178.27%	175.63%	174.02%	185.19%

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

Figure 1: Total capital (in EUR millions) of NLB Group

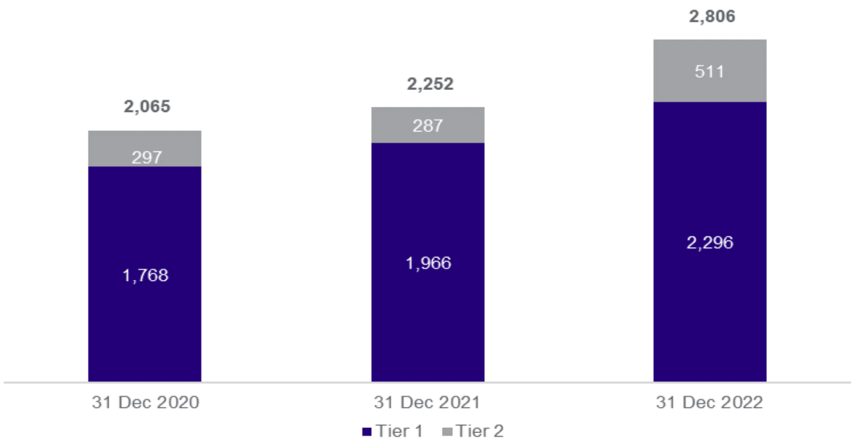


Figure 2: Total capital and capital ratio evolution YoY of NLB Group

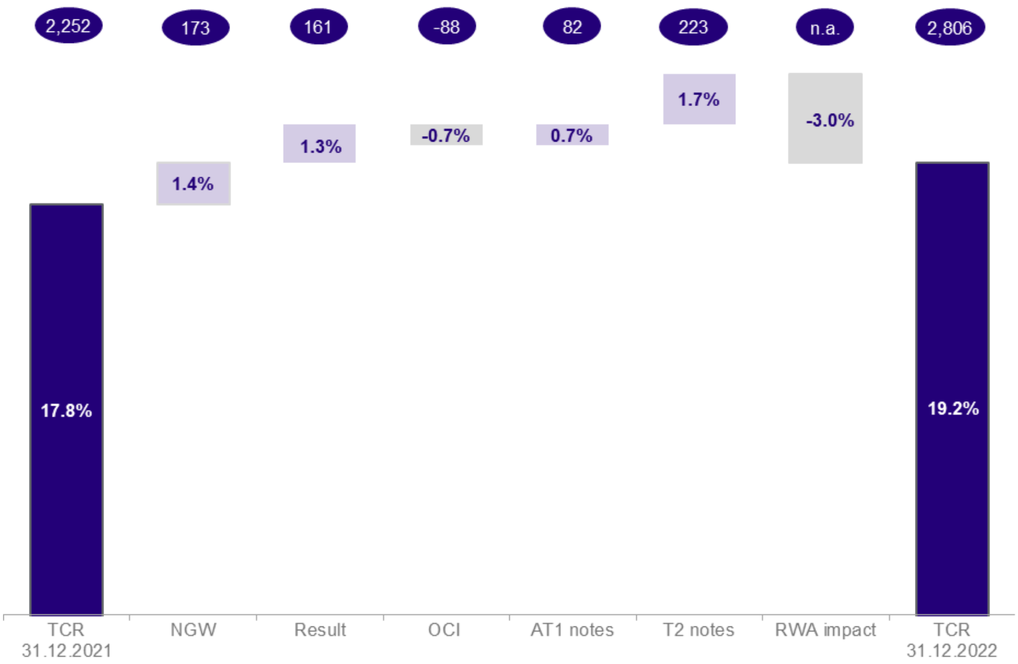
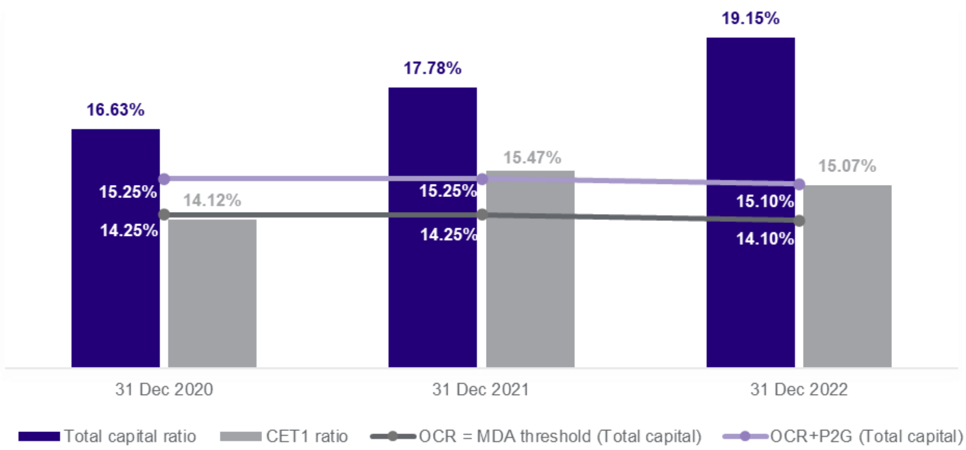


Figure 3: Capital ratios and regulatory thresholds (in %) of NLB Group



Statement of Management of Risk

(Article 435 e and f of CRR)

NLB's Management Board and Supervisory Board provide herewith a concise statement of the risk management according to Article 17 of the Decision on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (*Official Gazette of the RS*, no. 73/15 and 115/2021), Regulation (EU) 575/2013, article 435 (Risk Management Objectives and Policies), point (e) and (f), as well as the EBA Guidelines on Internal Governance (EBA/GL/2021/05) and EBA Guidelines on Disclosure Requirements (EBA GL/2016/11).

Risk management in the Group, representing an important element of the Group's overall corporate governance, is implemented in accordance with the set strategic guidelines, established internal policies, and procedures which take into account the European banking regulations, the regulations adopted by the BoS, the current EBA guidelines, and the relevant good banking practices. EU regulations are followed by NLB Group, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. The Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. Maintaining risk awareness is engrained in the business and risk strategy of the Group. The business and operating environment relevant for the Group's operations is changing with trends such as sustainability, social responsibility, governance, changing customer behaviours, emerging new technologies and competitors, as well as increasing new regulatory requirements. Respectively, risk management is continuously adapting with the aim to detect and manage new potential emerging risks.

The Group uses the 'three lines of defence framework' as an important element of its internal governance, whereby the risk management function acts as a second line of defence. The Group's has enhanced overall corporate governance which is reflected in lower SREP requirement in recent years. Robust and comprehensive Risk Management framework is defined and organised with regards to the Group's business and risk profile, based on a forward-looking perspective to meet internally set strategic objectives and all external requirements. The proactive risk management and control system is primarily based on Risk appetite and Risk strategy, which are consistent with the Group's Business strategy, and focused on early risk identification and efficient risk management. Set governance and different risk management tools enable adequate oversight of the Group's risk profile, proactively support its business operations and its management by incorporating escalation procedures and using different mitigation measures when necessary. In this respect, the Group is constantly enhancing and complementing the existing methods and processes in all risk management segments.

The Group is engaged in contributing to sustainable finance by incorporating environmental, social, and governance (ESG) risks into its business strategies, risk management framework, and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, the Group implemented main sustainability elements into its business model. The goal of this strategic, organisation-wide initiative is to ensure sustainable financial performance of the Group by considering ESG risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system. Thus, sustainable finance integrates ESG criteria into Group's business and investment decisions for the lasting benefit of Group's clients and society. The NLB Group Sustainability Committee oversees the integration of the ESG factors to the Group business model. The management of ESG risks addresses the Group's overall risk management framework, namely the credit approval process and related credit portfolio management. It follows ECB and EBA guidelines, with tendency of their comprehensive integration into all relevant processes. The availability of ESG data in the region where Group operates is still lacking. Nevertheless, the Group made significant progress in the process of obtaining relevant ESG-related data from its clients, as it is a prerequisite for adequate decision-making.

The Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run considering the risks assumed. The Business strategy, the Risk appetite, the Risk strategy, and the key internal risk policies of the Group, approved by the Management Board and the Supervisory Board of NLB, specify the strategic objectives and guidelines concerning risk assumption, the approaches and methodologies of monitoring, measuring, mitigating and managing all types of risk at different relevant levels. Moreover, main strategic risk guidelines are consistently integrated into the regular business strategy review, budgeting process, and other strategic decisions, whereby informed decision-making is assured. The Group regularly monitors its target risk appetite profile and internal capital allocation, representing the key component of proactive management. Risk limits usage and potential deviations from limits or target values are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Additionally, the Group established a comprehensive stress-testing framework and other early warning systems in different risk areas with the intention to contribute to setting and pursuing the Group's business strategy, to support decision-making on an ongoing basis, to strengthen the existing internal controls, and to enable timely response when necessary. The stress-testing framework includes all material types of risk, as well those related to ESG, and various relevant stress scenarios or sensitivity analysis, according to the vulnerability of the Group's business model. Stress-testing has an important role when assessing the Group's resilience to stressed circumstances, namely from profitability, capital adequacy, and liquidity in this forward-looking perspective. As such, it is embedded into Group's Risk management system, namely Risk appetite, ICAAP, ILAAP, and Recovery plan, as an important component of sound risk management. Beside internal stress-testing, the Group as a systemically important bank also participates in the regulatory stress test exercises carried out by ECB.

The Group is one of the largest Slovenian banking and financial groups, and it has an important presence in the SEE region. In accordance with its strategic orientations, the Group intends to be sustainably profitable, predominantly working with clients on its core markets, providing innovative but simple customer-oriented solutions, and actively contributing to a more balanced and inclusive economic and social system. The Group has a well-diversified business model. Efficient managing of risks and capital is crucial for the Group to sustain long-term profitable operations. Based on the Group's business strategy, credit risk is the dominant risk category, followed by credit spread risk on its banking book portfolio, interest rate risk in its banking book, operational risk, liquidity risk, market risk, and other non-financial risks. ESG risks do not represent a new risk category, but rather one of risk drivers of the existing type of risks, such as credit, liquidity, market, and operational risks. The Group integrates and manages them within the established risk management framework. Regular risk identification and their assessment is performed within the ICAAP process, with the aim of assuring their overall control and effective risk management on an ongoing basis.

Managing risks and capital efficiently at all levels is crucial for NLB Group's sustained, long-term profitable operations. Management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – diversified credit portfolio, adequate credit portfolio quality, the sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Further, with the aim of minimising this risk, the Group pursues an appropriate structure of sources of financing. The Group's limited exposure to credit spread risk, arises from the valuation risk of debt securities portfolio servicing as liquidity reserves, to the moderate level. The Group's basic orientation in the management of interest rate risk is to limit the unexpected negative effects on revenues and capital that would arise from changed market interest rates, and, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such risk must not significantly impact its operations. The risk appetite for operational risks is low to moderate, with a focus on mitigation actions for important risks, and key risk indicators serving as an early warning system. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to serving customers and hedging the Bank's own positions. In the area of currency risk, the Group thus pursues the goals of low to moderate exposure. Based on the environmental and climate risk assessment, the impact of these risks is estimated as low, except for transition risk in the area of credit, which is assessed as low to medium. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impact on the Group's operations.

The main NLB Group Risk Appetite Statement objectives are following:
- preservation of regulatory capital adequacy,
- preservation of internal capital adequacy,
- fulfilment of the MREL requirement,
- maintenance of low leverage,
- improvement in the quality of the credit portfolio, sufficient NPL coverage, sustainable credit risk volatility, sustainable cost of risk across the economic cycle, limited Stage 2 exposures, sustainable industry and individual concentration, sustainable exposure to project financing,
- maintenance of a solid liquidity position, maintaining stable customers' deposits as the main funding base,
- diversification of risk in exposures to banks and sovereigns,
- limited exposure to credit spread risk,
- limited exposure to interest rate risk,
- limited exposure to foreign exchange risk,
- sustainable exposure to ESG risks,
- sustainable tolerance to net losses from operational risk.

During the year 2022, sustainable ESG financing in accordance with Environmental and Social Management System (ESMS) was partly integrated in the Group's Risk appetite statement. Additional key risk indicators and targets in the area of ESG are going to be addressed based in ongoing activities related to the Net Zero Banking Alliance commitment, signed by the Group.

Values of the most important risk appetite indicators of the Group, as at the end of year 2022, reflecting interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile, were following:

- Total capital ratio 19.2%,
- CET1 ratio 15.1%,
- Leverage ratio 9.1%,
- Cost of risk -14 bps,
- NPE ratio (EBA definition) 1.3%,
- NPL coverage ratio (EBA definition) 58.1%,
- LTD 65.3%,
- Liquidity Coverage Ratio (LCR) 220.3%,
- Net stable funding ratio (NSFR) 183.0%,
- Interest rate risk (EVE) (of 200 bps) -5.1% of capital,
- Transactional FX risk 1.1% of capital,
- No new financing of coal mining and coal-fired electricity generation (0 EUR),
- Net losses from operational risk 0.7% of capital requirement for operational risk.

In 2022, the war in Ukraine did not have a meaningful impact on the quality of the credit portfolio, nor on the liquidity of the Group. The Group's direct and indirect exposures toward Russia and Ukraine are quite limited. In the light of increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made the necessary adjustments. The most affected industries or segments are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage. The liquidity position of the Group remains very robust. Even if a highly unfavourable liquidity scenario would materialise, the Group holds sufficient level of high-quality liquidity reserves.

Consequently, the Group concluded the year 2022 as self-funded, with strong liquidity, and a solid capital position, demonstrating the Group's financial resilience. The acquired N Banka has quite similar business model to NLB and so, there were no major changes in the Group's risk profile during the year 2022. Otherwise, there were no other transactions of sufficiently material nature to impact on the Group's risk profile or distribution of the risks on the Group level.

The Condensed Statement of the management of risk is also published on the Bank intranet with the aim of strict adherence of the banks' employees at daily operations of the Bank, as regards the definition and importance of a consistent tendency of the adopted risks, and ways to take into account when adopting its daily business decisions.

Ljubljana, 11 April 2023

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Hedvika Usenik	**Andrej Lasič**	**Archibald Kremser**	**Andreas Burkhardt**	**Antonio Argir**	**Blaž Brodnjak**
Member	Member	Member	Member	Member	Chief executive officer

2. Introduction

The purpose of this Report is to provide disclosures as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision (BCBS). On the European level, these are implemented in the disclosure requirements as laid down in Part Eight of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms' (Capital Requirements Regulation, or 'CRR') and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive, or 'CRD'). The CRR applies directly for EU member states, while the CRD was required to be implemented through national legislation in the EU member states. On 27 June 2019, an amendment of CRR was published (Regulation (EU) No. 2019/876), as well as an amendment of the CRD (Directive (EU) 2019/878 – CRD V). Slovenia implemented these CRD requirements into national law with the Slovenian Banking Act (Zakon o bančništvu – ZBan-3). On 26 June 2020, an additional amendment to CRR was published (Regulation (EU) No. 2020/873) in response to the COVID-19 pandemic.

Moreover, in January 2022 the EBA published the Final Implementing Technical Standards (EBA/ITS/2022/01) on prudential disclosures on Environmental, Social, and Governance risks (ESG) in accordance with the CRR2 Article 449a (on an annual basis for the first year and semi-annually thereinafter). Such an ITS was adopted by the European Commission and published in the Official Journal with the Implementing Regulation (EU) 2022/2453 of 30 November 2022, amending the Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social, and governance risks (ESG).

In the context of this document, the 'EU banking legislation' describes the package of the CRR, CRD, and regulatory/implementing technical standards. It commonly refers as containing the following three Pillars:

- Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk, and operational risk,
- Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with valuating how well financial institutions are assessing their capital adequacy needs relative to their risks. Risks not considered under Pillar 1 are considered under this Pillar,
- Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information on the scope of the application of the EU banking legislation requirements, particularly covering own funds requirements/risk weighted exposure amounts (RWEA) and resources, risk exposures, and risk assessment processes.

For ease of reference, the requirements described under the last indent above are referred to as 'Pillar 3' in this Report. Pillar 3 contains both qualitative and quantitative disclosure requirements.

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

Areas covered

In accordance with Pillar 3 requirements, the areas covered by NLB Group's Pillar 3 disclosures include the Group's CRD V capital requirements and resources, credit risk, counterparty credit risk, market risk, operational risk, liquidity risk, encumbered and unencumbered assets, non-performing and forborne exposures, ESG risks, the leverage ratio, and the Group's remuneration disclosures. In accordance with Article 45i (3) a and c of BRRD, summary information about NLB's Minimum Requirement for own funds and Eligible Liabilities (MREL) are also disclosed.

NLB Group uses the following approaches for the calculation of capital requirements:

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

Thus, the disclosures relating to other approaches, such as the IRB approach, securitisation, the advanced measurement approach for operational risk and disclosures related to internal models for the calculation of market risk capital requirements not used by NLB Group are not applicable. In addition, disclosures that relate to types of transactions that NLB Group is currently not involved in are also not applicable and therefore not disclosed in this report.

Rows and columns in prescribed templates, related to transactions, not applicable to NLB Group are, in accordance with the ITS, deleted.

Frequency of disclosures and media

CRD V and EBA guidelines require NLB Group to disclose information at least on an annual basis. To ensure the effective communication of NLB Group's business and risk profile, NLB Group also pays particular attention to the possible need to provide information more frequently than annually. A separate Pillar 3 document is also published quarterly on the NLB's website Financial Reports (nlb.si), following our Annual or Interim Reports for NLB Group disclosure.

Verifications and source of information

The Pillar 3 disclosures are subject to a robust internal control and governance process, presented in the Policy of Disclosures on risk and capital management in NLB Group. The Policy was adopted by the Management Board of NLB d.d. (hereafter 'NLB') and acknowledged by the Risk Committee. The key elements of this policy are:

- identification of roles and responsibilities of the departments involved in the process of producing the disclosures,
- identification of the information to be published (in accordance with EBA GL/2014/14, EBA GL 2016/11 and CRR Articles 432 and 433),
- instructions for departments' contributions and related controls,
- consolidation of the disclosure contributions and related controls,
- approval of disclosures by the Management Board.

Verification of information included in the disclosures is subject to strict procedure of internal control and management. The persons in charge of individual contents are responsible for primary controls. Quantitative reports must be submitted in individual templates and precisely aligned with the information disclosed in the annual report or the reports prepared for the regulator (Corep and Finrep). The unaudited report is also reviewed by members of Capital management group.

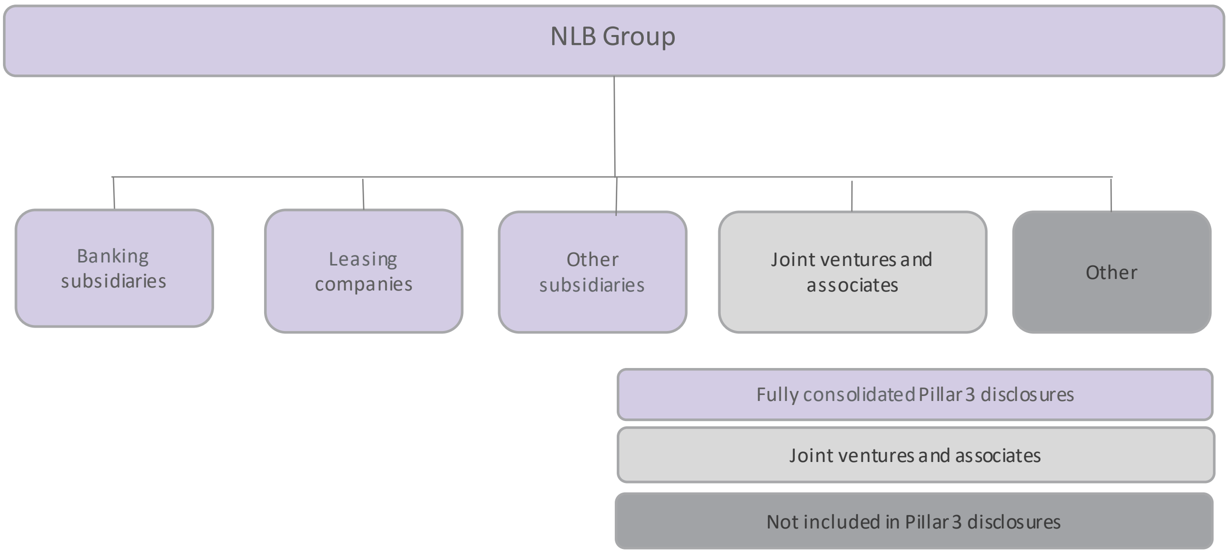
It should be noted that while some quantitative information in this document is based on financial data contained in the 2022 NLB Group Annual Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the 2022 NLB Group Annual Report. Some details of the key differences between the Group's accounting and regulatory exposures are presented in Table 2 – EU CC2.

3. Scope of application

(Articles 436 a, b, c, and d of CRR)

In accordance with the capital legislation, NLB (LEI Code 5493001BABFV7P27OW30) has the position of an 'EU parent bank,' and so is a parent company of NLB Group. NLB is therefore obliged to disclose information on a consolidated basis. Consolidated financial statements for the purpose of Pillar 3 disclosures are based on CRR requirements (regulatory scopes of consolidation). A summarised NLB Group's presentation in accordance with the regulatory scope of consolidation is presented below.

Picture 4: NLB Group scheme



Significant subsidiaries of NLB Group that exceed 10% of the Group's RWA are Komercijalna banka a.d. Beograd (hereafter: 'Komercijalna Banka, Beograd') and NLB Banka a.d., Skopje. Detailed information is disclosed in their annual reports published on the websites: https://www.nlbkb.rs/en/about-us and http://www.nlb.mk.

Table EU CC2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the 2022 NLB Group Annual Report, and under the scope of regulatory consolidation.

The differences between the scope of consolidation for regulatory and accounting purposes (pursuant to the IFRS) of NLB Group (entity by entity) as at 31 December 2022 are shown in Table EU LI3 (disclosed in Appendix 3). The consolidation for *accounting purposes* comprises all:

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

In contrast to the accounting consolidation, the *regulatory consolidation* includes only (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings, and asset management companies.

The difference between accounting consolidation and regulatory consolidation as at 31 December 2022 represents:

- the company operating in the area of other activities NLB Zavod za upravljanje kulturne dediščine (ZUKD – the NLB Cultural Heritage Management Institute), and
- the IT services company NLB DigIT, Beograd,

which are not included in regulatory consolidation, in accordance with Article 4 of CRR. Companies from the Prvi Faktor Group are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amount to zero.

More details are disclosed in the 2022 NLB Group Annual Report – note 5.12 e Analysis by type of investment in associates and joint ventures (page 238).

Table 2 – EU CC2 - Reconciliation of regulatory own funds to balance sheet in the financial statements of NLB Group

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to rows in CC1
		31.12.2022	31.12.2022	
		a	b	c
Assets - *Breakdown by asset clases according to the balance sheet in the published financial statements*				
1	Cash, cash balances at central banks and other demand deposits at banks	5,271,365	5,271,364	
2	Financial assets held for trading	21,588	21,588	
3	Non-trading financial assets mandatorily at fair value through profit or loss	19,031	19,031	
4	Financial assets measured at fair value through other comprehensive income	2,919,203	2,919,203	72
5	Financial assets measured at amortised cost			
6	- debt securities	1,917,615	1,917,615	72
7	- loans and advances to banks	222,965	222,965	
8	- loans and advances to customers	13,072,986	13,072,986	
9	- other financial assets	177,823	177,857	
10	Derivatives - hedge accounting	59,362	59,362	
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(23,767)	(23,767)	
12	Investments in subsidiaries	-	10	
13	Investments in associates and joint ventures	11,677	14,073	73
14	Tangible assets			
15	Property and equipment	251,316	248,100	
16	Investment property	35,639	35,639	
17	Intangible assets	58,235	58,218	
18	Goodwill	3,529	3,529	8
19	Other intangible assets	54,706	54,689	8
20	Current income tax assets	1,696	1,695	
21	Deferred income tax assets	55,527	55,527	75
22	that rely on future profitability and arise from temporary differences	55,527	55,527	75
23	Other assets	72,543	72,322	
24	Non-current assets held for sale	15,436	15,436	
25	**Total assets**	**24,160,240**	**24,159,224**	
Liabilities - *Breakdown by liability clases according to the balance sheet in the published financial statements*				
26	Financial liabilities held for trading	21,589	21,589	
27	Financial liabilities measured at fair value through profit or loss	1,796	1,796	
28	Financial liabilities measured at amortised cost			
29	- deposits from banks and central banks	106,414	106,414	
30	- borrowings from banks and central banks	198,609	198,609	
31	- due to customers	20,027,726	20,028,389	
32	- borrowings from other customers	82,482	82,482	
33	- debt securities issued	815,990	815,990	46
34	- other financial liabilities	294,463	296,345	
35	Derivatives - hedge accounting	2,124	2,124	
36	Provisions	122,652	122,646	
37	Current income tax liabilities	12,420	12,420	
38	Deferred income tax liabilities	2,569	2,569	
39	Other liabilities	49,081	48,900	
40	**Total liabilities**	**21,737,915**	**21,740,273**	
Shareholders' Equity				
41	Share capital	200,000	200,000	1
42	Share premium	871,378	871,378	1
43	Other equity instruments	84,184	84,184	31
44	Accumulated other comprehensive income	(160,588)	(160,135)	3
45	Profit reserves	13,522	13,522	3
46	**Retained earnings**	**1,357,089**	**1,353,262**	**2**
		2,365,585	**2,362,211**	
47	Non-controlling interests	56,740	56,740	5; 34; 48
48	**Total shareholders' equity**	**2,422,325**	**2,418,951**	
49	**Total liabilities and shareholders' equity**	**24,160,240**	**24,159,224**	

Table 3 – EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories of NLB Group

	31.12.2022	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
		a	b	c	d	f	g
1	Cash, cash balances at central banks, and other demand deposits at banks	5,271,365	5,271,364	5,271,364	-	-	-
2	Financial assets held for trading	21,588	21,588	-	21,588	21,588	-
3	Non-trading financial assets mandatorily at fair value through profit or loss	19,031	19,031	19,031	-	-	-
4	Financial assets measured at fair value through other comprehensive income	2,919,203	2,919,203	2,919,203	-	-	-
5	Financial assets measured at amortised cost						
6	- debt securities	1,917,615	1,917,615	1,924,336	-	-	(6,721)
7	- loans and advances to banks	222,965	222,965	222,965	-	-	-
8	- loans and advances to customers	13,072,986	13,072,986	13,072,983	-	-	3
9	- other financial assets	177,823	177,857	177,857	-	-	-
10	Derivatives - hedge accounting	59,362	59,362	-	59,362	-	-
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(23,767)	(23,767)	-	-	-	-
12	Investments in subsidiaries	-	10	10	-	-	-
13	Investments in associates and joint ventures	11,677	14,073	14,073	-	-	-
14	Tangible assets						
15	Property and equipment	251,316	248,100	248,100	-	-	-
16	Investment property	35,639	35,639	35,639	-	-	-
17	Intangible assets	58,235	58,218	13,338	-	-	44,880
18	Current income tax assets	1,696	1,695	1,695	-	-	-
19	Deferred income tax assets	55,527	55,527	55,527	-	-	-
20	Other assets	72,543	72,322	72,322	-	-	-
21	Non-current assets held for sale	15,436	15,436	15,436	-	-	-
22	**TOTAL ASSETS**	**24,160,240**	**24,159,224**	**24,063,879**	**80,950**	**21,588**	**38,162**
23	Financial liabilities held for trading	21,589	21,589	-	21,589	21,589	-
24	Financial liabilities measured at fair value through profit or loss	1,796	1,796				
25	Financial liabilities measured at amortised cost						
26	- deposits from banks and central banks	106,414	106,414	-	-	-	-
27	- borrowings from banks and central banks	198,609	198,609	-	-	-	-
28	- due to customers	20,027,726	20,028,389	-	-	-	-
29	- borrowings from other customers	82,482	82,482	-	-	-	-
30	- subordinated liabilities	815,990	815,990	-	-	-	-
31	- other financial liabilities	294,463	296,345	-	-	-	-
32	Derivatives - hedge accounting	2,124	2,124	-	2,124	-	-
33	Provisions	122,652	122,646	-	-	-	-
34	Current income tax liabilities	12,420	12,420	-	-	-	-
35	Deferred income tax liabilities	2,569	2,569	-	-	-	-
36	Other liabilities	49,081	48,900	-	-	-	-
37	**TOTAL LIABILITIES**	**21,737,915**	**21,740,273**	**-**	**23,713**	**21,589**	**-**
38	**EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT**						
39	Share capital	200,000	200,000	-	-	-	-
40	Share premium	871,378	871,378	-	-	-	-
41	Other equity instruments	84,184	84,184				
42	Accumulated other comprehensive income	(160,588)	(160,135)	-	-	-	-
43	Profit reserves	13,522	13,522	-	-	-	-
44	Retained earnings	1,357,089	1,353,262	-	-	-	-
		2,365,585	**2,362,211**	**-**	**-**	**-**	**-**
45	Non-controlling interests	56,740	56,740	-	-	-	-
46	**TOTAL EQUITY**	**2,422,325**	**2,418,951**	**-**	**-**	**-**	**-**
47	**TOTAL LIABILITIES AND EQUITY**	**24,160,240**	**24,159,224**	**-**	**23,713**	**21,589**	**-**

Table 3 (EU LI 1) provides the reconciliation of the accounting consolidated financial statements (as presented in the 2022 NLB Group Annual Report (Audited Financial Statements of NLB Group Pursuant to the International Financial Reporting Standards as adopted by the European Union) with the regulatory consolidated financial statements. Certain assets can be subject to multiple RWA frameworks. The details of items not subject to capital requirement or subject to deduction from capital or explanation of differences with the comparative period are explained below:

- None of NLB Group's investments in subsidiaries, associated companies, and jointly controlled companies represents a deduction from capital. The total amount of investments that could become deductions from capital is relatively low and remains under the statutory thresholds;
- In accordance with CRR article 36 (b), and Regulation (EU) 2020/2176 software assets are partially a deduction item from capital and partially included in RWA calculation;
- Valuations of hedged items in fair value hedge relationships are excluded from positions, subject to credit risk.

Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries are disclosed in Appendix 5.

Table 4 – EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements of NLB Group

	31.12.2022	Total	Items subject to		
			Credit risk framework	CCR framework	Market risk framework
		a	b	d	e
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**24,166,417**	**24,063,879**	**80,950**	**21,588**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**(45,302)**	**-**	**(23,713)**	**(21,589)**
3	**Total net amount under the scope of prudential consolidation**	**24,121,115**	**24,063,879**	**57,237**	**(1)**
4	**Off-balance-sheet amounts**	**4,748,054**	**4,748,054**	**-**	**-**
5	*Differences in valuations*	19,482	-	19,482	-
12	**Exposure amounts considered for regulatory purposes**	**28,888,651**	**28,811,933**	**76,719**	**(1)**

Table 4 (EU LI2) presents carrying values of items, subject to credit risk, CRR and market risk framework (see Table 3 - EU LI1), other items (potential liabilities from financial and non-financial guarantees, commitments to extend credit, and credit replacement value for derivative financial instruments), and adjustment of the derivative valuation, together presenting the total exposure considered for regulatory purposes.

4. Capital and capital requirements

4.1. Capital adequacy

(Article 438 b of CRR)

European banking capital legislation – CRD V, defines three capital ratios reflecting a different quality of capital:

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

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

- Pillar 2 Requirement (SREP requirement): bank-specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 Requirement it represents the minimum total SREP capital requirement – TSCR);
- The applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank-specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Capital Guidance: capital recommendation set by the supervisory institution through the SREP process. It is bank-specific and as recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital; however, it might lead to intensified supervision and the imposition of measures to re-establish a prudent level of capital (including preparation of capital restoration plan).

Table 5 – Capital requirements and buffers of NLB Group

		2022	2021	2020
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%
Pillar 2 (SREP req. - P2R)	CET1	1.46%	1.55%	1.55%
	Tier 1	1.95%	2.06%	2.06%
	Total Capital	2.60%	2.75%	2.75%
Total SREP Capital requirement (TSCR)	CET1	5.96%	6.05%	6.05%
	Tier 1	7.95%	8.06%	8.06%
	Total Capital	10.60%	10.75%	10.75%
Combined buffer requirement (CBR)				
Conservation buffer	CET1	2.5%	2.5%	2.5%
O-SII buffer	CET1	1.0%	1.0%	1.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.46%	9.55%	9.55%
	Tier 1	11.45%	11.56%	11.56%
	Total Capital	14.10%	14.25%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.46%	10.55%	10.55%
	Tier 1	12.45%	12.56%	12.56%
	Total Capital	15.10%	15.25%	15.25%

In 2022, NLB was required to maintain the OCR at the level of 14.10% on the consolidated basis, consisting of:

- 10.60% TSCR (8.00% P1R and 2.60% P2R[1]); and
- 3.5% CBR (2.5% Capital conservation buffer, 1.00% O-SII buffer[2], and 0,00% Countercyclical buffer).

Pillar 2 Guidance (P2G) which should be comprised entirely of CET1 capital, remains at a relatively low level 1.00%.

On 29 April 2022, the BoS issued a new Regulation on determining the requirement to maintain a systemic risk buffer for banks and savings banks, which on 1 January 2023, introduced the systemic risk buffer rates for the sectoral exposures:

- 1.00% for all retail exposures to natural persons secured by residential real estate in Slovenia;
- 0.50% for all other exposures to natural persons in Slovenia.

Additionally, in December 2022, the BoS announced that due to growing uncertainties in the economic environment and systemic risks, the countercyclical buffer for exposures to the Republic of Slovenia is raised from 0% to the level of 0.5% of the total risk exposure amount. Banks have to meet the requirement by 31 December 2023.

The Bank and Group's capital covers all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the P2G.

Table 6 – Capital adequacy of NLB Group:

	31.12.2022	**31.12.2021**
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	908,965	767,152
Current result	334,297	135,968
Accumulated other comprehensive income	(98,470)	(10,091)
Other reserves	13,522	13,522
Minority interest	26,806	27,905
Prudential filters: Additional Valuation Adjustments (AVA)	(2,981)	(3,498)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(41,351)	(39,116)
(-) Insufficient coverage for non-performing exposures	(418)	(90)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,208,219**	**1,959,601**
Capital instruments eligible as AT1 Capital	82,000	-
Minority interest	5,481	5,950
Additional Tier 1 capital	**87,481**	**5,950**
TIER 1 CAPITAL	**2,295,700**	**1,965,551**
Capital instruments and subordinated loans eligible as T2 capital	507,516	284,595
Minority interest	3,159	2,344
Tier 2 capital	**510,675**	**286,939**
TOTAL CAPITAL	**2,806,375**	**2,252,490**
Risk exposure amount for credit risk	11,797,851	10,205,172
Risk exposure amount for market risks	1,359,476	1,206,363
Risk exposure amount for CVA	85,600	11,850
Risk exposure amount for operational risk	1,410,132	1,244,023
TOTAL RISK EXPOSURE AMOUNT (RWA)	**14,653,059**	**12,667,408**
Common Equity Tier 1 Ratio	15.1%	15.5%
Tier 1 Ratio	15.7%	15.5%
Total Capital Ratio	**19.2%**	**17.8%**

[1] As at 1 January 2023, the Pillar 2 Requirement decreased by 0.2 p.p. to 2.40%, as a result of better overall SREP assessment.

[2] As at 1 January 2023, the O-SII Buffer amounted to 1.25%.

As at 31 December 2022, the TCR for the Group stood at 19.2% (or 1.4 p.p. increase YoY), and the CET1 ratio stood at 15.1% (0.4 p.p. decrease YoY). The higher total capital adequacy derives from higher capital (EUR 553.9 million YoY), which compensated the increase of the RWA (EUR 1,985.7 million YoY). The Group increased the capital with the inclusion of negative goodwill from the acquisition of N Banka in retained earnings (EUR 172.8 million), a partial inclusion of 2022 profit (EUR 161.5 million), additional Tier 1 notes issued in September (EUR 82 million), and subordinated Tier 2 notes issued in November (EUR 222.9 million[3]). In accordance with the CRR 'Quick fix' from June 2020, temporary treatment of FVOCI for sovereign securities was implemented by the Group in September 2022, which increased the capital by EUR 61.6 million (i.e., accumulated other comprehensive income amounted EUR -98.5 million instead of EUR -160.1 million). This temporary measure ceased to apply as at 1 January 2023.

The capital calculation does not include a part of the 2022 result in the amount of EUR 110 million, which is envisaged to be paid as the dividend distribution in 2023.

The drivers behind the differences between the RWAs in year 2022 are explained in Chapter 4.3 Capital requirements in the Table 8 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group.

Dividend distribution
The dividend pay-out in 2022 was split into two tranches. The first instalment in the amount of EUR 50.0 million was paid in June 2022, while the second was paid in the same amount of EUR 50.0 million in December 2022, thereby contributing to the 2022 cumulative pay-out of EUR 100.0 million.

4.2. Detailed presentation of capital elements

(Article 437 a, d, e, and f of CRR)

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of 2022. A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 4.1. Capital adequacy.

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

[3] T2 notes were issued in the amount of EUR 225 million, amount included in the capital was EUR 222.9 million (due to issuance below par).

Table 7 – EU CC1 – Composition of regulatory own funds

	31.12.2022	Amounts	Source based on reference numbers (CC2 column b)
		a	b
Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,071,378	41 + 42
	of which: ordinary shares	1,071,378	41 + 42
2	Retained earnings	1,243,262	part of 46
3	Accumulated other comprehensive income (and other reserves)	(84,948)	part of 44 + 45
5	Minority interest (amount allowed in consolidated CET1)	26,806	part of 47
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,256,498**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,981)	
8	Intangible assets (net of related tax liability) (negative amount)	(44,880)	18 + part of 19
27a	Other regulatory adjustments	(418)	
27a1	Deduction item related to insufficient coverage for non-performing exposures	(418)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(48,279)**	
29	**Common Equity Tier 1 (CET1) capital**	**2,208,219**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	82,000	
31	of which: classified as equity under applicable accounting standards	82,000	part of 43
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	5,481	part of 47
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**87,481**	
44	**Additional Tier 1 (AT1) capital**	**87,481**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**2,295,700**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	507,516	part of 33
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	3,159	part of 47
51	**Tier 2 (T2) capital before regulatory adjustments**	**510,675**	
58	**Tier 2 (T2) capital**	**510,675**	
59	**Total capital (TC = T1 + T2)**	**2,806,375**	
60	**Total risk exposure amount**	**14,653,059**	
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital ratio	15.07%	
62	Tier 1 capital ratio	15.67%	
63	**Total capital ratio**	**19.15%**	
64	Institution CET1 overall capital requirements	9.46%	
65	of which: capital conservation buffer requirement	2.50%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	9.07%	
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	57,849	part of 4 and part of 6
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	11,677	part of 13
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	55,527	22

4.3. Capital requirements

(Article 438 d and 445 of CRR)

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

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

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

Table 8 shows the detailed composition of the risk weighted exposure amounts of NLB Group at the end of 2022, at the end of September 2022, and at the end of 2021; as well as composition of own fund (capital) requirements at the end of 2022.

Table 8 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group

		Total risk exposure amounts (TREA)			Total own funds requirement
		31.12.2022	30.09.2022	31.12.2021	31.12.2022
		a	b	b-3	c
1	**Credit risk (excluding CCR)**	**11,570,861**	**11,502,842**	**10,049,886**	**925,669**
2	of which the standardised approach	11,570,861	11,502,842	10,049,886	925,669
6	**Counterparty credit risk - CCR**	**144,580**	**146,775**	**40,881**	**11,566**
7	of which the standardised approach	58,980	57,787	29,031	4,718
EU 8b	of which credit valuation adjustment - CVA	85,600	88,988	11,850	6,848
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,359,476**	**1,228,301**	**1,206,363**	**108,758**
21	of which the standardised approach	1,359,476	1,228,301	1,206,363	108,758
23	**Operational risk**	**1,410,132**	**1,244,023**	**1,244,023**	**112,811**
EU 23a	of which basic indicator approach	1,410,132	1,244,023	1,244,023	112,811
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**168,010**	**161,798**	**126,255**	**13,441**
29	**Total**	**14,653,059**	**14,283,739**	**12,667,408**	**1,172,245**

In 2022, the RWA for Credit risk increased by EUR 1,592.7 million (lines 2, 7, and 24 in Table 8) where EUR 747.1 million of the increase relates to the acquisition of N Banka (on the acquisition day the contribution of N Banka to NLB Group was EUR 858.9 million). The remaining part of the RWA increase in the amount of EUR 845.6 million was mainly the consequence of ramping up lending activity in all Group banks, the most in the Bank and NLB Komercijalna Banka, Beograd. The RWA growth was partially mitigated by CRR eligible real estate collaterals from Bosnia and Herzegovina, Serbia, and North Macedonia. The higher RWA for high-risk exposures was the result of higher project finance exposure. Furthermore, the RWA decrease was observed for liquidity assets mainly due to the maturity of some non-EU sovereign bonds (mainly Serbia, Kosovo, and Russia). The lower exposure to institutions also resulted in the RWA reduction, the most in NLB Komercijalna Banka, Beograd, banks from Bosnia and Herzegovina, the Bank, and NLB Banka, Skopje. At the same time, lower exposure to the covered bonds in the Bank also reduced the RWA. The repayments, as well as the upgrade of some clients, additional impairments and provisions recognised, and the package sale of NPLs from Serbia contributed to a lower RWA for the exposures in default.

The increase in RWAs for market risks and Credit Value Adjustments (CVA) in the amount of EUR 226.9 million YoY (lines EU 8b and 21 in Table 8) was the result of a higher RWA for FX risk in the amount of EUR 139.4 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks), higher RWA for CVA risk in the amount of EUR 73.8 million (a consequence of an adjustment of calculating exposure in the CVA calculation due to the change of a methodology from a mark to market method to the Original Exposure Method (OEM), and due to the conclusion of longer-term and the higher size of derivatives by the Bank) and higher RWA for Traded Debt Instruments (TDI) risk in the amount of EUR 13.7 million (a consequence of new derivatives businesses).

The increase in the RWA for operational risks (EUR 166.1 million YoY) (line EU 23 in Table 8) derives from the higher three-year average of relevant income, as defined in Article 316 of CRR, which represented the basis for the calculation. The main reasons for the increase were a generally higher income base in most Group members, and the acquisition of N Banka in March 2022.

4.4. MREL requirement – Key metrics of own funds and eligible liabilities

(Article 447 h of CRR and Article 45i (3) a and c of BRRD)

This template provides summary information about NLB's Minimum Requirement for own funds and Eligible Liabilities (MREL). It covers the disclosures required by point (h) of Article 447 CRR and points (a) and (c) of Article 45i (3) BRRD. It has to be disclosed by NLB as the resolution entity on the basis of its resolution group level (i.e., NLB Resolution Group, consisting of the Bank and other members of the NLB Group excluding banks).

As at 1 January 2024, the Bank must comply with MREL requirement on a consolidated basis at resolution group level of 31.38% of Total Risk Exposure Amount (TREA) increased by applicable Combined Buffer Requirement (CBR) and 9.97% of the Total Exposure Measure (TEM). The Bank has to ensure a linear build-up of own funds and eligible liabilities towards MREL requirement and should as at 1 January 2022 ensure its compliance with 25.19% TREA, increased by CBR and 8.03% TEM.

As at 31 December 2022, the MREL ratio was 36.32% as percentage of TREA compared to an interim requirement of 28.69% of TREA (with CBR). This means the Bank has a MREL surplus of EUR 532 million above its interim MREL requirement. Expressed as percentage of the TEM, the Bank ratio was 17.35%, while the interim requirement is 8.03% of TEM.

Table 9 – EU KM2: Key metrics - MREL and, where applicable, the G-SII requirement for own funds and eligible liabilities for NLB Group

	31.12.2022	Minimum requirement for own funds and eligible liabilities (MREL)
		a
	Own funds and eligible liabilities, ratios, and components	
1	Own funds and eligible liabilities	2,531,176
EU-1a	Of which own funds and subordinated liabilities	2,040,777
2	Total risk exposure amount of the resolution group (TREA)	6,968,437
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	36.32%
EU-3a	Of which own funds and subordinated liabilities	29.29%
4	Total exposure measure of the resolution group	14,585,831
5	Own funds and eligible liabilities as percentage of the total exposure measure	17.35%
EU-5a	Of which own funds or subordinated liabilities	13.99%
	Minimum requirement for own funds and eligible liabilities (MREL)	
EU-7	MREL requirement expressed as percentage of the total risk exposure amount	28.69%
EU-9	MREL requirement expressed as percentage of the total exposure measure	8.03%

Disclosure of own funds and eligible liabilities (Article 437a CRR and Article 45i(3)(b) BRRD)
This section provides detailed information on the composition of NLB's own funds and eligible liabilities, their main features, their ranking in the creditor hierarchy and their maturities. It covers the disclosures required by Article 437a CRR and point (b) of Article 45i (3) BRRD.

Composition of own funds and eligible liabilities
As at 31 December 2022, the Bank's available own funds and eligible liabilities amounted to EUR 2,531.2 million, consisting of EUR 2,040.8 million own funds (CET1, AT1 and Tier 2 bonds) and EUR 490.4 million of eligible deposits and liabilities. The Bank is fulfilling the MREL requirement predominantly with capital. Only 7% of the MREL capacity is fulfilled with eligible liabilities (MREL eligible liabilities (bonds, Schuldschein) and MREL deposits).

Table 10 – EU TLAC1 – Composition of MREL requirement for own funds end eligible liabilities

	31.12.2022	Minimum requirement for own funds and eligible liabilities (MREL)	Memo item: Amounts eligible for the purposes of MREL, but not TLAC
		a	c
	Own funds, eligible liabilities and adjustments		
1	Common Equity Tier 1 capital (CET1)	1,451,261	-
2	Additional Tier 1 capital (AT1)	82,000	-
6	Tier 2 capital (T2)	507,516	-
11	Own funds for the purpose of Articles 92a CRR and 45 BRRD	2,040,777	-
	Own funds and eligible liabilities: Non-regulatory capital elements		
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre cap)	490,399	-
17	Eligible liabilities items before adjustments	490,804	490,804
	Own funds and eligible liabilities: Adjustments to non-regulatory capital elements		
18	Own funds and eligible liabilities items before adjustments	2,531,176	2,531,176
22	Own funds and eligible liabilities after adjustments	2,531,176	-
EU-22a	Of which own funds and subordinated	2,040,777	-
	Risk-weighted exposure amount and leverage exposure measure of the resolution group		
23	Total risk exposure amount	6,968,437	-
24	Total exposure measure	14,585,831	-
	Ratio of own funds and eligible liabilities		
25	Own funds and eligible liabilities (as a percentage of total risk exposure amount)	36.32%	-
EU-25a	Of which own funds and subordinated	29.29%	-
26	Own funds and eligible liabilities (as a percentage of total exposure measure)	17.35%	-
EU-26a	Of which own funds and subordinated	13.99%	-
27	CET1 (as a percentage of TREA) available after meeting the resolution group's requirements	20.83%	-

Main features of eligible liabilities instruments

Share capital amounts EUR 200 million. Share capital of NLB is comprised of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. Components of Own funds are disclosed in Chapter 4.2 Detailed presentation of capital elements.

As at 31 December 2022, 3.2% of the volume of own funds end eligible liabilities represented by instruments of additional capital (AT1 notes), which were issued in the amount of EUR 82 million with no scheduled maturity date and with the option of possibility for early redemption of the notes in a period between 5 and 5.5 years from their issue date. The currency of the issued notes is the Euro.

As at 31 December 2022, 20.1% of the volume of own funds end eligible liabilities were subordinated Tier 2 bonds, which are classified as instruments of additional capital, with original maturity of 10 years and the possibility for early redemption of the notes after 5 years. Their currency is Euro.

As at 31 December 2022, the Bank had total of EUR 330 million of senior unsecured bonds with a maturity of over 2 to 5 and total of EUR 159 million of MREL eligible deposits, of which: EUR 66 million with a maturity above 1 year and up to 2 years, EUR 93 million with a maturity above 2 years and up to 5 years.

A description of the main features of all NLB's issued bonds being eligible for MREL purpose is published on Bank's website (Debt instruments (nlb.si)) and in Appendix 4.

Ranking in the creditor hierarchy and maturity (Article 230 of the Resolution and Compulsory Winding-Up of Banks Act (ZRPPB-1))

The following table provides a simplified overview of the reverse ranking of liabilities in an insolvency proceeding under Slovenian law for the MREL reporting purpose.

Table 11 – Simplified overview of the reverse ranking of liabilities in an insolvency proceeding under Slovenian law for the MREL reporting purpose

Rank	Label of the claims
1	Claims for instruments of ownership (Common Equity Tier 1 instruments)
2	Subordinated claims repaid after the repayment of the claims referred to in points 11 to 3
3	Unsecured claims for debt securities that fulfil all the following conditions: - their original contractual maturity is at least one year - they are not derivatives nor do they have built-in characteristics of derivatives - the contractual documents concerned or prospectus related to their issue expressly state that in the event of proceedings for compulsory winding-up of a bank claims for these instruments shall be recovered after the claims referred to in points 11 to 4 and before the subordinated claims referred to in point 2
4	Unsecured claims for debt instruments and other similar financial instruments issued by a bank
5	Unsecured claims except claims for debt securities and similar instruments issued by a bank
6	Bank deposits which are not deemed to be eligible or claims referred to in point 9, including: - deposits by banks and investment firms and other financial institutions made on their behalf and for their account - deposits by insurance undertakings, reinsurance undertakings, and insurance holding companies - deposits by undertakings for collective investment in transferable securities, including investment undertakings of the closed-ended type - deposits by pension funds and pension companies - deposits by states and central banks and deposits by entities that are direct or indirect users of the state budget - deposits by local communities and deposits by direct and indirect users of the budgets of local communities
7	Other eligible deposits not included in points 10 or 8
8	Eligible deposits by depositors who are natural or legal persons that meet the criteria for micro, small and medium-sized enterprises
9	Claims with original maturity of less than seven days, held by: - an institution other than those belonging to the same group, or - payment or settlement systems or operators of or participants in these systems if the claims arise from the resolution entity's involvement in a payment or settlement system and the settlement in such system is subject to the final settlement of orders in the event of insolvency or other membership termination procedure, as defined by the Act governing payment services and systems or the Act governing the financial instruments market
10	Guaranteed deposits
11	Priority claims
12	Payments from the bankrupt's estate to settle the outstanding costs of compulsory liquidation proceedings and the costs of bankruptcy proceedings

As at 31 December 2022, the Bank had the following composition of capital items and qualifying liabilities with which it meets the MREL requirement, as Table 12 shows:

Type of instrument	Classification of repayment in ordinary insolvency proceedings
Common Equity Tier 1 instruments: Ordinary shares (ISIN SI0021117344)	Junior to all other liabilities.
Additional Tier 1 instruments: Additional tier 1 notes (ISIN SI0022104275)	Senior to the Common Equity Tier 1 Instruments and junior to all other liabilities.
Tier 2 instruments: Subordinated Tier 2 notes (ISIN SI0022103855) Subordinated Tier 2 notes (ISIN XS2080776607) Subordinated Tier 2 notes (ISIN XS2113139195) Subordinated Tier 2 notes (ISIN XS2413677464)	Senior to the Common Equity Tier 1 instruments, Additional Tier 1 instruments, and junior to all other liabilities.
Unsecured and unsubordinated claims arising from debt instruments: Senior preferred bond (ISIN XS2498964209)	Senior to the Tier 2 Instruments and junior to all liabilities referred to in second paragraph of Article 230 of ZRPPB-1, points 1 to 7.
Other unsecured and unsubordinated claims: MREL eligible loan	Senior to the Unsecured and unsubordinated claims arising from debt instruments and junior to all liabilities referred to in second paragraph of Article 230 of ZRPPB-1, points 1 to 6.
MREL eligible deposits (referred to in second paragraph, point 6):	Senior to the Other unsecured and unsubordinated claims and junior to all liabilities referred to in second paragraph of Article 230 of ZRPPB-1, points 1 to 5.
MREL eligible deposits (referred to in second paragraph, point 5):	Senior to the MREL eligible deposits (reffered to in second paragraph, point 6) and junior to all liabilities referred to in second paragraph of Article 230 of ZRPPB-1, points 1 to 4.

Table 13 – TLAC 3b – Creditor ranking of NLB Group

31.12.2022		Insolvency ranking					
		1 (most junior)	2	3	6	7	Sum 1 to 12
1	Description of insolvency rank	Claims for instruments of ownership, including claims for instruments that were issued by a bank and meet the conditions for a bank's Common Equity Tier 1 instruments, and other subordinated claims repaid simultaneously with claims for instruments of ownership under the contractual arrangement in the event of proceedings for compulsory winding-up of a bank	Subordinated claims repaid under a contractual arrangement between the parties in the event of proceedings for compulsory winding-up of a bank after the repayment of the claims referred to in points 11 to 3	Unsecured claims for debt securities that fulfil all the following conditions: - their original contractual maturity is at least one year - they are not derivatives nor do they have built-in characteristics of derivatives - the contractual documents concerned or prospectus related to their issue expressly state that in the event of proceedings for compulsory winding-up of a bank claims for these instruments shall be recovered after the claims referred to in points 11 to 4 and before the subordinated claims referred to in point 2	Bank deposits which are not deemed to be eligible or claims referred to in point 9, including: - deposits by banks and investment firms and other financial institutions made on their behalf and for their account - deposits by insurance undertakings, reinsurance undertakings and insurance holding companies - deposits by undertakings for collective investment in transferable securities, including investment undertkings of the closed-ended type - deposits by pension funds and pension companies - deposits by states and central banks and deposits by entities that are direct or indirect users of the state budget - deposits by local communities and deposits by direct and indirect users of the budgets of local communities	Other eligible deposits not included in points 10 or 8	
5	Own funds and liabilities potentially eligible for meeting MREL	1,451,261	589,516	330,084	110,193	50,121	2,531,176
6	of which residual maturity ≥ 1 year < 2 years	-	-	-	45,595	20,188	65,783
7	of which residual maturity ≥ 2 year < 5 years	-	-	330,084	64,599	29,933	424,616
8	of which residual maturity ≥ 5 years < 10 years	-	507,516	-	-	-	507,516
9	of which residual maturity ≥ 10 years, but excluding perpetual securities	-	-	-	-	-	-
10	of which perpetual instruments	1,451,261	82,000	-	-	-	1,533,261

4.5. Summary of the approach to assessing the internal capital needed for current and planned activities

(Article 438 a of CRR)

The Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) of NLB Group meet the requirements of the CRR, the guidelines of the ECB and EBA and follow good banking practices. Additionally, banking members operating in other SEE countries also follow their own local regulation requirements. Moreover, the ICAAP process is comprehensively integrated into the Group's overall risk management system in order to assure proactive support for informed decision-making.

The most important goal of the ICAAP is to ensure adequate capital and sustainability at all times. The purpose of implementation of the ICAAP process is to have in place sound, effective, and comprehensive strategies, and processes to assess and maintain on an ongoing basis the amount, types, and distribution of internal capital that is considered adequate to cover the nature and level of the risks to which NLB Group is or might be exposed. The ICAAP plays a key role in maintaining adequate capitalisation of NLB Group. In order to ensure this contribution to its continuity, prudent and conservative assumptions are built into two complementary internal perspectives.

From an economic perspective, NLB Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. In this perspective, NLB Group covers a full universe of risks that may have a material impact on its risk profile, as a result of risk identification materiality which gives a very comprehensive view of risks. Moreover, economic risks and losses affect internal capital immediately and to their full extent, based on a point-in-time view. Some of those risks, or risks related to them, may also partially or fully materialise later under the normative perspective via accounting losses, own funds reductions, or prudential provisions.

A normative perspective is a multiyear forward-looking assessment of NLB Group which shows its ability to meet all its capital-related requirements, as defined by the regulator and the Group's risk appetite. Within these capital constraints, NLB Group defines its management buffer, above the regulatory and supervisory requirement, including internal capital needs that allow the Group to sustainably follow its business strategy. A normative perspective includes several stress scenarios and a reverse stress test. From a baseline perspective, NLB Group's goal is to maintain its overall capital requirement (OCR), increased by the management buffer, at all times. From a stress perspective, NLB Group's goal is to maintain its total SREP requirement (TSCR), increased by the management buffer at all times, and also fulfilled during prolonged downturn developments that may imply a serious capital depletion.

Both perspectives mutually inform each other where the economic perspective shows the coverage of risks with internal capital, while in contrast, a normative perspective represents a potential reduction of internal capital in a forward-looking perspective, which also influences the economic perspective. Outcomes of the normative perspective inform the economic risk quantification and adjust or complement the latter if they do not adequately capture the risks arising from the considered adverse scenarios.

Moreover, the ICAAP process represents an integral input for business strategy by defining growth options, considering the risks involved, and directing the sustainable allocation of disposable capital resources under normal and stressed conditions. The ICAAP is incorporated in the capital planning, risk assessment of new products, or other relevant changes to proactively support strategic decision-making in NLB Group.

The ICAAP process as such provides an assured robust risk management process (from the organisational and methodological points of view) on an ongoing and forward-looking basis. Risk identification is embedded at a very early stage, focusing on the efficient risk management and mitigation of them with the aim of ensuring the prudent and economic use of its capital. The ICAAP outcomes support the Group's proactive risk management through limits in monitoring and reporting, adequate risk assessment, and measurement.

4.6. Capital instruments included in the capital

(Articles 437 b and c of CRR)

In 2022, the capital of NLB Group consisted of all three elements of capital (Common Equity Tier 1 capital, Tier 1 capital, and Tier 2 capital). The shares of the parent entity NLB are included in Common Equity Tier 1 capital, the AT1 notes issued in September 2022 are included in Tier 1 capital and the subordinated Tier 2 notes issued 2019, 2020 and 2022 by NLB are included in Tier 2 capital. All three elements of capital also include Minority Capital (Non-controlling interest).

AT1 notes are disclosed in the 2022 NLB Group Annual Report in note 5.21, Other equity (page 260) instruments issued and subordinated liabilities are disclosed in– note 5.15 c) Subordinated liabilities (page 248).

Details on the main characteristics of the capital instruments are disclosed in Appendix 4.

4.7. Risk factors and Outlook

Risk factors

Risk factors affecting the business outlook are (among others):

- The economy's sensitivity to a potential slowdown in the euro area or globally
- Widening credit spreads
- Potential liquidity outflows
- Worsened interest rate outlook / Persistence of high inflation
- Energy and commodity price volatility
- Increasing Unemployment
- Potential cyber-attacks
- Regulatory, other legislative, and tax measures impacting the banks
- Geopolitical uncertainties

In 2022, the Group's region continued to grow on the back of the revival in private and investment consumption after being affected by the pandemic in the past period. Higher prices of energy, commodities, raw materials, and food as a result of the war in Ukraine, have and will further impact the economic momentum. As a result, a gradual slowdown in economic growth can be expected. The Group's region is still expected to grow moderately, though the inflationary pressures might suggest a further slowdown, namely in the area of private consumption. However, it is not possible to assume with a high degree of confidence that the positive economic momentum will further continue.

Lending growth in the corporate and retail segments is expected to remain relatively moderate, especially in the current circumstances. With regards to credit portfolio quality, the Group carefully monitors the most affected client segments with the intention to detect any significant increase in credit risk at a very early stage. The Group's direct and indirect exposures towards Russia and Ukraine in 2022 was rather limited, additionally in February 2023 all remaining outstanding Russian government bonds were sold.

Credit risk usually materially increases in times of economic slowdown. In light of increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impact on the credit portfolio. The Group closely monitors the circumstances in the most affected credit portfolio segments and makes the necessary adjustments. The length and intensity of the war in Ukraine might cause additional spill-over effects in the mid-term period, such as raising the price of energy sources or their availability, which might at a later period also have some impact on other segments of the credit portfolio. These adverse developments could affect the evolution of the cost of risk and NPLs. Notwithstanding the established procedures in the Group's credit risk management, there can be no assurance that they will be sufficient to ensure the Group's quality of credit portfolio, or the corresponding impairments will remain at the adequate level in the future.

The investment strategy of the Group, referring to the Group's bond portfolio kept for liquidity purposes, adapts to the expected market trends in accordance with the set risk appetite. The war in Ukraine has led to quite considerable volatility in the financial markets, in particular shifts in credit spreads, rising of interest rates and foreign exchange rates fluctuations. Special attention is given to the markets in the Balkans, neighbouring countries to Ukraine and Russia and international banks with operations in Russia. The Group is closely monitoring its major bond portfolio positions, mostly sovereigns, by incorporating adequate early warning systems. Since the beginning of the crisis, the Group has been observing credit spreads widening, which impacted FVOCI positions.

No material movements were observed so far regarding the Group's major FX positions. Current developments, market observations, and potential mitigations are very closely monitored and discussed. While the Group monitors its liquidity, interest rate, credit spread, FX position and corresponding trends, impacts of credit spread, interest rate and FX fluctuations on its positions, any significant and unanticipated movements on the markets or variety of factors, such as competitive pressures, customer confidence or other certain factors outside the Group’s control, could adversely affect the Group’s operations, capital, and financial condition.

Special attention is paid to the continuous provision of services to clients, their monitoring, health protection measures, and the prevention of cyber-attacks and potential fraud events. The Group has established internal controls and other measures to facilitate their adequate management. However, these measures may not always fully prevent potential adverse effects.

The Group is subject to a wide variety of regulations and laws relating to banking, insurance, and financial services. Respectively, it faces the risk of significant interventions by a number of regulatory and enforcement authorities in each of the jurisdictions in which it operates.

The SEE region is the Group's most significant geographic area of operations outside of the RoS and the economic conditions in this region are therefore important to the Group’s results of operations and financial condition. The Group's financial condition could be adversely affected as a result of any instability or economic deterioration in this region.

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
- Energy and commodity prices
- Other relevant market indicators

During 2022, the Group reviewed IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and the related impacts in the future. The Group established and developed multiple scenarios (i.e., baseline, mild, and severe) on the level of an Expected Cred Losses (ECL) calculation. The baseline scenario presents a common forecast macroeconomic view for all countries of the Group. This scenario is constructed with the purpose to culminate various outlooks into a unified projection of macroeconomic and financial variables for the Group. This is in line with the concept that the bank has a consolidated view on the future of economic development in SEE. The IFRS 9 baseline scenario is based on the most recent official and professional forecaster outputs, with additional specific adjustments for individual countries of the Group.

The macroeconomic rationale behind the alternative scenarios is related to a range of plausible drivers of economic development in the next three years. The narrative for the alternative scenarios combines statistical techniques with expert knowledge as a means of the concept and validation of outputs. The Group developed both alternative scenarios through the lens of possible expected impact on the regional economic activity. In general, the mild scenario is a demand-driven optimistic scenario, where limited supply disruption factors and an active role from the central banks help to brighten the economic conditions and economic subjects' confidence. This scenario narrates stronger economic growth, while the severe scenario envisions zero real economic growth for all Group home countries. Namely, the severe one is a supply-driven pessimistic scenario, where both upside inflation risk and downside growth risk materialize. The Bank includes these scenarios in calculating expected credit losses in the context of IFRS 9.

The Group formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of IFRS 9. These IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of ECL impairment calculation. Both features may change when material changes in the future development of the economy are recognised and not embedded in previous forecasts.

The monitoring process of the macroeconomic environment revealed that uncertainties remain high in the global economy due to the energy crisis, inflation, and the war in Ukraine. The current economic situation led to sluggish growth projections, persistent inflationary pressures, and interest rate hikes. Increased uncertainty and changes in expectations of macroeconomic development affected forecasts for some economies in the Group. Material decreases in growth projections for Slovenia and Serbia for 2023 was noticed. Hence, an executive decision was taken to adjust risk expectations using the scenario's weight. The scenario probability weighting was changed to 0%-10%-90% where severe and baseline scenarios reflect the likelihood of relevant future economic conditions for them. The likelihood of occurrence for the pessimistic scenario was derived to 90%, whereby the baseline scenario received a weight of 10%. Minor changes were also applied in other countries based on the latest available forecast.

The Group established a comprehensive internal stress-testing framework and early warning systems in various risk areas with built-in risk factors relevant to the Group's business model. The stress-testing framework is integrated into Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), and the Recovery Plan to determine how severe and unexpected changes in the business and macro environment might affect the Group's capital adequacy or liquidity position. Both the stress-testing framework and recovery plan indicators support proactive management of the Group's overall risk profile in these circumstances, including capital and liquidity positions from a forward-looking perspective.

Risk Management actions that might be used by the Group are determined by various internal policies and applied when necessary. Moreover, the selection and application of mitigation measures follows a three-layer approach, considering the feasibility analysis of the measure, its impact on the Group's business model, and the strength of the available measure.

Outlook 2023

Macroeconomic

A warmer-than-expected winter, energy savings, and fiscal support measures helped to alleviate fears of imminent energy shortages in the euro area. Production levels should benefit from improving supply conditions, while energy and commodities markets are not expected to experience any additional supply shocks. The inflation rate growth should decrease, but remain elevated, due to the combined effects of higher interest rates, tighter financial conditions, and alleviated inflationary pressures stemming from commodities prices. Private consumption should remain subdued in 2023 due to declining purchasing power, as core inflation is to become the predominant inflation driver. Muted private consumption and uncertainty, stemming from continued although regionally contained political tensions, are expected to be the main drag on economic growth. The labour market tightness should slightly decrease due to the stagnating economy, which is expected to result in less pressure on wage growth and consequently fewer second round effects driving inflation. Overall, we see the euro area economy stagnating in 2023, while the Group's region economies are expected to grow 1.3% on average in 2023. However, the Group's region growth is set to cool notably this year with the weaker euro area economy, elevated inflation, declining real wages, geopolitical volatility, and the war in Ukraine restraining household spending, industrial production, and exports. On top of this, tighter financing conditions could further subdue activity in most countries of the region.

Revenues

Interest income growth is expected to be primarily driven by loan production, higher rates, and the productive use of liquid assets. Moderate growth of net fee and commission income is expected for 2023, mainly on the account of basic services such as payments and cards, but also bancassurance and asset management products. The continued increase of digital sales activities, cross-sell, and new client acquisition should further support the growth of net fee and commission income going forward. Based on these expectations, the outlook for regular income increased from the previously communicated of more than EUR 850 million to around EUR 900 million in 2023.

Costs

The Group continues to pursue a strong cost containment agenda addressing both employee and other cost elements. Total costs continue to be impacted by the business environment with a visible cost inflation throughout the region. Additionally, the Group continues with its investment activities into information technology upgrades amid the growing relevance of digital banking. Moreover, integration costs associated with N Banka will contribute to the total costs in 2023. All this will increase the costs, with the expectation for the cost base of around EUR 490 million in 2023.

Loan growth and portfolio quality

The Group expects mid-single digit organic loan growth in 2023. Slower loan growth is foreseen for 2023 after exceptionally high new corporate and retail loan origination across all markets in 2022 that is also influenced by expectations of higher interest rates.

In light of the war in Ukraine, increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made the necessary adjustments. The Group's direct and indirect exposures toward Russia and Ukraine are quite limited. The most affected industries are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage. Increased and prolonged inflationary pressures might cause some deterioration of the credit portfolio quality in the retail segment, though its impact should not be too excessive. As a result, the Group strengthened the early warning system for this segment.

The Group remains very prudent in identifying any increase in credit risk, as well as proactive in the area of NPL management. Consequently, a well-diversified and stable quality of credit portfolio is expected in 2023. Based on assessed environment, the expected cost of risk in 2023 will be between 30 to 50 bps.

Liquidity
From a liquidity perspective, deposits at the Group level grew in 2022, and it is expected they will continue to grow in the next period. The liquidity position of the Group is expected to remain very robust even if a highly unfavourable liquidity scenario materialises, as the Group holds sufficient liquidity reserves mostly in the form of high-quality liquid assets.

As major part of liquidity reserves, the Group closely monitors its major bond portfolio positions, mostly sovereigns. Since beginning of the crisis, the Group has been observing the rising yield environment and the widening of credit spreads, which materially impacted FVOCI positions in 2022. Consequently, the Group will continue to carefully manage the structure and concentration of liquidity reserves in order to limit the potential sensitivity of regulatory capital.

Capital and MREL
The capital position represents a strong basis to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance.

Wholesale funding in 2023 will be driven by the MREL requirement, for this purpose the Bank intends to issue new senior MREL eligible liabilities of approximately EUR 300 million. This will lead to the Bank comfortably meeting binding MREL requirement applicable as of 1 January 2024.

The Bank will become more frequent issuer on capital markets in the following years, mainly for the purpose of MREL compliance. The annual anticipated issuance / re-financing size will be in the area of EUR 300 million.

Dividends
The Bank’s general intention is to distribute dividends on a yearly basis, while at the same time fulfilling all regulatory requirements, including the Pillar 2 Guidance and risk appetite. The Group aims to maintain stable dividend growth and at the same time have room to support organic growth and potential M&A opportunities.

In the period between 2022 and 2025, the Bank envisages a total capital return through cash dividends of EUR 500 million. Dividends in the amount of EUR 100 million were paid in 2022, while for the year 2023 the Bank anticipates a dividend payment in the amount of EUR 110 million.

M&A opportunities
The Group’s drive to deliver value to the shareholders is subject to organic growth and the capacity to engage in further value accretive M&A opportunities. Such opportunities for inorganic growth will be subject to a diligent analysis of strategic, financial, and other resource utilisation.

Sustainability
In 2023, the Group will continue to implement its sustainability agenda in all three pillars of its Sustainability Framework. In the Sustainable Financing Pillar, the primary focus of the Group will be in the development and implementation of net-zero business strategy and financing, as well as measurement of portfolio emissions. The first targets related to reducing its footprint in carbon-intensive industries will be published by the end of 2023. In the Sustainable Operations Pillar, the Bank will continue to adhere to high standard of corporate governance, which are the foundation of sustainable operation, and will maintain long-term relationships with key stakeholders. The Group will also take measures to lower energy and resources consumption and to increase energy efficiency, disclose all relevant ESG data and further implement the EU Taxonomy. Focus will also be on analysis and implementation of the newly adopted Corporate Sustainability Reporting Directive, as well as the upcoming Corporate Sustainability Due Diligence Directive. In the third pillar, the Group will continue with its active CSR programme contributing to development of local communities and society in all regions where the Group operates. Our sponsorship, donations, and partnership projects will continue to be based on supporting and following the UN Sustainable Development Goals (UN SDG).

4.8. Information on COVID-19 moratoria

Template 1 – Information on loans and advances subject to legislative and non-legislative moratoria for NLB Group is empty, because there were no new moratoria, and all previously approved had already expired.

Table 14 – Breakdown of loans and advances subject to moratoria by residual maturity of moratoria for NLB Group

	31.12.2022	Number of obligors	Gross carrying amount		
			Total	Of which: legislative moratoria	Of which: Expired
		a	b	c	d
1	Loans and advances for which moratorium was offered	133,974	1,368,908		
2	Loans and advances subject to moratorium (granted)	119,645	1,170,007	1,112,664	1,170,007
3	of which: Households		698,759	694,152	698,759
4	of which: Collateralised by residential immovable property		390,086	386,908	390,086
5	of which: Non-financial corporations		464,377	411,640	464,377
6	of which: Small and Medium-sized Enterprises		334,930	285,365	334,930
7	of which: Collateralised by commercial immovable property		387,519	341,400	387,519

Table 15 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis for NLB Group

	31.12.2022	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
		a	b	c	d
1	Newly originated loans and advances subject to public guarantee schemes	**51,657**	**-**	**19,271**	**481**
2	of which: Households	9,863			253
3	of which: Collateralised by residential immovable property	5			-
4	of which: Non-financial corporations	41,792	-	16,941	228
5	of which: Small and Medium-sized Enterprises	31,649			228
6	of which: Collateralised by commercial immovable property	1,295			-

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

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

Table 16 – Amount of bank-specific countercyclical capital buffer for NLB Group

31.12.2022	
Total risk exposure amount	14,653,059
Institution specific countercyclical buffer rate	0.0042%
Institution specific countercyclical buffer requirement	619

Table 17 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer of NLB Group

31.12.2022	General credit exposures	Own funds requirements		Risk-weighted exposure amounts	Own funds requirement weights (%)	Counter-cyclical capital buffer rate (%)
	Exposure value under the SA	Relevant credit risk exposures - Credit risk	Total			
Country	a	g	j	k	l	m
Slovenia	6,814,668	386,074	386,074	4,825,925	48.98%	-
Serbia	2,703,339	154,194	154,194	1,927,425	19.56%	-
North Macedonia	1,246,360	75,614	75,614	945,175	9.59%	-
Bosnia and Herzegovina	1,083,123	65,551	65,551	819,388	8.32%	-
Kosovo	766,142	47,240	47,240	590,500	5.99%	-
Montenegro	596,689	38,427	38,427	480,338	4.88%	-
Luxembourg	60,128	4,804	4,804	60,050	0.61%	0.50%
France	40,379	3,220	3,220	40,250	0.41%	-
Austria	39,053	3,046	3,046	38,075	0.39%	-
Netherlands	38,046	3,033	3,033	37,913	0.38%	-
United States	28,821	2,299	2,299	28,738	0.29%	-
Belgium	25,814	1,993	1,993	24,913	0.25%	-
United Kingdom	11,815	795	795	9,938	0.10%	1.00%
Croatia	8,849	822	822	10,275	0.10%	-
Germany	8,450	610	610	7,625	0.08%	-
Switzerland	3,056	208	208	2,600	0.03%	-
Bulgaria	1,800	84	84	1,050	0.01%	1.00%
Italy	856	32	32	400	0.00%	-
Sweden	587	34	34	425	0.00%	1.00%
Spain	515	19	19	238	0.00%	-
Malta	426	20	20	250	0.00%	-
Russian Federation	294	9	9	113	0.00%	-
Cyprus	250	16	16	200	0.00%	-
China	249	15	15	188	0.00%	-
Czech republic	220	8	8	100	0.00%	1.50%
United Arab Emirates	196	10	10	125	0.00%	-
Australia	166	6	6	75	0.00%	-
Ireland	117	9	9	113	0.00%	-
Latvia	113	7	7	88	0.00%	-
Saudi Arabia	113	3	3	38	0.00%	-
Hungary	56	3	3	38	0.00%	-
Mauritius	43	2	2	25	0.00%	-
Albania	41	2	2	25	0.00%	-
Brazil	40	2	2	25	0.00%	-
Lithuania	30	1	1	13	0.00%	-
Norway	27	2	2	25	0.00%	2.00%
Ukraine	23	1	1	13	0.00%	-
Canada	23	2	2	25	0.00%	-
Turkey	20	1	1	13	0.00%	-
Kenya	20	2	2	25	0.00%	-
Slovakia	17	1	1	13	0.00%	1.00%
Poland	16	1	1	13	0.00%	-
Portugal	15	1	1	13	0.00%	-
Other	34	-	-	-	0.00%	-
Total	**13,481,008**	**788,218**	**788,218**	**9,852,725**	**100.00%**	**-**

For the last quarter of 2022, the Bank of Slovenia raised the countercyclical capital buffer for exposures to the Republic of Slovenia from 0% to the level of 0.5% of the total risk exposure amount. Banks have to meet the requirement by 31 December 2023. Thus, the value of the buffer for exposures in Slovenia as at 31 December 2022 remains at 0%. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposure in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country are 0%. Counter-cyclical capital rates have generally been set at 0%, except for Norway which had as at 31 December 2022 a countercyclical capital rate of 2.0%, Czech republic 1.5%, while Bulgaria, Slovakia, Sweden, and United Kingdom had 1% and Luxembourg had rate of 0.5%.

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

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

4.10. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amendment of two regulations to address the impact of COVID-19 pandemic on the economy in order to maximise the capacity of credit institutions to lend and absorb losses related to the pandemic.

The Amendment of CRR (EU) No. 575/2013:

- Modification of the calculation of the leverage ratio to exclude central bank reserves;
- Extension of the provisions of ECL accounting under the IFRS 9 from 2018–2022 to 2020–2024;
- Temporary treatment of public debt issued in the currency of another Member State;
- Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (more information in chapter 4.11);
- Extension of the preferential treatment regarding provisioning requirements to exposures guaranteed by the public sector for seven years. The preferential treatment is usually available only for NPLs, guaranteed by official export credit agencies.

The Amendment of CRR II (EU) No. 2019/876:

- Bringing forward the implementation of:
    - Provisions on the treatment of certain loans, granted by credit institutions to pensioners or employees;
    - Adjustments of risk-weighted non-defaulted SME exposures (SME supporting factor);
- The preferential treatment of exposures to entities that operate or finance physical structures or facilities systems and networks that provide or support essential public services (Infrastructure supporting factor);
- Exempt prudently valued software assets from CET1 calculations.

The amending application was directly applied the day after publication in the *Official Journal*, starting on 27 June 2020.

NLB Group implemented:

- Changes in the SME-supporting factor;
- Temporary treatment of public debt issued in the currency of another Member State;
- Exempt prudently valued software assets from CET1 calculations;
- Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic;
- Modification of the calculation of the leverage ratio to exclude central bank reserves.

Changes in the SME-supporting factor were introduced in 2019 CRR II in article 501 containing reductions to the capital requirements for credit risk on exposures to SMEs. The threshold to qualify for the SME-supporting factor increased from EUR 1.5 million to EUR 2.5 million, with an additional factor of 0.85 (add-on to the previous 0.7619).

The temporary treatment of public debt issued in the currency of another Member State is set out in new article 500a to the CRR and applies with respect to the credit risk framework until 31 December 2024. For exposures to the central governments and central banks of Member States, where those exposures are denominated and funded in the domestic currency of another Member State, the risk weight applied shall be:

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

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

4.11. Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income for sovereign securities, due to the COVID-19 pandemic

(Article 468 (5) of CRR)

Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic was introduced in June 2020, in article 468 of the CRR. A prudential filter is temporarily introduced, on the basis on which banks can neutralise the effect of unrealised gains and losses measured at fair value through other comprehensive income, in relation with exposures to sovereign securities. Banks can exclude from the calculation of their CET1 capital, the amount of unrealised gains and losses accumulated since 31 December 2019 onwards, accounted for as 'fair value changes of debt instruments measured at fair value through other comprehensive income' in the balance sheet, corresponding to exposures to central governments, to regional governments or to local authorities, excluding those financial assets that are credit-impaired with the factor:

- 100% until 31 December 2020;
- 70% in 2021;
- 40% in 2022.

NLB Group implemented this temporary treatment in September 2022, with the effect of increased capital by EUR 60.6 million (i.e., accumulated other comprehensive income, amounted EUR -106.4 million instead of EUR -167.0 million). At the end of 2022 the effect was EUR 61.7 million (i.e., accumulated other comprehensive income, amounted EUR -98.5 million instead of EUR -160.1 million). This temporary measure ceased to apply as at 1 January 2023.

Table 18 – Information on the effect of the temporary treatment according to article 468 (5) of CRR

31.12.2022	Actual data	TT FVOCI not applied
Accumulated other comprehensive income	(98,470)	(160,135)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,208,219**	**2,146,554**
Capital instruments eligible as AT1 Capital	82,000	82,000
Additional Tier 1 capital	**87,481**	**87,481**
TIER 1 CAPITAL	**2,295,700**	**2,234,035**
Tier 2 capital	**510,675**	**510,675**
TOTAL CAPITAL	**2,806,375**	**2,744,710**
TOTAL RISK EXPOSURE AMOUNT (RWA)	**14,653,059**	**14,653,059**
Common Equity Tier 1 Ratio	15.07%	14.65%
Tier 1 Ratio	15.67%	15.25%
Total Capital Ratio	**19.15%**	**18.73%**
Leverage ratio	**9.10%**	**8.85%**

5. Risk management, objectives, and policies

5.1. General information on risk management, objectives, and policies
(Articles 435.1 and 435.2 e of CRR)

NLB Group is one of the largest banking and financial groups in Slovenia, with a strategic focus on selected markets in SEE, namely Serbia, Bosnia and Herzegovina, North Macedonia, Kosovo, and Montenegro. The acquisition of N Banka further strengthened the Group's long-standing presence in Slovenia and SEE region, ensuring the strategic and systemic positions on the markets where the Group operates. The Group is, as at 31 December 2022, comprised of NLB as the parent entity in Slovenia, six subsidiary banks in SEE, N Banka Ljubljana which is in the process of integration, several companies for ancillary services (asset management, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down.

The Group has a leading position in selected SEE markets with significant growth potential, focusing mainly on corporate and retail lending. Moreover, the Group has embarked on the path of intensive integration of sustainability into its operations and business model and continues to pursue its vision to become an innovative partner with simple, customer-oriented solutions focused on Slovenia and SEE countries. Its implementation is expected to sustain the Group's profitability and achieve growth, including the alertness for future challenges in the banking environment.

In 2022, the war in Ukraine did not have a meaningful impact on the quality of the credit portfolio, nor on the liquidity of the Group. The Group's direct and indirect exposures toward Russia and Ukraine are quite limited. In the light of the increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made necessary adjustments. The most affected industries or segments are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage. The liquidity position of the Group remains very firm. Even if a highly unfavourable liquidity scenario would materialise, the Group holds sufficient level of high-quality liquidity reserves.

NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. Maintaining risk awareness is engrained in the Group's business strategy. The Group is committed to developing a culture of client focus, risk awareness, integrity, efficient organisation, sustainable financing, and social responsibility. The trust of the Group's clients, employees, shareholders, and the society in which it works is seen by the Group as a profound responsibility.

Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which consider European banking regulations, the regulations adopted by the Bank of Slovenia, ECB and EBA guidelines, and relevant good banking practice. EU regulations are followed by the Group, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. The business and operating environment relevant for the Group's operations is changing with trends such as sustainability, social responsibility, governance, changing customer behaviour, emerging new technologies and competitors, actively contributing to a more sustainable, balanced, and inclusive economic and social system, as well increasing new regulatory requirements. Respectively, risk management is continuously adapting to detect and manage new potential emerging risks.

In accordance with its business model and strategy, the Group plans a prudent risk profile, optimal capital usage, and profitable operations in the long run considering the risks assumed. The Group Risk Management Framework is defined and organised with regard to the Group's business and risk profile, based on a forward-looking perspective to meet the internal objectives and all external requirements. The Group's Risk Management Framework supports business decision-making at strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:

- Risk appetite and Risk strategy orientations;
- yearly review of strategic goals, budgeting, and the capital planning process;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) process;
- recovery plan activities;
- other internal stress-testing capabilities, early warning systems and regular risk analysis;
- regulatory and internal management reporting.

The Group is engaged in contributing to sustainable finance by incorporating environmental, social, and governance (ESG) risks into its business strategies, risk management framework, and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, the Group implemented sustainability elements into its business model. The goal of this strategic, organisation-wide initiative is to ensure sustainable financial performance of the Group by considering ESG risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system. Thus, sustainable finance integrates ESG criteria into the Group's business and investment decisions for the lasting benefit of the Group's clients and society. NLB Group's Sustainability Committee oversees the integration of the ESG factors to the NLB Group business model. The management of ESG risks addresses the Group's overall credit approval process and related credit portfolio management, which follows ECB and EBA guidelines tending toward their comprehensive integration into all relevant processes. The availability of ESG data in the region where NLB Group operates is still lacking. Nevertheless, the Group made a significant progress in the process of obtaining relevant ESG-related data from its clients, being prerequisite for adequate decision-making.

Risk appetite

NLB Group's Risk Appetite Statement represents a strategic statement defining the maximum level of risk the Group is willing to assume or to avoid based on its risk-bearing capacity, in order to achieve the strategic business objectives. Risk appetite is defined through qualitative assertions and quantitative measures. Qualitative statements define key risk principles regarding risk management, while quantitative metrics provide directions for risk steering from a forward-looking perspective in terms of capital, liquidity, and risk-return optimisation. As such, risk appetite codifies the existing risk culture, principles, objectives, and measures in the Group.

The Group is one of the largest Slovenian banking and financial groups and has an important presence in the SEE region. In accordance with its strategic orientations, the Group's intention is to: be a sustainably profitable; to work predominantly with clients in its core markets; and to provide innovative, but simple customer-oriented solutions, and to actively contribute to a more balanced and inclusive economic and social system. The Group has a well-diversified business model. Based on the Group's business strategy, credit risk is the dominant risk category, followed by valuation risk, interest rate risk in the banking book, operational risk, liquidity risk, market risk, and other non-financial risks. ESG risks do not represent a new risk category, but rather one of risk drivers of the existing type of risks, such as credit, liquidity, market, and operational risk. The Group integrates and manages them within the established risk management framework. Regular risk identification and their assessment is performed within the ICAAP process in order to assure their overall control and effective risk management at a very early stage. In addition, internal capital and liquidity consumption are integrated into an overall risk management system to assure proactive support for informed decision-making on strategic and operational levels.

Managing risks and capital efficiently at all levels is crucial for NLB Group's sustained long-term profitable operations. The management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – a diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The Group must always maintain an appropriate level of liquidity to meet its short-term liabilities, even if a specific stress scenario is realised. Furthermore, with the aim of minimising this risk, the Group pursues an appropriate structure of sources of financing. The Group's limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, rose to the moderate level. The Group's basic orientation in the management of interest rate risk is to limit the unexpected negative effects on revenues and capital that would arise from changed market interest rates and, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such risk must not significantly impact its operations. Risk appetite for operational risks is low to moderate, with a focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. The conclusion of transactions in derivative financial instruments at the Bank is primarily limited to servicing customers and hedging the Bank's own positions. In the area of currency risk, the Group thus pursues the goals of low to moderate exposure. Based on the environmental and climate risk assessment impact of these risks is estimated as low, except for transition risk in the area of credit which is assessed as low to medium. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impacts on the Group's operations.

The main Group risk appetite objectives are disclosed in Statement of Management of Risk on page 7. The values of the most important risk appetite indicators of NLB Group, reflecting the interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile are also disclosed in the Statement of Management of Risk on page 7.

NLB Group established a risk appetite limit framework (key risk indicators and selected relevant triggers) to support its strategic objectives, which is the subject of the comprehensive consistency validation in the ICAAP process. The Group regularly monitors its target risk appetite profile, representing the key component of the risk mitigation process. Thus, the risk profile enables detailed monitoring and proactive management. Limit usage and potential deviations from limits or target values are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Risk management, hedging, and mitigation

Managing risks and capital efficiently is crucial for the Group's sustained long-term profitable operations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group.

The key goal of NLB Group's Risk Management is to proactively manage, assess, and monitor risks within the Group. A sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification at a very early stage, efficient risk management, and mitigation of them with the aim of ensuring the prudent use of its capital, adequate liquidity structure, and related corresponding buffers to support the financial resilience of the Group.

Key risk management guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy in accordance with the Group's business model, based on a forward-looking perspective. They are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite, and Risk Strategy guidelines, and the key internal policies of NLB Group – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, the main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy, representing the foundation of the Group's Risk management framework. Within these frameworks, the Group monitors a range of risk metrics in order to assure the Group's risk profile is in line with its risk appetite. The use of risk limits and potential deviations from limits and target values are regularly reported to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within the Group have adapted a corresponding approach to monitor their target risk profiles. Additionally, the Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient credit risk mitigation process, the Group applies a single set of standards to retail and corporate loan collateral with the aim of efficient credit risk mitigation and consuming capital economically. The Group applies a cash-flow based credit policy that considers the repayment capacity of the client when approving or extending the loan or other credit exposure. The received collateral represents a secondary source of repayment. In the area of project finance, a careful monitoring process is established by different experts within relevant phases of the project, namely in terms of meeting requested conditions and criteria before each disbursement. A project's financial status is regularly reported to the respective committees.

The management of ESG risks addresses the Group's overall credit approval process and related credit portfolio management. Sustainable financing is implemented in accordance with the Group's ESMS. Beside addressing ESG risks in all relevant stages of the credit-granting process relevant ESG criteria were also considered in the collateral evaluation process.

NLB Group has a system for the monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The Collateral Management Policy additionally defines requirements regarding collateral enforceability and a list of acceptable and eligible types of collateral. The eligibility of different types of collateral, by types and ratios, referring to prudent lending criteria, is further set within internal lending guidelines. The credit portfolio and collateral structure, also in terms of concentrations, and other relevant analyses are regularly reported to the respective committees. In the retail segment, special focus is placed on the monitoring of fulfilment of macro-prudential guidelines (DSTI, LTV, and LTI). The Group has also established guidelines with respect to prudent foreign exchange (FX) lending across different SEE markets where the Group members operate, and where market practices vary along with different business strategies.

NLB Group's profitability is to a large extent based on its respective net interest income levels. For that reason, stabilising net interest income represents an important goal of the Group when managing interest rate risk, where the Group monitors its interest rate sensitivity from the aspects of income and economic value. All Group members manage their interest rate risk positions proactively in accordance with relatively conservative interest rate risk policies and limits. When hedging market risks, specifically interest rate risk and foreign exchange risk, in line with the set risk appetite, the Group follows the principle of a natural hedge or using derivatives in line with hedge accounting principles.

The Group has defined detailed its Standards for Liquidity Risk Management, where regulatory and internally developed measures, approaches, and stress test capabilities are constantly monitored, controlled, managed, and further developed in line with the latest banking practices. Additionally, all banking members have established a Contingency Plan that focuses on measures for overcoming potential temporary and/or long-term liquidity disruptions.

The Group operates its main business activities in euros, while in the case of the subsidiary banks, in addition to their domestic currencies, they also partly operate in euros, which is the Group's reporting currency. The Group's net open foreign exchange position from transactional risk is relatively low and proactively managed on a daily basis. Regarding the structural FX positions on a consolidated basis, assets and liabilities held in foreign operations are converted into the euro currency at the closing FX rate on the balance sheet date. FX differences of non-euro assets and liabilities are recognised in the other comprehensive income, and therefore affect shareholder's equity.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and managed in most efficient way, where the Group follows the guideline that such risk may not considerably influence its operations. The major operational risks are actively managed with the measures taken to reduce and mitigate such risks in accordance with risk appetite, mostly by improving established controls referring to relevant internal processes. Special attention is dedicated to a scenario-based analysis and the related prevention measure, referring to high severity, low frequency events, which includes relevant topical risks. Furthermore, key risk indicators, serving as an early warning system for the broader field of operational risks, are established with the aim to further improve the existing internal controls and to respond in a timely manner.

Stress-testing

Stress-testing is an important part of risk management in NLB Group since alerts to unexpected adverse outcomes arise from a wide range of risks and provide an indication of the financial resources (capacity) that might be needed to absorb losses if large shocks might occur.

The Group established a comprehensive internal stress-testing programme and other early warning systems in different risk areas with the intention to:

- contribute to setting and pursuing the Group's business strategy;
- support decision-making on an ongoing basis;
- strengthen the existing internal controls and timely responding when necessary.

The stress-testing programme comprises all major stress-testing types – different stress scenarios, reverse stress tests and sensitivity analysis. The stress-testing framework is developed and performed on the level of NLB Group, according to the vulnerability of its business model. It includes all material, existing and potential, risk types stemming from the Group's current risk profile, as well as a forward-looking perspective. In addition, partial stress test exercises are also carried out, like per individual risk type, selected portfolio level, etc.

NLB Group conducts a "bottom-up" stress-testing approach. It comprises group-wide stress tests based on the presumption of severe, but plausible stress scenarios (i.e, different scenarios considering macroeconomic downturn) and other relevant scenario analysis.

Stress-testing has an important role when assessing the Group's resilience to stressed circumstances. As such it is embedded into the Group's risk management system and represents an important component of sound risk management. In addition, stress-testing is integrated into the risk appetite, ICAAP, ILAAP, recovery plan, and budgeting process to determine how severe unexpected changes in the business and macro environments might affect the Group's capital adequacy or liquidity position. Furthermore, stress tests results are considered as an important element when the setting risk appetite and other risk limits.

The Group established a clear governance process in the area of stress-testing. The stress-testing programme was developed by the senior management (under responsibility of Risk Management function) and approved and monitored by the Management Board. Stress-testing results on the level of the Group are regularly discussed in the respective Committees, the Management Board, and the Supervisory Board, and are used to support business decisions, and capital and liquidity planning. Moreover, stress-testing exercises contribute to proactive management of the Group's overall risk profile, namely the capital and liquidity position using a forward-looking perspective, and the selection of risk management actions as mitigation when necessary.

In addition to internal stress test approaches, the Group also participates in regulatory stress test exercises. The ECB conducts, in cooperation with the EBA, overall ECB stress-testing exercises (presumes a very unfavourable market conditions and includes all material risk types with the aim of testing capital adequacy resilience in such circumstances) and thematic ECB stress test exercises (partial stress tests, including selected specific risk type). Qualitative outcomes of regulatory stress test exercises are included in the determination of Pillar 2 requirement (P2R), namely as an element of risk governance, and setting Pillar 2 Guidance (P2G).

In 2023, the Group will be included into the regular EBA EU-wide/ECB SSM Stress test exercise. This EU-wide stress test is designed to provide valuable input for assessing the resilience of the European banking sector in the current uncertain and changing macroeconomic environment.

As a systemically important institution, the Group was included into the 2022 ECB Climate Stress test exercise, which consisted of three modules. The exercise was conducted in the first half of 2022 and the aggregate results were published in July 2022. By performing this exercise, the ECB assessed how prepared banks are for dealing with financial and economic shocks stemming from climate risk. The Group’s overall results were within the range of average peer results.

The uniform stress-testing programme, which includes internally developed models, stress scenarios, and sensitivity analysis, was further complemented. The Group established its own ESG stress-testing concept to identify the most relevant financial vulnerabilities stemming from climate risk, which will be further enhanced by considering disposable ESG-related data. Such a stress-testing framework is the subject of a regular internal validation cycle and related procedures where the Group established comprehensive validation framework. Specifically, the Group supports a strong validation governance process and controls over applied selected risk approaches and internal models.

The table below sketches risk categories, types of stress tests, their frequency, corresponding stress test applications, and the relevant decision-making bodies where the results are discussed and approved.

Table 19 – Scope of stress-testing exercises on the level of NLB Group

Risk category	Stress test type	Stress test application	Decision-making body	Frequency
CREDIT RISK **stress-testing segment: credit portfolio**				
Credit risk - default & migration risk	Scenario analysis	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	Quarterly, Yearly
Individual concentration	Herfindahl-Hirschman Index (HHI)	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
Industry concentration		Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
Internal IRB - Sensitivity of risk components (PD, EAD, LGD, maturity)	Sensitivity analysis	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
FX Lending	Sensitivity analysis (PD change)	Strategy & budgeting, ICAAP, RP	RICO, MB, SB	
ECL (Expected credit losses)	Scenario analysis	IFRS 9 Methodology	MB	Yearly
NPL reduction	Sensitivity analysis	NPL Strategy	MB, SB	Yearly
OPERATIONAL RISK **stress testing segment: potential loss events**				
Operational risk losses modelling	Sensitivity analysis	Strategy & budgeting, ICAAP, RP, other internal ST	OpRC, MB, SB	Quarterly, Yearly
High risk low frequency analysis	Scenario analysis	RP, other internal ST	OpRC, MB, SB	Yearly (more frequently if necessary)
MARKET RISK **stress-testing segment: overall FX position, trading positions, exposures to soverigns and banks**				
Foreign exchange (FX) risk	Scenario analysis, Sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Market risks	Sensitivity analysis	Strategy & budgeting, ICAAP, internal ST	ALCO, MB, SB	Quarterly
CVA risk	Sensitivity analysis	Strategy & budgeting, ICAAP, internal ST	ALCO, MB, SB	Quarterly
EWS for exposures to sovereigns and banks - stressed credit spread	Sensitivity analysis	Internal ST	ALCO, MB, SB	Daily / Monthly
IRRBB **stress-testing segment: overall interest rate position in banking book**				
IR risk in banking book	Scenario analysis, Sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Credit spread risk/valuation risk	Scenario analysis, Sensitivity analysis	Strategy & budgeting, ICAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
LIQUIDITY RISK **stress-testing segment: overall liquidity position or relevant liquidity subsegments**				
Liquidity risk: overall liquidity position	Scenario analysis, Reverse stress test	Strategy & budgeting, ICAAP, ILAAP, RP, internal ST	ALCO, MB, SB	Monthly / Quarterly
Liquidity risk: intraday liquidity	Scenario analysis	ILAAP; internal ST	ALCO	Monthly
BUSINESS AND STRATEGIC RISK **stress-testing segment: budget projections**				
Potential losses referring to business and strategic risk	Scenario analysis based on expert knowledge	Strategy & Budgeting, ICAAP, internal ST	MB, SB	Yearly
ESG RISKS **stress-testing segment: selected transitional and physical risks**				
Transtion risk on macro-financial level	Scenario analysis	Strategy & Budgeting, ICAAP, internal ST	MB, SB	Yearly
Physical risk on macro-financial level	Scenario analysis	Strategy & Budgeting, ICAAP, internal ST	MB, SB	Yearly

Risk measurement and reporting systems
As a systemic banking group, NLB Group is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team (JST) of the ECB and the Bank of Slovenia. The Group complies with ECB regulations, while Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. A third-party equivalent was approved in Serbia, Bosnia and Herzegovina, and North Macedonia, resulting in the alignment of local regulation with CRR rules. With regard to capital adequacy, based on the provisions of the Directive (CRD) and Decision (CRR), the Group applies the standardised approach to credit and market risk, and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

Across the Group, risks are assessed, monitored, managed, or mitigated in a uniform manner, as defined in the Group's Risk management standards, also considering the specifics of the markets in which individual Group members operate. For the purposes of measuring exposure to credit risk, liquidity risk, interest rate, and credit spread risk in the banking book, operational risk, market risk, ESG and non-financial risks, in addition to prescribed regulations, the Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with ECB, EBA, and Basel guidelines, as well as best practices in banking methodologies.

As for risk reporting, the Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies based on common methodologies for measuring and harmonising exposure to risks, uniform databases structure within Data Warehouse (DWH), comprehensive data quality assurance and automated report preparation, which ensures the quality of reports and reduces the possibility of errors.

The Data and IT system
Most of the risk data are calculated and stored in the NLB Group DWH, collected from NLB and other group member's DWH. The established process provides an integrated information in common reference structure where business users can access in a consistent and subject-oriented format. Data are regularly checked and validated. Data used for internal risk assessment, management, and reporting are the same as data which NLB Group uses for regulatory reporting.

The Group has established a strong and robust data governance program that aligns with the goals and objectives of the Group's risk management function. NLB Group's data governance and data quality framework consists of identifying risks, developing policies and controls on data confidentiality, integrity, accuracy, and availability and by executing second line of defence controls by an independent validation unit under the responsibility of the Group Data Governance Officer. This framework covers agreed service level standards for both in-house and outsourced data-related processes.

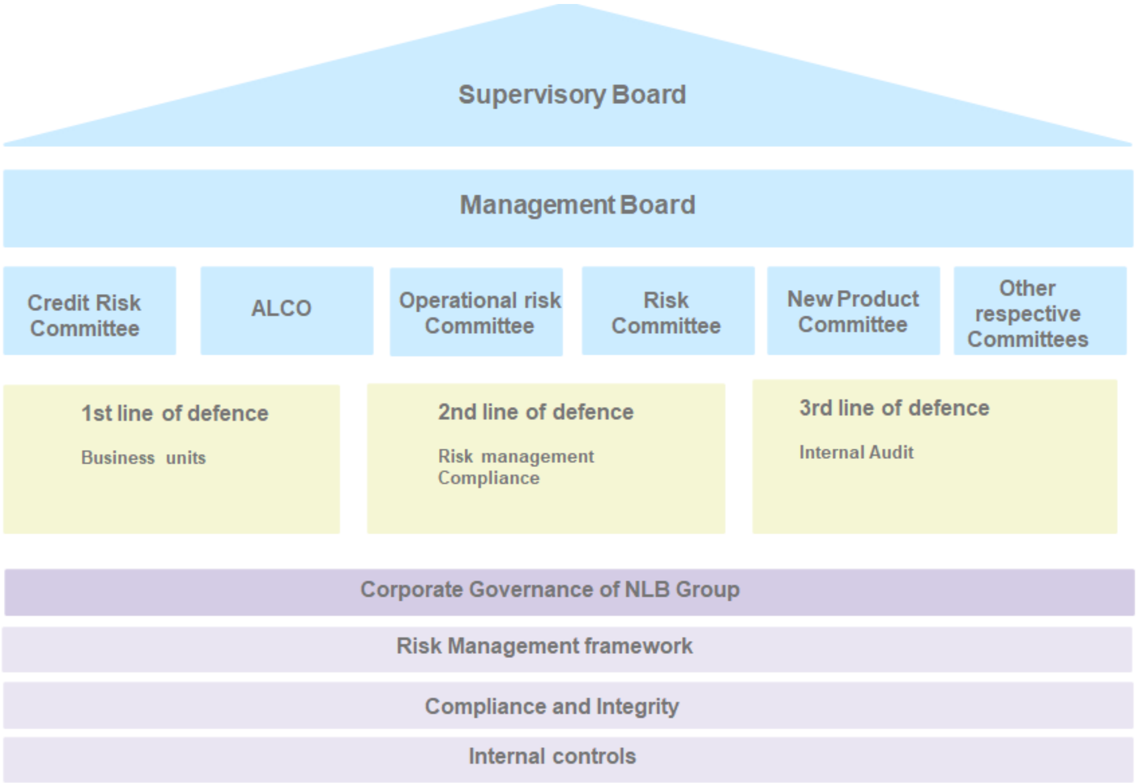
Corporate governance in relation to risk management and internal controls
NLB Group established a corporate governance framework based on the principles of sound and responsible governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-3), the Regulation on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, the EBA Guidelines on internal governance, the EBA Guidelines on the assessment of the suitability of members of the management body, and key function holders, as well as the EBA Guidelines on remuneration practices. Several layers of management, as shown in the diagram below, provide cohesive risk management governance in the Group.

A steady and reliable internal governance system on the level of the Group was developed, encompassing the following:

- a clear organisational structure with precisely defined, transparent, and consistent internal relations in the area of responsibility;
- incorporation of main strategic risk guidelines into an annual business plan review, the budgeting process, and other relevant decision-making;
- effective risk management processes for identifying, measuring, assessing, managing, and monitoring risks, including risk appetite, risk strategy, ICAAP, ILAAP, the recovery plan, and the reporting of risks to which the Group is exposed or could be exposed in its operations;
- adequate internal control mechanisms, including also appropriate administrative and accounting procedures;

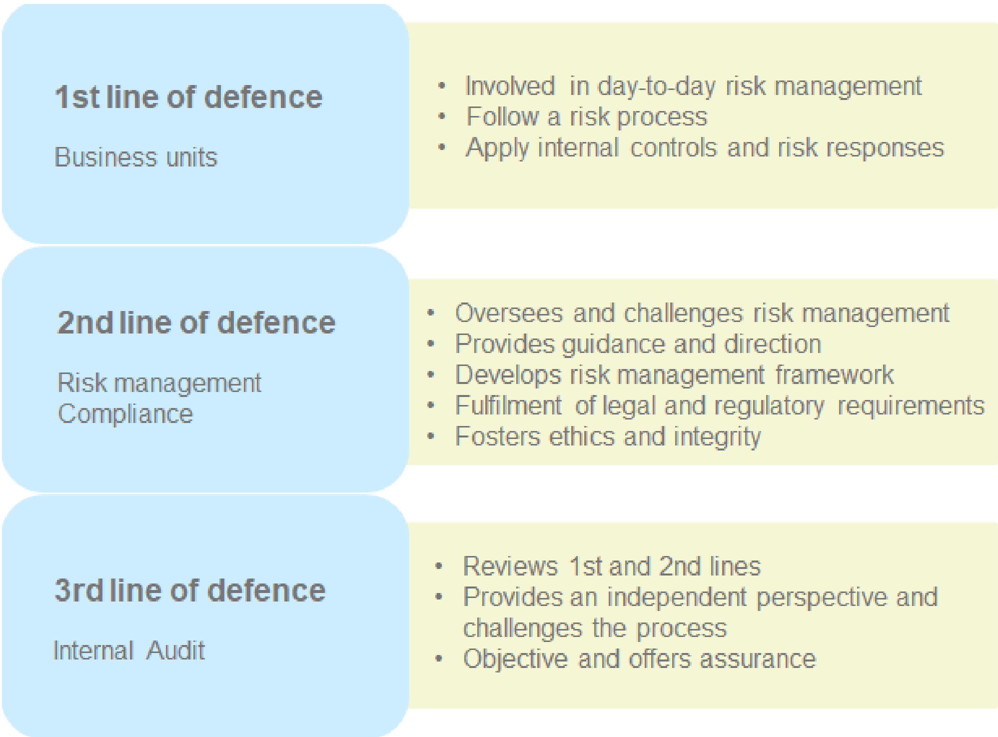
- appropriate remuneration policies and practices that are in line with prudent and effective risk management, and thus also promote risk management.

Figure 5 – Corporate Governance in NLB Group



NLB Group uses the 'three lines of defence framework' as an important element of its internal governance. The three lines of defence principles provides a clear division of activities. Moreover, it defines roles and responsibilities for risk management at different levels of the Group.

Figure 6 – Three lines of defence framework of NLB Group



Within this framework, business units represent the first line of defence, having primary responsibility for day-to-day risk management. In addition, they are accountable for identifying and managing the risks that occur while conducting their activities with clients within risk appetite framework or other risk management limits. They also ensure that adequate internal controls are in place for risk mitigation.

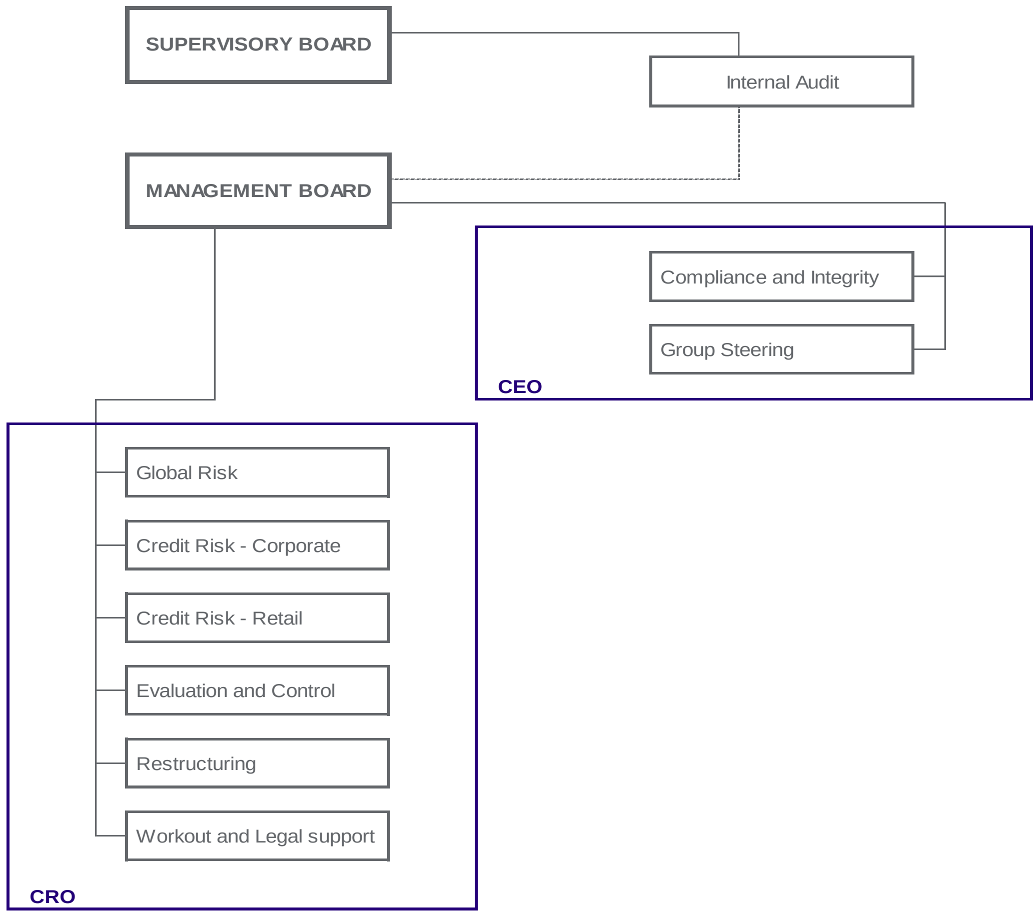
Risk Management and Compliance comprise the second line of defence. Risk management defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring, and management. Some units within the Chief Risk Officer area (in relation to underwriting, restructuring, and workout decisions) are analysing and co-deciding on the risks suggested by the business part, and thereby assuming responsibility for the analysis and the risks. However, a specialised risk management function within Global Risk covers the overarching aspects of risk management, namely, to assure compliance with a set risk appetite or other risk management limits. Its mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole Group. Beyond monitoring the fulfilment of legal and regulatory requirements, Compliance is also concerned with ethics and integrity within the whole Group.

An Internal Audit represents the third line of defence. It reviews key risks referring to the Group’s operations and provides an independent and comprehensive supervision of the internal control system, including risk management activities performed by both, the first and second lines of defence.

The tasks and responsibilities of Global Risk, Compliance (also covering the information security function in accordance with the BoS regulation), and Internal Audit are set out in accordance with the definitions of the Zban-3, under which all such functions are independent and have direct access to NLB’s Supervisory Board. During 2022, there were no material changes in functions presenting the second and third line of defence of the internal control framework (Global Risk, Compliance, and Internal Audit in NLB).

Risk management organisation in NLB

Figure 7 – Risk management organisation in NLB



The responsibilities of the respective specific risk management bodies in the Group are described below.

Management Board and its working bodies
The Management Board of NLB leads, presents, and acts in the name of the Bank individually and on its own responsibility, and has authority in accordance with law and the Act of the Bank itself.

With the aim of appropriate and effective performance management, the Management Board has created a system of adequate risk management, internal audit, and corporate management. The Management Board of NLB is a working body that manages its business process and adopts key management decisions. Additional working bodies of the Management Board, where risk-related issues are the subject of discussion and decision-making, are the:

- Credit Committee whose role is to accept decisions on grading classifications, set exposure limits, and approve loans in commercial banking in line with the Rules on Authorisations and Signing, including materially important clients within the NLB Group. In addition, the Retail Credit Committee accepts decisions on lending and other investments with terms and conditions deviating from the regular offer and exceeding authorisations of retail network directors, as defined by the Management Board.
- Asset and Liability Committee (NLB Group) (ALCO) whose role is to analyse balance sheet positions, changes, and trends, and to form decisions to achieve a balance sheet structure in line with the Bank's business policy. Its wider role includes overseeing normal banking activity, whether are set, and targets are achieved.
- Operational Risk Committee whose role is monitoring, guiding, and supervising operational risk and other risks related to operational risk (such as IT and physical security, incidents, risk associated with projects, internal controls, etc.) management in NLB Group and NLB.
- New and Existing Products Committee whose role is assessing and mitigating risks when introducing new products and when substantial changes of existing products is proposed.
- Risk Committee whose role is to discuss, oversee, follow-up, and periodically review risk and risk-commercial related issues and submit them to the Management Board for a decision.
- Sustainability Committee whose role is to oversee the integration of the ESG factors to the NLB Group business model in a focused and coordinated way across the Group. The Committee approves sustainability strategies, policies, initiatives, methodologies, and monitors development and realisation of sustainability-related strategic objectives.

Supervisory Board and its working bodies
The Supervisory Board of NLB is composed of members who are appointed and recalled by the General Meeting of the Bank. Its task is to monitor and supervise the management of NLB and its operations.

There are five working committees of the Supervisory Board, namely the:

- Risk Committee monitors and drafts resolutions for the Supervisory Board in all areas at risk relevant to NLB's operations. It consults on the current and future risk appetite and the risk management strategy, and it helps exercise control over senior management as regards implementation of the risk management strategy. Information on the Risk Committee and the number of times the Risk Committee has met is disclosed in Appendix 1.
- Audit Committee monitors and prepares draft resolutions for the Supervisory Board on financial reporting, internal control and risk management, internal audit, compliance, external audit, and supervises the implementation of regulatory measures.
- Operations and IT Committee monitors and prepares draft resolutions for the Supervisory Board on implementation of the strategy for the IT, Information Security, and Operations area. Additionally, the Committee monitors key Operations and IT key performance and service quality indicators, key Operations and IT projects/initiatives and operating risks in the area of IT, Information Security, and Operations.
- Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of Management Board and Supervisory Board members, evaluates the performance of the Management Board and the Supervisory Board, and assesses the knowledge, skills, and experience of individual members of the Management Board as a whole. The Committee proposes amendments to the Management Board's policy on the selection and appointment of suitable candidates for senior management of NLB.
- Remuneration Committee carries out expert and independent assessments of remuneration policies and practices, and on this basis formulates initiatives for measures related to improving the management of NLB's risks, capital, and liquidity, prepares proposals for decisions of the Supervisory Board in relation to remuneration, and supervises the remuneration of senior management performing risk management and compliance functions.

Risk management role in NLB Group
The risk management framework is comprehensively integrated into the decision-making, steering, and mitigation processes within the Group in order to proactively support its business operations. The risk management function in the Group oversees managing, assessing, and monitoring risks within Bank as the parent entity in Slovenia, the competence centre for seven banking subsidiary banks, and a number of non-core subsidiaries that are in a controlled wind-down.

Risk management and corresponding steering on the Group level is performed through a clear organisational structure with defined roles and responsibilities. The organisation and delineation of competencies is designed to prevent conflicts of interest, ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Competence line Risk Management in NLB is, by encompassing several professional areas (Global Risk, Credit Risk – Corporate, Credit Risk - Retail, Evaluation and Control), in charge of formulating and controlling the Group's Risk Management policies, setting limits, overseeing the harmonisation, regular monitoring of risk exposures, and limits based on centralised reporting at the Group level.

The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. Risk monitoring in NLB Group members is centralised within an independent and/or separate organisational unit. All members of Group that are included in the financial statements of Group report their exposure to risks to the competent organisational units within the risk management competence line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee (ALCO) of the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.

The credit ratings of clients that are materially important to the Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the Credit committee of the respective Group member first approves their decision, following which the Credit Committee of NLB gives their opinion. This same principle and process is also set for the issuing of credit exposures for the materially important clients of the Group.

NLB Group member's management pursue the Group's strategic goals and monitor, manage, and mitigate the risks assumed in accordance with the set limits, targets, and other guidelines established at the Group level. In compliance with the risk management policies of the Group, the risk management function in each Group member is separated from the business function (first line of defence) in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO, and the Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

Compliance and Integrity in NLB Group and NLB
Compliance and Integrity in the Group, in its role as an internal control function performs control activities with respect to the main following areas:

- anti-money laundering, counter-terrorist financing, and restrictive measures (sanctions), separately for NLB and NLB Group level;
- information security and data protection, separately for NLB and NLB Group level;
- personal data protection;
- regulatory compliance management;
- prevention of fraud and conducting related internal investigations;
- physical and technical security;
- development of compliance risk methodologies, and setting and monitoring ethics and integrity standards;
- harmonisation of policies and practices within Group (Competence line Compliance and Integrity).

In close cooperation with different organisational units, Compliance and Integrity helps in assessing and managing compliance risks in different areas at operations in NLB and NLB Group.

The main activities of the Compliance and Integrity Department are:

- Taking care of design, adoption, and implementation of basic compliance relevant policies. Especially important within this context is NLB Group Code of Conduct, which sets standards for conduct and is a basis for building a risk culture within NLB and NLB Group. It clearly sets zero tolerance for all types of harmful conduct and is consistently implemented in NLB Group.

- Managing anti-money laundering, counter-terrorist financing, and restrictive measures (sanctions) system on the level of NLB and the NLB Group.
- Identification of new regulations relevant for NLB and monitoring their implementation. For managing regulatory risk, NLB has in place a regulatory compliance management system for handling and managing changes in the legal environment. This system is managed centrally by Compliance and Integrity Department, while implementation processes are decentralised. This means that organisational units responsible for certain areas affected by a change in applicable regulations prepare action plans and lead implementation processes, thus ensuring compliance. The Compliance and Integrity Department oversees the relevant regulatory changes' effects and the status of implementation.
- Providing advisory services on compliance-related issues to other organisational units of NLB or other NLB Group members.
- Conducting compliance checks in areas at compliance risk, through compliance reviews, identification of shortcomings in this regard, issuing of compliance recommendations, and monitoring of their implementation.
- Identifying and assessing risks associated with compliance and integrity that occur in the daily operations of the Bank, in particular processes for the development of (new) products and services, projects (IT and other projects), organisational and HR changes, and other changes which can have a significant impact on the Bank's operations,
- Participation in assessing the suitability of key functions holders in NLB and NLB Group, as well as members of the Management Board and the Supervisory Board of NLB.
- Setting information security standards and monitoring their implementation, identification of information security threats and building appropriate mitigation measures, on the level of NLB and the NLB Group.
- Performing tasks of Data Protection Officer (DPO), through specifically nominated person, in accordance with the General Data Protection Regulation (GDPR).
- Setting physical and technical security standards and monitoring their implementation, identification of physical and technical security threats and building appropriate mitigation measures.
- Managing the system for the reporting of suspected harmful practices (directing the system for reporting on violations through different channels, including anonymous whistleblowing) and conducting internal investigations of the reported cases.
- Conducting regular annual comprehensive assessment of the risks for compliance and integrity at NLB and the NLB Group levels within the ECRA process (Enterprise compliance and integrity risk assessment).
- Providing compliance communication, training, workshops, and targeted surveys for employees and the implementation of activities for strengthening the culture of assuming and managing the risks of compliance and integrity in NLB and NLB Group,
- Providing relevant and comprehensive reporting on compliance topics and risks, to the Management and Supervisory Board of NLB,
- Managing the Compliance and Integrity Competence Line for ensuring the same standards throughout the NLB Group, with higher requirements for the strategic members of NLB Group.

At the level of the NLB Group, binding standards in the field of compliance and integrity are defined, which regulate the policies, rules, and procedures for each member of the Group, that must be implemented in the individual member in the field of compliance and of integrity. In this way, NLB Group provides a unified and harmonised approach to risk compliance management in this area, which is regularly checked by Compliance and Integrity within its regular activities (onsite visits, offsite checks, quarterly reporting, extraordinary reporting, escalation procedures and strict binding rules, standards, and methodologies).

The compliance functions of other NLB Group members are thus organised and are functioning basically in the same way and with the same tasks and responsibilities as the Compliance and Integrity Department of NLB – of course taking into consideration all local regulatory, business and risk specifics of individual NLB Group members, as well as their business line reporting to the Compliance and Integrity Department of NLB.

Internal Audit

NLB Group, through its Internal Audit, seeks to adequately monitor key risks which might jeopardise the achievement of its strategy and goals, related control systems, and governance processes. By providing assurances and advice, and with a deep understanding of operations, Internal Audit helps to strengthen and protect the value of the Group. The best practice examples and international guidelines established by the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') and Control Objectives for Information Technologies ('COBIT') used at the IT audit are the criteria Internal Audit uses to cover all control objectives and risk management.

Internal Audits serve as an advisory tool for the systematic and professional assessment of the success of NLB Group's risk management procedures, control system, and governance of the Group operations. Following a risk-based methodology, the Internal Audit prepares the yearly audit plan, which has been approved by the Management Board, while Supervisory Board is informed about. On that basis, the Internal Audit serves as an impartial guide to the Management and Supervisory Board regarding those areas at NLB and of NLB Group with the highest risk in order to help ensure such risks are managed appropriately. Internal Audit also performs "Group Audits" in which internal auditors of the Group members participate in order to provide assurance at the Group level, as well as to provide additional expertise and assistance. The performance of the quality review of the internal audit service in all members of the Group is also guaranteed.

The Internal Audit dedicates significant resources to verifying whether audit recommendations have been fulfilled, providing training and consultancy to the management, and promoting the assurance of high-quality and professional operations of the internal audit function. The Internal Audit introduces the uniform rules of operation as part of the internal audit function and supervising compliance with these rules across the entire Group. The Internal Audit and other internal audit services in the Group operate in accordance with the International Standards for the Professional Practice of Internal Auditing, the ZBan-3, or other relevant laws which regulate the operations of a member, the Code of Ethics of Internal Auditors, and the Code of Internal Auditing Principles.

5.2. The number of directorships held by members of the management body

(Articles 435.2 a of CRR)

Table 20 – The number of directorships held by members of the management body

Director	Number of directorships	External directorships as counted under Article 91(3) and 91(4) of Directive 2013/36/EU
Blaž Brodnjak	4	President of the Association of Banks in Slovenia, President of the Board of Governors AmCham Slovenia, Member of Executive Committee of the Handball Federation of Slovenia, Member of the Board of Directors Cedevita Olimpija
Andreas Burkhardt	4	None
Archibald Kremser	3	None
Antonio Argir	2	Vice President Economic Chamber of North Macedonia
Andrej Lasič	3	None
Hedvika Usenik	3	None

Details on functions, held by members of the management body are disclosed in the 2022 NLB Group Annual Report, in the Corporate Governance chapter (page 114).

5.3. The recruitment policy for the selection of the management body and their actual knowledge, skills, and expertise

(Articles 435.2 b of CRR)

The last amendment to the Policy on the selection of suitable candidates for management body (Supervisory Board and Management Board) was adopted in 2019. With this Policy, the framework for the selection and appointment of suitable Management Body candidates was set. The framework is defined with the selection process policy, with the goal of the Management Body as a whole to possess the whole spectrum of relevant knowledge, skills, and experience required for the in-depth understanding of the Bank's strategy and challenges, and the risks to which it is exposed. The policy sets out the process of selecting suitable candidates for Management Body members, which is composed of several steps, and the professional criteria of selection and expertly managed procedures of candidate selection enabling the bodies of the Bank to lay the grounds for selection and perform due diligence in accordance with the highest ethical standards and care in the selection of suitable candidates for management body members. This will also ensure that the Bank's management body is composed of individuals having a balanced range of skills, knowledge, and experience about the strategic goals and challenges and possessing appropriate qualifications as a team considering the size, complexity, and risk profile of the Bank. Expertly and transparently managed processes are not only in the Bank's interest, but also in the interest of the selected candidates because they dispel doubts about their expertise, qualification, independence, references, and whether they are the right choice.

Candidates for members of the management body of the Bank may only be persons who meet the legally prescribed conditions for a Management Board member under the above regulations and the criteria set out below.

Beside all legal and statutory set conditions, candidates for management body member need to have adequate experience, skills, expertise, and competences, including their individual personal integrity and ability to dedicate adequate time to carry out their duties in view of possible other candidate's activities outside the Bank. By this, the candidates are able to carry out their duties diligently, responsibly, effectively, as well as define and determine the values of the Bank and strategy of its operations in order to follow the objectives of its long-term success and to ensure they are in line with the Bank's best interests and highest ethical standards of its management. Management Body candidates need to demonstrate the ability of constructively critical cooperation when addressing the most important issues of the Bank with the objective of the continuous pursuit of the Bank's best interest, and with this the ability of active involvement in Bank's operations and its risk management. Management body candidates must subordinate their personal interests, the partial interest of third parties, as well as interests which could arise from the candidate's past functions or other activities, economic, professional, and private relationships (including the Management Board and Supervisory Board members), which could by any means influence decision-making in the Bank's best interest.

In the case of any circumstances, which could lead to conflict of interest and consequently jeopardise the adopting of independent decisions in the best interest of the Bank, such conflicts should be disclosed in the selection process, and a member should accept full responsibility to take timely measures to eliminate such conflicts of interest. During the management body member selection process, recommendations of both genders being appropriately represented are followed.

The selection of management body members should strive for the Management Board to have all the necessary expertise, knowledge, skills, and experience at their disposal for successfully managing or supervising the Bank. The composition of the management body must be such to achieve collective suitability, which is shown in:

- different levels of experience, age, education, and expert knowledge at the level of individual management body members, and consequently, at the level of the entire Management Body;
- knowledge of the local, regional, and, if appropriate, the global economic market, as well as the characteristics of the legal and regulatory environment, considering the international experience of individual members of the management body;
- a suitable method of communication, cooperation, and critical judgement or discussion in the process of decision-making, to which contribute the characteristics of every member; and
- appropriate gender representation.

Selection procedure of the candidate for the Supervisory Board

The Supervisory Board shall once a year assess its composition, performance, potential conflicts of interest of individual members, performance of individual members and the Supervisory Board as a whole, in addition to the efficiency and performance of cooperation with the Management Board. The Supervisory Board shall also make a self-assessment of its collective suitability. If it establishes that the number of the members of the Supervisory Board is inappropriate or that the number of the members of the Supervisory Board must be increased, or that certain knowledge, skills, and experience are lacking, or that the members in the Supervisory Board are no longer qualified to perform this function because they do not meet the required conditions, or because one or several members are unsuitable and thus the Supervisory Board as a whole no longer meets the required collective suitability, the Nomination Committee shall inform the persons about this who hold the shares or other rights representing significant stakes who informed the Bank about this. The Supervisory Board shall invite the addressees to examine the candidates for Supervisory Board members who meet the conditions prescribed by the applicable regulations.

The Assembly decides on the appointment and recall of members of the Supervisory Board on the proposal of the Supervisory Board with prior consideration of candidates at the Nomination Committee, which must consider all proposed candidates and prepare a justification for its proposal. Besides the content set out below a justification for rejecting non-selected candidates must be included.

The procedure consists of the following steps:

- identification of the need to search for and nominate a candidate for Supervisory Board member;
- definition of the profile;
- search for candidates;
- selection of the candidates;
- fit & proper assessment of the candidates;
- proposal for appointment of a candidate;
- appointment of a candidate as a Supervisory Board member.

On the basis of the Employee Participation in Management Act in 2020, for the first-time employee's representatives of NLB were appointed as the members of the Supervisory Board of NLB – which is one of the rights of employee co-management.

The interests of employees are represented by two employee representatives in the Supervisory Board of NLB, due to the resignation of two employee's representatives. The appointment of employee representatives for the members of the Supervisory Board brings additional diversity at all levels, as their diverse work experience and knowledge of the Bank's operations can contribute to greater risk management, compliance, and transparency of the Bank's operations.

The selection procedure of the candidate for the Management Board
Once a year, the Supervisory Board assesses the composition of the Management Board, performance, potential conflicts of interest of individual members, performance of individual members, and the Management Board as a whole, as well as its efficiency.

If it establishes that the number of the members of the Management Board is inappropriate or that the number of the members of the Management Board must be increased, or that certain knowledge, skills and experience are lacking, or that the members in the Management Board are no longer qualified to perform this function because they do not meet the required conditions, or because one or several members are unsuitable and thus the Management Board as a whole no longer meets the required collective suitability, the Appointment Committee shall inform about this the Supervisory Board, who then starts the selection procedure. The procedure consists of the following steps:

- identification of the need to search for and appoint a candidate to be NLB's Management Board member;
- definition of the profile;
- search for candidates;
- selection of the candidates;
- fit & proper assessment of the candidates;
- proposal for appointment of a candidate;
- appointment of a candidate for Management Board member.

In 2022, until the end of April, the Management Board consisted of three members, namely: the president of the Board responsible for the area of business with large companies, retail banking and private banking and the executive area, a member of the Board responsible for the area of risks and the back offices, a member of the Board responsible for the financial area, and one for IT and procurement.

With the aim that the Board has a wide range of knowledge, experience from the international environment and successfully completed projects, and that it has all the relevant knowledge, skills, and experience to successfully manage the Bank, the Bank has strengthened itself by adding three new members of the Management Board, so the Management Board from May onwards consists of six members of the Board. Their new responsibilities are: the President of the Board responsible for the Executive Area, Member of the Board responsible for the Area of Risk and the Bank's Back Office, Member of the Board responsible for the Financial Area of the Bank and for the IT Area, Member of the Board responsible for the Area Business with Large Companies, Member of the Board responsible for Retail and Private Banking, Member of the Board responsible for the Management of the NLB Group and the Field of Operational Business.

5.4. The policy on diversity with regard to selection of members of the management body, its objectives, and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved

(Article 435.2 c of CRR)

The Bank accepted the Policy of Supervisory Board Diversity on 8 August 2016 and published it on its internet page. A new policy of diversity with regard to selection of members of the management body was prepared in 2019 referring not only to the Supervisory Board, but also to the Management Board and B-1 level and was confirmed at the General Assembly on 29 April 2019. In 2022, the Diversity Policy was comprehensively updated and was approved by the Supervisory Board on 14 April 2022 and submitted for approval to the Shareholders' Meeting of NLB 20 June 2022. The diversity policy is also published publicly on the website.

On the basis of the provisions of Article 35 of the Banking Act, with the Diversity policy of the management body and senior management (hereinafter: 'the diversity policy'), NLB determines the target diversity pursued in relation to representation in the Supervisory Board, management, and senior management in terms of gender, age, professional competences, continuity in the composition of each body, international experience, geographical provenance, and other personal characteristics of the members of the bodies and senior management, as appropriate for the Bank given its characteristics.

Diversity of the management body and senior management enables different opinions, prevents so-called "group thinking," enables well-considered and balanced decisions, risk management, and thus greater performance and efficiency of the Bank.

Considering the size of the Bank and the Group, and their regional presence and business strategy, the following aspects are important to ensure diversity:

Goals	Description
Gender structure	The Bank has set a quantitative goal by defining a period for achieving this goal. The Bank respects and follows the initiative 40/33/2026 Association of Supervisors of Slovenia for voluntary achievement of the goal of sexual diversity by the end of 2026: 40% for members of supervisory boards and a total of 33% for members of supervisory boards and management boards of the underrepresented sex in public joint stock companies and state-owned companies.
Age structure	The Bank encourages the achievement of diversity as regards the age structure, which should reflect the age structure in the Bank as much as possible. The Bank strives to achieve this goal by using recruitment channels that enable the attraction of a sufficiently wide range of candidates of different ages with the aim that all age groups are adequately represented in the management body and senior management. When appointing new candidates, the bank considers the appropriate ratio between younger and older members of the management body, or the age structure of senior management. For this purpose, the Bank has set a goal by defining the period for achieving this goal.
Professional competencies, skills, and experience	The Bank ensures for the management body that members with experience in the field of finance, law, and corporate governance are provided, who are familiar with banking activities, have skills in the area of management and experience in risk management. The management body as a whole must cover an adequately wide range of knowledge, skills, and professional experience of its members, and be composed with regard to the following criteria: experience, reputation, management of potential conflicts of interest, independence, available time, and collective suitability of the body as a whole. The aforementioned requests apply *mutatis mutandis* to the senior management. For this purpose, the Bank has set a goal by defining the period for achieving this goal. The process of evaluating the aforementioned criteria and the criteria used in this is defined in more detail in the Policy for assessing the suitability of members of the management board and members of the supervisory board in NLB and the Policy for assessing the suitability of holders of key functions in NLB and the NLB Group.
Continuity of composition of the management body and senior management	The Bank ensures for the management body an appropriate continuity, meaning a suitable ratio between the existing and the new members of the management body and senior management.

international experience	The Bank endeavours to achieve a suitable share of the management body and senior management members with international experience in different areas, especially those identified, where a certain gap appears (e.g., foreigners and Slovenians doing business abroad).
Personal integrity	The management body and senior management members must achieve a high level of personal integrity whereby integrity represents the expected action and responsibility of individuals and organisations in preventing and eliminating risks of using authority, function, or other decision-making power contrary to law, legally permissible goals and in accordance with the guidelines defined in the NLB Group Code of Conduct.
Geographical provenance	Considering the Bank's presence on foreign markets, the Bank endeavours for the management body members to have different geographical provenances, as this ensures that at collective level the management body has a suitable knowledge of the culture, market characteristics and legal framework in the areas where the Bank operates.

The Bank implements the principles of the Diversity policy through policies and procedures, namely the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board, as well as procedures of the Nomination Committee of the Supervisory Board.

The Diversity policy is annually reviewed by the Nomination Committee of the Supervisory Board.

Figure 8 – Stakeholders who strive to comply the diversity policy

In order to achieve the objectives of this diversity policy, the following measures shall be used as set out in the Diversity Policy:

- upon the appointment of new members or re-appointment of the members of the Supervisory Board and Management Board, considering the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board. The above applies mutatis mutandis upon the appointment and re-appointment of the Bank's senior management;
- pre-definition of the conditions for the performance of each function, including the required profile of the members of the management body, even before they are appointed;
- using recruitment pathways that attract a sufficiently wide range of different candidates;
- if two candidates for the position of a member of the Management Board or a member of the Supervisory Board meet all the required tender criteria and at the same time the target gender representation is not achieved in a certain body, a candidate of the underrepresented sex shall be selected;
- in achieving the target representation of the Management Board, as well as by a predetermined replacement plan and by fulfilling another member of the Management Board, as defined by the Articles of Association of NLB;
- consider the objectives of the diversity policy when assessing the collective suitability of management and supervisory bodies.

Table 21 – The structure of the Supervisory Board, Management Board, and senior management in NLB

		Supervisory Board of NLB		Management Board of NLB		Senior Management of NLB	
		2022	Plan for 2023	2022	Plan for 2023	2022	Plan for 2023
Wide range of knowledge, skills and professional experience		High	High	High	High	High	High
International experience of the members in different areas		Medium High	Medium High	Medium High	Medium High	Medium High	Medium High
Continuity of composition of the management body		High	High	High	High	High	High
Personal integrity		High	High	High	High	High	High
Geographical provenance		Medium High	Medium High	Medium High	Medium High	Low	Low
Age structure	20-30	0	0	0	0	0	0
	30-40	0	0	0	0	3	1
	40-50	1	2	3	2	20	18
	50-60	7	5	3	4	13	16
	60+	2	5	0	0	1	2
Share of women		30%	42%	17%	17%	41%	45%

6. Credit risk and general information on CRM

6.1. General qualitative information on credit risk

(Article 435.1 a, b, c, and d of CRR)

In addition to information disclosed in Section 5.1 (General information on risk management, objectives, and policies), specifics related to credit risk are disclosed below.

Credit risk management strategies and policies

The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities within the region and EU. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized companies, and small enterprise segments, whereas 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 companies, and small enterprise segments. Their primary goal is to provide comprehensive services to clients by applying prudent Risk Management principles. The credit portfolio remains well diversified, there is no large concentration in any specific industry or client segment.

The Group remains very prudent in identifying any increase in credit risk, as well as proactive in the area of NPL management. The Group is oriented towards appropriate credit portfolio diversification to avoid large concentration. The Group carefully monitors its loan portfolio and new approved loans from different aspects, from default risk to migration and FX lending risk. Due to extensive experience gained in the last few years in dealing with clients with financial difficulties, resulting primarily from legacy portfolios, the Group has developed an extensive knowledge base 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 recovery prospects.

In 2022, the war in Ukraine did not have a meaningful direct impact on the quality of the credit portfolio. The Group's credit portfolio quality remained solid, with a stable rating structure, portfolio diversification, and lower level of NPLs.

Credit Risk appetite

With the aim to maintain the medium-term and long-term sustainability of operations, the Group strives to maintain the adequate quality of the credit portfolio, and increase profitability based on a concept of optimising the ratio between the return and the assumed risks. While maintaining a balanced overall risk profile, NLB continues to foster the development of small companies to support their evolution into a robust backbone of target market economies. The Group communicates its risk appetite through standardised risk parameters (such as NPL, Cost of risk and NPL Coverage) as well as to parameters reflecting the Group portfolio specifics. Great emphasis is placed on monitoring the concentration risk (industry, single client/group of related persons) to avoid exposure to excessive risk. More detailed guidelines concerning the credit portfolio's quality and its concentration are defined in NLB Group Risk Strategy and NLB Group Risk Appetite, whereby the target values and limits are the subject of a regular, at least quarterly monitoring.

Credit risk management and mitigation

In its operations, the Group is exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities with the Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the ECB or the Bank of Slovenia, and the EBA guidelines. This area is governed in detail by the internal methodologies and procedures set out in internal acts.

As part of the Group corporate governance, regular reviews of the business practices and the credit portfolios of Group members are performed. Hereby, NLB ensures that the credit risk management of those entities function in accordance with Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. To objectively assessing a client's operation comprehensively, internal scoring models for particular client segments or product types have been developed. In the process of the transaction approval, collecting ESG data was established. If the transaction is classified with a high environmental & social risk, a strict deviation management process is in place that ensures further enhanced risk assessment. During a project's lifetime, ESG risk monitoring is established to assess the impact of each risk, as well as the creation of a strategy for their mitigation. It is also important to secure high-quality collateral even though it does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. In this part of the credit process, regular monitoring of clients within the Early Warning System (EWS) is important. In the case of client default, restructuring or work-out is initiated depending on the severity of the client position.

- The quality and trends in the credit portfolio, including on-balance and off-balance sheet exposures, are actively monitored, and analysed at the level of the overall portfolio of the Group and single banking entities.

  Comprehensive analyses are regularly performed to assure monitoring of the portfolio quality through time, and to identify any breach of limits or targets. Great emphasis is placed on the evolution of portfolio structure in terms of client segmentation, credit rating structure, structure by stages (based on IFRS9), and NPL ratios. Furthermore, the coverage of NPL is an important indicator of potential future losses that is closely monitored.

  Apart from analysing the portfolio as a whole, vintage analysis is used to monitor the quality of new loan production and to test how conservative the lending standards are, which should ensure the portfolio quality is maintained within the Group Risk Appetite.

  Apart from default risk, the portfolio management is also focused on monitoring single name and industry concentration, migration, and FX lending risk. Additionally, from ESG view the Group is analysing and monitoring its credit portfolio by using heat maps. Such an approach enables different views over the Group's corporate portfolio from physical and transition risk perspectives.

  An increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy. Capital requirements for credit risk at the Group level within the first pillar are calculated according to the standardised approach, while within the second pillar an internal IRB approach is used to estimate the RWA for default, migration, and FX lending risk, while the single name concentration add-on is based on the Granularity adjustment methodology and industry concentration add-on is estimated based on the HHI concentration indexes.

The Group is constantly developing a wide range of advanced approaches, supported by mathematical and statistical models, in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools. The internal IRB approach to the capital consumption calculation, as well as the IFRS9 approach to estimate the cost of risk have been incorporated into the profitability calculation for new financing.

In order to detect exposures with increased risk, the Group established several measures, including the introduction of an early warning system and a loan watch committee. The restructuring approaches built in the past are focused on the early warning detection of clients with potential financial difficulties and their proactive resolving. These approaches encompass the systematic usage of standardised tools for the timely restructuring of exposures.

Structure and organisation of the credit risk management and control function
The credit risk management function in NLB is organised within the Risk stream, headed by the member of the Management Board responsible for the risk area (CRO). The credit risk management function is performed by Global Risk. The Global Risk is in functional and organisational terms separate from other functions in the risk stream where business decisions are adopted, and where a potential conflict of interest may arise. The head of the risk management function has direct access to the Management Board of NLB, and at the same time unhindered and independent access to the Supervisory Board.

The risk management function is organised in a way that the head of the risk management function obtains the information (and must be informed) by the directors of other OUs in NLB and NLB Group members (primarily directors within risk area) about all major risks and circumstances that influence or could influence the specific development of risks and the risk profile of NLB and NLB Group. The head of the risk management function thus ensures that all major risks in NLB and NLB Group are identified and reported. In Group members, the risk management function is organised according to the local legislation and the Group's guidelines, as defined in "Risk Management Standards in NLB Group." The guidelines on risk management provide the Group members with the main principles, with which they must align their business policies, organisation, work procedures, and reporting system.

Credit process

The general principles of lending to non-financial clients in the Group are:

- The Group finances only clients that it knows ("Know Your Client") and trusts, and only those acting according to ethical and moral values, conducting legal business, and transparently disclosing their operations.
- The Group finances only clients with a sufficient level of anticipated free cash flow, as the primary source of repayment. Furthermore, credit approval is not based only on client's financial statements, a comprehensive analysis is done by also considering the client's industry specifics, future cash flow generation capability, the references and competences of owners and management bodies, and critical judgement of future financial plans.
- The received collateral cannot influence the client's creditworthiness assessment. The accepted collateral represents a secondary source of repayment as a risk mitigation tool.
- In the case of restructuring, the Group primarily follows restructuring criteria and measures with the aim to optimally resolve the client's financial difficulties. Before restructuring, a detailed analysis is performed testing the client's viability to reach sustainable financial indebtedness in mid-term and the willingness to cooperate in the restructuring process. For corporate clients, different economic options are tested and the option that maximises the NPV for the bank is selected.

More detailed principles and rules are defined in NLB Group's Risk Strategy, Lending policy, and Standard Criteria and procedures.

For materially important clients of the Group, the credit ratings and the issuance of credit risk opinions are centralised. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB (Credit risk - Corporate). This same principle and process is also set for the issuing of exposures for materially important clients of the Group.

As part of credit granting process, the Validation and Control function ensures that all contractual covenants are met, before the funds are actually transferred, including the minimum pre-conditions regarding collateral. By following strict procedures before credit transfer, the Group makes sure to have credit risk mitigation measures in place for the case of repayment problems.

Restructuring and collection

The Group banking members have an early warning system in place for identifying increased credit risk and thus, in a systematic manner, identifies the clients with high credit risk for inclusion on the watch list in the early stage, or for commencing the process of restructuring. An action plan is compiled for such clients and its implementation is regularly monitored with the aim of implementing the measures for the improvement of the client's financial position.

In the segment of restructuring, the Group performs different measures in order to ensure financial and business restructuring of the clients, with the purpose to proactively prevent them from becoming non-performing clients, while in contrast, it performs different restructuring measures with already non-performing clients when the client's business model is assessed as viable. The focus is on a fast and active approach in order to start resolving the client's financial difficulties in the early stages. Minimum activities for the Group members are set in the standards, "Restructuring and Non-performing loan management in NLB Group."

Those clients whose business model is not assessed as viable and do not meet the criteria for restructuring and are transferred to the Work-out and Recovery Unit. In line with the relevant methodologies that regulate legal collection area, clients must be transferred from the sales segments into a special and separate unit for managing non-performing loans in the process of work-out, while the sales units must focus only on the healthy part of the credit portfolio.

Within the framework of NPL management, the Group uses a wide range of possible collection measures. The principal mission in the work-out area is to optimally resolve the collection of unpaid claims through (out of) court and by conducting litigation, which also requires constant professional and ethical communication with third parties. Other approach to resolve NPL is liquidation of collateral, where the Bank established a group of real-estate management specialists to enable optimal recovery. Furthermore, individual or package sales of claims are performed, and finally the unpaid part of facilities are written-off based on Bank of Slovenia guidelines or similar regulations on subsidiaries home markets. The Group's goal is to achieve the maximum value of repayments, and thus minimise the losses with the existing NPL portfolio.

Targets for NPL movements defined in the yearly budget are regularly monitored and revised at least on a yearly basis.

Methods used for determining general and specific credit risk adjustments are described in the 2022 NLB Group Annual Report – note 2.13 Allowances for financial assets (page 192).

Internal control assessment in the credit risk function

The Internal Audit regularly monitors and reviews the area of credit risk management, based on identified and assessed risks in the process of planning audits and regulatory required reviews.

In 2022, Internal Audit performed several reviews in the area of credit risk management and mitigation. As main strengths, Internal Audit identified an enhanced automation, implemented further efficient key controls in the credit processes, and invested in process optimisation activities. In addition, the lending process on small and medium corporates and syndicated lending processes is well-organised and established with proper segregation of duties and responsibilities. Materially Important Clients are carefully treated and monitored on the Group level. Project financing activities are performed based on clear rules, and the Project Finance team's opinion and control have important roles in granting loans and monitoring the process. In addition, all project financing deals are part of Risk Committee discussions. Regular monitoring of project financing deals is ensured by external project supervisors. The experience and expertise of employees involved in the process contributes to smooth stable business operation in this complex area. It is worth mentioning, that considerable progress has been made on the field of IFRS 9 by adjusting the methodologies, updating model development documentation, significantly improving, putting efforts in data collection, and by introducing monitoring framework with triggers for adjustments. With regards to the retail segment, the approval process is continuously improving, and the Bank puts effort into making the process automatic. The process has been also subjected to many additional regulatory requirements and changes. However, cooperation between all participants in the process is appropriate and represents good risk management practice.

Internal Audit also identified certain possibilities for improvements in the credit risk management process. Continuously changing and very complex regulatory environment had been identified as one of the major challenges for the Bank/Group. The identified shortcomings had been addressed with adequate audit recommendations to responsible organisation units. The implementation of recommendations is regularly followed and reported.

Compliance in credit risk function

The NLB Group Code of Conduct (https://www.nlb.si/code-of-conduct) obliges all employees within NLB and other Group members to follow internal rules and procedures, as well as to comply with relevant regulatory requirements, *inter alia* also in the area of managing credit risk. Therefore, they must respect the rules regulating the credit processes, the rules arising from the investment policies regarding natural persons and legal entities, including limits set to manage credit risk. They must also respect the core principles and values that are prescribed by the NLB Group Code of Conduct. The latter stipulates, *inter alia*, that NLB and other Group members have zero tolerance for misconduct related to fraud or other types of harmful behaviour, including breaches of limits and other risk management-related measures to ensure business within the risk management policies and procedures on a daily basis.

The system of internal controls in NLB and other core members of the Group also includes the close integration of the compliance function into credit risk management processes in terms of preventing harmful practices, improving the control environment to manage compliance and integrity risks, identifying and assessing risks in specific financing processes, and in the context of investigations into reported suspected harmful conduct.

During 2022, Compliance and Integrity closely cooperated with credit risk management in supporting the identification and management of compliance and integrity risk, as well as reputation risk related to proposed investments of the Bank, including AML/CTF, personal data protection, and information security risks. These assessments are also an integral part of major changes of the Bank's business or internal processes (usually managed through a project management approach) to enable the Bank to foresee risks related to changes in credit risk management policies, processes, and methodologies (this approach is followed for other risks, as well). The same approach to manage credit risks, compliance risks, and other types of risks is followed when assessing risks related to new or existing products that the Bank offers to its clients, i.e., before introducing a new product or when regularly assessing the existing products and services of the Bank.

Furthermore, as part of fraud prevention and management, Compliance and Integrity monitors all information communicated in relation to any deviations from standard procedures, and is actively involved in the conduct of investigations, corrective actions, and issuing recommendations to eliminate any irregularities detected and possible damage in cases with suspicious of fraudulent or other types of harmful behaviour. This approach was also used in 2022 as a standard procedure for compliance functions in the Group.

6.2. Credit risk quality

(Article 442 c and g of CRR)

Table 22 – EU CR1-A – Maturity of exposures of NLB Group

	31.12.2022	Net exposure value				
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
		a	b	c	d	f
1	Loans and advances	11,976	2,134,695	3,738,105	7,589,029	13,473,805
2	Debt securities	-	1,338,871	2,536,749	890,627	4,766,248
3	**Total**	**11,976**	**3,473,566**	**6,274,854**	**8,479,657**	**18,240,052**

	31.12.2021	Net exposure value				
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
		a	b	c	d	f
1	Loans and advances	44,050	1,371,822	3,206,749	6,227,355	10,849,976
2	Debt securities	-	1,023,964	2,776,524	1,308,233	5,108,721
3	**Total**	**44,050**	**2,395,787**	**5,983,273**	**7,535,588**	**15,958,697**

At the end of 2022, 46.5% of net on-balance exposure has remaining maturity of “Over 5 years,” followed by the “1 year to 5 years” category with 34.4%, and the “Up to 1 year” category with 19.0%. In the last year, the highest increase was noticed in the “Up to 1 year” category.

Table 23 – EU CQ7 – Collateral obtained by taking possession and execution processes of NLB Group

	31.12.2022	Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		a	b
1	Property, plant, and equipment (PP&E)	13,365	(1,403)
2	Other than PP&E	95,707	(21,415)
3	Residential immovable property	7,789	(1,886)
4	Commercial immovable property	86,571	(19,223)
5	Movable property (auto, shipping, etc.)	963	(290)
6	Equity and debt instruments	384	(16)
8	**Total**	**109,072**	**(22,818)**

6.3. Non-performing and forborne exposures

(Article 442 a, b, c, d, e, and f of CRR)

The Group uses a unified definition of past due and default exposures that is aligned with Article 178 of CRR. The Defaulted clients are rated D, DF, or E based on the Bank’s internal rating system, which includes clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. All facilities of the same private individual client obtain a common rating grade.

For all defaulted clients, an assessment of (individual or collective) impairments and provisions is performed. Individual impairments and provisions are prepared for all defaulted clients exceeding the materiality threshold, while clients with lower exposure obtain collective impairments and provisions. These are based on 100% PD and LGDs applicable based on the available collateral and expected repayments from other sources.

A forborne loan (or restructured financial asset) is a financial asset in relation to which forbearance has been introduced. The most frequent forbearance measures in the Group are, but not limited to:

- an extension or forbearance on asset repayment;
- reduction of interest rates;
- reduction of number of receivables resulting from a contractually agreed debt waiver and ownership restructuring;
- debt-to-equity swap;
- a takeover of other assets (including collateral liquidation) for a full or partial repayment.

Forbearance status is a trigger for transferring the facility to Stage 2, for which lifetime impairments and provisions are applied.

Table 24 – EU CQ4 – Quality of non-performing exposures by geography of NLB Group

	31.12.2022	Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing				
	Exposures	Total	Total	Of which defaulted			
		a	b	c	e	f	g
1	**On-balance-sheet**	**18,739,415**	**345,559**	**345,559**	**(352,961)**		**(56)**
2	Slovenia	7,507,387	126,364	126,364	(103,681)		-
3	Serbia	3,812,095	39,861	39,861	(43,482)		(48)
4	North Macedonia	1,618,070	55,274	55,274	(65,996)		-
5	Bosnia and Herzegovina	1,313,966	23,480	23,480	(40,803)		(8)
6	Kosovo	878,746	19,871	19,871	(41,481)		-
7	Montenegro	668,744	56,206	56,206	(36,354)		-
8	Other countries	2,940,407	24,503	24,503	(21,164)		-
9	**Off-balance-sheet**	**4,603,004**	**28,030**	**28,030**		**(37,607)**	
10	Slovenia	2,854,807	19,214	19,214		(19,924)	
11	Serbia	979,757	4,430	4,430		(6,152)	
12	North Macedonia	213,762	2,591	2,591		(4,516)	
13	Bosnia and Herzegovina	268,170	134	134		(4,157)	
14	Kosovo	88,417	426	426		(1,118)	
15	Montenegro	120,168	1,191	1,191		(1,632)	
16	Other countries	77,923	44	44		(108)	
17	**Total**	**23,342,419**	**373,589**	**373,589**	**(352,961)**	**(37,607)**	**(56)**

Table 25 – EU CR2 – Changes in the stock of non-performing loans and advances of NLB Group

	2022	Gross carrying amount
1	**Initial stock of non-performing loans and advances**	**375,072**
2	Inflows to non-performing portfolios	204,265
3	Outflows from non-performing portfolios	(242,116)
4	Outflows due to write-offs	(36,488)
5	Outflow due to other situations	(205,628)
6	**Final stock of non-performing loans and advances**	**337,221**

Table 26 – EU CQ3 – Credit quality of performing and non-performing exposures by past due days of NLB Group

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
	31.12.2022	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		a	b	c	d	e	f	g	h	i	j	k	l
005	Cash balances at central banks and other demand deposits	4,783,341	4,783,341	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	13,469,944	13,396,839	73,105	337,221	193,468	20,589	22,345	36,068	34,804	5,568	24,379	337,221
020	Central banks	112,589	112,278	311	-	-	-	-	-	-	-	-	-
030	General governments	386,683	386,663	20	473	297	43	4	126	2	-	1	473
040	Credit institutions	149,292	149,274	18	126	124	-	2	-	-	-	-	126
050	Other financial corporations	140,373	140,365	8	1,650	6	-	1	318	-	-	1,325	1,650
060	Non-financial corporations	5,644,005	5,624,645	19,360	195,725	112,768	8,557	9,602	17,206	24,608	3,599	19,385	195,725
070	Of which SMEs	3,658,461	3,639,105	19,356	177,895	104,153	8,557	4,482	17,205	24,112	3,591	15,795	177,895
080	Households	7,037,002	6,983,614	53,388	139,247	80,273	11,989	12,736	18,418	10,194	1,969	3,668	139,247
090	Debt securities	4,923,709	4,923,709	-	8,338	8,338	-	-	-	-	-	-	8,338
100	Central banks	29,427	29,427	-	-	-	-	-	-	-	-	-	-
110	General governments	3,786,231	3,786,231	-	7,540	7,540	-	-	-	-	-	-	7,540
120	Credit institutions	951,567	951,567	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	59,361	59,361	-	798	798	-	-	-	-	-	-	798
140	Non-financial corporations	97,123	97,123	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	4,574,974			28,030								28,030
160	Central banks	126			-								-
170	General governments	212,726			232								232
180	Credit institutions	81,938			34								34
190	Other financial corporations	26,236			25								25
200	Non-financial corporations	3,500,074			25,102								25,102
210	Households	753,874			2,637								2,637
220	**Total**	**27,751,968**	**23,103,889**	**73,105**	**373,589**	**201,806**	**20,589**	**22,345**	**36,068**	**34,804**	**5,568**	**24,379**	**373,589**

Table 27 – EU CR1 – Performing and non-performing exposures and related provisions of NLB Group

		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Accumu-lated partial write-off	On performing exposures	On non-performing exposures
	31.12.2022	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 3	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 3			
		a	b	c	d	f	g	h	i	j	l	m	n	o
005	Cash balances at central banks and other demand deposits	4,783,341	4,783,341	-	-	-	(1,173)	(1,173)	-	-	-	-	402,500	-
010	**Loans and advances**	**13,469,944**	**12,851,025**	**614,685**	**337,221**	**308,659**	**(137,500)**	**(92,550)**	**(45,804)**	**(195,857)**	**(198,391)**	**(5,979)**	**6,476,019**	**112,567**
020	Central banks	112,589	112,589	-	-	-	(111)	(111)	-	-	-	-	-	-
030	General governments	386,683	384,850	1,832	473	473	(4,610)	(4,467)	(143)	(469)	(469)	-	14,458	-
040	Credit institutions	149,292	149,292	-	126	114	(435)	(435)	-	(121)	(111)	-	478	-
050	Other financial corporations	140,373	139,646	727	1,650	1,650	(870)	(856)	(14)	(1,647)	(1,647)	(1,341)	16,378	1
060	Non-financial corporations	5,644,005	5,243,676	398,440	195,725	173,511	(79,776)	(49,943)	(29,853)	(109,415)	(112,287)	(4,638)	2,864,357	75,950
070	Of which SMEs	3,658,461	3,371,900	284,672	177,895	160,383	(58,681)	(37,227)	(21,474)	(103,286)	(102,385)	(4,358)	2,158,618	70,442
080	Households	7,037,002	6,820,972	213,686	139,247	132,911	(51,698)	(36,738)	(15,794)	(84,205)	(83,877)	-	3,580,348	36,616
090	**Debt securities**	**4,923,709**	**4,913,199**	**7,394**	**8,338**	**8,338**	**(12,883)**	**(12,548)**	**(335)**	**(6,777)**	**(6,777)**	**-**	**156,469**	**-**
100	Central banks	29,427	29,427	-	-	-	(10)	(10)	-	-	-	-	-	-
110	General governments	3,786,231	3,785,967	165	7,540	7,540	(10,873)	(10,803)	(70)	(5,979)	(5,979)	-	-	-
120	Credit institutions	951,567	951,567	-	-	-	(891)	(891)	-	-	-	-	80,804	-
130	Other financial corporations	59,361	59,361	-	798	798	(536)	(536)	-	(798)	(798)	-	5,024	-
140	Non-financial corporations	97,123	86,877	7,229	-	-	(573)	(308)	(265)	-	-	-	70,641	-
150	**Off-balance-sheet exposures**	**4,574,974**	**4,474,817**	**99,712**	**28,030**	**21,717**	**(20,766)**	**(18,816)**	**(1,951)**	**(16,839)**	**(12,236)**		**682,546**	**4,720**
160	Central banks	126	126	-	-	-	-	-	-	-	-		-	-
170	General governments	212,726	212,638	78	232	80	(682)	(680)	(2)	(178)	(28)		112,368	1
180	Credit institutions	81,938	81,723	-	34	34	(77)	(77)	-	(34)	(34)		3,985	-
190	Other financial corporations	26,236	26,051	185	25	25	(32)	(32)	-	(3)	(3)		6,062	8
200	Non-financial corporations	3,500,074	3,413,787	86,132	25,102	19,011	(16,937)	(15,347)	(1,590)	(15,773)	(11,340)		531,276	4,433
210	Households	753,874	740,492	13,317	2,637	2,567	(3,038)	(2,680)	(359)	(851)	(831)		28,855	278
220	**Total**	**27,751,968**	**27,022,382**	**721,791**	**373,589**	**338,714**	**(172,322)**	**(125,087)**	**(48,090)**	**(219,473)**	**(217,404)**	**(5,979)**	**7,717,534**	**117,287**

Table 28 –EU CQ1 – Credit quality of forborne exposures of NLB Group

31.12.2022	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		Total	Of which defaulted	Of which impaired				
	a	b	c	d	e	f	g	h
1 **Loans and advances**	**117,808**	**154,441**	**154,441**	**154,385**	**(9,929)**	**(79,535)**	**121,376**	**66,136**
3 General governments	604	236	236	236	(12)	(234)	-	-
5 Other financial corporations	201	1,325	1,325	1,325	(6)	(1,325)	-	-
6 Non-financial corporations	89,871	117,602	117,602	117,546	(7,267)	(61,900)	87,245	50,323
7 Households	27,132	35,278	35,278	35,278	(2,644)	(16,076)	34,131	15,813
9 Loan commitments given	743	649	649	649	(2)	(209)	740	415
10 **Total**	**118,551**	**155,090**	**155,090**	**155,034**	**(9,931)**	**(79,744)**	**122,116**	**66,551**

Table 29 – EU CQ5 – Credit quality of loans and advances to non-financial corporations by industry of NLB Group

	31.12.2022	Gross carrying amount / nominal amount		Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Total	Of which defaulted		
		a	c	e	f
1	Agriculture, forestry and fishing	98,779	3,060	(3,120)	-
2	Mining and quarrying	53,860	430	(2,748)	-
3	Manufacturing	1,419,299	23,547	(26,481)	(8)
4	Electricity, gas, steam and air conditioning supply	550,493	834	(7,979)	-
5	Water supply	51,156	2,409	(2,729)	-
6	Construction	548,543	25,831	(27,970)	-
7	Wholesale and retail trade	1,233,718	42,586	(53,308)	-
8	Transport and storage	598,562	17,364	(12,725)	-
9	Accommodation and food service activities	203,657	45,130	(17,737)	-
10	Information and communication	314,419	3,781	(6,995)	-
11	Financial and insurance actvities	112,511	30	(528)	-
12	Real estate activities	312,302	12,016	(8,000)	-
13	Professional, scientific and technical activities	178,764	8,386	(10,515)	-
14	Administrative and support service activities	76,292	1,769	(1,975)	(48)
15	Public administration and defense, compulsory social security	3,192	24	(101)	-
16	Education	10,160	1,904	(1,258)	-
17	Human health services and social work activities	43,692	1,175	(847)	-
18	Arts, entertainment and recreation	18,094	4,478	(2,940)	-
19	Other services	12,237	971	(1,179)	-
20	**Total**	**5,839,730**	**195,725**	**(189,135)**	**(56)**

6.4. Credit risk mitigation techniques

(Article 453 b, c, e, f, and g of CRR)

Credit protection policy

The NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the Group members in accordance with regulatory requirements. The master document regulating loan collateral in the NLB Group is the Loan Collateral Policy in NLB and NLB Group. The Policy has been adopted by the Management Board of NLB. The Policy represents the basic principles that the Group's employees must consider when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

In line with the policy, the primary source of loan repayment is the debtor's solvency, and the accepted collateral is a secondary source of repayment in case the debtor ceases to repay the contractual obligations.

The Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments or central banks, bank debt securities, and real-estate mortgages (the real estate must be, beside other criteria, located in the EEA or in the countries with third party equivalent status for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral as well (for example, a lien on movable property, a pledge of an equity stake, investment coupons, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. If there is a lower probability that this type of collateral would generate a cash flow, the NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

The processes for valuing collateral
In compliance with relevant regulations, the Group has established a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate used as collateral is obtained from valuation reports of licensed appraisers. The market value of movable property is obtained from valuation reports of licensed appraisers or from sales agreements. Both, valuation reports and sales agreements must not be older than one year. In NLB and members of the Group, most reports of external real estate appraisers are verified. Controls are performed by internal appraisers. The subject of verification is the content, value, scope, and format of the report, its compliance with international valuation standards, and the estimated value. If they notice deviations, they estimate the needed correction of the value of the external valuation (in %) and correct the value of the external valuation. The value adjustment can only be negative and can be applied only in a limited range. For the purposes of business decisions and the calculation of the necessary impairments and provisions, additional deductions (haircuts) are applied to the eventual adjusted market value, depending on the type of collateral. These haircuts for purpose of liquidation value are for real estate in the range between 30 and 70%, depending on the type of real estate and location, for movables they range between 50 and 100% depending on the type of movable.

The market value of financial instruments held by the Group is obtained from the organised market – such as the stock exchange, for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed real estate appraisers for real estate. All appraisals must be made for the purpose of secured lending and in accordance with the international valuation standards (IVS, EVS, or RICS). Appraisals related to retail loans are generally only ordered from appraisers with whom the NLB has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal that is not made by an appraiser included on the NLB's reference list, NLB's expert department which employs certified real estate appraisers in construction with licences granted by the Slovenian Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors, will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other Group members obtain valuations from in-house appraisers and outsourced appraisers, all possessing the necessary licences. The Group has compiled a reference list of appraisers for valuations of real estate located outside the Republic of Slovenia. Appraisals must be made in accordance with the international valuation standards, and for larger exposures, real-estate evaluations must also be reviewed by an internal licensed appraiser with knowledge of the local real-estate market. If the appraisal does not correspond to the international valuation standards, or if the value adjustment is greater than certain limit, the appraisal is rejected as inadequate.

When assuring collateral, the Group follows the internal regulations which define the minimum security or pledge ratios. The Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity, etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. If real estate, movable property, and financial instruments serve as collateral, the Group's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order.

The Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Republic of Slovenia, and partly, for the housing segment to Serbia, Montenegro, and Bosnia and Herzegovina) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in the Republic of Slovenia). The value of pledged movable property is monitored once a year (in NLB it is automated, with a straight-line depreciation over the period of the remaining useful life).

The main types of collateral taken by the NLB Group
NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

The Group accepts the following material types of loan collaterals:

- Collateral in the form of business and residential real estate: land, buildings, and individual parts of buildings in a storeyed property intended for living in or performing a business activity, such as land in the area foreseen for construction, apartments, residential buildings, garages and holiday homes, business premises, industrial buildings, offices, shops, hotels, branches and warehouses, forests, parking spaces, etc. Objects can be completed or under construction. Priority is given to property where the pledge right of the Bank is entered in the first place and real estate is already owned by the debtor and/or the pledger. For real estate, there must be a market, and it must be redeemable within a reasonable time.
- Collateral in the form of movable property: priority is given to the types of movable property, that are highly likely to be sold in the event of execution, and the funds received are used to repay the collateralised claims (their market value must be estimated with considerable reliability). Among the appropriate types of movable property, the Bank includes motor vehicles, agricultural machinery, construction machinery, production lines and series-produced machines and some custom-made production machines.
- Collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds):
  - Cash receivable collateral: bank deposits and savings with the Bank are appropriate in domestic and foreign currency.
  - Debt and equity securities: bonds and shares which, according to the Bank's assessment, are suitable for securing investments and are traded on a regulated market (marketable securities of higher-quality Slovenian and foreign issuers).
  - The pledge of investment coupons of mutual funds managed by management companies (a priority company NLB Skladi, asset management d.o.o.) and are, according to the Bank assessment, suitable for insurance of investments.
- Pledge of an equity stake: non-marketable capital shares with a credit rating of at least B are adequate.
- Pledge or assignment of receivables as collateral: cash receivables must have longer maturities than the maturity of the investment and they must not be due and not be paid.
- Other material forms of loan collateral (e.g., life insurance policies pledged to NLB): the Bank accepts products of Vita, life insurance company – pledge of an investment life insurance policy and a life insurance policy with a guaranteed return that includes saving, in addition to insurance.

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

The Group accepts the following types of personal loan collateral:

- Joint and several guarantees by retail and corporate clients: for the collateralisation of private individuals' loans, employees or pensioners are adequate guarantors. They must not be in the process of personal bankruptcy. They are responsible for fulfilling the debtor's obligations for loans with a repayment period not exceeding 60 months. For the collateralisation of legal entities investments, legal entities or private individuals are adequate guarantors.
- Bank guarantees.
- Government guarantees (e.g., of the Republic of Slovenia).
- Guarantees by national and regional development agencies with which the Bank has a contract on the acceptance of guarantees (e.g., Slovenian Enterprise Fund).
- Other types of personal loan collateral.

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the client's creditworthiness (credit ranking), loan maturity, and varies depending on whether the loan is granted to retail or a corporate client.

NLB has also created, in the area of real-estate loan collateral, an 'online' connection with the Surveying and Mapping Authority in the Republic of Slovenia which allows direct and immediate verification of the existence of property.

The Group strives to ensure the best possible collateral for long-term loans, in particular mortgages where possible. As a result, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate exposures, the next most frequent forms of collateral are government and corporate guarantees, while in retail loans, it is guarantors.

The prevailing types of collateral used as CRM are government guarantees and cash deposits, the Bank does not use credit derivatives to manage capital requirements. The low volume of eligible collateral shows the low concentration from a CRM point of view.

Table 30 – EU CR3 – CRM techniques – Overview of NLB Group

	31.12.2022	Unsecured carrying amount	Secured carrying amount		
			Total	of which secured by collateral	of which secured by financial guarantees
		a	b	c	d
1	Loans and advances	12,001,922	6,588,584	6,063,820	524,764
2	Debt securities	4,775,578	156,469	-	156,469
3	**Total**	**16,777,500**	**6,745,053**	**6,063,820**	**681,233**
4	of which non-performing exposures	232,992	112,567	112,201	366
5	of which defaulted	232,992	112,567	112,201	366

At the end of 2022, the secured part of the portfolio represents 28.7% of the total portfolio. However, it has to be considered that such a low share is due to strict rules applied to the eligible collateral in the standardised approach.

7. Credit risk – standardised approach

(Article 444 and 453 g, h and i of CRR)

For calculating the capital requirement for credit risk, NLB Group uses the standardised approach as prescribed by CRR. Calculation of the capital requirement considers the effect of loan collaterals as a secondary source of repayment. NLB Group uses the simple calculation method for collaterals. According to this methodology, the capital requirement is calculated depending on the segment of clients, their credit quality (in case ECAI was nominated for the segment and external credit rating is available), and the quality of collateral which must be adequately evaluated and at the same time satisfy the prescribed minimum requirements.

In recent years, some of the non-EU countries where NLB Group is present have adopted the EU regulation and have been assigned a Third-party equivalence status, which provides a level playing field in terms of Central government risk and application of certain types of collateral in the capital requirement for credit risk.

For the calculation of capital requirement for credit risk, NLB Group nominated Fitch Ratings credit rating agency, which was estimated to be an eligible external credit assessment institution, at the same time the mapping to the credit quality steps was determined by the EBA. The credit assessments of this agency are used for the categories of exposure:

- to the central government or central bank, and
- to institutions, including the exposure to institutions with short-term credit assessment.

The weight for each category of exposure is determined based on the CRR. In exposure categories for which a credit assessment institution was designated, the weight is assigned based on the financial instrument's rating. If such a rating is not available, the higher of the weights applying to long-term credit rating of the debtor or other financial instruments of the same debtor or country is used.

For categories of exposure for which a credit assessment institution was not appointed, the risk weight is assigned according to the prescribed legislation, meaning that it is assigned based on the rating of the debtor's country or specific rules applying to the respective exposure category.

Table 31 – EU CR4 – standardised approach – Credit risk exposure and CRM effects of NLB Group

	31.12.2022	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
	Exposure classes	a	b	c	d	e	f
1	Central governments or central banks	8,483,204	84,732	8,655,698	55,486	1,109,246	12.73%
2	Regional government or local authorities	233,347	11,897	233,347	2,391	101,203	42.93%
3	Public sector entities	162,558	7,767	153,103	1,476	57,902	37.46%
4	Multilateral development banks	116,646	-	519,146	-	-	-
5	International organisations	22,768	-	22,768	-	-	-
6	Institutions	824,502	240,720	835,254	176,174	292,046	28.87%
7	Corporates	3,866,970	1,996,448	3,410,106	496,713	3,520,296	90.11%
8	Retail	5,854,449	2,052,929	5,780,975	400,620	4,370,993	70.71%
9	Secured by mortgages on immovable property	2,613,781	101,017	2,613,781	19,272	987,734	37.51%
10	Exposures in default	135,608	11,292	134,807	2,896	156,431	113.60%
11	Exposures associated with particularly high risk	418,344	238,183	380,711	47,574	642,427	150.00%
12	Covered bonds	276,721	-	276,721	-	31,476	11.37%
14	Collective investment undertakings	68,457	-	68,457	-	17,900	26.15%
15	Equity	72,585	-	72,585	-	90,100	124.13%
16	Other items	913,940	3,070	906,428	1,484	420,099	46.27%
17	**Total**	**24,063,879**	**4,748,054**	**24,063,888**	**1,204,087**	**11,797,853**	**46.69%**

The table shows exposures before CRM and CCF, exposure post-CCF and -CRM and RWA for all customer segments. At the end of 2022, the increase of exposures was noticed in the Secured by mortgages on immovable property segment, Corporate and in the Retail segment, which is in line with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight increased from

45.62% in 2021. to 46.69% in 2022. Increase relates to acquisition of N Banka and usage of eligible real estate collateral in Bosnia and Herzegovina and North Macedonia.

	31.12.2021	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
	Exposure classes	a	b	c	d	e	f
1	Central governments or central banks	8,122,043	2,958	8,320,405	36,788	1,158,461	13.86%
2	Regional government or local authorities	210,349	18,531	210,349	3,974	99,848	46.59%
3	Public sector entities	97,592	9,686	85,658	1,948	46,972	53.62%
4	Multilateral development banks	89,848	-	484,957	-	-	-
5	International organisations	24,981	-	24,981	-	-	-
6	Institutions	1,101,665	127,358	1,065,789	57,649	310,230	27.61%
7	Corporates	3,133,710	1,421,683	2,695,865	357,774	2,749,670	90.05%
8	Retail	5,581,830	1,829,992	5,512,125	372,026	4,170,971	70.88%
9	Secured by mortgages on immovable property	1,248,907	34,748	1,248,907	7,539	453,046	36.06%
10	Exposures in default	144,737	20,873	143,192	4,303	178,478	121.01%
11	Exposures associated with particularly high risk	312,488	95,263	276,725	18,302	442,542	150.00%
12	Covered bonds	361,376	-	361,376	-	41,054	11.36%
14	Collective investment undertakings	56,918	-	56,918	-	19,423	34.12%
15	Equity	71,223	-	71,223	-	88,511	124.27%
16	Other items	952,692	1,297	951,888	251	445,965	46.84%
17	**Total**	**21,510,359**	**3,562,389**	**21,510,359**	**860,554**	**10,205,170**	**45.62%**

Table 32 – EU CR5 – Standardised Approach of NLB Group

	31.12.2022	Risk weight										Total	of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
	Exposure classes	a	d	e	f	g	i	j	k	l	o	q	r
1	Central governments or central banks	7,642,470	-	44,920	-	13,336	-	954,931	-	55,527	-	8,711,184	8,357,192
2	Regional government or local authorities	55,756	-	98,473	-	-	-	81,509	-	-	-	235,738	214,324
3	Public sector entities	74,442	-	145	-	44,239	-	35,754	-	-	-	154,580	87,606
4	Multilateral development banks	519,146	-	-	-	-	-	-	-	-	-	519,146	484,957
5	International organisations	22,768	-	-	-	-	-	-	-	-	-	22,768	24,981
6	Institutions	-	-	757,716	-	226,361	-	27,351	-	-	-	1,011,428	365,705
7	Corporates	-	-	-	-	-	-	3,906,819	-	-	-	3,906,819	3,053,639
8	Retail	-	-	-	-	-	6,181,596	-	-	-	-	6,181,596	5,884,151
9	Secured by mortgages on immovable property	-	-	-	1,942,058	591,609	96,334	3,054	-	-	-	2,633,054	1,256,446
10	Exposures in default	-	-	-	-	-	-	100,248	37,455	-	-	137,703	147,495
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	428,285	-	-	428,285	295,028
12	Covered bonds	-	238,682	38,039	-	-	-	-	-	-	-	276,721	135,951
14	Collective investment undertakings	-	-	-	-	-	-	10,290	-	-	58,167	68,457	56,918
15	Equity	-	-	-	-	-	-	60,908	-	11,677	-	72,585	71,223
16	Other items	472,462	-	19,177	-	-	-	416,263	-	-	-	907,903	952,131
17	**Total**	**8,787,045**	**238,682**	**958,470**	**1,942,058**	**875,545**	**6,277,929**	**5,597,126**	**465,740**	**67,204**	**58,167**	**25,267,966**	**21,387,748**

	31.12.2021	Risk weight										Total	of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
	Exposure classes	a	d	e	f	g	i	j	k	l	o	q	r
1	Central governments or central banks	7,204,074	-	44,735	-	34,359	-	1,035,047	-	38,977	-	8,357,192	8,357,192
2	Regional government or local authorities	47,357	-	83,899	-	-	-	83,068	-	-	-	214,324	214,324
3	Public sector entities	26,198	-	95	-	28,721	-	32,593	-	-	-	87,606	87,606
4	Multilateral development banks	484,957	-	-	-	-	-	-	-	-	-	484,957	484,957
5	International organisations	24,981	-	-	-	-	-	-	-	-	-	24,981	24,981
6	Institutions	-	-	863,114	-	245,434	-	14,890	-	-	-	1,123,438	365,705
7	Corporates	-	-	-	-	-	-	3,053,639	-	-	-	3,053,639	3,053,639
8	Retail	-	-	-	-	-	5,884,151	-	-	-	-	5,884,151	5,884,151
9	Secured by mortgages on immovable property	-	-	-	1,044,885	211,561	-	-	-	-	-	1,256,446	1,256,446
10	Exposures in default	-	-	-	-	-	-	85,530	61,966	-	-	147,495	147,495
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	295,028	-	-	295,028	295,028
12	Covered bonds	-	312,208	49,167	-	-	-	-	-	-	-	361,376	135,951
14	Collective investment undertakings	-	-	-	-	-	-	8,580	1,000	-	47,338	56,918	56,918
15	Equity	-	-	-	-	-	-	59,698	-	11,525	-	71,223	71,223
16	Other items	491,853	-	17,902	-	-	-	442,384	-	-	-	952,139	952,131
17	**Total**	**8,279,420**	**312,208**	**1,058,913**	**1,044,885**	**520,075**	**5,884,151**	**4,815,428**	**357,994**	**50,502**	**47,338**	**22,370,913**	**21,387,748**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. At the end of 2022, the highest increase was noticed on the 100% weight in the Retail and Corporate exposure categories: increase relates to acquisition of N Banka and usage of eligible real estate collateral in Bosnia and Herzegovina and North Macedonia. A risk weight of 250% is used for deferred tax assets and capital investments in subject in the financial sector where NLB Group possesses more than 10%.

8. Exposure to counterparty credit risk

8.1. Goals and Principles of Counterparty Credit Risk Management

(Article 435.1 a, b, c, and d of CRR)

Management of Counterparty Credit Risk

Counterparty Credit Risk (CCR) arises when NLB Group engages in derivative transactions with a counterparty for instruments like exchange-traded (futures) and OTC derivatives (forwards, swaps traded off the exchange), or due to long settlement transactions (meaning that a delivery date is later than the earliest of the market standard for the particular transaction). The purpose of entering into the derivatives is to support corporate customers and financial institutions in their management of financial exposures. This is managed within Investment Banking and Custody, Financial Markets, and Evaluation and Control. Financial Markets also use derivatives to protect cash flows and fair values of financial assets and liabilities of NLB Group.

CCR is defined as the risk that the counterparty to a transaction may default before the settlement of the transaction. CCR is a particular case of a general credit risk and creates a bilateral risk of loss, therefore, the market value of the transaction can be positive or negative to either counterparty of the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors. CCR exposure is estimated considering the effect of a period of stress and the collateral management practices.

Limits for counterparty exposures are set in the regular credit process. Evaluation and Control identifies, measures, reports, and follows up on NLB Group's counterparty credit risk. The risk is measured daily and reported monthly to the ALCO.

CCR for OTC derivatives is the product of 1.4 times the sum of relevant replacement cost (i.e., positive market value) and potential future exposure resulting from potential future changes in market values (FX prices, interest rates, etc.). A dedicated IT solution is in place for monitoring, along with customisation made to meet specific needs. It enables us to monitor CCR on a real-time basis, a deal-by-deal level, as well as on a Group level by an individual counterparty or counterparty group. Limits must be reviewed before any transaction is agreed upon and confirmed.

In settling the concluded financial transactions, NLB Group is exposed to the settlement risk which is a risk that one of the parties would not (be able to) meet its liabilities arising from the transactions in accordance with the agreed conditions, after the counterparty has already met its part of the obligations. The tolerance towards the assumptions of the settlement risk is exceptionally low. NLB Group has adopted internal regulations and a system of performing settlements, as well as a system of control mechanisms for the management of settlement risk. The standardised approach is used to determine the regulatory capital charge for the settlement risk.

Organisation

Credit risks from derivatives are fully integrated into the general credit risk management system. CCR risk is measured and monitored on a daily basis by an independent risk management unit Evaluation and Control. Global Risk is responsible for calculation of own fund requirements for CCR risk according to the standardised approach.

Risk Measurement and control of CCR

CCR risk is monitored and controlled at the transaction level, as well as at the client level. The market value of derivative transactions fluctuates during the term to maturity, for this reason the uncertainties of future market conditions have to be taken into consideration when measuring credit exposure to derivatives.

For calculation of a regulatory capital for counterparty credit risk, NLB Group uses a standardised approach for the derivatives. Currently NLB Group uses the Original Exposure Method according to the regulation.

Credit valuation adjustment (CVA) and debit valuation adjustment (DVA)

Counterparty credit risk in derivatives affects the Bank's profit and loss through credit/debit valuation adjustments (CVA/DVA), reflecting the credit risk associated with the derivative positions. These adjustments depend on credit rating or/and credit spread of a certain client. NLB Group uses the standardised approach to calculate the regulatory capital requirement for CVA. Where collateral exists, it is taken into consideration when CVA/DVA is calculated. The calculation is done on a monthly basis. DVA is not recognised in the Profit or Loss Statement, but only calculated for internal purposes.

8.2. Risk mitigation – netting and collaterals
(Article 439 b of CRR)

NLB Group mitigates CCR risk from derivatives using close-out netting agreements such as the ISDA Master Agreement, Global Master Repurchase Agreement (GMRA), and the Slovenian Framework Agreement. Along with these agreements, collateral agreements (e.g., ISDA Credit Support Annex) are in place to substantially reduce credit risk arising out of derivatives transactions. In addition to this, clearing transactions via a clearing house is in place for relevant derivatives transactions.

Daily margin call calculations are in place for each relevant counterparty. Portfolio reconciliation is agreed as per European Market Infrastructure Regulation (EMIR).

8.3. Internal capital allocation and definition of credit limits for CCR exposures
(Article 439 a of CRR)

The CCR exposures of NLB Group are not material, thus NLB Group sets aside capital for CCR exposures within Internal Capital Adequacy Assessment (Pillar 2). Internal capital for counterparty credit exposures is calculated with a stress-testing of CVA where the additional shock on PDs is applied. In addition, there is a set of internal credit limits in place for CCR exposure which are guided by the internal policies and methodologies.

NLB Group has instructions for determining derivative financial instrument limits in place. There is a set of guidelines in use when concluding derivative transactions with clients. Each client has to have a limit in place, and all transactions are concluded by using the contract. Only standard interest and foreign exchange derivatives can be subject to proposal and/or approval. The limit is treated as an arrangement decided in line with the credit process. Only clients rated as in the A and B credit rating group and clients classified as CCC rating class are suitable for new limits. To approve the new limits, the underlying pre-conditions have to be met as follows: the primary business has to have sustainable cash flow, the client has to be able to cover derivatives exposure and potential negative effect, and the derivative is subject to support primary business transactions.

NLB Group has an important risk management tool in place, which is an early warning system for exposures towards banking groups, sovereigns, and international corporates. The respective exposures are limited by the risk appetite, monitored, and reported to the senior management and Supervisory Board on a regular basis.

8.4. Securing of collateral and establishing of reserves
(Article 439 b of CRR)

Framework agreements signed with the relevant counterparty provide the ability to collect collateral for the purpose of reducing CCR. As mentioned in previous chapters, NLB Group calculates the net positive market value for individual counterparty exposure on a daily basis and as a result, collateral is adjusted accordingly. For most framework agreements only, cash is eligible collateral. Where other forms of collateral are possible, haircuts are applied as per the credit rating of such collateral along with the days to maturity. If securities are an eligible collateral form, only top-rated bonds are permitted. All this results in the fact that NLB Group only considers top-rated collateral, and therefore we do not create any additional reserves to mitigate CCR.

8.5. Wrong-way risk management
(Article 439 c of CRR)

In accordance with risk mitigation techniques in place (real-time monitoring, framework agreements, collateral agreements, daily margining process, CVA/DVA calculation, etc.), NLB Group does not find wrong-way risk exposures as material.

8.6. Downgrading impacts on collaterisation

(Article 439 e, f, g, h, and l and Article 444 e of CRR)

Framework agreements covering derivatives transactions usually do not have provisions that would reflect any additional collateral posting due to credit rating change of NLB Group. Therefore, downgrading impacts on collaterisation are not material.

Table 33 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

	31.12.2022	Replace-ment cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
		a	b	c	d	e	f	g	h
EU-1	EU - Original Exposure Method (for derivatives)	39,104	32,633		1.4	100,432	100,432	100,432	44,073
EU-2	EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*Of which securities financing transactions netting sets*			-		-	-	-	-
2b	*Of which derivatives and long settlement transactions netting sets*			-		-	-	-	-
2c	*Of which from contractual cross-product netting sets*			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					**100,432**	**100,432**	**100,432**	**44,073**

Table 34 - EU CCR2 – Transactions subject to own funds requirements for CVA risk for NLB Group

	31.12.2022	Exposure value	RWEA
		a	b
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	83,852	85,600
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**83,852**	**85,600**

Table 35 – EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weights of NLB Group

	31.12.2022	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l
1	Central governments or central banks	7,629,050	-	-	-	44,920	13,336	-	-	956,962	9	53,173	8,697,450
2	Regional government or local authorities	55,756	-	-	-	98,473	-	-	-	81,511	0	-	235,740
3	Public sector entities	74,442	-	-	-	145	44,672	-	-	35,760	17	-	155,035
4	Multilateral development banks	519,146	-	-	-	-	-	-	-	-	-	-	519,146
5	International organisations	22,768	-	-	-	-	-	-	-	-	-	-	22,768
6	Institutions	-	-	-	238,682	795,756	226,361	-	-	52,690	2	17,955	1,331,445
7	Corporates	-	-	-	-	-	85,957	-	21,444	2,019,190	27,465	24	2,154,079
8	Retail	13,420	-	-	-	-	505,219	-	6,256,485	2,047,281	438,248	1,996,277	11,256,930
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	472,471	-	-	-	19,177	-	-	0	403,733	-	-	895,382
11	**Total**	**8,787,054**	**-**	**-**	**238,682**	**958,470**	**875,545**	**-**	**6,277,929**	**5,597,126**	**465,740**	**2,067,429**	**25,267,975**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central Government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures whose provision coverage does not exceed 20%. In the 2022, the highest increase was noticed on the 100% weight and 'Others' in the Retail and Corporate segments, where the increase relates to the acquisition of N Banka and usage of eligible real estate collateral in Bosnia and Herzegovina, and North Macedonia.

	31.12.2021	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l
1	Central governments or central banks	7,190,213	-	-	-	44,735	34,359	-	-	1,035,048	5	31,694	8,336,055
2	Regional government or local authorities	47,357	-	-	-	83,899	-	-	-	83,070	-	-	214,326
3	Public sector entities	26,198	-	-	-	95	28,721	-	-	32,609	795	-	88,418
4	Multilateral development banks	484,957	-	-	-	-	-	-	-	-	-	-	484,957
5	International organisations	24,981	-	-	-	-	-	-	-	-	-	-	24,981
6	Institutions	-	-	-	312,208	912,281	245,654	-	-	41,880	18	7,255	1,519,297
7	Corporates	-	-	-	-	-	47,326	-	-	1,572,987	15,643	21	1,635,976
8	Retail	13,861	-	-	-	-	164,015	-	5,884,151	1,617,702	341,532	1,103,755	9,125,015
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	491,853	-	-	-	17,902	-	-	-	432,133	-	-	941,887
11	**Total**	**8,279,420**	**-**	**-**	**312,208**	**1,058,913**	**520,075**	**-**	**5,884,151**	**4,815,428**	**357,994**	**1,142,725**	**22,370,913**

9. Exposure to market risk

(Article 445 of CRR)

Market risk is the risk that the Bank's earnings and/or economic value may be negatively affected by changes in market rates and parameters that effect on- and off-balance sheet positions (for example changes in foreign exchange rates, fluctuations in interest rates, credit spreads, equity prices, implied volatilities, and market liquidity). Market risks predominately arise from the Bank's core business activities – the banking book and the liquidity portfolio needed to support these activities.

Table 36 – EU MR1 – Market risk under the standardised approach of NLB Group

		31.12.2022	31.12.2021
		RWEAs	RWEAs
		a	b
	Outright products		
1	Interest rate risk (general and specific)	14,813	1,113
3	Foreign exchange risk	1,344,663	1,205,250
9	**Total**	**1,359,476**	**1,206,363**

9.1. Goals and principles of market risk management

(Article 435.1 a, b, c, and d of CRR)

The objectives and risk management policy

The key objectives of NLB Group Market Risk Management as an independent risk function is to:

- regularly identify, evaluate, and assess all material market risk;
- monitor, manage, control, and steer market risk;
- define limits for trading activities consistent with the Group's Risk Appetite Statement (RAS), NLB Group Risk Strategy and business strategy in order to align top-down management targets with bottom-up business initiatives;
- ensure that NLB Group business lines do not expose the Bank to unacceptable losses outside of the risk appetite, and to contribute to income stability via independent identification, assessment, and understanding of market risk;
- constantly develop and upgrade market risk models and methodologies, including stress-testing and early warning systems.

Market Risk Management aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements. To achieve this objective, market risk management works closely with business lines and other control and support groups.

NLB Group's strategy is to secure cost-efficient funding from several diversified sources with an emphasis on ensuring of a long-term stable deposit basis, not to be exposed to large refinancing risk, and arrange lending with assurance of optimised risk-adjusted profitability. This gives rise to foreign exchange risk and structural interest risk due to mismatches in the Bank's assets and liabilities in terms of currency composition, maturity profile, and interest rate characteristics.

The Bank's security portfolio held for liquidity purposes is exposed to interest rate risk and credit spread risk, for example potential decline in market value due to a perceived change in credit quality of the issuers of the securities held in the portfolio.

Regarding market risks in the trading book, the Group pursues a low-risk appetite for market risk in the trading book. The exposure to trading (according to the CRR) is only allowed to be carried by the parent Bank as the main entity of the Group and is very limited. Nevertheless, the Bank intends to further maintain a small trading portfolio, mainly to monitor market signals in the global markets and to service clients. Respectively, it does not constitute a material risk to the Group's operations, while its tolerance for interest rate and credit spread risk in trading book is very low.

Structure and organisation
Financial Markets (Trading, Treasury, and ALM) and Investment Banking and Custody together with Global Risk, and Evaluation and Control, manage market risk in NLB Group. The Investment Banking and Custody is responsible for customer sales, Financial Markets is responsible for short- and long-term funding activities and investments for NLB Group's own account, for asset and liability management, liquidity portfolio collateral account portfolios, as well as other banking activities. These Competence Lines are responsible for managing the risk under the framework (principally through limits) as set by the Management Board and controlled by the ALCO.

NLB Group Market Risk Management operates under the three lines of defence framework, as described in Section 5.1 (General information on risk management, objectives, and policies).

In order to effectively manage NLB Group's market risks, the organisational structure allows the making of clear distinctions between market risk methods and risk models, valuations, and reporting. Market Risk is organised in the following units:

- Global Risk, responsible for defining rules on Risk Appetite, Risk Strategy, Global Standards and Policies, and for the financial risk reporting coherence and coordination across the Group, as well as development of the ICAAP/ILAAP;
- Market and Liquidity Unit of Global Risk, responsible for governing and checking the Group's market and liquidity risk, parameterisation of the internal VaR limit system, calculation of capital requirement for the trading book position, the improvements and development of methodologies, as well as for internal and regulatory stress-testing and reporting to senior management and external reporting for regulatory purposes;
- Control and Evaluation, responsible for monitoring trading activities and its compliance, designing stop-loss limits, controlling credit counterparty exposures, and evaluating the financial instruments and additional valuation adjustments for managerial P&L.

The key responsibility of Global Risk is overseeing and controlling Group Market Risk through the assessment of strategies, policies, and the proposal of relevant risk limits and regulation. The department manages a coordination of the market risk operations of the banking subsidiaries, according to NLB Group Risk Management Standards and integrates the risk culture throughout NLB Group. Additionally, it formulates and modifies Group Methodologies and the Market Risk Measurement Framework and considers the recommendations of regulators and the market's best practices. The department ensures compliance of the market risk management with applicable laws and regulations.

The existing organisational structure assures a functional capability of governance, alignment, and monitoring market risk activities at an integrated portfolio level with dedicated and specialised risk managers, and so contributes to bring management processes in line with the best international practices.

Global Risk provides independent oversight of all significant market risks, supporting the ALCO and the Financial Markets with risk measurement, analysis, daily monitoring, and reporting.

Risk measurement and control
The Management Board of NLB sets strategic objectives for exposing to market risk, which is aligned with the risk appetite and intended to create value for shareholders and to hold an adequate level of capital related to market risk. The committee responsible for market risk is the Group ALCO.

The Group ALCO monitors and addresses the risk profile and area of asset and liability of NLB Group. It is engaged in monitoring and analysing the developments in the global markets, changes, and trends associated with the risk profile, balance sheet structure, financial statements of NLB Group, and formulating conclusions and guidance to achieve the target balance sheet structure.

As regards the trading activities, the most significant market risks identified are interest rate risk (together with basis risk), credit spread risk, and foreign exchange risk. Market risk from trading activities is managed and monitored daily within the trading market risk framework, which includes all the derivative book and the bond trading book. A prudent limit and control structure is in use. Market risk is guided by separate policies and methodologies, such as the Trading Book Market Risk Policy, the IRRBB Policy, and the FX Risk Policy.

Proper control is exercised over all elements in the process of market risk measurement and monitoring, including collection and delivery of data about positions, market factors, key pre-conditions, calculation of the risk amount, and reporting of risk exposure via appropriate chains of rights and responsibilities.

In relation to the market risk framework, several key risk metrics complimentary to each other are reported in order to measure and monitor businesses:

- Market risk models for limit-setting: value at risk (VaR), stressed value at risk (CVaR), and a basis point value approach (BPV) for a trading book;
- Stress-testing: portfolio stress-testing and event risk scenarios;
- Other market metrics**:** sensitivities.

The impact of larger market disruptions on the portfolio's present value is quantified by stress-testing. The scenarios used are calibrated to historically observed market data and defined by hypothetical, but plausible parameter changes. Scenario analyses are performed for interest rates, FX rates, credit spread, and share price. Daily back-testing is employed to identify and analyse the potential exceedance of the value at risk.

To manage market risk, internal limits are set that correspond to NLB Group Risk Profile to thereby prevent market risk from exceeding our ability to withstand losses based on our financial strength represented by capital. The risk appetite towards market risk is low.

The amount of market risk in the trading book is limited by a value at risk (VaR) that may arise to close relevant positions. With the VaR model, the Bank seeks to approximate the changes in value the Bank's value would experience in response to changes in the underlying risk factors. VaR identifies the probability that losses will be greater than a pre-specified threshold level. The Bank estimates VaR with a variance-covariance method. The VaR measure is computed daily with a 10-day holding period at a 99% confidence level.

For banking activities, the position limits are based on interest rate sensitivity using a basis point value approach (BPV). It assumes a parallel curve shift by 200 bps and NII sensitivity of 50 bps.

9.2. Policies for hedging or mitigating risk

(Article 435.1 d of CRR)

NLB Group separately identifies, measures, monitors, and controls market risk for the banking and trading book. Hedges of positions are separated on these two books.

The trading book items are directly recognised in the income statement. NLB Group has BPV, VaR, and stop-loss limits in place, and open positions are managed within those limits.

When hedging interest rate risk in the banking book, NLB Group applies hedge accounting principles in most cases. Within that process, NLB Group regularly measures hedge effectiveness of hedges monthly. Hedging in the banking book is well-documented, where a description is given of the: reasons for hedging, a description of the hedged risk, hedged items, and derivatives; the hedge accounting method (fair value hedge or cash flow hedge); the method for measuring effectiveness of the hedge; and how the results of hedges are recognised in NLB Group's financial statements.

Data Management and Reporting

The Evaluation and Control provides and maintains data quality in the front office system for market data in a trading book and utilises tools to control accuracy of report results. The Back Office provides and maintains data input and quality in reporting systems for market data in a banking book. Global Risk is responsible for defining a reporting structure and calculation methodology. The Bank uses a centralised system for providing market data.

Global Risk reports timely, accurate, and material market risk data internally and externally. There is close alignment with the front and middle office to assess market risk at the integral level. This overall view is essential to inform management discussions that seek alignment between portfolios and the integrated risk appetite.

An adequate internal reporting system reflecting the NLB Group's exposure to market risk consists of:

- Daily measurement and limit control of the market risk in a trading book (VaR, sensitivity, stop-loss limit, and P/L reporting to the Management),
- Weekly Report on the interest rate risk from the banking book,
- Comprehensive monthly and quarterly reports including Risk Reports and Stress-testing Results to Group ALCO and own funding requirements for market risk in the trading book,
- Stress-testing.

External reporting is as follows:

- Capital requirements based on the standardised approach,
- Quarterly report to the regulators.

Own funds requirement for Market Risk
Global Risk monitors exposures and addresses risk issues and concentrations of certain exposures under a specific Market Risk Standardised Approach (MRSA). The MRSA is used to determine the regulatory capital charge for the market risk of the trading book as set out in the CRR.

In the standardised approach for market risk, arising from position risk involving interest rate risk and derivatives, the minimum capital requirement is expressed in terms of two separately calculated charges. The capital charge for specific risk is modelled to protect against adverse movements in the price of an individual security due to factors related to the individual issuer. The capital charge for a general market risk is designed to measure the risk of loss arising from the changes in the market. In the case of foreign currency risk, the methods involved include measuring the exposure in a single currency position and measuring the risk inherent in a Bank's mix of long and short positions in different currencies. For the capital requirements due to the general position risk at NLB Group, the maturity-based approach is used. Share price risk is not relevant for NLB Group.

Global Risk quarterly assesses and computes additional own fund requirements within Pillar II for market risk in the trading book (ICAAP). It is computed for a position with respect to FX risk and interest rate risk in the trading book. The purpose of an ICAAP is to determine the adequate capitalisation of the Bank, given the risks endured, as well as future risks arising from growth, new markets, and expansion of the product portfolio.

Compliance with the Article 104 of CRR regarding Inclusion in the Trading Book
Compliance with an Article 104 of the CRR is ensured by appropriate policies and is regularly reviewed. The definition of the trading book is included in the Separation of Trading and Banking Book Policy.

Trading Book
The Trading Book includes the positions in financial instruments held either with trading intent or to hedge other elements of the Trading Book itself. Trade separation to the Banking and Trading book is done based on the content. The risk that the value of a financial instrument changes over time is determined by the following standard market risk factors: credit spreads, equity risk, interest rate risk, and foreign exchange risk.

Banking Book
The main components of market risk in the Banking Book are:

- credit spread risk,
- interest rate risk,
- foreign currency risk.

More precisely, the different and complementary perspectives involve:

- Economic value (EVE) perspective,
- Earnings at Risk (EaR) perspective.

Compliance with the Article 105 of CRR regarding Prudent Valuation
All trading positions are valued according to the prudent valuation specified in Article 105 of CRR. Valuation is done on a real-time basis, as well as via end-of-day procedures. Senior management is being briefed on a regular basis, as well. All procedures are standardised and well-documented. The prudent valuation is set in the Financial Instruments

Evaluation Methodology and other internal operational guides. Valuation adjustments are made where applicable (e.g., low liquid assets). On a daily level, different types of controls are performed to ensure that real-time data gathered for valuation purposes are appropriate.

10. Interest rate risk on positions not included in the trading book

(Article 448 of CRR)

10.1. A description of how the institution defines IRRBB for purposes of risk control and measurement

NLB Group supervises and manages exposure to interest rate risk in accordance with Risk Appetite and Risk Strategy of NLB Group, based on recommendations of the European Central Bank, Basel Committee on Banking Supervision and European Banking Association. Interest rate risk includes all on- and off-balance sheet assets and liabilities of banking book. It considers positions in each material currency.

Exposure to interest rate risk in NLB Group is measured and monitored within a framework of interest rate risk management policy that establishes consistent methodologies, limit systems, and behavioural and modelling assumptions. NLB Group manages interest rate risk exposure through the application of two complementary sensitivity measurement technics, earnings approach, and economic value approach.

Optionality risk is mainly derived from behavioural options, reflected in prepayments, withdrawals, and demand deposits, and embedded options such as caps and floors. Moreover, considering expected cash flows, non-performing exposures, as well as off-balance sheet items are also considered when measuring interest rate risk exposure.

10.2. A description of the institution's overall IRRBB management and mitigation strategies

Interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. Interest rate risk management in NLB Group is decentralised under strict monitoring by NLB as the parent bank. All core members of NLB Group (banking members) are actively measuring, monitoring, and managing interest rate risk exposure.

In case of exceeding of EVE, NII or Credit spread limit, the Financial Markets Unit proposes measures for restoring positions within prescribed limits and is responsible for the preparation of mitigation measures which are subject to approval by Assets and Liability Management Committee. The latter is also responsible for approving the Interest Rate Risk Management Policy of NLB Group, making strategic decisions concerning interest rate risk management, establishing an internal control mechanism, and analysing the findings of audit services.

NLB Group uses internal models in order to manage business risks and support business decisions. To prevent model misbehaviour, the Bank performs model revisions at least once per year, while data suitability and back-testing are performed more frequently, depending on the data frequency. Internal models are used as an additional support to the decision-making process, together with expert judgment and knowledge of risks and positions.

10.3. The periodicity of the calculation of the institution's IRRBB measures, and a description of the specific measures that the institution uses to gauge its sensitivity to IRRBB

NLB Group measures and monitors exposure on weekly and monthly basis. Standardised reporting on individual and consolidated levels is done on a monthly basis. Results and exposure to interest rate risk are reported to the Assets and Liability Committee and the Supervisory Board. Limits for each banking member of NLB Group are included in the Risk Appetite.

The main risk measures that NLB Group uses are:

- Sensitivity measures of interest income, which is calculated based on future cash flows and income, where repricing and reinvestments are measured by different interest rate scenarios based on pricing strategies and stress scenarios (+/-50 bps, +/- 100 bps), assuming constant or dynamic balance sheet in 1-to-3-year period,
- Economic value measures which calculate the effect of changes in interest rates on the economic value of banking book assets, liabilities, and off-balance sheet items under different scenarios;
- Credit Spread measures;
- Earning at Risk measure;
- Basis risk measurement.

10.4. A description of the interest rate shock and stress scenarios that the institution uses to estimate changes in the economic value and in net interest income (if applicable)

NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in the level and shape of interest rate yield curve. Applying stress and shock scenarios in interest rates volatility is an integral part of NLB Group's IRRBB management. NLB Group also prepares interest rate shock scenarios to capture parallel and non-parallel gap risks for EVE and NII for each currency separately for which the institution has material positions.

10.5. A description of the key modelling and parametric assumptions different from those used for disclosure of template EU IRRBB1 (if applicable)

Key modelling and parametric assumptions of the behavioural models used for internal measurement system are the same used to generate the regulatory exposure in EU IRRBB1 template.

10.6. A high-level description of how the Institution hedges its IRRBB, as well as the associated accounting treatment (if applicable)

NLB Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. NLB Group also manages interest rates risk by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules.

10.7. A description of key modelling and parametric assumptions used for the IRRBB measures in template EU IRRBB1 (if applicable)

An integral part of measurement of interest rate risk are behavioural and modelling assumptions, considering all standardise requirements. Optionality risk is mainly derived from behavioural options, reflected in prepayments and withdrawals, and embedded options such as caps and floors.

- NLB Group has a methodology in place for calculating the conditional prepayment rate (CPR) for each portfolio of homogeneous prepayment-exposed loan products denominated in each currency, under all prescribed interest rate scenarios.
- Part of non-maturing deposits, which is considered as a core part is allocated long-term by using replicating portfolio approach. In line with BCBS and EBA guidelines Bank takes into consideration also average maturity per category of sight deposits.
- Expected cash flows, non-performing exposures, as well as off-balance sheet items are also considered when measuring interest rate risk exposure.

10.8. Explanation of the significance of the IRRBB measures and of their significant variations since previous disclosures

The Group's exposure to interest rate risk is moderate and arises mainly from banking book positions. There are no significant changes in IRRBB measures and values since the previous disclosures.

10.9. Any other relevant information regarding the IRRBB measures disclosed in template EU IRRBB1 (optional)

The scenarios used in the EU IRRBB1 template related to the changes of the economic value of equity correspond to the scenarios of the EBA/GL/2018/02. To compute the change in the forecasted net interest income, Bank uses the same parallel shock up /down scenarios applied for computing the change in economic value of equity (+/- 200 bps).

10.10. Disclosure of the average and longest repricing maturity assigned to non-maturity deposits

The average repricing maturity assigned for non-maturity deposits is 3.2 years. The longest repricing maturity assigned to non-maturity deposits is 25 years.

Table 37 – EU IRRBB1 – Interest rate risks of non-trading book activities

Supervisory shock scenarios	Changes of the economic value of equity		Changes of the net interest income	
	31.12.2022	30.06.2022	31.12.2022	30.06.2022
	a	b	c	d
Parallel up	-4.82%	-6.42%	6.51%	6.00%
Parallel down	5.24%	9.72%	-7.50%	-4.43%
Steepener	4.47%	13.81%		
Flattener	-1.90%	-0.54%		
Short rates up	-2.86%	-2.50%		
Short rates down	-1.01%	-1.86%		

11. Liquidity risk management, requirements, and LCR

(Article 435.1 and 451a of CRR)

Liquidity Risk Management Framework

Liquidity Risk Management is considered as one of the most important risks, and consequently is managed very deliberately. Liquidity Risk Management of NLB Group is defined as the capacity to meet its cash flows and obligations without incurring potential losses that are not aligned with its risk appetite. Adequate liquidity is dependent upon NLB Group's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations and the financial position of NLB Group. The primary role of liquidity risk management is to assess the need for funds to meet obligations and ensure the availability of cash or collateral to fulfil those needs on time by coordinating the various sources of funds available to NLB Group under normal and stressed conditions.

Liquidity risk is related to funding liquidity risk (the Group's liquidity on the liabilities side) and market liquidity risk (liquidity reserves on the assets side). On the liabilities side, liquidity risk can result in a loss if NLB Group is unable to settle all of its liabilities, or when the Bank, because of its incapacity to provide sufficient funds to settle its obligations, is forced to provide the necessary funds at a cost which significantly exceeds the normal cost. On the assets side, the liquidity risk is related to the market value of liquidity reserves and arises in the case of significant reduction of market value of an individual financial instrument and may result in the insufficient value of liquidity reserves to cover the Bank's liquidity needs.

Strategies and processes in the management of liquidity risk

NLB Group has set up a sound Liquidity Risk Management Framework which enables a reliable process for identifying, measuring, monitoring, and controlling liquidity risk in the short and long-term. NLB Group defined the risk appetite towards liquidity risk wherein the tolerance was determined as low. It is in line with NLB Group's business strategy and aligned with the most important strategic business, financial, and risk objectives.

NLB Group identified key liquidity risk drivers, set the limit system framework, liquidity score, designed liquidity stress-testing scenarios, and prepared a liquidity contingency plan, and determined the appropriate level of the liquidity buffer. NLB Group has active strategies and clearly defined measurable tolerances to manage liquidity and funding risk, which were established through the Liquidity risk management policy of NLB Group.

Furthermore, NLB Group defines liquidity risk tolerance with several indicators such as LCR, NSFR, and LTD. The respective risk bearing capacity is accordingly considered in Group's daily operations and in financial planning activities. The goal of NLB Group is that it fulfils the regulatory liquidity requirements at any point of time.

The LCR is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions. NLB Group is required to hold an amount of highly liquid assets, such as cash and bonds equal to or greater than the potential net cash outflows over a 30-day period. Under the Basel regulation, an LCR of 100% has been required since 2018.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the probability that disruptions to the Group's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress.

Furthermore, NLB Group established the ILAAP process with the aim of ensuring the robust management of liquidity risk and comprehensive internal liquidity adequacy assessment on solo and consolidated levels. NLB Group strategic guidelines for liquidity risk are aligned with the Risk Appetite and the Risk Strategy, while elaborated into more details in an internal liquidity policy. At the operational level, it describes how liquidity management is executed, supported, and controlled in NLB Group.

More detailed rules, limits, guidelines, and competences related to risk management are defined in the individual internal guidelines, policies, and rules on the level of NLB Group (e.g., NLB Group Risk Management Standards), or on the level of each individual member of NLB Group.

Due to local specifics (macroeconomic conditions, requirements of the local regulation), some sets also include more detailed guidelines for bank members of NLB Group, but nevertheless, all Group members follow the uniform key risk guidelines at the Group level established by the parent bank NLB.

Regarding the management of liquidity risk, NLB Group has rules and a system of responsibility specified in:

- Definition of the risk profile and risk appetite at the level of NLB Group,
- ILAAP process in NLB Group,
- Liquidity Risk Management Policy of NLB Group with appendices,
- NLB Group Risk Management Standards and Guidelines for managing liquidity risk in NLB Group,
- Operating instructions and lists of work procedures in the Bank's liquidity management,
- Rules of Procedure of the Assets and Liabilities Committee of NLB Group,
- Rules of procedure of the Liquidity Management Group,
- Assets and Liabilities Management Policy of NLB Group,
- Funds Transfer Pricing – manual.

Structure and organisation of the liquidity risk management function
Liquidity governance is established in a way that enables a reliable process for identifying, measuring, monitoring, and controlling liquidity risk. Ensuring the appropriate volume of liquidity and the management of liquidity reserves in NLB Group is carried out in a decentralised manner in accordance with the requirements of the local regulations and the applicable internal guidelines and policies inside NLB Group.

The Management Board is obliged to define the Group's risk appetite (risk profile of the Group) as a framework for the determination of the method of managing liquidity risk in NLB Group. The Management is also responsible for adopting decisions in the area of liquidity management, ordinarily through membership and participation in the work of the ALCO. The Management Board is also responsible for the establishment of appropriate procedures for the measurement, management, supervision, and reporting in the area of liquidity risk management.

The committee responsible for liquidity risk management of NLB Group is the NLB Group ALCO Committee. ALCO adopts decisions concerning liquidity risk management and provides guidelines, defines the structural and income criteria in order to ensure an adequate volume of liquid investments, sets up the basic criteria for the structure of Bank sources, establishes internal control mechanisms in the field of liquidity risk management and analyses the findings of audit services in this area, approves and revises the Liquidity Risk Management Policies, approves and revises the Liquidity Contingency Plan, and ensures its implementation in the case of activation.

The Liquidity Risk in NLB Group is managed in several departments as follows:

- **The Global Risk, Market, and Liquidity Risk Unit** is responsible for setting liquidity risk appetite and risk capacity bearing, and the Liquidity Risk Management Framework by establishing policies, methodologies, and limits on solo and consolidated levels. Global Risk independently controls and measures liquidity risk, reports liquidity risk independently to senior management, the Supervisory Board, and regulators. Global Risk prepares the ILAAP with other relevant departments, monitors daily data, monitors deposits from early withdrawals, performs a set of liquidity stress tests, prepares Minimal Liquidity Standards of NLB Group, and delegates the implementation of methodologies in banking members, etc.
- **The Financial Markets, Assets, & Liabilities Management (ALM) Unit** is responsible for adopting liquidity management decisions compliant with the policies and limits. The ALM Unit is responsible for internal transfer pricing and long-term borrowings on the capital markets. ALM prepares dynamic liquidity projections and several simulations, taking care of the rational use of the Group's secondary liquidity reserves, and regularly reports to ALCO.
- **The Financial Markets, Trading, and Treasury Unit** is responsible for managing the debt securities portfolio, providing liquidity within a single day, derivatives for the needs of liquidity in a certain currency and placing liquidity surpluses on the interbank market, preparing the Group's liquidity based on the plan of transactions, and others.

A description of the degree of centralisation of liquidity management and interaction between the Group's units
All core members of NLB Group (banking members) are self-funded. Intragroup funding is provided only to non-core members that are in the process of disinvestment. Liquidity risk management is under strict monitoring by NLB as a parent bank. Reporting to NLB by all Group members is done on a daily and monthly basis.

Scope of nature of liquidity risk reporting and measurement systems
NLB Group identifies and manages several types of liquidity risk, such as: market liquidity risk, operational, structural, and intraday liquidity risk, stressed liquidity risk, funding concentration risk, and foreign exchange liquidity risk.

NLB Group implemented different tools for measuring liquidity risk in the form of maturity structures, stress tests, and the stability of sight deposits, liquidity projections of future cash flows, a scoring model, and other relevant indicators. Internal methodological approaches enable monitoring liquidity on the operating (including intraday liquidity), as well as the structural level, including the definition of a crisis plan and liquidity management in exceptional circumstances. Liquidity risk management is continuously reviewed, and the liquidity situation regularly evaluated.

NLB Group measures and manages its liquidity in three stages: current exposure and compliance, forward-looking and stress-testing, and liquidity in exceptional circumstances. Overall assessment of the liquidity position of the Group (including all three stages) is assessed in the ILAAP process.

Global Risk monthly calculates internal liquidity ratios on a solo level for NLB and reports them to the Assets and Liabilities Committee of the Group. Limits and warning levels are defined for each liquidity ratio, separately for core (banking members) members and for the consolidated level. Global Risk in NLB as a parent bank determines internal liquidity ratios, limits, and warning levels for other banking members. However, a banking member can set their own limit levels differently only if required by local regulations, and if these limits are stricter than levels prescribed by the parent bank. For other banking members of NLB Group members, internal liquidity ratios are monitored monthly and reported quarterly to the ALCO, including results on the consolidated level. Reports on the liquidity risk management are submitted to senior management, ALCO, the Supervisory Board, and regulators on a regular basis.

Global Risk reports liquidity risk such as:

- Monthly Reports to ALCO (Calculations of internal liquidity ratios and monitoring results for other group members, Results of the Scoring Model, Results of Liquidity Reserves, Liquidity Gaps, Stability of Sight Deposits, Results of the Regular Liquidity Stress tests, and preparing simulations in case of sudden realisation of unexpected outflows and Results of the Intraday Liquidity Stress Tests),
- Monthly Reports to the Central Bank (LCR, ALM metrics),
- Quarterly Reports to the ALCO and the Supervisory Board,
- Quarterly Reports to the Central Bank (asset encumbrance, NSFR ratio).

Policies for hedging and mitigating the liquidity risk, and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

NLB Group mitigates liquidity risk in several ways, such as planning liquidity needs for different periods, maintaining enough liquidity reserves, monitoring early warning indicators, performing stress-testing, and updating the Liquidity Contingency Plan for an extreme circumstance.

Global Risk conducts liquidity stress tests and reverse stress tests on a monthly basis. NLB Group performs stress tests under three scenario types (assets-side, liabilities-side, and combined) and two intensities (adverse and extreme).

Based on the stress tests, the minimum amounts of unencumbered liquidity reserves are determined for each banking member that it must hold in order to cover potential unexpected outflows. The minimum extent represents the amount of liquidity reserves, that would allow the Bank to survive a three-month adverse combined stress scenario.

In planning cash flows, NLB Group must consider several possible situations, scenarios, which have different impacts on the Bank’s liquidity. The first projection of cash flows must be prepared in the so-called “normal” or current circumstances in which NLB Group operates and satisfies daily requirements for liquid funds (baseline scenario, assumptions used according to the budget). A second projection of cash flows is prepared based on the first basic projection, and considers the deterioration of current circumstances. Fewer inflows and more outflows from the Group’s operations are foreseen, as well as a deteriorated situation in fundraising, and the negative effects of the debt securities’ credit quality which represent the largest part of liquidity reserves, a so-called ‘moderate scenario.’ Furthermore, NLB Group prepares adverse scenarios, considering additional deterioration of liquidity situation of the Bank and future cash flows.

Dynamic liquidity projections are prepared monthly or, if necessary, more often. Static liquidity gaps are prepared by the Global Risk, Market, and Liquidity Risk. Dynamic liquidity projections are prepared by the Financial Markets, and Assets and Liabilities Management. In the projection of cash flows, the real assumptions and information on new transactions from business plans and the known business events are also included. The Assets and Liabilities Management presents the dynamic liquidity projections to the ALCO, which then adopts the necessary decisions for successful management of the Bank’s liquidity in the future, based on the presented results.

NLB Group has developed a methodology for intraday liquidity stress-testing in order to define the minimum level of liquidity reserves that have to be held for intraday liquidity purposes.

The purpose of the Liquidity Contingency Plan (LCP) is to establish guidelines for liquidity management in stressed circumstances. The objective of the LCP is timely identification of potential problems, drafting proposals, and finding resolutions for performing activities in stressed circumstances. The LCP is prepared on a standalone basis, considering only the liquidity stress of NLB. Each banking member of NLB Group has its own document describing potential funding sources and roles and responsibilities of units and decision-makers in times of stressed circumstances.

In an early warning system (EWS), warning limits for liquidity indicators are defined for each banking member of NLB Group. The main goal of a warning limit is to prevent any indicator from exceeding in the future and to activate at an early stage a warning that a member is moving towards the limit. If the Bank or a banking member exceeds the limit, this would result in a higher Liquidity Score of that bank, which is closely correlated with the Liquidity Contingency Plan activation. If the Liquidity Contingency Plan is activated there are detailed activities defined in the plan that would enable the bank or a member to restore its liquidity position. Additionally, a Recovery Plan has been set up on the Group level, where detailed recovery options are defined and would enable NLB Group to recover from liquidity run-off shock back to normal business.

NLB Group maintains the appropriate level of liquidity reserves in the form of cash and other highly liquid and unencumbered assets that are available in a relatively short time. Liquidity reserves enable the settling of overdue liabilities within a predefined short period of stressed liquidity situation. Unencumbered assets represent a liquidity buffer (HQLA) and other liquid assets, like non-LCR eligible marketable debt securities bought for bank’s own name and account and ECB eligible credit claims. At the end of December 2022, NLB Group had 38.96% of unencumbered liquidity reserves in total assets (38.30% at the end of 2021).

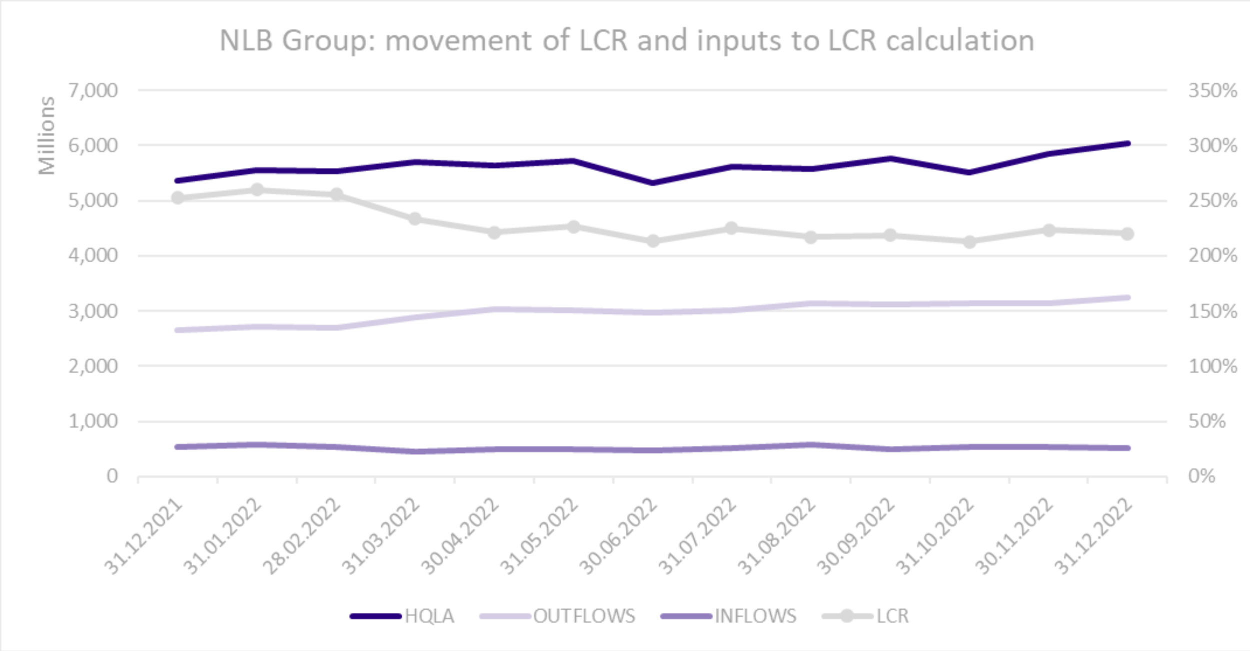
Declaration of the Management on the adequacy of liquidity risk arrangements and a liquidity risk statement approved by the Management Board associated with the business strategy are disclosed in Appendix 2 and Appendix 3.

Liquidity coverage ratio

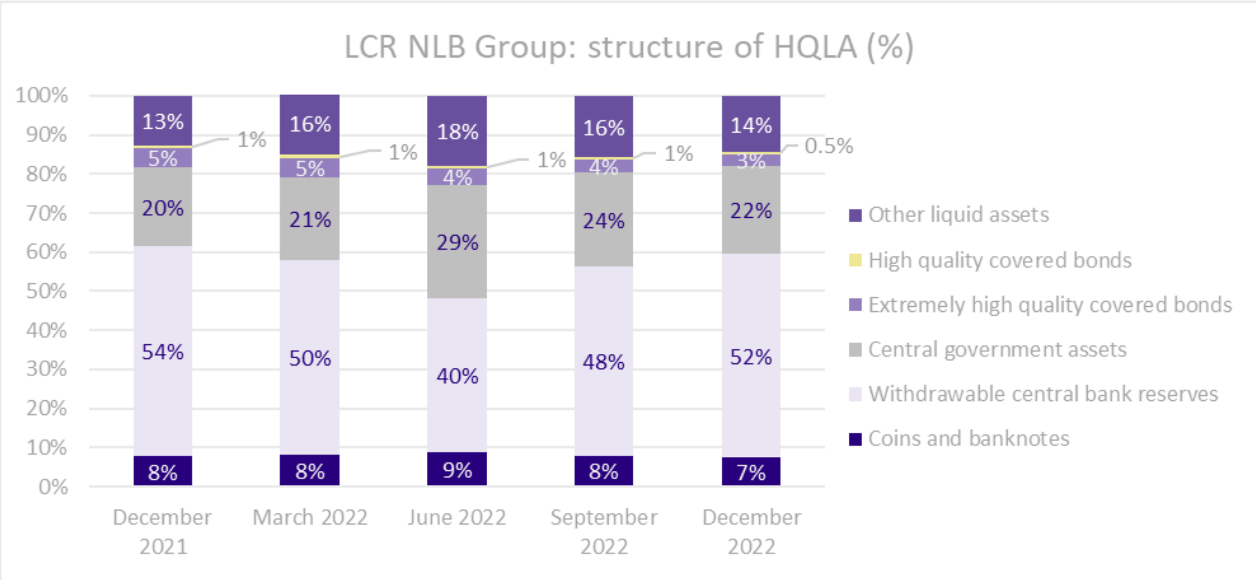
NLB Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In 2022, the LCR of NLB Group ranged between 213% and 260% (220.3% as at 31 December 2022). The surplus of HQLA is at a very high level in NLB Group, ranging between EUR 2.83 billion and EUR 3.41 billion in the past year (EUR 3.29 billion as at 31 December 2022).

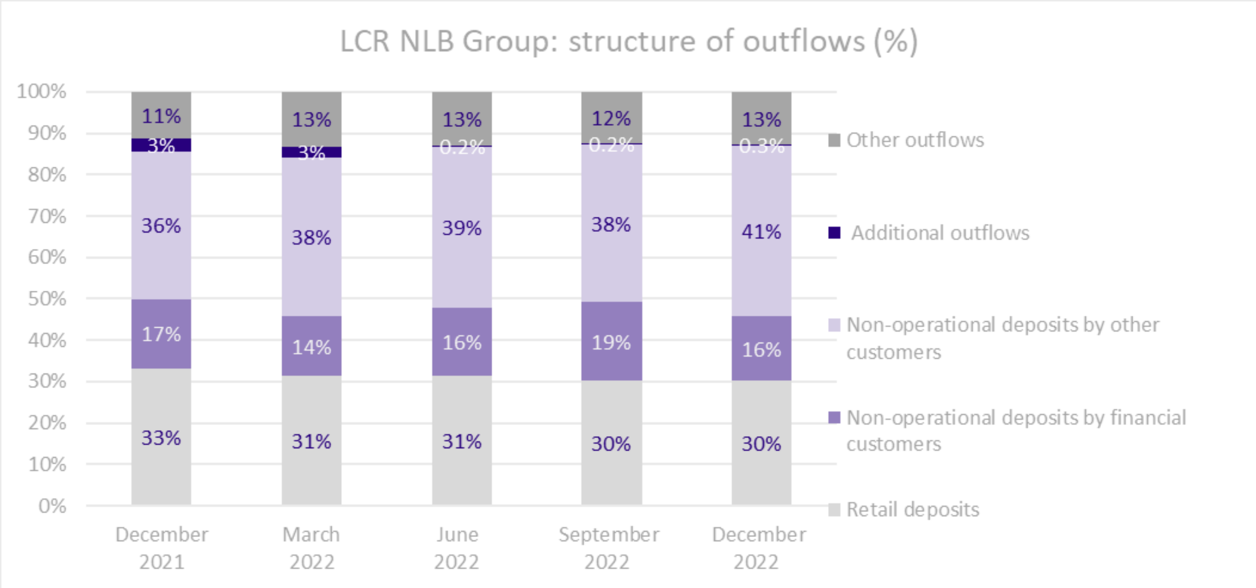
In the first half of the year 2022 there was recorded decreasing trend while it has been reversed in Q3 and stabilised by the end of the year 2022. Decreasing trend in the first half of the year 2022 was mostly due to higher customer and bank deposits that resulted in increased outflows. On the other hand, lower CB reserves has been steadily decreasing, mostly due to acquisition of N Banka and its financial support in March 2022. Additionally, in June early repayment of TLTRO and SID and regular repayments of dividends were performed. In Q3, issuance of Senior unsecured Bonds and additional Tier 2 Capital substantially increased CB Balances. On the other hand, market disruption due to Ukraine crisis has negatively affected Bond market with higher yields. In November LCR slightly increased due to higher CB balances mostly from issuance of subordinated bond and remained at the same level by the end of the year 2022.

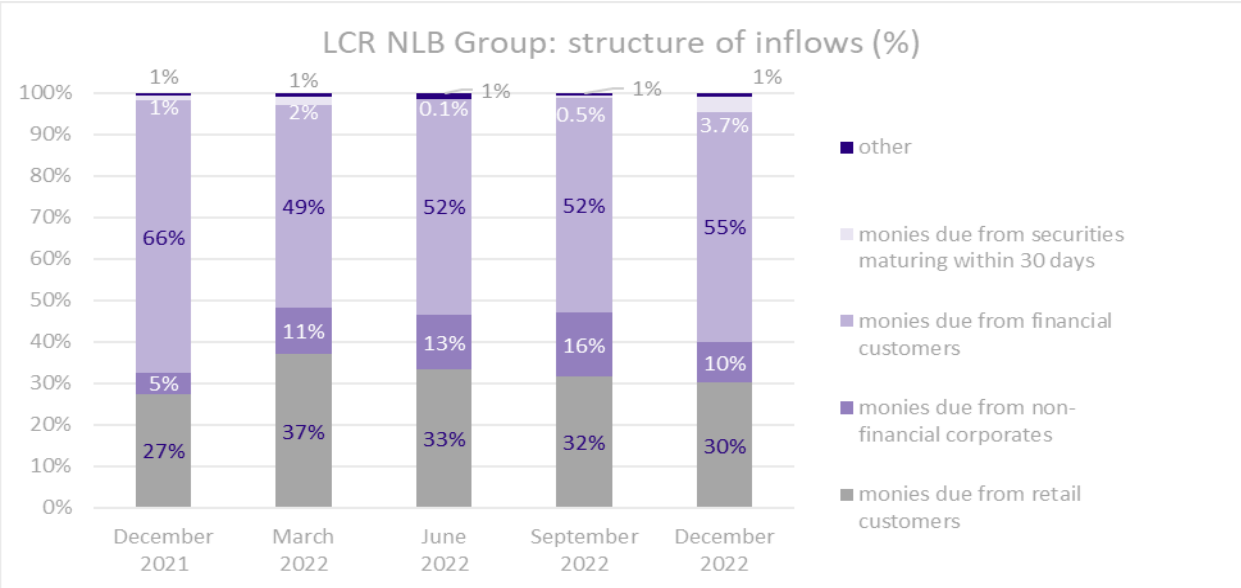
One of the specific rules for calculating consolidated LCR on NLB Group level is that, from each subsidiary (banking member) only HQLA in the amount of its net liquidity outflows in specific currency is included in the calculation of consolidated LCR.



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







Concentration of funding and liquidity sources

In accordance with the Risk Appetite Statement of the Group, tolerance for liquidity risk is low. Therefore, the goal of the funding strategy is to ensure a sufficient, stable, and well-diversified funding base in the long term and compliance with relevant regulatory frameworks.

The funding strategy in NLB is established in a way that enables diversification, minimises concentration risk, and limits the reliance on a short-term wholesale funding or other unstable sources. With the objective to efficiently manage liquidity and funding risk, NLB Group regularly performs stress tests and makes liquidity projections under different scenarios. With this approach, NLB Group is able to detect any potential liquidity and funding needs early.

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

Limits values are also set for other Group members and defined in the Group Risk Management Standards. All banking members of NLB Group must adopt limits values in their policies and comply with the limits. Any deviations from the limit values must be reported and justified to the parent bank. The funding structure is presented to ALCO on a monthly basis.

On the NLB Group level, at the end of 2022, the top 30 counterparties provided 4.0% of the total liabilities, mostly in retail, while the top 30 counterparties in NLB provided 4.6% of the total liabilities.

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

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

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

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

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is in Serbian dinar (RSD). As at 31 December 2022, the aggregate liabilities in RSD represented 5.41% of total liabilities of the Group, therefore, RSD qualified as a significant currency.

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

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

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

Table 38 – LIQ1 – Quantitative information of LCR of NLB Group, data in EUR millions

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	**Quarter ending on**	**31.12.2022**	**30.09.2022**	**30.06.2022**	**31.03.2022**	**31.12.2022**	**30.09.2022**	**30.06.2022**	**31.03.2022**
		a	b	c	d	e	f	g	h
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)					5,647	5,527	5,445	5,336
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	15,360	15,066	14,773	14,505	931	906	882	861
3	*Stable deposits*	11,464	11,241	11,006	10,747	573	562	550	537
4	*Less stable deposits*	3,062	2,945	2,837	2,764	357	344	332	323
5	Unsecured wholesale funding	3,393	3,162	2,943	2,755	1,645	1,539	1,422	1,337
7	*Non-operational deposits (all counterparties)*	3,392	3,161	2,942	2,755	1,644	1,538	1,421	1,336
8	*Unsecured debt*	1	1	1	1	1	1	1	1
10	Additional requirements	2,175	2,088	2,055	2,024	215	227	249	264
11	*Outflows related to derivative exposures and other collateral requirements*	37	58	86	107	37	58	86	107
13	*Credit and liquidity facilities*	2,138	2,030	1,970	1,917	178	169	163	158
14	Other contractual funding obligations	248	235	223	208	135	119	108	90
15	Other contingent funding obligations	1,451	1,381	1,301	1,228	84	80	76	72
16	**TOTAL CASH OUTFLOWS**					**3,009**	**2,871**	**2,737**	**2,624**
Cash-inflows									
18	Inflows from fully performing exposures	745	744	754	773	500	510	533	566
19	Other cash inflows	12	12	13	11	12	12	13	11
20	**TOTAL CASH INFLOWS**	**757**	**755**	**767**	**785**	**513**	**521**	**546**	**577**
EU-20c	***Inflows subject to 75% cap***	**757**	**755**	**767**	**785**	**513**	**521**	**546**	**577**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**5,647**	**5,527**	**5,445**	**5,336**
22	**TOTAL NET CASH OUTFLOWS**					**2,496**	**2,350**	**2,192**	**2,047**
23	**LIQUIDITY COVERAGE RATIO**					**227.15%**	**236.85%**	**250.65%**	**261.43%**

Table 39 – LIQ2 – Net Stable Funding Ratio of NLB Group

31.12.2022		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		a	b	c	d	e
Available stable funding (ASF) Items						
1	**Capital items and instruments**	**-**	**-**	**-**	**2,806,370**	**2,806,370**
2	*Own funds*	-	-	-	2,806,370	2,806,370
4	**Retail deposits**		**14,850,803**	**496,814**	**511,561**	**14,922,253**
5	*Stable deposits*		11,654,641	302,114	262,426	11,621,343
6	*Less stable deposits*		3,196,162	194,700	249,135	3,300,910
7	**Wholesale funding:**		**3,781,718**	**164,658**	**917,649**	**2,656,690**
9	*Other wholesale funding*		3,781,718	164,658	917,649	2,656,690
11	**Other liabilities:**	**23,713**	**582,076**	**166**	**23,696**	**23,779**
12	*NSFR derivative liabilities*	23,713				
13	*All other liabilities and capital instruments not included in the above categories*		582,076	166	23,696	23,779
14	**Total available stable funding (ASF)**					**20,409,092**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**110,537**
17	**Performing loans and securities:**		**2,558,754**	**1,733,158**	**9,961,850**	**10,047,942**
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,535,655	1,236,949	4,456,743	9,154,089
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		20,581	24,176	183,603	1,522,671
22	*Performing residential mortgages, of which:*		459,080	418,576	4,684,497	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		60,784	50,258	2,039,122	-
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		564,019	77,633	820,610	893,853
26	**Other assets:**		**436,417**	**21,853**	**461,133**	**779,189**
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*				11,199	9,519
29	*NSFR derivative assets*				80,748	80,748
30	*NSFR derivative liabilities before deduction of variation margin posted*				3,232	162
31	*All other assets not included in the above categories*		341,238	21,853	461,133	688,760
32	**Off-balance sheet items**		**3,939,084**	**-**	**-**	**217,010**
33	**Total RSF**					**11,154,678**
34	**Net Stable Funding Ratio**					**182.96%**

12. Unencumbered assets

(Article 443 of CRR)

General narrative information on asset encumbrance

Asset encumbrance presents an important aspect of liquidity risk management. NLB Group regularly monitors and reports on asset encumbrance. The increase in the volume of encumbered assets contributes to higher liquidity risk and the risk of financing, since an institution with encumbered assets has fewer available assets for pledging, used as a liquidity reserve for unexpected liquidity needs (e.g., approved credit lines, margin calls on derivatives).

NLB Group must ensure that it has at every moment enough high-quality liquid assets, so it is able to meet all liquidity needs. Possible operations for asset encumbrance:

- pledge of securities,
- repo transactions via interbank or ECB funding,
- derivatives trading (CSA contracts),
- issue of covered bonds,
- financing on capital and interbank markets.

Monthly reports on the Group's asset encumbrance are submitted to ALCO by the Financial Markets (for each banking member and on a consolidated level), while the Global Risk (Market and Liquidity Risk) quarterly reports are submitted to the Bank of Slovenia on solo and consolidated levels.

In NLB Group, all assets that are pledged are reported as encumbered assets. Regarding a transparent way of reporting, NLB Group has no example of giving the pledge which then would not be included in AE reporting. There is also no difference between the regulatory consolidation scope and liquidity requirements on an IFRS consolidated basis.

At the structural level, the goal of liquidity management is to achieve such a structure of the Group's balance sheet that will ensure the Group's long-term stability and liquidity based on the criteria of long-term maturity match, forms, and concentration of the sources of financing.

In alignment with Liquidity Risk Management Policy, the unencumbered liquidity reserves include liquidity buffer (HQLA) and other liquid assets, like non-LCR eligible marketable debt securities bought for the Bank's own name and account, and credit claims eligible for CB-secured funding operations. A liquidity buffer represents cash and withdrawable central bank reserves without a minimum reserve requirement, government, and other LCR-eligible debt securities. They must be free of encumbrance and easily converted into cash.

NLB Group holds an adequate amount of unencumbered High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. NLB Group can use those stocks of assets as a source of contingent funds that are available to fill funding gaps between cash inflows and outflows at any time during a 30-day stress period. According to Basel III, NLB Group demonstrates monthly that its LCR ratio – HQLA divided by total net cash outflows – is always greater than 100% (220% at the end of December 2022) which indicates that the Group does not need any additional liquidity to withstand cash outflows during a "significant stress scenario" lasting 30 days. Also, from this point of view, there is no need to carry a greater extent of encumbered assets. However, all assets that have been pledged are treated and reported as encumbered.

NLB Group has a strong liquidity position, with all internal liquidity indicators and liquidity reserves high and well above required standards.

As at 31 December 2022, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level, the amount of encumbered assets equalled EUR 1,214 million, which presented 5% of its total assets.

Most of encumbered assets consist of loans on demand (EUR 1,109 million) and debt securities (EUR 78 million). Group members are self-funded and have a strong liquidity position, so, NLB has the majority of encumbered assets in NLB Group.

The amount of encumbered assets is denominated in EUR currency, which is the most significant currency of NLB Group. There are no other significant currencies of AE to be reported.

The values of asset encumbrance are calculated as the median of the end-of-period values from ITS AE (F 32) reporting for each of the four quarters in a year (used for display in tables 40 to 42).

Table 40 – EU AE1 – Encumbered and unencumbered assets of NLB Group

31.12.2022		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		Total	of which notionally eligible EHQLA and HQLA	Total	of which notionally eligible EHQLA and HQLA	Total	of which EHQLA and HQLA	Total	of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the disclosing institution**	1,235,346	115,473			21,877,716	4,257,827		
030	Equity instruments	729	-			94,869	-		
040	Debt securities	75,585	75,585	73,919	73,919	4,632,805	3,592,118	4,537,564	3,520,074
050	of which: covered bonds	-	-	-	-	306,894	303,262	298,698	295,066
060	of which: securitisations	-	-	-	-	-	-	-	-
070	of which: issued by general governments	75,585	75,585	73,919	73,919	3,549,176	2,772,921	3,453,219	2,714,664
080	of which: issued by financial corporations	-	-	-	-	985,872	737,929	962,991	719,594
090	of which: issued by non-financial corporations	70,666	70,666	-	-	97,048	71,599	99,000	72,837
120	Other assets	1,162,052	42,854			17,126,819	627,002		

Table 41 – EU AE2 – Collateral received and own debt securities issued of NLB Group

31.12.2022		Fair value of encumbered collateral received or own debt securities issued	
		Total	of which notionally eligible EHQLA and HQLA
		010	030
250	**Total collateral received and own debt securities issued**	**1,235,346**	**115,473**

Table 42 – EU AE3 – Sources of encumbrance of NLB Group

31.12.2022		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**96,571**	**110,050**

13. Operational risk management

(Article 446 of CRR)

13.1. Approaches for the assessment of own funds requirements for operational risk

The capital requirement for operational risk is calculated using the basic indicator approach at the NLB Group level and using the standardised approach at the NLB level.

Table 43 – EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts of NLB Group

	Banking activities	Relevant indicator			Own funds requirements	Risk exposure amount
		31.12.2020	31.12.2021	31.12.2022		
		a	b	c	d	e
1	Banking activities subject to basic indicator approach (BIA)	687,046	724,998	844,167	112,811	1,410,132

13.2. Description of other internal approaches and methodologies in the area of operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The NLB Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks. This is particularly valid in strategic banking members of the Group.

All NLB Group banking members monitor risk appetite limits for operational risk. The upper tolerance limit is defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, additional measures for the prevention or mitigation of the same or similar loss events are taken. The warning and critical limit of loss events are also defined, which in case of exceeding require escalation procedures and acceptance of possible additional risk management measures. In addition, the Bank does not allow certain risks in its business – for them a so-called ‘zero tolerance’ was defined. For monitoring, some specific more important key risk indicators that could show a possible increase of an operational risk, the Bank developed a specific methodology as an early warning system. Such risks are periodically monitored in different business areas, and the results are discussed at the Operational Risk Committee. The latter was named as the highest decision-making authority in the area of operational risk management. Relevant operational risk committees were also appointed at other NLB Group banking members. The Management Board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. All NLB Group entities, which are included in the consolidation, have adopted relevant documents that are in line with NLB Group standards. In banking members, these documents are in line with the development of operational risk management and are regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2022 was significantly lower than in the previous year and remained within the set tolerance limits for operational risk.

In general, considerable attention is paid to reporting loss events, their mitigation measures and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank introduced an escalation scale for reporting bigger or more important loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events. Furthermore, the methodology to monitor, analyse, and report key risk indicators is established, serving as an early warning system. The aim is to improve business and supporting processes, as well enabling a prompt response.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. Each year, special emphasis is placed on current risks as a result of risk identification process, including ESG risks. For the latter, key risk indicators (KRIs) have been also addressed for ESG risks, servicing as an early warning system. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year based on the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose, the Bank has developed the methodology of stress-testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analyses are made based on experience and knowledge of experts from various critical areas.

14. ESG risks

(Article 449 (a) of CRR)

14.1. Environmental risk

14.1.1. Business strategy and processes

a. An institution's business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on institution's business environment, business model, strategy, and financial planning

NLB Group is committed to implementation of environmental, as well as social and governance factors in its business model, in accordance with relevant regulation, and the following strategic frameworks, systems, policies and commitments:

- **NLB Group Sustainability Framework**, which is a comprehensive strategic guidance to manage environmental, social and governance considerations, and is binding for all core members of NLB Group (parent bank NLB and 7 subsidiary banks) in the region.
- **UN Principles of Responsible Banking (UN PRB)**, which NLB Group has committed to by becoming an UNEP FI member in 2020. Through the Principles, the Bank and its Group members take decisive action to align its core strategy, decision-making, lending, and investment with the UN Sustainable Development Goals.
- **Environmental and Social Policy, set out by European Bank for Reconstruction and Development (EBRD)**. The policy promotes environmentally sound and sustainable development and sets out performance requirements to which joining banks should adhere to. In this respect, NLB Groups operates in accordance with performance requirements 2 (Labour and Working Conditions), 4 (Health, Safety and Security), and 9 (Financial Intermediaries).
- **Environmental and Social Management System (ESMS)**, which was established in 2021 as part of a comprehensive management system within NLB Group. It is developed with the aim to improve the Group's environmental and social (E&S) risk management capacity and to reduce credit and liability risks arising from environmental and social issues. The implementation of the ESMS is a part of signed agreements with NLB's shareholder EBRD and with the Multilateral Investment Guarantee Agency (MIGA), which brought contractual obligations to NLB Group related to the implementation of sustainability requirements.
- **UNEP FI Net Zero Banking Alliance (NZBA)**, which aims to harmonise credit and investment portfolios by reaching net zero emissions by 2050 or earlier. NLB Group became the signatory of NZBA in May 2022, and the next key milestone with regards to sustainability implementation is the development of a comprehensive NLB Group Net Zero Business Strategy with the aim to set clear portfolio decarbonisation targets. The process started in 2022, and the strategy is planned to be fully implemented in 2023.

Key environmental considerations integrated within each pillar of NLB Group's Sustainability Framework are as follows:

Sustainable operations:
- managing NLB Group's direct environmental impacts,
- measurement, management, and reporting of NLB Group's direct – operational environmental impact (Scope 1, Scope 2, and Scope 3) in line with recognised international standards and initiatives,
- implementation of measures to reduce NLB Group's operational environmental footprint,
- implementation of the environmental elements in the procurement process, including responsible procurement and supply chain management in terms of mitigation of environmental risks.

Sustainable finance:
- development of the NLB Group Net Zero Business Strategy, which aims to harmonise lending and investment portfolios with reaching net zero emissions by 2050 or earlier;
- integration of environmental, factors (as part of broader ESG) framework, relevant standards, and criteria into NLB Group's business and investment decisions;
- supporting the United Nations Sustainable Development Goals (UN SDGs) through financing and investing activities, new products, and services;
- managing climate-related and other environmental risks as well as searching for business opportunities emerging from the transition to a low-carbon, more inclusive, and circular economy;

- supporting clients in their business transformation to low carbon operations, and reorienting capital flows towards green transition by sustainability-related financing and products for private individuals, micro, SMEs, and corporate clients.

Contribution to society:

- managing donations, sponsorships, partnerships, and projects that address environmental considerations,
- aligning CSR activities United Nations Sustainable Development Goals (UN SDGs);
- raising awareness about environmental considerations among employees and other key stakeholders.

Further insights:

- Full list of sustainable economic activities (environmental and social ones) promoted by NLB Group is described in NLB Group Sustainability Framework (page 15), available on the Bank's webpage nlb-sustainability;
- For more information on strategic approach to environmental considerations in general please refer to NLB Group Sustainability Framework (page 9), available on the Bank's webpage nlb-sustainability;
- For more information on carbon footprint and other environmental considerations, please refer to NLB Group Sustainability Report 2022, Chapter NLB Group's Operational Environmental Impact; available on the Bank's webpage nlb-sustainability;
- For more information on human resource management, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Employees, available on the Bank's webpage nlb-sustainability;
- For more information on key client-related practices, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Clients, available on the Bank's webpage nlb-sustainability;
- For more information on CSR activities, please refer to NLB Group Sustainability Report 2022, Chapter Contribution to Society, available on the Bank's webpage nlb-sustainability.

b. Objectives, targets and limits to assess and address environmental risk in the short-, medium-, and long-terms, and performance assessment against these objectives, targets, and limits, including forward-looking information in the design of business strategy and processes

NLB Group conducts materiality assessment, as part of its overall risk identification process, to determine the level of transitional and physical risk to which NLB Group is exposed. In this process identification of environmental risk factors, relevant transmission channels and their materiality and impact to the Group's financial performance in the short- and long-term period are assessed. From the perspective of physical risk, the most relevant natural disasters are drought and floods, while hail and windstorm are also frequent but less material. Though we can expect that its impact will increase in the long run, namely if no adequate policy changes will be implemented in a timely manner. Chronic risk is not determined as material risk. Transition risks arise already on the short term due to determination of EU to reduce the carbon emissions according to its ambitious net zero strategy by 2050. With implementation of the Net Zero Strategy of NLB Group in 2023, it is expected that its impacts will gradually diminish in the long run. Nevertheless, the Group assessed them more material than physical risk. In 2022, NLB was assessed by Sustainalytics and obtained an ESG Risk Rating for the first time. The assigned rating (17.7) reflects a low risk of experiencing material financial impacts from ESG factors.

In 2020, NLB Group also performed an impact analysis in accordance with UN PRB framework, and set out three key impact areas: (1) Climate, (2) Resource efficiency and security, and (3) Inclusive and healthy economies, as well as objectives and targets against these areas, as described in the table below. [4] The first and the second areas address environmental considerations, while the latter addresses social considerations, and so it is described in the Social Risks section.

[4] *Key impact areas, objectives and targets were defined within 2021 NLB Group impact analysis. Altogether 13 impact areas along business lines were identified. This was followed by the NLB Group analysis of the NLG Group portfolio, a materiality analysis, and country needs. Based on these analyses, NLB Group prioritised three key impact areas and announced four key targets*.

Table 44: Key impact areas, objectives, targets, performance, and outlook

Impact area	Objectives and targets	Performance assessment as at 31 December 2022	Outlook
Climate			
New sustainable corporate financing in NLB Group (by 2030)*	EUR 785 million	EUR 166.9 million	On track. Group will continue to support clients in their green transition by fine tuning products with consideration of future legislation and technical development, as well as by providing them timely and relevant information about possible solutions for reducing their environmental footprint.
Electric energy used in NLB Group from zero-carbon sources (by 2030)	75%	70%	On track. In NLB and NLB Komercijalna banka Beograd 100% of electric energy used in NLB Group is already from zero-carbon sources, whereas on the Group level 70% of zero-carbon electricity was used.
Resource efficiency and security			
Number of paper prints in NLB Group's operations (by 2025 vs. the baseline year 2019)	50%	43%	On track. NLB Group will continue to take measures to further reduce printing.

* A green lending classification' refers to the internal methodology of NLB Group, which refers to EBRD, MIGA, and EU Taxonomy Frameworks. If a loan is mapped to either of these frameworks, it is currently considered as a green loan. To ensure a robust and standardised overview of green lending, this methodology will be fully aligned with CSRD, ESRS, and EU Taxonomy within regulatory timeframes.

c. Current investment activities and (future) investment targets towards environmental objectives and EU Taxonomy-aligned activities

Net Zero Business Strategy

NLB Group is committed to support and finance transition to a low-carbon economy. Quantitative environmental objectives in this regard have not been set yet due to the unavailability of emission and other environmental data of our counterparties, i.e., clients. Nevertheless, in 2022, NLB Group executed several activities for the purpose of calculation of credit portfolio GHG emissions and started the process of setting out a clear decarbonisation strategy and objectives.

In May 2022, NLB Group joined the UNEP FI Net Zero Banking Alliance (NZBA), which aims to harmonise lending and investment portfolios with reaching net zero emissions by 2050 or earlier. During 2023, NLB Group will develop a comprehensive Net Zero Business Strategy with the aim of setting clear portfolios' decarbonisation targets by November 2023.

In this respect, the Group made progress in the process of obtaining relevant ESG-related data from its clients, being prerequisite for adequate decision-making and corresponding proactive management of ESG risks, as follows:

- for larger corporate clients we initiated direct Scope 1 & 2 & 3 data gathering processes;
- for SME and micro segments, we developed our own proxies in cooperation with external expert;
- by the end of 2022, we formed the emission calculation for the Slovenian market, whereas in the Region this process will continue and will be developed in 2023.

Based on industry segmentation of the portfolio and corresponding emissions NLB Group has a relatively low exposure to emission-intensive sectors in its corporate client's business. More exposed industries represent energy, transportation, industry, and agriculture, though the exposure to the clients with high emissions in these industries is rather limited. As part of its strategy, NLB Group does not finance companies that extract fossil fuels or operate coal-fired power plants.

For calculation and additional information on financed emissions please refer to Chapter 14.4 Credit quality of exposures.

EU Taxonomy

Mandatory disclosures
According to Delegated Act, from 1 January 2022 to 31 December 2023, banks have to disclose the extent to which their activities are Taxonomy-aligned, the proportion of their assets that are Taxonomy-aligned, and any material risks associated with their engagement in Taxonomy-aligned activities. It is not allowed to use estimates for mandatory disclosures, which should be based on information provided by the relevant counterparty. Exposures that are not fully supported by published Taxonomy reporting of the company receiving the financing, or in bilateral engagement for specified use of proceeds exposures, therefore will be assigned a null value when it comes to inclusion in estimation.

To evaluate NLB portfolio, questionnaire was sent to all NFRD (clients that are subject to non-financial reporting with over 500 employees in EU and are not a financial institution) companies to show us their alignment according to EU Taxonomy. NLB Group also evaluates the portfolio as a voluntary disclosure by preparing a relevance assessment of eligibility – what the share of our portfolio that is EU Taxonomy eligible (economic activity that is described and has technical screening criteria set out in the taxonomy). Data received presented only a small proportion of NFRD companies (15%) which showed that companies do not yet have accessible data on the alignment of their operations with the EU taxonomy.

Voluntary disclosures
To determine the scale and intensity of climate change and the environmental impact further assessment was performed on the on-balance portfolio of legal entities. To determine the eligibility of legal entities portfolio, a top-down approach was used on the basis of NACE codes and further classified by activities that were recognised as the ones that can make a substantial contribution to climate change mitigation.

At the end of 2022, Total EU Taxonomy Eligible exposure of NLB Group to NFRD clients was 78.38% of total NFRD portfolio, whereas total EU Taxonomy Eligible exposure of NLB Group to legal entities was 22.3 % of total on-balance portfolio.

In 2022, NLB was actively involved in raising awareness of the importance and relevance of the EU Taxonomy through participation in the Slovenian banking Association, raising awareness among businesses and integrating the Taxonomy into our business. The Bank will further strengthen active engagement in 2023 by helping businesses, working with other banks, and focusing on the further integration of EU Taxonomy in our business.

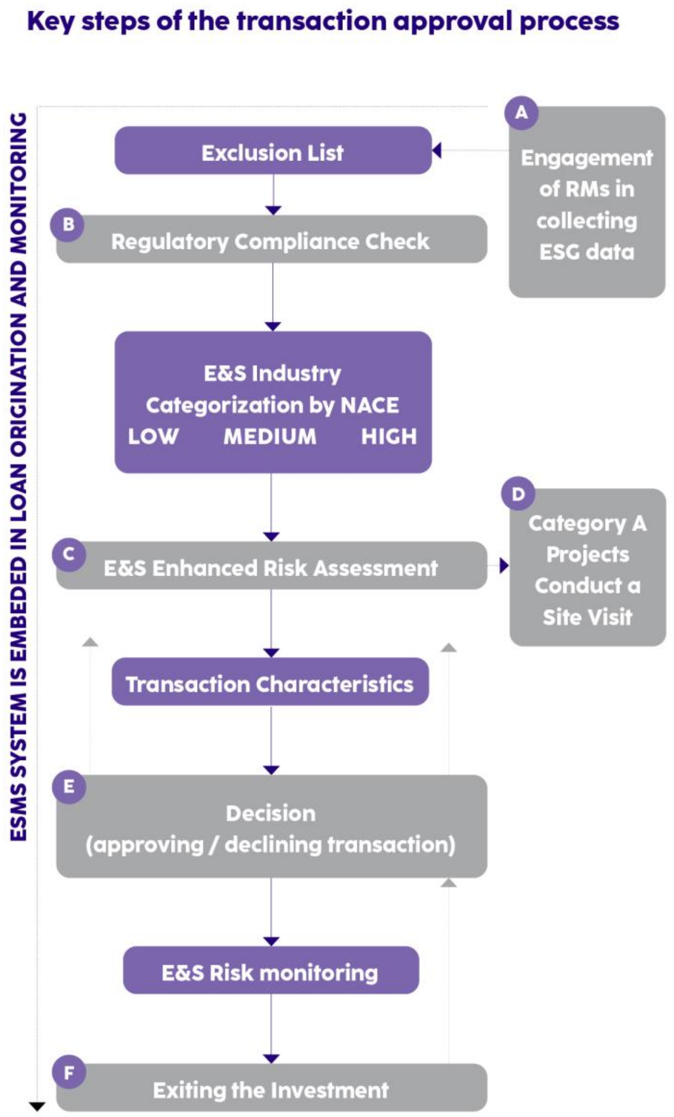
Further insight:

- For calculation and additional information on EU Taxonomy please refer to 2022 NLB Group's Sustainability Report, Chapter EU Taxonomy Disclosures, available on the Bank's webpage nlb-sustainability.

d. Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks

NLB Group established Environmental and Social Management System (ESMS), which is the mechanism for environmental and social screening of current or potential financing applications against the Multilateral Investment Guarantee Agency's (MIGA) and The European Bank for Reconstruction and Development (EBRD) Exclusion List, as well as applicable environmental and social laws. Through ESMS, environmental and social risks are integrated in NLB Group's Risk Appetite Statement, and the management of these risks addresses the NLB Group's overall credit approval process and related credit portfolio management.

ESG risks are addressed in all relevant stages of the credit-granting process, and in the collateral evaluation process. Clearly defined steps of ESG risk management in NLB Group are summarised and illustrated in the following scheme:



Key steps of the transaction approval process:

- Collecting ESG data is embedded in KYC (know your client) rules and procedures.
- After ensuring that the transaction is not included on the exclusion list, a Regulatory compliance check is performed, which verifies that client is adhering to the applicable laws, regulations, and standards, including environmental and health and safety regulations, planning permissions, operating licences and permits.
- If the transaction is classified with high environmental or social risk a strict deviation management process is in place that ensures further enhanced risk assessment.
- During a project's lifetime, ESG risk monitoring is established to assess the impact of each risk and create a strategy for their mitigation. By that it is ensured that the risks are being adequately addressed and that any changes or newly emerged risks are identified and addressed promptly.
- If the client fails to comply with the investment's ESG requirements, NLB Group assess the situation and determines the best course of action. This could include exiting the investment or taking steps to mitigate the risk of non-compliance. Potential financial losses or legal consequences are considered, as well as any potential reputational damage. NLB Group also took into consideration our overall ESG strategy and how exiting the investment may affect our ability to meet our ESG goals.
- In residential mortgages the most important input for GHG calculation are the buildings' energy performance certificates (EPC). Therefore, for new lending the Bank gathers energy performance certificates (EPC-s) for real estate in collateral in all cases when energy performance certificate is mandatory according to Slovenian law.

Owners of buildings which do not sell or rent out their properties, do not need an EPC. For Back book the Bank relies on actual data from public EPC registry and modelled EPC-s. For modelled EPC-s in Slovenia external provider modelled missing EPC-s based on public EPC registry data and information from national building registry. Activities for collecting additional official and modelled energy performance certificates (EPC-s) in the whole NLB Group are underway.

In the context of environmental risk management of our counterparties, NLB has started to implement a questionnaire (developed in cooperation with the Bank Association of Slovenia). The questionnaire is part of the ESMS due diligence process for clients with the exposure above EUR 10 million and E&S classification as high risk. Within the process clients have to clarify environmental aspects of their operations in the following key areas: set up of environmental policies, assessment of GHG emissions and related measures to reduce them, mitigation of environmental risks, EU – taxonomy related data.

The credit ratings of clients that are materially important to NLB Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the Credit committee of the respective NLB Group member first approves their decision, following which the Credit Committee of NLB gives their opinion. E&S enhanced risk assessment in NLB Group is performed for following transactions:

- Project finance or corporate loan where tenor is at least 36 months and relates to project with total value above EUR 10 million,
- Corporate loan with a tenor of at least 36 months and with client's exposure above EUR 10 million,
- Financing applications relating to secondary market transactions or syndicated loans where the participation of the Bank is below 25% of the total loan value.

14.1.2. Governance

e. Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of environmental risk management covering relevant transmission channels

The NLB Group has implemented a comprehensive sustainability governance framework (top-down and bottom up). As the highest governance bodies, the Management Board and the Supervisory Board are responsible for managing and supervising the implementation of environmental factors and risk (considerations) management framework, respectively. In 2022, both governance bodies addressed (discussed and/or made resolutions) several ESG - related topics (including environmental), within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key topics include (but not limited to) NLB Group's net-zero business strategy, operational carbon footprint measurement and related measures to reduce environmental impact.

Responsibility for managing NLB Group's impact is efficiently delegated across management and business lines. Apart from the Management and the Supervisory Boards, all other governance bodies (Supervisory Board committees, collective decision making and advisory bodies to the Management Board) tackle the ESG risks sustainability in their respective area of work and responsibilities, including climate-related, other environmental and social risks and other ESG criteria.

Respective organisations units, which are responsible for specific environmental risk area, are responsible for setting out an environmental risks framework, risks identification, measurement, and monitoring, organising trainings and establishing a mechanism to address violations. They are also responsible for developing and updating the internal acts, as well as steering their implementation in NLB Group's operation.

There are several committees in place (as described in section (g)), who assist and advise in the environmental risk management process, as well as to execute individual tasks within powers of the Management Board. Identifying risks and opportunities that arise also from social issues (in addition to environmental and governance risks), supporting and accelerating integration of social factors in NLB Group are among key responsibilities of each committee. When appropriate, according to internal rules and procedures, social risks are considered also at respective Supervisory Board's Committees.

In addition, environmental risks are monitored through NLB Group's internal control system on three levels: the first level (all business units), second (risk management and compliance) and third level controls (internal audit). In case of identification of social risks that could affect NLB Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

Further insight:

- Further explanations are available in sections (f) and (g) in environmental risk qualitative disclosures.
- For additional information on responsibilities of the management body please refer to NLB Group Sustainability Report 2022, section Governance, available on the Bank's webpage nlb-sustainability.

f. Management body's integration of short-, medium- and long-term effects of environmental factors and risks, organisational structure both within business lines and internal control functions

Organizational structure related to management of environmental factors and risks is described in section (e). Internal controls are established at all levels of the Bank's organisational structure, especially at the levels of commercial, control, and support functions, and all financial services of the Bank. In its daily business, the Bank uses the internal document Internal Control System in NLB, which lays down the internal control system and the responsibilities for its establishment, continuous operation, and improvement.

The Bank has adopted the internal document entitled Internal control system (ICS), which is a set of rules, procedures, and organisational structures aimed at:

- ensuring the efficient and consistent implementation of NLB's strategies and operations,
- ensuring efficient and consistent processes and procedures in NLB,
- protecting the value of NLB's assets,
- ensuring the reliability and integrity of accounting and management data and information,
- ensuring the operations and activities of the NLB in accordance with all applicable rules and regulations.

The appropriateness of the internal control mechanisms is defined based on the independence, quality, and applicability of:

- the rules and controls of performance of organisational, business and work processes of the Bank (internal controls), and
- the internal control functions and departments (internal control functions).

The internal control system in NLB Group is implemented on several levels, that are first, second and third level controls, which also implies also for climate-related topics and broader sustainability agenda. The internal control system is designed to ensure that a process or other measure is in place for each key risk to effectively reduce or manage that risk, and that the process or measure is effective for this purpose.

1st line of defence

First-level (or line) controls are designed to ensure the proper implementation of business activities, i.e., the Bank's operations. Supervision in each individual business area is carried out by the competent OU, which is responsible for the implementation of procedures according to the Rules on Authorisations and Signing.

All business and non-business units represent the first line of defence, having primary responsibility for day-to-day risk management in climate related and other ESG issues. This applies especially to frontline employees in corporate, retail, and financial markets, whose main responsibilities are:

- Conducting activities with clients within the established ESMS framework, accountable for identifying and managing climate related and other ESG risks;

- Obtaining relevant information on sustainability profile of the client (aspirations, needs, decarbonisation plans etc.), identifying new opportunities in the commercial strategy, while adhering to internal acts;
- Informing clients about new sustainable banking products development via internal notifications, dedicated internal pages, manuals, and educational meetings;
- Providing clear directions with regards to the new products and processes;
- Understanding and identifying potential climate-related and other sustainability risks;
- Participating in awareness activities or trainings in climate related and other ESG topics.

In addition to frontline staff, employees in back offices also have a responsibility to identify sustainability related risks and opportunities, to discuss or report them to their supervisors, and to take part in awareness activities or trainings.

2nd line of defence

Second-level controls are divided between internal control functions; risk management and business compliance; the latter carry out independent controls and supervision over the operation of the first line of defence.

The risk management function defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring and management in the area of ESG regulatory framework and climate-related risks. Its mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole NLB Group.

The business compliance function sees to the supervision of the correct implementation and ensuring compliance (line controls) with the regulatory framework, its consistent interpretation at NLB Group level, as well as to identifying, assessing, preventing, and monitoring overall risks to compliance and integrity in the NLB. Among the responsibilities of the Compliance function is providing consultancy services to individual units about the applicable laws, directives, standards and regulations, and guidance and support in assuring compliance, as well as to identifying, assessing, preventing, and monitoring overall risks to compliance and integrity in NLB Group. All of the aforementioned also apply to the ESG regulatory framework and climate-related risks.

The management of changes in the legal environment comprises also of the climate-related and other ESG risks, among others (according to the internal act Rules on the management of changes in the legal environment). Compliance is included and is monitoring developments in the regulatory area, communicating these to relevant units (e.g., newsletters on regulatory changes) and is included in the general sustainability activities to have proper oversight over the implementation activities in this area.

The status of implementation of legal changes or adjustments to the Bank’s operations is regularly reported, but no less than quarterly, to the Management Board and separately to the Supervisory Board and, where appropriate, to the Risk Management function and other operational units.

Compliance is actively involved in the *ad hoc* sustainability working groups, the Sustainability Committee, and it regularly cooperates with the Sustainable development unit as well.

3rd line of defence

The third level of controls is performed by the internal audit function, which assesses and regularly checks the completeness, functionality, and adequacy of the internal control system. An internal audit is completely independent of both the first line and the second-level control functions. Sustainability is part of the Audit Universe, defined as a comprehensive overview of all activities in the Bank, and subject to internal audit. Therefore, it is integrated in the regular annual planning process.

Further insight:

- For more information on Incorporation of ESG risks in the credit approval process and corresponding governance please refer to section (d)

g. Integration of measures to manage environmental factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body covering relevant transmission channels

Committees

To assist and advise in this process, as well as to execute individual tasks within powers of the Management Board, there are several committees in place:

- A Sustainability Committee is an advisory body, which tackles risks and opportunities, related to climate and other sustainability issues.
- All management topics, including sustainability, are discussed, and approved at six collective decision-making bodies: the Corporate Credit Committee, the Assets and Liabilities Management Committee of NLB Group, the NLB Operational Risk Committee, the NLB Group Real Estate Management Committee, the The Sales Committee, and the Risk Committee.
- Respective Management Board members are supported by directors (B-1 level) in three decision-making bodies: the Committee for New and Existing Products, the Committee for Business IT Architecture, and the Data Management Committee.

Committees support the Management Board in fulfilling the responsibilities in managing respective areas. Identifying risks and opportunities that arise from environmental, social and governance issues; supporting and accelerating integration of ESG factors in NLB Group are among key responsibilities of each committee.

In accordance with the provisions of the Articles of Association of NLB, the Supervisory Board also appoints committees which function as consultative bodies of the Supervisory Board of the Bank discussing the proposed materials and proposed resolutions of the Management Board of the Bank in individual areas, intended for discussion at the meetings of the Bank's Supervisory Board. At the time of publishing this report, the Supervisory Board of NLB had five Committees, which also address sustainability topics: The Audit Committee, The Risk Committee, The Nomination Committee, The Remuneration Committee, The Operations and IT Committee.

Sustainability Committee

The Sustainability Committee acts primarily as an advisory body of the Management Board of NLB, when needed. Any eventual decisions made at the Committee, are further confirmed by the Management Board of the NLB through a correspondence session. The Committee conveys minimum quarterly, with *ad-hoc* meetings, when needed.

Throughout 2022, the Committee had 17 members and was enlarged to 20 members in 2023. The Chairman of the Committee is the Chief Executive Officer of NLB, and the Deputy Chairman of the Committee is the General Manager of Strategy and Business Development. The Sustainability Committee's membership is drawn from senior officials across all areas of the Bank. In addition, Management Board members of NLB Group members, ESG Coordinators, and ESMS Officers of NLB Group are permanently invited to the meetings.

The Committee oversees the integration of the ESG factors to the NLB and NLB Group members business model in a focused and coordinated way across the company and issues opinions, recommendations, initiatives and takes relevant decisions when needed. The Committee discusses, develops, and approves sustainability strategies, policies, initiatives, methodologies, KPIs and other relevant procedures, has the influence over sustainability-related strategic objectives and monitors its development and realisation. In case of deviations from the targets, the Sustainability Committee proposes corrective actions.

The Committee takes notes of:

- all key activities of Sustainability department as central coordination team, and monitors sustainability integration;
- the implementation of sustainability activities, including, but not limited to regulatory requirements, contractual obligations, investors' needs, the Bank's ESMS, ESG-related KPIs, and sustainability commitments, which influence the ESG performance of NLB Group;
- the development of new sustainable financing products and portfolio development (areas: consumer, business, corporate);
- the status of sustainable investments, sustainable loan portfolio, and the general status of sustainability in NLB Group.

Sustainable Development Unit
In 2022, the Bank upgraded the former organisational setting and established a designated organizational unit Sustainable Development within Strategy and Business Development Division. In this manner, sustainability is coordinated through the central coordination team in NLB, which reports directly to CEO of the Bank, who regularly reports to the Management and Supervisory Board.

The Sustainable Development unit makes proposals related to the Sustainability Framework, drives and oversees the implementation of sustainability-related roadmap, measures the results, and reports on the status. It also prepares the NLB Group Sustainability Report, and ensures its compliance with applicable regulations, as well as integration of relevant reporting frameworks (GRI, TCFD). It also ensures coordination of other ESG-related agendas, such as Principles for Responsible Banking - UNEP FI, EBRD, and MIGA environmental and social performance standards and requirements. In collaboration with all the relevant functions of the Bank, the Sustainable Development unit is also a guardian of the NLB Group Net Zero Business Strategy project.

Sustainability governance in NLB Group members
To accelerate awareness and to effectively integrate sustainability group-wide, each NLB Group member has appointed a representative (a specialist or a middle manager), who is responsible for active collaboration with the Sustainable Development unit, for managing and executing the sustainability initiatives locally and to report to their local Management Boards.

In 2022, NLB Group achieved a certain level of standardisation of the Group-wide coordination approach around sustainability, namely:

- ESMS officers ensure the ESMS is properly implemented locally. As a rule, ESMS officers come from the risk management area.
- ESG coordinators act as a single point of contact for sustainability related issues and tasks related to ESG factors implementation in NLB Group members.
- EBRD coordinators are responsible for the implementation of the environmental and social performance requirements in NLB Group.

As the roles are differently assigned across NLB Group, while the workload in those areas is growing, so, to clearly define the roles and responsibilities for managing and monitoring climate-related risks, NLB plans to standardise the organisational set-up across the Group. The standardisation anticipates one coordination profile with enough seniority in each member to have a coordination role over all ESG-related activities. Adequate reporting and monitoring communication line is also recommended to the Group members by establishing local Coordination body (in addition to NLB Group Sustainability Committee) to bring a more structured and systematic way of sharing information and discussing dilemmas locally.

As a rule, sustainability-related policies are adopted at first in the parent bank NLB, whereas the Group members are responsible for adapting and implementing them into their operations, within three months after the adoption in NLB. The Sustainability Development unit regularly performs training sessions for NLB Group members and advises them on policy implementation and other current topics. ESG members regularly report about key achievements and issues on a day-to-day basis, key topics are also reported to the Sustainability Committee or escalated to the Management Board or Supervisory Board, if appropriate. To enhance the clarity and efficiency of sustainability rules group wide, ESG Group Standards are in process of preparation and are planned to be implemented in 2023.

Sustainability *ad-hoc* groups
Strategic and agile approach to sustainability governance and organisation is realised also through ad hoc working groups. These groups are being set up to address and resolve various sustainability topics, and involve different internal and external stakeholders, given the nature of the topic.

h. Lines of reporting and frequency of reporting relating to environmental risk

Environmental risks are regularly discussed and reported at all sessions of governance bodies, as well as through daily operations, in accordance with internal rules and procedures. Sessions of committees (listed in section (g) above) are convened according to the plan of meetings, regularly and frequently. Majority of them are held once a week, some of them monthly or every two or three months. *Ad hoc* meetings are convened in case certain issues need to be addressed urgently. Internal control functions have access to the Supervisory Board in the manner stipulated by the banking regulations. They regularly (quarterly) report to the Supervisory Board about their work.

i. Alignment of the remuneration policy with institution's environmental risk-related objectives

The target-setting, performance evaluation and remuneration framework for the highest governance bodies, and other identified employees who can significantly impact the risk profile of NLB and/or NLB Group in the scope of their tasks and activities, is set out in the Remuneration policy for members of the Supervisory Board and Management Board of NLB and in Remuneration Policy for Employees in NLB and in NLB Group (hereinafter: the remuneration policies) [5]. Based on the group guidelines the principles of the remuneration policy were also implemented in the NLB Group members.

Both remuneration policies provide clear guidelines for prudent remuneration to have responsible, fair and transparent remuneration mechanisms, forming the basis for developing business with the objective of creating and protecting value for all stakeholders. The proposal for the remuneration policies is approved by the Management Board and the Remuneration Committee and adopted by the Supervisory Board.

As part of the performance evaluation process, NLB Group put a special attention to the achievement of environmental, social and governance goals. Given sustainability roadmap of NLB Group, Management Board members and other identified employees (those who can significantly impact the risk profile of NLB and/or NLB Group in the scope of their tasks and activities) are committed to achieve targets, which are set out in their respective areas. In 2022, concrete targets have been included in their performance plans, and were part of the Management Board members' individual assessments, as follows:

- NLB's CEO: 10% weighting
- Other Members of NLB's Management Board: from 5 to 20% weighting.

Further insight:
- To explore more about the remuneration please refer to Sustainability Report, Chapter Remuneration and integration of ESG goals, available on the Bank's webpage nlb-sustainability.

14.1.3. Risk management

j. Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework

NLB Group conducts materiality assessment, as part of its overall risk identification process, based on ECB, EBA, BIS, UNEP FI, EBRD and other relevant guidelines. Besides, NLB Group uses all disposable climate and environmental data and studies available for its region (namely provided by different relevant state institutions) to determine the level of environmental risk to which NLB Group is exposed. In this process identification of environmental risk factors, relevant transmission channels and their materiality and impact to NLB Group's financial performance in the short- and long-term period is assessed.

k. Definitions, methodologies, and international standards on which the environmental risk management framework is based

The management of ESG risks in NLB Group follows ECB and EBA guidelines, with the tendency of their comprehensive integration into all relevant processes. In addition, the Bank is a signatory of the Framework Agreements with the EBRD, the Contract of Guarantees with MIGA, the UN PRB, and the UN NZBA.

[5] In 2022, the second edition of the Remuneration policy for members of the Supervisory Board and Management Board of NLB was adopted by the Supervisory Board of NLB and approved by the General Meeting of Shareholders of NLB, whereby the vote on this resolution is of a consultative nature. Employee Remuneration Policy of NLB and NLB Group was adopted by the NLB Supervisory Board in 2021.

I. Processes to identify, measure, and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels

In NLB Group environmental risks are considered as climate risk and other environmental risk. Transition risk and physical risk are subcategories of climate risk. Both categories are then further divided into even more subcategories, as presented in the table below. In first step the risk drivers relevant for Slovenia and other countries where NLB Group is present, are identified. In addition, NLB Group considers exposure to other environmental risks, such as biodiversity risk, waste disposal and pollution. NLB Group analyses how such risks can impact its clients and bank itself and defines transmission channels. Furthermore, NLB Group assesses how other factors (sources of variability) which determine the likelihood or the size of the impact, so called amplifiers, mitigants and geographical heterogeneity impact its operations. In the last step the materiality of the impact is assessed. These analyses were performed on proxy data for CO2 emissions and energy consumption, historical data for physical risk, expert judgement supported by publicly available climate change studies.

Table 45 – Following environmental risk drivers were consider when conducting materiality study for NLB Group:

Climate Risk		
Transition risk		Climate Policy changes
		Technological changes
		Behavioural changes (investor and consumer sentiment)
Physical risk	Acute Physical risk:	
		Floods
		Drought
		Heat waves
		Windstorm
		Wildfires
		Hail
		Freezing rain
		Landslide
	Chronic Physical risk:	
		Temperature changes
		Reduced water availability
		Biodiversity loss
Other environmental risk		
		Waste disposal
		Nature conservation incl. biodiversity loss
		Pollution

Notes:

- Though for the impact analysis NLB Group decided to use a bit different approach to classification of transition risk which relies more on risk factor pathways as described by UNEP-FI. Though the main drivers of the risk are still policy, technological and behavioural changes, UNEP-FI methodology relays on its impact to cost, capital expenditures, and revenues.
- Methodology for assessment of environmental risks should be treated (due to its complexity, lack of good quality micro level data, comparability between institutions, cross-country comparability, and comparability of different risk categories) as expert based one, though it can be still subject to changes due to the aforementioned reasons.

Each of the identified physical risk factors is assessed from a probability and impact perspective. The methodology used has been developed internally. It relies on all available climate and environmental data (including insurance companies' loss statics), studies available for its region (namely, provided by different relevant state institutions), and expert judgement. While the probability of a severe physical risk event is evaluated based on the location of the exposure, the impact of such an event relies more on the industry (segment) of the client. Probability and impact scores are then combined into a vulnerability score.

To identify physical risk factors, the Group is using a 5 level risk assessment scale:

1-Low	**2- Moderately Low**	**3-Moderate**	**4-Moderately High**	**5-High**

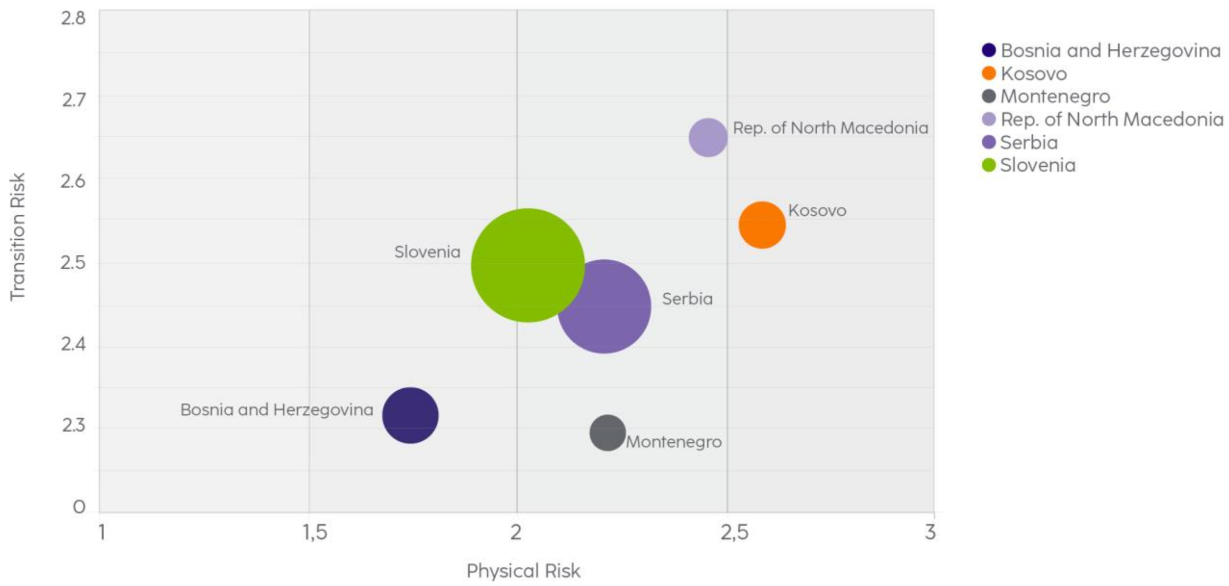
For residential mortgages, NLB Group assesses flood risk by using flood maps, which means that the exact flood risk level is determined based on the micro location of the real estate. From the physical risk perspective, in the short to medium term, NLB Group does not classify any exposure as high risk. However, assuming worst-case scenarios in climate change, certain exposures (such as agriculture in some regions) are also classified as high physical risk in the long term.

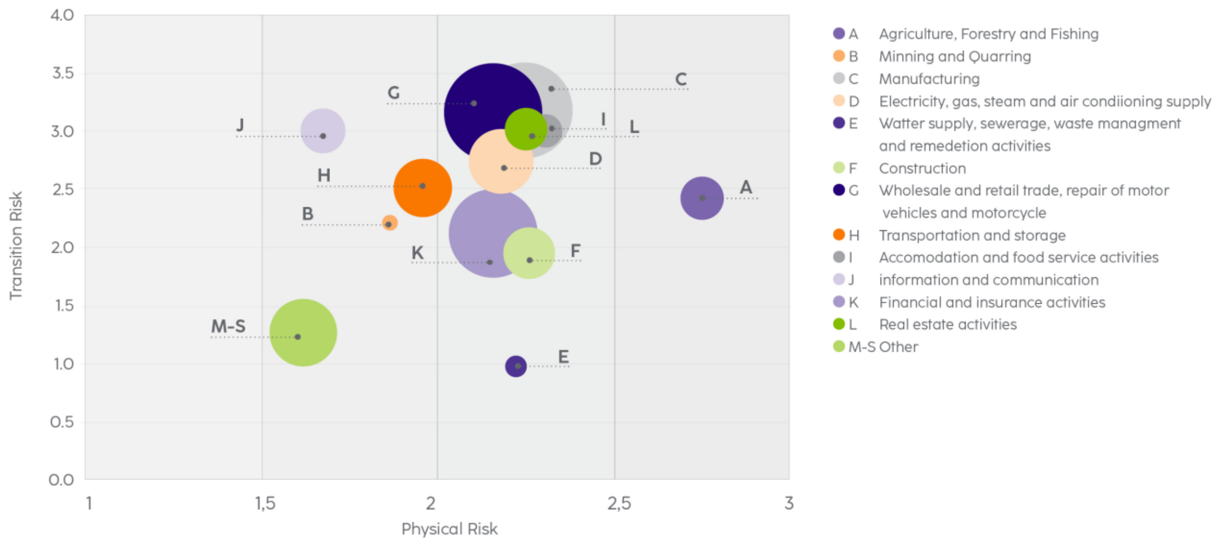
Transition risk factors are assessed based on the UNEP-FI methodology, which is industry based. The methodology was elaborated by NLB Group to a more granular level and is combined with actual or proxy emissions data. Here, too, NLB Group uses the same 5 level scale as described above. For residential mortgages, NLB Group assesses transition risk by using energy performance certificate (EPC) scores, energy consumption and CO_2 emissions, which are derived from the EPC. From the transition risk perspective, the highest risk is expected in the medium term, although due to the favourable composition of the Bank's portfolio, only limited exposure is classified as high risk.

Heat maps: physical and transition risk by country and by industry

Using the scoring methodology described above, NLB Group analyses and monitors its portfolio and performs a materiality assessment with the use of heat maps. Based on this, different views over the portfolio are possible (location, industry, segment, etc.). To develop heat maps, NLB Group aggregates single risks by using predefined weights to determine the final risk score.

Based on currently available data, two different views (by country and by industry) over NLB Group's corporate portfolio from physical and transition risk perspective are presented in the charts below.





Impacts of environmental risks and key mitigation activities on NLB Group's business model

In the process of risk identification relevant transmission channels and their materiality and impact to NLB Group's financial performance in the short- and long-term period are assessed.

Table 46: Impacts of climate-related risks and key mitigation activities

Transition risk impact	• Transition risks arise already in the short term due to determination of EU to reduce the carbon emissions according to its ambitious net zero strategy by 2050. • With implementation of Net zero strategy of NLB Group in 2023, it is expected that its impacts will gradually diminish in the long run. Nevertheless, NLB Group assessed them more material than physical risk. This can already be observed through higher energy and emission costs. There are certain industries which are directly or indirectly related to fossil fuels and such industries are considered riskier. • The level of transition risk does not depend only on the industry itself but also on the companies themselves (ESG awareness, strategy, efficiency, etc.) and their location (outside EU there is lower regulation). • On a portfolio level NLB Group does not face any large concentration towards specific NACE industrial sectors exposed to climate risk, whereby the role of transitional risk is more prevailing. Based on industry segmentation of portfolio and corresponding emissions, NLB Group has a relatively low exposure to emission-intensive sectors in its corporate client's business. There is some exposure in more emissions intensive industries, such as energy, transportation, industry, and agriculture. However, the exposure to the clients with high emissions is rather limited. As part of its strategy, NLB Group does not finance companies that extract fossil fuels or operate coal-fired power plants. In residential mortgages the most important input for GHG calculation are the buildings' energy performance certificates.
Physical risk impact	• The most relevant natural disasters are drought and floods, while hail and windstorm are also frequent but less material. Still, we can expect that its impact will increase in the long run, especially if no adequate policy changes will be implemented in a timely manner. Other events are not material for the region and Group's business model. • A model for assessing flood risk based on national (Slovenian) flood risk zones was developed – determining flood risk on the actual location of the real estate in collateral; a model for other NLB Group countries is in development. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined. • Based on the analysed data, floods and drought do cause material losses, but they do not have a material effect on the Group's portfolio. • Chronic physical risks in Slovenia are assessed as not material to the Bank's collateral exposure. • Some past losses in the region were observed in public infrastructure and agriculture, but such losses were to a large extent reimbursed by the government (impact on sovereign debt). Further on, as supported by insurance statistics, many losses caused by physical risk are covered by insurance which also limits the impact of these risks on the Bank's performance. • The Group's credit portfolio is well diversified (from the industry and location perspectives) which reduces the impact of such events. Stress tests performed on the real estate portfolio reveal that some losses could occur due to physical risk, though with no significant impact on the Group's performance.
Other environmental risks impact	• Exposure to other environmental risks is not material in the short run, though their long-term potential impacts are taken into consideration. • NLB Group is also using the EBRD methodology to assess also other environmental risks such as waste disposal, nature conservation incl. biodiversity loss and pollution. The 3-level scale (low, medium, and high risk), as defined by the EBRD is used. In addition, NLB Group is exploring possibilities to perform more granular and individual assessments where needed. From this perspective, only a small proportion of the bank's portfolio is classified as high risk.

m. Activities, commitments, and exposures contributing to mitigate environmental risks

Please refer to section (l), where this topic is described.

n. Implementation of tools for identification, measurement, and management of environmental risks

NLB Group is engaged in contributing to sustainable finance by incorporating ESG risks into its business strategies, risk management framework, and internal governance arrangements. Thus, sustainable finance integrates ESG criteria into the Group's business and investment decisions. ESG risks do not represent a new risk category, but rather one of risk drivers of the existing type of risks, such as credit, liquidity, market, and operational risk. NLB Group integrates and manages them within the established risk management framework in the area of credit, liquidity, market, and operational risk. The management of ESG risks follows ECB and EBA guidelines with tendency of their comprehensive integration into all relevant processes.

<u>Credit risk management</u>
The management of ESG risks addresses the Group's overall credit approval process and the related credit portfolio management. Sustainable financing is implemented in accordance with the Group's ESMS. In addition to addressing ESG risks in all relevant stages of the credit-granting process, relevant ESG criteria were also considered in the collateral evaluation process.

NLB Group is analysing and monitoring its credit portfolio by using heat maps. For the purpose of heat maps, NLB Group aggregates single risks by using predefined weights for determination of final risk score. Such approach enables different views over the Group's corporate portfolio from physical and transition risk perspective. With regards to physical risk, some negative historical events in the past years in the Region were observed on the public infrastructure and agriculture, but they were reimbursed to a large extent by the government or insurances. Consequently, there were no material impacts on Group's portfolio quality or liquidity. On the portfolio level, NLB Group does not face any large concentration towards specific NACE industrial sectors exposed to climate risk, whereby the role of transitional risk is more prevailing. Based on industry segmentation of portfolio and corresponding emissions, NLB Group has a relatively low exposure to emission-intensive sectors in its corporate client's business. More exposed industries represent energy, transportation, industry, and agriculture, though the exposure to the clients with high emissions in these branches is rather limited. As part of its strategy, NLB Group does not finance companies that extract fossil fuels or operate coal-fired power plants. In residential mortgages, the most important input for GHG calculation are the buildings' EPCs.

<u>Collateral management</u>
For new lending, the Bank gathers energy performance certificates (EPCs) for real estate in collateral in all cases when an EPC is mandatory according to Slovenian law. Owners of buildings that do not sell or rent out their properties, do not need an EPC. For the Back book, the Bank relies on actual data from public EPC registry and modelled EPC-s. For modelled EPC-s in Slovenia, an external provider modelled missing EPC-s based on public EPC registry data and information from the national building registry. Activities for collecting additional official and modelled EPCs in the whole Group are underway.

A model for assessing flood risk based on national (Slovenian) flood risk zones was developed – determining flood risk on the actual location of the real estate in collateral. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined. Other physical risks in Slovenia are assessed as not material to the Bank's collateral exposure.

<u>Operational and reputation risks</u>
NLB Group carefully considers potential reputation and liability risks which could arise from sustainable financing of its clients. Special attention is given to the approval of new products and monitoring of fulfilment of relevant criteria by the clients. Additional key risk indicators have been addressed, servicing as an early warning system in the area of ESG risks. Besides, physical risks, as part of ESG risks in the area of operational risk, are addressed in the Group's business continuity management (BCM). Business continuity plans include relevant ESG risks. They are prepared to be used in the event of natural disasters, IT disasters, and the undesired effects of the environment to mitigate their consequences. Additionally, ESG risk screening in the supply chain is part of the Group's supplier selection and regular assessment process.

o. Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile

NLB Group established an internal ESG stress testing concept to identify the most relevant financial vulnerabilities stemming from transitional and physical climate risk, which will be further enhanced by considering additional disposable ESG-related data. The results of climate stress tests showed no material impacts on the Group's capital and liquidity position. More information on Stress testing framework in NLB Group is available in section 5.1. General information on risk management, objectives, and policies, Stress testing.

As a systemically important institution, NLB Group was included into 2022 ECB Climate Stress test exercise, consisting of three modules. The exercise was conducted in the first half of 2022 and aggregate results were published in July 2022. By performing this exercise ECB assessed how banks are prepared for dealing with financial and economic shocks stemming from climate risk. The Group's overall results were within the range of average peer results.

p. Data availability, quality and accuracy, and efforts to improve these aspects

The availability of ESG data in the region where the NLB Group operates is still lacking. Nevertheless, NLB Group made significant progress in the process of obtaining relevant ESG-related data from its clients, being a prerequisite for adequate decision-making and corresponding proactive management of ESG risks. For the purpose of calculating the credit portfolio GHG emissions several important activities started in 2022. For larger corporate clients NLB Group initiated direct Scope 1 & 2 & 3 data gathering processes, whereas for the SME and micro segments, NLB Group developed their own proxies in cooperation with an external expert. In residential mortgages, the most important input for GHG calculation are the buildings' energy performance certificates. By end of 2022, NLB Group formed the emission calculation for the Slovenian market, whereas in the Region this process will continue and will be developed in 2023. Besides emissions, the NLB Group collected, analysed, and used different relevant historical data for physical risk and publicly available climate change studies relevant for its region.

q. A description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits

NLB Group has established implementation of tools for identification and management of environmental and social risks, as well as early warning systems and escalation process at different levels:

- Prohibited, Restricted, and Normal activities are defined in Lending Policy for Non-Financial Companies in NLB and NLB Group. In the policy, a special chapter is devoted to addressing the economic activities with categories such as prohibited, restricted, and normal activities. The NLB Group Lending Policy was upgraded with the Exclusion List from EBRD Environmental and Social Policy (2014) and MIGA Environmental and Social Exclusion List (signed with NLB Group members) to which the Bank must strictly adhere to. The full list of prohibited activities is publicly disclosed in NLB Group's Sustainability Framework (page 19), available on the Bank's webpage nlb-sustainability.
- An incident reporting procedure sets out the rules of environmental and social incidents reporting to EBRD and MIGA. As a rule, in addition to governance bodies of NLB Group members, these financial Institutions must be promptly notified of any environmental or social incident or accident related to the client or the project, which has, or is likely to have, a significant adverse business effect.
- Established thresholds for Environmental & Social Extended Due Diligence to identify and assess the E&S impacts and issues (ecological obligations and risks, labour, working conditions, health, safety, cultural heritage etc.) associated with transactions.
- Established thresholds for Assessment of Environmental & Social Factors within Financial Analysis for understanding E&S standards on Environmental and Social Sustainability and introduction to Environmental and Social Management System (ESMS).

The implemented Environmental and Social Management System (ESMS) applies to transactions with the greatest potential for significant negative environmental and social impacts. According to ESMS, ESG risk management is considered on three levels:

- having a low impact on the environment and having the potential to replace high-impact activities (e.g., renewable energy),
- reducing impact form other activities,
- making a positive environmental contribution.

The Environmental and Social Transaction Categorisation methodology uses the aforementioned contributions to rank transactions in three levels:

- High activity risk: The client's business activities may give rise to significant or long-term environmental and social risks and impacts. These may require more specialised risk assessment, and the client may not have the technical or financial means to manage them.

- Medium activity risk: The client's business activities have limited environmental and social risks and impacts, and these are capable of being readily prevented or mitigated through technically and financially feasible measures.
- Low activity risk: The client's business activities have minor/few environmental and social risks and impacts associated with them.

Table 47 – EBRD environmental classification on NLB Group Gross exposure

Segment	Gross exposure*	EBRD Environmental view		
		Low	Medium	High
Central government	4,745,630	4,745,627	-	3
Institutions	369,030	369,030	-	-
Companies	6,545,870	3,334,131	2,163,242	1,048,498
Private persons	6,743,370	6,743,370	-	-
Total	**18,403,900**	**15,192,158**	**2,163,242**	**1,048,501**
Percentage		**83%**	**12%**	**6%**

* Shows Gross exposure to credit portfolio valued at amortized cost or fair value through P&L.

Sustainable ESG financing in accordance with ESMS is integrated in the Group's Risk Appetite Statement. As part of its strategy, NLB Group does not finance thermal coal mining or coal-fired electricity generation capacity in any way, including eventual transitional enhancements. No such investments were approved during 2022. Additional key risk indicators and targets in the area of ESG are going to be addressed in 2023 based on on-going activities related to the NLB Group's NZBA commitment.

r. Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework

Please refer to sections (l) and (n), where this topic is described.

14.2. Social risks

14.2.1. Business strategy and processes

a. Adjustment of the institution's business strategy to integrate social factors and risks taking into account the impact of social risk on the institution's business environment, business model, strategy, and financial planning

In NLB Group, social considerations (factors and risks) are integrated in the business model, strategy and financial planning within overall ESG considerations and in accordance with relevant regulations, the NLB Group Sustainability Framework, UN PRB, the Environmental and Social Policy set out by EBRD, ESMS, and UNEP FI NZBA requirements. A detailed description of these frameworks, policies, systems, and commitments is included in environmental risk qualitative disclosures, as they refer also to social risk management.

Apart from managing environmental considerations (described in Table 44), management of social considerations (factors and risks) is also an important part of NLB Group's Sustainability Framework. Key social considerations integrated within each pillar of the Sustainability Framework are as follows:

Sustainable operations:

- responsibility to employees: capabilities development, talent retention and development, diversity inclusion, health and safety, ensuring employees' wellbeing;
- responsibility to clients: actively engaging with clients, responsible marketing;
- implementation of the social elements in the procurement process, including responsible procurement and supply chain management in terms of mitigation of social risks.

Sustainable finance:

- integrating social factors (as part of broader ESG factors) in regulatory framework, relevant standards, and criteria into NLB Group's business and investment decisions;
- supporting the United Nations Sustainable Development Goals (UN SDGs) through financing and investing activities, new products and services, especially in respect of SDG3 (ensure healthy lives and promote well-being for all at all ages), SDG 7 (ensure access to affordable, reliable, sustainable, and modern energy for all), and SDG 8 (promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all);
- managing climate-related and environmental risks, as well as searching for business opportunities emerging from the transition to a low-carbon, more inclusive, and circular economy.

Contribution to society:

- managing donations, sponsorships, partnerships, and projects that address social considerations,
- raising awareness about social considerations among employees and other key stakeholders.

Further insight:

- For more information on strategic approach to social considerations in general please refer to Group Sustainability Framework(pages 6, 8), available on the Bank's webpage nlb-sustainability.
- A full list of sustainable economic activities (environmental and social ones) promoted by NLB Group is described in NLB Group Sustainability Framework (page 15), available on the Bank's webpage nlb-sustainability.
- For more information on human resource management, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Employees, available on the Bank's webpage nlb-sustainability.
- For more information on key client-related practices, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Clients, available on the Bank's webpage nlb-sustainability.
- For more information on CSR activities, please refer to NLB Group Sustainability Report 2022, Chapter Contribution to Society, available on the Bank's webpage nlb-sustainability.

b. Objectives, targets, and limits to assess and address social risk in short-term, medium-term and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes

By the impact analysis that NLB Group executed within UN PRB framework, a key objective and target related to the third Impact area, i.e., Inclusive and healthy economies where defined, as presented in the Table 48.

Table 48 – Key impact area, objective and target in 2022

Impact area	Objectives and targets	Performance assessment as of 31 december 2022	Outlook
Inclusive and healthy economies			
The share of active digitally-active customers in NLB Group (by 2025) *	55%	40.1%	On track. NLB Group will continue with measures and providing solutions, aimed at further digital penetration.

* The target was set in 2021 before the merger of NLB Banka Beograd with Komercijalna banka Beograd in April 2022, now operated under NLB Komercijalna banka Beograd, and the acquisition of N banka in March 2022. The effect of the merger and the subsequent changes in the customer base had an unpredictable impact on the number of active digital users, and such data would most likely not have been accurate or reliable.

NLB Group will further develop processes and policies in order to assess, address, and manage relevant social risks that emerge from both environmental and social changes, and will embed them in the business model, governance and credit process with clients.

c. Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce socially harmful activities

Clients' strategies to mitigate socially harmful activities and other social risks, are included in the screening (due diligence) process within NLB Group's ESMS. To learn more about the ESMS and screening process, please refer to chapter 14.1. Environmental risk, section d), as the described process with new or existing counterparties also applies to social risks.

NLB Group's social impacts, including human rights considerations (either as an employer or a business partner) as well as of our counterparties, are outlined in NLB Group's policies and other internal acts.

Several internal policies have been adopted and upgraded to increase embeddedness of social risks in the Bank's operation and their mitigation, namely:

- Key internal act is the **NLB Group Sustainability framework**, which laid the foundations for three pillars of sustainability: sustainable finance, sustainable operations, and contribution to society. The goal of this strategic, group-wide initiative is to ensure sustainable financial performance of the Bank by considering social and environmental risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system.
- **Policy Environmental and Social Transaction Policy Framework** in NLB and NLB Group is one of several risk management systems we operate, comprising policies and processes to give us better understanding into our customers' activities, help address issues of concern, minimise risks, and manage stakeholder expectations. The objectives of this Policy are to set out how NLB Group will assess and manage environmental and social risks and impacts associated with the transactions and promote good environmental and social management practices in the client's transactions.
- **NLB Group Corporate Social and Environmental Responsibility Policy**, which defines basic areas of sustainable operations of NLB Group members, including key sponsorships and donations areas. In addition to taking care of our employees, the key pillars of the NLB Group's socially responsible behaviour are promoting entrepreneurship, financial literacy and mentoring, support for world-class and youth sports, humanitarianism, and the protection of cultural heritage.
- **Policy on Respect for Human Rights in NLB and NLB Group** was adopted by the Management Board in 2023. Human Rights considerations are implemented in business processes at the following levels: Employee's relations, Customer relations, banking products and services, Suppliers, Relations with other stakeholders. In this respect, the Bank progressively introduces the following measures or activities in its internal processes (recruitment, investment approval, supplier relations, etc.):
  - preparation of policies and procedures as well as internal control mechanisms to prevent human rights violations;
  - regular training of employees and training of target groups on human rights;
  - conducting due diligence and taking appropriate measures to manage human rights risks;
  - inclusion of special conditions on minimum expectations regarding respect for human rights in contracts and/or general conditions with third parties (customers, business partners, suppliers);
  - ensuring the availability of channels for (anonymous) reporting of alleged abusive practices;
  - implementing procedures and mechanisms to address suspicious or harmful conduct and take corrective action, and implementing measures to protect whistleblowers (internal and external) and prevent retaliation;
  - engaging with key stakeholders, including customers, investors, external business partners and civil society, to promote progress in respecting human rights in business.
- **Standard Procurement in the Members of the NLB Group**, the purpose of which is to ensure a uniform and transparent Procurement procedure (including the minimum principles of ethical, social, and environmental conduct that NLB Group expects from all its suppliers) of goods and services needed for performing the business activities in line with standards of conduct required by the NLB Group Code of Conduct, as well as other group-wide NLB Group policies and procedures that are required to be uniformly applied within the NLB Group (taking into account, where relevant, any local specifics and deviations, which are always prealigned with NLB in line with group governance processes).

Further insight:

- For additional information please refer to NLB Group Sustainability Report 2022, chapters Sustainability Strategy, Sustainable Finance and Risk Management, Respecting Human Rights, Responsible Procurement and supply chain management, available on the Bank's webpage nlb-sustainability.

14.2.2. Governance

d. Responsibilities of the management body for setting the risk framework, supervising, and managing the implementation of the objectives, strategy, and policies in the context of social risk management: (i)Activities towards the community and society, (ii) Employee relationships and labour standards, (iii) Customer protection and product responsibility (iv) Human rights

The NLB Group has implemented a comprehensive sustainability governance framework (top-down and bottom up), which is described in Governance section of Environmental risk qualitative disclosures, whereas the description also refers to social risk.

As the highest governance bodies, the Management Board and the Supervisory Board are responsible for managing and supervising the implementation of social factors and risk (considerations) management framework, respectively. In 2022, both governance bodies addressed (discussed and/or made resolutions) several ESG-related topics (including social), within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key topics included (but not limited to) were social risk management (within risk management strategy), diversity, human rights, and human resources considerations.

In the context of social risk management of our counterparties, NLB has started to implement a questionnaire (developed in cooperation with the Bank Association of Slovenia). The questionnaire is part of the ESMS due diligence process for clients with the exposure above EUR 10 million and E&S classification as high risk. Within the process, clients have to clarify whether the company put in place policies relating to the social aspects of operations in the following areas:

- Impact on community/society:
    - description of a company's programmes to support local communities;
- Employee relations/labour standards and human rights:
    - description whether the company has a collective agreement for basic worker rights and does it provide to its employees additional benefits/bonuses (supplementary pension or health insurance, jubilee benefits, sports activities . . .);
    - description of mechanisms in place for making anonymous complaints regarding irregularities (whistleblowing) and for dealing with irregularities/infringements in the company by the employees;
- Customer protection and product responsibility:
    - explanation whether a company performs supply chain due diligence also for the purpose of compliance with ESG criteria, cooperates with business partners substantially exposed to the risk of human rights, and have demand that all its suppliers duly observe the same social standards as it itself observes;
- Human rights:
    - explanation whether a company has put in place policies relating to the social aspects of operations in the areas of human rights, equal opportunities / non-discriminatory practice, encouragement of staff diversity, provision of health and safety at work, child labour and illegal work prevention, ethical business conduct;
    - explanation whether a company has subscribed to any global, i.e., regional, sectoral commitments in the area of social impacts (e.g., membership of sectoral initiatives).

Additionally, ESG risk screening in the supply chain is part of the Group's supplier selection and regular assessment process. Among others the supplier is required to disclose whether it respects/considers social factors such as respect of human rights, free choice of employment, prohibition of child labour, prohibition of undeclared work, prohibition of discrimination, right to adequate pay, right to adequate working time, right to trade unions, the right to human personality and dignity, the right to health and safety, and the right to diversity.

NLB Group will further develop processes and policies in order to improve mitigating social risks in its internal operations, as well as in relations with counterparties.

e. Integration of measures to manage social factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body

Respective organisations units, which are responsible for specific social area, are responsible for setting out a social risk framework, risk identification, measurement, and monitoring, organising trainings, and establishing a mechanism to address violations. They are also responsible for developing and updating the internal acts, as well as steering their implementation in NLB Group's operation. There are several committees in place, who assist and advise in the social risk management process, as well as to execute individual tasks within powers of the Management Board.

Identifying risks and opportunities that also arise from social issues (in addition to environmental and governance risks), supporting and accelerating integration of social factors in NLB Group are among key responsibilities of each committee. When appropriate, according to internal rules and procedures, social risks are considered also at respective Supervisory Board's Committees.

In addition, social risks are monitored through NLB Group's internal control system on three levels: the first level (all business units), second (risk management and compliance), and third level controls (internal audit). In the case of identification of social risks that could affect NLB Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

Further insights:

- Additional information on internal governance arrangements is disclosed in detail in the NLB Group Sustainability Report 2022, chapter Governance, available on the Bank's webpage nlb-sustainability.

f. Lines of reporting and frequency of reporting relating to social risk

Social risks are regularly discussed and reported at all sessions of governance bodies, as well as through daily operations, in accordance with internal rules and procedures. Sessions of NLB Group's committees are convened according to the plan of meetings, regularly and frequently. The majority of them are held once a week, some of them monthly or every two or three months. *Ad hoc* meetings are convened in case certain issues need to be addressed urgently. Internal control functions have access to the Supervisory Board in the manner stipulated by the banking regulations. They regularly (quarterly) report to the Supervisory Board about their work.

NLB Group has also established Environmental & Social Incident Reporting, which sets out the procedure of environmental and social incidents reporting to EBRD and MIGA. As a rule, in addition to governance bodies of NLB Group member these financial Institutions must be promptly notified of any environmental incident or accident related to the client or the project, which has, or is likely to have, a significant adverse business effect.

g. Alignment of the remuneration policy in line with institution's social risk-related objectives

Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB, addresses social risks within overarching ESG risks, as described in chapter (i) in qualitative disclosures on environmental risk. In this respect, social risks are a part of the performance evaluation process.

Further insights:

- To explore more about the remuneration and social-risk objectives please refer to and NLB Group Sustainability Report 2022, Chapter Remuneration and integration of ESG goals, available on the Bank's webpage nlb-sustainability.
- The Employee Remuneration Policy of NLB and NLB Group is disclosed in more detail in the 2022 NLB Group Annual Report, section Human Resources Management, as well as in these Disclosures, Chapter Remuneration Policy.
- Full Remuneration Policy for the Members of the Supervisory Board of NLB is published on the Bank's webpage: nlb.si-corporate-governance.

14.2.3. Risk management

h. Definitions, methodologies, and international standards on which the social risk management framework is based

NLB Group considers social factors and risks as those related to the rights, well-being, and interests of our employees, other stakeholders, and communities. These considerations include (but not limited to) factors such as (in)equality, health, inclusiveness, labour relations, workplace health and safety, human capital, and communities. In this respect, NLB Group's social risk management framework considers national and international regulations, methodologies, and standards in all aforementioned areas. Among these, NLB Group is focused and also follows ECB and EBA guidelines with tendency of their comprehensive integration into all relevant processes.

The risk management function defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring and management in the area of ESG regulatory framework and related its risks mandate (including social) is to provide and increased focus o holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole Group.

In accordance with NLB Group Risk Strategy and Lending guidelines NLB Group is willing to finance clients which adequately consider social responsibility in their business model and strategy, as defined in the Environmental and Social Credit Policy Framework. For certain clients above the defined threshold, additional ESG screening activities is being performed as defined in the Framework. In addition, series of rules in the area of social risk for existing and new suppliers are established to continue business relationships.

Social factors and risks are addressed also in the Policy on Respect for Human Rights. The policy contains the commitment of NLB and NLB Group to respect human rights in accordance with all the highest international standards, including but not limited to the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Guidelines, Performance Standards 2 (Labour and Working Conditions), 4 (Health, Safety and Security), and 9 (Financial Intermediaries) as per EBRD Environmental and Social Policy (https://www.ebrd.com/environmental-and-social-policy.pdf), and the OECD Guidelines. At the national level, expectations of economic operators are regulated by the National Action Plan of the Republic of Slovenia for the Respect of Human Rights in Business.

Other relevant policies related to social risk management are described in Business and Strategy, section (c) of social risk qualitative disclosures.

Further insights:

- To explore more about employee relationships and labour standards, human rights, and social risk management in credit process, please refer to NLB Group Sustainability Report 2022, sections Responsibility to Employees, Respecting human rights, Sustainable Finance and Risk Management, respectively, available on the Bank's webpage nlb-sustainability.
- The full list of sustainable economic activities (environmental and social ones) promoted by NLB Group is described in NLB Group Sustainability Framework (page 15), available on the Bank's webpage nlb-sustainability.

i. Processes to identify, measure, and monitor activities and exposures (and collateral where applicable) sensitive to social risk, covering relevant transmission channels

j. Activities, commitments, and assets contributing to mitigate social risk

k. Implementation of tools for identification and management of social risk

Processes, activities to identify, measure, and monitor social risk within credit process, as well as implementation tools for identifications and management of social risks are described in NLB Group's ESMS and screening process. For detailed information on screening process, please refer to chapter 14.1. Environmental risk, section (d), as the described process with new or existing counterparties also applies to social risks. These processes are also defined in detail in other internal policies, that govern specific social-related risks.

In this context, NLB Group regularly monitors fulfilment of non-financing activities that are not supported by NLB Group (exclusion list) due to negative social impact. To mitigate social risk, ESMS system includes Regulatory Compliance Check, by which the client is checked for legal compliance and a contractual clause is included in the loan agreements that specify that the client operates and complies with all applicable Slovenian and EU regulations applicable to the client (borrower) and its business, including social regulations (in addition to environmental).

Key topics that are subject to screening are:

- the equality of people,
- non-discriminatory regulation,
- the possibility of advancement of the individual and social groups,
- and cultural heritage.

In addition, NLB Group has also established implementation of tools for mitigation of social risks that are related to the Group's operations, as well as early warning systems and escalation process at different levels:

- monitoring the stakeholders' perceptions and opinions, by surveys and other research tools;
- monitoring the public opinion, issues and trends that might evolve in social risk;
- setting out the mechanisms that enable internal or external stakeholders to raise complaints and concerns (such as grievance, whistleblowing mechanisms, contact centres, publicly accessible e-mail addresses, internal process for communicating critical concerns, etc.);
- setting out efficient processes to manage social risks in all respective business areas;
- addressing social risks in business continuity plans (BCP).

l. Description of setting limits to social risk and cases to trigger escalation and exclusion in the case of breaching these limits

Please refer to section (q) of environmental qualitative disclosures, as described procedure applies also for social risks.

m. Description of the link (transmission channels) between social risks with credit risk, liquidity and funding risk, market risk, operational risk, and reputational risk in the risk management framework

Please refer to sections (i), (j) and (k), where this topic is described.

14.3. Governance risk

14.3.1. Governance and Risk Management

a. The institution's integration in their governance arrangements governance performance of the counterparty, including committees of the highest governance body, committees responsible for decision-making on economic, environmental, and social topics

The management of governance considerations (factors and risks) is also an important part of the NLB Group's Sustainability Framework. Key governance considerations integrated within each pillar of the Sustainability Framework are as follows:

Sustainable operations:

- managing our direct environmental and social impacts while ensuring ethical and efficient operations,
- mitigating governance risks in NLB Group's operations internally and externally (counterparties, suppliers . . .).

Sustainable finance:

- integrating governance factors (as part of broader ESG) regulatory framework, relevant standards, and criteria into the Group's business and investment decisions,
- managing governance risks emerging from the green transition.

Contribution to society:

- managing donations, sponsorships, partnerships, and projects in accordance to high governance standards,
- aligning CSR activities United Nations Sustainable Development Goals (UN SDGs).

NLB Group has implemented a comprehensive sustainability governance framework (top-down and bottom up). As the highest management and governance bodies, the Management Board and the Supervisory Board are responsible for managing and supervising the implementation of governance considerations (factors and risk) management framework, respectively. In 2022, both boards addressed (discussed and/or made resolutions) several ESG-related (including governance) considerations, within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key governance topics addressed were related to KPIs and plans, reporting, remuneration and performance assessment, and diversity.

Respective organisations units, which are responsible for specific governance area, are responsible for setting out a governance risks framework, risks identification, measurement, and monitoring, organising trainings and establishing a mechanism to address violations. They are also responsible for developing and updating the internal acts, as well as steering their implementation in NLB Group's operation.

There are several committees in place, who assist and advise in the governance risk management process, as well as to execute individual tasks within powers of the Management Board. Identifying risks and opportunities that arise also from governance issues (in addition to environmental and social risks), supporting and accelerating integration of governance factors in NLB Group are among key responsibilities of each committee. When appropriate, according to internal rules and procedures, governance risks are considered also at respective Supervisory Board's Committees.

In addition, governance risks are monitored through NLB Group's internal control system on three levels: the first level (all business units), second (risk management and compliance), and third level controls (internal audit). In the case of identification of governance risks that could affect NLB Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

NLB strives for transparency of operations which allows the recipients of information to correctly assess the position, operations, risks, and management of NLB Group. Transparency of operations by ensuring quality disclosures, frequency of information delivery, and accessibility of publications is one of the most important building blocks of the NLB Group's governance.

b. Institution's accounting of the counterparty's highest governance body's role in non-financial reporting

Activities to engage and monitor client's management on governance risks (in addition to environmental and social risks) is set out in the Environmental and Social Transaction Policy Framework in NLB and NLB Group. The activities include assessment of:

- commitment to managing E&S issues relevant to the business,
- presence of effective systems to manage E&S issues, including accountability,
- past record of regulatory breaches, fines, lawsuits, negative media, or stakeholder protests/complaints that demonstrate how well the client has been managing E&S issues,
- past track record through an online search of publicly available information such as media reports, social media, and nongovernmental organisation websites.

In this respect, during environmental and social screening of a client the role of its Management Board and/or Supervisory Board is assessed. This is done by reviewing their statement on non-financial reporting (if it is included in counterparty's annual report) and within a questionnaire during the extended overview, which includes a specific question on the commitment level of senior management to E&S Issues.

c. Institution's integration in governance arrangements of the governance performance of their counterparties

Clients' strategies to mitigate governance risks and governance performance are included in the screening (due diligence) process within the Group's ESMS. For more information on the ESMS and screening process, please refer to chapter 14.1. Environmental risk, section d), as the described process with new or existing counterparties also applies to governance risks. NLB Group is continuously upgrading activities in order to rectify managing counterparties' governance risks.

In particular, to monitor counterparty's governance performance, NLB has started to implement a questionnaire (developed in cooperation with the Bank Association of Slovenia). The questionnaire is part of the ESMS due diligence process for clients with the exposure above EUR 10 million and E&S classification as high risk, and is used to assess counterparty's arrangements as follows:

- Ethical aspects of governance (including anti-corruption and bribery considerations, related measures, trainings, and education, avoiding conflict of interest),
- Strategy and risk management (including business continuity plan, protection of personal data),
- Diversity in Management and Supervisory Boards,
- Transparency of the customer's reporting on past emissions performance across all relevant scopes.

Further insight:

- For overview of sustainability-related governance, please refer to NLB Group Sustainability Report 2022, Chapter Sustainability Governance, available on the Bank's webpage nlb-sustainability.,
- For detailed risk management and ESMS description please refer to NLB Group Sustainability Report 2022, Chapter Sustainable finance, and Risk Management, available on the Bank's webpage nlb-sustainability.

14.4. Credit quality of exposures

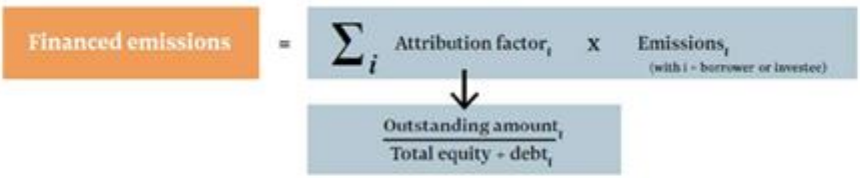
This template provides information on exposures to nonfinancial companies operating in sectors that significantly contribute to climate change, including, among other things, information on the credit quality of the exposures and on financed emissions.

The perimeter includes exposures in the banking book, including loans and advances, debt securities and equity instruments to non-financial corporations, other than those held for trading.

The availability of ESG data (and Financed emissions data among others) in the region where the Group operates is still lacking. Nevertheless, the Group made a large progress in the process of obtaining relevant ESG related data from its clients in Slovenia. Therefore, we disclosed this template also on NLB individual level – in Table 50.

For a limited number of clients in Slovenia, the bank was able to obtain actual Scope 1 and Scope 2 emission data. For the remaining portfolio proxies were used. Financed emission proxies were prepared for different client sectors, also depending on the client size. To come to the proxies emission data for Slovenia for 2020 was used and applied to client income in 2021. Scope 3 is not included in financed emissions as this type of data is not mandatory for all client cases under PCAF standard on national level; methodology agreed within the banks in Slovenia (Guidance on financed emissions adopted by Slovene Banking Association, based on PCAF standard).

Calculation of financed emissions is as follows:



Attribution factor is calculated as Gross carrying amount / (short term + long term financial debt + equity) -> on balance sheet data as at 31 December 2021.

The availability of ESG data (and Financed emissions data among others) in the region where the Group operates is still lacking. The development of models to obtain proxies for local markets other than Slovenia is already underway and will be completed in 2023. At this time, we did not include any GHG emissions in the NLB Group template as they would be incomplete and misleading.

Table 49 – Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions, and residual maturity for NLB Group

in EUR million

	Sector/subsector 31.12.2022	a	b	d	e
		Gross carrying amount			
		Total	Of which exposures towards companies excluded from EU Paris-aligned Benchmarks**	Of which stage 2 exposures	Of which non-performing exposures
1	**Exposures towards sectors that highly contribute to climate change***	5,152	652	360	173
2	A - Agriculture, forestry and fishing	99	-	4	3
3	B - Mining and quarrying	54	12	20	-
4	*B.05 - Mining of coal and lignite*	2	2	2	-
5	*B.06 - Extraction of crude petroleum and natural gas*	10	10	10	-
6	*B.07 - Mining of metal ores*	-	-	-	-
7	*B.08 - Other mining and quarrying*	42	-	8	-
8	*B.09 - Mining support service activities*	-	-	-	-
9	C - Manufacturing	1,419	-	77	24
10	*C.10 - Manufacture of food products*	214	-	16	5
11	*C.11 - Manufacture of beverages*	36	-	9	-
12	*C.12 - Manufacture of tobacco products*	14	-	-	-
13	*C.13 - Manufacture of textiles*	14	-	5	-
14	*C.14 - Manufacture of wearing apparel*	8	-	-	-
15	*C.15 - Manufacture of leather and related products*	6	-	1	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	41	-	3	5
17	*C.17 - Manufacture of paper and paperboard*	35	-	-	-
18	*C.18 - Printing and reproduction of recorded media*	33	-	3	1
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-	-
20	*C.20 - Production of chemicals and chemical products*	31	-	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	19	-	2	-
22	*C.22 - Manufacture of rubber products*	71	-	1	1
23	*C.23 - Manufacture of other non-metallic mineral products*	105	-	7	-
24	*C.24 - Manufacture of basic metals*	146	-	-	1
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	182	-	9	-
26	*C.26 - Manufacture of computer, electronic and optical products*	32	-	2	-
27	*C.27 - Manufacture of electrical equipment*	203	-	1	2
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	73	-	10	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	71	-	4	3
30	*C.30 - Manufacture of other transport equipment*	6	-	-	-
31	*C.31 - Manufacture of furniture*	29	-	2	2
32	*C.32 - Other manufacturing*	36	-	1	2
33	*C.33 - Repair and installation of machinery and equipment*	17	-	-	-
34	D - Electricity, gas, steam and air conditioning supply	553	442	74	1
35	*D35.1 - Electric power generation, transmission and distribution*	345	345	72	-
36	*D35.11 - Production of electricity*	119	43	2	1
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	54	54	-	-
38	*D35.3 - Steam and air conditioning supply*	35	-	-	-
39	E - Water supply; sewerage, waste management and remediation activities	51	-	-	2
40	F - Construction	556	-	44	26
41	*F.41 - Construction of buildings*	398	-	34	16
42	*F.42 - Civil engineering*	67	-	2	7
43	*F.43 - Specialised construction activities*	91	-	7	3
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,234	193	78	43
45	H - Transportation and storage	670	4	20	17
46	*H.49 - Land transport and transport via pipelines*	210	4	9	17
47	*H.50 - Water transport*	1	-	-	-
48	*H.51 - Air transport*	2	-	-	-
49	*H.52 - Warehousing and support activities for transportation*	429	-	11	-
50	*H.53 - Postal and courier activities*	27	-	-	-
51	I - Accommodation and food service activities	204	-	33	45
52	L - Real estate activities	312	-	9	12
53	**Exposures towards sectors other than those that highly contribute to climate change***	786	-	48	23
54	K - Financial and insurance activities	115	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	671	-	48	22
56	TOTAL	5,937	652	408	196

* In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006

** In accordance with Article 12(1) points (d) to (g) and Article 12(2) of Regulation (EU) 2020/1818

	Sector/subsector 31.12.2022	f	g	h
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		Total	Of which Stage 2 exposures	Of which non-performing exposures
1	**Exposures towards sectors that highly contribute to climate change***	(163)	(25)	(96)
2	A - Agriculture, forestry and fishing	(3)	-	(2)
3	B - Mining and quarrying	(3)	(2)	-
4	*B.05 - Mining of coal and lignite*	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	(1)	(1)	-
6	*B.07 - Mining of metal ores*	-	-	-
7	*B.08 - Other mining and quarrying*	(2)	(1)	-
8	*B.09 - Mining support service activities*	-	-	-
9	C - Manufacturing	(26)	(4)	(11)
10	*C.10 - Manufacture of food products*	(5)	(1)	(2)
11	*C.11 - Manufacture of beverages*	(1)	(1)	-
12	*C.12 - Manufacture of tobacco products*	-	-	-
13	*C.13 - Manufacture of textiles*	-	-	-
14	*C.14 - Manufacture of wearing apparel*	-	-	-
15	*C.15 - Manufacture of leather and related products*	-	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	(3)	-	(3)
17	*C.17 - Manufacture of paper and paperboard*	-	-	-
18	*C.18 - Printing and reproduction of recorded media*	(1)	(1)	-
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-
20	*C.20 - Production of chemicals and chemical products*	-	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	-	-	-
22	*C.22 - Manufacture of rubber products*	(1)	-	(1)
23	*C.23 - Manufacture of other non-metallic mineral products*	(2)	(1)	-
24	*C.24 - Manufacture of basic metals*	(1)	-	-
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	(2)	(1)	-
26	*C.26 - Manufacture of computer, electronic and optical products*	-	-	-
27	*C.27 - Manufacture of electrical equipment*	(3)	-	(2)
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	(1)	-	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	(1)	-	-
30	*C.30 - Manufacture of other transport equipment*	-	-	-
31	*C.31 - Manufacture of furniture*	(1)	-	-
32	*C.32 - Other manufacturing*	(1)	-	(1)
33	*C.33 - Repair and installation of machinery and equipment*	-	-	-
34	D - Electricity, gas, steam and air conditioning supply	(8)	(5)	-
35	*D35.1 - Electric power generation, transmission and distribution*	(6)	(5)	-
36	*D35.11 - Production of electricity*	(1)	-	-
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	-	-	-
38	*D35.3 - Steam and air conditioning supply*	-	-	-
39	E - Water supply; sewerage, waste management and remediation activities	(3)	-	(2)
40	F - Construction	(28)	(4)	(18)
41	*F.41 - Construction of buildings*	(20)	(3)	(12)
42	*F.42 - Civil engineering*	(5)	-	(4)
43	*F.43 - Specialised construction activities*	(3)	(1)	(2)
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	(53)	(5)	(35)
45	H - Transportation and storage	(13)	(1)	(9)
46	*H.49 - Land transport and transport via pipelines*	(14)	-	(12)
47	*H.50 - Water transport*	-	-	-
48	*H.51 - Air transport*	3	-	4
49	*H.52 - Warehousing and support activities for transportation*	(2)	-	-
50	*H.53 - Postal and courier activities*	-	-	-
51	I - Accommodation and food service activities	(18)	(2)	(14)
52	L - Real estate activities	(8)	(1)	(5)
53	**Exposures towards sectors other than those that highly contribute to climate change***	(27)	(6)	(14)
54	K - Financial and insurance activities	(1)	-	-
55	Exposures to other sectors (NACE codes J, M - U)	(26)	(6)	(14)
56	TOTAL	(190)	(30)	(109)

in EUR million

in EUR million

	Sector/subsector 31.12.2022	l <= 5 years	m > 5 year <= 10 years	n > 10 year <= 20 years	o > 20 years	p Average weighted maturity
1	**Exposures towards sectors that highly contribute to climate change***	3,389	1,450	255	57	3.9
2	A - Agriculture, forestry and fishing	73	23	3	-	3.1
3	B - Mining and quarrying	27	11	16	-	6.4
4	*B.05 - Mining of coal and lignite*	-	2	-	-	6.3
5	*B.06 - Extraction of crude petroleum and natural gas*	10	-	-	-	2.7
6	*B.07 - Mining of metal ores*	-	-	-	-	0.5
7	*B.08 - Other mining and quarrying*	17	9	16	-	7.4
8	*B.09 - Mining support service activities*	-	-	-	-	2.1
9	C - Manufacturing	1,044	363	8	4	3.2
10	*C.10 - Manufacture of food products*	163	50	-	1	2.8
11	*C.11 - Manufacture of beverages*	28	6	2	-	2.8
12	*C.12 - Manufacture of tobacco products*	13	-	-	-	0.4
13	*C.13 - Manufacture of textiles*	13	1	-	-	3.0
14	*C.14 - Manufacture of wearing apparel*	6	-	1	-	2.8
15	*C.15 - Manufacture of leather and related products*	5	1	-	-	2.2
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	31	9	-	-	3.2
17	*C.17 - Manufacture of paper and paperboard*	28	7	-	-	3.1
18	*C.18 - Printing and reproduction of recorded media*	23	8	2	-	4.2
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-	-	0.7
20	*C.20 - Production of chemicals and chemical products*	16	15	-	-	5.2
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	18	-	-	-	2.1
22	*C.22 - Manufacture of rubber products*	59	12	-	-	3.0
23	*C.23 - Manufacture of other non-metallic mineral products*	54	51	-	-	4.4
24	*C.24 - Manufacture of basic metals*	84	62	-	-	3.7
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	145	36	-	-	3.1
26	*C.26 - Manufacture of computer, electronic and optical products*	30	2	-	1	1.2
27	*C.27 - Manufacture of electrical equipment*	189	13	-	-	2.0
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	59	14	-	-	2.9
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	34	36	-	1	4.6
30	*C.30 - Manufacture of other transport equipment*	6	-	-	-	3.2
31	*C.31 - Manufacture of furniture*	20	8	-	1	3.3
32	*C.32 - Other manufacturing*	9	23	4	-	6.1
33	*C.33 - Repair and installation of machinery and equipment*	10	6	-	-	4.2
34	D - Electricity, gas, steam and air conditioning supply	270	167	73	42	6.3
35	*D35.1 - Electric power generation, transmission and distribution*	164	98	41	42	6.9
36	*D35.11 - Production of electricity*	49	38	32	-	6.1
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	54	-	-	-	1.6
38	*D35.3 - Steam and air conditioning supply*	3	32	-	-	7.6
39	E - Water supply; sewerage, waste management and remediation activities	39	12	-	-	3.2
40	F - Construction	403	137	16	1	3.5
41	*F.41 - Construction of buildings*	267	115	16	-	3.9
42	*F.42 - Civil engineering*	60	7	-	-	2.0
43	*F.43 - Specialised construction activities*	76	15	-	1	2.8
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	911	303	13	6	2.8
45	H - Transportation and storage	463	202	3	2	3.8
46	*H.49 - Land transport and transport via pipelines*	138	69	2	2	3.3
47	*H.50 - Water transport*	1	-	-	-	2.6
48	*H.51 - Air transport*	2	-	-	-	1.8
49	*H.52 - Warehousing and support activities for transportation*	309	120	1	-	4.1
50	*H.53 - Postal and courier activities*	13	14	-	-	4.6
51	I - Accommodation and food service activities	87	88	28	1	5.5
52	L - Real estate activities	71	145	96	-	7.8
53	**Exposures towards sectors other than those that highly contribute to climate change***	448	315	20	3	4.2
54	K - Financial and insurance activities	52	56	7	-	5.4
55	Exposures to other sectors (NACE codes J, M - U)	396	260	13	2	4.0
56	TOTAL	3,836	1,766	275	60	4.2

Table 50 – Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions, and residual maturity for NLB

in EUR million

	Sector/subsector 31.12.2022	a	b	d	e
		Gross carrying amount			
		Total	Of which exposures towards companies excluded from EU Paris-aligned Benchmarks**	Of which stage 2 exposures	Of which non-performing exposures
1	**Exposures towards sectors that highly contribute to climate change***	2,263	360	37	42
2	A - Agriculture, forestry and fishing	15	-	1	-
3	B - Mining and quarrying	24	1	1	-
4	*B.05 - Mining of coal and lignite*	-	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	1	1	-	-
6	*B.07 - Mining of metal ores*	-	-	1	-
7	*B.08 - Other mining and quarrying*	23	-	-	-
8	*B.09 - Mining support service activities*	-	-	-	-
9	C - Manufacturing	691	-	18	8
10	*C.10 - Manufacture of food products*	43	-	-	-
11	*C.11 - Manufacture of beverages*	3	-	-	-
12	*C.12 - Manufacture of tobacco products*	-	-	-	-
13	*C.13 - Manufacture of textiles*	6	-	5	-
14	*C.14 - Manufacture of wearing apparel*	2	-	-	-
15	*C.15 - Manufacture of leather and related products*	-	-	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	9	-	-	1
17	*C.17 - Manufacture of paper and paperboard*	7	-	-	-
18	*C.18 - Printing and reproduction of recorded media*	10	-	-	-
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-	-
20	*C.20 - Production of chemicals and chemical products*	22	-	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	-	-	-	-
22	*C.22 - Manufacture of rubber products*	38	-	-	-
23	*C.23 - Manufacture of other non-metallic mineral products*	45	-	-	-
24	*C.24 - Manufacture of basic metals*	106	-	-	1
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	111	-	4	-
26	*C.26 - Manufacture of computer, electronic and optical products*	8	-	2	-
27	*C.27 - Manufacture of electrical equipment*	125	-	-	-
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	55	-	6	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	60	-	-	2
30	*C.30 - Manufacture of other transport equipment*	2	-	-	-
31	*C.31 - Manufacture of furniture*	5	-	-	1
32	*C.32 - Other manufacturing*	30	-	-	2
33	*C.33 - Repair and installation of machinery and equipment*	4	-	-	-
34	D - Electricity, gas, steam and air conditioning supply	348	280	-	-
35	*D35.1 - Electric power generation, transmission and distribution*	246	246	-	
36	*D35.11 - Production of electricity*	67	19	-	-
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	15	15	-	
38	*D35.3 - Steam and air conditioning supply*	20	-	-	-
39	E - Water supply; sewerage, waste management and remediation activities	24	-	-	-
40	F - Construction	151	-	2	10
41	*F.41 - Construction of buildings*	117	-	-	10
42	*F.42 - Civil engineering*	13	-	-	-
43	*F.43 - Specialised construction activities*	21	-	1	-
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	301	79	8	6
45	H - Transportation and storage	473	-	2	1
46	*H.49 - Land transport and transport via pipelines*	72	-	2	1
47	*H.50 - Water transport*	-	-	-	-
48	*H.51 - Air transport*	-	-	-	-
49	*H.52 - Warehousing and support activities for transportation*	382	-	-	-
50	*H.53 - Postal and courier activities*	19	-	-	-
51	I - Accommodation and food service activities	51	-	5	16
52	L - Real estate activities	186	-	-	1
53	**Exposures towards sectors other than those that highly contribute to climate change***	396	-	9	7
54	K - Financial and insurance activities	93	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	303	-	9	7
56	TOTAL	2,659	360	46	49

* In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006

** In accordance with Article 12(1) points (d) to (g) and Article 12(2) of Regulation (EU) 2020/1818

in EUR million

	Sector/subsector 31.12.2022	f	g	h
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		Total	Of which Stage 2 exposures	Of which non-performing exposures
1	**Exposures towards sectors that highly contribute to climate change***	(32)	(1)	(22)
2	A - Agriculture, forestry and fishing	-	-	-
3	B - Mining and quarrying	-	-	-
4	*B.05 - Mining of coal and lignite*	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	-	-	-
6	*B.07 - Mining of metal ores*	-	-	-
7	*B.08 - Other mining and quarrying*	-	-	-
8	*B.09 - Mining support service activities*	-	-	-
9	C - Manufacturing	(6)	-	(3)
10	*C.10 - Manufacture of food products*	-	-	-
11	*C.11 - Manufacture of beverages*	-	-	-
12	*C.12 - Manufacture of tobacco products*	-	-	-
13	*C.13 - Manufacture of textiles*	-	-	-
14	*C.14 - Manufacture of wearing apparel*	-	-	-
15	*C.15 - Manufacture of leather and related products*	-	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	(1)	-	(1)
17	*C.17 - Manufacture of paper and paperboard*	-	-	-
18	*C.18 - Printing and reproduction of recorded media*	-	-	-
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-
20	*C.20 - Production of chemicals and chemical products*	-	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	-	-	-
22	*C.22 - Manufacture of rubber products*	-	-	-
23	*C.23 - Manufacture of other non-metallic mineral products*	-	-	-
24	*C.24 - Manufacture of basic metals*	(1)	-	(1)
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	-	-	-
26	*C.26 - Manufacture of computer, electronic and optical products*	-	-	-
27	*C.27 - Manufacture of electrical equipment*	(1)	-	-
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	-	-	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	-	-	-
30	*C.30 - Manufacture of other transport equipment*	-	-	-
31	*C.31 - Manufacture of furniture*	-	-	-
32	*C.32 - Other manufacturing*	(1)	-	(1)
33	*C.33 - Repair and installation of machinery and equipment*	-	-	-
34	D - Electricity, gas, steam and air conditioning supply	(1)	-	-
35	*D35.1 - Electric power generation, transmission and distribution*	(1)	-	-
36	*D35.11 - Production of electricity*	-	-	-
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	-	-	-
38	*D35.3 - Steam and air conditioning supply*	-	-	-
39	E - Water supply; sewerage, waste management and remediation activities	-	-	-
40	F - Construction	(10)	-	(8)
41	*F.41 - Construction of buildings*	(9)	-	(8)
42	*F.42 - Civil engineering*	-	-	-
43	*F.43 - Specialised construction activities*	-	-	-
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	(6)	-	(5)
45	H - Transportation and storage	(2)	-	(1)
46	*H.49 - Land transport and transport via pipelines*	(1)	-	(1)
47	*H.50 - Water transport*	-	-	-
48	*H.51 - Air transport*	-	-	-
49	*H.52 - Warehousing and support activities for transportation*	(1)	-	-
50	*H.53 - Postal and courier activities*	-	-	-
51	I - Accommodation and food service activities	(4)	-	(4)
52	L - Real estate activities	(2)	-	(1)
53	**Exposures towards sectors other than those that highly contribute to climate change***	(8)	-	(6)
54	K - Financial and insurance activities	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	(8)	-	(6)
56	TOTAL	(40)	(1)	(28)

in EUR million

	Sector/subsector 31.12.2022	i GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)	j Of which Scope 3 financed emissions	k GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting
1	**Exposures towards sectors that highly contribute to climate change***	329,463	-	5
2	A - Agriculture, forestry and fishing	25,731	-	-
3	B - Mining and quarrying	1,986	-	-
4	*B.05 - Mining of coal and lignite*	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	-	-	-
6	*B.07 - Mining of metal ores*	-	-	-
7	*B.08 - Other mining and quarrying*	1,986	-	-
8	*B.09 - Mining support service activities*	-	-	-
9	C - Manufacturing	162,120	-	3
10	*C.10 - Manufacture of food products*	7,923	-	-
11	*C.11 - Manufacture of beverages*	653	-	-
12	*C.12 - Manufacture of tobacco products*	-	-	-
13	*C.13 - Manufacture of textiles*	534	-	-
14	*C.14 - Manufacture of wearing apparel*	23	-	-
15	*C.15 - Manufacture of leather and related products*	8	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	813	-	-
17	*C.17 - Manufacture of paper and paperboard*	728	-	-
18	*C.18 - Printing and reproduction of recorded media*	676	-	-
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-
20	*C.20 - Production of chemicals and chemical products*	5,327	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	2	-	-
22	*C.22 - Manufacture of rubber products*	5,352	-	-
23	*C.23 - Manufacture of other non-metallic mineral products*	26,125	-	1
24	*C.24 - Manufacture of basic metals*	73,816	-	-
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	15,381	-	-
26	*C.26 - Manufacture of computer, electronic and optical products*	134	-	-
27	*C.27 - Manufacture of electrical equipment*	15,935	-	1
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	4,471	-	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	2,509	-	-
30	*C.30 - Manufacture of other transport equipment*	64	-	-
31	*C.31 - Manufacture of furniture*	289	-	-
32	*C.32 - Other manufacturing*	1,283	-	-
33	*C.33 - Repair and installation of machinery and equipment*	74	-	-
34	D - Electricity, gas, steam and air conditioning supply	45,920	-	2
35	*D35.1 - Electric power generation, transmission and distribution*	5,712	-	-
36	*D35.11 - Production of electricity*	4	-	-
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	-	-	-
38	*D35.3 - Steam and air conditioning supply*	40,204	-	1
39	E - Water supply; sewerage, waste management and remediation activities	27,809	-	-
40	F - Construction	2,260	-	-
41	*F.41 - Construction of buildings*	665	-	-
42	*F.42 - Civil engineering*	850	-	-
43	*F.43 - Specialised construction activities*	745	-	-
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	11,694	-	-
45	H - Transportation and storage	46,777	-	-
46	*H.49 - Land transport and transport via pipelines*	41,881	-	-
47	*H.50 - Water transport*	-	-	-
48	*H.51 - Air transport*	2	-	-
49	*H.52 - Warehousing and support activities for transportation*	3,544	-	-
50	*H.53 - Postal and courier activities*	1,350	-	-
51	I - Accommodation and food service activities	3,378	-	-
52	L - Real estate activities	1,788	-	-
53	**Exposures towards sectors other than those that highly contribute to climate change***	7,978	-	-
54	K - Financial and insurance activities	186	-	-
55	Exposures to other sectors (NACE codes J, M - U)	7,792	-	-
56	TOTAL	337,441	-	5

in EUR million

	Sector/subsector 31.12.2022	l <= 5 years	m > 5 year <= 10 years	n > 10 year <= 20 years	o > 20 years	p Average weighted maturity
1	**Exposures towards sectors that highly contribute to climate change***	1,243	757	210	54	5.0
2	A - Agriculture, forestry and fishing	10	3	3	-	4.4
3	B - Mining and quarrying	4	5	15	-	10.2
4	*B.05 - Mining of coal and lignite*	-	-	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	1	-	-	-	1.3
6	*B.07 - Mining of metal ores*	-	-	-	-	-
7	*B.08 - Other mining and quarrying*	3	5	15	-	10.5
8	*B.09 - Mining support service activities*	-	-	-	-	-
9	C - Manufacturing	444	239	4	4	3.7
10	*C.10 - Manufacture of food products*	31	12	-	-	2.7
11	*C.11 - Manufacture of beverages*	-	2	-	-	6.9
12	*C.12 - Manufacture of tobacco products*	-	-	-	-	-
13	*C.13 - Manufacture of textiles*	5	1	-	-	4.4
14	*C.14 - Manufacture of wearing apparel*	2	-	-	-	3.0
15	*C.15 - Manufacture of leather and related products*	-	-	-	-	2.6
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	7	1	-	-	3.1
17	*C.17 - Manufacture of paper and paperboard*	6	1	-	-	3.2
18	*C.18 - Printing and reproduction of recorded media*	9	1	1	-	3.7
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-	-	-
20	*C.20 - Production of chemicals and chemical products*	7	15	-	-	6.6
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	-	-	-	-	0.2
22	*C.22 - Manufacture of rubber products*	29	9	-	-	3.8
23	*C.23 - Manufacture of other non-metallic mineral products*	8	36	-	-	6.0
24	*C.24 - Manufacture of basic metals*	48	57	-	-	4.1
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	88	22	-	-	3.2
26	*C.26 - Manufacture of computer, electronic and optical products*	5	2	-	1	2.7
27	*C.27 - Manufacture of electrical equipment*	118	7	-	-	2.0
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	45	10	-	-	2.9
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	23	36	-	1	5.1
30	*C.30 - Manufacture of other transport equipment*	2	-	-	-	3.3
31	*C.31 - Manufacture of furniture*	3	1	-	1	3.4
32	*C.32 - Other manufacturing*	4	23	3	-	6.8
33	*C.33 - Repair and installation of machinery and equipment*	2	2	-	-	4.4
34	D - Electricity, gas, steam and air conditioning supply	116	126	64	42	7.6
35	*D35.1 - Electric power generation, transmission and distribution*	80	83	41	42	8.3
36	*D35.11 - Production of electricity*	20	24	23	-	6.4
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	15	-	-	-	1.2
38	*D35.3 - Steam and air conditioning supply*	-	19	-	-	8.1
39	E - Water supply; sewerage, waste management and remediation activities	13	10	-	-	3.4
40	F - Construction	132	8	10	1	2.9
41	*F.41 - Construction of buildings*	102	5	10	-	3.0
42	*F.42 - Civil engineering*	12	1	-	-	2.3
43	*F.43 - Specialised construction activities*	18	3	-	1	2.8
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	164	123	10	5	3.8
45	H - Transportation and storage	312	159	-	2	4.3
46	*H.49 - Land transport and transport via pipelines*	26	45	-	2	5.3
47	*H.50 - Water transport*	-	-	-	-	-
48	*H.51 - Air transport*	-	-	-	-	0.1
49	*H.52 - Warehousing and support activities for transportation*	280	102	-	-	4.0
50	*H.53 - Postal and courier activities*	6	13	-	-	5.6
51	I - Accommodation and food service activities	20	14	16	-	6.4
52	L - Real estate activities	28	70	88	-	9.4
53	**Exposures towards sectors other than those that highly contribute to climate change***	209	179	5	2	4.4
54	K - Financial and insurance activities	40	49	4	-	5.5
55	Exposures to other sectors (NACE codes J, M - U)	169	131	1	2	4.1
56	TOTAL	1,452	936	215	55	4.9

14.5. Energy efficiency of the collateral

The purpose of this template is to measure the energy efficiency of the loans collateralised with commercial and residential immovable property and of repossessed real estate collaterals, in terms of their consumption as expressed in kWh/m2 and/or their EPCs.

With the aim of promoting the energy efficiency of buildings, the Energy Performance of Buildings Directive (2010/31/EU) and the Energy Efficiency Directive (2012/27/ EU) introduced EPCs in Europe. Following their entry into force, these certificates are compulsory for the sale and rent of immovable property in the Eurozone.

For new lending in NLB we gather energy performance certificates (EPC-s) for real estate in collateral in all cases when energy performance certificate is mandatory according to Slovenian law. Owners of buildings which do not sell or rent out their properties, do not need an EPC. For Back book NLB relies on actual data from public EPC registry and modelled EPC-s. For modelled EPC-s in Slovenia external provider modelled missing EPC-s based on public EPC registry data and information from national building registry.

Similar exercise is on-going for NLB group members. External provider will model EPC proxies based on each country's collateral data. For N banka, the same exercise as for NLB has been successfully completed. As integration of N banka has not been finished yet, the collateral data are not available at the moment.

Table 51 – Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

in EUR million

	Counterparty sector	Total gross carrying amount amount						
	31.12.2022		Level of energy efficiency (EP score in kWh/m² of collateral)					
		Total	0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500
		a	b	c	d	e	f	g
1	**Total EU area**	2,951	237	570	226	55	9	5
2	Of which Loans collateralised by commercial immovable property	1,088	22	72	65	17	1	-
3	Of which Loans collateralised by residential immovable property	1,848	212	497	161	37	8	5
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	15	2	1	-	-	-	-
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	978	217	510	199	46	4	2
6	**Total non-EU area**	3,022	4	-	-	-	-	-
7	Of which Loans collateralised by commercial immovable property	1,525	-	-	-	-	-	-
8	Of which Loans collateralised by residential immovable property	1,423	-	-	-	-	-	-
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	74	4	-	-	-	-	-
10	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	1	-	-	-	-	-	-

in EUR million

	Counterparty sector 31.12.2022	Total gross carrying amount amount								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
		A	B	C	D	E	F	G	Total	Of which level of energy efficiency* estimated
		h	i	j	k	l	m	n	o	p
1	**Total EU area**	14	49	84	77	36	16	12	2,663	33.1%
2	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-	1,087	16.3%
3	Of which Loans collateralised by residential immovable property	14	48	83	76	35	15	12	1,564	43.3%
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	1	1	1	1	-	-	11	0.0%
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated									
6	**Total non-EU area**	-	-	-	1	4	1	-	3,015	0.0%
7	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-	1,525	0.0%
8	Of which Loans collateralised by residential immovable property	-	-	-	1	-	-	-	1,421	0.1%
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	1	4	1	-	68	0.0%
10	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated									

* (EP score in kWh/m² of collateral)

14.6. Exposures to top 20 carbon-intensive firms

Table 52 – Template 4: Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms on 31.12.2022

in EUR million

	Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
	a	b	c	d	e
1	10	0.07%	N/A	3	1

*For counterparties among the top 20 carbon emitting companies in the w orld

The objective of this template is to show aggregate exposure to the 20 most carbon-intensive companies globally.

The perimeter includes loans and advances, debt securities, and equity instruments, classified under the accounting portfolios in the banking book, excluding financial assets held for trading and held for sale assets.

As the EBA instructions do not specify which list to use to cover this template, we have decided to use one of the two options mentioned as an example in the EBA's implementing technical standards on prudential disclosures on ESG risks namely the Carbon Majors Database.

Regarding environmentally sustainable (CCM) column, according to the Pillar 3 ESG implementing technical standards, we currently have no knowledge regarding reported company.

14.7. Exposures subject to physical risk

The purpose of this template is to identify exposures subject to acute and chronic physical risk, including exposures collateralised by immovable property, exposures by the business sector and foreclosed assets.

The perimeter includes exposures in the banking book, including loans and advances, debt securities and equity instruments not held-for-trading and not held-for-sale.

The Bank is using internal methodology for assessment of various physical risk events (hazards). Based on the location and industry of the counterpart vulnerability score is assigned to each exposure. 5 level scale is used (low, moderately low, moderate, moderately high, and high). NLB Group has no exposure assigned to the bucket high risk. However limited exposure arising from acute physical risk is assigned to bucket moderately high risk which the bank still considers as exposures sensitive to impact from acute climate change events. Moderately high-risk exposure mostly relates to exposures to agriculture, which is vulnerable to drought. Less material are energy production, water supply, sewerage and waste management industries which are sensitive either to drought or floods. Furthermore, there is very limited exposure collateralised by immovable property vulnerable to floods.

For loans collateralized by commercial or residential real-estate a specific model for assessing flood risk based on national (Slovenian) flood risk zones was developed – determining flood risk on the actual location of the real estate in collateral. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined. Other physical risks in Slovenia are assessed as not material to NLB collateral exposure. For NLB Group members similar exercise with the same IT tool is on-going. For each collateral, coordinates will be determined and compared with flood risk map. As per N banka is concerned, when collateral data will be available, the same exercise as per NLB d.d. will be done.

The Group has not identified any exposure sensitive to impact of chronic climate change events.

Table 53 – Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk

in EUR million

	31.12.2022	Gross carrying amount (Mln EUR)													
			of which exposures sensitive to impact from climate change physical events												
	Slovenia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, North Macedonia	Total	Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposu-res	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity						Total	of which Stage 2 exposu-res	Of which non-performing exposures
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
1	A - Agriculture, forestry and fishing	99	57	18	3	0	3	-	79	-	28	4	(8)	(1)	(2)
2	B - Mining and quarrying	54	-	-	-	-	-	-	-	-	-	-	-	-	-
3	C - Manufacturing	1,397	-	-	-	-	-	-	-	-	-	-	-	-	-
4	D - Electricity, gas, steam and air conditioning supply	547	6	9	9	-	9	-	24	-	3	-	(2)	-	-
5	E - Water supply; sewerage, waste management and remediation activities	51	15	1	-	-	3	-	15	-	-	8	(5)	-	(4)
6	F - Construction	554	-	-	-	-	-	-	-	-	-	-	-	-	-
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,213	-	-	-	-	-	-	-	-	-	-	-	-	-
8	H - Transportation and storage	661	-	-	-	-	-	-	-	-	-	-	-	-	-
9	L - Real estate activities	312	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Loans collateralised by residential immovable property	2,594	-	1	-	-	10	-	1	-	-	-	-	-	-
11	Loans collateralised by commercial immovable property	3,260	-	2	11	5	19	-	18	-	-	-	-	-	-
12	Repossessed colaterals	86	86	-	-	-	3	-	-	-	-	-	-	-	-
13	Other relevant sectors	-	-	-	-	-	-	-	-	-	-	-	-	-	-

15. Leverage ratio

(Article 451 of CRR)

The leverage ratio is calculated in line with provisions from the CRR and CRD, including the amendments. The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk-based supplementary measure to the risk-based capital requirements. The purpose of the leverage ratio is to limit the size of bank balance sheets, and with a special emphasis on exposures, which are not weighted within the framework of the existing capital requirement calculations. Therefore, the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. From 1 January 2018 onwards, the leverage ratio is calculated in accordance with the fully phased definition of the capital measure and has become one of the mandatory minimum capital requirements.

Table 54 – Leverage ratio of NLB Group

	31.12.2022	30.06.2022	31.12.2021
Tier 1 capital	2,295,700	2,048,928	1,965,551
Total leverage exposures	25,240,506	23,711,555	19,229,497
Leverage ratio	**9.10%**	**8.64%**	**10.22%**

The leverage ratio of NLB Group as at 31 December 2022 amounted to 9.10%, which is well above the 3% threshold defined by the BCBS. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceeding's of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Boards of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 31 December 2022 increased in comparison with the end of June 2022, by 0.44 p.p. by the higher value of the total leverage exposure in the amount of EUR 1,529 million and the increase of the capital by EUR 347 million. The increase in the total leverage exposure was influenced by increase of on-balance exposures at the end of December 2022, which rose by EUR 1,425 EUR million, especially to sovereigns, exposures secured by mortgages of immovable properties and corporates, while off-balance sheet exposures increased by EUR 85 million. Compared to June 2022, derivative exposures increased by EUR 18 million, nevertheless their share in the total exposure measures is very low.

As at 31 December 2022, the leverage exposure was mainly driven by on-balance sheet exposures (95.3%), and other off-balance sheet exposure (4.3%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (35.18%), retail exposures (24.30%), exposures to corporates (16.05%), and 10.85% to exposures secured by mortgages of immovable properties.

Table 55 – LRCom - Leverage ratio common disclosure for NLB Group

		CRR leverage ratio exposures		
		a	b	c
		31.12.2022	**30.06.2022**	**31.12.2021**
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	24,093,098	22,664,872	21,540,991
6	(Asset amounts deducted in determining Tier 1 capital)	(47,861)	(45,352)	(46,143)
7	**Total on-balance sheet exposures (excluding derivatives, SFTs)**	**24,045,237**	**22,619,520**	**21,494,848**
Derivative exposures				
EU-9b	Exposure determined under Original Exposure Method	174,969	128,984	58,899
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(74,537)	(46,412)	(21,272)
13	**Total derivative exposures**	**100,432**	**82,572**	**37,627**
Securities financing transaction (SFT) exposures				
18	**Total securities financing transaction exposures**	**-**	**-**	**-**
Other off-balance sheet exposures				
19	Off-balance sheet exposures at gross notional amount	4,610,694	4,199,378	3,536,911
20	(Adjustments for conversion to credit equivalent amounts)	(3,515,857)	(3,189,915)	(2,698,018)
22	**Off-balance sheet exposures**	**1,094,837**	**1,009,463**	**838,893**
Excluded exposures				
EU-22l	(Excluded exposures to the central bank exempted in accordance with point (n) of Article 429a(1) CRR	-	-	(3,141,871)
EU-22k	**(Total exempted exposures)**	**-**	**-**	**(3,141,871)**
Capital and total exposure measure				
23	Tier 1 capital	2,295,700	2,048,928	1,965,551
24	**Total exposure measure**	**25,240,506**	**23,711,555**	**19,229,497**
Leverage ratio				
25	**Leverage ratio**	**9.10%**	**8.64%**	**10.22%**
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans)	9.10%	8.64%	10.22%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.10%	8.64%	8.79%
26	Regulatory minimum leverage ratio requirement	3.00%	3.00%	3.14%
27	Leverage ratio buffer requirement (%)	3.00%	3.00%	3.14%
EU-27a	Overall leverage ratio requirement	3.00%	3.00%	3.14%
Choice on transitional arrangements and relevant exposures				
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in	Fully phased in
Disclosure of mean values				
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	25,240,506	23,711,555	19,229,497
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	25,240,506	23,711,555	22,371,368
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	9.10%	8.64%	10.22%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	9.10%	8.64%	8.79%

Table 56 – EU LR1 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

		a
		31.12.2022
1	**Total assets as per published financial statements**	**24,160,240**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(1,016)
8	Adjustments for derivative financial instruments	19,684
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,094,837
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(2,981)
12	Other adjustments	(30,258)
13	**Total exposure measure**	**25,240,506**

Table 57 – EU LR3 LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) for NLB Group

		a
		31.12.2022
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**24,093,098**
EU-2	Trading book exposures	203
EU-3	Banking book exposures, of which:	24,092,895
EU-4	Covered bonds	276,582
EU-5	Exposures treated as sovereigns	8,475,423
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	512,355
EU-7	Institutions	846,859
EU-8	Secured by mortgages of immovable properties	2,613,781
EU-9	Retail exposures	5,854,449
EU-10	Corporate	3,866,451
EU-11	Exposures in default	128,831
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,518,164

16. Remuneration policy

(Article 450 of CRR)

16.1. The bodies that oversee remuneration

The competent specialised departments, the Management Board, the Remuneration Committee of the Supervisory Board, and the Supervisory Board of the NLB, which also adopts the Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB and Remuneration Policy of employees of NLB and NLB Group, are involved in the decision-making process on the formulation, changes, and amendments to the Remuneration Policies. In accordance with the Companies Act (ZGD-1), the remuneration policy of the members of the Supervisory Board of NLB and of the Management Board of NLB must be after approval by the Supervisory Board of NLB submitted to the General Meeting of Shareholders of NLB for approval. Voting on the Remuneration policy at the General Meeting of Shareholders of the Bank is consultative. Latest change to the Remuneration Policy for members of the Supervisory Board of NLB and members of the Management Board of NLB was submitted to the NLB General Meeting for voting on 12 December 2022, where it was voted with 56.71% of votes.

Members of Remuneration Committee as per 31 December 2022:

- Gregor Kastelic, President,
- Mark Richards, Vice President,
- Shrenik Davda, member,
- Sergeja Kočar, member.

In 2022, the Remuneration Committee of the NLB Supervisory Board held nine meetings, of which six were regular and three were correspondence meetings.

An external contractor – a legal advisor for corporate law, who is a permanent associate of the Bank, also participates in the formulation, preparation, or implementation of the Remuneration Policy.

Considering local legislation and other regulations, the remuneration policy is also implemented at the level of all members of the NLB Group through the management and control system of the NLB Group.

Both remuneration policies regulate the remuneration of identified employees, i.e., those employees who, within the scope of their work tasks and activities, can significantly influence the Bank's risk profile and sets the framework of the remuneration for all other employees in NLB and in NLB Group.

The Bank conducts annually a self-assessment in order to establish the appropriateness of the definition of identified employees. Employee self-assessment is carried out based on qualitative and quantitative criteria laid down in the second paragraph of Article 189 of the Banking Act (ZBan-3) and Commission Delegated Regulation (EU) No 2021/923, so that each employee is assessed according to the previously mentioned criteria.

The competent specialised department shall at least annually, considering the above criteria, draw up a proposal on the basis of which the Bank's Management Board, subject to approval of the Supervisory Board, adopts the self-assessment of the identified employees. In the Remuneration policies are as identified employees included members of the management body, senior management, and other employees who, within their powers and responsibilities, can influence the Bank's risk profile

16.2. Design and structure of the remuneration system for identified staff

The Remuneration Policy for identified employees shall be consistent with the goals of the Bank and NLB Group, the business strategy of Bank and NLB Group, the organisational culture and values, long-term interests, the ESG factors, the measures to prevent conflicts of interest, the risk profile, and the risk appetite.

The Remuneration Policy has been designed in a way not to stimulate the identified employees to take the non-proportionally high risks or risks that exceed the ability of NLB and/or NLB Group to assume risks, considering all risks, including reputation risks and risks resulting from mis-selling or unethical selling of products or other unethical or non-compliant behaviour.

The following stakeholders are involved in the decision-making process on the formulation, changes, and amendments to the remuneration policy:

- The competent specialised departments prepare and coordinate proposals, check the compliance of the policy with regulations, policies, risk-taking, and perform a central review of compliance with regulations, policies, procedures, internal acts, etc.
- Management Board of NLB within the scope of its powers, ensures, *inter alia*, the adequacy of remuneration practices that are consistent with prudent and effective risk management, as well as that they are thus managed, that they encourage such management and are gender neutral.
- Remuneration Committee of the Supervisory Board of NLB is an advisory body of the Bank's Supervisory Board with the duty to carry out expert and independent assessment of the remuneration policies and practices and, on that basis, drafts initiatives for the measures related to the improvement in the management of the Bank's risks, capital, and liquidity; prepare proposals for the decisions of the Supervisory Board in relation to remuneration, including those affecting the Bank's risks and their management; supervise the remuneration of senior management performing the function of risk management and the compliance function, as well as senior management performing the internal audit function; support and advise the Bank's Supervisory Board in formulating the Bank's remuneration policy, including that such remuneration policy is gender-neutral and supports equal treatment of employees.
- Risk Committee of the Supervisory Board of NLB is an advisory body of the Bank's Supervisory Board with the duty to advise on the Bank's general present and future risk appetite and on the risk management strategy; help to supervise the senior management regarding the implementation of the risk management strategy; without interfering with the duties of the remuneration committee, check whether the stimulations provided by the remuneration system take into account the risk, capital, liquidity, probability and schedule of the Bank's revenues, in order to design prudential remuneration policies and practices.
- Supervisory Board of NLB, adopts remuneration policies and within the scope of its powers, supervises the implementation of the general principles of remuneration policies. In accordance with the EBA Guidelines, the Bank's Supervisory Board is responsible for adopting and maintaining the remuneration policy and for supervising its implementation to ensure that it is fully implemented at the level of NLB, as well as at the consolidated level of the NLB Group.
- The General Meeting of NLB, after the confirmation of the Remuneration policy of the members of the Management Board by the Supervisory Board of NLB in accordance with the Companies Act (ZGD-1) a voting of the bank's shareholders is conducted to approve the policy. The vote on the remuneration policy at the General Meeting of Shareholders of the Bank is consultative.

With the Remuneration Policy, guidelines for the prudent remuneration of identified employees are set in accordance with binding regulations and for the purpose of prudent and effective risk management.

In accordance with the provisions of the remuneration policies, the Supervisory Board to a member of the Management Board and to heads of the control or supervisory function or Management Board to identified employees prior to allocating the variable part of salary adjusts this variable part to performance and risk, taking into account adjustment criteria based on KPI & KRI goals and criteria stated in the remuneration policies and relating to the Bank's or NLB Group's operations as well as the conduct of the identified employee. In the remuneration policies, certain cases are defined when the Supervisory Board to a member of the Management Board and to heads of the control or supervisory function or the Management Board to identified employee prior to allocation reduces the amount of variable remuneration (possibly to zero) due to prior or subsequent adjustment to the risk.

The remuneration policy is reviewed and coordinated annually, following the requirements of binding regulations and guidelines. In 2022, the Bank prepared changes to the Remuneration policy for members of the Supervisory Board of NLB and members of the Management Board of NLB, which were discussed at the Management Board of NLB, the policy was approved by the Remuneration Committee of the Supervisory Board of NLB and adopted by the Supervisory Board of NLB. The remuneration policy was submitted to the NLB General Meeting for a vote, which also voted on 12 December 2022.

The principal amendments to the Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB were the following:

- the stakeholders' (Management Board, Remuneration Committee, Risk Committee, Supervisory Board, General Meeting, Compliance and Integrity, Internal Audit) roles in the process of adopting and supervising the implementation of the Remuneration Policy have been defined in further detail, in the process of awarding guaranteed variable remuneration, retention bonus and variable part of salary;

- the Policy defines in more detail the components of the fixed and variable parts of the remuneration of the Management Board members with predefined maximum values of individual remuneration;
- the possibility of covering or reimbursing the difference in tax liabilities of the new Management Board member arising from his/her income, received in the past, in case he/she becomes a Slovenian tax resident – the purpose of this is the Bank's ability to cover the difference in tax liabilities of the new member of a Management Board arising from his/her income, received in the past, as a result of him/her acquiring the status of Slovenian tax resident;
- the possibility of granting a personnel housing loan to a Management Board member under the same conditions as apply to key personnel under the collective agreement;
- the maximum permitted amount of the gross monthly salary of a member of the Management Board is determined in relation to the average gross monthly salary of a member of senior management of NLB;
- the maximum amount of the variable part of the salary (performance bonus) of a Management Board member for an individual business year has increased to 9 salaries for the period from 01 January 2023 onwards;
- the guaranteed variable remuneration is more clearly defined, together with the maximum possible amount;
- a new definition of the possibility of retention bonus;
- an explanation has been included about how the award and payment of a part of variable remuneration in the form of the Bank's shares or instruments the value of which is linked to the value of the Bank's share contributes to the Bank's long-term development;
- the goals of the Management Board members are specified in more detail per area;
- the provision of the policy relating to the compensation for early discontinuation of the term of office of a Management Board member and the compensation for non-competition of a Management Board member is aligned with EBA guidelines for sound remuneration.

In accordance with the Remuneration Policy for employees of NLB and the NLB Group the Remuneration Committee of Supervisory Board of NLB and Supervisory Board of NLB must check the adequacy of the Remuneration policy at least once a year as part of the monitoring and control of the implementation. The annual report regarding the implementation of the remuneration policy was presented and confirmed on Supervisory Board of NLB on its meeting on 11 November 2022.

The Bank uses different remuneration policies and mechanisms of adjusting variable remuneration to risks for different employee categories.

The following goals in the following ratios shall be used for assessing the performance of an individual member of the Management Board:

- financial goals of the NLB Group 50%,
- financial goals in the areas covered by the member of the Management Board 30%,
- personal goals of the member of the Management Board 20%.

The following goals with the following ratios are used to assess the performance of the member of the Management Board responsible for the area of risks (CRO):

- financial goals of the NLB Group 20%,
- goals of the risk management function (CRO) 60%; the goals in this indent are independent of the performance of the business areas that the member of the Management Board supervises,
- personal goals of the member of the Management Board 20%.

The performance of identified employees in a control/supervisory function is determined subject to the following goals in the following ratio:

- goals of NLB 20%,
- goals of the control/supervisory function 60%; the goals referred to in this indent are independent of the performance of the business areas supervised by the respective control/supervisory function,
- personal goals of the identified employee 20%.

The performance criteria for supervisory/control functions are established on the basis of the goals of their function and powers. Variable remuneration is awarded and paid depending on the achievement of goals linked to their functions, which should be independent from the performance of the supervised organisational units.

The guaranteed variable remuneration for members of the Management Board and other identified employees
The guaranteed variable remuneration can be allocated or specified in the employment contract only to a new Management Board member or identified employee upon employment, prior to the beginning of the first performance period, and only for the first year of employment in accordance with the Bank's long-term interests, provided that the Bank's capital base is sound and strong.

The maximum amount of the guaranteed variable remuneration is for a new Management Board member limited up to 1.5 times gross monthly salary as defined in his employment contract.

The guaranteed variable remuneration is not included in the calculation of the ratio between the fixed and variable components of the total remuneration for the first performance period. The provisions of this Policy on malus, retention and clawback do not apply to the guaranteed variable remuneration under this article. Regardless of the other provisions laid down in the remuneration policies, the total amount of the variable remuneration shall be paid in cash and shall not be deferred.

Compensation for early discontinuation of the term of office of a member of the Management Board
Any payment to an individual Management Board member in connection with early termination of their employment contract shall reflect the performance of that individual during a specific period, and shall not reward them for failures or possible breaches at the Bank.

According to the above it may not be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office if they are dismissed by the Supervisory Board due to:

- a severe violation of the obligations; or
- the inability to manage business; or
- due to a vote of non-confidence issued by the General Meeting of the Bank, except in the case when such a vote of no confidence is obviously ungrounded.

Furthermore, it may not be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office:

- if they are re-employed by the Bank or the NLB Group after the termination of the term of office; or
- in the event of a regular termination of the term of office.

It may be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office only if dismissed for other business or economic reasons, in which case the proposal of the President of the Management Board for the dismissal of a member of the Management Board can be considered 'other business or economic reason' (the second paragraph of Article 23 of the Bank's Articles of Association) and in the case when the member of the Management Board resigns (in this case, they can only be entitled to a compensation for early termination of the term of office if so decided by the Supervisory Board). The compensation for early termination of the term of office from the previous sentence, stipulated in the contract on the employment of a member of the Management Board with the Bank, may not exceed the amount which is calculated using the following general formula: gross monthly salary of such a member of the Management Board, payable on the basis of the month prior to the termination of the term of office, multiplied by 12.

Severance pays to identified employees
The Bank pays severance pay to identified employees who are not members of the Bank's Management Board, as stipulated by labour regulations and collective agreements are considered as fixed remuneration and not as variable remuneration in the calculation of the ratio between variable and fixed components of remuneration, thus not subject to deferment and payment in instruments.

16.3. The ways in which current and future risks are considered in the remuneration processes

Before awarding and payment of variable remuneration (including deferred part), the Bank considers adjustment criteria resulting from risk management through the performance monitoring system based on KPI & KRI goals at the level of the NLB Group. As criteria, e.g., compliance with adopted policies, methodologies, policies, requirements of regulators and auditors, and authorisations related to the work of a identified employee.

As defined in the Remuneration policies before paying the variable remuneration, the Bank shall check whether the strength of the capital base of the Bank and/or the NLB Group is endangered and whether the variable remuneration would be unsustainable given the financial condition of the Bank as a whole and/or the NLB group as a whole.

Variable remuneration shall not be awarded or paid out when the effect would be that the capital base of the Bank and/or the NLB Group would no longer be sound. If the soundness of the Bank's/NLB Group's capital base could be at risk due to allocating and paying the variable remuneration, the Bank shall take the following measures within the required scope:

- reduce the bonus pool for the previous business year, even down to zero, and appropriately consider such reduction when awarding the variable remuneration for the previous business year;
- use the necessary measures to adjust the performance, particularly the maluses for the reduction of previously awarded but not paid deferred variable remuneration;
- reduce the previously paid remuneration based on the agreement on the return of variable remuneration;
- use the net profit of the Institution for the previous business year and potentially for the current and the subsequent business years to strengthen the Bank's/NLB Group's capital base.

16.4. The ratio between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD

Remuneration of the members of the Supervisory Board
In relation to their function members of the Supervisory Board may only receive remuneration that is compliant with the relevant resolutions of the Bank's General Meeting. The Bank's General Meeting may determine and change the remuneration of the members of the Supervisory Board independently from this Remuneration Policy, and may change, repeal, or replace any of its resolutions in relation to the remuneration of the Supervisory Board members at any time, or adopt a new resolution in relation to the remuneration of the Supervisory Board members.

All remuneration of the members of the Supervisory Board defined in resolutions of the Bank's General Meeting shall constitute fixed remuneration.

Remuneration of the members of the Management Board
The following principles are observed in the remuneration of the members of the Management Board:

- appropriate remuneration (remuneration of members of the Management Board comparable to the wage trend on the market and thus competitive in comparison with the remuneration of members of the Management Board of eligible international institutions);
- reward related to performance (achieving and exceeding the set goals is rewarded accordingly, which is also reflected in the amount of variable remuneration).

The remuneration of a Management Board member shall consist of:

- A <u>fixed par</u>t of the salary, which reflects the relevant professional experience, responsibilities, and duties of a member of the Management Board, as defined in the job description of the member of the Management Board which is part of the recruitment conditions. The fixed part of the salary of the member of the Management Board was determined by the Supervisory Board based on the international benchmark of comparable banks with regard to the function/area covered by an individual member of the Management Board;
- A <u>variable part</u> of the salary, which reflects sustainable and risk-adjusted performance and performance that is better than expected and defined in the job description of the Management Board member which is part of the recruitment conditions. The amount of the variable part of the salary of a Management Board member depends on:

- the achievement of the financial goals of the NLB Group,
- the achievement of the financial goals in areas within the competence of the Management Board member,
- the personal goals of the Management Board member.

For the term of office of a member of the Management Board, the Bank can provide for the components of the fixed part of the remuneration which are presented in Report on Remuneration in business year 2022.

For the term of office of a member of the Management Board, the Bank can provide for the following components of the variable part of the remuneration:

Component	Maximum value
Variable part of salary (performance bonus)	For the financial year 2022 not more than seven average gross monthly salaries of the Management Board member, and as of 1 January 2023 for each financial year not more than nine average gross monthly salaries of the Management Board member.
Guaranteed variable remuneration	The guaranteed variable remuneration of a new member of the Management Board can amount to a maximum of 1.5 times his gross monthly salary.
Retention bonus	The maximum amount of the retention bonus is limited so that, together with other variable remunerations, which are considered when calculating the ratio between variable and fixed remunerations, it may not exceed 100% of the fixed remuneration of the member of the Management Board
Compensation for early termination of the term of office	The compensation may not exceed the amount calculated using the following general formula: the gross monthly salary of this member of the Board, payable in respect of the month before the termination of the mandate, is multiplied by 12.
Compensation for the non-competition period	Non-competition compensation may not exceed the amount of the gross salary of that Board member for the last month prior to termination of employment under said employment contract for each month that this prohibition applies

The Bank can also arrange with the Management Board member that the Bank covers (or compensates the Management Board member if they paid it by themselves) also any applicable taxes, contributions, and other duties related to the handover of the variable remuneration in instruments to the Management Board member and/or any taxes, contributions, and other duties related to the payment of liabilities from these instruments.

The ratio between the gross salary of the Management Board member and the maximum variable part of the salary of the same Management Board member is 1:0.75.

The sum of variable remunerations of an individual Management Board member which is factored into in the calculation of the ratio between the variable and fixed remuneration for an individual business year in line with the relevant Remuneration Policy must not exceed 100% of the sum of fixed remunerations of the individual Management Board member for this business year.

Remuneration of other identified employees
A salary of an identified employee comprises:

- The fixed part of the salary, which consists of:
  - basic salary – the basic monthly salary of an individual employee, as set in their employment contract (in accordance with the Employment Relationships Act and collective agreements);
  - salary allowances: according to the Employment Relationships Act, allowances are set for special working conditions related to the distribution of working time and special workload. The types of allowances are specified in the Branch Collective Agreement and their amount is set in the Tariff Attachment and in the NLB Collective Agreement;
  - salary compensation: the allowance received by the employee because of absence from work for the reasons defined by labour law regulations applicable at the time (conditions and amount specified in the related regulations);
  - reimbursement of costs: reimbursement of commuting costs and meal allowance defined in the internal Rules on the reimbursement of the work-related costs and other remunerations, reimbursement for use of own assets for working from home (amount determined by in the rules governing work from home);

- bonuses: according to the Personal Income Tax Act (ZDoh-1), a bonus is defined as any benefit in kind provided to the employee by the employer. Bonuses represent the basis for the calculation of benefits (social security contributions of the employee and the employer, and personal income tax) and consequently has the effect of reducing the employee's net salary;
- voluntary supplementary pension insurance (hereinafter: PDPZ) – in line with the concluded contract on establishing PDPZ between NLB and the trade union of NLB the employer pays a certain amount to all employees. PDPZ does not represent an incentive part of the benefit, as the amount paid cannot be paid to the employee before regular retirement;
- other remuneration arising from collective agreements (such as holiday allowance, jubilee award, solidarity assistance, etc.).

- The variable part of the salary, which for identified employees consists of:
  - the part depending on the performance of NLB or the NLB Group (for the identified employees able to affect the risk profile of the NLB Group within the scope of their powers) or depending on the performance of NLB (for other identified employees);
  - the part depending on the performance of the organisational unit of the identified employee;
  - the part depending on the individual performance of the identified employee; and
  - severance pay, which is considered variable remuneration.

The ratio between the variable and fixed part of the salary for identified employees differs depending on the category of identified employee, as defined in the remuneration policy, where identified employees are entitled to from a minimum of three to a maximum of six salaries.

16.5. Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration

a. An overview of main performance criteria and metrics for institution, business lines, and individuals

Criteria for assessing the performance of members of the Management Board
The financial performance indicators arise from the strategic plan of the NLB Group and are, in line with the strategic orientations, oriented towards acquisitions and optimisations, and support the implementation of the strategy and strategic projects and goals arising from the ESG guidelines. The non-financial performance indicators arise from the activities supporting long-term changes reflected in the method of operation and approach to clients, supporting changes in the corporate culture, and supporting the values of the Bank and the employees and thereby support the bank's long-term stability and development orientation.

Specific goals, key performance indicators, criteria, and methodology for determining the performance of management board members for each individual financial year are determined by the Bank's Supervisory Board within the framework defined by the relevant remuneration policy.

The annual goals of the Board members include financial and non-financial goals (including ESG goals) to be evaluated over a one-year period:

Goals	Weights	Goals for 2022
Financial goals of the NLB Group	50% (CRO 20%)	Financial goals as set by Supervisory Board for each business year: • Net revenues • Cost/income ratio (CIR)* • Return on equity after tax (ROE a.t.), normalised* • Cost of risk • Net fees and commission income • Financial intermediation margin
Goals in the areas covered by the member of the Management Board	30% (CRO 60%)	Financial or development goals in the areas covered by the member of the Management Board: • Implementation of the NLB Group strategy in the area under the responsibility of the Management Board member* • Implementation of the environmental, social and governance (ESG) goals agreed in the sustainability implementation plan in the areas that fall under the responsibility of the member of the Management Board* • Achieving the customer satisfaction index*

Personal goals	20%	Personal goals related to: • Acting in accordance with the NLB Group values • Achieving the employee engagement/satisfaction • Employee development • Personal development of the Management Board member

*For CRO targets relate to the risk area

Criteria for assessing performance of other identified employees
Identified employees are entitled to an annual variable part of the salary based on the achievement of financial and non-financial performance criteria, under the conditions specified in the Remuneration Policy.

The Management Board sets the goals of NLB and the NLB Group for each business year and the Bank's Supervisory Board approves them.

The concrete targets which derive from the targets of NLB and/or the goals of the NLB Group of the organisational unit where the identified employee assumes risk are defined by their direct superior officer for each business year and include the following areas:

- business goals of the organisational unit, project goals, cross-functional goals, which are cascaded on the top bottom principle;
- financial goals of the organisational unit (where are specified).

Personal goals of an identified employee are defined by their direct superior officer for each business year.

The following goals apply in the following ratio to determining the performance of an individual identified employee:

	NLB / NLB Group goals	OU goals	Personal goals
Identified employees	50%	30%	20%
Identified employees in control / supervisory function	20%	60%	20%

b. An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance

The Remuneration policy stipulates that the decision on whether the performance criteria have been met and the decision on the payment of annual variable work for the Management Board and identified employees in control/supervisory function is made by the Supervisory Board, and for other identified employees by the Bank's Management Board.

An employee who does not achieve personal goals is not entitled to the annual variable part of the salary, regardless of whether the goals of the Bank and the goals of the organisational unit have been achieved. Likewise, an employee is not entitled to the annual variable part of the salary insofar as it grossly violates the values of the NLB Group defined in the NLB Group Code of Ethics.

In the event of exceptional economic uncertainty or other extraordinary circumstances (in the past, such uncertainty and extraordinary circumstances arose due to the spread of COVID-19) that could jeopardise the solid capital base of the Bank and/or the NLB Group in the future, the Supervisory Board may postpone the decision on awarding and/or paying the variable remuneration (or part thereof) to the Management Board member until such exceptional circumstances cease.

When assessing the performance of the members of the Management Board, the Supervisory Board also considers the interim situation on the local, regional, as well as global banking and economic markets, and the achievement of the goals of the members of the Management Board, considering their activities in pursuing the Bank's best interest.

An interview regarding the achievement of results for the previous year and the agreement on goals for the next year is conducted with identified employees, based on the NLB Group's strategy, NLB's goals and the Bank's development and project goals. During the year, the achievement of goals is also checked, especially those related to strategic projects on individual level with individual identified employees as on a collective level, on the Bank's committees and on the Supervisory Board.

Definition of the amount of variable remuneration for members of the Management Board
The members of the Management Board are entitled to the annual variable part of the salary based on their achievement of financial and non-financial performance criteria under the terms and conditions of the relevant Remuneration Policy.

<table>
<tr><th colspan="2">Variable part of salary</th></tr>
<tr><td>The amount depends on achievement of performance criteria:
if the goals are partially achieved, the variable part of the salary can be between 40% and 60%,
if all the goals are achieved, the variable part of the salary can be between 60% and 80%, and
if all the goals are exceeded, it can be up to 100% of the maximum variable part of the salary.
If personal goals are not achieved, the Board member is not entitled to the variable part of the salary.</td><td>For the business year 2022, a variable part of the salary is maximum seven average gross monthly salaries of a member of the Management Board, and for the period from 1 January 2023 onwards, for a single business year is maximum nine average gross monthly salaries of a member of the Management Board.</td></tr>
</table>

Definition of the amount of variable remuneration for identified employees
The amount of the variable part of the salary of an individual identified employee for an individual business year is determined in the Remuneration Policy for the employees of NLB and NLB Group, considering the fulfilment of the objectives of NLB or NLB Group, organisational unit goals and personal goals, whereby the amount of the variable part of the salary of an individual identified employee for an individual business year can amount to a maximum:

- six salaries for identified employee in category 1 (these are identified employees who belong to senior management in the business part of the Bank and assistants to the Bank's management);
- five salaries for identified employee in category 2 (these are identified employees in the business part of the Bank at level B-2 and regional managers of the NLB Group);
- three salaries for identified employee in category 3 and 4 (these are identified employees in non-business part of the Bank, who are managers and employees who would not otherwise belong to any category from this article, but in accordance with the second paragraph of Article 189 Banking act or Commission Delegated Regulation (EU) No. 2021/923 are treated as having a significant impact on the bank's risk profile and identified employees in the supervisory or control function.

Awarding and payment of the variable part of the salary for the members of the Management Board and other identified employees for 2022
Regarding awarding and payment of the variable part of the salary for business year 2022 for the Management Board members and identified employees in control or supervisory function the Supervisory Board will take decision after the confirmation of the Annual Report for business year 2022 in his session in April 2023. After that, expected in April, the Management Board will take decision on awarding and payment of the variable part of salary for business year 2022 for other identified employees.

Awarding and payment of the variable part of the salary for the members of the Management Board for 2021
At its meeting on 14 April 2022, the Supervisory Board considered the business results and the evaluation of the results achieved by the members of the Management Board of NLB and identified employees in the control or supervisory function for the year 2021, thereby setting the starting point for the awarding of the variable part of the salary for the business year 2021 for members of the Management Board and identified employees in the control or supervisory function and on the payment of the deferred part of the variable part of the salary for 2018, which the Supervisory Board decided at the meeting on 11 May 2022.

The Supervisory Board to the members of the Management Board of NLB has:

- 50% of the variable part of the salary for the financial year 2021 awarded in cash, whereby the first half of the monetary part of the variable part of the salary was paid out on 12 May 2022, and for the rest of the monetary part of the variable part of the salary, a deferral period of five years applies;
- 50% of the variable part of the salary for the financial year 2021 awarded in instruments, the content of which is derived from the draft "agreement on the awarding and payment of part of the variable part of the salary for the financial year in instruments". The number of these (awarded) instruments shall be calculated by dividing the variable part of the salary paid in instruments by the average price of NLB share before awarding and by

rounding the result down to the nearest whole number. Half of the instruments that were awarded to the board member were handed over on 12 May 2022, and the rest of the instruments are subject to a 5-year deferral period.

Awarding and payment of the variable part of the salary for the other identified employees for 2021
For other identified employees, the Management Board decided on the awarding and payment of the variable part of the salary for 2021 and the payment of the deferred part of the variable part of the salary for 2018 on 11 May 2022.

The Management Board has thus decided that for each identified employee whose variable part of the salary for the business year 2021 exceeds EUR 50,000 and/or comprises more than 1/3 of his total remuneration for the business year 2021:

- 50% of his variable part of the salary will be awarded in cash, whereby the first half of the cash part of the variable part of the salary is paid out on 13 May 2022, and for the rest of the cash part of the variable part of the salary, a deferral period of five years applies;
- 50% of the variable part of the salary for the financial year 2021 is awarded in instruments, the content of which is derived from the draft “agreement on the awarding and payment of part of the variable part of the salary for the financial year 2021 in instruments”, whereby the number of these (awarded) instruments is determined as follows, that 50% of his variable part of the salary for the financial year 2021 is divided by the average price of NLB share before the awarding and the result is rounded down to the nearest whole number. Half of the instruments awarded to each identified employee were handed over on 13 May 2022, and the rest of the instruments are subject to a 5-year deferral period.

Payment of the deferred part for the financial year 2018
Payment of the deferred part of the variable part of the salary for the financial year 2018 to the members of the Management Board of NLB and to other identified employees was carried out in accordance with the Remuneration Policy for Employees Performing Special Work (Version 7, hereinafter: ‘the Old Remuneration Policy which was in force at the time’) after the end of the deferral period or no later than three months after the confirmation of the business results at the General Meeting of NLB. The payment of the deferred part of the variable part of the salary for the members of the Management Board and other identified employees for 2018 was carried out on 21 June 2022.

Variable part of the salary in instruments for members of the Management Board for the years 2019 and 2020 and for other identified employees for the year 2019
The Bank for identified employees whose variable remuneration exceeded EUR 50,000 or one third of their total annual remuneration for 2019 and 2020 has not yet awarded the variable part of the remuneration in instruments in 2021. In accordance with the regulations in force at the time, the Bank could simultaneously award a part of the variable part of the salary to identified employees, which must consist of instruments only if would assign it to them in NLB shares. The Bank has decided not to award the variable part of the salary in its own shares, but in instruments linked to the shares (i.e., phantom shares), therefore, by awarding this part of the variable part of the salary, it waited for the implementation of the new Banking Act, which entered into force on 23 June 2021. The new Banking Act stipulates that at least 50% of the variable part of the salary of each individual whose variable remuneration exceeds EUR 50,000 or one third of their total annual remuneration consisting of ordinary or preferred shares of the Bank, or share-related instruments, or equivalent non-monetary instruments.

With the new Banking Act, the basis for awarding part of the variable part of the salary in share-related instruments were provided, the Bank created an instrument for the purpose of awarding the non-monetary part of the variable part of the salary, the content of which is formulated in the “agreement on the awarding and payment of variable part of the salary for the individual business year in instruments,” which was approved by the Supervisory Board of NLB at the meeting on 24 February 2022.

For the years 2019 and 2020, the Bank already confirmed the amount of the variable part of the salary of each individual identified employee based on his/her assessment of the achievement of the set goals and has also paid out the first half of the variable part of salary in cash part in 2021. The other part, which was awarded in the instruments for the members of the Management Board, Supervisory Board on 14 April 2022 has decided that 50% of the variable part of the salary is awarded in instruments. The number of instruments to be awarded is calculated by dividing the variable part of the salary in instruments, by the average price of NLB share before awarding and by rounding the result to the nearest whole number.

The average share price of NLB before the awarding, it is calculated by adding up the closing prices of the NLB share of all trading days on the Ljubljana Stock Exchange in the period of 90 calendar days before the day of awarding of the variable part of the salary in instruments, and the amount thus obtained is divided by the number of these trading days.

Half of the instruments awarded to each member of the Management Board for 2019 and 2020 were handed over on 16 May 2022, while a five-year deferral period applies to the rest of the instruments.

For other identified employees, whose variable part of the remuneration for 2019 exceeded EUR 50,000 or one third of their total annual remuneration for 2019 (there were no such identified employees in 2020), equally awarded 50% of their variable part of the salary in instruments and used the same method of calculating the number of instruments, and handed over half of the instruments to the identified employees on 16 May 2022, while a a five-year deferral period applies to the rest of the instruments.

c. Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options, and other instruments

The purpose of the instrument is to encourage the long-term orientation of the behaviour of the identified employees, especially in the part of risk management, because by linking part of the variable part of the remuneration to long-term monitoring of performance, the sustainable and prudent behaviour of the employees and thus the long-term business of the Bank is encouraged.

The instruments that present the part of the variable remuneration of the identified employee are determined by the Supervisory Board in accordance with the applicable regulations.

If the variable remuneration of an identified employee for an individual business year exceeds EUR 50,000 gross or/and is higher than one-third of his/her total remuneration for the respective business year, at least 50% of it must – if that is obligatory in accordance with the relevant regulations – consist of instruments, and the identified employee may only transfer these instruments upon the Bank's permission, which may only be issued after at least three years have passed since the acquisition (this refers both to the non-deferred and the deferred part of the variable remuneration).

By awarding and paying, in the cases specified by the Remuneration Policies, a part of variable remuneration of the identified employees in the form of NLB shares or instruments the value of which is linked to the value of the NLB share, and subject to the award period and the conditions regarding the holdership of the instruments after they have been acquired, as specified herein (the variable part of the salary of a identified employee for each business year shall be awarded (or it is decided that it shall not be awarded) no later than three months after the adoption of the Annual Report of the NLB Group for the respective business year; the identified employee may only transfer the instruments with the Bank's approval that can only be issued after the expiry of a three-year period from the acquisition date, as the Bank guarantees and stimulates the identified employees to pursue long-term business and development goals when managing the Bank, thus supporting the Bank's strategy and long-term sustainability of operations.

With prudent management and governance of the Bank, a long-term growth is guaranteed, which is among other reflected in the value of the NLB share that follows the performance results. So, the Bank's goals must be set in a reasonable and strategic manner to enable a higher and consistent growth of revenues and ensure further growth and strengthening of the Bank.

d. Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics

The award and payment of the variable remuneration depends on adjustment criteria which result from risk management through the system for monitoring performance based on KPI and KRI targets at the level of the NLB Group.

The criteria applied shall include compliance with the adopted policies, methodologies, orientations, regulators', and auditors' requirements, as well as authorisations linked to the work of the identified employee.

In assessing the work performance of members of the Management Board, the Supervisory Board also considers the year-on-year situation of the local, regional, and global banking and economic market and assesses the achievement of the goals of the members of the Management Board considering their activities in pursuit of the best interests of the Bank.

In 2022, before allocating variable remuneration to employees performing special work for 2021, the Bank in accordance with the provisions of the Remuneration policy, adjusted this variable remuneration for performance and risk based on KPIs and KRI targets and decided that due to prior risk adjustment prior to the award, in accordance with the provisions of the relevant remuneration policy, the amount of the variable part of the salary for the 2021 financial year is reduced to zero for one identified employee.

16.6. The ways in which the institution seeks to adjust remuneration to take account of long-term performance

Members of the Management Board and other identified employees shall be entitled to the annual variable part of the salary which shall be awarded and/or paid based on their achieving the financial and non-financial performance criteria and other terms and conditions specified in the Remuneration Policy.

The decision whether all the criteria have been achieved to pay the variable part of salary to members of the Management Board and the identified employees in control or supervisory functions shall be adopted by the Supervisory Board, whereas for other identified employees this decision shall be adopted by the Management Board of the Bank which reports to the Bank's Supervisory Board on the matter.

Awarding of the variable part of the salary

Prior to awarding variable remuneration to an identified employee, the Bank shall make an adjustment of such variable remuneration to performance and risks, considering the adjustment criteria based on the KPI and KRI goals, and the criteria listed in the table below. The table below shows the cases in which the Supervisory Board of the Bank reduces the amount of variable remuneration of member of the Management Board and identified employees in control or supervisory function and the Management Board of the Bank reduces the amount for the other identified employee, due to prior risk adjustment before allocation reduces the amount of variable remuneration (possibly to zero). If reduction to zero is not mandatory according to the table below, the competent body determines the reduction of the variable remuneration on the basis of the circumstances of each case.

The amount of the variable remuneration to be awarded, its composition, the share of variable part of the remuneration to be deferred, and the period of payment deferment pursuant to Remuneration Policy shall be determined by the Supervisory Board for the member of the Management Board and by the Management Board for other identified employees.

The variable remuneration of identified employee for an individual business year shall be awarded and paid in cash, provided that it does not exceed EUR 50,000 gross and is not higher than one-third of their total remuneration for the respective business year, and if that is in accordance with the relevant regulations.

If the variable remuneration of identified employee for an individual business year exceeds EUR 50,000 gross or/and is higher than one-third of their total remuneration for the respective business year, at least 50% of it must – if that is obligatory in accordance with the relevant regulations – consist of instruments, and the identified employee may only transfer these instruments upon the Bank's permission, which may only be issued after at least three years have passed since the acquisition (this refers both to the non-deferred and the deferred part of the variable remuneration).

If that is obligatory in accordance with the relevant regulations, at least 50% of the variable remuneration of the identified employee awarded for an individual business year (or at least 60% if it is higher than 15 times the average annual gross remuneration at NLB for the business year before the award[6]) shall be deferred for a period of at least five years starting on the day of payment of the non-deferred part of this variable remuneration.

[6] Each individual member of the NLB Group uses 15 times the average annual gross remuneration in that member of the NLB Group in its remuneration policy

Table 58 – Cases in which the amount of variable remuneration is reduced (potentially down to zero)

Ser. No.	Circumstances	Mandatory reduction of variable remuneration to zero	Reduction of variable remuneration, potentially to zero
1	The Bank's performance shows material negative trends that result from the decisions adopted by the employee performing special work in the accounting period, to which the variable remuneration is related	X	
2	Fraud or abuse by the identified employee	X	
3	Severe violations of the Bank's regulations or internal documents by the identified employee	X	
4	The actions of the identified employee show signs of a criminal offence	X	
5	The actions of the identified employee in the accounting period, to which the variable remuneration is related show signs of a minor offence		X
6	The actions of the identified employee in the accounting period, to which the variable remuneration is related reduce or damage the Bank's reputation		X
7	Violation of obligations arising from the employment relationship by the identified employee in the accounting period, to which the variable remuneration is related		X
8	Non-diligent conduct of the identified employee, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the Bank	X	
9	The actions of the identified employee in the accounting period, to which the variable remuneration is related, result in a conflict of interest with the Bank's business interests	X	
10	Corruptive actions of the identified employee resulting in or increasing the non-transparency in the adoption of business decisions	X	
11	The cooperation of such identified employee in, or their responsibility for, the actions that led to significant losses for the Bank	X	
12	Fit & Proper assessment of such identified employee is negative		X
13	The actions of such identified employee is contrary to the Code of Conduct in the NLB Group		X
14	The Bank's soundness of the capital base could be at risk due to allocating and/or paying the variable remuneration		X
15	Considering the financial position of the Bank as a whole, the variable remuneration would not be sustainable		X
16	The financial performance of the Bank and/or the business unit in which the identified employee is employed is poor or negative		X
17	The Bank and/or the business unit in which the identified employee is employed, is particularly unsuccessful in the area of risk management		X
18	The actions of the identified employee in the accounting period, to which the variable remuneration is related, contributed to the Bank being imposed a regulatory fine		X

Note: The cases in which an individual option can be used are marked with a cross.

The non-deferred part of variable remuneration is paid no later than three months after the adoption of the Annual Report of the NLB Group for the business year to which the variable remuneration relates, provided also that the Supervisory Board of NLB adopts a decision on the awarding (or non-awarding) of the variable remuneration for the members of the Management Board of NLB for the said business year.

The deferred part of the variable remuneration shall be paid in proportion. It shall be paid under the terms and conditions of this Policy, in fifths, as follows:

- the first fifth of the deferred part of the variable remuneration shall be paid no later than three months after one year has passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the first fifth of the deferred part of the variable remuneration is paid: (i) one year has lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which one year lapses after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;

- the second fifth of the deferred part of the variable remuneration shall be paid no later than three months after two years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the second fifth of the deferred part of the variable remuneration is paid: (i) two years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which two years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;
- the third fifth of the deferred part of the variable remuneration shall be paid no later than three months after three years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the third fifth of the deferred part of the variable remuneration is paid: (i) three years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which three years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;
- the fourth fifth of the deferred part of the variable remuneration shall be paid no later than three months after four years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the fourth fifth of the deferred part of the variable remuneration is paid: (i) four years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which four years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;
- the fifth fifth of the deferred part of the variable remuneration shall be paid no later than three months after five years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the last fifth of the deferred part of the variable remuneration is paid: (i) five years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which five years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent.

If the competent body of the Bank defines a deferral period that is longer than five years, the previous paragraph applies *mutatis mutandis*.

Malus, retention, and return of the variable part (clawback)

The table below sets out the cases when the Supervisory Board members of the Management Board and identified employees from supervisory functions or control functions, and the Management Board for other defined employees, due to subsequent adjustment to the risk before its maturity reduces deferred part of variable remuneration in cash or the number or the value of instruments that make up an individual part of the deferred part of variable remuneration (possibly to zero). If a reduction to zero is not mandatory according to the table below, the competent authority shall determine the reduction of an individual part of the deferred part of the variable remuneration according to the circumstances of the case.

If the circumstances of a case are not clear enough to allow for deciding on whether the deferred part of the variable remuneration of identified employee is paid out or not, or in what amount it is to be paid, the Bank can decide, that the deferred part of the variable remuneration shall not fall due upon initially set maturity and it may defer the decision on whether, in what amount, and when to pay the deferred part of the variable until the circumstances are clarified. In the case from the previous sentence, the Bank decides whether the deferred part of the variable remuneration is to be paid or not, and in what amount it is to be paid and when once the relevant circumstances have been clarified to its satisfaction. Decisions referred to in this paragraph regarding variable remuneration of members of the Management Board and identified employees from control or supervisory functions shall be made by the Bank’s Supervisory Board, and regarding variable remuneration of other identified employees by the Management Board.

Table 59 – Cases in which the amount of deferred variable remuneration is reduced (potentially down to zero)

Ser. No.	Circumstances	reduction of an individual portion of the deferred part of the variable remuneration to zero	individual portion of the deferred part of the variable remuneration, potentially to zero
1	The Bank's and/or the NLB Group's performance in the period of deferred payment shows material negative trends that result from the decisions adopted by the identified employee	X	
2	Fraud or abuse by the identified employee	X	
3	Severe violations of the Bank's regulations or internal documents by the identified employee	X	
4	The conduct of the identified employee shows signs of a criminal offence	X	
5	The conduct of the identified employee in the accounting period to which the variable remuneration refers show signs of a minor offence		X
6	An action of the identified employee in the accounting period to which the variable remuneration refers reduces or damages the Bank's reputation		X
7	The nullity of the annual report is established with a binding effect and the grounds for nullity refer to the items or facts on which the variable part of the salary is based		X
8	Violation of obligations arising from the employment relationship by the identified employee in the accounting period to which the variable remuneration refers		X
9	Uneconomical practices of the identified employee which are intentional or arise from severe negligence in the accounting period to which the variable remuneration refers, causing material damage to the Bank and/or the NLB Group	X	
10	An action of the identified employee in the accounting period to which the variable remuneration refers results in a conflict of interest with the Bank's business interests	X	
11	Corruptive actions of the identified employee resulting in or increasing the non-transparency in the adoption of business decisions	X	
12	It is established in a special auditor's report that the criteria for defining the variable part of the salary were applied incorrectly or that the critical accounting, financial and other data and indicators were incorrectly established or applied		X
13	The variable remuneration was not awarded in accordance with this Policy		X
14	If a new fact is revealed that could change the decision on the award or the amount of the variable remuneration		X
15	Involvement of the identified employee in or their responsibility as a identified employee for actions leading to significant losses for the Bank and/or the NLB Group	X	
16	The fit & proper assessment of the identified employee is negative		X
17	The conduct of the identified employee is in contravention of the Code of Conduct of the NLB Group		X
18	The solid capital base of the Bank and/or the NLB Group could be at risk due to paying the variable remuneration		X
19	Considering the financial position of the Bank as a whole and/or of the NLB Group as a whole, the variable remuneration is not sustainable		X
20	Financial performance of the Bank and/or the NLB Group and/or the business unit in which the identified employee is employed is bad or negative		X
21	The Bank and/or the Group and/or the business unit in which the identified employee is employed is particularly unsuccessful in the area of risk management		X
22	The actions of the identified employee in the accounting period to which the variable remuneration refers contributed to the Bank being imposed a regulatory fine		X

Note: The cases in which an individual option can be used are marked with a cross.

If the case of a circumstance from item 7, 12, 15, or 16 of the table from Policy occurs or is revealed and the (non-deferred or deferred) part of the variable remuneration has already been paid, the bank has the right to demand, within a period of three years from the payment of the part of the variable remuneration from identified employee to return such part of variable remuneration, partially or in full, with *mutatis mutandis* application rules from Remuneration Policy. Furthermore, the Bank has the right to demand, within a period of three years from the payment of the part of the variable remuneration from identified employee to return such part of variable remuneration, partially or in full, if it is established after the payment that identified employee significantly contributed to poor or negative financial performance of the Bank or used fraud or taken any other intentional action or caused, through gross negligence, great losses to the Bank. Decisions referred to in this paragraph regarding the variable remuneration of members of the Management Board and identified employees of control functions or supervisory functions shall be made by the Bank's Supervisory Board, and Management Board regarding the variable remuneration of other identified employees.

16.7. Main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR

The variable part of the remuneration refers to the payment, which depends on the achieved results, and which are directly related to the achievement of the goals of the NLB Group, NLB, and individual goals and is allocated and paid out in the form of cash and/or instruments. These objectives are aimed at achieving long-term value creation and sustainable results and combine financial objectives with environmental, social, and governance objectives.

The NLB Group contributes to sustainable financing by integrating ESG risks into its business strategies, risk management framework, and internal management. Thus, ESG risk management follows the guidelines of the ECB and the EBA and is included in all relevant processes.

Sustainability refers to managing the direct impact of the ESG while ensuring ethical and efficient operations. Our goal of improving sustainability is achieved by measuring, managing, and reporting in accordance with relevant EU regulations and UN principles. Effective risk and capital management at all levels is crucial for maintaining the long-term profitable operations of the NLB Group.

In defining the objectives of the NLB Group, financial and non-financial performance indicators are determined which were approved by the Bank's Supervisory Board at the meeting on 11 June 2022 and derive from the budget plan that was approved at the meeting on 12 November 2021, and for 2022 presents:

- Financial indicators of NLB Group or NLB (achievement of planned values):
  - Net revenues,
  - Cost/income ratio (CIR),
  - Return on equity after tax (ROE a.t.), normalised,
  - Cost of risk,
  - Net fees and commission income,
  - Operational business margin,
- and other financial and non-financial indicators:
  - implementation of the strategy,
  - implementation of set targets according to the Sustainability development plan (ESG),
  - Net Promotor Score measurement,
  - behaviour in accordance with the values of the NLB Group,
  - the engagement measurement, development plan, and succession plan.

16.8. The total remuneration for each member of the management body or senior management

The total remuneration of the members of the management body has already been disclosed by name and by type of remuneration in the annual report in Chapter 8. Related-party transactions on page 323.

16.9. Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR

The derogation provided for in Article 94 (3) (b) of the CRD may apply to the bank, that derogation shall be applied by the Bank to the principle set out in Article 94 (1) (l). The competent authorities have not yet allocated variable remuneration for 2022, but it is estimated that there will be 60 employees for whom this derogation will apply. The estimated total remuneration for these employees is EUR 7,234,000, of which a fixed EUR 5,426,000 and a variable EUR 1,808,000.

16.10. Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR

The total remuneration of the members of the management body has already been disclosed by name and by type of remuneration in the annual report Chapter 8. Related-party transactions page 323.

16.11. Quantitative information on remuneration

(Article 450.1 g h, and i of CRR)

Table 60 – EU REM1 – Remuneration awarded for the financial year for NLB Group

in EUR

31.12.2022			MB Supervisory function	MB Management function	Other senior management	Other identified staff
			a	b	c	d
1	Fixed remuneration	Number of identified staff	51	49	185.13	137.25
2		Total fixed remuneration	1,079,855	8,984,957	14,589,808	5,520,970
3		Of which: cash-based	1,079,855	8,984,957	14,589,808	5,520,970
9	Variable remuneration	Number of identified staff	51	49	185.13	137.25
10		Total variable remuneration	16,728	2,554,329	3,292,844	636,992
11		Of which: cash-based	16,728	1,472,283	2,832,464	636,992
12		Of which: deferred	-	683,124	1,445,797	299,772
EU-14x		Of which: other instruments	-	1,082,046	460,379	-
EU-14y		Of which: deferred	-	541,338	230,639	-
17	Total remuneration (2 + 10)		1,096,583	11,539,287	17,882,651	6,157,962

Table 61 – EU REM2 – Remuneration awarded for the financial year for NLB Group

in EUR

31.12.2022		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		a	b	c	d
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	5	2	-
7	Severance payments awarded during the financial year - Total amount	-	395,687	66,878	-
8	Of which paid during the financial year	-	395,687	66,878	-
11	Of which highest payment that has been awarded to a single person	-	210,165	56,043	-

Table 62 – EU REM3 – Deferred remuneration for NLB Group

in EUR

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		a	b	c	e	f	EU - g	EU - h
7	MB Management function	1,862,654	389,870	1,392,499	69,577	(147,199)	586,063	591,312
8	Cash-based	1,044,328	333,516	630,527	31,924	-	529,710	260,935
11	Other instruments	818,326	56,354	761,972	37,653	(147,199)	56,354	330,377
13	Other senior management	1,379,955	222,086	1,060,457	8,837	(60,817)	818,436	380,766
14	Cash-based	1,245,243	222,086	925,745	11,420	-	818,436	359,022
17	Other instruments	134,712	-	134,712	(2,583)	(60,817)	-	21,744
19	Other identified staff	189,962	49,005	104,208	47,100	-	159,563	52,274
20	Cash-based	189,962	49,005	104,208	47,100	-	159,563	52,274
25	Total amount	3,432,571	660,961	2,557,165	125,514	(208,016)	1,564,062	1,024,353

None of the employees performing special work was paid EUR 1 million or more in 2021, therefore template EU REM4 is empty.

Table 63 – EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) for NLB Group

in EUR

		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
		a	b	c	d	e	f	g	h	i	j
1	Total number of identified staff	51	49	100	13	61	21	28	53	146	322
2	Of which: members of the MB	51	49	100							
3	Of which: other senior management				6	33	6	18	32	90	185
4	Of which: other identified staff				7	28	15	10	25	52	137
5	Total remuneration of identified staff	1,096,583	11,539,287	12,635,871	872,642	4,870,850	1,209,228	2,010,966	3,583,568	11,493,359	24,040,613
6	Of which: variable remuneration	16,728	2,554,330	2,571,058	87,703	947,129	325,664	141,515	415,136	2,012,688	3,929,836
7	Of which: fixed remuneration	1,079,855	8,984,957	10,064,813	784,939	3,923,721	883,564	1,869,451	3,168,432	9,480,670	20,110,778

17. Appendices

17.1. Appendix 1

Information on whether or not the institution has set up a separate risk committee and the number of times the Risk Committee has met

(Article 435.2 d of CRR)

NLB has the Risk Committee as an advisory body of the Supervisory Board. Five meetings of the Risk Committee were held in 2022.

17.2. Appendix 2

Statement regarding internal controls and procedures

(Article 431 3 of CRR)

The undersigned

CERTIFY

that, pursuant to the Part Eight of Regulation (EU) No 575/2013 article 431 paragraph 3, disclosures have been prepared in accordance with the Policy of Disclosures on risk and capital management in the NLB Group and in accordance with agreed internal control processes.

Ljubljana, 28 March 2023

Anica Knavs General Manager Financial Accounting and Administration	Igor Žalar General Manager Global Risk	Archibald Kremser Member of the Management Board	Andreas Burkhardt Member of the Management Board

17.3. Appendix 3

Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

(Article 436 b of CRR)

Table 64 – EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

Name of the entity	Method of accounting consolidation	Method of prudential consolidation			Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	
a	b	c	e	f	h
NLB Banka a.d., Skopje	Full consolidation	X			Banking
NLB Banka a.d., Podgorica	Full consolidation	X			Banking
NLB Banka a.d., Banja Luka	Full consolidation	X			Banking
NLB Banka sh.a., Priština	Full consolidation	X			Banking
NLB Banka d.d., Sarajevo	Full consolidation	X			Banking
NLB Komercijalna banka a.d. Beograd	Full consolidation	X			Banking
N Banka d.d., Ljubljana	Full consolidation	X			Banking
KomBank Invest a.d. Beograd	Full consolidation	X			Asset management
NLB Srbija d.o.o., Beograd	Full consolidation	X			Real estate
NLB Skladi d.o.o, Ljubljana	Full consolidation	X			Asset management
NLB Crna gora d.o.o., Podgorica	Full consolidation	X			Real estate
NLB Lease&Go d.o.o., Ljubljana	Full consolidation	X			Finance
NLB Lease&Go d.o.o., Skopje	Full consolidation	X			Finance
NLB Lease&Go d.o.o., Beograd	Full consolidation	X			Finance
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Full consolidation	X			Finance
Optima Leasing d.o.o., Zagreb "u likvidaciji"	Full consolidation	X			Finance
NLB Leasing d.o.o., Beograd "u likvidaciji"	Full consolidation	X			Finance
TARA HOTEL d.o.o., Budva	Full consolidation	X			Real estate
PRO-REM d.o.o., Ljubljana "v likvidaciji"	Full consolidation	X			Real estate
OL Nekretnine d.o.o., Zagreb "u likvidaciji"	Full consolidation	X			Real estate
REAM d.o.o., Beograd	Full consolidation	X			Real estate
REAM d.o.o., Podgorica	Full consolidation	X			Real estate
REAM d.o.o., Zagreb	Full consolidation	X			Real estate
SPV 2 d.o.o., Beograd	Full consolidation	X			Real estate
S-REAM d.o.o., Ljubljana	Full consolidation	X			Real estate
NLB InterFinanz AG, Zurich "in likvidation"	Full consolidation	X			Finance
NLB InterFinanz Beograd "u likvidaciji"	Full consolidation	X			Finance
LHB AG, Frankfurt	Full consolidation	X			Finance
Privatinvest d.o.o., Ljubljana	Full consolidation	X			Real estate
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Full consolidation			X	Cultural heritage management
NLB DigIT d.o.o., Beograd	Full consolidation			X	IT services
Prvi Faktor, Beograd "u likvidaciji"	Equity method			X	Finance
Prvi Faktor, Ljubljana "v likvidaciji"	Equity method			X	Finance
Prvi Faktor, Zagreb "u likvidaciji"	Equity method			X	Finance
Arg Nepremicnine d.o.o., Horjul	Equity method		X		Real estate
Bankart d.o.o., Ljubljana	Equity method		X		Card processing

Entities that are neither consolidated nor deducted are:

- in accordance with Article 19 of the CRR (this refers on members of Prvi Faktor Group),
- or because it is entity operating in the area of other activities (Zavod za upravljanje kulturne dediščine, The NLB Cultural Heritage Management Institute and NLB DigIT).

17.4. Appendix 4
Capital instruments main features templates
(Article 437 b and c of CRR)

The ordinary shares are fully included in the Common Equity Tier 1 capital of NLB Group. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of CRR.

Table 65 – The main characteristics of the capital instruments of NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: SI0021117344	ISIN: SI0022103855
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	Slovenian law	Slovenian law
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A	Yes
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/solo&(sub-)	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share	Tier 2 instruments (CRR, Article 63)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting	EUR 1,071.8 million	EUR 44.6 million
9	Nominal amount of instrument (in EUR)	No par value shares – 20,000,000 shares	EUR 45,000,000
EU-9a	Issue price	EUR 77.55	99.1%
EU-9b	Redemption price	N/A	100 %
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	18.12.2013	6.5.2019
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	6.5.2029
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Optional call date: 6.5.2024 Contingent call dates: - if the issuer fails to obtain regulatory permission by 6.8.2019, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes, Redemption amount: 100% of principal plus accrued unpaid interest.
16	Subsequent call dates, if applicable	N/A	No
	Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	Interest rate means annual interest rate, which amounts to: (i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%, (ii) from and including the Fifth Anniversary, the sum of reference rate (5y MS), applicable on Interest Rate Determination Date, and Margin (4.159%).
19	Existence of a dividend stopper	N/A	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	N/A	Cumulative
23	Convertible or non-convertible	N/A	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	Statutory	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	First loss absorbent instrument by ranking, junior to all instruments	In the event of bankruptcy or liquidation of the Issuer, the claims arising from the principal amount of the Notes are repaid: (a) after repayment in full of all unsubordinated claims against the Issuer as well as of all subordinated claims (if any) which are not those referred to in sub-paragraph (b) or (c) below, (b) with the same priority (pari passu) as, and proportionally with, the following claims against the Issuer: (i) claims arising under other instruments which qualify as Tier 2 instruments, (ii) any other subordinated claims which are expressed to have in the event of insolvency of the Issuer the same priority of repayment as the Tier 2 instruments, (c) in priority to the following claims against the Issuer: (i) claims arising under instruments which qualify as Common Equity Tier 1 capital instruments or Additional Tier 1 instruments; and (ii) other subordinated claims which, pursuant to their contractual terms in the event of compulsory winding-up of the Issuer, have the same priority of repayment as Common Equity Tier 1 capital instruments or Additional Tier 1 instruments.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1 instruments	Eligible liabilities instruments
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	https://www.nlb.si/shares https://www.nlb.si/public-offering-of-shares	https://www.nlb.si/nlb27-eng

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS2080776607	ISIN: XS2113139195
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	German law, with the exception of status of the notes which is governed in accordance with Slovenian law	German law, with the exception of status of the notes which is governed in accordance with Slovenian law
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes	Yes
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo&(sub-)consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 instruments (CRR, Article 63)	Tier 2 instruments (CRR, Article 63)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	EUR 120 million	EUR 120 million
9	Nominal amount of instrument (in EUR)	EUR 120,000,000	EUR 120,000,000
EU-9a	Issue price	100 %	100 %
EU-9b	Redemption price	100 %	100 %
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	19.11.2019	5.2.2020
12	Perpetual or dated	Dated	Dated
13	Original maturity date	19.11.2029	5.2.2030
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: 19.11.2024; Contingent call dates: - if the issuer fails to obtain regulatory permission by 15.3.2020, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes. Redemption amount equals to 100% of principal amount plus accrued and unpaid interest.	Optional call date: 5.2.2025; Contingent call dates: - if the issuer fails to obtain regulatory permission by 31.7.2020, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes. Redemption amount equals to 100% of principal amount plus accrued and unpaid interest.
16	Subsequent call dates, if applicable	No	No
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) 3.65% up to but excluding 19.11.2024, (ii) from and including 19.11.2024, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.833%.	Interest rate means annual interest rate, which amounts to: (i) 3.40% up to but excluding 5.2.2025, (ii) from and including 5.2.2025, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.658%.
19	Existence of a dividend stopper	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible	Contractual	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	In the event of normal insolvency proceedings or compulsory liquidation of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank: (a) junior to all present or future claims from: (i) unsecured and unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR, (b) pari passu: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; (ii) ordinary shares of the Issuer and any other CET1 instruments of the Issuer pursuant to Article 28 of the CRR; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the obligations of the Issuer under the Notes.	In the event of normal insolvency proceedings or compulsory liquidation of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank: (a) junior to all present or future claims from: (i) unsecured and unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR, (b) pari passu: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; (ii) ordinary shares of the Issuer and any other CET1 instruments of the Issuer pursuant to Article 28 of the CRR; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the obligations of the Issuer under the Notes.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Eligible liabilities instruments	Eligible liabilities instruments
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	https://www.nlb.si/novalj365-eng	https://www.nlb.si/novalj34-eng

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: SI0022104275	ISIN: XS2413677464
2a	Public or private placement	Private placement	Public
3	Governing law(s) of the instrument	Slovenian law	German law, with the exception of status of the notes which is governed in accordance with Slovenian law
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes	Yes
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Additional Tier 1	Tier 2
5	Post-transitional CRR rules	Additional Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/solo&(sub-) consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 instrument (CRR, Article 52)	Tier 2 instruments (CRR, Article 63)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	EUR 82 million	EUR 222.921 million
9	Nominal amount of instrument (in EUR)	EUR 82,000,000	EUR 225,000,000
EU-9a	Issue price	100 %	99.076%
EU-9b	Redemption price	100 %	100 %
10	Accounting classification	Equity instrument in accordance with IAS 32	Liability - amortised cost
11	Original date of issuance	23.9.2022	28.11.2022
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	28.11.2032
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: each business day in the period 23.11.2027-23.5.2028 Contingent call dates: - if the issuer fails to obtain regulatory permission by 23.3.2023, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes. Redemption amount equals to current principal amount plus accrued interest.	Optional call date: 28.11.2027; Contingent call dates: - if the issuer fails to obtain regulatory permission by 31.3.2023, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes. Redemption amount equals to 100% of principal amount plus accrued and unpaid interest.
16	Subsequent call dates, if applicable	23 September of each year, commencing on 23 September 2028.	No
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	Interest rate means annual interest rate, which amounts to: (i) 9.721% up to but excluding 23.3.2028, (ii) from and including 23.3.2028, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 7.200%.	Interest rate means annual interest rate, which amounts to: (i) 10.75% up to but excluding 28.11.2027, (ii) from and including 28.11.2027, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 8.298%.
19	Existence of a dividend stopper	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to	No	No
22	Noncumulative or cumulative	Noncumulative	Cumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	Yes	No
31	If write-down, write-down trigger(s)	If it has been determined that: (i) the NLB Group CET 1 Capital Ratio fall to an amount that is lower than 5.125%; and/or (ii) the NLB d.d. CET 1 Capital Ratio fall to an amount that is lower than 5.125%.	N/A
32	If write-down, full or partial	Fully or Partially	N/A
33	If write-down, permanent or temporary	Temporary	N/A
34	If temporary write-down, description of write-up mechanism	NLB may, at its sole discretion, effect a reversal of a write-down by writing up the current principal amount of bonds in whole or in part up to a maximum of the original principal amount, provided that a positive profit has been recorded for each of NLB d.d. and the NLB Group.	N/A
34a	Type of subordination (only for eligible	Contractual	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	In the event of normal insolvency proceedings or compulsory liquidation of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank: (a) junior to unsubordinated instruments or obligations of the Issuer, any Tier 2 Instruments and any instruments or obligations which rank pari passu with or senior to Tier 2 Instruments, and any other instruments or obligations of the Issuer ranking or expressed to rank subordinated to any unsubordinated instruments or obligations of the Issuer (other than instruments or obligations ranking or expressed to rank pari passu with or subordinated to the Notes); (b) pari passu among themselves, and with AT 1 Instruments, and with instruments or obligations ranking or expressed to rank pari passu with the AT 1 Instruments; and (c) senior to ordinary shares of the Issuer and any other CET 1 Instruments, preferred shares of the Issuer, and other subordinated instruments or obligations of the Issuer ranking or expressed to rank subordinated to the obligations of the Issuer under the Notes, or pari passu with the ordinary shares of the Issuer and any other CET 1 Instruments.	In the event of normal insolvency proceedings or compulsory liquidation of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank: (a) junior to all present or future claims from: (i) unsubordinated instruments or obligations of the Issuer; (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR; and (iii) subordinated instruments or obligations of the Issuer that rank senior to Tier 2 Instruments; (b) pari passu: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; and (ii) ordinary shares of the Issuer and any other Common Equity Tier 1 instruments of the Issuer pursuant to Article 28 of the CRR; and (iii) all other subordinated instruments or obligations of the Issuer ranking pari passu with the instruments or obligations under the Notes.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2 Instruments	Eligible liabilities instruments
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	https://www.nlb.si/nlb28-eng	https://www.nlb.si/novalj1034-eng

17.5. Appendix 5
Material, practical, or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries
(Article 436 f and g of CRR)

In NLB Group, there are no substantial practical or legal impediments to the prompt transfer of capital or repayment of liabilities between the parent undertaking and its subsidiaries. In the case of a capital transfer provided by NLB, it is necessary to follow the provisions regarding the minimum capital in accordance with CRR and the ZBan-3. For subsidiary banks the provisions regarding liquidity, capital adequacy, and the level of capital to cover all risks are also considered, all in accordance with local legislation.

In asset management, company (NLB Skladi) provisions regarding capital adequacy and the level of capital to cover all risks arise from the Law on Investment Funds and Management Companies.

For several non-core companies that are in the liquidation process, there is a restriction according to the local Companies Law stipulating that during the duration of the liquidation process dividends are not paid out nor are assets disbursed to stakeholders until all claims are paid. The liquidation process can be concluded after all the court disputes are ended and the assets that are to be distributed to stakeholders, but exceed the subscribed share capital of a stakeholder, are considered as a dividend.

There are also contractual restrictions that are to be considered and arise from subordinated loans that NLB granted to its subsidiary banks, namely NLB Banka a.d., Skopje, NLB Banka a.d. Banja Luka, NLB Banka Podgorica), NLB Banka sh.a. Prishtina, NLB Banka a.d. Sarajevo, and to one of the companies NLB InterFinanz Zürich AG in Liquidation. According to the nature of the subordinated loan, it can be repaid after claims arising from all priority obligations are settled and to the extent permitted by the rest of the Bank’s assets in the bankruptcy or liquidation procedure.

All NLB Group Subsidiaries not included in the prudential consolidation met the minimum capital requirements as at 31 December 2022.

17.6. Appendix 6
The Swiss Francs Law

On 2 February 2022, the Slovenian Parliament passed the ‘Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs’ (here and after the CHF Law), which stipulated that all loan agreements denominated in Swiss francs concluded between banks operating in Slovenia (including NLB) as lenders and individuals as borrowers in the period from 28 June 2004 to 31 December 2010, are subjected to a cap on the exchange rate between Swiss francs and the Euro to be set at 10% volatility (the ‘FX cap’) and shall be applied from the conclusion of any of the affected loan agreements and any overpayment on such loans by the relevant borrowers shall be subject to default interest to be paid by the lender.

On 28 February 2022, the banks filed an initiative with the Constitutional Court of the Republic of Slovenia to initiate proceedings to assess the constitutionality of the CHF Law and a proposal for its temporary suspension of enforcement. The Constitutional Court of the Republic of Slovenia adopted a decision on 10 March 2022 to suspend in whole the implementation of the CHF Law, and on 17 November 2022 it adopted a decision to abrogate the CHF Law. The decision of the Constitutional Court of the Republic of Slovenia on abrogation of the CHF Law was published in the *Official Gazette* on 16 December 2022.

17.7. Appendix 7
US regional banks & Credit Suisse turmoil

In March 2023, the collapse of two regional banks in the USA, Silicon Valley Bank and Signature Bank, prompted investors globally to scour for weak spots in the financial system, resulting in an emergence of stress in the banking sector and a turmoil in the capital markets. Developments in the USA had impacts also in Europe and put European banks under stress as well. Credit Suisse had been heavily impacted by the collapse in confidence as the demise of regional banks in the USA had spread fear about weaker institutions at time of increasing interest rates undermining value of some financial assets. To increase confidence in the banking sector, Swiss financial regulators engineered an emergency rescue plan for Credit Suisse in the form of UBS Group AG buying Credit Suisse. As of 31 March 2023, the Group has only small exposure to Credit Suisse, deriving mainly from limited investment in bonds.

Since the beginning of the bank stress and market turmoil, the financial institutions' credit spreads widening and overall risk-free rates decrease were observed, which is currently positively impacting the Group's FVOCI positions (other comprehensive income in relation to valuation of debt securities, net of related deferred tax in the first quarter of 2023 was positive in the amount of EUR 24 million). From a capital management point of view, most of FVOCI cumulative negative valuations (except a smaller part which was as of 31 December 2022 carved out by temporary treatment of sovereign debt introduced by COVID-19 related "quick fix") have already been accommodated in the Group's capital ratios and thus going forward are rather supportive in terms of capital levels as those exposures mature and new investments are made only with short duration (i.e., low valuation risks).

With regard to debt securities measured at amortised cost, the difference between the carrying amount and fair values as of 31 March 2023 is negative in the amount of EUR 152 million. These differences are not reflected in the capital ratio given the Group's intention to hold them to maturity and collect cash flows from payments of interest and principal – thus these differences will not be materialised and also diminish eventually to zero over the lifetime of the book (duration on average: 3.75 years).

With regard to the liquidity management neither of these portfolios are intended to be used given the Group's and NLB's very high cash balances (EUR 5,306 million at the Group level and EUR 3,478 million at NLB level as of 31 March 2023). Even in extreme circumstances the portfolios could be used to large extent to raise funds from the central bank using securities as collateral without selling the asset – by that also not realising any losses. At the year-end, the total amount of HQLA amounts to EUR 6,028 million at the Group level. Finally, the amount of non-insured retail deposits at the Group level is very low, around 20%.

From a liquidity point of view, no material deviations from the normal intra-monthly deposit dynamics were identified at the NLB Group level as a result of the turmoil.

17.8. Appendix 8

List of all disclosures required under Part 8 of CRR

Article		Chapter	Page
431.3		17.2	154
435.1	a)	5.1, 6.1, 8.1, 9.1, 11	36, 54, 71, 76, 84
	b)	5.1, 6.1, 8.1, 9.1, 11	36, 54, 71, 76, 84
	c)	5.1, 6.1, 8.1, 9.1, 11	36, 54, 71, 76, 84
	d)	5.1, 6.1, 8.1, 9.1, 9.2, 11	36, 54, 71, 76, 78, 84
	e)	1	5
	f)	1	5
435.2	a)	5.2	48
	b)	5.3	48
	c)	5.4	51
	d)	17.1	154
	e)	5.1	36
436	a)	3	12
	b)	3, 17.3	12, 155
	c)	3	12
	d)	3	12
	e)	/	/
	f)	17.5	154
	g)	17.5	154
	h)	/	/
437	a)	4.2	19
	b)	4.6, 17.4	27, 156
	c)	4.6, 17.4	27, 156
	d)	4.2	19
	e)	4.2	19
	f)	4.2	19
437a		/	/
438	a)	4.5	27
	b)	1, 4.1	5, 17
	c)	/	/
	d)	4.3	21
	e)	/	/
	f)	/	/
	g)	/	/
	h)	/	/
439	a)	8.3	72
	b)	8.2, 8.4	72
	c)	8.5	72
	d)	8.6	73
	e)	/	/
	f)	8.6	73
	g)	8.6	73
	h)	8.6	73
	i)	/	/
	j)	/	/
	k)	/	/
	l)	8.6	73
	m)	/	/
440	a)	4.9	32
	b)	4.9	32
441		/	/
442	a)	6.3	58
	b)	6.3	58

Article		Chapter	Page
	c)	6.2, 6.3	58
	d)	6.3	58
	e)	6.3	58
	f)	6.3	58
	g)	6.2	58
	h)	6.3	58
443		12	93
444	a)	7	67
	b)	7	67
	c)	7	67
	d)	7	67
	e)	7, 8.6	67, 73
445		9	76
446	a)	15	133
	b)	/	/
	c)	15	133
447		1	5
448.1	a)	10	81
	b)	10	81
	c)	/	/
	d)	10	81
	e)	10	81
	f)	10	81
	g)	10	81
448.2		/	/
449		/	/
449a		14	97
450.1	a)	16	136
	b)	16	136
	c)	16	136
	d)	16	136
	e)	16	136
	f)	16	136
	g)	16.11	152
	h)	16.11	152
	i)	16.11	152
	j)	/	/
	k)	16.9	151
450.2		16.10	151
451		13	95
451a		11	84
452		/	/
453	a)	/	/
	b)	6.4	63
	c)	6.4	63
	d)	/	/
	e)	6.4	63
	f)	6.4	63
	g)	7	67
	h)	7	67
	i)	7	67
	j)	/	/
454		/	/
455		/	/

17.9. Appendix 9

Overview of non-applicable disclosures

The following table provides an overview of the templates (from Commission Implementing Regulation EU 2021/637) not covered by the Disclosure Report with an explanation of reasons for non-disclosure.

	Template	Reason
1	EU INS1 – Insurance participations	NLB Group doesn't posses any insurance which is not deducted from own funds
2	EU INS2 – Financial conglomerates information on own funds and capital adequacy ratio	NLB Group doesn't fulfil conditions to be classified as financial conglomerate
3	EU PV1 – Prudent valuation adjustments (PVA)	NLB Group doesn't use a core approach
4	EU CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Non-performing exposures below 5%
5	EU CQ2 – Quality of forbearance	Non-performing exposures below 5%
6	EU CQ4 – Quality of non-performing exposures by geography (columns b and d)	Non-performing exposures below 5%
7	EU CQ5 – Credit quality of loans and advances by industry (columns b and d)	Non-performing exposures below 5%
8	EU CQ6 – Collateral valuation - loans and advances	Non-performing exposures below 5%
9	EU CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown	Non-performing exposures below 5%
10	EU CR6-A – Scope of the use of IRB and SA approaches	Internal approaches are not in use
11	EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range	Internal approaches are not in use
12	EU CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	Internal approaches are not in use
13	EU CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques	Internal approaches are not in use
14	EU CR8 – RWEA flow statements of credit risk exposures under the IRB approach	Internal approaches are not in use
15	EU CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Internal approaches are not in use
16	EU CR9.1 – IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1 CRR)	Internal approaches are not in use
17	EU CR10 – Specialised lending and equity exposures under the simple riskweighted approach	Internal approaches are not in use
18	EU CCR4 – IRB approach – CCR exposures by exposure class and PD scale	Internal approaches are not in use
19	EU CCR5 – Composition of collateral for CCR exposures	Collateral in CCR exposures is not in use
20	EU CCR6 – Credit derivatives exposures	NLB Group doesn't use credit derivatives
21	EU CCR7 – RWEA flow statements of CCR exposures under the IMM	Internal approaches are not in use
22	EU CCR8 – Exposures to CCPs	Indirect clearing arrangement with a clearing member is established.
23	EU-SEC1 – Securitisation exposures in the non-trading book	Securitisation is not in use
24	EU-SEC2 – Securitisation exposures in the trading book	Securitisation is not in use
25	EU-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	Securitisation is not in use
26	EU-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor	Securitisation is not in use
27	EU-SEC5 – Exposures securitised by the institution - Exposures in default and specific credit risk adjustments	Securitisation is not in use
28	EU MR2-A – Market risk under the internal Model Approach (IMA)	Internal approaches are not in use
29	EU MR2-B – RWA flow statements of market risk exposures under the IMA	Internal approaches are not in use
30	EU MR3 – IMA values for trading portfolios	Internal approaches are not in use
31	EU MR4 – Comparison of VaR estimates with gains/losses	Internal approaches are not in use
32	EU REM4 – Remuneration of 1 million EUR or more per year	Empty template
33	Template 10 - Other climate change mitigating actions that are not covered in the EU Taxonomy	Empty template

17.10. Appendix 10

Abbreviations

AE	Asset Encumbrance
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AML	Anti-Money Laundering
ASF	Available stable funding
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BCM	Business continuity management
BIA	Basic indicator approach
BIS	Bank for International Settlements
BoS	Bank of Slovenia
BPV	Basis point value
BRRD	Bank Recovery and Resolution Directive
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCM	Climate change mitigation
CCP	Central Counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CET1	Common equity tier 1 capital
CFO	Chief Finance Officer
CIR	Cost/income ratio
CO2	Carbon dioxide
COBIT	Control Objectives for Information Technologies
COSO	Committee of Sponsoring Organisations of the Treadway Commission
COVID-19	Coronavirus Disease 2019
CPR	Conditional prepayment rate
CRD	Capital Requirements Directive
CRD V	Capital Requirements Directive and Regulation
CRM	Credit Risk Mitigation
CRO	Chief risk officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CSR	Corporate Sustainability Reporting
CSRD	Corporate Sustainability Reporting Directive
CTF	Combating the Financing of Terrorism
CVA	Credit valuation adjustment
CVaR	Conditional Value at Risk
DPO	Data Protection Officer
DSTI	Debt service-to-income
DVA	Debit Valuation Adjustments
DWH	Data Warehouse
E&S	Environmental and social
EAD	Exposure at default
EaR	Earnings at Risk
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
ECL	Expected Credit Losses
ECRA	Enterprise compliance and integrity risk assessment
EEA	European Economic Area
EEPE	Effective Expected Positive Exposure
EHQLA	Extremely High-quality Liquid Assets
EMIR	European Market Infrastructure Regulation
EPC	Energy performance certificat
ESG	Environmental, social and governance
ESMS	Environmental and Social Management System
ESRB	European Systemic Risk Board
ESRS	European Sustainability Reporting Standards
EU	European Union
EVE	Economic Value of Equity
EVS	European Valuation Standards
EWS	Early Warning System
FVOCI	Fair Value Through Other Comprehensive Income
FX	Foreign Exchange
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
IVS	International Valuation Standards
JST	Joint Supervisory Team
KPI	Key Performance Indicator
KRI	Key Risk Indicator
KYC	Know your customer
LCP	Liquidity Contingency Plan
LCR	Liquidity coverage ratio
LEI	Legal Entity Identifier
LGD	Loss given default
LTD	Loan-to-deposit
LTI	Loan-to-income
LTV	Loan-to-value
M&A	Mergers and acquisitions
MB	Management Board
MDA	Maximum Distributable Amount
MIGA	Multilateral Investment Guarantee Agency
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRSA	Market Risk Standardised Approach
MS	Mid-swap
NCI	Non-controling interest
NACE	Nomenclature of Economic Activities
NFRD	Non-Financial Reporting Directive
NGW	Negative Goodwill
NII	Net interest income
NPE	Non Performing Exposures
NPL	Non Performing Loans
NPV	Net Present Value
NSFR	Net Stable Funding Ratio
NZBA	Net Zero Banking Alliance
OCI	Other comprehensive income
OCR	Overall capital requirement
OECD	Organisation for Economic Co-operation and Development
OEM	Original exposure method
OpRC	Operational Risk Committee
O-SII	Other systemically important institutions
OTC	Over-the-counter
OU	Organisational unit
P2G	Pillar 2 Guidance
P&L	Profit and Loss
P1R	Pillar 2 Requirement
P2R	Pillar 2 Requirement
PD	Probability of default
PDPZ	Voluntary supplementary pension insurance
PFE	Potential Future Exposure
PP&E	Property, plant and equipment
RAF	Risk Appetite Framework
RC	Replacement cost
RICO	Risk Committee
RICS	Royal Institution of Chartered Surveyors
ROE	Return on equity
RP	Recovery plan
RSF	Required stable funding
RWA	Risk-weighted assets
RWEA	Risk weighted exposure amount
SA	Standardised Approach
SB	Supervisory Board
SEE	Southeast Europe
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
ST	Stress test
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TC	Total Capital
TCFD	Task Force on Climate-Related Financial Disclosures
TCR	Total Capital ratio

GHG	Greenhouse Gas
GMRA	Global Master Repurchase Agreement
GRI	Global reporting Initiative
G-SII	Global systemically important institutions
HHI	Herfindahl-Hirschman Index
HQLA	High-quality liquid assets
ICAAP	Internal Capital Adequacy Assessment Process
ICS	Internal control system
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILO	International Labour Organization
IR	Interest rate
IRB	Internal ratings-based approach
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
ITS	Implementing Technical Standards
TDI	Traded Debt Instruments
TEM	Total Exposure Measure
TLAC	Total loss-absorbing capacity
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement
TT	Temporary treatment
UNEP FI	United Nations Environment Programme Finance Initiative
UN PRB	United Nations Principles of Responsible Banking
UN SDG	United Nations Sustainable Development Goals
VaR	Value at risk
ZBan	Banking Act
ZDoh-1	Personal Income Tax Act
ZGD-1	Companies Act
ZRPPB-1	Law on Rescue and Forced Cessation of Banks