



Building on advantages of our homecourt

Pillar III Disclosures for the 2023

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1. Key highlights

(Article 438 b and 447 of CRR)

Table 1 – EU KM Key metrics template of NLB Group

		31.12.2023	30.09.2023	30.06.2023	31.03.2023	31.12.2022
		a	b	c	d	e
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	2,509,911	2,192,893	2,181,381	2,166,912	2,208,219
2	Tier 1 capital	2,597,818	2,280,566	2,269,153	2,254,574	2,295,700
3	Total capital	3,109,207	2,791,407	2,780,111	2,765,244	2,806,375
Risk-weighted exposure amounts						
4	Total risk exposure amount (TREA)	15,337,162	14,919,023	14,838,352	14,622,299	14,653,059
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio	16.36%	14.70%	14.70%	14.82%	15.07%
6	Tier 1 ratio	16.94%	15.29%	15.29%	15.42%	15.67%
7	Total capital ratio	20.27%	18.71%	18.74%	18.91%	19.15%
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	2.40%	2.40%	2.40%	2.40%	2.60%
EU 7b	of which: to be made up of CET1 capital	1.35%	1.35%	1.35%	1.35%	1.46%
EU 7c	of which: to be made up of Tier 1 capital	1.80%	1.80%	1.80%	1.80%	1.95%
EU 7d	Total SREP own funds requirements	10.40%	10.40%	10.40%	10.40%	10.60%
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%
9	Institution specific countercyclical capital buffer	0.26%	0.01%	0.01%	0.00%	0.00%
EU 9a	Systemic risk buffer	0.10%	0.10%	0.10%	0.10%	0.00%
EU 10a	Other Systemically Important Institution buffer	1.25%	1.25%	1.25%	1.25%	1.00%
11	Combined buffer requirement	4.11%	3.86%	3.86%	3.85%	3.50%
EU 11a	Overall capital requirements	14.51%	14.26%	14.26%	14.25%	14.10%
12	CET1 available after meeting the total SREP own funds requirements	1,075,886	797,964	793,995	799,727	822,040
Leverage ratio						
13	Total exposure measure	26,927,714	26,320,818	25,778,410	25,105,562	25,240,506
14	Leverage ratio	9.65%	8.66%	8.80%	8.98%	9.10%
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%	3.00%	3.00%
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%	3.00%	3.00%
EU 14e	Overall leverage ratio requirement	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA)	6,428,200	6,174,159	5,916,414	5,774,965	5,647,162
EU 16a	Cash outflows - Total weighted value	3,211,716	3,162,936	3,128,451	3,099,033	3,008,960
EU 16b	Cash inflows - Total weighted value	513,754	503,623	505,154	500,673	512,851
16	Total net cash outflows	2,697,962	2,659,314	2,623,297	2,598,360	2,496,109
17	Liquidity coverage ratio	238.17%	232.11%	225.52%	222.21%	227.15%
Net Stable Funding Ratio						
18	Total available stable funding	21,868,469	21,156,302	20,870,086	20,217,758	20,409,092
19	Total required stable funding	11,677,566	11,499,159	11,368,668	11,109,114	11,154,678
20	NSFR ratio	187.27%	183.98%	183.58%	181.99%	182.96%

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

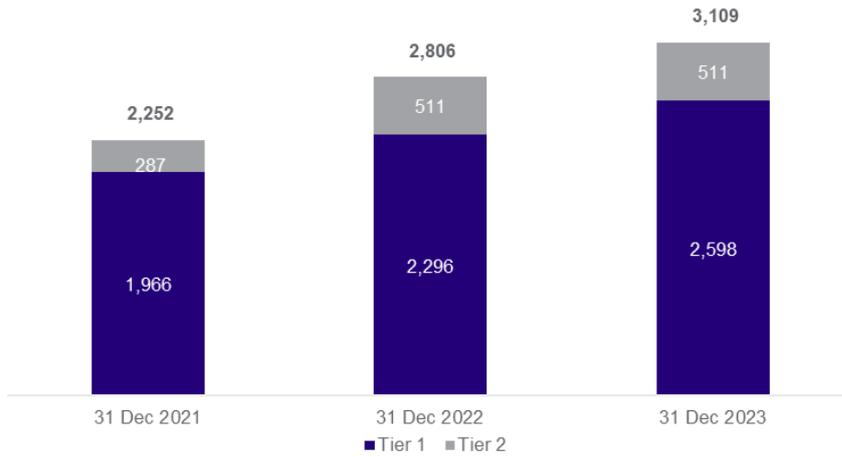


Figure 2: Total capital and capital ratio evolution YoY of NLB Group

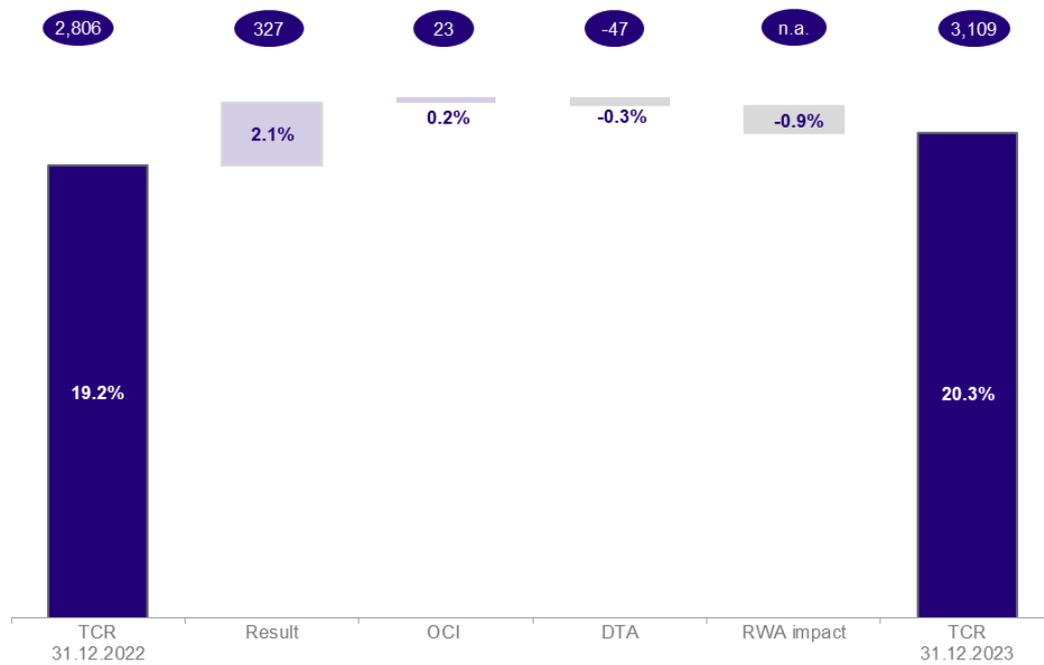
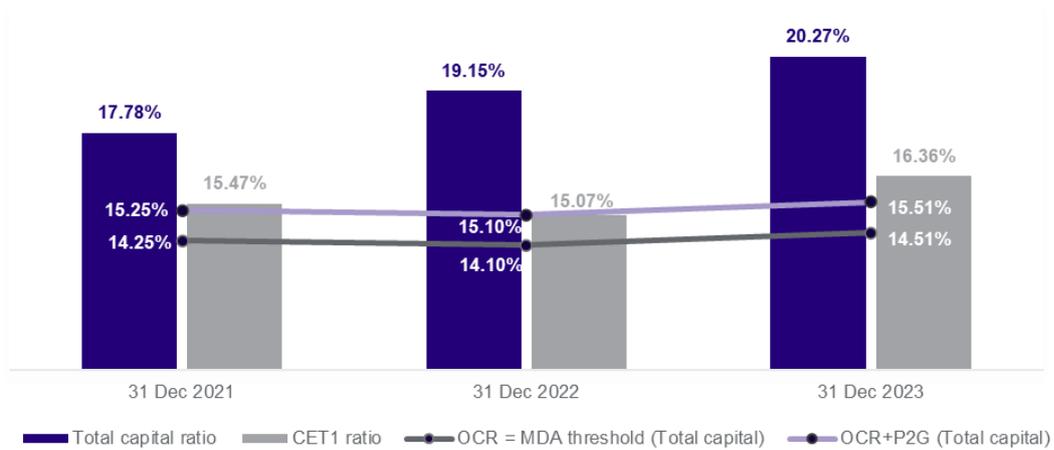


Figure 3: Capital ratios and regulatory thresholds (in %) of NLB Group



Statement of Management of Risk

(Article 435 e and f of CRR)

NLB d.d.'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 EBA Guidelines on Internal Governance (EBA/GL/2021/05) and EBA Guidelines on Disclosure requirements (EBA/GL/2016/11).

Risk management in NLB 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 Bank of Slovenia, 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. 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 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 behaviour, emerging new technologies and competitors, as well as increasing new regulatory requirements. Respectively, risk management is continuously adapting with aim to detect and manage new potential emerging risks.

NLB Group uses the 'three lines of defence framework' as an important element of its internal governance, whereby Risk management function acts as a second line of defence. The Group has enhanced overall corporate governance which is reflected in a lower SREP requirement in recent years. The robust and comprehensive Risk Management framework is defined and organized with regards to the Group's business and risk profile, based on 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.

NLB 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 the 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 the Group's business and investment decisions for the lasting benefit of Group's clients and society. Moreover, in December 2023, NLB, as a member of the UN Net-Zero Banking Alliance, publicly disclosed its Net-Zero commitment. With this step, the Bank pledged to align its lending and investment portfolio with net-zero emissions by 2050.

The NLB Group 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 risk management framework, namely credit approval process, collateral evaluation 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 NLB Group operates is still lacking. Nevertheless, the Group has set up the process of obtaining relevant ESG-related data from its clients, being prerequisite for adequate decision-making and the corresponding proactive management of ESG risks.

NLB 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 NLB Group, approved by the Management Board and the Supervisory Board of NLB d.d., 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, the main strategic risk guidelines are consistently integrated into regular business strategy review, budgeting process, and other strategic decisions, whereby informed decision-making is assured. NLB Group is regularly monitoring 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, NLB 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 in a liquidity forward-looking perspective. As such, it is embedded into the Group's Risk management system, namely Risk appetite, ICAAP, ILAAP, and the Recovery plan, as an important component of sound risk management. Besides internal stress testing, NLB Group as a systemically important bank also participates in the regulatory stress test exercises carried out by the ECB.

NLB Group is one of the largest Slovenian banking and financial groups with an important presence in the SEE region. In accordance with its strategic orientations, it intends to be sustainably profitable, predominantly working with clients in its core markets, providing innovative but simple customer-oriented solutions, and actively contributing to a more balanced and inclusive economic and social system. NLB 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 the banking book portfolio, 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 types 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 with the aim to assure their overall control and effective risk management on an ongoing basis.

Managing risks and capital efficiently at all levels is crucial for NLB Group 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, sustainable cost of risk and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The NLB 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 limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to a moderate level. NLB Group's basic orientation in the management of interest rate risk is to limit 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. Moreover, in 2023 the Group has indicated activities for further comprehensive enhancement of the existing interest rate risk management. When assuming operational risk, NLB 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 servicing as an early warning system. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, the NLB Group thus pursues the goals of low to moderate exposure. Based on environmental and climate risk assessment impact of these risks is estimated as low, except for transition risk in the area of credit risk 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 NLB Group Risk Appetite Statement objectives are following:

- preservation of regulatory and internal capital adequacy,
- fulfilment of 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 cross border, leverage, M&A and 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 2023, sustainable ESG financing in accordance with Environmental and Social Management System (ESMS) was integrated in the Group's Risk appetite and overall risk management framework. In addition, publicly disclosed its Net-Zero commitment was addressed in the Group's Risk appetite in the beginning of the year 2024. In its initial round of NZBA targets, NLB Group has focused on fossil fuel-based and highly energy-intensive sectors, such as power generation and iron and steel, and other sectors where the Bank has substantial emissions and/or exposure and available data. These include residential mortgages and commercial real estate.

Values of the most important risk appetite indicators of NLB Group as at the end of year 2023, reflecting interconnection between strategic business orientations, risk strategy and targeted risk appetite profile, were following:

- Total capital ratio 20.3%,
- Tier 1 capital ratio 17.0%,
- Common Equity Tier 1 ratio (CET1) 16.4%,
- Leverage ratio 9.6%,
- Cost of risk -7 bps,
- The share of non-performing exposure (NPE%) by EBA 1.1%,
- Non-performing loans coverage ratio (NPL CR) 64.6%,
- Loan-to-deposit ratio (LTD) 66.2%,
- LCR 245.7%,
- NSFR 187.3%,
- EVE sensitivity (of 200 bps) -4.2% of capital,
- Transactional FX risk 1.4% of capital,
- No new financing of coal mining and coal-fired electricity generation (0 EUR),
- Net losses from operational risk 20.0% of capital requirement for operational risk.

During 2023, the Group's credit portfolio quality remained high-quality and well-diversified, with a stable rating structure and lower NPLs level. The Group recorded a slower credit portfolio growth in all segments after strong new corporate and retail loan origination across all markets in previous year due to inflationary pressures, higher interest rates, and low GDP growth. The impacts of the floods in Slovenia were estimated as negligible, and only minor client credit quality deterioration or received collaterals occurred. Besides, the Group monitored the macroeconomic and geopolitical circumstances closely, remaining very prudent in identifying any increase in credit risk at a very early stage, and proactive in NPL management. The cost of risk remained at very low level, mainly due to the successful collection of previously written-off receivables, revised risk parameters, and stable portfolio development in the SEE region.

The Group stayed well capitalised and well above the risk appetite at both the Group and banking member levels. The liquidity position of the Group also remained solid, with liquidity indicators high above the regulatory requirements, indicating its low tolerance for this risk. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while at the same time considering the potential adverse negative market movements. Investment activity continued with a balanced approach to finding attractive market opportunities while pursuing well-managed credit spread and interest rate risk, as well as capital consumption. Raising the interest rate environment and corresponding increased market demand for fixed interest rate products led to moderate interest rate risk exposure, which stayed well within the risk appetite tolerance.

Consequently, NLB Group concluded the year 2023 as self-funded, with strong liquidity and very solid capital position, demonstrating the Group's financial resilience. Moreover, in 2023, NLB's ESG Risk Rating assigned by Sustainalytics was revised and improved. The assigned rating reflects a low risk of experiencing material financial impacts from ESG factors. N Banka, which legally and operationally merged at the end of September 2023 with NLB d.d., had a similar business model to the Bank's or Group's, and so, its impact on the Bank's and Group's risk profile at the end of the year 2023 was rather limited. In addition, NLB signed a SPA for 100% shareholding in Summit Leasing Slovenija and its subsidiaries, while NLB Skladi signed SPA for acquiring a majority shareholding in Generali Investments AD Skopje. Otherwise, during 2023 there were no other transactions of sufficiently material nature to impact on NLB 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 NLB 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, 21 March 2024

Supervisory Board of NLB



Primož Karpe
Chairman

Management Board of NLB



Hedvika Usenik
Member



Andrej Lasič
Member



Archibald Kremser
Member



Peter Andreas Burkhardt
Member



Antonio Argir
Member



Blaž Brodnjak
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 to 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 thereafter). 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 evaluating how well financial institutions assess 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 the Group are not applicable. In addition, disclosures that relate to types of transactions that the Group is currently not involved in are also not applicable and therefore not disclosed in this report. The rows and

columns in prescribed templates, related to transactions, not applicable to the Group are, in accordance with the Implementing Regulation (EU) 2021/637, deleted.

Frequency of disclosures and media

CRD V and EBA guidelines require the Group to disclose information at least on an annual basis. To ensure the effective communication of Group's business and risk profile, the 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 Pillar 3 report is also reviewed by members of Capital management group.

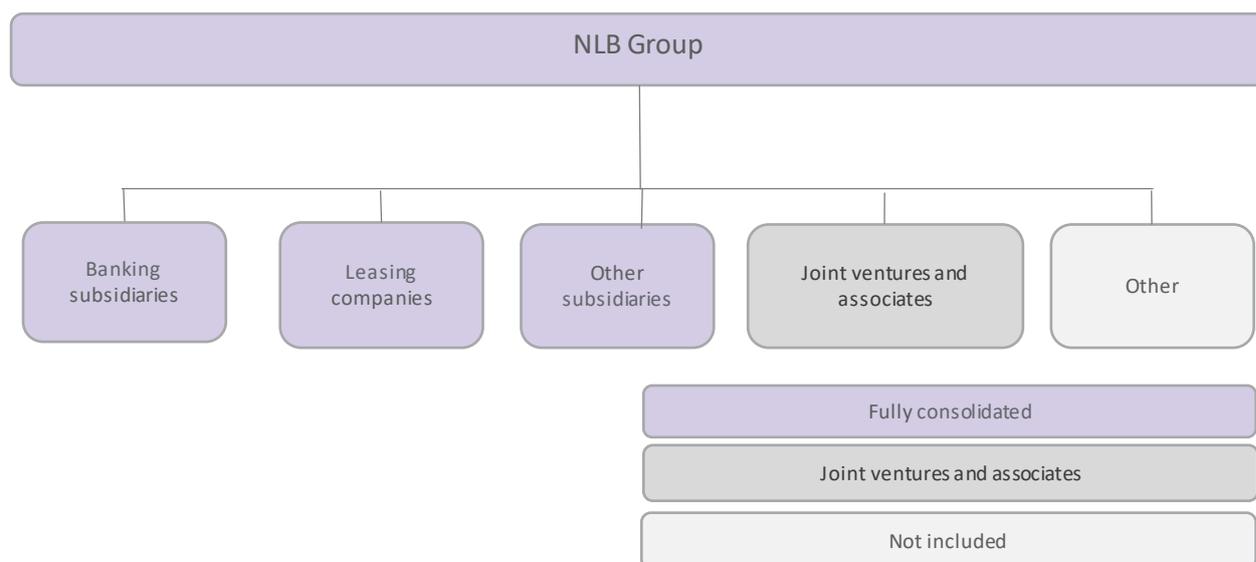
It should be noted that while some quantitative information in this document is based on financial data contained in the 2023 NLB Group Annual Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the 2023 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 presentation of the Group in accordance with the regulatory scope of consolidation is presented below.

Figure 4: NLB Group scheme



A significant subsidiary of the Group that exceeds 10% of the Group's RWA is NLB Komercijalna banka a.d. Beograd (hereafter: 'Komercijalna Banka, Beograd'). Detailed information is disclosed in their annual reports published on the website: <https://www.nlbkb.rs/about-us>.

Table EU CC2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the 2023 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 the Group (entity by entity) as at 31 December 2023 are shown in Table EU LI3 (disclosed in Appendix 4). 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 2023 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 2023 NLB Group Annual Report – note 5.12.g Analysis by type of investment in associates and joint ventures (page 262).

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

31.12.2023	Balance sheet as	Under regulatory	Reference	
	in published financial statements	scope of consolidation	to rows in CC1	
	a	b	c	
Assets - Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash, cash balances at central banks and other demand deposits at banks	6,103,561	6,103,560	
2	Financial assets held for trading	15,718	15,718	
3	Non-trading financial assets mandatorily at fair value through profit or loss	14,175	14,175	
4	Financial assets measured at fair value through other comprehensive income	2,251,556	2,251,556	72
5	Financial assets measured at amortised cost			
6	- debt securities	2,522,229	2,522,229	72
7	- loans and advances to banks	547,640	547,640	
8	- loans and advances to customers	13,734,601	13,734,601	
9	- other financial assets	165,962	165,905	
10	Derivatives - hedge accounting	47,614	47,614	
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10,207)	(10,207)	
12	Investments in subsidiaries	-	10	
13	Investments in associates and joint ventures	12,519	14,915	73
14	Tangible assets			
15	Property and equipment	278,034	274,845	
16	Investment property	31,116	31,116	
17	Intangible assets	62,117	62,097	
18	Goodwill	3,529	3,529	8
19	Other intangible assets	58,588	58,568	8
20	Current income tax assets	42	38	
21	Deferred income tax assets	111,305	111,305	75
22	that rely on future profitability and do not arise from temporary differences	47,002	47,002	10
23	that rely on future profitability and arise from temporary differences	64,303	64,303	part of 75
24	Other assets	49,154	48,848	
25	Non-current assets held for sale	4,849	4,849	
26	Total assets	25,941,985	25,940,814	
Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements				
27	Financial liabilities held for trading	13,217	13,217	
28	Financial liabilities measured at fair value through profit or loss	4,482	4,482	
29	Financial liabilities measured at amortised cost			
30	- deposits from banks and central banks	95,283	95,283	
31	- borrowings from banks and central banks	140,419	140,419	
32	- due to customers	20,732,722	20,733,093	
33	- borrowings from other customers	99,718	99,718	
34	- debt securities issued	1,338,235	1,338,235	46
35	- other financial liabilities	357,116	359,498	
36	Derivatives - hedge accounting	3,540	3,540	
37	Provisions	113,305	113,288	
38	Current income tax liabilities	35,879	35,854	
39	Deferred income tax liabilities	1,426	1,426	
40	Other liabilities	58,653	58,431	
41	Total liabilities	22,993,995	22,996,484	
Shareholders' Equity				
42	Share capital	200,000	200,000	1
43	Share premium	871,378	871,378	1
44	Other equity instruments	84,178	84,178	31
45	Accumulated other comprehensive income	(76,118)	(75,662)	3
46	Profit reserves	13,522	13,522	3
47	Retained earnings	1,789,890	1,785,774	2
		2,882,850	2,879,190	
48	Non-controlling interests	65,140	65,140	5; 34; 48
49	Total shareholders' equity	2,947,990	2,944,330	
50	Total liabilities and shareholders' equity	25,941,985	25,940,814	

Table 3 – EU L1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories of NLB Group

31.12.2023	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
1	Cash, cash balances at central banks, and other demand deposits at banks	6,103,561	6,103,560	6,103,560	-	-	-
2	Financial assets held for trading	15,718	15,718	-	15,718	15,718	-
3	Non-trading financial assets mandatorily at fair value through profit or loss	14,175	14,175	14,075	-	100	-
4	Financial assets measured at fair value through other comprehensive income	2,251,556	2,251,556	2,251,556	-	-	-
5	Financial assets measured at amortised cost						
6	- debt securities	2,522,229	2,522,229	2,526,578	-	-	(4,349)
7	- loans and advances to banks	547,640	547,640	547,640	-	-	-
8	- loans and advances to customers	13,734,601	13,734,601	13,734,601	-	-	-
9	- other financial assets	165,962	165,905	165,905	-	-	-
10	Derivatives - hedge accounting	47,614	47,614	-	47,614	-	-
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10,207)	(10,207)	-	-	-	-
12	Investments in subsidiaries	-	2,406	2,406	-	-	-
13	Investments in associates and joint ventures	12,519	12,519	12,519	-	-	-
14	Tangible assets						
15	Property and equipment	278,034	274,845	274,845	-	-	-
16	Investment property	31,116	31,116	31,116	-	-	-
17	Intangible assets	62,117	62,097	21,415	-	-	40,682
18	Current income tax assets	42	38	38	-	-	-
19	Deferred income tax assets	111,305	111,305	64,303	-	-	47,002
20	Other assets	49,154	48,848	48,848	-	-	-
21	Non-current assets held for sale	4,849	4,849	4,849	-	-	-
22	TOTAL ASSETS	25,941,985	25,940,814	25,804,254	63,332	15,818	83,335
23	Financial liabilities held for trading	13,217	13,217	-	13,217	13,217	-
24	Financial liabilities measured at fair value through profit or loss	4,482	4,482	-	-	-	-
25	Financial liabilities measured at amortised cost						
26	- deposits from banks and central banks	95,283	95,283	-	-	-	-
27	- borrowings from banks and central banks	140,419	140,419	-	-	-	-
28	- due to customers	20,732,722	20,733,093	-	-	-	-
29	- borrowings from other customers	99,718	99,718	-	-	-	-
30	- subordinated liabilities	1,338,235	1,338,235	-	-	-	-
31	- other financial liabilities	357,116	359,498	-	-	-	-
32	Derivatives - hedge accounting	3,540	3,540	-	3,540	-	-
33	Provisions	113,305	113,288	-	-	-	-
34	Current income tax liabilities	35,879	35,854	-	-	-	-
35	Deferred income tax liabilities	1,426	1,426	-	-	-	-
36	Other liabilities	58,653	58,431	-	-	-	-
37	TOTAL LIABILITIES	22,993,995	22,996,484	-	16,757	13,217	-
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	84,178	84,178	-	-	-	-
42	Accumulated other comprehensive income	(76,118)	(75,662)	-	-	-	-
43	Profit reserves	13,522	13,522	-	-	-	-
44	Retained earnings	1,789,890	1,785,774	-	-	-	-
		2,882,850	2,879,190	-	-	-	-
45	Non-controlling interests	65,140	65,140	-	-	-	-
46	TOTAL EQUITY	2,947,990	2,944,330	-	-	-	-
47	TOTAL LIABILITIES AND EQUITY	25,941,985	25,940,814	-	16,757	13,217	-

Table 3 (EU LI1) provides the reconciliation of the accounting consolidated financial statements as presented in the 2023 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 the 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

31.12.2023	Total	Items subject to		
		Credit risk framework	CCR framework	Market risk framework
		a	b	d
1 Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	25,883,404	25,804,254	63,332	15,818
2 Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	(29,974)	-	(16,757)	(13,217)
3 Total net amount under the scope of prudential consolidation	25,853,430	25,804,254	46,575	2,601
4 Off-balance-sheet amounts	5,092,652	5,092,652	-	-
5 Differences in valuations	19,986	-	19,986	-
12 Exposure amounts considered for regulatory purposes	30,966,068	30,896,906	66,561	2,601

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)

The 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:

- The 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

		2023	2022	2021
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	1.35%	1.46%	1.55%
	Tier 1	1.80%	1.95%	2.06%
	Total Capital	2.40%	2.60%	2.75%
Total SREP Capital requirement (TSCR)	CET1	5.85%	5.96%	6.05%
	Tier 1	7.80%	7.95%	8.06%
	Total Capital	10.40%	10.60%	10.75%
Combined buffer requirement (CBR)				
Capital conservation buffer	CET1	2.50%	2.5%	2.5%
O-SII buffer	CET1	1.25%	1.0%	1.0%
Systemic risk buffer	CET1	0.10%	0.0%	0.0%
Countercyclical buffer	CET1	0.26%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.96%	9.46%	9.55%
	Tier 1	11.91%	11.45%	11.56%
	Total Capital	14.51%	14.10%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.96%	10.46%	10.55%
	Tier 1	12.91%	12.45%	12.56%
	Total Capital	15.51%	15.10%	15.25%

As at the end of 2023, the Group's Overall Capital Requirement (OCR) on a consolidated basis was 14.51%. This requirement has two components:

- The Total SREP Capital Requirement (TSCR) is 10.40%, which includes 8.00% Pillar 1 and 2.40% Pillar 2 Requirements. As at 1 January 2023, the Pillar 2 Requirement decreased by 0.2 p.p. to 2.40% due to a better overall SREP assessment;
- The second component is the Combined Buffer Requirement (CBR), which is 4.11%, and includes a 2.50% Capital Conservation Buffer, a 1.25% O-SII Buffer, a 0.26% Countercyclical Buffer¹ and a 0.10% Systemic risk buffer.²

In addition to the above requirements, the Pillar 2 Guidance (P2G) is 1.0% of Common Equity Tier 1 (CET1).

Effective from 1 January 2024, the Bank has lower capital requirements. On 1 December 2023, the Bank received a new SREP decision on a consolidated basis for 2024. As per the decision, the Pillar 2 Requirement decreased by 0.28 p.p. to 2.12%, since the overall SREP assessment improved.

Table 6 – Capital adequacy of NLB Group:

	31.12.2023	31.12.2022
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	1,235,363	908,965
Current result	327,398	334,297
Accumulated other comprehensive income	(75,662)	(98,470)
Other reserves	13,522	13,522
Minority interest	28,798	26,806
Prudential filters: Additional Valuation Adjustments (AVA)	(2,295)	(2,981)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(37,153)	(41,351)
(-) Deferred tax assets	(47,002)	-
(-) Insufficient coverage for non-performing exposures	(907)	(418)
COMMON EQUITY TIER 1 CAPITAL (CET1)	2,509,911	2,208,219
Capital instruments eligible as AT1 Capital	82,000	82,000
Minority interest	5,907	5,481
Additional Tier 1 capital	87,907	87,481
TIER 1 CAPITAL	2,597,818	2,295,700
Capital instruments and subordinated loans eligible as T2 capital	507,516	507,516
Minority interest	3,874	3,159
Tier 2 capital	511,390	510,675
TOTAL CAPITAL	3,109,208	2,806,375
Risk exposure amount for credit risk	12,168,121	11,797,851
Risk exposure amount for market risks	1,447,713	1,359,476
Risk exposure amount for CVA	14,200	85,600
Risk exposure amount for operational risk	1,707,128	1,410,132
TOTAL RISK EXPOSURE AMOUNT (RWA)	15,337,162	14,653,059
Common Equity Tier 1 Ratio	16.4%	15.1%
Tier 1 Ratio	16.9%	15.7%
Total Capital Ratio	20.3%	19.2%

¹ The Bank of Slovenia has increased the countercyclical capital buffer for exposures in Slovenia from 0% to 0.5%. The Bank had to meet the required buffer from 31 December 2023 onwards.

² Starting from 1 January 2023, the Bank of Slovenia has mandated that banks maintain systemic risk buffer rates for sectoral exposures. The required rates are 1.0% for all retail exposures to natural persons secured by residential real estate and 0.5% for all other exposures to natural persons.

Effective as at 1 January 2025, there will be some changes in the capital buffer rates for Slovenia. The countercyclical capital buffer rate for exposures in Slovenia will increase from 0.5% to 1.0%. At the same time, the sectoral systemic risk buffer for retail exposures to natural persons secured by residential real estate will decrease from 1.0% to 0.5%.

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.

As at 31 December 2023, the TCR for the Group stood at 20.3% (or 1.1 p.p. increase YoY), and the CET1 ratio stood at 16.4% (1.3 p.p. increase YoY), – which is well above requirements. The higher total capital adequacy derives from higher capital (EUR 302.8 million YoY), which compensated for the increase of the RWA (EUR 684.1 million YoY). The Group increased its capital with a partial inclusion of 2023 profit (EUR 327.4 million). Temporary treatment of FVOCI for sovereign securities ceased to apply as at 1 January 2023, which decreased capital by EUR 61.6 million. This effect was compensated with EUR 84.5 million in revaluation adjustments. In December 2023, a deduction item related to deferred taxes appeared in EUR 47.0 million. The capital calculation does not include a part of the 2023 result in the amount of EUR 223 million.

The drivers behind the differences between the RWAs in year 2023 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 payout in 2023 was split into two tranches. The first instalment in the amount of EUR 55.0 million was paid in June 2023, while the second was paid in the same amount of EUR 55.0 million in December 2023, contributing to the 2023 cumulative payout of EUR 110.0 million.

4.2. Detailed presentation of capital elements

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

The table below shows the elements of the calculation of the capital of the Group at the end of 2023 in detail. A summarised substantive presentation of the elements relevant for the Group is given in Chapter 4.1. Capital adequacy.

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

Table 7 – EU CC1 – Composition of regulatory own funds

31.12.2023		Source based on	
		Amounts	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	42 + 43
	of which: ordinary shares	1,071,378	42 + 43
2	Retained earnings	1,562,761	part of 47
3	Accumulated other comprehensive income (and other reserves)	(62,140)	part of 45 + 46
5	Minority interest (amount allowed in consolidated CET1)	28,798	part of 48
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,600,797	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,295)	
8	Intangible assets (net of related tax liability) (negative amount)	(40,682)	18 + part of 19
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(47,002)	22
27a	Other regulatory adjustments	(907)	
27a1	Deduction item related to insufficient coverage for non-performing exposures	(907)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(90,886)	
29	Common Equity Tier 1 (CET1) capital	2,509,911	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	82,000	part of 44
31	of which: classified as equity under applicable accounting standards	82,000	part of 44
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	5,907	part of 48
36	Additional Tier 1 (AT1) capital before regulatory adjustments	87,907	
44	Additional Tier 1 (AT1) capital	87,907	
45	Tier 1 capital (T1= CET1 + AT1)	2,597,818	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	507,516	part of 34
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	3,874	part of 48
51	Tier 2 (T2) capital before regulatory adjustments	511,390	
58	Tier 2 (T2) capital	511,390	
59	Total capital (TC = T1 + T2)	3,109,208	
60	Total risk exposure amount	15,337,162	
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital ratio	16.36%	
62	Tier 1 capital ratio	16.94%	
63	Total capital ratio	20.27%	
64	Institution CET1 overall capital requirements	9.96%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.26%	
67	of which: systemic risk buffer requirement	0.10%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.25%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	10.36%	
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	70,199	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)	12,519	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)	111,305	21

4.3. Risk weighted exposure

(Article 438 d and 445 of CRR)

The 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 the Group at the end of 2023, at the end of September 2023, and at the end of 2022; as well as composition of own fund (capital) requirements at the end of 2023.

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

		Total risk exposure amounts (TREA)			Total own funds requirement
		31.12.2023	30.09.2023	31.12.2022	31.12.2023
		a	b	b-3	c
1	Credit risk (excluding CCR)	11,942,285	11,804,233	11,570,861	955,383
2	of which the standardised approach	11,942,285	11,804,233	11,570,861	955,383
6	Counterparty credit risk - CCR	47,981	161,882	144,580	3,838
7	of which the standardised approach	33,781	67,069	58,980	2,702
EU 8b	of which credit valuation adjustment - CVA	14,200	94,813	85,600	1,136
20	Position, foreign exchange and commodities risks (Market risk)	1,447,713	1,387,088	1,359,476	115,817
21	of which the standardised approach	1,447,713	1,387,088	1,359,476	115,817
23	Operational risk	1,707,128	1,410,132	1,410,132	136,570
EU 23a	of which basic indicator approach	1,707,128	1,410,132	1,410,132	136,570
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	192,055	155,688	168,010	15,364
29	Total	15,337,162	14,919,023	14,653,059	1,226,973

In 2023, the RWA of the Group for Credit risk increased by EUR 370.3 million (lines 2, 7, and 24 in Table 8), mainly as the consequence of ramping up lending activity in all Group banks, the most in the Bank, NLB Komercijalna Banka, Beograd and NLB Banka Pristina. Higher RWA for exposures associated with particularly high risk due to new project financing loans given, mainly in the Bank and NLB Komercijalna Banka, Beograd, was partially offset by repayments or by withdrawing the high-risk flag after fulfilling the relevant conditions. In contrast, a RWA decrease was observed for liquidity assets, mainly in NLB Komercijalna Banka, Beograd, due to the maturity of some Serbian bonds and the higher MIGA guarantee for assets at central banks in a foreign currency (EUR). The higher MIGA guarantee also reduced the RWA for exposures dominated in EUR at the central bank in Skopje. Furthermore, RWA also decreased due to the maturity of Macedonian bonds and Bosnian bonds of Republika Srpska. The RWA decline for liquidity assets was partly mitigated by the RWA increase at institutions, mainly in the Bank, due to the purchase of bank bonds, a larger volume of deposits at commercial banks and higher risk weights for institutions from countries outside the EEA that are not on the third-party equivalent list (e.g., the United Kingdom). Repayments, higher impairments and provisions, upgrades, and improved data of real estate collaterals for CRR eligibility resulted in the RWA reduction for non-performing exposures.

The increase in RWAs for market risks and Credit Value Adjustments (CVA) in the amount of EUR 16.8 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 86.6 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks – mostly RSD), lower RWA for CVA risk of EUR 71.4 million (due to a change of calculating exposure value for derivative transactions subject to CRR risk based on OEM method), and higher RWA for TDI risk of EUR 1.2 million (mostly IRS derivatives).

The increase in the RWA for operational risks (EUR 297.0 million YoY) (line EU 23 in Table 8) derives from the higher net interests, mainly from the Bank and NLB Komercijalna Banka, Beograd, resulting in a higher three-year average of relevant income. There were no significant deviations from previous years in the other components used in the calculations.

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 the Bank 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 Group excluding banks).

As at 1 January 2024, the Bank must comply with MREL requirement on a consolidated basis at resolution group level of 30.66% of Total Risk Exposure Amount (TREA) increased by applicable Combined Buffer Requirement (CBR) and 10.69% of the Total Exposure Measure (TEM). The Bank has to ensure a linear build-up of own funds and eligible liabilities towards its 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 2023, the MREL ratio was 40.24% as percentage of TREA compared to the requirement of 34.99% of TREA (with CBR). This means the Bank has a MREL surplus of EUR 433 million above its MREL requirement. Expressed as a percentage of the TEM, the Bank ratio was 19.94%, while the requirement is 10.69% 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

31.12.2023		Minimum requirement for own funds and eligible liabilities (MREL)
		a
Own funds and eligible liabilities, ratios, and components		
1	Own funds and eligible liabilities	3,321,888
EU-1a	Of which own funds and subordinated liabilities	2,357,888
2	Total risk exposure amount of the resolution group (TREA)	8,255,708
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	40.24%
EU-3a	Of which own funds and subordinated liabilities	28.56%
4	Total exposure measure of the resolution group	16,657,636
5	Own funds and eligible liabilities as percentage of the total exposure measure	19.94%
EU-5a	Of which own funds or subordinated liabilities	14.15%
Minimum requirement for own funds and eligible liabilities (MREL)		
EU-7	MREL requirement expressed as percentage of the total risk exposure amount	30.66%
EU-9	MREL requirement expressed as percentage of the total exposure measure	10.69%

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 2023, the Bank's available own funds and eligible liabilities amounted to EUR 3,321.9 million, consisting of EUR 2,357.9 million of own funds (CET1, AT1 and Tier 2 bonds), and EUR 964.0 million of eligible deposits

and liabilities. The Bank is predominantly fulfilling the MREL requirement with capital, 29.0% 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

31.12.2023		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)	1,768,372	-
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	2,357,888	-
Own funds and eligible liabilities: Non-regulatory capital elements			
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre cap)	964,000	-
17	Eligible liabilities items before adjustments	964,000	964,000
Own funds and eligible liabilities: Adjustments to non-regulatory capital elements			
18	Own funds and eligible liabilities items before adjustments	3,321,888	3,321,888
22	Own funds and eligible liabilities after adjustments	3,321,888	-
EU-22a	Of which own funds and subordinated	2,357,888	-
Risk-weighted exposure amount and leverage exposure measure of the resolution group			
23	Total risk exposure amount	8,255,708	-
24	Total exposure measure	16,657,636	-
Ratio of own funds and eligible liabilities			
25	Own funds and eligible liabilities (as a percentage of total risk exposure amount)	40.24%	-
EU-25a	Of which own funds and subordinated	28.56%	-
26	Own funds and eligible liabilities (as a percentage of total exposure measure)	19.94%	-
EU-26a	Of which own funds and subordinated	14.15%	-
27	CET1 (as a percentage of TREA) available after meeting the resolution group's requirements	21.42%	-

Main features of eligible liabilities instruments

Share capital amounts EUR 200 million. Share capital of the Bank is comprised of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10 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 2023, 2.5% of the volume of own funds end eligible liabilities represented by instruments of additional capital (AT1 notes), 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 2023, 15.3% of the volume of own funds end eligible liabilities were subordinated Tier 2 bonds, which are classified as instruments of additional capital, with the 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 2023, the Bank had a total of EUR 830 million of senior unsecured bonds with a maturity of over 1 to 5, and a total of EUR 134 million of MREL eligible deposits, of which: EUR 74 million had a maturity above 1 year and up to 2 years, and EUR 60 million had 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 \(nlb.si\)](http://www.nlb.si)), and in Appendix 3.

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 – A 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: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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 2023, the Bank had the following composition of capital items and qualifying liabilities with which it meets the MREL requirement, as Table 12 shows.

Table 12 – The composition of capital items and qualifying liabilities with which it meets the MREL requirement

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) Subordinated Tier 2 notes (ISIN XS2750306511)	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 preferred bond (ISIN XS2641055012)	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, article 230):	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, article 230):	Senior to the MREL eligible deposits (referred 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

31.12.2023		Insolvency ranking					
		1 (most junior)	2	3	6	7	Sum 1 to 12
1	Description of insolvency rank	<p>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</p>	<p>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</p>	<p>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</p>	<p>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</p>	<p>Other eligible deposits not included in points 10 or 8</p>	
5	Own funds and liabilities potentially eligible for meeting MREL	1,768,372	589,516	830,000	64,000	70,000	3,321,888
6	of which residual maturity ≥ 1 year < 2 years	-	-	330,000	44,000	30,000	404,000
7	of which residual maturity ≥ 2 year < 5 years	-	-	500,000	20,000	40,000	560,000
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	1,768,372	82,000	-	-	-	1,850,372

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 the 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 the Group is or might be exposed. The ICAAP plays a key role in maintaining adequate capitalisation of the 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, the Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. In this perspective, the Group covers a full universe of risks that may have a material impact on its risk profile, and is based on 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 the 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, the Group defines its management buffer, above the regulatory and supervisory requirements, 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, Group's goal is to maintain its overall capital requirement (OCR), increased by the management buffer, at all times. From a stress perspective, 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 a 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 the 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 the mitigation in order to ensure 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 2023, the capital of the 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 2023 NLB Group Annual Report in note 5.21, Other equity instruments issued (page 290), and subordinated liabilities are disclosed in note 5.15.c) Subordinated liabilities (page 276).

Details on the main characteristics of the capital instruments are disclosed in Appendix 3.

4.7. 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
- Potential liquidity outflows
- Widening credit spreads
- Worsened interest rate outlook / Persistence of high inflation
- Energy and commodity price volatility
- Increasing unemployment
- Geopolitical uncertainties
- Potential cyber-attacks
- Litigation risks
- Regulatory, other legislative, and tax measures impacting the banks

The sharp rebound from the COVID recession has turned in the prospective stagflation in 2023. As a result of rising inflation, high-interest rates, weaker external demand, and increased macroeconomic uncertainty, subdued economic growth or its gradual slowdown was experienced. The growth in the Group's region was moderate, though relatively high inflationary pressures and other uncertainties could suggest a further slowdown, namely in private consumption and investment growth.

Credit risk usually increases considerably in times of an economic slowdown. The Group has thoroughly analysed and adjusted the potential impact on the credit portfolio in light of anticipated inflationary pressures and expected decreases in economic growth. Lending growth in the corporate and retail segments remained relatively moderate, especially in such circumstances. Regarding the credit portfolio quality, the Group carefully monitors the potentially most affected segments to detect any significant increase in credit risk at a very early stage. In August 2023, certain areas in Slovenia were damaged by floods. Their impact on the Bank's credit portfolio quality in the corporate and retail segments was estimated as negligible, and only minor client credit quality deterioration or received collaterals occurred. The aforementioned adverse developments could affect the cost of risk and NPLs. Notwithstanding the established procedures in the Group's credit risk management, there can be no certainty that they will be sufficient to ensure the Group's credit portfolio quality, or the corresponding impairments remain adequate.

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. Geopolitical uncertainties have increased volatility in the financial markets, particularly shifts in credit spreads, rising interest rates, and foreign exchange rate fluctuations. The Group closely monitors its prominent bond portfolio positions, mostly sovereigns, and carefully manages them by incorporating adequate early warning systems to limit the potential sensitivity of regulatory capital.

So far, no material movements regarding the Group's significant FX positions have been observed. Current developments, market observations, and potential mitigations are closely monitored and discussed. While the Group monitors its liquidity, interest rate, credit spread, FX position, and corresponding trends, their impacts on the Group positions, and any significant and unanticipated movements on the markets or a variety of factors, such as competitive pressures, consumer 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, and the prevention of cyber-attacks and potential fraud events. The Group has established internal controls and other measures to facilitate adequate management. However, these measures may only sometimes entirely prevent possible adverse effects.

With regards to litigation risk, in recent years, and even more so in recent periods, the Bank has seen a shift in case law that is generally more favourable to consumers, e.g., litigation cases related to loan processing fee and loan insurance premium in Serbia and CHF litigations in Slovenija. In the latter case, we have noticed an increase in the number of proceedings against the Bank, which was expected. The current litigations against the Bank referring to CHF are less material, but the Bank is closely monitoring developments.

The Group is subject to various regulations and laws relating to banking, insurance, and financial services. Respectively, it faces the risk of significant interventions by several regulatory and enforcement authorities in each jurisdiction in which it operates, including changes of tax treatment of banking business (e.g., application of VAT on card payments services in Bosnia and Herzegovina) and changes in interpretation of legislation (e.g., introduction of reimbursement of a proportional part of loan costs in case of early repayment of consumer loans in Slovenia).

The SEE region is the Group's most significant geographic area of operations outside the RoS, and the economic conditions in this region are, therefore, crucial to the Group's operations and financial condition results. The Group's financial condition could be adversely affected by 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 2023, the Group reviewed the IFRS 9 provisioning by testing the relevant macroeconomic scenarios to reflect the current circumstances and their future impacts accurately. The Group established multiple scenarios (i.e., baseline, optimistic, and severe) for the Expected Credit Losses (ECL) calculation, aiming to create a unified projection of macroeconomic and financial variables for the Group, aligned with the Bank's consolidated view of the future of economic development in the SEE. The Group formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of the IFRS 9. These IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of the 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 baseline scenario presents an expected forecast macroeconomic view for all the countries of the Group. This scenario is based on recent official and professional forecasts, with specific adjustments for individual countries of the Group. Key characteristics include no additional supply shocks, decreasing inflation due to increased ECB key rate and quantitative tightening, a slightly less tight labour market, GDP growth supported by declining interest rates and positive expectations, regional containment of political tensions, and limited spillover effects of financial system issues on the real economy.

The alternative scenarios are based on plausible drivers of economic development for the next three years. The optimistic scenario is supply- and demand-driven, with a mild winter and sufficient energy supplies easing price pressures in the euro area. China's decision to abandon strict COVID restrictions supports the euro area exports, which stimulates demand. Lower inflation leads to an optimistic financial market outlook, and the first year shows positive growth expectations, followed by additional ECB support and moderated growth potential in the following two years.

The severe, supply- and demand-driven scenario depicts sluggish economic growth due to lower consumer purchasing power, geopolitical disruption, and elevated inflation. The Group home countries experience near-zero real economic growth, leading to substantial upward shocks in financial markets. Political tensions persist, causing supply disruptions, and inflation remains higher than expected, resulting in increased long-term inflation expectations. GDP growth remains low as the ECB implements a restrictive monetary policy. Despite a slow increase in the unemployment rate,

many industries still face a tight labour market. The financial system stabilises, allowing the ECB to focus on taming inflation. The Bank considers these scenarios in calculating expected credit losses in the context of the IFRS 9.

On this basis, the Group revised scenario weights in H1 2023 and assigned weights of 20%–60%–20% (alternative scenarios receiving 20% each, and the baseline scenario 60%), with minor changes in some entities to reflect the likelihood of relevant future economic conditions in their environment. Regular yearly revision of IFRS 9 provisioning will be conducted in H1 2024.

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 the 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. 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 the Group might use are determined by various internal policies and applied when necessary. Moreover, the selection and application of mitigation measures follow 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.

4.8. 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 14 – Amount of bank-specific countercyclical capital buffer for NLB Group

31.12.2023	
Total risk exposure amount	15,337,162
Institution specific countercyclical buffer rate	0.26%
Institution specific countercyclical buffer requirement	39,488

For the last quarter of 2023, 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, and declared a new raise to 1% of the total risk exposure, where the requirement must be fulfilled from 1 January 2025 onwards. The required value of the buffer for exposures in Slovenia as at 31 December 2023 was at 0.5%. 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 Denmark and Norway which, as at 31 December 2023, had a countercyclical capital rate of 2.5%; Bulgaria, Czech Republic, Iceland, Sweden, United Kingdom had 2%; Estonia and Slovakia had 1.5%; Croatia, Ireland, Lithuania, Romania, Netherlands, Hong Kong, and Australia had 1%; Germany had 0.75%; and Cyprus, France, Luxembourg had rates of 0.5%.

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

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

Table 15 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer of NLB Group

31.12.2023	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			
		a	g				
Country					k	l	m
Slovenia	6,944,852	392,721	392,721		4,909,013	47.32%	0.50%
Serbia	2,939,778	169,554	169,554		2,119,425	20.43%	-
Rep. of North Macedonia	1,283,714	76,707	76,707		958,838	9.24%	-
Bosnia and Herzegovina	1,179,303	72,950	72,950		911,875	8.79%	-
Kosovo	864,694	53,649	53,649		670,613	6.46%	-
Montenegro	621,560	39,274	39,274		490,925	4.73%	-
Netherlands	64,981	5,158	5,158		64,475	0.62%	1.00%
Austria	51,166	3,987	3,987		49,838	0.48%	-
France	50,782	4,049	4,049		50,613	0.49%	0.50%
United States	36,477	2,844	2,844		35,550	0.34%	-
Denmark	25,158	2,013	2,013		25,163	0.24%	2.50%
Belgium	21,609	1,660	1,660		20,750	0.20%	-
Luxembourg	20,730	1,651	1,651		20,638	0.20%	0.50%
United Kingdom	16,299	1,100	1,100		13,750	0.13%	2.00%
Ireland	10,271	821	821		10,263	0.10%	1.00%
Germany	8,743	601	601		7,513	0.07%	0.75%
Croatia	6,795	654	654		8,175	0.08%	1.00%
Switzerland	4,796	258	258		3,225	0.03%	-
Italy	804	29	29		363	0.00%	-
Sweden	741	51	51		638	0.01%	2.00%
Spain	486	17	17		213	0.00%	-
Malta	447	21	21		263	0.00%	-
Russian Federation	273	11	11		138	0.00%	-
China	231	14	14		175	0.00%	-
United Arab Emirates	217	10	10		125	0.00%	-
Czech Republic	153	5	5		63	0.00%	2.00%
Australia	133	4	4		50	0.00%	1.00%
Latvia	95	6	6		75	0.00%	-
Cyprus	68	2	2		25	0.00%	0.50%
Hungary	67	4	4		50	0.00%	-
Bulgaria	51	3	3		38	0.00%	2.00%
Mauritius	43	5	5		63	0.00%	-
Brazil	35	2	2		25	0.00%	-
Albania	33	2	2		25	0.00%	-
Slovakia	22	2	2		25	0.00%	1.50%
Kenya	21	2	2		25	0.00%	-
Norway	20	1	1		13	0.00%	2.50%
Canada	18	1	1		13	0.00%	-
Turkey	12	1	1		13	0.00%	-
Kuwait	9	1	1		13	0.00%	-
Argentina	8	-	-		-	0.00%	-
Other	46	-	-		-	0.00%	-
Total	14,155,747	829,845	829,845		10,373,063	100.00%	-

4.9. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amendment of two regulations to address the impact of the 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;
- 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.

The Bank 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.

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)

The Group is one of the largest banking and financial groups in Slovenia, with an important presence in the SEE region, namely Serbia, Bosnia and Herzegovina, North Macedonia, Kosovo, and Montenegro. Signed SPAs for acquiring a majority shareholding in Summit Leasing Group and Generali Investments AD Skopje will further strengthen the Group's existing 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 2023, comprised of NLB as the parent entity in Slovenia, six subsidiary banks in SEE, 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 ability to achieve growth, including the alertness for future challenges in the banking environment and an active contribution to a more balanced and inclusive economic and social system.

During 2023, the Group's credit portfolio quality remained high-quality and well-diversified, with a stable rating structure and lower NPLs level. The Group recorded a slower credit portfolio growth in all segments after strong new corporate and retail loan origination across all markets in the previous year due to inflationary pressures, higher interest rates and low GDP growth. The impacts of the floods in Slovenia were estimated as negligible, and only minor client credit quality deterioration or received collaterals occurred. Besides, the Group monitored the macroeconomic and geopolitical circumstances closely, remaining very prudent in identifying any increase in credit risk at a very early stage, and proactive in NPL management. The cost of risk remained at very low level, mainly due to the successful collection of previously written-off receivables, revised risk parameters, and stable portfolio development in the SEE region.

The Group stayed well capitalised and well above the risk appetite at both the Group and banking member levels. The liquidity position of the Group also remained solid, with liquidity indicators high above the regulatory requirements, indicating its low tolerance for this risk. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while at the same time considering the potential adverse negative market movements. Investment activity continued with a balanced approach to finding attractive market opportunities while pursuing well-managed credit spread and interest rate risk, as well as capital consumption. Raising the interest rate environment and corresponding increased market demand for fixed interest rate products led to moderate interest rate risk exposure, which stayed well within the risk appetite tolerance.

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 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 the 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 in accordance with the Group's business strategy and set 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, collateral evaluation 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 the Group operates is still lacking. Nevertheless, the Group has set the process of obtaining relevant ESG-related data from its clients, which is 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, the 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 sustainably profitable; to work predominantly with clients in its core markets; 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 on an ongoing basis. 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 the 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, 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. Moreover, in 2023 the Group indicated the activities for further comprehensive enhancement of the existing interest rate risk management. 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, 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 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 the 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.

The Group established a risk appetite limit framework (key risk indicators and selected relevant triggers) to support its strategic objectives, which is a subject to comprehensive consistency check and validation within the ICAAP and ILAAP processes. The Group regularly monitors its target risk appetite profile, representing the key component of the risk mitigation process. Thus, the set 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 the 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, maintaining an adequate MREL and liquidity structure, and related corresponding buffers to support the financial resilience of the Group.

Key risk management guidelines of the 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 the 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 regularly reviewed 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 optimal capital consumption. 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. In the process of the transaction approval, collecting ESG data at the KYC stage was established.

A regulatory compliance check represents the next important step and includes verification that a client is adhering to the applicable laws, regulations, and standards. If the transaction is classified with a high E&S 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. With that, the Group ensures that the risks are adequately addressed and that any changes or newly emerged risks are identified and addressed.

The 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.

The 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 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 the 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 the 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 a per individual risk type, selected portfolio level, etc.

The 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 a 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, MREL or liquidity position. Furthermore, stress tests results are considered as an important element when setting the 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 the Risk Management function) and approved and monitored by the Management Board. Stress-testing results on the Group level 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 a 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).

As a systemically important institution, the Group was included in the ECB Stress Test exercise performed in H1 2023. On 30 July 2023, the results of stress tests carried out for important banks by the ECB to assess the resilience of the financial institutions were disclosed. The results of the bottom-up stress test showed that even in a very unfavourable market condition as defined the EBA and ECB, the Group holds sufficient resilience in terms of capitalisation. The qualitative outcomes were included in the determination of capital requirements by the ECB, namely, setting Pillar 2 Guidance.

Besides, the Group is included in two ECB Stress Test exercises – the 2024 EBA Fit-for-55 climate risk scenario analysis and the 2024 ECB Cyber Resilience Stress Test Exercise, which started in Q4 2023 and will be concluded in H1 2024. By performing these exercises, the ECB will assess how prepared banks are for dealing with potential shocks stemming from climate and cyber risk.

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 is constantly further enhanced by considering available 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 robust 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 16 – 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 sovereigns 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				
Transition 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, the 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 the Bank 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 the 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 Group DWH, collected from Bank 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 the Group uses for regulatory reporting.

The Group has established a strong and robust data governance programme that aligns with the goals and objectives of the Group's risk management function. The 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.

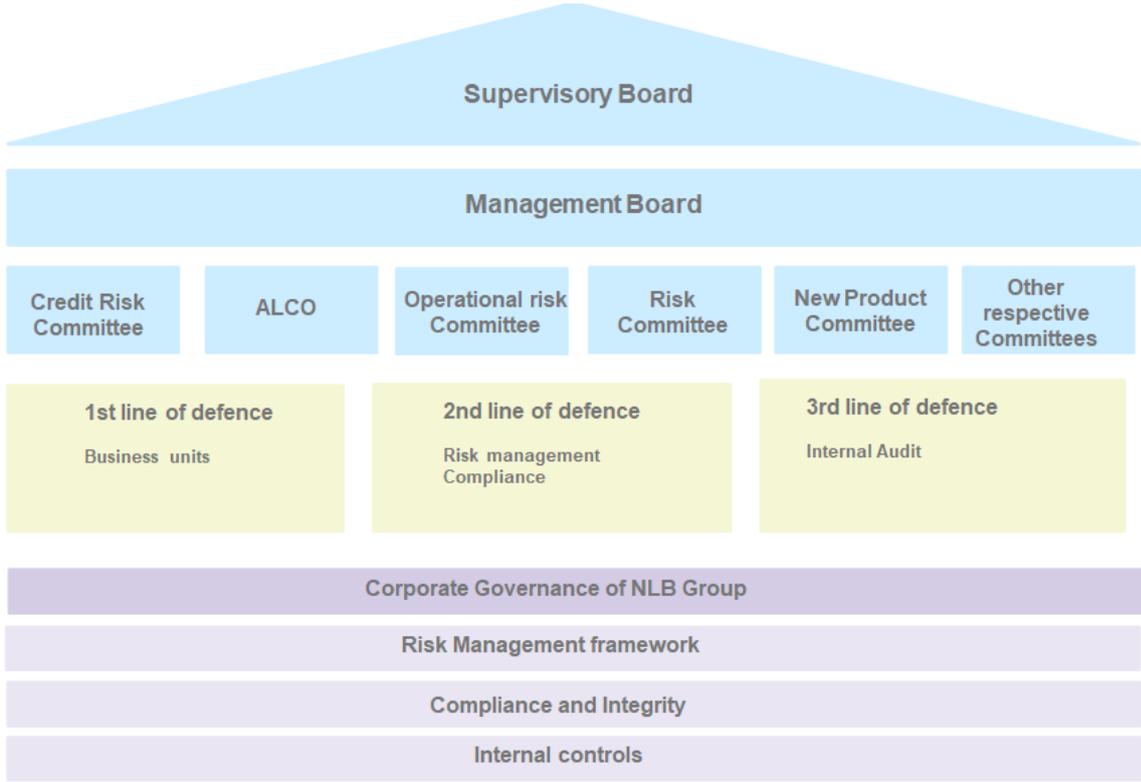
Corporate governance in relation to risk management and internal controls

The 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, which also includes 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



The 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.

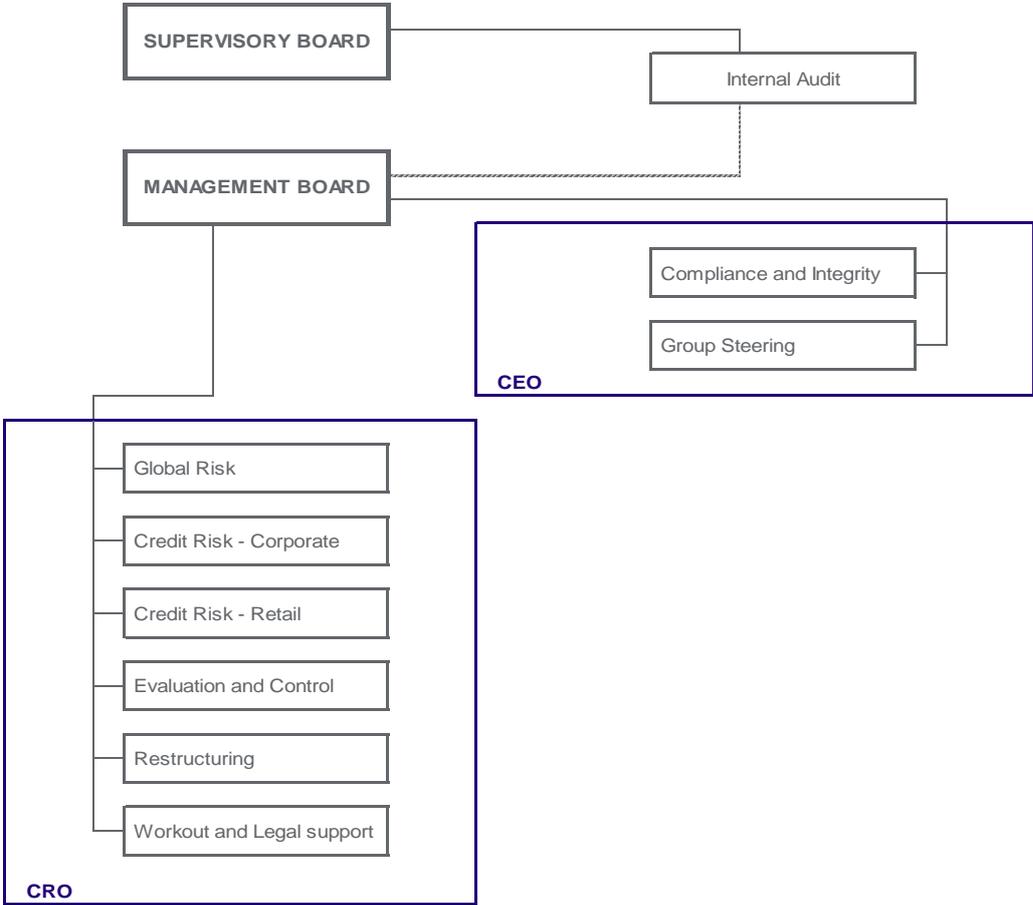
Risk Management and Compliance comprise the second line of defence. Risk management defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring, and management. Some units within the Chief Risk Officer area (in relation to underwriting, restructuring, and 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 the 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 Bank’s Supervisory Board. During 2023, 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 the Bank).

Risk management organisation in the Bank

Figure 7 – Risk management organisation in the Bank



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 the Bank 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 the Bank 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:

- Corporate Credit Committee determines credit ratings, makes decisions on the reclassification of clients, and approves commercial banking investment transactions and limits beyond the directors' competencies. The Committee adopts decisions on investment transactions in commercial banking within the statutory powers in corporate banking in the Bank (all companies, banks, and financial institutions), operations with clients in intensive care, and NPL. As a rule, committee meetings are convened once a week.
- Assets and Liabilities Management Committee (NLB Group) (ALCO) monitors conditions in the macroeconomic environment. It analyses the balance sheet, changes to and trends in the assets and liabilities of the Bank and the Group companies, and drafts resolutions and issues guidelines for achieving the structure of the Bank's and the Group's balance sheet. Committee meetings are generally convened once a month.
- NLB Operational Risk Committee is responsible for monitoring, guiding, and supervising operational risk management in the Bank and transferring this methodology to the Group members. As a rule, the Committee meets once every two months.
- Change the Bank Committee is responsible for adopting decisions related to the development portfolio to transform the Bank and decisions associated with adopting the development guidelines. As a rule, the Committee meetings are convened once a month.
- Risk Committee monitors and periodically reviews matters related to risk and commercial risk and prepares materials for the Management Board to make decisions. As a rule, committee meetings are convened quarterly.
- Group Real Estate Management Committee gives opinions on the acquisition/purchase price of real property and additional investments in real property provided as collateral for NPL, the selling price of own real property, and the acquisition/purchase price for the real property mortgaged in the sale of receivables. As a rule, Committee meetings are convened once a week.
- Sales Committee adopts decisions on managing the range of products and services and the relations with the clients in sales. As a rule, Committee meetings are convened once a week.
- Private Individual Credit Committee decides on the approval of loans and other investment proposals, the conditions of which deviate from standard banking products and services, and which represent additional risks for the Bank. As a rule, meetings are convened when necessary.

Supervisory Board and its working bodies

The Supervisory Board of the Bank 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 the Bank 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 the 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 the Bank.

- **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 the Group

The risk management framework is comprehensively integrated into the decision-making, monitoring, steering, reporting, 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 the Bank as the parent entity in Slovenia, the competence centre for six subsidiary banks, leasing companies, 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 the Bank 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 the Group members is centralised within an independent and/or separate organisational unit. All members of the 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 Management Board, the Assets and Liabilities Committee (ALCO) and Risk Committee (RICO), as well as the Risk Committee of the Supervisory Board, and the Supervisory Board itself.

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 the Bank. 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 the Bank 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.

The Group members' 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, RICO, 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 the Group and the Bank

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 the Bank and the Group level;
- information security and data protection, separately for the bank and the 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 the 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 the Bank and the 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 the NLB Group Code of Conduct, which sets standards for conduct and is a basis for building a risk culture within the Bank and the Group. It clearly sets zero tolerance for all types of harmful conduct and is consistently implemented in the Group;
- Managing anti-money laundering, counter-terrorist financing, and restrictive measures (sanctions) system on the levels of the Bank and the Group;
- Identification of new regulations relevant for the Bank and monitoring their implementation. For managing regulatory risk, the Bank has in place a regulatory compliance management system for handling and managing changes in the legal environment. This system is managed centrally by the 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 the Bank or other 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 the Bank;
- Setting information security standards and monitoring their implementation, identification of information security threats and building appropriate mitigation measures, on the levels of NLB and the NLB Group;
- Performing tasks of Data Protection Officer (DPO), through a 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 the Bank;
- Managing the Compliance and Integrity Competence Line for ensuring the same standards throughout the NLB Group, with higher requirements for the strategic members of the Group.

At the level of the 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, the 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 (i.e., onsite visits, offsite checks, quarterly reporting, extraordinary reporting, escalation procedures and strict binding rules, standards, and methodologies).

The compliance functions of other 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 the Bank – of course taking into consideration all local regulatory, business, and risk specifics of individual Group members, as well as their business line reporting to the Compliance and Integrity Department of the Bank.

Internal Audit

The 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 the 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 being informed. On that basis, the Internal Audit serves as an impartial guide to the Management and Supervisory Board regarding those areas at the Bank and of the 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 17 – 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 Cedevisa Olimpija
Peter Andreas Burkhardt	4	None
Archibald Kremser	3	None
Antonio Argir	2	None
Andrej Lasič	2	None
Hedvika Usenik	3	Member of Management Board Institute for Economic Research, Member of Management Board British–Slovenian Chamber of Commerce

Details on functions, held by members of the management body are disclosed in the 2023 NLB Group Annual Report, in the Corporate Governance chapter (page 118).

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 and Management Boards) 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 who have a balanced range of skills, knowledge, and experience about the strategic goals and challenges, and who possess the 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 the 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 and Supervisory Boards 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 so as 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

Once a year, the Supervisory Board shall assess its composition, performance, potential conflicts of interest of individual members, the 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.

In 2023, the process of selection and nomination started, as the term of office of the four current members of the Supervisory Board had expired. An external agency was invited to participate in the process of selection and nomination. Members of the Nomination Committee have assessed the candidates' competences, skills, experience, and other requirements, and nominated candidates. Suitable candidates were also nominated by the SDH.

Cvetka Selšek and Andre Marc Prudent-Toccanier began their terms as members of the Supervisory Board of the Bank on 15 August 2023, after the European Central Bank expressed the agreement with their appointment to this function, to which they were appointed on 19 June 2023 at the 40th General Meeting of the Bank. For two of the current members the term of office was extended.

On the basis of the Employee Participation in Management Act in 2020, for the first-time employee's representatives of the Bank were appointed as members of the Supervisory Board of the Bank – which is one of the rights of employee co-management. The interests of employees are represented by two employee representatives in the Supervisory Board. 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, their performance, potential conflicts of interest of individual members, the 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 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.

Considering that three new members were appointed the responsibility has divided among them in a way that their new responsibilities are: the President of the Board responsible for the Executive Area, the Member of the Board responsible for the Area of Risk and the Bank's Back Office, the Member of the Board responsible for the Financial Area of the Bank and for the IT Area, the Member of the Board responsible for the Area Business with Large Companies, the Member of the Board responsible for Retail and Private Banking, and the Member of the Board responsible for Management of the 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)

In 2022, the Diversity Policy was comprehensively updated and was approved by the Supervisory Board on 14 April 2022, and then submitted for approval at the Shareholders' Meeting of the Bank 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'), the Bank 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 promotes the achievement of diversity in terms of adequate representation of both sexes in such a way that all stakeholders in the HR process strive to create an appropriate pool of candidates in the recruitment process that takes into account the adequate representation of the underrepresented gender, to ensure that adequate representation of both sexes is taken into account during selection with the objectives of this policy. 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% of members of supervisory boards and a total of 33% of 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 the quality of the make-up of the management body in that members have experience in the fields of finance, law, and corporate governance are provided, as well as those 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 <i>mutatis mutandis</i> 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, as well as the policy for assessing the suitability of holders of key functions in NLB and the Group.
Continuity of composition of the management body and senior management	The bank strives to ensure continuity by not changing all members of the management body or senior management at the same time. For this purpose, the Bank has set a goal by defining the period for achieving this goal. The Bank ensures that the management body has 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 that the management body members have different geographical provenances, as this ensures that at collective level that the management body has a suitable knowledge about 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 the re-appointment of members to the Supervisory and Management Boards, consideration of 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 18 – 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	
	2023	Plan for 2023	2023	Plan for 2023	2023	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
	30-40	0	0	0	0	1
	40-50	1	2	3	2	23
	50-60	5	5	3	4	14
	60+	4	5	0	0	2
Share of women	40%	42%	17%	17%	43%	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 the 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 that have a good and sustainable business model, growth potential, competent management, a long-term sustainable funding structure, and an increasingly adequate long-term ESG strategy. 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, and 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. Furthermore, The Group increased a focus on ESG risk management, which is incorporated into the Group's overall credit approval process and the related credit portfolio management.

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, the Bank 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, industries with high emission intensity) 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 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, the 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, the Bank 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.

The 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 the Bank are assessed. To objectively assess 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, new financing is analysed 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 an ESG view the Group is analysing and monitoring its credit portfolio by using heat maps and setting Net Zero targets for selected industries. 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 the Bank 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, 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 the Bank and the 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 (KYC) 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, but 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 the 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 Group 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, followed by the opinion of the Credit Committee of the Bank. 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 the Bank (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 the 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 the 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. Another approach to resolve NPL is the 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 2023 NLB Group Annual Report – note 2.13. Allowances for financial assets (page 207).

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 2023, the Internal Audit performed several reviews in the area of credit risk management and mitigation. As main strengths, the Internal Audit identified an enhanced automation, implemented further efficient key controls in the credit processes, and invested in process optimisation activities. The process and rule framework for detecting the early increase of credit risk is adequate. The share of the Stage 2 client's is stable. On IFRS 9, additional progress has been made resulting in better quality of the models, a better data collection process and model representativeness for the Group members and in internal validation function, as well. In addition, important steps have been made on climate and environmental risk assessment with defining methodologies for transition and physical risk assessment, upgrading the collateral valuation process, and data collection. The Net Zero portfolio decarbonisation targets have been published. On the corporate segment the ESG documentary framework and lending process have been upgraded. For comprehensive support and collection of ESG data, an ESG tool has been introduced. Additionally, several trainings and workshops have been organised, to boost the knowledge and expertise of all stakeholders in the lending process. In the process of approving loans, to micro corporate improvements are expected in terms of optimisation. Remediation activities are in progress. It is worth mentioning, documentary transactions and guarantee business have seen significant growth. Management has a positive attitude in searching business efficiencies and new opportunities, also supporting group members. The process is well established and the user experience of stakeholders in the process is good.

The Internal Audit also identified certain possibilities for improvements in the credit risk management process. A continuously changing and extremely complex regulatory environment was identified as one of the major challenges for the Bank/Group. The identified shortcomings were 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 the Bank 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 the Bank 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 2023, 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 2023 as a standard procedure for compliance functions in the Group.

6.2. Credit risk quality

(Article 442 c and g of CRR)

Table 19 – EU CR1-A – Maturity of exposures of NLB Group

31.12.2023		Net exposure value				
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
		a	b	c	d	f
1	Loans and advances	8,190	2,279,190	4,280,375	7,880,391	14,448,146
2	Debt securities	-	1,227,560	2,482,686	986,014	4,696,260
3	Total	8,190	3,506,750	6,763,061	8,866,405	19,144,406

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

At the end of 2023, 46.3% of net on-balance exposure had remaining maturity of “Over 5 years,” followed by the “1 year to 5 years” category with 35.3%, and the “Up to 1 year” category with 18.3%. In the last year, the highest increase was noticed in the “1 year to 5 years” category.

Table 20 – EU CQ7 – Collateral obtained by taking possession and execution processes of NLB Group

31.12.2023		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		a	b
1	Property, plant, and equipment (PP&E)	13,342	(1,701)
2	Other than PP&E	56,573	(10,365)
3	Residential immovable property	6,535	(1,617)
4	Commercial immovable property	49,401	(8,626)
5	Movable property (auto, shipping, etc.)	541	(122)
7	Other	96	-
8	Total	69,915	(12,066)

6.3. Non-performing and forbore 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 ratios applicable based on the available collateral and expected repayments from other sources.

A forbore 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 receivable to Stage 2, for which lifetime impairments and provisions are applied.

Table 21 – EU CQ4 – Quality of non-performing exposures by geography of NLB Group

31.12.2023	Exposures	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					
		Total	Total	Of which defaulted			
	a	b	c	e	f	g	
1	On-balance-sheet	19,574,635	311,608	311,608	(352,582)		(51)
2	Slovenia	7,527,238	133,734	133,734	(113,812)		-
3	Serbia	4,098,679	30,411	30,411	(47,892)		(44)
4	North Macedonia	1,596,978	49,663	49,663	(61,005)		-
5	Bosnia and Herzegovina	1,405,454	21,647	21,647	(43,869)		(7)
6	Kosovo	969,212	21,574	21,574	(41,055)		-
7	Montenegro	735,049	38,349	38,349	(29,777)		-
8	Other countries	3,242,025	16,230	16,230	(15,172)		-
9	Off-balance-sheet	5,069,002	22,186	22,186		(32,550)	
10	Slovenia	3,000,721	14,930	14,930		(16,700)	
11	Serbia	1,151,817	3,054	3,054		(3,964)	
12	North Macedonia	278,100	2,619	2,619		(5,090)	
13	Bosnia and Herzegovina	286,297	82	82		(3,567)	
14	Kosovo	94,117	231	231		(776)	
15	Montenegro	175,555	1,270	1,270		(2,257)	
16	Other countries	82,395	-	-		(196)	
17	Total	24,643,637	333,794	333,794	(352,582)	(32,550)	(51)

Table 22 – EU CR2 – Changes in the stock of non-performing loans and advances of NLB Group

2023	Gross carrying amount
1 Initial stock of non-performing loans and advances	337,221
2 Inflows to non-performing portfolios	169,118
3 Outflows from non-performing portfolios	(195,529)
4 Outflows due to write-offs	(38,317)
5 Outflow due to other situations	(157,212)
6 Final stock of non-performing loans and advances	310,810

Table 23 – 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									Of which defaulted
		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 days	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		
			a	b		c	d	e	f	g	h	i	j	
31.12.2023													l	
005	Cash balances at central banks and other demand deposits	5,633,949	5,633,949	-	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	14,477,118	14,405,445	71,673	310,810	171,277	18,973	19,902	46,234	31,393	4,400	18,631	310,810	
020	Central banks	301,972	301,542	430	-	-	-	-	-	-	-	-	-	
030	General governments	434,331	433,441	890	711	507	77	-	124	2	-	1	711	
040	Credit institutions	297,009	296,949	60	145	31	1	113	-	-	-	-	145	
050	Other financial corporations	122,976	122,965	11	1,709	2	-	-	318	-	-	1,389	1,709	
060	Non-financial corporations	5,793,271	5,781,411	11,860	163,778	85,162	4,487	5,742	28,798	22,978	2,893	13,718	163,778	
070	Of which SMEs	3,602,070	3,591,271	10,799	156,389	78,029	4,485	5,742	28,544	22,978	2,893	13,718	156,389	
080	Households	7,527,559	7,469,137	58,422	144,467	85,575	14,408	14,047	16,994	8,413	1,507	3,523	144,467	
090	Debt securities	4,785,909	4,785,909	-	798	798	-	-	-	-	-	-	798	
100	Central banks	26,012	26,012	-	-	-	-	-	-	-	-	-	-	
110	General governments	3,653,819	3,653,819	-	-	-	-	-	-	-	-	-	-	
120	Credit institutions	977,494	977,494	-	-	-	-	-	-	-	-	-	-	
130	Other financial corporations	38,576	38,576	-	798	798	-	-	-	-	-	-	798	
140	Non-financial corporations	90,008	90,008	-	-	-	-	-	-	-	-	-	-	
150	Off-balance-sheet exposures	5,046,816			22,186								22,186	
160	Central banks	128			-								-	
170	General governments	194,997			155								155	
180	Credit institutions	79,840			-								-	
190	Other financial corporations	39,874			27								27	
200	Non-financial corporations	3,952,804			19,381								19,381	
210	Households	779,173			2,623								2,623	
220	Total	29,943,792	24,825,303	71,673	333,794	172,075	18,973	19,902	46,234	31,393	4,400	18,631	333,794	

Table 24 – EU CR1 – Performing and non-performing exposures and related provisions of NLB Group

31.12.2023	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		Accumulated partial write-off	On performing exposures	On non-performing exposures
	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 2	Of which Stage 3	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 3			
	a	b	c	d	e	f	g	h	i	j	l	m	n	o
005 Cash balances at central banks and other demand deposits	5,633,949	5,633,660	289	-	-	-	(1,290)	(1,290)	-	-	-	-	495,761	-
010 Loans and advances	14,477,118	13,772,469	703,481	310,810	0	288,901	(135,764)	(91,611)	(44,866)	(204,018)	(195,010)	(9,154)	6,624,409	85,178
020 Central banks	301,972	301,972	-	-	-	-	(93)	(93)	-	-	-	-	-	-
030 General governments	434,331	431,491	2,840	711	-	711	(3,948)	(3,818)	(130)	(678)	(678)	-	13,699	-
040 Credit institutions	297,009	296,990	19	145	-	145	(271)	(271)	-	(109)	(109)	-	217	-
050 Other financial corporations	122,976	122,754	222	1,709	-	1,709	(721)	(720)	(1)	(1,709)	(1,709)	(1,341)	16,868	-
060 Non-financial corporations	5,793,271	5,366,690	426,581	163,778	-	146,474	(62,548)	(43,514)	(19,074)	(107,726)	(100,544)	(7,813)	2,889,253	51,941
070 Of which SMEs	3,602,070	3,285,707	316,363	156,389	-	141,387	(45,592)	(31,423)	(14,206)	(102,821)	(96,606)	(7,455)	2,150,194	51,008
080 Households	7,527,559	7,252,572	273,819	144,467	-	139,862	(68,183)	(43,195)	(25,661)	(93,796)	(91,970)	-	3,704,372	33,237
090 Debt securities	4,785,909	4,768,227	12,465	798	-	798	(12,053)	(11,421)	(632)	(798)	(798)	-	139,029	-
100 Central banks	26,012	26,012	-	-	-	-	(12)	(12)	-	-	-	-	-	-
110 General governments	3,653,819	3,645,549	5,244	-	-	-	(10,094)	(9,865)	(229)	-	-	-	-	-
120 Credit institutions	977,494	977,494	-	-	-	-	(1,039)	(1,039)	-	-	-	-	67,864	-
130 Other financial corporations	38,576	37,703	-	798	-	798	(293)	(293)	-	(798)	(798)	-	942	-
140 Non-financial corporations	90,008	81,469	7,221	-	-	-	(615)	(212)	(403)	-	-	-	70,223	-
150 Off-balance-sheet exposures	5,046,816	4,918,360	128,237	22,186	-	18,707	(20,091)	(18,431)	(1,655)	(12,459)	(9,368)	-	715,165	3,145
160 Central banks	128	128	-	-	-	-	-	-	-	-	-	-	-	-
170 General governments	194,997	194,860	127	155	-	5	(568)	(567)	(1)	(151)	(1)	-	112,370	-
180 Credit institutions	79,840	79,840	-	-	-	-	(43)	(43)	-	-	-	-	905	-
190 Other financial corporations	39,874	39,822	52	27	-	27	(25)	(25)	-	(4)	(4)	-	2,422	8
200 Non-financial corporations	3,952,804	3,856,595	96,057	19,381	-	16,101	(15,582)	(14,275)	(1,303)	(11,412)	(8,494)	-	567,425	2,772
210 Households	779,173	747,115	32,001	2,623	-	2,574	(3,873)	(3,521)	(351)	(892)	(869)	-	32,043	365
220 Total	29,943,792	29,092,716	844,472	333,794	-	308,406	(169,198)	(122,753)	(47,153)	(217,275)	(205,176)	(9,154)	7,974,364	88,323

Table 25 –EU CQ1 – Credit quality of forborne exposures of NLB Group

31.12.2023	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	116,477	129,925	129,925	129,874	(7,883)	(81,121)	92,352	42,802
3 General governments	419	205	205	205	(22)	(205)	-	-
5 Other financial corporations	0	1,388	1,388	1,388	-	(1,388)	-	-
6 Non-financial corporations	77,709	91,017	91,017	90,966	(3,857)	(59,606)	58,611	29,633
7 Households	38,349	37,315	37,315	37,315	(4,004)	(19,922)	33,741	13,169
9 Loan commitments given	84	350	350	350	(1)	(27)	352	301
10 Total	116,561	130,275	130,275	130,224	(7,884)	(81,148)	92,704	43,103

Table 26 – EU CQ5 – Credit quality of loans and advances to non-financial corporations by industry of NLB Group

31.12.2023	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	108,144	2,752	(3,547)	-
2 Mining and quarrying	45,813	249	(1,736)	-
3 Manufacturing	1,488,105	24,250	(29,720)	(7)
4 Electricity, gas, steam and air conditioning supply	543,250	598	(7,088)	-
5 Water supply	56,855	1,759	(2,210)	-
6 Construction	535,984	22,056	(24,088)	-
7 Wholesale and retail trade	1,246,375	33,862	(41,936)	-
8 Transport and storage	593,384	15,951	(15,363)	-
9 Accommodation and food service activities	186,973	32,364	(14,182)	-
10 Information and communication	292,226	3,399	(6,502)	-
11 Financial and insurance activities	71,061	14	(304)	-
12 Real estate activities	377,307	9,075	(6,388)	-
13 Professional, scientific and technical activities	226,076	8,873	(8,346)	-
14 Administrative and support service activities	108,677	1,766	(2,505)	(44)
15 Public administration and defense, compulsory social security	4,546	12	(117)	-
16 Education	11,983	762	(442)	-
17 Human health services and social work activities	34,181	1,078	(1,005)	-
18 Arts, entertainment and recreation	15,481	3,799	(3,482)	-
19 Other services	10,628	1,159	(1,262)	-
20 Total	5,957,049	163,778	(170,223)	(51)

6.4. Credit risk mitigation techniques

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

Credit protection policy

The 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 Group is the Loan Collateral Policy in NLB and NLB Group. The Policy has been adopted by the Management Board of the Bank. 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 Group takes a conservative approach and accepts the collateral while reporting its value as zero.

In September 2023, the operational merger of N Banka into NLB was successfully completed with the transfer of all customers and their business. During the transition period prior to the merger, N Banka adopted all relevant internal acts in the field of collaterals, thus facilitating the integration into NLB system.

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 the Bank 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).

The Bank 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 the Bank 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 a 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, either by preparing individual assessments or by using the internal methodology for preparing an own value appraisal of real estate, based either 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) or on analyses carried out. The value of pledged movable property is monitored once a year (in NLB automated, with a straight-line depreciation over the period of the remaining useful life).

The main types of collateral taken by the Group

The Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in the case of the debtor (borrower) defaults 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 paid.
- Other material forms of loan collateral (e.g., life insurance policies pledged to the Bank): the Bank accepts products of Vita, the life insurance company – pledge of an investment life insurance policy and a life insurance policy with a guaranteed return that includes savings, 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 the loan by collateral depends on the client's creditworthiness (credit ranking), loan maturity, and varies depending on whether the loan is granted to a retail or a corporate client.

The Bank 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 27 – EU CR3 – CRM techniques – Overview of NLB Group

31.12.2023	Secured carrying amount			
	Unsecured carrying amount	Total	of which secured by collateral	of which secured by financial guarantees
	a	b	c	d
1 Loans and advances	13,712,290	6,709,587	6,349,433	360,154
2 Debt securities	4,647,678	139,029	-	139,029
3 Total	18,359,968	6,848,616	6,349,433	499,183
4 of which non-performing exposures	226,430	85,178	84,743	435
5 of which defaulted	226,430	85,178	84,743	435

At the end of 2023, the secured part of the portfolio represented 27.2% 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, the 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. The Group uses a 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 an 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 the 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, the Group nominated the 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 28 – EU CR4 – standardised approach – Credit risk exposure and CRM effects of NLB Group

31.12.2023		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	9,542,756	66,531	9,488,954	47,126	899,781	9.44%
2	Regional government or local authorities	261,180	8,156	258,912	1,413	96,941	37.24%
3	Public sector entities	104,186	10,101	97,300	1,852	19,149	19.31%
4	Multilateral development banks	96,108	-	591,869	-	-	-
5	International organisations	21,055	-	21,055	-	-	-
6	Institutions	1,028,235	111,765	1,047,576	51,565	369,801	33.64%
7	Corporates	3,963,950	2,271,347	3,627,158	440,669	3,740,359	91.95%
8	Retail	6,140,288	2,251,985	6,068,857	420,640	4,605,969	70.98%
9	Secured by mortgages on immovable property	2,832,112	112,576	2,832,112	14,738	1,067,467	37.50%
10	Exposures in default	102,065	9,743	101,543	2,085	117,427	113.32%
11	Exposures associated with particularly high risk	434,663	247,092	398,955	48,892	671,770	150.00%
12	Covered bonds	217,557	-	217,557	-	27,838	12.80%
14	Collective investment undertakings	63,182	-	63,182	-	12,864	20.36%
15	Equity	85,598	-	85,598	-	104,377	121.94%
16	Other items	911,319	3,357	903,623	1,657	434,378	47.98%
17	Total	25,804,254	5,092,652	25,804,254	1,030,637	12,168,121	45.34%

The table shows exposures before CRM and CCF, exposures post-CCF and -CRM, and RWA for all customer segments. At the end of 2023, an increase of exposures was noticed in the Central governments or Central banks, Retail, Secured by mortgages on immovable property and Corporate exposure categories, which is in line with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight decreased from 46.7% in 2022 to 45.3% in 2023: the decrease or RWA density relates to the increase in volume of demand deposits with the central bank with a 0% risk weight.

31.12.2022		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes		On-balance- sheet amount	Off-balance- sheet amount	On-balance- sheet amount	Off-balance- sheet amount	RWAs	RWA density
		a	b	c	d	e	f
1	Central governments or central banks	8,483,204	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%

Table 29 – EU CR5 – Standardised Approach of NLB Group

31.12.2023	Risk weight											Total	of which unrated	
	0%	4%	20%	35%	50%	70%	75%	100%	150%	250%	Others			
	a	c	e	f	g	h	i	j	k	l	o			q
Exposure classes														
1 Central governments or central banks	8,461,057	91,115	156,019	49,948	-	7,509	-	706,130	-	64,303	-	9,536,080	9,536,080	
2 Regional government or local authorities	73,370	-	-	112,518	-	-	-	74,438	-	-	-	260,325	260,325	
3 Public sector entities	63,936	-	-	194	-	31,823	-	3,199	-	-	-	99,152	99,152	
4 Multilateral development banks	591,869	-	-	-	-	-	-	-	-	-	-	591,869	591,869	
5 International organisations	21,055	-	-	-	-	-	-	-	-	-	-	21,055	21,055	
6 Institutions	-	-	-	726,472	-	296,264	-	76,405	-	-	-	1,099,141	340,393	
7 Corporates	-	-	-	-	-	-	-	4,067,827	-	-	-	4,067,827	4,067,827	
8 Retail	-	-	-	-	-	-	6,489,497	-	-	-	-	6,489,497	6,489,497	
9 Secured by mortgages on immovable property	-	-	-	-	2,144,836	617,261	82,819	1,934	-	-	-	2,846,850	2,846,850	
10 Exposures in default	-	-	-	-	-	-	-	76,032	27,597	-	-	103,628	103,628	
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	447,847	-	-	447,847	447,847	
12 Covered bonds	-	-	161,668	55,273	-	-	-	617	-	-	-	217,557	82,153	
14 Collective investment undertakings	-	-	-	-	-	-	-	2,558	-	-	60,625	63,182	63,182	
15 Equity	-	-	-	-	-	-	-	73,079	-	12,519	-	85,598	85,598	
16 Other items	458,724	-	-	15,224	-	-	-	431,330	2	-	-	905,281	905,121	
17 Total	9,670,011	91,115	317,687	959,629	2,144,836	952,856	6,572,316	5,513,548	475,446	76,822	60,625	26,834,891	25,940,579	

31.12.2022	Risk weight										Total	of which unrated
	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
	a	d	e	f	g	i	j	k	l	o		
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

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 2023, the highest increase was noticed on the risk weight of 0% in the Central governments and Central banks exposure category (demand deposits with the central bank) and on the risk weight of 75% in the Retail exposure category.

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 the 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 the 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 the 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 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, the 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. The 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 the 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 the calculation of regulatory capital for counterparty credit risk, the Group uses a standardised approach for the derivatives. Currently, the 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 the credit rating or/and credit spread of a certain client. The Group uses the standardised approach to calculate the regulatory capital requirement for CVA. Where collateral exists, it is taken into consideration when the CVA/DVA is calculated. The calculation is done on a monthly basis. The 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)

The Group mitigates CCR risk from derivatives using close-out netting agreements such as the ISDA Master Agreement, the 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 the 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 the Group are not material, thus the 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.

The 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 a 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 a sustainable cash flow, the client has to be able to cover derivatives exposure and any potential negative effect, and the derivative is subject to support primary business transactions.

The 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, the 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 the Group only considers top-rated collateral, and so 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.), the Group does not find wrong-way risk exposures as material.

8.6. Downgrading impacts on collateralisation

(Article 439 e, f, g, h, and I 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 a credit rating change of the Group. Therefore, downgrading impacts on collateralisation are not material.

Table 30 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

31.12.2023		Replace-	Potential	EEPE	Alpha used for	Exposure	Exposure	Exposure	RWEA
		ment cost	future		used for	value pre-	value post-		
		(RC)	exposure		computing	CRM	CRM	value	
		a	b	c	regulatory	e	f	g	h
			(PFE)		exposure value				
EU-1	EU - Original Exposure Method (for derivatives)	4,809	26,152		1.4	43,346	43,346	43,346	22,774
EU-2	EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-		-	-	-	-
2a	<i>Of which securities financing transactions netting sets</i>			-		-	-	-	-
2b	<i>Of which derivatives and long settlement transactions netting sets</i>			-		-	-	-	-
2c	<i>Of which from contractual cross-product netting sets</i>			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	Total					43,346	43,346	43,346	22,774

Table 31 - EU CCR2 – Transactions subject to own funds requirements for CVA risk for NLB Group

31.12.2023		Exposure	RWEA
		value	
		a	b
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3x multiplier)		-
3	(ii) stressed VaR component (including the 3x multiplier)		-
4	Transactions subject to the Standardised method	27,121	14,200
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	27,121	14,200

Table 32 – EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weights of NLB Group

31.12.2023		Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
		a	b	c	d	e	f	g	h	i	j	k	
Exposure classes													l
1	Central governments or central banks	8,448,677	-	91,115	156,019	49,948	7,509	-	-	706,131	21	52,383	9,511,803
2	Regional government or local authorities	73,370	-	-	-	112,518	-	-	-	74,469	-	-	260,357
3	Public sector entities	63,936	-	-	-	194	32,278	-	452	3,201	-	-	100,060
4	Multilateral development banks	591,869	-	-	-	-	-	-	-	-	-	-	591,869
5	International organisations	21,055	-	-	-	-	-	-	-	-	-	-	21,055
6	Institutions	-	-	-	161,668	781,745	296,264	-	216	108,156	-	11,528	1,359,578
7	Corporates	-	-	-	-	-	127,711	-	12,164	2,173,100	31,057	131	2,344,164
8	Retail	12,380	-	-	-	-	489,094	-	6,559,484	2,027,764	444,365	2,218,240	11,751,328
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	458,724	-	-	-	15,224	-	-	-	420,726	2	-	894,677
11	Total	9,670,011	-	91,115	317,687	959,629	952,856	-	6,572,316	5,513,549	475,446	2,282,283	26,834,891

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%. At the end of 2023, the highest increase was noticed on the risk weight 0% in the Central governments and central banks' exposure category (demand deposits with central bank) and on the risk weight 75% in Retail exposure category.

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

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

	31.12.2023	31.12.2022
	RWEAs	RWEAs
	a	b
Outright products		
1 Interest rate risk (general and specific)	16,050	14,813
3 Foreign exchange risk	1,431,263	1,344,663
9 Total	1,447,313	1,359,476

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 the 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.

The 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 the 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 the 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 the 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 is 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;
- The Market and Liquidity Unit of Global Risk is 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 is 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 the 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, as well as supporting the ALCO and the Financial Markets with risk measurement, analysis, daily monitoring, and reporting.

Risk measurement and control

The Management Board of the Bank 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 the 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 the 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 the 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)

The 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. The 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, the Group applies hedge accounting principles in most cases. Within that process, the 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 the 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 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 the Group, the maturity-based approach is used. Share price risk is not relevant for the Group.

Global Risk quarterly assesses and computes additional own fund requirements within Pillar II for market risk in the trading book (internal capital). 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

The 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 the banking book. It considers positions in each material currency.

Exposure to interest rate risk in the 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. The 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, 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 the Group is decentralised under strict monitoring by the Bank as the parent bank. All core members of the Group (banking members) actively measure, monitor, and manage interest rate risk exposure.

In case of the Group would exceed EVE, NII or Credit spread limit, the Financial Markets Unit would propose measures for restoring positions within prescribed limits as 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.

The 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 a 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

The Group measures and monitors exposure on a 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 the Group are included in the Risk Appetite.

The main risk measures that the 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)

The 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 the Group's IRRBB management. The 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)

The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. The 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.

- The 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, the Bank also takes into consideration 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/RTS/2022/10. To compute the change in the forecasted net interest income, the 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 3.75 years. The longest repricing maturity assigned to non-maturity deposits is 25 years.

Table 34 – 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	
	31.12.2023	30.06.2023	31.12.2023	30.06.2023
	a	b	c	d
Parallel up	-2.66%	-1.53%	6.71%	5.96%
Parallel down	-0.45%	-0.78%	-8.67%	-7.08%
Steepener	2.79%	5.00%		
Flattener	-2.19%	-0.87%		
Short rates up	-2.53%	-1.00%		
Short rates down	1.28%	0.74%		

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 the 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 the 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 the 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 the 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 the 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

The 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 terms. The Group defined the risk appetite towards liquidity risk wherein the tolerance was determined as low. It is in line with the Group's business strategy and aligned with the most important strategic business, financial, and risk objectives.

The Group identified key liquidity risk drivers, set the limit system framework, liquidity score, designed liquidity stress-testing scenarios, prepared a liquidity contingency plan, and determined the appropriate level of the liquidity buffer. The 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, the Group defines liquidity risk tolerance with several indicators such as LCR, NSFR, and LTD. The respective risk bearing capacity is accordingly considered in the Group's daily operations and in financial planning activities. The goal of the Group is to be able to fulfil internal and 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. The 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% is required.

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, the 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. The 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 the 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 the Group (e.g., NLB Group Risk Management Standards), or on the level of each individual member of the Group. Due to local specifics (macroeconomic conditions, requirements of the local regulation), some sets also include more detailed guidelines for bank members of the 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, the 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 of the NLB 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 the 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 the Group.

The Management Board is obliged to define the Group's risk appetite as a framework for the determination of the method of managing liquidity risk in the 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. In addition, it also is 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 the 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 the 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 the 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 the 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 the Bank as a parent bank. Reporting to NLB by all Group members is done on a daily and monthly basis.

Scope and nature of liquidity risk reporting and measurement systems

The 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.

The 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.

The 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 the Group, 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

The 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. The 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, the 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 the 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, the 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.

The 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 the Group has its own document describing potential funding sources and roles and responsibilities of units and decision-makers in times of stressed circumstances.

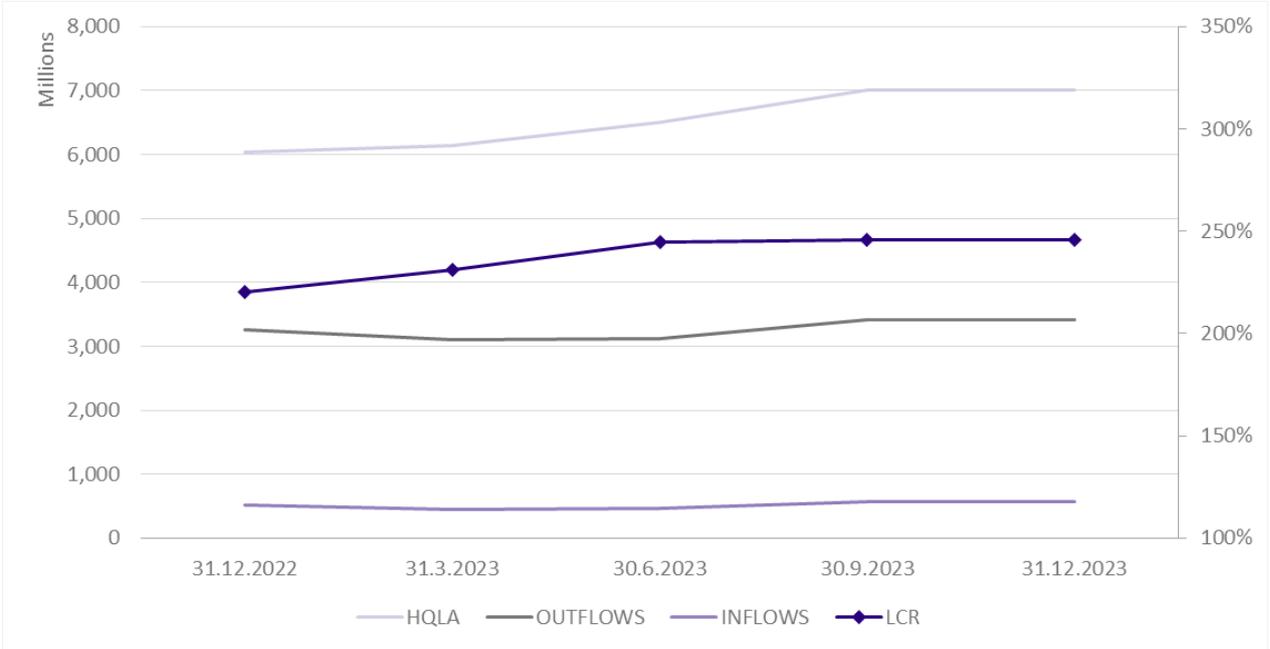
In an early warning system (EWS), warning limits for liquidity indicators are defined for each banking member of the Group. The main goal of a warning limit is to prevent any indicator from exceeding in the future and to activate at an early stage a warning that a member is moving towards the limit. 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 the Group to recover from liquidity run-off shock back to normal business.

The 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 the Bank’s own name and account, and ECB eligible credit claims. At the end of December 2023, the Group had 39.63% of unencumbered liquidity reserves in total assets (38.92% at the end of 2022).

Liquidity coverage ratio

The Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In 2023, the LCR of the Group ranged between 220% and 252% (246% as of 31 December 2023). The surplus of HQLA is at a very high level in the Group, ranging between EUR 3.27 billion and EUR 4.16 billion in the past year (EUR 4.16 billion as of 31 December 2023).

Figure 9: Movement of LCR and inputs to LCR calculation of NLB Group



In the first half of the year 2023, there was recorded slightly increasing trend, while it has been stabilised in the second half of the year 2023. The increasing trend was mostly due to a higher amount of Liquidity buffer (the largest increase in Withdrawable CB reserves due to the issuance of green senior preferred bonds in June), and due to higher amount of net liquidity outflows in the next 30 days. There was an increase in inflows, mostly from financial customers, while outflows increased mostly as a result of higher customer deposits.

One of the specific rules for calculating consolidated LCR on the 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.

Figure 10: LCR: Structure of HQLA (in%) of NLB Group

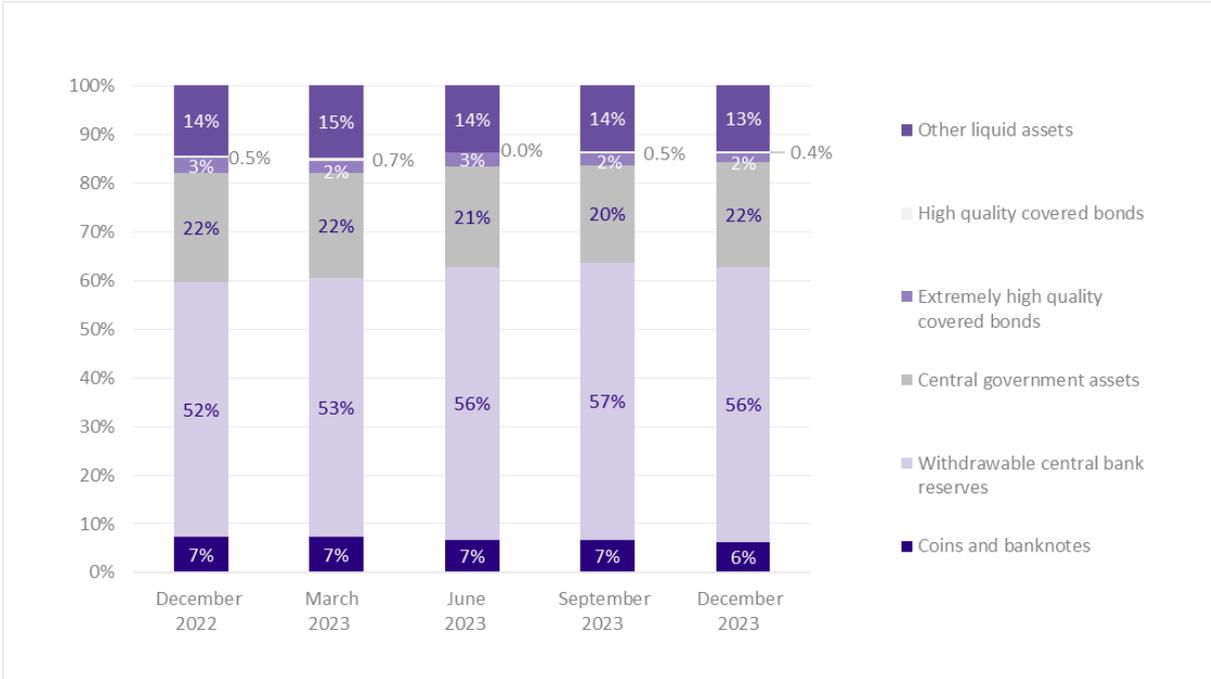


Figure 11: LCR: structure of outflows (in %) of NLB Group

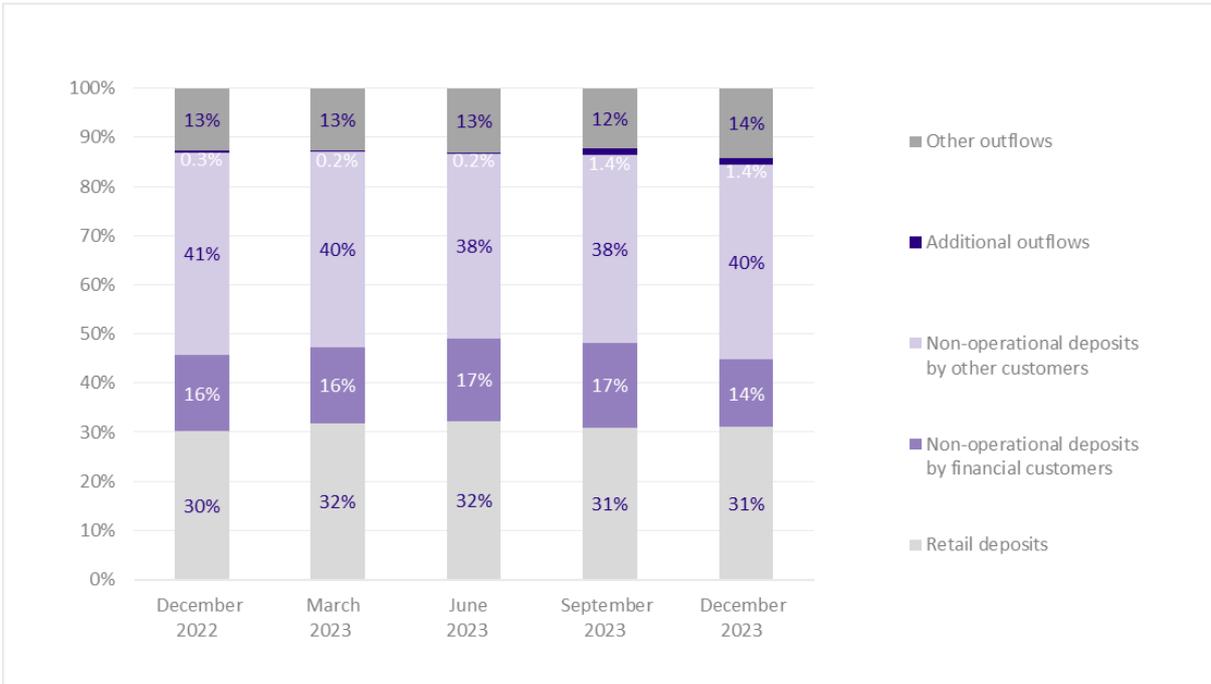
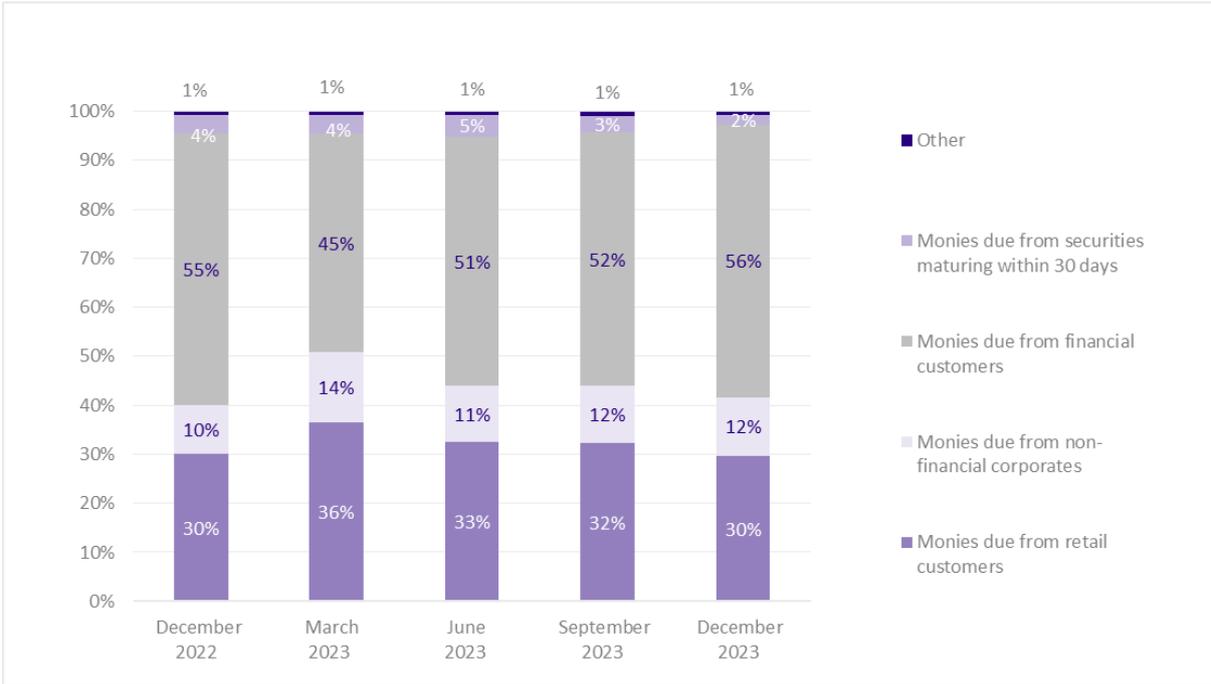


Figure 12: LCR: structure of inflows (in %) of NLB Group



Concentration of funding and liquidity sources

In accordance with the Risk Appetite Statement of the NLB Group, the 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 Bank 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, the Group regularly performs stress tests and makes liquidity projections under different scenarios. With this approach, the Group is able to detect any potential liquidity and funding needs early.

In accordance with the business model, the primary source of funding of the Group represents customer (non-banking sector) deposits. The 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. The dependence on wholesale funding is low. The 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 the Group, a limit is set to prevent a too high concentration of depositors.

Limit values are also set for other Group members and defined in the Group Risk Management Standards. All banking members of the Group must adopt limit 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 Group level, at the end of 2023, the top 30 counterparties provided 3.3% of the total liabilities, mostly in retail, while the top 30 counterparties in the Bank provided 4.0% of the total liabilities.

High-level description of the composition of the institution’s liquidity buffer

The liquidity buffer represents the most liquid assets that 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.

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 35 – LIQ1 – Quantitative information of LCR of NLB Group (in EUR millions)

EU 1a	Quarter ending on	Total unweighted value (average)				Total weighted value (average)			
		31.12.2023	30.09.2023	30.06.2023	31.03.2023	31.12.2023	30.09.2023	30.06.2023	31.03.2023
		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)					6,428	6,174	5,916	5,775
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	16,165	15,982	15,806	15,619	1,014	992	973	954
3	<i>Stable deposits</i>	11,922	11,857	11,762	11,640	596	593	588	582
4	<i>Less stable deposits</i>	3,507	3,378	3,275	3,182	418	400	385	372
5	Unsecured wholesale funding	3,679	3,645	3,599	3,557	1,769	1,756	1,745	1,718
7	<i>Non-operational deposits (all counterparties)</i>	3,675	3,643	3,597	3,556	1,764	1,754	1,743	1,717
8	<i>Unsecured debt</i>	4	2	2	1	4	2	2	1
10	Additional requirements	2,332	2,342	2,322	2,259	209	201	198	206
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	20	10	7	19	20	10	7	19
13	<i>Credit and liquidity facilities</i>	2,312	2,332	2,315	2,240	189	191	191	186
14	Other contractual funding obligations	224	223	231	244	130	125	125	135
15	Other contingent funding obligations	1,584	1,553	1,527	1,499	90	89	87	86
16	TOTAL CASH OUTFLOWS					3,212	3,163	3,128	3,099
Cash-inflows									
18	Inflows from fully performing exposures	750	733	740	737	493	483	488	486
19	Other cash inflows	21	21	17	15	21	21	17	15
20	TOTAL CASH INFLOWS	770	754	757	752	514	504	505	501
EU-20c	<i>Inflows subject to 75% cap</i>	770	754	757	752	514	504	505	501
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					6,428	6,174	5,916	5,775
22	TOTAL NET CASH OUTFLOWS					2,698	2,659	2,623	2,598
23	LIQUIDITY COVERAGE RATIO					238.17%	232.11%	225.52%	222.21%

Derivative exposures and potential collateral calls

The 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 Group risks such as interest rate risk and FX risk.

To mitigate CCR risk arising from derivatives, the 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). The Bank 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 the Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because the Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency

of the Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is in Serbian dinar (RSD). As at 31 December 2023, the aggregate liabilities in RSD represented 6.8% 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

The 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.

The 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.

Table 36 – LIQ2 – Net Stable Funding Ratio of NLB Group

31.12.2023	Unweighted value by residual maturity				Weighted value	
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr		
	a	b	c	d		
Available stable funding (ASF) Items						
1	Capital items and instruments	-	-	-	3,109,208	3,109,208
2	<i>Own funds</i>	-	-	-	3,109,208	3,109,208
4	Retail deposits		14,970,855	1,041,458	624,371	15,642,478
5	<i>Stable deposits</i>		11,627,472	513,036	300,180	11,833,662
6	<i>Less stable deposits</i>		3,343,383	528,422	324,191	3,808,816
7	Wholesale funding:		3,655,172	217,386	1,388,111	3,116,524
9	<i>Other wholesale funding</i>		3,655,172	217,386	1,388,111	3,116,524
11	Other liabilities:	16,757	917,237	-	259	259
12	<i>NSFR derivative liabilities</i>	16,757				
13	<i>All other liabilities and capital instruments not included in the above categories</i>		917,237	-	259	259
14	Total available stable funding (ASF)					21,868,469
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					58,163
17	Performing loans and securities:		2,644,418	1,653,509	10,785,105	10,653,026
20	<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:</i>		1,614,097	1,165,569	5,150,294	9,716,282
21	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>		23,761	20,713	412,523	1,707,521
22	<i>Performing residential mortgages, of which:</i>		434,324	423,327	4,729,767	-
23	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>		53,971	63,820	2,089,614	-
24	<i>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</i>		595,997	64,613	905,044	936,744
26	Other assets:		449,451	24,361	443,418	751,300
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>		-	-	7,844	6,667
29	<i>NSFR derivative assets</i>		-	-	65,639	65,639
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>		-	-	2,041	102
31	<i>All other assets not included in the above categories</i>		373,927	24,361	443,418	678,892
32	Off-balance sheet items		3,981,701	-	-	215,077
33	Total RSF					11,677,566
34	Net Stable Funding Ratio					187.27%

12. Unencumbered assets

(Article 443 of CRR)

General narrative information on asset encumbrance

Asset encumbrance presents an important aspect of liquidity risk management. The 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).

The 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 the Group, all assets that are pledged are reported as encumbered assets. Regarding a transparent way of reporting, the 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 a 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.

The Group holds an adequate amount of unencumbered High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. The 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, the Group demonstrates monthly that its LCR ratio – HQLA divided by total net cash outflows – is always greater than 100% (246% at the end of December 2023) 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.

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

As of 31 December 2023, the Group and NLB had a large share of unencumbered assets. On the Group level, the amount of encumbered assets equalled EUR 1.3 million, which presented 5% of its total assets.

Most of encumbered assets consist of loans on demand (EUR 1,242 million) and debt securities (EUR 43 million). Group members are self-funded and have a strong liquidity position, so, the Bank has the majority of encumbered assets in the Group.

The amount of encumbered assets is denominated in EUR currency, which is the most significant currency of the 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 37 to 39).

Table 37 – EU AE1 – Encumbered and unencumbered assets of NLB Group

31.12.2023		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA	
		Total	HQLA	Total	HQLA	Total	HQLA	Total	HQLA
		010	030	040	050	060	080	090	100
010	Assets of the disclosing institution	1,253,052	48,868			23,764,164	3,924,316		
030	Equity instruments	831				96,795			
040	Debt securities	48,868	48,868	47,227	47,227	4,441,063	3,160,442	4,275,748	3,029,059
050	of which: covered bonds	-	-	-	-	237,505	234,107	227,286	223,889
060	of which: securitisations	-	-	-	-	-	-	-	-
070	of which: issued by general governments	48,868	48,868	47,227	47,227	3,334,726	2,400,039	3,196,240	2,293,900
080	of which: issued by financial corporations	-	-	-	-	998,103	665,823	978,380	643,500
090	of which: issued by non-financial corporations	-	-	-	-	94,442	70,227	96,041	70,806
120	Other assets	1,192,763	7,406			19,230,271	772,361		

Table 38 – EU AE2 – Collateral received and own debt securities issued of NLB Group

31.12.2023		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
		Fair value of collateral received or own debt securities issued available for encumbrance			
		Total	of which notionally eligible EHQLA and HQLA	Total	of which EHQLA and HQLA
		010	030	040	060
250	Total collateral received and own debt securities issued	1,253,052	48,868		

Table 39 – EU AE3 – Sources of encumbrance of NLB Group

31.12.2023		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	2,344	9,983

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 Group level and using the standardised approach at the NLB level.

Table 40 – 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
	31.12.2021	31.12.2022	31.12.2023		
	a	b	c	d	e
1 Banking activities subject to basic indicator approach (BIA)	724,998	844,167	1,162,239	136,570	1,707,128

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

When assuming operational risks, the 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 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 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 Group entities that are included in the consolidation, have adopted relevant documents that are in line with the Group standards. In banking members, these documents are in line with the development of operational risk management and are regularly updated. The whole Group uses uniform software support, which is also regularly upgraded.

In the Group, the reported incurred net loss arising from operational loss events in 2023 was higher than in the previous year, not least resulting from an evolving legal practice concerning consumer protection regulation. Certain litigation cost occurred due to changes of the interpretation of legislation (e.g., proportional refund of cost for consumer loans in case of early repayment in Slovenia), litigation risk (e.g., loan processing fees and loan insurance premium in Serbia), and changes of views of tax authorities in the definition of scope of banking business (retroactive and ongoing application of VAT on card payment services in Bosnia and Herzegovina). A comparable level of materialisation of operational risk may also be expected in future periods.

In general, considerable attention is paid to reporting loss events, their mitigation measures, and defining operational risks in all segments. The major operational risks are actively managed with the measures taken to reduce them. 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. 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. An operational risk profile is prepared once a year based on the operational risk identification. Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. Furthermore, key risk indicators (KRIs), addressed for ESG risks, serve as an early warning system with the aim of improving business and supporting processes, as well enabling a prompt response.

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, based on a scenario analysis referring to the potentially high severity, low-frequency events, and modelling data on loss events. The Bank uses the gamma distribution technique for modelling, which proved to be the most suitable. From an economic perspective, the aim is to ensure the necessary capital for materially important risks that could happen extremely rarely. Consequently, data on realised loss events are used with a confidence interval of 99.9%. Moreover, some add-ons are added for specific current and significant risks. In a normative view, a 90% confidence level is used for more plausible, but still severe events which would be absorbed through P&L.

14. ESG risks

(Article 449 (a) of CRR)

14.1. Introduction

NLB Group's medium-term strategy encompasses strategic ambitions related to sustainability, including environmental, social, and governance (ESG) risks. The Group is committed to the implementation of ESG factors and risks in its business model in accordance with national and EU regulations, guidelines, contracts, as well as voluntary commitments and initiatives, the most relevant being:

- **European Central Bank (ECB) and European Banking Authority (EBA)** regulations, guidelines, and recommendations.
- Requirements and recommendations of the **European Bank for Reconstruction and Development (EBRD)**, which impose on the Group contractual obligations related to the implementation of sustainability requirements in line with EBRD's **Environmental and Social Policy**. The policy promotes environmentally sound and sustainable development, and sets out performance requirements to which joining banks should adhere to. In this respect, the Group operates in accordance with performance requirements 2 (Labour and Working Conditions), 4 (Health, Safety, and Security), and 9 (Financial Intermediaries).
- Requirements and recommendations of the **Multilateral Investment Guarantee Agency (MIGA)**, which impose on the Group contractual obligations related to the implementation of sustainability requirements.
- **UNEP FI Principles of Responsible Banking (UN PRB)**, which the Group has committed to by becoming an UNEP FI member in 2020 as the first banking group in SEE, headquartered in Slovenia. 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. In 2020, the Group also performed an impact analysis in accordance with UN PRB framework, which resulted in setting 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. The first and the second areas address environmental considerations, while the latter addresses social considerations.
- **UNEP FI Net Zero Banking Alliance (NZBA)**, which aims to harmonise credit and investment portfolios by reaching net zero emissions by 2050 or earlier. In line with NLB's commitment to a climate-positive future and its net zero ambition, NLB officially joined the UNEP FI Net Zero Banking Alliance in May 2022, becoming the first banking group headquartered in SEE to sign the Commitment Statement.

Based on the aforementioned frameworks, the Group has developed a comprehensive internal governance and documentary framework which encompasses internal policies, manuals, and other internal acts addressing all sustainability aspects. In 2023, the Bank updated its governance of the ESG area by introducing two new internal documents: the Sustainability Policy, and Standard – Rulebook on sustainability management, which were adopted by the NLB Management Board and Supervisory Board, their implementation in the Group members is underway and it will be completed in 2024. Both documents demonstrate a clear top-down and bottom-up process for sustainability governance, including climate change aspects, that extends from individual business units and countries to the management bodies. The Bank also updated other sustainability-related internal documents in various business areas in line with regulatory and other developments, which were discussed and approved by the management body. These developments are monitored regularly by the Sustainability Unit, Compliance and Integrity, as well as within specific business areas, and are promptly implemented in the internal governance framework. Together with the rulebook, the sustainability policy also establishes overarching and forward-looking sustainability-related principles and objectives, as well as governance and management rules and procedures to integrate sustainability and ESG factors in the Group's business model and processes.

The policy explains in detail the three pillars of the Group sustainability:

- sustainable operations,
- sustainable finance, and
- contribution to society.

General objectives that the Group pursues within all three pillars, are described in the following chapters. In addition to presented general objectives, the Group is focused on raising awareness about ESG considerations addressed in all three sustainability pillars among employees, clients, suppliers, business partners and other key stakeholders.

Moreover, the Group will further develop processes and policies in order to assess, address, and manage relevant ESG risks that emerge from both environmental and social changes, and will continue to embed them in the business model, strategy, governance, and financial planning.

The Group's effort and progress on its sustainability journey are recognised by Sustainalytics, one of the world's leading independent ESG research, ratings, and data firms. In 2022, the Group received its first ESG Risk Rating, becoming the first bank with headquarters and an exclusive strategic interest in SEE that has obtained this rating, as well as the first among the companies listed on the Ljubljana Stock Exchange. In 2023, the Group recorded a 1.7-point improvement to achieve an overall ESG Risk Rating of 16.0 points, placing the Group under the 'Low Risk' category.

Explanation of Further insights note in the remaining of the document

The Group's aim is to provide the stakeholders with a comprehensive overview of its ESG management. Therefore, this report describes basic information on the chapter matter, and it also includes direct references to relevant chapters in the 2023 NLB Group Sustainability Report and other relevant resources.

14.2. Environmental risk

14.2.1. 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

The Group considers environmental factors and risks as those related to climate change and environmental degradation (such as waste disposal, air and water pollution, and nature conservation, including biodiversity loss).

Environmental factors and risks are included in the Group's business strategy and implemented through the NLB Group Sustainability Policy and its established sustainability pillars. The general objectives that the Group pursue with each sustainability pillar are outlined in the remaining part of this chapter.

Sustainable operations:

- to decarbonise the Group's own operations, by achieving net-zero operational emissions by 2050 or sooner;
- to ensure positive environmental impacts and to minimise the adverse impact of the Group's own non-financial operations on key stakeholders;
- to identify and mitigate environmental risks, and to pursue environmentally-related opportunities stemming from business relations with key stakeholders that might affect financial operations of the Group or our stakeholders.

Sustainable finance:

- to integrate environmental factors in the Group's business and investment decisions;
- to align the lending and investment portfolios with achieving net-zero emissions by 2050 or sooner;
- to ensure a positive impact by financing a green transition;
- to identify and mitigate climate-related and other ESG risks in relation to the Group's lending or investments;
- to ensure responsible asset management by integrating environmental factors into the investment policy.

Contribution to society:

- to ensure that each CSR activity contribute to environmentally-related UN Sustainable Development Goals;
- to create added value by focusing on genuine societal needs and actively responding to these societal needs with managing appropriate initiatives, sponsorships, donations, and other partnerships, including those related to responsibility to the environment.

Further insights

For more information, please refer to the following chapters of 2023 NLB Group Sustainability Report, on the NLB webpage www.nlb.si/sustainability

- Integration of environmental risk
- Climate (Net-Zero) Strategy
- Credit Risk Management
- NLB Group's approach to biodiversity
- NLB Group's operational environmental impact

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

The Group has consistently taken proactive measures to address environmental risks and to minimise the environmental impact of its portfolio and operations. In 2021, the Group took an important step by implementing a coal exclusion policy, prohibiting the financing of new coal-fired power plants. In addition, the Group is active in financing of renewable energy projects and promotes energy efficiency throughout its operations.

Within NZBA commitment to decarbonise the Group's lending and investing portfolio:

- the Group has set the objective to reach net zero emissions by 2050 or sooner;
- published its first Net Zero Disclosure report in December 2023. In the report, the Group has set and publicly disclosed 2030 intermediate targets for reducing emissions associated with financing activities for four key sectors: power generation, iron and steel, commercial real estate, residential real-estate;
- committed to mobilise EUR 1.9 billion in sustainable, i.e., green transition finance by 2030.

The targets are set in line with the Guidelines for Climate Target Setting for Bank (<https://www.unepfi.org/industries/banking/guidelines-for-climate-target-setting-for-banks>), and based on widely accepted science-based decarbonisation scenarios. The targets cover the Group's financed emissions, Scope 3 category 15, and apply to the Group's lending activities for clients' Scope 1 and Scope 2. They have been developed under the supervision of internal risk functions and are approved at the executive level. Moreover, they are cascaded to the Management Boards of all banking members and respective business areas (risk, sales) and included in performance assessment schemes.

In line with NZBA guidelines, the Group commits to reviewing its targets at least every five years, ensuring they align with significant changes in international agreements or national goals. The Group will also publish annual progress reports on these targets in its sustainability reports and continue to enhance its internal capabilities for target tracking and monitoring.

In terms of its own operational environmental impact, the Group has set the following targets:

- in line with UNEP FI NZBA: to reach net zero emissions by 2050 or sooner.
- in line with the UNEP FI PRB Impact Analysis, Impact area Resource efficiency – Security:
 - Share of electricity from zero-carbon sources: 75% by 2030
 - Paper consumption (No. of prints): 50% decrease by 2025 vs baseline year 2019

In 2023, the Group made significant steps towards a comprehensive strategy which will encompass the Group's own operations and the portfolio, ensuring a holistic and timely decarbonisation approach.

Further insights:

- NLB Group Net Zero Disclosure Report, available on NLB website. [Read full report.](#)
- Chapters Climate (Net-Zero) Strategy and Sustainable Operations/NLB Group's operational environmental impact in the 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability.

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

The Group journey to net-zero is supported by sound ESG risk management in lending and investing, as well as providing financial products for clients' transition to more environmentally sustainable operations.

The Group provides financing to various sustainable economic activities that meet financial and sustainability eligibility criteria of relevant frameworks, such as EU Taxonomy, MIGA, EBRD, NLB Group Green Bond Framework (following ICMA Green Bond Standards), etc. To support climate change mitigation, the Group has developed a wide and diversified offer of green financing products and defined criteria, internal documents and procedures to assess if a transaction is green/climate neutral.

In 2023, the Group continued with successful financing of the green transformation for private individuals, micro business, and corporates throughout the region. At the end of 2023, the total volume of new production of green finance and outstanding stock stood at EUR 287 million and EUR 560 million, respectively.

Table 41: NLB Group green financing at the end of 2023

			in EUR millions
	New production	Portfolio volume	Main purpose
Corporate green financing	198	331	Renewable Energy: + 58% Green Building: 30% Energy Efficiency: 11%
Retail green financing	89	229	Green Building: + 80% Other: Clean transport, Energy Efficiency and Renewable Energy

* Data refer to NLB and 6 subsidiary banks in the region. Green lending classification refers to the internal methodology of NLB Group, which refers to EBRD, MIGA and EU taxonomy frameworks (and NZBA in case of retail green financing). If a loan is mapped to either of these frameworks, 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.

** Retail green financing breakdown by type of client: new production (90% private individuals, 10% micro business), portfolio (95% private individuals, 5% micro business).

NLB funds, asset management as a member of NLB Group, offers two sub-funds which promote environmental and social characteristics and adhere to Article 8 of Regulation SFDR ((EU) 2019/2088. At the end of 2023, net asset value of Sub-fund NLB Funds – Equity Socially Responsible Global Advanced Markets and Sub-fund NLB Funds – Equity Environmental stood at EUR 81.7 million and EUR 11.3 million, respectively.

In June 2023, the Bank issued its inaugural green bond in a benchmark size of EUR 500 million. The proceeds shall be used in line with NLB Green Bond Framework which is aligned with ICMA principles. The Group can finance or refinance existing or future projects in the fields of renewable energy, energy efficiency, green buildings, clean transport, sustainable management of water and wastewater, and pollution prevention and control. The eligibility criteria – as outlined in the use of proceeds section of NLB Green Bond Framework – consider the EU Taxonomy Regulation and the EU Taxonomy Climate Delegated Act with the intention to apply them on a best-efforts basis. The Group will strive to allocate the full amount of the green bond within 36 months after the issuance. Information on the allocation and impacts will be available in the allocation and impact report to be published in 2024.

In terms of forward-looking business strategy, the Group committed to following targets:

- to mobilise EUR 1.9 billion in sustainable, i.e., transition finance by 2030,
- to finance at least 30% of new production in most energy efficient commercial buildings (<50 kg CO₂/m²) in Slovenia by 2030,
- to finance at least 15% of new production in top-rated mortgages (A & B EPC class) in Slovenia by 2030.

Supporting clients in their transition to a low-carbon economy will stay in the Group's focus by fine-tuning products with consideration of future legislation and technical development, as well as by providing them with timely and relevant information about possible solutions for reducing their environmental footprint.

Further insights:

- Chapter Sustainable Finance and ESG Risk Management in 2023 NLB Group Sustainability Report on the NLB webpage www.nlb.si/sustainability.
- NLB Green Bond Framework, available in NLB webpage. [Read full document](#)
- Calculation of Green Asset Ratio in line with EU Taxonomy in the Chapter 14.9. in this report

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

In accordance with NLB Group Risk Strategy and internal policies the Group is willing to finance clients which adequately consider environmental responsibility in their business model and strategy. For certain clients above the defined threshold, additional ESG screening activities is being performed. To ensure that credit decisions of the Group banking members adhere to sustainable financing criteria, the Group established the Environmental and Social Credit Policy Framework, which is binding for front offices and employees in credit risk management defined in the Environmental and Social Credit Policy Framework.

The Group also established Environmental and Social Management System, which is the mechanism for environmental and social screening of current or potential financing applications against the Multilateral Investment Guarantee Agency's and The European Bank for Reconstruction and Development 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 Group's overall credit approval process and related credit portfolio management.

To contribute to a sustainable transition and to decarbonise the credit portfolio by 2050, the Group has committed to strict limitation of the new financing of certain activities. This commitment is included as a rule in the NLB Group Risk Appetite Statement, NLB Group Lending Policy, and other specific instructions that are binding for all Group members.

Further insights:

- This report: sections l), m), and n) where ESMS and other processes, activities, and tools to mitigate and reduce environmental risks are presented;
- Chapter Sustainable Operations in 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability, where policies and procedures to mitigate environmental risks in NLB Group's own operations and in relations to its supply chain.

14.2.2. 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 governance of sustainability and ESG matters (including environmental risks) 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 consider the European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and the relevant good banking practices. EU regulations are followed by the Group, while the Group members operating outside Slovenia are also compliant with the rules set by their local regulators.

The Management Board and the Supervisory Board of the Bank and management bodies of other Group members are responsible for effective governance, and strategic oversight of sustainability matters, ESG risks and opportunities, including environmental and climate-related ones.

In 2023, management bodies addressed (discussed and/or made resolutions at their sessions) several ESG-related topics (including climate and other environmental), within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key topics included (but not limited to) the Group's net-zero disclosure report and business strategy, operational carbon footprint measurement and related measures to reduce environmental impact and further improve energy efficiency.

Further insights:

- Chapter Sustainability Governance in the 2023 NLB Group Sustainability Report, available on NLB website www.nlb.si/sustainability
- Chapter Corporate Governance Statement in the 2023 NLB Group Annual report, available on NLB website www.nlb.si/financial-reports

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

Responsibility for ESG risk management, including climate-related and environmental risks, is assigned within the organisational structure of the Group member and is in accordance with the three lines of defence model.

Organisational structure related to management of environmental factors and risks is described in section (e). Apart from the Management and the Supervisory Boards and their bodies, competence lines in the Group (business lines, organisational units) tackle sustainability in their respective area of work and responsibilities, including climate-related, other environmental and social risks and other ESG considerations.

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 internal control system in the Group is implemented on several levels, that are first, second, and third level controls, which are also utilised 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.

First line of defence

First-level controls are designed to ensure the proper implementation of ESG-related business activities in every organisational unit. 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 matters. This applies especially to frontline employees in corporate, retail, and financial markets.

Second line of defence

Second-level controls are divided between two internal control functions: risk management, and business compliance. 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 the ESG regulatory framework and climate-related risks. 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 the Group level, as well as to identifying, assessing, preventing, and monitoring overall risks to compliance and integrity in the Bank.

Third line of defence

The third level of control is performed by the internal audit function, which assesses and regularly checks the completeness, functionality, and adequacy of the internal control system. Internal audit is completely independent of both the first- and second-level control functions. Sustainability and ESG matters are part of the Audit Universe, which is a comprehensive overview of all activities subject to internal audit. As such, it is integrated in the regular annual planning process of NLB and other Group members.

Further insights:

- Chapter, Sustainability Governance, sub-chapter Integration of sustainability, and ESG in three lines of defence in 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability
- Chapter, Corporate Governance Statement in the 2023 NLB Group Annual report, available on the NLB webpage <https://www.nlb.si/financial-reports>

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

To assist and advise in sustainability implementation process, as well as to execute individual tasks within powers of the management body, there are several bodies (committees) in place, including the NLB Group Operational Risk Committee and Risk Committee.

Committees support the management body in fulfilling the responsibilities of managing respective areas, including sustainability. Identifying impacts, risks, and opportunities that arise from environmental, social (including human rights), and governance issues, supporting and accelerating integration of ESG factors in the Group are among the key responsibilities of each committee.

Committees of NLB Management Board:

- Sustainability Committee is an advisory body to the Management Board, which tackles risks and opportunities, related to climate and other sustainability issues.
- A Climate Change Committee is a new body set out at the end of 2023. The committee has full authority and responsibility over the development and implementation of NLB Group Net Zero Strategy to streamline decision-making and enhance accountability related to set decarbonisation targets.
- Six collective decision-making bodies that provide decision-making support to the whole Management Board: The Corporate Credit Committee, Assets and Liabilities Management Committee of NLB Group, NLB Operational Risk Committee, The Group Real Estate Management Committee, The Sales Committee, and Risk Committee.
- Three decision-making bodies that provide decision-making support to respective Management Board members: Committee for New and Existing Products, Committee for Business IT Architecture, and Data Management Committee.

Committees of NLB Supervisory Board:

- The Audit Committee, The Risk Committee, The Remuneration Committee, The Nomination Committee, The Operations and IT Committee.

In case environmental risks are identified that could affect the Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

Further insights:

- Chapter, Sustainability Governance, sub-chapters The Management Board's and Supervisory Board's oversight of sustainability and ESG, and Management's role in managing ESG risks and opportunities in the 2023 NLB Group Sustainability Report, available on the NLB webpage <https://www.nlb.si/sustainability>;
- Chapter General information on risk management, objectives, and policies, sub-chapter Risk measurement and reporting systems in this report (2023 Pillar III Disclosures).

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

Environmental risks are regularly discussed and reported at all sessions of management 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. 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.

Further insights:

- Chapter, General information on risk management, objectives, and policies, sub-chapter Risk measurement and reporting systems in this report (2023 Pillar III Disclosures)

i. Alignment of the remuneration policy with the 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 the Bank and/or the Group in the scope of their tasks and activities, is set out in the Remuneration policy for members of the Supervisory and Management Boards of the Bank and in the Remuneration Policy for Employees in the Bank and in the Group (hereinafter: 'the remuneration policies'). Based on the group guidelines the principles of the remuneration policy were also implemented in the 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, the Group put special attention on the achievement of ESG goals. Given the sustainability roadmap of the 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 2023, concrete targets have been included in their performance plans, and were part of the Management Board members' individual assessments, as follows:

- NLB's CEO: 20% weighting
- Other Members of NLB's Management Board: from 17% to 20% weighting.

Further insight:

- Chapter, Remuneration and integration of ESG goals in 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability;
- Chapter Remuneration Policy in this report (2023 Pillar III Disclosures).

14.2.3. Risk management

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

The Group conducts materiality assessment as part of its overall risk identification process to determine the level of transition and physical risk to which the Group is exposed. In addition, the 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 the 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-, medium- and long-term period are assessed. Furthermore, the Bank also considers two different climate scenarios in the long-term period, pessimistic RCP 8.5 and optimistic RCP 2.6 scenarios. While many climate studies project temperature and climate change until the year 2100, our materiality assessment also addressed the period beyond the year 2050.

From the perspective of physical risk, the most relevant (material) risk drivers are drought and floods, while hail and windstorms are also frequent but less material. Though 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. Chronic risk is not yet determined as material risk driver. Transition risk arises already in the short-term period due to determination of EU (Fit for 55 regulatory framework) to reduce the carbon emissions according to its ambitious net zero strategy by 2050. With implementation of Net zero strategy of NLB Group, it is expected that its impacts will gradually diminish in the long run. Nevertheless, the Group assessed them as more material than physical risk.

Further insight:

- Sub-chapter Materiality Assessment, described in combined chapter below (l, m, and n) of this report (2023 Basel Pillar III Disclosures)

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

As presented in the Introduction section, the management of environmental and other ESG risks, the Group follows ECB and EBA guidelines, with the attempting to integrate comprehensively 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.

- l. Processes to identify, measure, and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels**
- m. Activities, commitments, and exposures contributing to mitigate environmental risks**
- n. Implementation of tools for identification, measurement, and management of environmental risks**

The 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 the 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 in the areas of credit, liquidity, market, and operational risk.

This combined chapter outlines processes, activities, and tools (materiality assessment, ESMS in the credit approval process, related credit portfolio management, collateral management) to mitigate environmental risks and to identify, measure, and monitor exposures.

1. Materiality assessment

The Group performs materiality assessment in the following steps:

1. In the first step, the climate and other environmental risk drivers relevant to Slovenia and other countries where the Group is present are identified. Besides physical and transition risks, the Group also considers exposure to other environmental risks, such as biodiversity risk, waste disposal and pollution
2. In the next step, the Group defines the transmission channels to better understand how the climate & environmental risk drivers translate into traditional financial risk categories.
3. In the third step, the Group assesses the probability and impact of each identified risk driver using internal and external sources and methodologies. The assessment considers the geographic location and industry (segment) of the client.
4. Furthermore, the Group assesses how other factors (sources of variability) which determine the probability or the size of the impact, so called amplifiers, mitigants and geographical heterogeneity impact its operations.
5. In the last step the materiality of the impact is assessed. Considering probability and impact score, final vulnerability score is determined and assigned to each exposure. The Heatmap tool is used for the representation of vulnerability to each climate and environmental risk driver.

The Group performed the materiality assessment of physical risk as at 30 June 2023. Key findings were as follows:

- Short-term exposure to physical risk is not material however it is expected to increase gradually due to climate change.
- Over the medium-term horizon, the level of physical risk is assessed as moderately low.
- Over the long-term horizon, considering RCP 2.6 scenario, the level of physical risk is higher, however still at moderately low level. Considering RCP 8.5 scenario, the level of physical risk over the long-term period is increased and assessed as moderate.
- From materiality perspective, we can conclude that floods and drought are currently the only material risk driver in certain industries and regions. Hail and windstorm are less material. Other events are not material. Chronic risk is also not determined as material risk in the short- and medium-term periods. From the perspective of direct corporate exposure, mostly agriculture sector in some countries is materially exposed to physical risk (high and moderately high level of drought) in the mid-term horizon. Vulnerability to physical risk in other industries is less material. Within short- and medium-term horizon, no exposure is allocated to high-risk bucket. Considering long-term horizon, 7% of the corporate portfolio is allocated to the high-risk bucket under RCP 2.6 scenario, and 17% under RCP 8.5 scenario.

The Group performed the materiality assessment of transition risk as at 30 June 2023. Key findings were as follows:

- Transition risk is already a material risk driver and will reach its peak in the mid-term horizon;
- Over the short-term horizon, the level of transition risk is assessed as moderately low;
- Over the mid-term horizon the level of transition risk will increase to moderate level;
- Over the long-term horizon the level of transition risk is expected to start decreasing;
- As such, exposure to transition risk over the long-term horizon is less material. Using UNEP-FI methodology for classification of transition risk, only 4% of corporate portfolio is allocated to high-risk bucket and 10% to moderately high-risk bucket. 40% of the portfolio is allocated to the low or moderately low-risk bucket and the remaining part is allocated to the moderate-risk bucket;
- From industry view perspective, above moderate exposures are in manufacturing, wholesale and retail trade, construction and electricity production sectors in Slovenia and Serbia. Less material are such exposures in Kosovo and other countries. For these sectors direct and indirect emission cost factors are contributing to the above the average risk score. Though many industries will be heavily impacted also by Capital Expenditure needs (higher, above average, CAPEX risk score). Country wise, the overall transition risk is the lowest in Slovenia and the highest in Serbia, even though the methodology by UNEP-FI is not country specific. In countries other than Slovenia (the rest of the Group), we expect a delayed transition. This means lower short-term risk and faster transition in the mid-term period.

The Group also assessed the importance of other environmental risks as of June 30, 2023. The main findings were as follows:

- Short-term exposure to other environmental risks is not significant but is expected to increase gradually and peak in the medium term.
- In the medium term, the level of other environmental risks is assessed as moderately low.
- In contrast to transition risk, other environmental risks are not expected to decrease in the long term.

Further insights:

- Chapter, Materiality Assessment in the 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability

2. ESMS – Environmental and Social Risk Management System

The Group has established the Environmental and Social Risk Management System, a comprehensive risk assessment and monitoring mechanism in 2021, which applies to transactions with the greatest potential for significant negative environmental and social impacts.

ESMS was initially set up to provide screening of current or potential financing applications against the MIGA and EBRD Exclusion List and applicable environmental and social laws, in line with Framework Agreements with the EBRD, the Contract of Guarantees with MIGA and the UNEP FI Principle for responsible banking. The main objectives of ESMS are to identify and manage the Group's exposure to the ESG risk of its clients, and to promote their good environmental and social business practices. The system is fully embedded in the Group's loan origination and monitoring, and is regularly updated with any material factors or procedures in line with ESG-related developments and requirements.

The implemented Environmental and Social Management System 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:

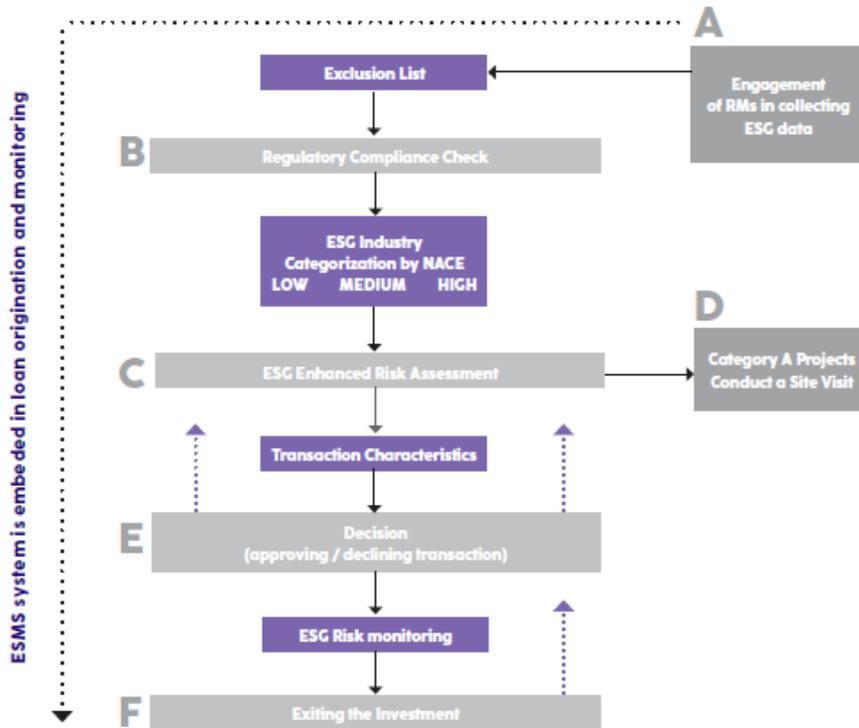
- having a low impact on the environment and having the potential to replace high-impact activities (e.g., renewable energy),
- reducing impact from other activities,
- making a positive environmental contribution.

ESG enhanced risk assessment in the Group is performed:

- at annual review of client, when the thresholds of exposure and ESG risk level are met and
- at new transaction proposal, when:
 - new loans relate to project finance with total value of project 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,

- new loans are above EUR 3 million, of at least 36 months of maturity and the client bridges the threshold for ESG review at annual review.

Figure 13: Key steps of the transaction approval process



3. Collateral management

Real estate plays an important role in debates on the transition to a carbon-neutral economy. The Group ESG risk management in collateral evaluation process is focused on real estate climate transition and physical risks. Identification and materiality of specific ESG risks for real estate in collateral is assessed through the Group methodology for environmental risks. Climate transition and physical risks are measured through energy performance data of real estate and collateral location data.

Further insights:

- Collateral management in the 2023 NLB Group Sustainability Report, available on NLB webpage www.nlb.si/sustainability

4. Operational and reputation risks

The 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.

Further insights:

- ESG Risks in credit risk management, sub-chapter ESMS - Environmental and Social Risk Management System in the 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability

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

The Group established its own ESG stress-testing concept to identify the most relevant financial vulnerabilities stemming from climate risk, which is constantly further enhanced by considering available 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 robust validation governance process and controls over applied selected risk approaches and internal models.

As a systemically important institution, the 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. In 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.

Further insights:

For more information on stress testing, please refer to:

- Chapter General information on risk management, objectives, and policies, sub-chapter Stress-testing in this report (2023 Pillar III Disclosures)

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

The availability of ESG data in the region where the Group operates is still lacking. Nevertheless, the Group made a significant progress in 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 credit portfolio GHG emissions, several important activities started in 2022. The collection of ESG data was further improved in the year 2023 for larger corporate clients where the Group initiated direct Scope 1 & 2 & 3 data gathering processes, and whereas for SME and micro segments, the Group developed its own proxies in cooperation with an external expert.

The Group is engaged in collecting and analysing different transition and physical risk relevant data, and we are using publicly available climate change studies relevant for the region where the Group operates in our long-term projections.

The main tool used to collect ESG-relevant data from the clients is the ESG questionnaire. For the time being, it is used for larger clients engaged in high-risk activities according to internal ESG classification. Eventually, the scope will also be extended to other segments. In the questionnaire, the clients must provide ESG-relevant data and information on how ESG factors and policies are integrated into their operations. In addition, clients' data are also collected through their financial and non-financial reports, media or other external resources. Furthermore, when needed, the Bank also performs more extensive ESG reviews of the clients. Within the due diligence process, clients need to clarify whether the company put policies and mitigators in place relating to their operations' ESG risks.

Further insights:

- Chapter, Data availability in NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability

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

To contribute to a sustainable transition and to decarbonise the credit portfolio by 2050, the Group has committed to strict limitations of new financing of certain activities. This commitment is included as a rule in internal documents, such as the NLB Group Risk Appetite Statement, NLB Group Lending Policy, and other specific instructions binding for all Group members.

The Group acknowledges that phasing out coal is the main priority to reach the Paris Agreement's goal of limiting global temperature rise to 1.5 degrees. Thus, we set risk appetite limits for coal mining (no new financing) and a target to reach zero exposure by 2030. By that, no new direct financing goes to coal-related industries – thermal coal mining or coal-fired electricity generation capacity in any way, including eventual transitional enhancements, are to be provided.

A transaction is rejected in the case that client is involved in any activity on the exclusion list. Screening is performed at the time the financing application is received, at the time the financing is approved, and periodically (e.g., annually) until the maturity of the financing.

The full list of cross-sectoral and sector-specific prohibited (exclusion list), restricted, and normal activities from the ESG perspective, including MIGA and EBRD requirements, that the Group adheres to in the financing decisions and process is comprehensively defined in the NLB Group Lending Policy and published on the websites of NLB and other Group members.

Further insights:

- Chapter, Limits and exclusions in 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability
- the Exclusion list on the NLB webpage: www.nlb.si/exclusion-list

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.

14.3. Social risks

14.3.1. 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

The Group considers as social risks those related to the rights, well-being, and interests of people and communities. These include (but are not limited to) factors such as (in)equality, health, inclusiveness, labour relations, workplace health and safety, human capital, and communities.

Social factors and risks are included in NLB Group's business strategy and implemented through the NLB Group Sustainability Policy and its established sustainability pillars. The general objectives that the Group pursues withing each sustainability pillar are outlined in the remaining of this chapter.

Sustainable operations:

- to ensure positive social impacts and to minimise adverse impacts of the Group's own non-financial operations on key stakeholders, including:
 - to ensure sustainable employee relations, such as: capabilities development, talent retention, and development, DEI – diversity, equity, and inclusion, reducing gender pay gap, ensuring health and safety, work environment, and well-being and work-life balance;
 - to ensure sustainable client relations, including actively engaging with clients, promoting ensuring responsible product development, marketing and communication; accessibility, financial literacy, and inclusion;
 - to ensure sustainable procurement by including assessment of ESG risks at all stages of the procurement life cycle;
- to identify and mitigate social risks and to pursue opportunities stemming from business relations with key stakeholders that might affect the financial operations of the Group or our stakeholders.

Sustainable finance:

- to integrate social factors into the Group's business and investment decisions,
- to ensure a positive impact by developing and offering social financing,
- to identify and mitigate social risks in relation to the Group's lending or investments,
- to ensure responsible asset management by integrating social factors into the investment policy.

Contribution to society:

- to ensure that each CSR activity contributes to socially-related UN Sustainable Development Goals,

- to create added value by focusing on genuine societal needs and actively responding to these societal needs by managing appropriate initiatives, sponsorships, donations, and other partnerships, including those related to education, financial literacy and mentoring, sustainable and inclusive entrepreneurship, supporting youth, female and disabled sports, and philanthropy.

Further insights:

- Chapter, Social risk management in the NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/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 the Group executed within UN PRB framework, the third Impact area, i.e., *Inclusive and healthy economies* was defined. In 2023, the Group reviewed and upgraded related target to increase digital penetration (% of active digital users in total number of clients), which are as follows:

- to reach 55% digital penetration by 2025,
- to reach 70% digital penetration by 2030.

At the end of 2023, the digital penetration in the Group stood at 50.4%.

At the Group, we also recognise the challenges of social and financial inclusion of specific and vulnerable stakeholders (such as women, elderly citizens, youth, etc.) as well as a need to support clients, organisations, and projects which address important social challenges. So, we aim to complement our green offer with social financing. Thus, we will additionally create a social impact and contribute to a more inclusive and just society in the region where the Group operates.

Further insights:

- Chapter, Sustainable client relations, sub-chapter Digital-technological accessibility, available on the NLB webpage www.nlb.si/sustainability

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

The Group's approach to managing its own social impacts, including human rights considerations (either as an employer or a business partner) as well as of the Group's clients, are stipulated in the overarching Sustainability Policy, and complemented with other domain-specific Group's internal acts.

Most relevant policies and procedures with substantial focus on mitigation and reducing socially harmful activities in engagement with our clients is the Policy Environmental and Social Transaction Policy Framework in NLB and NLB Group. As already described in the chapter, Environmental Risk, section (d), the objectives of this policy are to set out how the Group assesses and manages environmental and social risks and impacts associated with the transactions and promote good environmental and social management practices in the client's transactions. In line with the policy clients' strategies to mitigate socially harmful activities and other social risks, are included in the screening (due diligence) process within the Group's ESMS.

The Group regularly monitors fulfilment of non-financing activities that are not supported by the 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).

Data for assessing social risk management are collected via 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. Questions refer to (but are not limited to) following areas: impact on community/society, employee relationships, customer protection and product responsibility, human rights.

For detailed information on screening process, please refer to the chapter, Environmental Risk, section (d), as the described process with new or existing counterparties also applies to social risks.

Further insight:

For additional information please refer to the 2023 NLB Group Sustainability Report 2023, available on the NLB webpage www.nlb.si/sustainability

- Chapter Social risk management:
- Chapter Responsible Conduct and Respecting Human Rights
- Chapter ESG Risks in credit risk management

14.3.2. 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

As the highest governance bodies, the Management and the Supervisory Boards are responsible for managing and supervising the implementation of social factors and risks in the Group model, respectively. To this end, the governance bodies discussed and adopted several policies which refer to different areas of social risk management, including activities towards the community and society, employee relationships and labour standards, customer protection and product responsibility, human rights, and supply chain. Policies describe general goals, strategic directions, rules, and procedures in specific areas.

In 2023, both governance bodies addressed (discussed and/or made resolutions on) 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) social risk management (within risk management strategy), diversity, respecting human rights, and human resources considerations.

Responsibilities of the management body in the context of social risk management per specific areas:

• **Activities towards the community and society**

At the Group, we actively contribute towards wider socio-economic development through our corporate social responsibility activities with an overarching focus on education in the communities where we operate. As a parent bank, NLB has established an internal policy which defines key areas of social and environmental responsibility of NLB and the Group's members in terms of their contribution to society. It defines rules and procedures for managing sponsorship, donations, and other partnerships with the Group's stakeholders. In addition to taking care of the Group's employees, the key pillars of the 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.

• **Employee relations and labour standards**

The Group continuously embeds sustainability matters and ESG factors into human resource management and organisation. We are not only adhering to labour-related regulations; we are committed to investing in employee development, building a diverse and inclusive workplace environment, and seeking to improve the employee experience constantly. In recent years, we have established respective internal HR documents, rules and procedures, initiatives, and practices to assess HR-related risks and opportunities, manage human resources, and ensure human capital development. The key internal document is Human Resources Development and Organisation Strategy, which defines the basic areas and activities of activities within the Group, in the field of human resources, education, and organisation. The policy is complemented with the Standards for Human Resources Business Line in NLB Group, which is meant to set up the standards of operation and harmonisation of the operations in the Group members. In addition to this overarching policy, the Group has established several domain-specific policies which tackle key human resources risks and opportunities in specific domains, such as talent management and retention, training and development, prevention of mobbing and harassment, diversity, family-friendly measures, remuneration, and others.

- **Customer protection and product responsibility**

The Group members review new products and marketing policies before offering them to ensure that clients can have full confidence in the Group's products and services. The review is done by specific committees, i.e., Committee for new and existing products in the Bank and equivalent committees in other Group members. The committee in the Bank oversees approving and monitoring products while also focusing on risks related to the product and the method of managing those risks. The review process applies to all new and existing products and services, and involves key control functions, including Compliance and Integrity, to ensure that the products and services are compliant with all applicable laws, regulations, as well as ethical standards. In the new revised version of the form, ESG risks are added as obligatory category to specify product features from an ESG perspective and appropriate management of possible ESG risks. The Group members provide information to clients in compliance with regulations, local legislation related to customer rights, guidelines, and codes of professional associations. Thus, the Group provides impartial, clear, and non-misleading information, by using the appropriate communication channels to clients. The Group is committed to responsible lending, by offering clients financial products in accordance with their needs and income profile, and to educate them about all aspects of a product, including potential negative consequences and risks.

- **Human rights**

The Group has established the Policy for Respecting Human Rights. The policy describes the Group's commitment to respect human rights in line with the highest international standards. The policy aims to systematically monitor respect for human rights in all business areas, prevent human rights abuses in the context of banking business, and mitigate risks in this respect. The policy contributes to a common understanding among employees of respecting human rights in relations with all Group stakeholders internally (employees) and externally (customers, suppliers, and other stakeholders).

- **Supply chain**

Additionally, social risk screening in the supply chain is part of the Group's supplier selection and regular assessment process as stipulated in the Standard Procurement in the Members of the NLB Group, the purpose of which is to ensure a uniform and transparent procurement procedure (including performing the business activities in line with standards of conduct required by the NLB Group Code of Conduct, and the minimum principles of ethical, social, and environmental conduct that the Group expects from all its suppliers). 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.

Further insight:

For additional information please refer to the NLB Group Sustainability Report 2023, available on the NLB webpage www.nlb.si/sustainability:

- Chapter Sustainable Operations – subchapters: Sustainable employee relations, Sustainable client relations, Sustainable procurement
- Chapter Responsible Conduct and Respecting Human Rights
- Chapter Contribution to Society

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 the Group's operation.

As already described in chapter, Environmental risk (sub-chapter Governance), 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 the Group are among the key responsibilities of each committee. When appropriate, according to internal rules and procedures, social risks are considered also at respective Supervisory Board Committees.

Moreover, social risks are monitored through the 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 that social risks are identified that could affect the Groups business model, operations or performance, such a case is escalated according to internal rules and procedures.

Further insights:

- Chapter, Governance in the 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/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 the 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.

The 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 the 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

The 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:

- Chapter, Remuneration and integration of ESG goals in the 2023 NLB Group Sustainability Report, available on the NLB webpage www.nlb.si/sustainability
- Chapter 16. Remuneration policy in this report (2023 Basel Pillar III Disclosures)

14.3.3. Risk management

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

The Group's social risk management framework considers national and international regulations, methodologies, and standards in all aforementioned areas. Among these, the Group is focused and also follows ECB and EBA guidelines with the goal of seeing their comprehensive integration into all relevant processes. The cornerstone for addressing social factors and risks is the Policy on Respect for Human Rights. The policy contains the commitment of the Bank and the 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.

Further insight:

- Other relevant policies related to social risk management are described in previous chapters of social risk qualitative disclosures: Business strategy and processes (section c), and Governance (section d)
 - 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 and 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 the Group's ESMS screening process, and in other internal policies, that govern specific social-related risks. For detailed information on ESMS, please refer to chapter Environmental risk (sections l, m, and n, sub-section 2: Environmental and Social Risk Management System), as the described process of tackling environmental risk related to new or existing counterparties also applies to social risks.

The Group regularly monitors fulfilment of non-financing activities that are not supported by the 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, the 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).

Further insights:

- Chapter, ESG Risks in credit risk management, sub-chapter ESMS - Environmental and Social Risk Management System in the 2023 NLB Group Sustainability Report, available on the NLB webpage [nlb-sustainability](https://www.nlb.si/en/sustainability).
- The full list of sustainable economic activities (environmental and social ones) promoted by NLB Group is described in NLB Group Sustainability Policy, available on the Bank's webpage [nlb-sustainability](https://www.nlb.si/en/sustainability).

I. 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.

14.4. Governance risk

14.4.1. Business strategy and process

The Group considers governance risks as those relates to its own governance and clients' practices. This may include, but it is not limited to, management body's remuneration, diversity and structure, shareholder rights, bribery and corruption, compliance, ethical standards, fair tax strategy, and the inclusion of ESG policies.

Governance factors and risks are included in NLB Group's business strategy and implemented through the NLB Group Sustainability Policy and its established sustainability pillars. The general objectives that the Group pursues withing each sustainability pillar are outlined in the remaining part of this chapter.

Sustainable operations:

- to manage the Group's direct environmental and social impacts while ensuring responsible business, conduct, compliance, and ethical and efficient operations,
- to mitigate governance risks in the Group's operations in relations with its stakeholders.

Sustainable finance:

- to integrate governance factors into the Group's business and investment decisions,
- to manage governance risks stemming from the sustainable (green and social) transition.

Contribution to society:

- to manage initiatives, sponsorships, donations and other partnerships in line with the highest governance standards.

14.4.2. 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 Group has implemented a comprehensive sustainability governance framework (top-down and bottom up). As the highest management and governance bodies, the Management and the Supervisory Boards are responsible for managing and supervising the implementation of governance considerations (factors and risk) management framework, respectively. In 2023, 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 compliance, integrity, KPIs and plans, reporting, remuneration, and performance assessment, and DEI – diversity, equity, and inclusion, and the gender pay gap.

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 the Group's operation.

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

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

Further insights:

- Chapter, Sustainability Governance, in the 2023 NLB Group Sustainability Report, available on www.nlb.si/sustainability

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) are set out in the Environmental and Social Transaction Policy Framework in NLB and NLB Group. The activities include the assessment of:

- whether the commitment to managing sustainability/ESG is relevant to the business,
- presence of effective systems to manage sustainability/ESG, including accountability,
- past record of regulatory breaches, fines, lawsuits, negative media, or stakeholder protests/complaints that demonstrate how well the client has been managing sustainability/ESG,
- 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 the client's annual report) and within a questionnaire during the extended overview, which includes a specific question on the commitment level of senior management to ESG matters.

c. Institution's integration in governance arrangements the governance performance of their counterparties**d. Institution's integration in risk management arrangements the governance performance of their counterparties**

Integration of assessing and monitoring of clients' governance performance in the the Group's governance arrangements is described in this chapter (section a). In terms of risk management, 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 the chapter, Environmental Risk, sections l, m, and n, sub-section 2: Environmental and Social Risk Management System, as the described process with new or existing counterparties also applies to governance risks. The Group is continuously upgrading activities in order to rectify managing counterparties' governance risks.

In particular, to monitor client's governance performance, the Bank uses 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 ESG classification as high risk, and is used to assess client'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 of the Management and Supervisory Boards,
- transparency of the customer's reporting on past emissions performance across all relevant scopes.

Further insights:

- For more information, please refer to chapters in the 2023 NLB Group Sustainability Report, available on www.nlb.si/sustainability:
 - Chapter, ESG Risks in credit risk management, sub-chapter ESMS - Environmental and Social Risk Management System
 - Chapter Sustainability Governance

14.5. 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 Gross Carrying Amount 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 the region.

The Group used the following data sources to obtain the GHG carbon emission data:

- Data provided by the clients (for a limited number of clients, the Bank was able to obtain actual Scope 1, 2, 3 emissions data);
- Data found on the client's home web pages;
- External data/Proxies for Scope 1, 2, 3 emissions for clients with no reported/published carbon footprint data.

Figure 14: Calculation of financed emissions

$$\text{Financed emissions} = \sum_i \text{Attribution factor}_i \times \text{Emissions}_i \quad (\text{with } i = \text{borrower or investee})$$
$$\text{Attribution factor}_i = \frac{\text{Outstanding amount}_i}{\text{Total equity} + \text{debt}_i}$$

The attribution factor is calculated as Gross carrying amount / (short term + long term financial debt + equity) -> on balance sheet data.

Table 42 – Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions, and residual maturity for NLB Group

Sector/subsector	in EUR million				
	a	b	c	d	e
	Gross carrying amount				
31.12.2023					
	Total	Of which exposures towards companies excluded from EU Paris-aligned Benchmarks**	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures
1 Exposures towards sectors that highly contribute to climate change*	5,262	275	55	378	143
2 A - Agriculture, forestry and fishing	108	-	-	4	3
3 B - Mining and quarrying	46	11	-	15	-
4 B.05 - Mining of coal and lignite	2	2	-	2	-
5 B.06 - Extraction of crude petroleum and natural gas	9	9	-	9	-
6 B.07 - Mining of metal ores	-	-	-	-	-
7 B.08 - Other mining and quarrying	35	-	-	4	-
8 B.09 - Mining support service activities	-	-	-	-	-
9 C - Manufacturing	1,488	-	-	117	24
10 C.10 - Manufacture of food products	274	-	-	33	3
11 C.11 - Manufacture of beverages	33	-	-	3	-
12 C.12 - Manufacture of tobacco products	2	-	-	-	-
13 C.13 - Manufacture of textiles	14	-	-	1	-
14 C.14 - Manufacture of wearing apparel	9	-	-	-	-
15 C.15 - Manufacture of leather and related products	5	-	-	3	1
16 C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	45	-	-	9	4
17 C.17 - Manufacture of paper and paperboard	30	-	-	9	-
18 C.18 - Printing and reproduction of recorded media	36	-	-	2	1
19 C.19 - Manufacture of coke and refined petroleum products	-	-	-	-	-
20 C.20 - Production of chemicals and chemical products	32	-	-	-	-
21 C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations	27	-	-	2	-
22 C.22 - Manufacture of rubber products	73	-	-	1	1
23 C.23 - Manufacture of other non-metallic mineral products	95	-	-	8	2
24 C.24 - Manufacture of basic metals	156	-	-	16	-
25 C.25 - Manufacture of fabricated metal products, except machinery and equipment	185	-	-	9	6
26 C.26 - Manufacture of computer, electronic and optical products	22	-	-	2	-
27 C.27 - Manufacture of electrical equipment	191	-	-	1	-
28 C.28 - Manufacture of machinery and equipment n.e.c.	79	-	-	6	-
29 C.29 - Manufacture of motor vehicles, trailers and semi-trailers	86	-	-	2	2
30 C.30 - Manufacture of other transport equipment	4	-	-	2	-
31 C.31 - Manufacture of furniture	43	-	-	2	1
32 C.32 - Other manufacturing	31	-	-	5	1
33 C.33 - Repair and installation of machinery and equipment	14	-	-	-	-
34 D - Electricity, gas, steam and air conditioning supply	546	113	36	63	1
35 D35.1 - Electric power generation, transmission and distribution	442	62	36	63	1
36 D35.11 - Production of electricity	180	5	-	63	1
37 D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	50	50	-	-	-
38 D35.3 - Steam and air conditioning supply	54	-	-	-	-
39 E - Water supply; sewerage, waste management and remediation activities	57	-	-	5	2
40 F - Construction	543	-	-	33	22
41 F.41 - Construction of buildings	373	-	-	24	14
42 F.42 - Civil engineering	74	-	-	2	7
43 F.43 - Specialised construction activities	96	-	-	7	2
44 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,246	149	1	74	34
45 H - Transportation and storage	664	2	18	16	16
46 H.49 - Land transport and transport via pipelines	236	2	16	11	16
47 H.50 - Water transport	1	-	-	-	-
48 H.51 - Air transport	2	-	-	-	-
49 H.52 - Warehousing and support activities for transportation	409	-	-	5	-
50 H.53 - Postal and courier activities	17	-	3	-	-
51 I - Accommodation and food service activities	187	-	-	41	32
52 L - Real estate activities	377	-	-	9	9
53 Exposures towards sectors other than those that highly contribute to climate change*	787	-	41	56	21
54 K - Financial and insurance activities	72	-	8	-	-
55 Exposures to other sectors (NACE codes J, M - U)	715	-	33	56	21
56 TOTAL	6,049	296	96	434	164

* 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	f	g	h
	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
31.12.2023	Total	Of which Stage 2 exposures	Of which non-performing exposures
1 Exposures towards sectors that highly contribute to climate change*	(147)	(16)	(93)
2 A - Agriculture, forestry and fishing	(4)	-	(2)
3 B - Mining and quarrying	(2)	(1)	-
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)	(1)	-
8 B.09 - Mining support service activities	-	-	-
9 C - Manufacturing	(30)	(4)	(16)
10 C.10 - Manufacture of food products	(5)	(1)	(1)
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	(3)	-	(2)
17 C.17 - Manufacture of paper and paperboard	(1)	-	-
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	(3)	(1)	(2)
24 C.24 - Manufacture of basic metals	(1)	-	-
25 C.25 - Manufacture of fabricated metal products, except machinery and equipment	(6)	-	(5)
26 C.26 - Manufacture of computer, electronic and optical products	-	-	-
27 C.27 - Manufacture of electrical equipment	(2)	-	-
28 C.28 - Manufacture of machinery and equipment n.e.c.	(1)	-	-
29 C.29 - Manufacture of motor vehicles, trailers and semi-trailers	(2)	-	(2)
30 C.30 - Manufacture of other transport equipment	-	-	-
31 C.31 - Manufacture of furniture	(1)	-	(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	(7)	(3)	-
35 D35.1 - Electric power generation, transmission and distribution	(6)	(3)	-
36 D35.11 - Production of electricity	(5)	(3)	-
37 D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	-	-	-
38 D35.3 - Steam and air conditioning supply	(1)	-	-
39 E - Water supply, sewerage, waste management and remediation activities	(2)	-	(2)
40 F - Construction	(24)	(2)	(17)
41 F.41 - Construction of buildings	(17)	(2)	(11)
42 F.42 - Civil engineering	(5)	-	(4)
43 F.43 - Specialised construction activities	(3)	-	(1)
44 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	(42)	(3)	(28)
45 H - Transportation and storage	(15)	(1)	(12)
46 H.49 - Land transport and transport via pipelines	(14)	-	(12)
47 H.50 - Water transport	-	-	-
48 H.51 - Air transport	-	-	-
49 H.52 - Warehousing and support activities for transportation	(2)	-	-
50 H.53 - Postal and courier activities	-	-	-
51 I - Accommodation and food service activities	(14)	(1)	(12)
52 L - Real estate activities	(6)	-	(4)
53 Exposures towards sectors other than those that highly contribute to climate change*	(24)	(3)	(15)
54 K - Financial and insurance activities	-	-	-
55 Exposures to other sectors (NACE codes J, M - U)	(24)	(3)	(15)
56 TOTAL	(171)	(19)	(108)

in EUR million

Sector/subsector	i	j	k
	GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting
31.12.2023	Total	Of which Scope 3 financed emissions	
1 Exposures towards sectors that highly contribute to climate change*	10,619,885	9,291,131	19%
2 A - Agriculture, forestry and fishing	193,927	127,933	-
3 B - Mining and quarrying	136,456	121,840	38%
4 B.05 - Mining of coal and lignite	20,065	19,017	-
5 B.06 - Extraction of crude petroleum and natural gas	66,805	61,566	100%
6 B.07 - Mining of metal ores	-	-	-
7 B.08 - Other mining and quarrying	49,555	41,240	24%
8 B.09 - Mining support service activities	31	17	-
9 C - Manufacturing	3,088,385	2,660,370	24%
10 C.10 - Manufacture of food products	304,280	255,785	6%
11 C.11 - Manufacture of beverages	24,539	18,604	-
12 C.12 - Manufacture of tobacco products	2,790	2,316	-
13 C.13 - Manufacture of textiles	17,518	11,125	11%
14 C.14 - Manufacture of wearing apparel	6,966	6,324	-
15 C.15 - Manufacture of leather and related products	3,629	3,047	-
16 C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	37,097	30,355	-
17 C.17 - Manufacture of paper and paperboard	37,483	24,496	-
18 C.18 - Printing and reproduction of recorded media	18,464	16,389	-
19 C.19 - Manufacture of coke and refined petroleum products	843	383	-
20 C.20 - Production of chemicals and chemical products	48,237	31,654	13%
21 C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations	4,937	2,323	4%
22 C.22 - Manufacture of rubber products	149,707	132,585	28%
23 C.23 - Manufacture of other non-metallic mineral products	153,358	69,962	34%
24 C.24 - Manufacture of basic metals	1,154,385	999,559	55%
25 C.25 - Manufacture of fabricated metal products, except machinery and equipment	550,683	523,633	17%
26 C.26 - Manufacture of computer, electronic and optical products	29,734	28,954	0%
27 C.27 - Manufacture of electrical equipment	267,619	242,167	61%
28 C.28 - Manufacture of machinery and equipment n.e.c.	102,297	95,454	7%
29 C.29 - Manufacture of motor vehicles, trailers and semi-trailers	110,057	105,865	48%
30 C.30 - Manufacture of other transport equipment	2,873	2,639	-
31 C.31 - Manufacture of furniture	31,498	29,075	-
32 C.32 - Other manufacturing	18,859	17,505	-
33 C.33 - Repair and installation of machinery and equipment	10,531	10,172	-
34 D - Electricity, gas, steam and air conditioning supply	807,132	448,784	42%
35 D35.1 - Electric power generation, transmission and distribution	662,060	408,074	40%
36 D35.11 - Production of electricity	250,769	20,546	19%
37 D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	39,816	38,462	-
38 D35.3 - Steam and air conditioning supply	105,257	2,248	97%
39 E - Water supply; sewerage, waste management and remediation activities	163,219	107,009	-
40 F - Construction	379,823	354,704	15%
41 F.41 - Construction of buildings	193,007	177,704	19%
42 F.42 - Civil engineering	89,316	83,642	15%
43 F.43 - Specialised construction activities	97,500	93,358	1%
44 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	4,884,783	4,790,067	12%
45 H - Transportation and storage	868,180	613,851	10%
46 H.49 - Land transport and transport via pipelines	616,526	405,828	7%
47 H.50 - Water transport	310	250	-
48 H.51 - Air transport	67,296	33,559	-
49 H.52 - Warehousing and support activities for transportation	164,135	155,491	13%
50 H.53 - Postal and courier activities	19,913	18,724	-
51 I - Accommodation and food service activities	60,054	39,715	-
52 L - Real estate activities	37,927	26,858	19%
53 Exposures towards sectors other than those that highly contribute to climate change*	379,794	331,169	9%
54 K - Financial and insurance activities	82,861	81,753	42%
55 Exposures to other sectors (NACE codes J, M - U)	296,933	249,416	5%
56 TOTAL	10,999,680	9,622,300	17%

in EUR million

Sector/subsector	in EUR million				
	l	m	n	o	p
31.12.2022					
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
1 Exposures towards sectors that highly contribute to climate change*	3,551	1,375	284	53	3.3
2 A - Agriculture, forestry and fishing	81	24	3	-	3.0
3 B - Mining and quarrying	22	10	14	-	6.2
4 B.05 - Mining of coal and lignite	-	2	-	-	5.3
5 B.06 - Extraction of crude petroleum and natural gas	9	-	-	-	1.8
6 B.07 - Mining of metal ores	-	-	-	-	-
7 B.08 - Other mining and quarrying	13	8	14	-	7.5
8 B.09 - Mining support service activities	-	-	-	-	1.6
9 C - Manufacturing	1,027	456	2	3	3.4
10 C.10 - Manufacture of food products	180	94	-	-	3.4
11 C.11 - Manufacture of beverages	25	7	-	-	3.0
12 C.12 - Manufacture of tobacco products	2	-	-	-	1.3
13 C.13 - Manufacture of textiles	13	1	-	-	3.0
14 C.14 - Manufacture of wearing apparel	8	1	-	-	2.6
15 C.15 - Manufacture of leather and related products	5	-	-	-	2.0
16 C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	35	10	-	-	3.1
17 C.17 - Manufacture of paper and paperboard	26	3	-	-	3.1
18 C.18 - Printing and reproduction of recorded media	22	13	1	-	4.0
19 C.19 - Manufacture of coke and refined petroleum products	-	-	-	-	0.2
20 C.20 - Production of chemicals and chemical products	23	8	-	-	3.8
21 C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations	26	-	-	-	2.4
22 C.22 - Manufacture of rubber products	46	26	-	-	3.7
23 C.23 - Manufacture of other non-metallic mineral products	48	48	-	-	4.1
24 C.24 - Manufacture of basic metals	99	56	-	-	3.5
25 C.25 - Manufacture of fabricated metal products, except machinery and equipment	114	71	-	-	3.8
26 C.26 - Manufacture of computer, electronic and optical products	21	2	-	-	1.9
27 C.27 - Manufacture of electrical equipment	160	30	-	1	2.3
28 C.28 - Manufacture of machinery and equipment n.e.c.	67	12	-	-	2.9
29 C.29 - Manufacture of motor vehicles, trailers and semi-trailers	60	26	-	-	4.2
30 C.30 - Manufacture of other transport equipment	4	-	-	-	1.7
31 C.31 - Manufacture of furniture	26	18	-	-	4.0
32 C.32 - Other manufacturing	6	25	-	-	5.5
33 C.33 - Repair and installation of machinery and equipment	8	6	-	-	3.6
34 D - Electricity, gas, steam and air conditioning supply	222	152	130	41	1.4
35 D35.1 - Electric power generation, transmission and distribution	160	110	130	41	0.8
36 D35.11 - Production of electricity	61	67	52	-	7.4
37 D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	50	-	-	-	2.9
38 D35.3 - Steam and air conditioning supply	12	41	-	-	5.7
39 E - Water supply; sewerage, waste management and remediation activities	39	17	-	-	3.4
40 F - Construction	428	98	17	1	3.5
41 F.41 - Construction of buildings	276	80	17	-	4.0
42 F.42 - Civil engineering	72	2	-	-	1.9
43 F.43 - Specialised construction activities	80	15	-	1	2.8
44 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,003	237	2	5	2.6
45 H - Transportation and storage	518	144	-	2	3.4
46 H.49 - Land transport and transport via pipelines	168	66	-	2	3.1
47 H.50 - Water transport	-	-	-	-	2.3
48 H.51 - Air transport	2	-	-	-	1.4
49 H.52 - Warehousing and support activities for transportation	333	75	-	-	3.5
50 H.53 - Postal and courier activities	14	3	-	-	3.6
51 I - Accommodation and food service activities	73	92	22	-	5.2
52 L - Real estate activities	138	145	94	-	6.9
53 Exposures towards sectors other than those that highly contribute to climate change*	530	233	19	3	4.3
54 K - Financial and insurance activities	9	59	4	-	7.1
55 Exposures to other sectors (NACE codes J, M - U)	521	173	15	3	4.0
56 TOTAL	4,081	1,608	303	56	3.5

14.6. 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 energy performance certificates (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.

Energy performance certificates provide relevant information to banks on energy efficiency of buildings in collateral, so EPC data collection initiative is in action. The Group used different sources and methods to obtain data on EPC of the real estate in collateral as the Group is present on EU and non-EU markets.

For new lending, the Bank gathers official energy performance certificates for real estate in collateral, collected from the borrower at loan origination and included in the NLB database, and official EPC has been mandatory for new residential mortgage loans for private individuals since the end of 2023 (before that, only in cases when EPC was mandatory according to Slovenian law) which will, in time, increase the share of official EPC data.

For back book the Bank relies on actual data from the public EPC registry (which is periodically matched with the Bank's real estate in collateral) and modelled EPCs. For obtaining modelled EPCs an external provider modelled missing EPCs based on public EPC registry data and information from the country specific databases. Activities for collecting additional official and more accurate modelled energy performance certificates in the whole Group are underway.

In other non-EU countries multiple difficulties were discovered during the EPC data collection initiative. In some countries EPCs are not established in the local legislation (e.g., Montenegro, Kosovo), while in others EPCs do exist but are not enforced by local law. Additional measures are in development to increase the share of official EPC data on all markets.

Table 43 – Template 2: Banking book – Climate change transition risk: Loans collateralised by immovable property – Energy efficiency of the collateral of NLB Group

in EUR million

Counterparty sector	Total gross carrying amount amount							Total gross carrying amount amount							Without EPC label of collateral	
	Level of energy efficiency (EP score in kWh/m ² of collateral)							Level of energy efficiency (EPC label of collateral)							Of which level of energy efficiency estimated *	
	Total	0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G	Total	
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
1 Total EU area	2,918	1,371	349	98	9	3	2	52	139	341	432	131	81	85	1,658	37.6%
2 Of which Loans collateralised by commercial immovable property	1,033	402	67	7	1	-	-	0	2	21	52	9	3	4	942	38.3%
3 Of which Loans collateralised by residential immovable property	1,872	966	281	90	8	3	2	50	137	320	379	121	78	81	706	37.2%
4 Of which Collateral obtained by taking possession: residential and commercial immovable properties	14	3	1	-	-	-	-	2	-	1	1	1	-	-	10	0.0%
5 Of which Level of energy efficiency (EP score in kWh/m ² of collateral) estimated	1,072	800	213	59	-	-	-								624	100.0%
6 Total non-EU area	3,195	1	-	-	-	-	-	-	-	1	-	4	-	1	3,189	0.0%
7 Of which Loans collateralised by commercial immovable property	1,640	-	-	-	-	-	-	-	-	-	-	-	-	-	1,640	0.0%
8 Of which Loans collateralised by residential immovable property	1,508	-	-	-	-	-	-	-	-	1	-	-	-	-	1,506	0.0%
9 Of which Collateral obtained by taking possession: residential and commercial immovable properties	47	1	-	-	-	-	-	-	-	-	-	4	-	1	42	0.0%
10 Of which Level of energy efficiency (EP score in kWh/m ² of collateral) estimated	-	-	-	-	-	-	-								-	100.0%

* (EP score in kWh/m² of collateral)

14.7. Exposures to top 20 carbon-intensive firms

Table 44 – Template 4: Banking book – Climate change transition risk: Exposures to top 20 carbon-intensive firms on 31 December 2023 of NLB Group

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	9	0.06%	N/A	2	1

*For counterparties among the top 20 carbon emitting companies in the world

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.

14.8. 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 Gross Carrying Amount 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 uses an internal methodology for assessment of various physical risk events (hazards). Based on the location and industry of the client's vulnerability score is assigned to each exposure. A 5-level risk scale is used (low, moderately low, moderate, moderately high, and high risk). The Group has no exposure assigned to the high-risk bucket. However, limited exposure arising from acute physical risk is assigned to moderately high-risk bucket which the Bank still considers as exposures sensitive to impact from acute climate change events. Moderately high-risk exposure mostly relates to exposures in agriculture, which is vulnerable to drought. Less material are energy production, water supply, sewage, 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 collateralised by commercial or residential real-estate a specific tool for assessing flood risk based on national (Slovenian) flood risk zones was developed – determining flood risk with matching the micro-location of real estate in collateral with official flood exposure zones. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined, as exposures sensitive to impact from acute climate change events collateral in the High and Moderately high flood risk bucket was included. Other physical risks in Slovenia are assessed as not material to Bank's collateral exposure. For the Group members, a similar exercise with the same IT tool is ongoing using EU flood exposure maps. For each collateral, coordinates will be determined and compared with a flood risk map.

The Group has not identified any exposure sensitive to impact of chronic climate change events.

Table 45 – Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk of NLB Group

in EUR million

31.12.2023		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 exposures	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 exposures	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	108	63	19	3	-	3	-	84	-	4	2	(3)	-	(1)	
2 B - Mining and quarrying	46	-	-	-	-	-	-	-	-	-	-	-	-	-	
3 C - Manufacturing	1,466	-	-	-	-	-	-	-	-	-	-	-	-	-	
4 D - Electricity, gas, steam and air conditioning supply	540	1	9	15	-	11	-	25	-	-	-	-	-	-	
5 E - Water supply; sewerage, waste management and remediation activities	57	11	3	-	-	3	-	14	-	-	-	-	-	-	
6 F - Construction	543	-	-	-	-	-	-	-	-	-	-	-	-	-	
7 G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,225	-	-	-	-	8	-	-	-	-	-	-	-	-	
8 H - Transportation and storage	656	-	-	-	-	-	-	-	-	-	-	-	-	-	
9 L - Real estate activities	377	-	-	-	-	-	-	-	-	-	-	-	-	-	
10 Loans collateralised by residential immovable property	3,367	1	2	10	5	18	-	17	-	-	-	-	-	-	
11 Loans collateralised by commercial immovable property	2,653	1	-	-	-	6	-	1	-	-	-	-	-	-	
12 Repossessed colaterals	58	-	-	-	-	-	-	-	-	-	-	-	-	-	
13 Other relevant sectors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

14.9. Green Asset Ratio (GAR)

The concept of the Green Asset Ratio within the framework of the EU Taxonomy and its implications for banks involves measuring the proportion of a bank's assets that meet the criteria outlined in the Taxonomy for environmentally sustainable economic activities. This ratio serves as a metric for stakeholders to assess the extent to which a bank's portfolio supports environmental sustainability objectives. Banks are required to report their Green Asset Ratio as part of sustainability reporting obligations, providing transparency and accountability in their sustainability efforts.

However, while the Green Asset Ratio is a step towards improving transparency, it will not tell the whole story of banks' transition efforts. For instance, a substantial part of our portfolio is excluded (for instance, loans to smaller companies and international non-EU business), therefore the actual number of aligned activities is higher. Also, the banks' reporting is dependent on the data of the counterparties, which are at the beginning of their own green transformation and also have difficulties evaluating their own sustainability. Therefore, the additional metrics that are disclosed need to be analysed together with other relevant information on banks' efforts to finance transition.

Our calculation approach:

- Green asset ratio, GAR, is calculated as identified Taxonomy-aligned assets (numerator), divided by total assets, eligible for taxonomy, covered by the KPI (denominator). Exposures towards central banks, central governments, supranational and the Bank's trading portfolio are excluded from both the numerator and denominator (not covered by the KPI). Exposures to regional and local public authorities and entities controlled by states, where the use of proceeds is unknown, are also excluded from the numerator and denominator of the KPI.
- Since most financial counterparties will not publish their Taxonomy-aligned information for the 2023 financial year until 2024, it cannot be incorporated into this year's disclosure. Similarly, a comparable constraint is evident regarding Taxonomy eligibility concerning the four new environmental objectives, with both financial and non-financial counterparties obligated to disclose official information on Taxonomy eligibility starting in 2024 for the 2023 financial year.
- To assess Taxonomy-related KPIs for non-financial undertakings (NFRD-corporates are corporates which fall under the non-financial reporting requirements, including Taxonomy reporting requirements), publicly available information on the percentage of eligibility and alignment of turnover-based (Turnover) of the counterparties is used.
- To determine households' eligibility for KPIs, we considered the entire portfolio of mortgage loans, with assets subject to energy efficiency rules. For alignment KPIs on the households' portfolio, we focused on the "Acquisition and ownership of buildings" parameter under Delegated Regulation 2021/2139 (excluding the "Renovation of existing buildings" parameter under Delegated Regulation 2021/2139, and "Motor vehicles" due to a lack of specific information related to the identification of "green loans") to assess a significant contribution to climate change mitigation:
 - For buildings built before 31 December 2020, the building shall be rated at least an energy performance class A. Alternatively, the building shall be placed in the upper 15% of the national or regional building stock, expressed as an operational primary energy demand and demonstrated by appropriate evidence that includes at least a comparison between the performance of the asset in question and that of the national or regional stock built before 31 December 2020, and differentiates at least between residential and non-residential buildings.
 - For buildings constructed after 31 December 2020, the building shall meet the criteria set out in Section 7.1 of the Annex to the **Delegated Act (Construction of new buildings)** that are relevant at the time of purchase.

Table 46 – Template 6: Summary of GAR KPIs on NLB Group

31.12.2023	KPI			% coverage (over total assets)*
	Climate change mitigation	Climate change adaptation	Total (Climate change mitigation + Climate change adaptation)	
GAR stock	0.99%	-	0.99%	62.01%
GAR flow	-	-	-	-

* % of assets covered by the KPI over banks' total assets

Table 46 provides summary information for the GAR indicators, shown in tables 47 and 48. GAR represents the level of alignment of the Group's assets for the climate change mitigation (CCM) and climate change adaptation (CCA)

objective, according to the European taxonomy (Regulation 2020/852, in line with articles 10 and 11). The indicators are represented at the stock level, on balance sheet assets as of 31 December 2023.

At 31 December 2023 the Group's GAR was 0.99% of total covered assets and is explained by exposures contributing to the climate change mitigation objective.

Table 47 provides the gross book value, in terms of eligibility and alignment with the European taxonomy, for loans and advances, debt securities, and equity instruments, with details by counterparty type (financial corporates, non-financial corporates, households, and local governments).

Total eligible assets are about EUR 3,476 million, with an alignment level of about EUR 158 million. In detail:

- out of EUR 957 million exposures to non-financial corporates, which are within the GAR calculation scope, EUR 73 million are considered eligible and EUR 57 million aligned. On the non-financial corporates portfolio (amounting to EUR 6,044 million), the eligibility level is 1.2%, while the alignment is 0.9% (or 6.0% if referring only to the GAR calculation scope, being excluded the rest of the portfolio from the definition of the numerator);
- the financial corporates portfolio, which falls within the GAR calculation scope, is EUR 1,474 million; the eligible portfolio amounts to EUR 253 million (originating from debt securities), 15.9% of the portfolio;
- the household portfolio, which falls within the GAR calculation scope, amounts to EUR 7,672 million, with an eligibility and alignment level of EUR 3,168 million and EUR 84 million, respectively. The eligibility level is 41.3% and the alignment is 1.1% (being the main limitation for inclusion the availability of timely EPC (and flood risk data), as reported in template 2 – Table 43).

Table 47 – Template 7: Mitigating actions: Assets for the calculation of GAR

in EUR million

Disclosure reference date 31.12.2023		Total gross carrying amount	Climate Change Mitigation (CCM)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
			Of which environmentally sustainable (Taxonomy-aligned)				
			Of which specialised lending	Of which transitional	Of which enabling		
a	b	c	d	e	f		
GAR - Covered assets in both numerator and denominator							
1	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	10,293	3,476	158	-	6	51
2	Financial corporations	1,474	235	17	-	-	17
3	Credit institutions	1,275	235	17	-	-	17
4	Loans and advances	297	-	-	-	-	-
5	Debt securities, including UoP	977	235	17	-	-	17
6	Equity instruments	-	-	-	-	-	-
7	Other financial corporations	199	-	-	-	-	-
8	of which investment firms	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-
11	Equity instruments	-	-	-	-	-	-
12	of which management companies	5	-	-	-	-	-
13	Loans and advances	3	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-	-
15	Equity instruments	3	-	-	-	-	-
16	of which insurance undertakings	3	-	-	-	-	-
17	Loans and advances	3	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-	-
19	Equity instruments	-	-	-	-	-	-
20	Non-financial corporations (subject to NFRD disclosure obligations)	957	73	57	-	6	34
21	Loans and advances	878	67	51	-	1	34
22	Debt securities, including UoP	79	6	6	-	6	-
23	Equity instruments	-	-	-	-	-	-
24	Households	7,672	3,168	84	-	-	-
25	of which loans collateralised by residential immovable property	3,168	3,168	84	-	-	-
26	of which building renovation loans	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-	-
28	Local governments financing	190	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-
30	Other local governments financing	190	-	-	-	-	-
31	Collateral obtained by taking possession: residential and commercial immovable properties	60	-	-	-	-	-
32	TOTAL GAR ASSETS	10,353	3,476	158	-	6	51
Assets excluded from the numerator for GAR calculation (covered in the denominator)							
33	EU Non-financial corporations (not subject to NFRD disclosure obligations)	2,090					
34	Loans and advances	2,089					
35	Debt securities	1					
36	Equity instruments	-					
37	Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)	3,002					
38	Loans and advances	2,990					
39	Debt securities	10					
40	Equity instruments	2					
41	Derivatives	37					
42	On demand interbank loans	-					
43	Cash and cash-related assets	471					
44	Other assets (e.g. Goodwill, commodities etc.)	4					
45	TOTAL ASSETS IN THE DENOMINATOR (GAR)	15,958					
Other assets excluded from both the numerator and denominator for GAR calculation							
46	Sovereigns	3,996					
47	Central banks exposure	5,763					
48	Trading book	16					
49	TOTAL ASSETS EXCLUDED FROM NUMERATOR AND DENOMINATOR	9,775					
50	TOTAL ASSETS	25,733					

in EUR million

Disclosure reference date 31.12.2023	Climate Change Adaptation (CCA)					
	Of which towards taxonomy relevant sectors (Taxonomy-eligible)					
	Of which environmentally sustainable (Taxonomy-aligned)					
		g	h	Of which specialised lending i	Of which transitional j	Of which enabling k
GAR - Covered assets in both numerator and denominator						
1	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	-	-	-	-	-
2	Financial corporations	-	-	-	-	-
3	Credit institutions	-	-	-	-	-
4	Loans and advances	-	-	-	-	-
5	Debt securities, including UoP	-	-	-	-	-
6	Equity instruments	-	-	-	-	-
7	Other financial corporations	-	-	-	-	-
8	of which investment firms	-	-	-	-	-
9	Loans and advances	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-
11	Equity instruments	-	-	-	-	-
12	of which management companies	-	-	-	-	-
13	Loans and advances	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-
15	Equity instruments	-	-	-	-	-
16	of which insurance undertakings	-	-	-	-	-
17	Loans and advances	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-
19	Equity instruments	-	-	-	-	-
20	Non-financial corporations (subject to NFRD disclosure obligations)	-	-	-	-	-
21	Loans and advances	-	-	-	-	-
22	Debt securities, including UoP	-	-	-	-	-
23	Equity instruments	-	-	-	-	-
24	Households					
25	of which loans collateralised by residential immovable property					
26	of which building renovation loans					
27	of which motor vehicle loans					
28	Local governments financing	-	-	-	-	-
29	Housing financing	-	-	-	-	-
30	Other local governments financing	-	-	-	-	-
31	Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-
32	TOTAL GAR ASSETS	-	-	-	-	-
Assets excluded from the numerator for GAR calculation (covered in the denominator)						
33	EU Non-financial corporations (not subject to NFRD disclosure obligations)					
34	Loans and advances					
35	Debt securities					
36	Equity instruments					
37	Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)					
38	Loans and advances					
39	Debt securities					
40	Equity instruments					
41	Derivatives					
42	On demand interbank loans					
43	Cash and cash-related assets					
44	Other assets (e.g. Goodwill, commodities etc.)					
45	TOTAL ASSETS IN THE DENOMINATOR (GAR)					
Other assets excluded from both the numerator and denominator for GAR-calculation						
46	Sovereigns					
47	Central banks exposure					
48	Trading book					
49	TOTAL ASSETS EXCLUDED FROM NUMERATOR AND DENOMINATOR					
50	TOTAL ASSETS					

in EUR million

Disclosure reference date 31.12.2023		TOTAL (CCM + CCA)				
		Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
		Of which environmentally sustainable (Taxonomy-aligned)				
			l	m	n	o
			Of which specialised lending	Of which transitional/a daptation	Of which enabling	
GAR - Covered assets in both numerator and denominator						
1	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	3,476	158	-	6	51
2	Financial corporations	235	17	-	-	17
3	Credit institutions	235	17	-	-	17
4	Loans and advances	-	-	-	-	-
5	Debt securities, including UoP	235	17	-	-	17
6	Equity instruments	-	-	-	-	-
7	Other financial corporations	-	-	-	-	-
8	of which investment firms	-	-	-	-	-
9	Loans and advances	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-
11	Equity instruments	-	-	-	-	-
12	of which management companies	-	-	-	-	-
13	Loans and advances	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-
15	Equity instruments	-	-	-	-	-
16	of which insurance undertakings	-	-	-	-	-
17	Loans and advances	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-
19	Equity instruments	-	-	-	-	-
20	Non-financial corporations (subject to NFRD disclosure obligations)	73	57	-	6	34
21	Loans and advances	67	51	-	1	34
22	Debt securities, including UoP	6	6	-	6	-
23	Equity instruments	-	-	-	-	-
24	Households	3,168	84	-	-	-
25	of which loans collateralised by residential immovable property	3,168	84	-	-	-
26	of which building renovation loans	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-
28	Local governments financing	-	-	-	-	-
29	Housing financing	-	-	-	-	-
30	Other local governments financing	-	-	-	-	-
31	Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-
32	TOTAL GAR ASSETS	3,476	158	-	6	51
Assets excluded from the numerator for GAR calculation (covered in the denominator)						
33	EU Non-financial corporations (not subject to NFRD disclosure obligations)					
34	Loans and advances					
35	Debt securities					
36	Equity instruments					
37	Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)					
38	Loans and advances					
39	Debt securities					
40	Equity instruments					
41	Derivatives					
42	On demand interbank loans					
43	Cash and cash-related assets					
44	Other assets (e.g. Goodwill, commodities etc.)					
45	TOTAL ASSETS IN THE DENOMINATOR (GAR)					
Other assets excluded from both the numerator and denominator for GAR-calculation						
46	Sovereigns					
47	Central banks exposure					
48	Trading book					
49	TOTAL ASSETS EXCLUDED FROM NUMERATOR AND DENOMINATOR					
50	TOTAL ASSETS					

Table 48 – Template 8: GAR (%)

in EUR million

31.12.2023		Disclosure reference date: KPIs on stock															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					Proportion of total assets covered
% (compared to total covered assets in the denominator)		Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					
		Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable					
		Of which specialised lending			Of which transitional	Of which enabling	Of which specialised lending			Of which adaptation	Of which enabling	Of which specialised lending			Of which transitional/adaptation	Of which enabling	
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
1	GAR	21.78%	0.99%	-	0.04%	0.32%	-	-	-	-	-	21.78%	0.99%	-	0.04%	0.32%	62.01%
2	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	21.78%	0.99%	-	0.04%	0.32%	-	-	-	-	-	21.78%	0.99%	-	0.04%	0.32%	40.00%
3	Financial corporations	1.47%	0.11%	-	-	0.11%	-	-	-	-	-	1.47%	0.11%	-	-	0.11%	5.73%
4	Credit institutions	1.47%	0.11%	-	-	0.11%	-	-	-	-	-	1.47%	0.11%	-	-	0.11%	4.95%
5	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.77%
6	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	of which management companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.02%
8	of which insurance undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01%
9	Non-financial corporations subject to NFRD disclosure obligations	0.46%	0.36%	-	0.04%	0.21%	-	-	-	-	-	0.46%	0.36%	-	0.04%	0.21%	3.72%
10	Households	19.85%	0.53%	-	-	-	-	-	-	-	-	19.85%	0.53%	-	-	-	29.81%
11	of which loans collateralised by residential immovable property	19.85%	0.53%	-	-	-	-	-	-	-	-	19.85%	0.53%	-	-	-	12.31%
12	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	of which motor vehicle loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.74%
15	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other local governments financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.74%
17	Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.24%

Table 48 provides the eligibility and alignment levels of: loans and advances, debt securities, and equity instruments, for the different portfolios, compared to total assets, with detailed information for the stock as of 31 December 2023. The covered total assets include exposures towards financial and non-financial corporations, households, local government financing and other exposure (e.g., derivatives, on demand interbank loans, liquidity, goodwill). The difference from total banking assets is related to exposures towards states, central banks, trading book.

In light of the methodology described for the template 7 (Table 47), the percentage of eligibility, on the stock, is 21.78%, the alignment 0.99%.

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. 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 49 – Leverage ratio of NLB Group

	31.12.2023	30.06.2023	31.12.2022
Tier 1 capital	2,597,818	2,269,153	2,295,700
Total leverage exposures	26,927,714	25,778,410	25,240,506
Leverage ratio	9.65%	8.80%	9.10%

The leverage ratio of the Group as at 31 December 2023 amounted to 9.65%, 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. The Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, the Group follows different indicators to identify reasons for past changes and potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where certain limits for a case of any excess of defined triggers are set and the notification system is defined. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Board of the Bank. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate level of capital even if extraordinary circumstances would occur. If leverage ratio remains stable under stressed conditions, the risk of a forced reduction of the Bank's assets can be assessed as low.

The leverage ratio as at 31 December 2023 increased in comparison with the end of June 2023, by 0.85 p.p. by the higher value of the total leverage exposure in the amount of EUR 1,149 million and the increase of the capital by EUR 329 million. The increase in the total leverage exposure was influenced by increase of on-balance exposures at the end of December 2023, which rose by EUR 1,193 EUR million, especially to sovereigns, exposures secured by mortgages of immovable properties and corporates, while off-balance sheet exposures increased by EUR 11 million. Compared to June 2023, derivative exposures decreased by EUR 55 million, nevertheless their share in the total exposure measures is very low.

As at 31 December 2023, the leverage exposure was mainly driven by on-balance sheet exposures (95.79%), and other off-balance sheet exposure (4.05%), the rest exposure arose from derivatives and was not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (36.84%), retail exposures (23.72%), exposures to corporates (15.31%), and 10.94% to exposures secured by mortgages of immovable properties.

Table 50 – LRCom - Leverage ratio common disclosure for NLB Group

		CRR leverage ratio exposures		
		a	b	c
		31.12.2023	30.06.2023	31.12.2022
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	25,884,709	24,644,494	24,093,098
6	(Asset amounts deducted in determining Tier 1 capital)	(89,979)	(43,108)	(47,861)
7	Total on-balance sheet exposures (excluding derivatives, SFTs)	25,794,730	24,601,386	24,045,237
Derivative exposures				
EU-9b	Exposure determined under Original Exposure Method	48,656	170,711	174,969
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(5,310)	(71,995)	(74,537)
13	Total derivative exposures	43,346	98,716	100,432
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	5,076,543	4,692,752	4,610,694
20	(Adjustments for conversion to credit equivalent amounts)	(3,986,905)	(3,614,444)	(3,515,857)
22	Off-balance sheet exposures	1,089,638	1,078,308	1,094,837
Excluded exposures				
EU-22k	(Total exempted exposures)	-	-	-
Capital and total exposure measure				
23	Tier 1 capital	2,597,818	2,269,153	2,295,700
24	Total exposure measure	26,927,714	25,778,410	25,240,506
Leverage ratio				
25	Leverage ratio	9.65%	8.80%	9.10%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans)	9.65%	8.80%	9.10%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.65%	8.80%	9.10%
26	Regulatory minimum leverage ratio requirement	3.00%	3.00%	3.00%
27	Leverage ratio buffer requirement (%)	3.00%	3.00%	3.00%
EU-27a	Overall leverage ratio requirement	3.00%	3.00%	3.00%
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)	26,927,714	25,778,410	25,240,506
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)	26,927,714	25,778,410	25,240,506
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)	9.65%	8.80%	9.10%
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)	9.65%	8.80%	9.10%

Table 51 – EU LR1 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

		a
		31.12.2023
1	Total assets as per published financial statements	25,941,985
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(1,171)
8	Adjustments for derivative financial instruments	(19,986)
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,089,638
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(2,295)
12	Other adjustments	(80,457)
13	Total exposure measure	26,927,714

Table 52 – EU LR3 LRSpl – Split-up of on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) for NLB Group

		a
		31.12.2023
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	25,884,709
EU-2	Trading book exposures	100
EU-3	Banking book exposures, of which:	25,884,609
EU-4	Covered bonds	217,492
EU-5	Exposures treated as sovereigns	9,537,071
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	461,338
EU-7	Institutions	1,048,981
EU-8	Secured by mortgages of immovable properties	2,832,112
EU-9	Retail exposures	6,140,289
EU-10	Corporate	3,963,657
EU-11	Exposures in default	101,267
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,582,402

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 Bank, 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 the Bank for approval. Voting on the Remuneration Policy at the General Meeting of Shareholders of the Bank is consultative. In 2023, the Bank amended the Remuneration Policy, the proposal for the changes of the Remuneration Policy were approved by the Management Board and the Remuneration Committee and adopted by the Supervisory Board in its session on 26 October 2023 which entered into force and is applicable as of 1 January 2024. This Remuneration Policy was forwarded to the NLB Shareholders' Meeting for voting. on 11 December 2023, where it was not voted on. 44.78% of the votes cast voted for the Remuneration Policy, while 55.22% of the votes cast voted against it. In accordance with the provisions of ZGD-1, the new proposal for the Remuneration Policy will be submitted for voting at the next General Assembly of the Bank in June 2024.

Members of Remuneration Committee as per 31 December 2023:

- Shrenik Davda, President,
- Mark William Lane Richards, Vice President,
- Verica Trstenjak, member
- Tadeja Žbontar Rems, member,
- Sergeja Kočar, member.

In 2023, the Remuneration Committee of the NLB Supervisory Board held nine meetings, of which five were regular, two were extraordinary, and two 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 Group through the management and control system of the 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 the Bank and in the 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 Policies for identified employees shall be consistent with the goals of the Bank and the Group, the business strategy of Bank and the 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 Policies have 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 the Bank and/or the 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; prepares proposals for the decisions of the Supervisory Board in relation to remuneration, including those affecting the Bank's risks and their management; supervises 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; and supports and advises 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; helps supervise the senior management regarding the implementation of the risk management strategy; without interfering with the duties of the remuneration committee, and checks 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 the Bank, as well as at the consolidated level of the 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 the Bank 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 of 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 the Group's operations as well as the conduct of the identified employee. In the remuneration policies, certain cases are defined when prior to allocation the Supervisory Board reduces the amount of variable remuneration (possibly to zero) due to prior or subsequent adjustment to the risk to a member of the Management Board and to heads of the control or the supervisory function, or the Management Board to an identified employee.

The remuneration policy is reviewed and coordinated annually, following the requirements of binding regulations and guidelines. In 2023, 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 meeting, the policy was approved by the Remuneration Committee of the Supervisory Board of NLB and adopted by the Supervisory Board of NLB.

The amendment of the Remuneration Policy was then submitted to the General Assembly of the Bank, which was held on 11 December 2023. The Policy was not confirmed at the General Assembly, but since the voting is of consultative

nature it entered into force and was applicable as of 1 January 2024. The Remuneration Policy will be further improved and presented to the shareholders at the next General Meeting.

The significant changes of the third version compared to the second version of the Remuneration Policy are the following:

- the provisions on the remuneration of the Supervisory Board members have been updated considering the resolutions passed by the General Meeting of Shareholders of the Bank adopted on 19 June 2023;
- a long-term performance bonus has been introduced, the maximum amount of which is three average gross monthly salaries of a Management Board member for an accrual period, i.e., financial year; the subsequent performance period, in which the fulfilment of additional performance criteria is measured, is three years from awarding;
- the performance criteria have been amended accordingly due to the introduction of the long-term performance bonus;
- in accordance with the second version of the Remuneration Policy, a part of the variable part of the salary was always deferred, while the third version of the Remuneration Policy stipulates that the variable part of the salary (short-term or long-term performance bonus) of a Management Board member for an accrual period (i.e., financial year) is not deferred, if, together with their other variable remunerations taken into account when calculating the ratio between variable and fixed remuneration for the respective accrual period (i) does not exceed EUR 50,000 gross; and (ii) is no greater than one third of their total remuneration for the respective accrual period;
- clarifying short-term incentive structure by providing clear evaluation grid and weights;
- the timeline with key milestones in relation to short term incentive and long term incentive in the form of an illustrative chart is added to the Policy as Appendix 1.

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 the Bank on its meeting on 9 November 2023.

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 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 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 the Bank 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 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 Group. As criteria, e.g., compliance with adopted policies, methodologies, policies, requirements of regulators and auditors, and authorisations related to the work of an 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 Group is endangered and whether the variable remuneration would be unsustainable given the financial condition of the Bank as a whole and/or the 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 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 a 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 the variable remuneration;
- use the net profit of the Bank 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 fixed part 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 variable part 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 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 for management body in business year 2023.

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 2023, 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 the Bank 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 the Bank or the Group (for the identified employees able to affect the risk profile of the Group within the scope of their powers) or depending on the performance of the Bank (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 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 2023
Financial goals of the Group	50% (CRO 20%)	Financial goals as set by Supervisory Board for each business year: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Implementation of the 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* • other strategic goals of the Management Board member, which are set for each year by the Supervisory Board for each board member and refer to the area within the competence of that board member*
Personal goals	20%	Personal goals related to: <ul style="list-style-type: none"> • Acting in accordance with the 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 the Bank and the Group for each business year and the Bank's Supervisory Board approves them.

The concrete targets which derive from the targets of the Bank and/or the goals of the 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 Group defined in the NLB Group Code of Ethics. Likewise, prior to the awarding of the variable part of the salary to the identified employees, the adjustment of this variable part of the salary to performance and risks is carried out, considering the performance criteria and adjustment criteria specified in the relevant Remuneration Policy.

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 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; and the same Management Board for identified employees.

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 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.

Variable part of salary	
<p>The amount depends on achievement of performance criteria:</p> <ul style="list-style-type: none"> • 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. <p>If personal goals are not achieved, the Board member is not entitled to the variable part of the salary.</p>	<p>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.</p>

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 the Bank or the 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 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 2023

Regarding awarding and payment of the variable part of the salary for business year 2023 for the Management Board members and identified employees in control or supervisory functions the Supervisory Board will take decision after the

confirmation of the Annual Report for business year 2023 in his session in April 2024. After that, expected in April, the Management Board will take a decision on awarding and payment of the variable part of salary for business year 2023 for other identified employees.

Awarding and payment of the variable part of the salary for the members of the Management Board for 2022

At its meeting on 13 April 2023, the Supervisory Board considered the business results and the evaluation of the results achieved by the members of the Management Board of the Bank and identified employees in the control or supervisory function for the year 2022, thereby setting the starting point for the awarding of the variable part of the salary for the business year 2022 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 2019, 2020, and 2021.

The Supervisory Board to the members of the Management Board of the Bank has:

- 50% of the variable part of the salary for the financial year 2022 awarded in cash, whereby the first half of the monetary part of the variable part of the salary was paid out on 21 April 2023, 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 2022 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 21 April 2023, 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 2022

For other identified employees, the Management Board decided on its session on 17 April 2023 on the awarding and payment of the variable part of the salary for 2022, and the payment of the deferred part of the variable part of the salary for 2019 and 2021.

The Management Board has thus decided that for each identified employee whose variable part of the salary for the business year 2022 exceeds EUR 50,000, and/or comprises more than 1/3 of his total remuneration for the business year 2022:

- 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 21 April 2023, 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 2022 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 2022 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 2022 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 21 April 2023, and the rest of the instruments are subject to a 5-year deferral period.

The Management Board has decided that for each identified employee whose variable part of the salary for the business year 2022 does not exceed EUR 50,000 and/or not comprises more than 1/3 of his total remuneration for the business year 2022 the variable part of the salary will be awarded in cash, whereby the first half will be paid out on 21 April 2023, and for the rest of the variable part a deferral period of five years applies.

Deferred part of the variable part of the salary for members of the Management Board for the years 2019, 2020, and 2021 and for other identified employees for the year 2019 and 2021

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 awarded in 2022 when new Banking Act entered into force. 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 the Bank at the meeting on 24 February 2022.

Each member of the Management Board the first fifth of the deferred variable part in the instruments allocated to him for 2019 and 2020 were handed over on 16 May 2023. Payment of the first fifth of the deferred part of the monetary part and handing over of the first fifth of the deferred non-monetary part of the variable part of the salary for business 2021 for current and former members of the Management Board was held on 12 May 2023.

The Management Board for the rest of the identified employees whose variable part of the remuneration for 2019 (in 2020 there were no such defined employees) exceeded EUR 50,000 or one third of their total annual remuneration, equally handed over the first fifth of the deferred variable part of the salary in instruments on 16 May 2023.

The payment of the first fifth of the deferred part of the monetary part of the variable part of the salary for the financial year 2021 and the handing over of the first fifth of the deferred part of the non-monetary part of the variable part of the salary for the financial year 2021 for the identified employees was took place on 13 May 2023.

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 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 Management Board member.

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 2023, before awarding variable remuneration to identified employees for 2022, 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 2022 financial year can be paid out to all identified employees.

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 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 functions, 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 other identified employees in control or supervisory function, 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 the Bank for the business year before the award³) 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.

³ 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

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 the Bank adopts a decision on the awarding (or non-awarding) of the variable remuneration for the members of the Management Board of the Bank for the said business year.

Table 53 – 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 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 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 the Bank has decided on the payment of the variable remuneration to the members of the Management Board of the Bank 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 the non-deferred part of the variable remuneration; and (ii) the 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 the non-deferred part of the variable remuneration; and (iii) the Supervisory Board of the Bank has decided on the payment of the variable remuneration to the members of the Management Board of the Bank 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 the non-deferred part of the variable remuneration; and (ii) the 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 the non-deferred part of the variable remuneration; and (iii) the Supervisory Board of the Bank has decided on the payment of the variable remuneration to the members of the Management Board of the Bank 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 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 the Bank has decided on the payment of the variable remuneration to the members of the Management Board of the Bank 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 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 the Bank has decided on the payment of the variable remuneration to the members of the Management Board of the Bank 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 or control functions, and the Management Board for other defined employees, due to subsequent adjustment to the risk before its maturity reduces the deferred part of the 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 the 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 54 – 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 the 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 a part of the 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 Group, the Bank, 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 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 Group.

In defining the objectives to the members of the Management Board, 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 for each member of the Management Board were driven by the targets consists of:
 - 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 Group,
 - the engagement measurement, development plan, and succession plan.

A detailed disclosure of the financial goals of the Group and the individual goals of the members of the management board and their achievement is described in the Report on the remuneration of the members of the management body in the financial year 2023.

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 361 and in the Report on the remuneration of the members of the management body in the financial year 2023.

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 2023, but it is estimated that there will be 65 employees for whom this derogation will apply. The estimated total remuneration for these employees is EUR 8,485,000 of which a fixed EUR 6,511,000 and a variable EUR 1,973,000.

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 Bank's 2023 Annual Report in Chapter 8, Related-party transactions on page 361.

16.11. Quantitative information on remuneration

(Article 450.1 g h, and i of CRR)

Table 55 – EU REM1 – Remuneration awarded for the financial year for NLB Group

31.12.2023			in EUR			
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
			a	b	c	d
1	Fixed remuneration	Number of identified staff	39	43	220.79	96.79
2		Total fixed remuneration	1,022,660	8,183,870	16,362,268	5,315,603
3		Of which: cash-based	1,022,660	8,183,870	16,362,268	5,315,603
9	Variable remuneration	Number of identified staff	39	43	220.79	96.79
10		Total variable remuneration	14,524	3,759,504	5,199,421	1,015,907
11		Of which: cash-based	14,524	2,347,277	4,552,992	998,740
12		Of which: deferred	-	948,635	1,955,347	496,986
EU-14x		Of which: other instruments	-	1,412,227	646,429	17,167
EU-14y	Of which: deferred	-	798,437	323,215	8,641	
17	Total remuneration (2 + 10)		1,037,184	11,943,374	21,561,689	6,331,510

Table 56 – EU REM2 – Remuneration awarded for the financial year for NLB Group

		in EUR			
31.12.2023		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		a	b	c	d
Guaranteed variable remuneration awards					
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	1	-
2	Guaranteed variable remuneration awards -Total amount	-	-	9,779	-
Severance payments awarded during the financial year					
6	Severance payments awarded during the financial year - Number of identified staff	-	6	18	2
7	Severance payments awarded during the financial year - Total amount	-	610,794	742,533	55,189
8	Of which paid during the financial year	-	610,794	742,533	55,189
11	Of which highest payment that has been awarded to a single person	-	160,216	108,002	50,000

Table 57 – 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 the financial year	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
	a	b	c	d	e	f	EU - g
7 MB Management function	2,940,291	373,827	2,566,465	9,943	88,409	357,865	441,500
8 Cash-based	1,314,323	281,756	1,032,567	-	-	-	361,295
11 Other instruments	1,625,968	92,071	1,533,897	9,943	88,409	357,865	80,205
13 Other senior management	3,146,556	561,662	2,584,894	1,979	-	151,038	602,289
14 Cash-based	2,276,490	558,954	1,717,536	-	-	-	602,289
17 Other instruments	870,066	2,708	867,358	1,979	-	151,038	-
19 Other identified staff	675,505	229,268	446,237	-	-	184	113,185
20 Cash-based	666,863	229,268	437,595	-	-	-	113,185
23 Other instruments	8,642	-	8,642	-	-	184	-
25 Total amount	6,762,352	1,164,757	5,597,595	11,922	88,409	509,087	1,156,974

None of the employees performing special work was paid EUR 1 million or more in 2023, therefore template EU REM4 is empty.

Table 58 – 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

31.12.2023	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	39	43	82	12	59	20	28	57	142	318
2	Of which: members of the MB	39	43	82							
3	Of which: other senior management				8	43	9	19	33	109	221
4	Of which: other identified staff				4	16	11	9	24	33	97
5	Total remuneration of identified staff	1,041,094	11,943,374	12,984,468	1,114,981	5,633,602	1,294,847	2,739,247	4,248,004	12,862,518	27,893,199
6	Of which: variable remuneration	14,524	3,759,504	3,774,028	406,369	1,474,093	187,835	666,631	735,903	2,744,497	6,215,328
7	Of which: fixed remuneration	1,026,570	8,183,870	9,210,440	708,612	4,159,509	1,107,012	2,072,616	3,512,101	10,118,021	21,677,871

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)

The Bank has the Risk Committee as an advisory body of the Supervisory Board. Five meetings of the Risk Committee were held in 2023.

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, 26 March 2024


Anica Knavs
General Manager
Financial Accounting
and Administration


Igor Zalar
General Manager
Global Risk


Archibald Kremser
Member of the
Management Board


Andreas Burkhardt
Member of the
Management Board

17.3. Appendix 3

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 the Group. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of CRR.

Table 60 – The main characteristics of the capital instruments of the Bank

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 T2 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 T2 instruments, (c) in priority to the following claims against the Issuer: (i) claims arising under instruments which qualify as CET1 capital instruments or AT1 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 CET1 capital instruments or AT1 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 (iii) 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 (iii) 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/ovalj365-eng	https://www.nlb.si/ovalj34-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 23.9.2027-23.3.2028 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	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/novaj1034-eng

17.4. Appendix 4

Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group (Article 436 b of CRR)

Table 60 – 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
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
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
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).

17.5. 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 the 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 the Bank, 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 the Bank 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 Group subsidiaries not included in the prudential consolidation met the minimum capital requirements as at 31 December 2023.

17.6. Appendix 6

List of all disclosures required under Part 8 of CRR

Article	Chapter	Page	Article	Chapter	Page
431.3	17.2	152	c)	6.2, 6.3	56, 57
435.1 a)	5.1, 6.1, 8.1, 9.1, 11	34, 52, 70, 75, 82	d)	6.3	57
b)	5.1, 6.1, 8.1, 9.1, 11	34, 52, 70, 75, 82	e)	6.3	57
c)	5.1, 6.1, 8.1, 9.1, 11	34, 52, 70, 75, 82	f)	6.3	57
d)	5.1, 6.1, 8.1, 9.1, 9.2, 11	34, 52, 70, 75, 77, 82	g)	6.2	57
e)	1	5	h)	6.3	57
f)	1	5	443	12	90
435.2 a)	5.2	46	444 a)	7	66
b)	5.3	47	b)	7	66
c)	5.4	49	c)	7	66
d)	17.1	152	d)	7	66
e)	5.1	34	e)	7, 8.6	66, 72
436 a)	3	13	445	9	75
b)	3, 17.4	13, 156	446 a)	15	129
c)	3	13	b)	/	/
d)	3	13	c)	15	129
e)	/	/	447	1	5
f)	17.5	157	448.1 a)	10	79
g)	17.5	157	b)	10	79
h)	/	/	c)	/	/
437 a)	4.2	20	d)	10	79
b)	4.6, 17.3	28, 152	e)	10	79
c)	4.6, 17.3	28, 152	f)	10	79
d)	4.2	20	g)	10	79
e)	4.2	20	448.2	/	/
f)	4.2	20	449	/	/
437a	/	/	449a	14	94
438 a)	4.5	28	450.1 a)	16	132
b)	1, 4.1	5, 18	b)	16	132
c)	/	/	c)	16	132
d)	4.3	22	d)	16	132
e)	/	/	e)	16	132
f)	/	/	f)	16	132
g)	/	/	g)	16.11	148
h)	/	/	h)	16.11	148
439 a)	8.3	71	i)	16.11	148
b)	8.2, 8.4	71	j)	/	/
c)	8.5	71	k)	16.9	147
d)	8.6	72	450.2	16.10	148
e)	/	/	451	13	92
f)	8.6	72	451a	11	82
g)	8.6	72	452	/	/
h)	8.6	72	453 a)	/	/
i)	/	/	b)	6.4	62
j)	/	/	c)	6.4	62
k)	/	/	d)	/	/
l)	8.6	72	e)	6.4	62
m)	/	/	f)	6.4	62
440 a)	4.9	33	g)	7	66
b)	4.9	33	h)	7	66
441	/	/	i)	7	66
442 a)	6.3	57	j)	/	/
b)	6.3	57	454	/	/
			455	/	/

17.7. Appendix 7

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 possess 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

17.8. Appendix 8 Abbreviations

AE	Asset Encumbrance	IT	Information Technology
ALCO	Asset and Liability Committee	ITS	Implementing Technical Standards
ALM	Asset and Liability Management	IVS	International Valuation Standards
AML	Anti-Money Laundering	JST	Joint Supervisory Team
ASF	Available stable funding	KPI	Key Performance Indicator
AT1	Additional Tier 1 capital	KRI	Key Risk Indicator
AVA	Additional Valuation Adjustments	KYC	Know your customer
BCBS	Basel Committee on Banking Supervision	LCP	Liquidity Contingency Plan
BCM	Business continuity management	LCR	Liquidity coverage ratio
BIA	Basic indicator approach	LEI	Legal Entity Identifier
BoS	Bank of Slovenia	LGD	Loss given default
BPV	Basis point value	LTD	Loan-to-deposit
BRRD	Bank Recovery and Resolution Directive	LTI	Loan-to-income
CAPEX	Capital Expenditure	LTV	Loan-to-value
CBR	Central Bank	M&A	Mergers and acquisitions
CBR	Combined buffer requirement	MB	Management Board
CCA	Climate change adaptation	MDA	Maximum Distributable Amount
CCF	Credit conversion factor	MIGA	Multilateral Investment Guarantee Agency
CCM	Climate change mitigation	MREL	Minimum Requirement for own funds and Eligible Liabilities
CCP	Central Counterparty	MRSA	Market Risk Standardised Approach
CCR	Counterparty credit risk	MS	Mid-swap
CEO	Chief Executive Officer	NACE	Nomenclature of Economic Activities
CET1	Common equity tier 1 capital	NFRD	Non-Financial Reporting Directive
CIR	Cost/income ratio	NII	Net interest income
CO2	Carbon dioxide	NPE	Non Performing Exposures
COBIT	Control Objectives for Information Technologies	NPL	Non Performing Loans
COSO	Committee of Sponsoring Organisations of the Treadway Commission	NPL CR	Non-performing Loans Coverage Ratio
COVID-19	Coronavirus Disease 2019	NPV	Net Present Value
CPR	Conditional prepayment rate	NSFR	Net Stable Funding Ratio
CRD	Capital Requirements Directive	NZBA	Net Zero Banking Alliance
CRD V	Capital Requirements Directive and Regulation	OCI	Other comprehensive income
CRM	Credit Risk Mitigation	OCR	Overall capital requirement
CRO	Chief risk officer	OECD	Organisation for Economic Co-operation and Development
CRR	Capital Requirements Regulation	OEM	Original exposure method
CSA	Credit Support Annex	OpRC	Operational Risk Committee
CSR	Corporate Sustainability Reporting	O-SII	Other systemically important institutions
CSRD	Corporate Sustainability Reporting Directive	OTC	Over-the-counter
CTF	Combating the Financing of Terrorism	OU	Organisational unit
CVA	Credit valuation adjustment	P2G	Pillar 2 Guidance
CVaR	Conditional Value at Risk	P&L	Profit and Loss
DEI	Diversity, Equity and Inclusion	P1R	Pillar 2 Requirement
DPO	Data Protection Officer	P2R	Pillar 2 Requirement
DSTI	Debt service-to-income	PD	Probability of default
DTA	Deferred Tax Assets	PDPZ	Voluntary supplementary pension insurance
DVA	Debit Valuation Adjustments	PFE	Potential Future Exposure
DWH	Data Warehouse	PP&E	Property, plant and equipment
E&S	Environmental and social	PSE	Public Sector Entity
EAD	Exposure at default	RC	Replacement cost
EaR	Earnings at Risk	RICO	Risk Committee
EBA	European Banking Authority	RICS	Royal Institution of Chartered Surveyors
EBRD	European Bank for Reconstruction and Development	ROE	Return on equity
ECAI	External Credit Assessment Institutions	RP	Recovery plan
ECB	European Central Bank	RSF	Required stable funding
ECL	Expected Credit Losses	RWA	Risk-weighted assets
ECRA	Enterprise compliance and integrity risk	RWEA	Risk weighted exposure amount
EEA	European Economic Area	SA	Standardised Approach
EEPE	Effective Expected Positive Exposure	SB	Supervisory Board
EHQLA	Extremely High-quality Liquid Assets	SDH	Slovenian Sovereign Holding (Slovenski državni holding)
EMIR	European Market Infrastructure Regulation		
EPC	Energy performance certificat		

ESG	Environmental, social and governance	SEE	Southeast Europe
ESMS	Environmental and Social Management System	SFT	Securities Financing Transactions
ESRB	European Systemic Risk Board	SME	Small Medium Enterprise
ESRS	European Sustainability Reporting Standards	SPA	Share Purchase Agreement
EU	European Union	SREP	Supervisory Review and Evaluation Process
EVE	Economic Value of Equity	ST	Stress test
EVS	European Valuation Standards	T1	Tier 1 (capital)
EWS	Early Warning System	T2	Tier 2 (capital)
FVOCI	Fair Value Through Other Comprehensive Income	TC	Total Capital
FX	Foreign Exchange	TCR	Total Capital ratio
GAR	Green Asset Ratio	TDI	Traded Debt Instruments
GDP	Gross Domestic Product	TEM	Total Exposure Measure
GDPR	General Data Protection Regulation	TLAC	Total loss-absorbing capacity
GHG	Greenhouse Gas	TREA	Total risk exposure amount
GMRA	Global Master Repurchase Agreement	TSCR	Total SREP capital requirement
G-SII	Global systemically important institutions	UoP	Use-of-proceeds
HfT	Held for trading	UN	United Nations
HHI	Herfindahl-Hirschman Index	UNEP FI	United Nations Environment Programme Finance Initiative
HQLA	High-quality liquid assets	UN PRB	United Nations Principles of Responsible Banking
ICAAP	Internal Capital Adequacy Assessment Process	VaR	Value at risk
ICMA	International Capital Market Association	Zban-3	Banking Act
IFRS	International Financial Reporting Standards	ZDoh-1	Personal Income Tax Act
ILAAP	Internal Liquidity Adequacy Assessment Process	ZGD-1	Companies Act
ILO	International Labour Organization	ZRPPB-1	Law on Rescue and Forced Cessation of Banks
IRB	Internal ratings-based approach		
IRRBB	Interest rate risk in the banking book		
ISDA	International Swaps and Derivatives Association		