

NLB Group



Our Net-Zero commitment

NLB Group Net-Zero disclosure report
December 2023

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Data and approach limitations

Limitations of data and approach are important components to consider

NLB acknowledges the intricate nature of establishing and evaluating sector targets. The bank has employed scenario pathways aligned with a 1.5°C global warming constraint across all sectors. NLB intends to forgo the utilisation of offsets to achieve its 2030 NZBA sector targets. Instead, the bank will monitor and contribute to the development of industry standards for offsets as they emerge. NLB will also engage with its clients to encourage them to formulate their own net-zero strategies, which may involve utilising carbon credits to offset residual emissions in accordance with scientific guidance. NLB's targets have been developed under the supervision of internal risk functions and are approved at the executive level. In line with NZBA guidelines, NLB commits to reviewing its targets at least every five years, ensuring they align with significant changes in international agreements or national goals. The bank 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.

Sector and scenario selection

In its initial round of NZBA targets, NLB has focused on fossil fuel-based and highly energy-intensive sectors (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. The sectors of cement and oil and gas have been excluded due to the limited materiality of NLB's exposure. NLB's road freight transportation activities encompass a range of businesses of varying sizes, including many small businesses, posing data challenges that prevent the establishment of a road freight transportation target at this stage. Similarly, for agriculture, at the time of target setting, a comprehensive decarbonisation methodology had not yet been fully developed, and data challenges arising from mostly small and medium-sized clients hinder establishing of an accurate baseline for agriculture and limits the bank's ability to steer the portfolio at this time. NLB aims to address the remaining NZBA sectors in future reporting updates over the next 18 months and will continue to assess its external sector statements.

NLB is using the IEA NZE 2050 scenario as the foundation for our sector targets as it limits global warming to 1.5°C by 2050 as it was recognised as a credible scenario. This is a more ambitious approach than some other scenarios, and it reflects the growing urgency of addressing climate change. The scenario relies conservatively on negative emissions technologies, which are methods of removing carbon dioxide from the atmosphere. This is a cautious approach that acknowledges the uncertainties surrounding these technologies, especially in the SEE region.

Data limitations

NLB is employing the developing industry standard developed by the Partnership for Carbon Accounting Financials (PCAF) for measuring and disclosing financed emissions of its lending portfolio. This same PCAF approach has been employed in establishing baseline emission estimates for our targets, and client-related targets and commitments have been considered where applicable to inform our target setting process. Despite ongoing industry-wide data challenges, with not all companies reporting their emissions and underlying information on emissions from consumer-related assets such as mortgages not universally available across the whole region, NLB remains committed to enhancing its climate data capabilities. This includes expanding data sources and fostering partnerships with leading institutions and think-tanks in the region to increase the availability and quality of client-level data.

Key Dependencies

Each target has been established with an understanding of the crucial dependencies on external parties and factors to achieve these targets, which is also disclosed in the specific sectors. To achieve net-zero, concerted collaboration is essential, and NLB will continue to support public policy developments in Slovenia and the broader region that accelerate the transition. Public policy measures, both in our Head office in Slovenia and other countries where our clients or customers operate or sell their products, will be instrumental in achieving decarbonisation at scale, particularly in high-emitting sectors such as housing and transportation. NLB will continue to partner with businesses and key industry players to spearhead the transition as they enhance their capabilities and skills to enable the necessary transformation. These key sector-specific dependencies are outlined in the following sector disclosures.

NLB Group is starting its net-zero journey with four sectors

1. Power Generation
2. Iron and Steel
3. Commercial Real Estate
4. Residential Real Estate

Set intermediate 2030 targets for all

4

sectors covered

Retail and Corporate Banking commitment to mobilise

€1.9

Billion

volume in sustainable finance by 2030

1.5° C

for all sector targets already use net-zero by-2050 scenarios

Commitment to finance at least

30%

of new production in most energy efficient commercial buildings (<50 kg CO₂/m²) in Slovenia by 2030

Commitment to finance at least

15%

of new production in top-rated mortgages (A & B EPC class) in Slovenia by 2030

NLB Group is the 1st bank headquartered in SEE to commit to Net-Zero targets



STARTING POINT

In line with NLB's commitment to a climate-positive future and its net-zero ambition, NLB d.d. officially joined the Net-Zero Banking Alliance (NZBA) in May 2022, becoming the first banking group headquartered in Southeast Europe (SEE) to sign the Commitment Statement.

COMMITMENTS AND ACTIONS

NLB Group (the Group) today reaffirms its commitment to achieving Net-Zero by setting targets for reducing its financed emissions and maintaining a coal exclusion policy. This strategic move aligns the bank's financing activities with the goals of the Paris Agreement and marks an important step in its journey to become a regional leader in addressing the climate crisis. We have set 2030 targets for reducing emissions associated with financing activities for four key sectors: Power generation, Iron & Steel, Commercial real estate (CRE) and Residential real estate (RRE).

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

JOURNEY

NLB's journey is in line with the Guidelines for Climate Target Setting for Banks and consists of establishing an emissions baseline, setting and approving first targets for priority sectors as well as reporting on absolute emissions and emissions intensity annually. The targets cover NLB's financed emissions, Scope 3 category 15, and apply to the Group's lending activities for clients' Scope 1 and Scope 2. Moreover, the Group used widely accepted science-based decarbonisation scenarios. The NZBA-guidelines are applied throughout NLB's journey on a comply-or-explain basis.

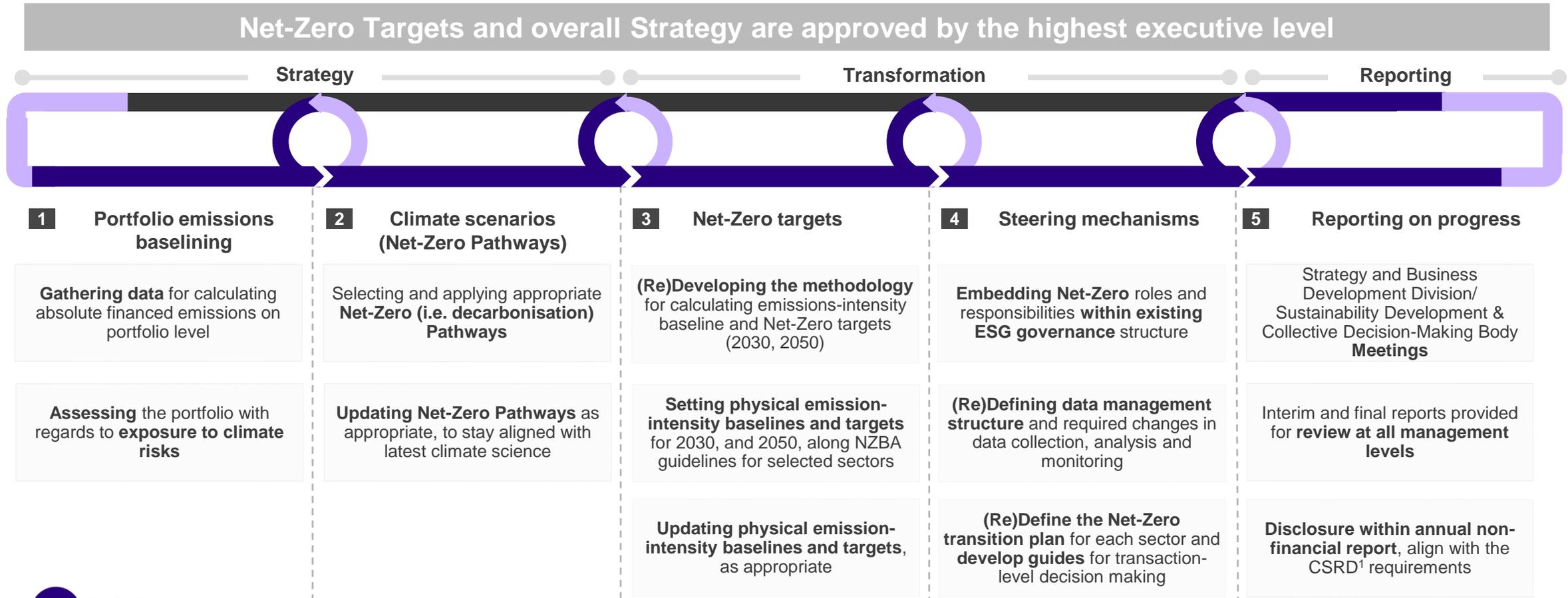
WAY FORWARD

While the Group currently sets its targets based on lending portfolio, we look forward to further developing our approach and methodology as well as refining our commitments accordingly. Implementing a net-zero strategy is not a one-off process, but rather an interactive process with an ongoing commitment of resources. The Group will set further sector targets in 2025 and review its targets at least every 5 years.

NLB Group is decisive and steadfast in its commitment to co-lead the transition towards net-zero economies in the regions we operate. However, our role has its limitations. We recognise that climate action necessitates collective efforts. It is imperative for our clients to also take action, while governments should provide the necessary guidance and direction through dedicated policies to achieve net-zero goals by 2050. With joint forces, we can drive meaningful progress in tackling climate change.

Defining and implementing

Defining and implementing the Net-Zero strategy is an iterative process



Notes: 1. Corporate Sustainability Reporting Directive

Target sectors

NLB commits to setting decarbonisation targets in four key target sectors

SECTOR	DETAILS			GHG 2021 BASELINE	GHG 2030 TARGETS		TARGET COVERAGE	COMMENTARY
	Scope(s) included	Scenario used	Unit of measurement	Portfolio baseline	Absolute	Relative		
 Power Generation	1 and 2	IEA NZE	t CO ₂ /Mwh	0.232	0.165	-29%	NLB Group	<ul style="list-style-type: none"> NLB continues its commitment to coal exclusion introduced in 2021, with the existing exposure to be phased out
 Iron & Steel	1 and 2	IEA NZE	t CO ₂ /t	0.600	1.070	/	NLB Group	<ul style="list-style-type: none"> Current baseline is already below the 2030 target Majority of exposure is covered by client's decarbonisation plans
 Commercial Real Estate	1 and 2	IEA NZE	kg CO ₂ /m ²	120	39	-68%	NLB d.d.	<ul style="list-style-type: none"> National Energy and Climate plans do not exist outside of EU Inconsistencies between energy performance certificate methodology within region
 Residential Real Estate	1 and 2	IEA NZE	kg CO ₂ /m ²	42	19	-56%	NLB d.d.	<ul style="list-style-type: none"> National Energy and Climate plans do not exist outside of EU Inconsistencies between energy performance certificate methodology within region

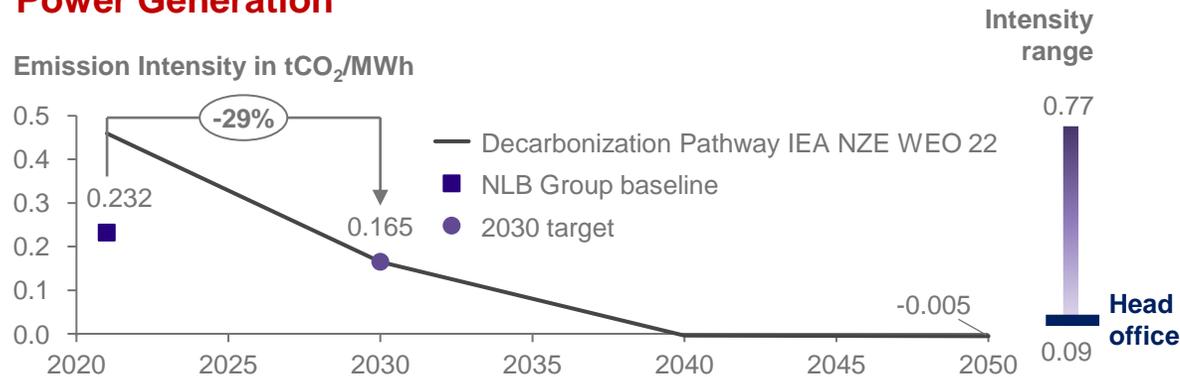
Target sector disclosures

NLB sets targets for Power Generation on a Group level



Power Generation

Emission Intensity in tCO₂/MWh



As part of our NZBA commitment, NLB set targets for its Power generation portfolio guided by the IEA NZE WEO 22 pathway. In the NZE 2050 scenario, global power generation leads the way by achieving Net-Zero emissions in 2040, to enable the global economy to achieve net-zero emissions by 2050. The scenario envisions an average energy efficiency of -0.005 tCO₂/MWh across our power generation portfolio by 2050 and interim target of 0.165 tCO₂/MWh by 2030. NLB sets the science-based target at Group level, further building upon its 2021 commitment to exclude Coal from its financing and phase-out the existing portfolio exposures.

NLB will achieve its Net-Zero targets by continued engagement with its clients and by rewarding and incentivising clients to implement existing or develop decarbonisation plans of installing additional renewable energy production capacity, decommissioning fossil-based power production, upgrading existing renewable energy plants to improve their efficiency, helping accelerate the energy transition.

NLB already has significant exposure to renewable energy sources and has set a financing pledge to further boost this carbon-neutral sector. However, NLB and other banks active in the region will not be able to achieve such targets without the support of EU and national-level incentives to develop renewable energy production facilities, including funds directed to such projects.

The accelerated development of technologies at scale, including green hydrogen production, is also crucial, as well as accelerating the phase-out of coal and other fossil-based power production. A need to reduce reliance on imported fossil-based energy from abroad is also evident. Finally, the long-term implementation of carbon capture and storage networks on a national and/or regional scale will help producers of fossil-based electricity abate their emissions.

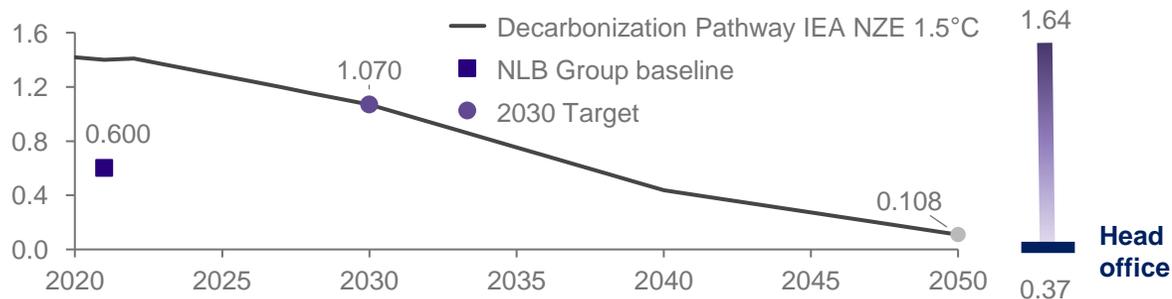


Target sector disclosures

NLB sets targets for Iron & Steel on a Group level

Iron & Steel

Emission Intensity in tCO₂/t steel



NLB's target scenario Iron & Steel is guided by the IEA NZE 1.5°C pathway, which is aligned with data from IEA global net-zero scenarios. This scenario envisions an average energy efficiency of 0.108 tCO₂/t steel across our Iron & Steel portfolio by 2050 and interim target of 1.070 tCO₂/t steel by 2030, which NLB sets at Group level. NLB's current baseline is at 0.600 tCO₂/t steel, which is already significantly below the 2030 target.

The steel industry can achieve Net-Zero targets by replacing emission-intensive technologies with low-emission technologies, reducing the emission-intensity of their process by using low-carbon feedstock, and further developing and implementing their existing decarbonisation commitments and plans.

The majority of NLB's sector exposure is already with clients which are well along their decarbonisation plans, as for other clients which are not yet, our immediate objective is to understand where they are in terms of carbon intensity, and what are their strategic targets for 2030 and beyond so we can be a strategic partner to them.

Key factors for achieving Net-Zero targets include ensuring that key clients in Slovenia with low-emission-intensive operations continue to operate via low-emission technologies (currently EAFs – Electric Arc Furnaces), ensuring that key clients with decarbonisation commitments in place implement these plans as a minimum.

Decarbonising the industrial energy mix on a national scale across the region is paramount, and the long-term implementation of carbon capture and storage networks on a national and/or regional scale to provide the opportunity for steel producers to join such networks.

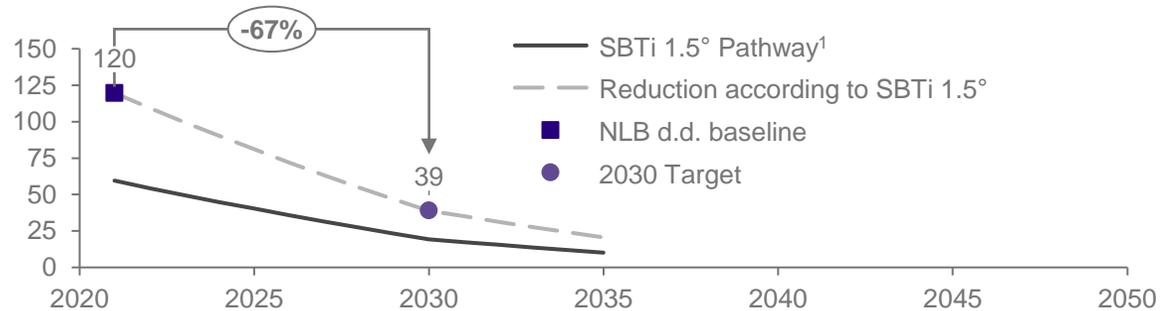


Target sector disclosures

NLB sets ambitious targets in Commercial Real Estate, however achievement is heavily dependent on Government policies as well as owners and renters willingness to decarbonise

Commercial Real Estate

Emission Intensity in kgCO₂/m²



Our target scenario for Commercial real estate is guided by the SBTi 1.5-degree Celsius scenario and data from IEA global net-zero scenarios. This scenario envisions an interim target of 39 kg CO₂/m² by 2030. NLB sets the interim science-based target only on the head office, as only in Slovenia we have enough official EPC data to develop a robust enough baseline for target setting and because Slovenia is part of the European Union; thus it has set green transition targets on a national level, which are supported by legislation.

NLB will work towards the achievement of the target by engaging with clients and focusing on new production of commercial buildings with the best energy performance certificates. In addition, it will promote other green loans for retrofits and renovations of existing commercial housing stock with the focus on improving energy efficiency improvement, as well as for the installations of heat pumps.

Currently we notice in the market only moderate demand for the best energy efficient buildings, as they have substantially higher construction costs which are not always passed on to tenants. However, NLB is determined to decarbonising this sector by committing to at least 30% of new production volume in most energy efficient commercial buildings (<50 kg CO₂/m²) in Slovenia by 2030.

Commitment to finance at least

30%

of new production in most energy efficient commercial buildings (<50 kg CO₂/m²) in Slovenia by 2030



Notes: 1. SBTi Power Tool only allows a target year until 2035

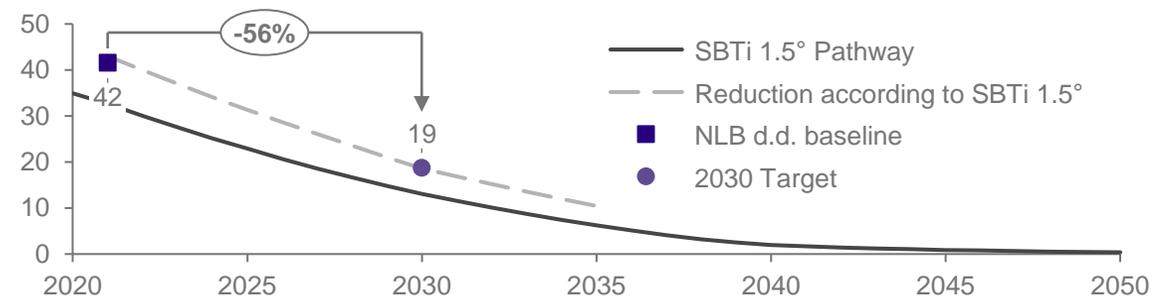


Target sector disclosures

NLB sets 1.5°C aligned targets in Residential Real Estate, however achievement is heavily dependent on Government policies and home-owners' willingness to decarbonise (1/2)

Residential Real Estate

Emission Intensity in kgCO₂/m²



NLB's target scenario for residential real estate is guided by the SBTi 1.5-degree Celsius scenario and data from IEA global net-zero scenarios. This scenario envisions an average energy efficiency of 0.4 kg CO₂/m² across our mortgage portfolio by 2050 and interim target of 18.7 kg CO₂/m² by 2030. Similarly, as in Commercial Real Estate, NLB sets the interim science-based target only on the head office, as only Slovenia has enough official EPC data to develop a robust enough baseline for target setting and because Slovenia is part of the European Union; thus it has set green transition targets on a national level, which are supported by legislation.

NLB will work towards the achievement of the target by engaging with clients and focus on new production of homes with the best energy performance certificates (EPC A & B) and promote other green loans for retrofits and renovations of existing housing stock with the focus on enabling energy efficiency improvement, as well as for the installations of heat pumps.



To emphasise the determination of moving towards the targets of the mortgage portfolio, NLB commits to at least 15% of new mortgage production volume in Slovenia to be in energy label A and B, with an expectation of further increasing our commitment in the following years.

For this it is crucial for the governments to implement policies such as EU countries, requiring all new buildings from 2020 onwards to be near-zero energy buildings (NZEBS), i.e. belonging to EPC Class A, which will lead all new construction and renovation to result in zero energy buildings (ZEBs) as of 2030, i.e. ≈ 0 kWh/m².

Achieving net-zero carbon emissions in the residential real estate sector is a challenging task that requires the collaboration of all stakeholders, including banks, governments, industry players, energy providers, and homeowners.

Real estate, both residential and commercial represents a significant contribution to carbon emissions in all NLB's markets and it represents a significant barrier to achieving net-zero by 2050. This calls for more drastic approaches, particularly in the modernisation of existing buildings.

NLB is committed to playing a crucial role in enabling modernisation by developing innovative financing solutions and partnerships. However, we recognise that this effort cannot be undertaken in isolation. Governments must provide enhanced subsidies for homeowners and implement policies that support the development of the renovation supply chain.

To put the challenge in perspective, even if all homes in NLB's portfolio achieved label A or equivalent in the six markets by 2030, the bank would not meet the science-based interim target without a significant and rapid greening of the grid in all countries and conscious efforts by homeowners to reduce energy consumption.



Target sector disclosures

NLB sets 1.5°C aligned targets in Residential Real Estate, however achievement is heavily dependent on Government policies and home-owners' willingness to decarbonise (2/2)

Residential Real Estate

In both the residential and commercial real estate sectors, the national energy mix plays a critical role in determining efficiency milestones. Governments and institutions must steer the transition towards renewable electricity capacity and phase out fossil fuels. In Slovenia, coal still accounts for a substantial portion of electricity production and will continue to do so until 2033, when the TEŠ coal-fired power plant is scheduled to be decommissioned, even more so in NLB's other markets.

Homeowner engagement is another key factor. Energy efficiency, as represented by energy labels, is paramount. Banks and homeowners can collaborate to drive progress in this area. Homeowners need to demonstrate a willingness and financial capacity to invest in renovations. Homeowners' energy consumption habits also significantly impact efficiency milestones. This necessitates the active participation of all household members and is influenced by the price of energy, which we learned in the last years can be extremely volatile due to global events.

To effectively track energy performance, NLB utilizes energy labels where possible and uses proxy data where not available. Where energy label data is not readily available, the bank is devising alternative methods of determining CO2 intensity using available data such as building year, modernization, and subsidized loans. NLB also continues to collect EPC labels for new mortgages, which will take time to encompass the entire portfolio.

NLB advocates for an inclusive approach to energy efficiency and does not believe in limiting finance to homeowners with the worst energy label homes (G or F labels). The bank's objective is to empower all homeowners to make the necessary changes, and it will continue to develop innovative products, services, and partnerships to achieve this goal.

Achieving net-zero targets in the real estate sector demands collaboration from all stakeholders. NLB will maintain reporting on its efforts to empower its mortgage customers to enhance their energy labelling through its financing and services. In the coming years, NLB plans to expand and incorporate metrics into its reporting that unequivocally demonstrate its best efforts in this area. NLB firmly believes that by working together, all stakeholders can fulfill the sector's ambitions and bring the real estate sector closer to net-zero emissions.

Commitment to finance at least

15%

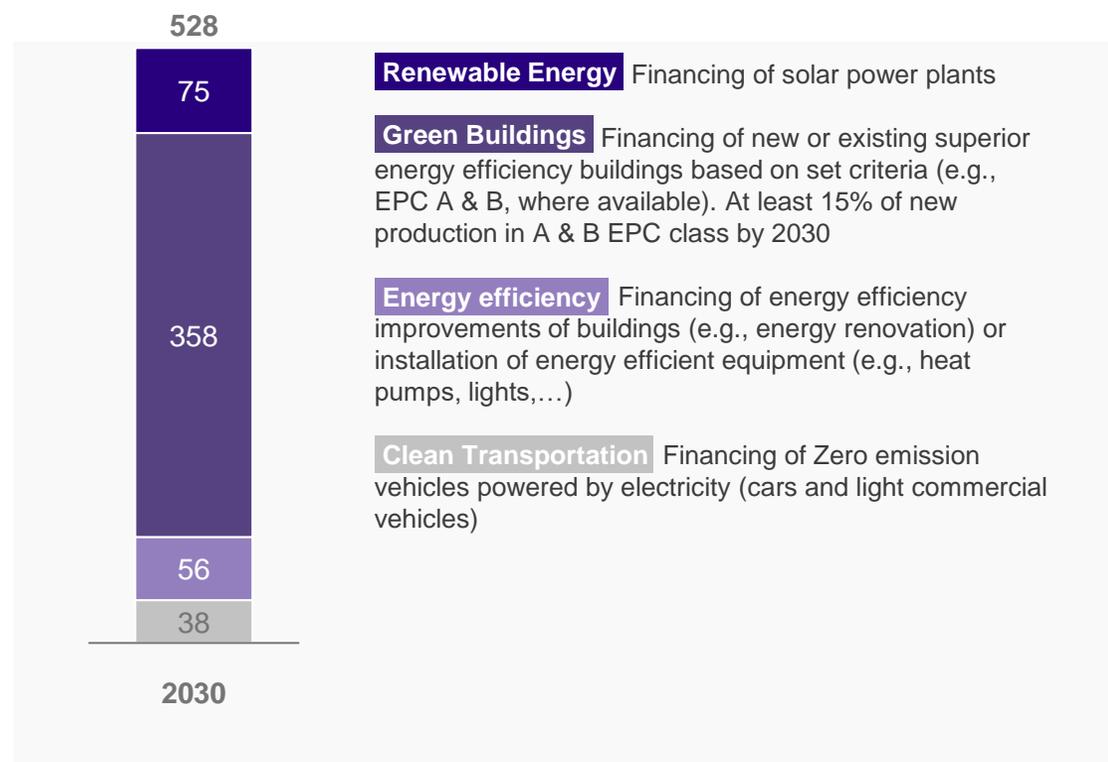
of new production in top-rated mortgages (A & B EPC class) in Slovenia by 2030

Financing pledge

A total of EUR 1.9 billion is committed in transition financing by 2030

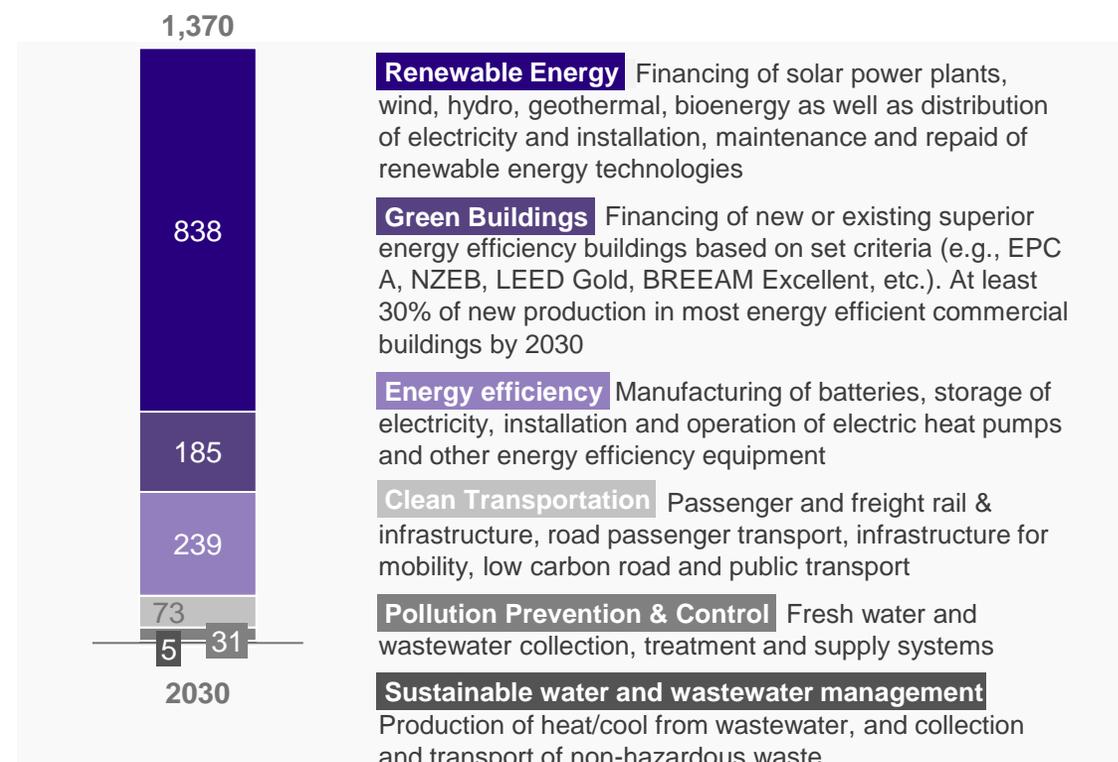
Retail Banking green transition financing

EUR million



Corporate and Investment Banking green transition financing

EUR million



Governance

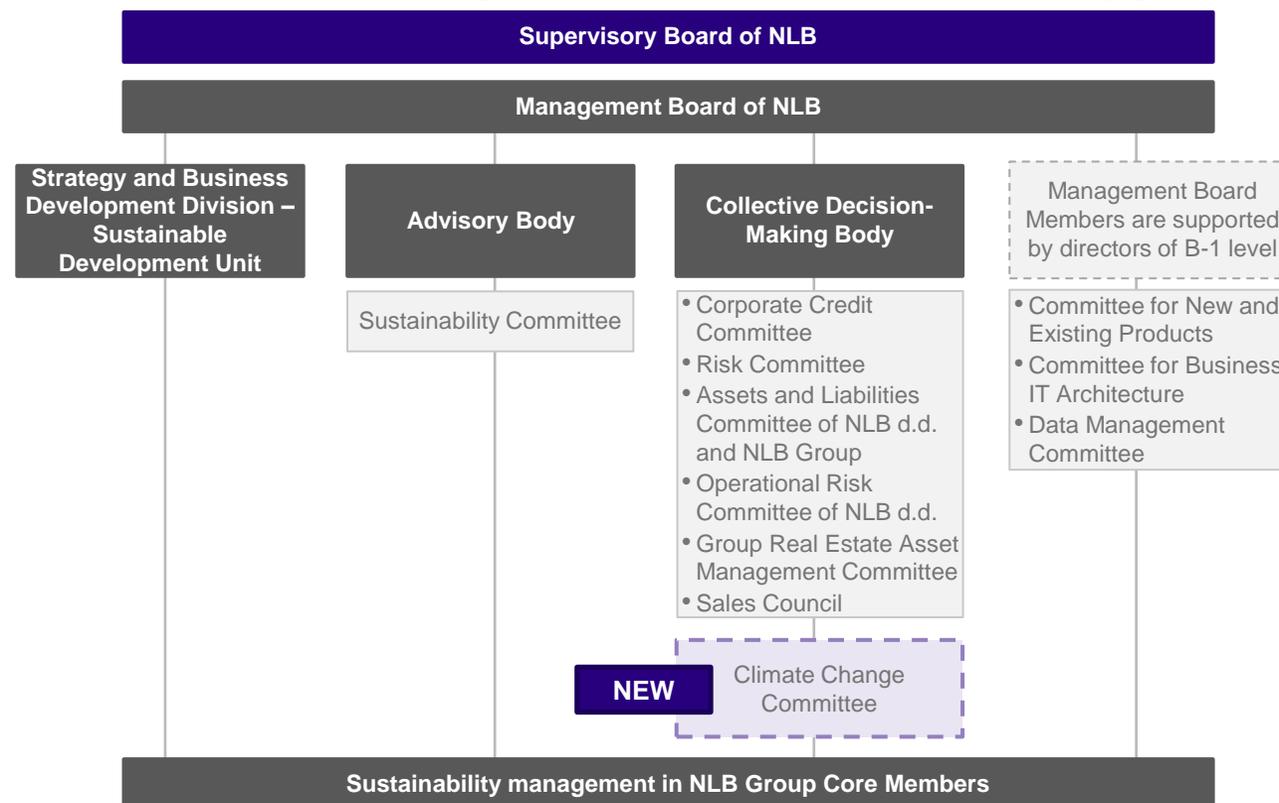
Net-Zero to be governed by newly established Climate Change Committee

At NLB Group, a paramount importance is placed on the Net-zero implementation as a multi-decade initiative. As such, a robust governance structure will be established, ensuring that the net-zero decarbonisation plans and sustainable financing are guided by top-level executives and implemented effectively across all sectors. Thereby, effective governance, strategic oversight, and regular monitoring of NLB Group's net-zero decarbonisation plans are entrusted to the highest executives.

To streamline decision-making and enhance accountability, a dedicated body entitled the Climate Change Committee (CCC) will be formed. This committee will have full authority and responsibility over the implementation of NLB's net-zero strategy. The CCC will be composed of key individuals who will cover both strategic and operational aspects of the decarbonisation efforts. The committee will comprise all six Chiefs, representing the full Management Board, as well as six core team members. The six core team members will include a project-lead from Sustainability Development and representatives of Global Risk, Retail Banking, Corporate Banking, Data/IT and Group Steering divisions/departments. In addition, this core team is charged to design the second target setting scheduled for mid-2025.

The composition of the committee ensures a holistic approach to the decarbonisation process. It brings together executives and experts from various areas to provide comprehensive guidance and insight. This collaborative effort aligns different areas of the organisation, enhancing interdepartmental coordination and facilitating effective decision-making.

Overview of Net-Zero steering within NLB Group's overall sustainability governance



Baseline

Total financed emissions of NLB Group at 2,516 ktCO₂

The total financed emissions of NLB Group amount to 2,516 kilotons of CO₂. This figure includes Scope 1 and Scope 2 emissions from the bank's lending portfolio, as well as financed emissions from the bank's investment portfolio, encompassing both debt and equity investments.

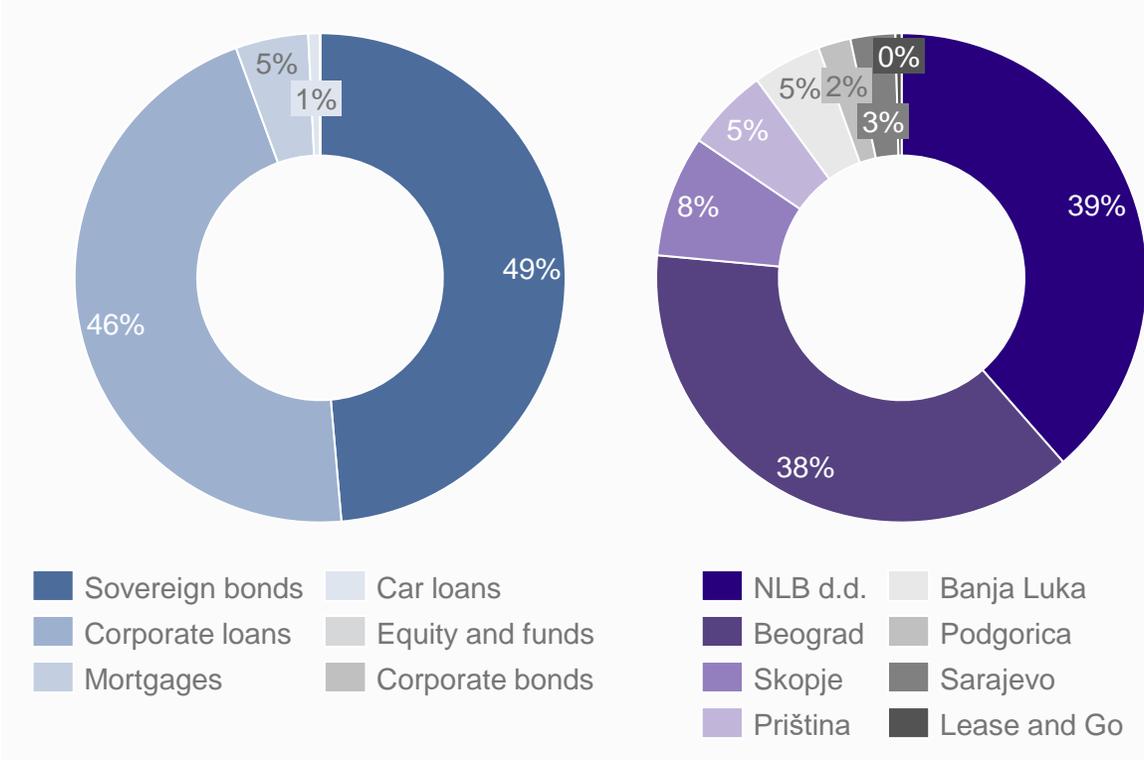
The implementation of the CSRD mandates a significant number of clients to report on their emissions. This, in turn, will enable the bank to progressively incorporate the Scope 3 emissions of its clients into its financed emissions baseline.

Remarkably, nearly 50% of these emissions are linked to sovereign bond exposure. However, a significant concern arises from the methodological double counting in financed emissions, as emissions from clients, previously accounted for in corporate and retail loans, are redundantly included when aggregating at a national level within sovereign bond emissions.

Pertaining to the sovereign bond portfolio, GHG emissions for year 2020 were applied. For the purpose of attribution of Scope 1 absolute emissions, the GDP adjusted by PPP was used. We also duly acknowledge the lack of market consensus on metrics or analysis methods i.e., what scope of emissions should be included in a country's total GHG emissions. We seem to be faced with the choice of whether to use governmental or territorial emissions, production or consumption emissions, and whether or not to include/exclude LULUCF. Substantial time lag in verification of data reported seem to offer another challenge. We therefore expect the decarbonisation process to unfold indirectly, since a practical approach is currently very limited.

Lastly, the country-level distribution of emissions is concentrated within two markets. Slovenia and Serbia collectively contribute to nearly 80% of the total financed emissions. This substantial proportion is primarily influenced by financial exposure, as opposed to carbon intensity.

NLB Group baseline¹ 2021, split by asset class and entity (total = 2,516 ktCO₂)



Notes: 1. Detailed GHG emissions profile to be included in the upcoming NLB Group Sustainability report

Baseline

NLB Group covers ~50% of financed emissions of 10 NZBA priority sectors within 1st target setting

Among the 10 sectors eligible under NZBA, approximately 95% of financed emissions are concentrated within six specific sectors: Agriculture, Residential Real Estate, Commercial Real Estate, Road Freight Transport, Iron & Steel, and Power Generation.

In the agricultural sector, there is currently no well-established net-zero pathway. Moreover, the sector exhibits significant heterogeneity, encompassing a diverse range of activities such as crops, livestock, fishing, and forestry. Obtaining client-level data proves challenging due to its limited availability, primarily because a substantial portion of the portfolio is concentrated among smaller companies.

In road freight transport, challenges related to data are analogous to those encountered in agriculture. Furthermore, there are no anticipated short-term technological advances in the near future.

The progress in these two sectors will be closely observed, and specific targets for each sector are scheduled to be disclosed during the second phase of target setting.

Therefore, for the initial set of Net-Zero targets, NLB is unveiling objectives for four sectors considered most significant in terms of both absolute and relative carbon volumes, along with the financial exposure to these sectors. The four sectors collectively contribute to approximately 50% of financed emissions within the prioritised sectors identified by NZBA.

