



Nova Ljubljanska banka d.d., Ljubljana

(incorporated as a joint stock company (delniška družba) in the Republic of Slovenia)

EUR 82,000,000 Undated Non-Cumulative Fixed Rate Additional Tier 1 Notes

ISIN SI0022104275, Common Code 253372818, Ticker NLB28

Issue Price: 100 per cent.

Nova Ljubljanska banka d.d., Ljubljana (the "**Issuer**" or "**NLB**") will issue on 23 September 2022 (the "**Issue Date**") EUR 82,000,000 Undated Non-Cumulative Fixed Rate Additional Tier 1 Notes (the "**Notes**") in the denomination of EUR 200,000 (the "**Original Principal Amount**") each.

The Notes will bear distributions on their Current Principal Amount (as defined below) at the rate of 9.721 per cent. per annum in arrear from and including the Issue Date to but excluding 23 March 2028 (the "**First Reset Date**") and thereafter at the relevant Reset Rate (as provided in the Terms and Conditions) for the relevant Reset Period. Distributions shall be scheduled to be paid annually in arrear on 23 September in each year (each such date, a "**Distribution Payment Date**"), commencing on 23 September 2023.

Distributions are subject to cancellation, in whole or in part, at the discretion of the Issuer and, if cancelled, are non-cumulative and distributions in following years will not increase to compensate for any shortfall in distributions in any previous year.

"**Current Principal Amount**" means, with respect to any Note: (i) at the Issue Date, the Original Principal Amount of such Note and (ii) thereafter, the then outstanding nominal amount of such Note as reduced by any Write-downs to the extent not made up for by Write-ups (each as defined in the terms and conditions of the Notes (the "**Terms and Conditions**")), and subject to limitations and conditions as provided for in the Terms and Conditions). In addition, if the relevant competent resolution authority were to exercise any write-down and conversion powers, the then outstanding nominal amount of the Notes may be (permanently) written down or the Notes may be converted into shares or other instruments of ownership of the Issuer, in each case in whole or in part.

The Notes are perpetual and do not have a scheduled maturity date. The Notes are redeemable by the Issuer, subject to the prior approval of the competent authority and subject to certain further limitations and conditions set out in the Terms and Conditions. The redemption amount for each Note will be its Current Principal Amount.

The Notes, as to form and content, and all rights and obligations of the holders of the Notes (the "**Noteholders**") and the Issuer will be governed by the laws of Slovenia.

The Notes are issued in dematerialised form in accordance with the provisions of the Slovenian Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih*) ("**ZNVP-1**") as entries in the central register (the "**Central Register**") maintained by KDD d.o.o., Tivolska cesta 48, SI-1000 Ljubljana, Slovenia ("**KDD**"). All calculations and payments in respect of the Notes will be completed by the Issuer.

This offering circular (the "**Offering Circular**") does not constitute a prospectus within the meaning of Regulation (EU) No 2017/1129 of the European Parliament and of the Council of 14 June 2017 (as amended, the "**Prospectus Regulation**"). Neither the Luxembourg Financial Supervisory Authority (*Commission de Surveillance du Secteur Financier*), the Slovenian Securities Market Agency (*Agencija za trg vrednostnih papirjev*), nor any other "competent authority" (as defined in the Prospectus Regulation) has approved this Offering Circular or reviewed information contained in this Offering Circular.

This Offering Circular constitutes a prospectus for the purpose of Part IV of the Luxembourg Law of 16 July 2019 on Prospectuses for Securities. Application has been made to list the Notes on the official list (the "**Official List**") of the Luxembourg Stock Exchange and for admission to trading of the Notes on the Euro MTF Market operated by the Luxembourg Stock Exchange, which is a multilateral trading facility for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended, ("**MiFID II**"), and, therefore, not an EU-regulated market.

This Offering Circular will be published in electronic form together with all documents incorporated by reference on the website of the Luxembourg Stock Exchange (www.bourse.lu).

This Offering Circular does not constitute an offer to sell, or the solicitation of an offer to buy, the Notes in any jurisdiction where such offer or solicitation is unlawful. **The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.**

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to retail clients. Prospective purchasers of Notes are referred to the section headed "Restrictions on Marketing and Sales to Retail Investors" on page 3 of this Offering Circular for further information.

Interest amounts payable under the Notes are calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of 5 years, which appears on the Bloomberg Screen Page "EUSA5 Curncy" under the heading "EUR Swap Annual (VS 6M) 5Y" and the caption "11:00 AM Frankfurt time".

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider the suitability of the Notes as an investment in light of their own circumstances and financial condition. Investing in the Notes involves certain risks. Please review the section entitled "**Risk Factors**" beginning on page 1 of this Offering Circular.

20 September 2022

RESPONSIBILITY STATEMENT

The Issuer, with its registered office in Ljubljana, Slovenia, accepts responsibility for the information contained in this Offering Circular and hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer further confirms that (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the "**NLB Group**" or the "**Group**") and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Issuer and the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Group and of the rights attached to the Notes; (ii) the statements contained in this Offering Circular relating to the Issuer, the Group and the Notes are in every material respect true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

NOTICE

No person is authorised to give any information or to make any representation other than those contained in this Offering Circular.

This Offering Circular should be read and understood in conjunction with any documents incorporated herein or therein by reference.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Offering Circular does not constitute an offer of Notes or an invitation by or on behalf of the Issuer to purchase any Notes. Neither this Offering Circular nor any other information supplied in connection with the Notes should be considered as a recommendation by the Issuer to a recipient hereof and thereof that such recipient should purchase any Notes.

This Offering Circular reflects the status as of its date. The offering, sale and delivery of the Notes and the distribution of this Offering Circular may not be taken as an implication that the information contained herein is accurate and complete subsequent to the date hereof or that there has been no adverse change in the financial condition of the Issuer since the date hereof.

To the extent permitted by the laws of any relevant jurisdiction, no person mentioned in this Offering Circular, except for the Issuer, accepts responsibility for the accuracy and completeness of the information contained in this Offering Circular or any document incorporated by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accept any responsibility for the accuracy and completeness of the information contained in any of these documents.

This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required to inform themselves about and to observe any such restrictions. For a description of the restrictions applicable in the European Economic Area ("**EEA**"), the United States of America and the United Kingdom ("**UK**"), see "*Sale of the Notes – Selling Restrictions*".

For the avoidance of doubt the content of any website referred to in this Offering Circular does not form part of this Offering Circular and the information on such websites has not been scrutinised or approved by the Luxembourg Stock Exchange.

The language of this Offering Circular is English.

In this Offering Circular all references to "€", "EUR" or "Euro" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET: PROFESSIONAL INVESTORS AND ECPS ONLY

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of such securities to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products ("**PRIIPs Regulation**") became directly applicable in all EEA Member States and the UK and (ii) MiFID II was required to be implemented in EEA member states and the UK by 3 January 2018. Together the PI Instrument, PRIIPs Regulation and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and the (ii) offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write-down or convertible securities such as the Notes.

The Issuer is required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase any of the Notes (or a beneficial interest in the Notes) from the Issuer and each prospective investor represents, warrants, agrees with and undertakes to the Issuer that:

- (i) it is not a retail investor;
- (ii) whether or not it is subject to the Regulations:
 - (a) it will not sell or offer the Notes (or any beneficial interest therein) to retail investors; and
 - (b) it will not communicate (including the distribution of the Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail investor (in each case within the meaning of MiFID II). In selling or offering the debt securities or making or approving communications relating to the debt securities it may not rely on the limited exemptions set out in the PI Instrument;
- (iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA and the UK) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the debt securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

For the purposes of this provision: the expression "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4 (1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (Insurance Distribution Directive), where that customer would not qualify as a

professional client as defined in point (10) of Article 4 (1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients only; and
- (ii) no key information document (KID) required by the PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

BENCHMARK REGULATION: STATEMENT ON REGISTRATION OF BENCHMARK ADMINISTRATOR

Distributions on the Notes are to be calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of 5 years, which appears on the Bloomberg Screen Page "EUSA5 Curncy" under the heading "EUR Swap Annual (VS 6M) 5Y" and the caption "11:00 AM Frankfurt time".

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts and events. They are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references and assumptions. This applies, in particular, to statements in this Offering Circular containing information on future earning capacity, plans and expectations regarding the Group's business and management, its growth and profitability, and general economic and regulatory conditions and other factors that affect it.

Forward-looking statements in this Offering Circular are based on current estimates and assumptions that the Issuer makes to the best of its present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including the Group's financial condition and results of operations, to differ materially from and be worse than results that have expressly or implicitly been assumed or described in these forward-looking statements. The Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Offering Circular to become inaccurate. Accordingly, investors are strongly advised to read the section "*Description of the Issuer and the Group*" of this Offering Circular. This section includes more detailed descriptions of factors that might have an impact on the Group's business and the markets in which it operates.

In light of these risks, uncertainties and assumptions, future events described in this Offering Circular may not occur. In addition, the Issuer assumes no obligation, except as required by law, to update any forward-looking statement or to conform these forward-looking statements to actual events or developments.

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RISK FACTORS

Before deciding to purchase the Notes, investors should carefully review and consider the following risk factors and the other information contained in this Offering Circular. Should one or more of the risks described below materialise, this may have a material adverse effect on the business, prospects, shareholders' equity, assets, financial position and results of operations or general affairs of the Issuer or the Group. Moreover, if any of these risks occur, the market value of the Notes and the likelihood that the Issuer will be in a position to fulfil their payment obligations under the Notes may decrease, in which case the Noteholders could lose all or part of their investments. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other unknown reasons than those described below. Additional risks of which the Group is not presently aware could also affect the business operations of the Group and have a material adverse effect on the Group's business activities and financial condition and results of operations. Prospective investors should read the detailed information set out elsewhere in this Offering Circular (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Words and expressions defined in the Terms and Conditions of the Notes below shall have the same meanings in this section. For the avoidance of doubt, any abbreviation of (and reference to) any legal acts set out below also include the relevant legal acts as amended or replaced from time to time.

Potential investors should, among other things, consider the following:

RISKS RELATING TO THE ISSUER AND THE GROUP

1. Risks related to the environment in which the Issuer and the Group operates

1.1 *The NLB Group is subject to risks arising from the global macroeconomic environment*

The financial services industry generally prospers in conditions of economic growth, stable geopolitical conditions, transparent, liquid and buoyant capital markets and positive investor sentiment. During recessionary periods, there may be less demand for loan products and a greater number of customers may default on their loans and other obligations. Interest rate rises may also have a negative impact on the demand for mortgages and other loan products. The NLB Group is affected by general economic and geopolitical conditions, which can cause its financial condition and the results of its operations to fluctuate from year to year, as well as on a long-term basis. In addition, potential downward trends in the global macroeconomic environment, the risk of any new migrant crisis, similar to the ones seen in the past, affecting public expenditure in the region of South-Eastern Europe, which includes Bosnia and Herzegovina, Croatia, Kosovo, North Macedonia, Montenegro and Serbia ("SEE"), and the uncertainty regarding the evolution of the SARS-CoV-2 ("COVID-19") pandemic, despite its decreased direct impact on economic activity, are downside risks to the economies of SEE, whose nascent economic recoveries have been assisted by export-oriented growth. The war in Ukraine and the related economic implications have emerged as additional downside risks to the global economy as well as economies of the region in which the Group operates. Any decline in the economic situation of the SEE countries could in turn affect the NLB Group's business (see "*Risk Factors – Risks related to the environment in which the Issuer and the Group operates – The NLB Group is subject to risks arising from the Slovenian macroeconomic and political environment*" and "*Risks related to the SARS-CoV-2 pandemic*" below).

The macroeconomic environment is the major driver of risk to the NLB Group's earnings and financial stability, in particular, due to the potential effects on NLB Group's asset quality. The uncertainty related to the COVID-19 pandemic still represents some degree of risk even though the direct impact of the COVID-19 pandemic on the economic activity in countries in which NLB Group operates decreased significantly. Weaker macroeconomic conditions may lead to a decline in net interest margins, credit quality and loan portfolio growth, as well as further corrections to prices of real estate and other property held as collateral for loans, which may lead to continued large loan impairment charges.

Additionally, the war in Ukraine has emerged as a new risk, because it has widespread economic implications resulting in renewed downside risks to global growth, with Europe being the most exposed in

this regard. Elevated uncertainty, energy supply disruptions, more widespread commodity shortages and new supply chain disruptions have weighed on economies. A surge in commodity prices, with oil and gas prices accelerating higher in particular, and subsequent more widespread price increases pushed inflation rates to new highs. Inflation could rise even further and it could remain elevated for longer than expected due to secondary effects stemming from elevated inflation, such as wage growth and subsequent higher and unanchored inflation expectations. Elevated inflation erodes households' purchasing power and it could, together with a squeeze on company profits, and deteriorated business and consumer confidence, weigh on economic growth which was, following the pandemic-induced crisis and prior to the beginning of the war in Ukraine, expected to be predominantly driven by consumer spending. Supply chain bottlenecks and the surge in energy prices caused by the COVID-19 pandemic, were already expected to sustain inflationary pressures, and the war in Ukraine exacerbated the overall economic situation. The war in Ukraine has several potential risks that could potentially lead to a recession. The first one is the risk of a cut-off in Russian gas supplies. This risk is especially pronounced for Europe which is highly dependent on Russian gas. A Russian gas cut-off would result in further price increases in energy and spill-over effects to other goods adding to already existing real income shock. Moreover, energy shortages from a potential Russian gas cut-off could result in enforced rationing and industry stoppages which would have a direct impact on output. Additionally, industry stoppages represent yet another channel for further inflationary pressures and shock to real income.

The probability of recession increases as risks stemming from economic implications of the war in Ukraine and the energy crisis, that Europe in particular is facing, materialise. A long-lasting war in Ukraine represents a significant risk to growth, particularly in case of firms and households are eventually being faced with rationing of energy supplies. Russia announced maintenance of the Nord Stream 1 pipeline that was supposed to stop gas supply from 31 August to 2 September. However, gas flows from Russia through the Nord Stream 1 pipeline have not returned which is set to result in ongoing energy price inflation. Moreover, it increases the probability of significant reductions in gas usage in industry. As a result of the Nord Stream 1 pipeline shut-down, European natural gas and electricity prices surged. To cushion the economic and social implications of the energy crisis, European governments have already allocated some EUR 280 billion. Moreover, the EU is working on a plan to curtail the strong rise in prices, with discussions about measures such as gas and electricity price cap, windfall taxes on energy companies and mandatory electricity demand cuts gathering pace.

Prolonged lockdowns in China represent another risk to the outlook. Lockdowns in China, due to the policy of dealing with the spread of COVID-19 infections, have a significant impact on global supply chains, adding to supply chain bottlenecks issues which subsequently add pressure to inflation. The latter represent a shock to real income and induced subsequent interest rate rises which pose mounting recession risks. Both, a cut-off in Russian gas and prolonged lockdowns in China increase inflationary pressures which could, even without the realisation of the former two risks, push economies into recession. Rising inflation causes real income to fall. Moreover, subsequent interest rate rises increase borrowing costs. Altogether, these factors have negative effects on consumption and economic growth.

On the monetary front, the European Central Bank (the "**ECB**") and the Federal Reserve System of the United States of America (the "**Fed**") continue with the interest rate hiking cycle in order to tame the inflation which became notoriously widespread as second-round effects stemming from energy inflation kicked in. Therefore, at the September meeting, ECB increased the deposit facility rate by 75 bps to 1.25 per cent. The Fed provided already a second consecutive 75 bps interest rate increase at the July meeting, taking its benchmark rate to a range of 2.25 per cent. – 2.5 per cent. It is expected that both, ECB and the Fed will raise interest rates further, because inflation remains far too high and is likely to stay above their targets for an extended period. This will further restrict financial and monetary conditions resulting in increased market interest rates and borrowing costs.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including the NLB Group. Market volatility during the global financial crisis led to, and future market volatility may lead to, the following negative effects (amongst others) for the banking industry:

- increased cost of funding and/or reduced availability of funding;
- deterioration in the value and liquidity of assets (including collateral);
- inability to price, or difficulty pricing, certain assets;

- higher provisions for bad and doubtful debts;
- an increased likelihood of customer and counterparty default and credit losses;
- mark-to-market losses in the value of assets and liabilities;
- FX differences of non-euro assets and liabilities, recognised in the other comprehensive income, and therefore impacting bank's equity;
- increased economic exposure from hedging activities; and
- lower growth, business revenues and earnings.

No assurance can be given as to future economic conditions in any market or as to the possibility of improvement in any market. If economic conditions deteriorate or stagnate in any of the NLB Group's main markets, its business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.

1.2 *Risks related to the SARS-CoV-2 pandemic*

In 2020, the COVID-19 pandemic caused unprecedented contraction in the global economy and governments were forced to implement drastic measures to contain the COVID-19 pandemic. Disrupted production chains caused supply-side disruptions while containment measures disrupted the demand-side by weighing on consumer spending. In order to mitigate economic implications of the COVID-19 pandemic, governments around the world implemented supportive fiscal and monetary policy measures. With the reopening of the economies, the recovery has started as consumption resumed. However, new downside risks to global macroeconomic environment have appeared in the form of supply chain disruptions and rising inflationary pressures. The SEE economies were not able to circumvent the COVID-19 pandemic and its economic implications and hence these countries recorded a notable drop in economic growth. However, the economic implications of the COVID-19 pandemic differed between SEE countries due to underlying differences in features of economies, the degree of vulnerability to external shocks, and governments' responses to mitigate economic implications. The COVID-19 pandemic revealed implications that external shocks can have on economies and consequently banking systems.

In order to slow down the COVID-19 pandemic, governments of all countries in which the NLB Group operates imposed severe restrictions on social interactions and on the movement of people. While such restrictions may be effective in preventing the simultaneous infection of large numbers of people and the overburdening of health systems, they have adverse effects on economic activity which, unless addressed properly, may have long-lasting negative consequences for the economies and financial stability of affected countries.

On 20 March 2020, the Republic of Slovenia passed the first package of legislation intended to mitigate the effects of the pandemic on the Slovenian economy. In addition to measures affecting public finance, such as the extension of deadlines for submitting tax returns and the payment of taxes and to provide wage compensation to employees that have been temporarily discharged or quarantined, the package included the Act on the Intervention Measure of the Suspension of the Obligations of Borrowers (*Zakon o interventnem ukrepu odloga plačila obveznosti kreditojemalcev - ZIUPOK*) which required from banks operating in Slovenia, including NLB, to grant a 12-month deferral of payment of obligations to all borrowers who applied for such deferral and were able to demonstrate that they were unable to service their debt due to the impact of the pandemic on their business and may, consequently, adversely affect the ability of NLB to effectively manage its assets. Similar measures were adopted also in other countries where NLB Group operates.

NLB sees the Act on the Intervention Measure of the Suspension of the Obligations of Borrowers as part of a package of short-term support measures for corporate and retail clients impacted by this systemic shock. Proposed short-term preventive measures referred mainly to the clients asking for the temporary postponement of their payment obligations due to the economic slowdown caused by the pandemic. Under the revised guidelines of the European Banking Authority ("EBA") applicable until 31 March 2021, payment deferrals for up to a maximum of 9 months were granted. In accordance with these guidelines, moratoria granted after the period defined by the EBA should be classified on a case-by-case basis, evaluating each client's forbearance status. In some markets where the Group members operate, the

respective local government or regulator renewed or prolonged the granting of payment moratoria. However, the Group members followed the EBA guidelines on moratoria.

As of 31 December 2021, exposures for which COVID-19 moratoria were granted amounted to EUR 1,681.5 million on the Group level, which represented 10.8 per cent. of the total gross book value. The vast majority of the moratoria (98.5 per cent.) phased out during 2021. The exposures with expired moratoria are closely monitored, but do not show material deviations in quality compared to the remaining portfolio. Nevertheless, the uncertain evolution of the COVID-19 pandemic, notably the spread and emergence of new virus variants, might have a negative impact on the NLB Group's credit portfolio quality and related cost of risk.

In addition to a macroprudential measure by the Bank of Slovenia (*Banka Slovenije*), which temporarily restricts the ability for Slovenian banks to distribute profits, in 2020, the Issuer was unable to distribute profits generated in 2019, while in 2021 certain regulatory restrictions remained valid until 30 September 2021, limiting the ability and time frame for profit distribution. Although this measure was aimed at supporting the Slovenian banking system during the COVID-19 pandemic, it may affect the Issuer's share price. For more information regarding this measure, see "*Description of the Issuer and the Group – Capital Requirements*".

The gradual rollback of restrictive measures in the beginning of the third quarter of 2021 facilitated by intensified vaccination efforts and opened borders for travellers with loosened restrictions in all the Group countries of operation were reflected in gradual economic recovery trends. The reopening of large parts of the economy and the increase in domestic and external demand supported the robust bounce-back in the services sector. The government's recovery programs in the region boosted economic growth. However, uncertainty over the course of the ongoing fourth wave of the virus is still present. Due to the continued increase in COVID-19 cases, at the end of the third quarter of 2021, in some countries of the Group's operations, stricter measures were reinstated. It follows that COVID-19 related risks to the Group's operations remain.

On profit distributions on subsidiaries level, in some countries of operation (Serbia and Montenegro), there is still a temporary ban on dividend pay-outs in place, without indication of an expiry date. The banks in Serbia signed an agreement with the Ministry of Finance and the National Bank of Serbia aimed at preserving the stability of the financial system and preventing the risks caused by the COVID-19 pandemic, by which the banks in Serbia undertook not to distribute any profit by paying dividends to their shareholders. This measure was still valid in Serbia and Montenegro in the fourth quarter of 2021. After dividend pay-out lift by local regulators in Bosnia and Herzegovina and North Macedonia, the NLB Group subsidiaries in those countries received all necessary approvals for distribution and payment of dividend to the shareholders.

Any long-term prolongation of the COVID-19 pandemic might cause additional negative effects on the NLB Group's business operations and related results. There is no guarantee that the mitigation measures which have been implemented or may be implemented in the future by the Republic of Slovenia or any other jurisdiction in which the NLB Group operates will have the intended effects and the possibility that certain of these measures may have an adverse effect on the NLB Group's business, financial condition and results of operations may not be excluded.

1.3 ***The NLB Group is subject to risks arising from the Slovenian macroeconomic and political environment***

The Republic of Slovenia is the NLB Group's most important geographic area of operation. After a positive trend in GDP growth in recent years, the GDP experienced an abrupt decrease in 2020 due to the COVID-19 pandemic. Nevertheless, the economy recovered well, with an annual growth rate of 8.1 per cent. in 2021. Strong economic growth continued also in the first quarter of 2022, with GDP growing 9.8 per cent. on the back of domestic demand, according to information provided by the Statistical Office of the Republic of Slovenia. In the second quarter of 2022, annual GDP growth softened to 8.2 per cent. as private consumption and investment growth slowed, while government spending contracted slightly. The unemployment rate in the same period fell to a record low of 4.2 per cent., according to the Statistical Office of the Republic of Slovenia. Consumer price inflation is on the rise due to higher price pressures for food and fuel, with annual inflation reaching 11.0 per cent. in August 2022, according to information provided by the Statistical Office of the Republic of Slovenia. In general, the economic performance remains vulnerable to domestic and external economic conditions and shocks. Such factors include the delayed

restoration of economic activity in the Slovenian private sector and its dependency on the level of economic activity in its largest export partners, which mostly consist of countries in the European Union ("EU"). Exports have usually been a key driver of economic recovery in the Republic of Slovenia and represent an important segment of GDP. Thus, negative changes in the volume of exports and trade balance for an extended period of time could have material adverse effects on the country's fiscal budget, public debt and economic activity.

A prolonged deterioration in the macroeconomic environment in the Republic of Slovenia would likely have a significant effect on budget revenues and may result in an increase in the budget deficit, which may also lead to an increase in public debt. The latter is already elevated due to stimulative fiscal measures taken in order to mitigate economic implications of the COVID-19 pandemic. Additionally, given current demographic trends, public pension liabilities are likely to increase in the foreseeable future, which may contribute towards an increase in the budget deficit.

Slovenia's economy is also subject to the risk of a possible decline in domestic demand. The latter manifested during the COVID-19 pandemic. Although domestic consumption has been robust in recent years, making a significant contribution to GDP growth, it is still characterised by high savings rates, which increased despite low interest rates. Households' inability to spend during the COVID-19 pandemic further increased savings but at the same time accumulated savings enabled swift resumption of consumption which was the main driver of the economic rebound following the economic activity drop caused by the COVID-19 pandemic.

An additional downside risk to consumer spending has emerged in the form of the war in Ukraine which pushed up inflation due to its impact on commodity prices and supply chains. It is expected to impact household purchasing power and consequently impact economic growth, which was previously expected to be mainly driven by restored consumer spending. Weakening external demand and winter energy rationing due to low Russian gas imports represent further downside risks for growth. Nevertheless, the government approved energy aid packages for companies and farmers to cushion the impact of the energy crisis. In general, if the economic situation in the Republic of Slovenia deteriorates, this could result in decreased economic activity that would eventually lead to higher unemployment, which in turn would deter private and household consumption. This could significantly weaken the demand for financial products, which could have a negative effect on the NLB Group.

In the light of the war in Ukraine, the Group has analysed potential impacts on its credit portfolio. The direct exposure to counterparties is quite limited and predominantly refers to Russian government bonds maturing September 2023. The Group may be affected by the secondary effect of the crisis, where increasing prices of raw materials and energy may represent an important factor for certain corporate clients.

There can be no assurance that NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects will not be materially adversely affected as a result of one or more of these or any other factors relating to the macroeconomic and political condition of the Republic of Slovenia. This could impact the Issuer's ability to perform its obligations under the Notes.

1.4 *The NLB Group is subject to risks arising from the macroeconomic and political environment in SEE*

The SEE region is the NLB Group's most significant geographic area of operations outside of the Republic of Slovenia and the economic conditions in the region are therefore important to the NLB Group's results of operations and financial condition.

Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia are not members of the EU and may therefore have less developed regulation and control standards than other countries in which the NLB Group operates. The membership process is a protracted procedure and remains in its early stages for the countries concerned. In recent years, EU membership prospects have served as an incentive for political, fiscal and monetary reforms. However, particularly new laws, regulations and case law applicable to the securities and financial services industries and many of the transactions in which the NLB Group is involved are still evolving in many of these markets. Moreover, many of the laws and courts of these countries have not been fully tested in contract enforcement and other types of commercial disputes. These conditions can lead to delays in enforcement proceedings, restructurings and other aspects of the NLB Group's operations in these markets. The NLB Group is also subject to the risks of price controls, capital controls and other

restrictive government actions in these markets. In addition, the laws in Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia on foreign investment currently allow free repatriation of funds to the Republic of Slovenia. However, no assurance can be given that such provisions will not be modified or repealed in the future.

North Macedonia's positive macroeconomic performance was disrupted by the COVID-19 pandemic in 2020 but the economy managed to recover since then. The economy of North Macedonia grew 4.0 per cent. in 2021 after the pandemic-induced contraction in 2020. The unemployment rate recorded an improvement, standing at 15.7 per cent. in 2021, down from 16.4 per cent. recorded in 2020, according to the State Statistical Office of the Republic of North Macedonia. Inflation rose in 2021, recording an average annual rate of 3.2 per cent. Consumer price inflation continues to rise in 2022, with annual inflation reaching 16.8 per cent. in August 2022. North Macedonia's economy expanded by 2.8 per cent. in the second quarter of 2022. The growth was driven by stronger growth in fixed investment and exports of goods and services, more than offsetting a contraction in government consumption and softer expansion in private consumption growth. However, lingering supply shocks, increased commodity prices weighing on inflation, private spending and the external sector, the fallout from the war in Ukraine and energy uncertainty pose some risks to the outlook. Moreover, future growth projections rely on the stability of a government, an assumption of political and social stability and the management of political and ethnic tensions. In recent years, political instability has culminated in multiple boycotts of the Assembly of the Republic of North Macedonia by opposition parties, resulting in market uncertainty. This political condition could affect progress towards North Macedonia's formal accession to the EU. An additional important factor that is set to impact growth in North Macedonia is the war in Ukraine and its global economic implications, mainly its effect on inflation and household demand.

Serbia's economy expanded by 3.9 per cent. in the second quarter of 2022 as expansion in private consumption growth softened, while its unemployment rate decreased to 8.9 per cent. in the same period, according to the Statistical Office of the Republic of Serbia. Serbia recorded a strong economic performance in 2021, with real GDP growing 7.4 per cent. after a 0.9 per cent. pandemic-induced drop in 2020. However, inflation was on the rise in 2021, with average annual inflation standing at 4.1 per cent. In 2022, consumer prices continue to rise, increasing at an annual rate of 12.8 per cent. in July 2022. The war in Ukraine inflated food and energy commodity prices and exacerbated supply chain problems. Altogether, it is set to further increase inflationary pressures and weigh on households' purchasing power. The war in Ukraine is expected to have an impact on exports, foreign direct investments, remittances and tourism revenues. Political risks in Serbia include potential delays to the implementation of major fiscal and economic reform and political interference and opacity in privatisation processes, administration and judicial proceedings. Serbia experiences widespread corruption at all levels in its society. The Corruption Perceptions Index reported by Transparency International stood at 38 and ranked Serbia at 96th place among 180 countries in 2021. Furthermore, there are ongoing regional tensions between Kosovars and Serbs in northern Kosovo. While Serbia's prospects for joining the EU have improved in recent years, in part due to Serbia's efforts to improve relations with Kosovo, membership is unlikely to be obtained in the near term without significant improvements to the diplomatic relationship between Serbia and Kosovo. The war in Ukraine and geopolitical developments have put Serbia in a difficult political position with the country attempting a balancing act between the EU and Eastern allies, notably Russia. Serbia did condemn the Russian invasion of Ukraine in United Nations voting, but did not impose any sanctions on Russia. The pressure from US and EU administrations to pick a side is becoming stronger.

Montenegro's economy expanded by 7.2 per cent. in the first quarter of 2022 according to the Statistical Office of Montenegro. The country's future is heavily dependent on tourism and external investment growth, which in turn are sensitive to political, security and stability risks stemming from growing influence from populist and nationalist forces. As such, the economy is being especially vulnerable to external shocks. The latter manifested in Montenegro recording a substantial economic contraction in 2020. Its economy also suffers from a high unemployment rate which stood at 16.8 per cent. in the first quarter of 2021. Annual inflation reached 14.9 per cent. in July 2022 due to increases in energy and food prices amid the war in Ukraine. Near-term growth prospects are dependent on the spill-over effects from the Ukraine war. Another implication of the war in Ukraine is a decline in foreign direct investments due to imposed sanctions against Russia, since Russia is generally the top foreign investor in Montenegro, investing largely in real estate and tourism sectors. Moreover, tourism income could be hit due to high dependence on tourists from Russia, Belarus and Ukraine. Montenegro became a member of NATO in June 2017 although the Russian Federation, whose presence in finance and property markets is significant in Montenegro, disapproved. The country also suffers from high levels of political corruption and organised crime, the politicisation of the justice system, slow and inefficient administrative procedures and insufficient controls over the public

budget and public debt. The nation's highway project could cause further strain on government finances and could lead to credit rating downgrades and rising debt servicing costs, which could negatively impact the NLB Group's operations. Regarding politics, the government lost a vote of no confidence, initiated by the president's party on 20 August. The president has now the right to nominate a new prime minister and in case the candidate fails to secure a majority coalition, early elections will be held.

Bosnia and Herzegovina's economy grew by 5.5 per cent. in the first quarter of 2022 according to the Statistical Office of Bosnia and Herzegovina. Despite the recent recovery, the country's growth potential is limited by political and institutional instability and a weak labour market. It also suffers from a high registered unemployment rate which stood at 16.7 per cent. in the first quarter of 2022, according to the Agency for Statistics of Bosnia and Herzegovina. Limited job opportunities have resulted in a large black market, as well as a dependency on remittances from expatriate workers. Annual inflation is on the rise, reaching 16.7 per cent. in July 2022, according to the Statistical Office of Bosnia and Herzegovina, as consumer price pressures have been propped up by elevated energy and food commodity prices. The war in Ukraine significantly increased energy and food prices, which eroded purchasing power and corporate investment potential. The country is hindered by underdeveloped institutions, low civil service capacity, a weak and inefficient judiciary and a complex system of public administration with multiple layers of government, which affects the efficiency of implementing structural and economic reforms. The legal and institutional framework remains weak and inadequate to effectively prevent corruption; corruption continues to be widespread and the political commitment to fighting corruption may not translate into concrete results, which can negatively affect business activity in the country and the level of foreign investments. Political instability stems from the separatist sentiment from the largely autonomous Republika Srpska, which is reluctant to adhere to certain federal laws of Bosnia and Herzegovina and resists efforts to strengthen central state institutions. Late in 2021, Republika Srpska further attempted to transfer powers away from state-level and to Republika Srpska-level of institutions, which prompted a strong response from the EU, expressing its willingness to use all power at its disposal to dissolve the crisis and move the country back towards a path of EU accession. Domestic tensions increased with the announcement of proposed election reform in late July. General parliamentary elections are scheduled for October 2022 and political frictions are likely to further intensify ahead of parliamentary elections. This ongoing political instability could delay Bosnia and Herzegovina's accession to the EU and limit the country's competitiveness.

Kosovo is characterised by strong economic growth as the economy recoups some of the pandemic-induced losses, with gross domestic product (GDP) growth of 4.9 per cent. in the first quarter of 2022 according to the Statistical Office of Kosovo. However, its economy suffers from a high unemployment rate, which stood at 20.5 per cent. In the second quarter of 2021. This, coupled with limited job opportunities, has resulted in a large grey and black market economy and a dependency on remittances from expatriate workers, which continue to represent a significant portion of the country's economy. As such, remittances turned out as a significant supportive factor for economic growth in 2021. Furthermore, ongoing regional and ethnic tensions between Kosovars and Serbs in northern Kosovo and widespread systemic corruption continue to impede economic and political development. Moreover, Kosovo has not yet been recognised by Serbia as an independent state. Trade barriers for goods have been imposed in the past and there is a possibility that exacerbation of relations between the two countries results in their reimposition. Inflation was already on the rise in 2021, with average annual inflation reaching 3.3 per cent. and continues to rise in 2022, with annual inflation rate recorded at 13.0 per cent. in August 2022. The war in Ukraine has increased energy and food prices, eroding households' purchasing power.

In general, the war in Ukraine has emerged as a new downside risk to the SEE region's outlook mainly due to further increases in consumer prices, which were already rising as a result of the COVID-19 pandemic's economic implications, and its adverse effect on households' purchasing power. The SEE region has one of the highest levels of dependence on Russian gas which represents an additional risk in case of further escalation of sanctions between Russia and other countries. Uncertainty about future deliveries brought another wave of upside pressure on energy commodity prices, which had started already prior to the war in Ukraine. The looming threat of Russia potentially cutting off gas supply to Europe introduces yet another level of uncertainty to when prices are to normalise. Moreover, the Russian gas cut-off represents a further potential for energy price increases with spill-over effect to other goods which would further add to a drop in households' purchasing power. Potential rationing and industry stoppages, as a result of Russian gas cut-off, represent a direct impact on output and further indirect impact on inflationary pressures.

There can be no assurance that NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects will not be materially adversely affected as a result of any instability or economic deterioration in SEE.

1.5 *The NLB Group may be negatively affected by increased competition*

The NLB Group operates in a number of highly competitive markets, alongside a significant number of competitors, including subsidiaries of major European banking groups. Increasing competition in the banking sector and/or the inability of NLB or any other NLB Group member to compete effectively in its market may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects. Since the Russia-Ukraine conflict and subsequent acquisitions of Russian banks in the SEE region by local competitors following resolutions by the SRB in coordination with local regulatory authorities, the competition landscape changed in some of the NLB Group markets of operations.

2. Risks relating to the credit risk and capital requirements

2.1 *The NLB Group is exposed to credit risk and could experience material increases in non-performing loans, leading to significant increases in impairment allowances, which could materially adversely affect the NLB Group's business, financial condition and results of operations*

The NLB Group is exposed to the risk that its borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may turn out to be insufficient. This risk is materially enhanced in times of economic slowdown.

The war in Ukraine and its economic implications has emerged as an additional downside risk to global economy as well as economies in which the Group operates. Direct and indirect exposures of NLB toward Russia and Ukraine is on a moderate level. With regard to the credit portfolio, the NLB Group monitors its clients being present or having direct or indirect connection with Russia, Ukraine, Belarus and other neighbouring countries to identify any significant increase in credit risk at an early stage. Corporate clients are still assessing the possible impacts of this conflict on their business model and financial performance, however at this stage these effects are not very excessive. However, NLB Group may not be able to always adequately assess such increases in credit risk in a timely manner or at all. Moreover, the length and intensity of the Russia-Ukraine conflict might cause additional spill-over effects in the mid-term, such as raising the price of energy sources or their availability, which may at a later period have some impact also on other segments of the credit portfolio.

NLB has taken several measures in recent years to manage non-performing loans or loans with higher risk, including the adoption of a Non-Performing Loans ("NPL") strategy, introduction and development of a restructuring and work-out unit, the introduction of an early warning system and a loan watch committee, and the renewal of a credit process and rating methodology, as well as establishing new scoring models for certain segments. In addition, the NLB Group regularly monitors credit portfolio quality and performs different scenario analyses and stress tests where the financial resilience of NLB Group's business model is tested. Notwithstanding these new procedures and improvements in the NLB Group's credit risk management, there can be no assurance that these procedures will be sufficient to ensure that NLB's and the NLB Group's NPL or the corresponding impairments, which reflect expected credit losses ("ECL"), will remain at the appropriate level in the future. Any potential increase in the impairment allowances for loans and advances to customers, any potential loan losses in excess of the previously determined impairment allowances for loans and advances to customers with respect thereto or any potential changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

2.2 *The NLB Group is exposed to risks in relation to market impacts on collateral value and the enforcement of such collateral*

The NLB Group generally seeks collateral for its loans. A significant proportion of this collateral takes the form of mortgages or other security over assets and there are particular risks associated with this form of collateral when a client defaults. In addition, part of the collateral taken by the NLB Group comprises share pledges. The value of this collateral can be adversely affected by falling stock market values (in the case of

listed shares) or adverse developments in a business (in the case of non-listed shares). Additionally, guarantees issued by the Republic of Slovenia represent a significant amount of collateral, with such guarantee to one customer valued at approximately EUR 363 million as at 31 December 2021. In addition, the NLB Group may experience difficulty in enforcing certain collateral, particularly in the case of non-listed shares.

In addition to operations in the Republic of Slovenia, the NLB Group's operations include banking subsidiaries in Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia. In connection with its loans or other banking operations in the above-mentioned jurisdictions, and in Croatia, the NLB Group holds mortgages over assets, as well as movable collateral, including machinery, equipment, vehicles and other forms of collateral. Procedures in these jurisdictions for the sale or other enforcement actions in relation to mortgages on real property in particular may be protracted and difficult to practically implement. In cases where the NLB Group is unable to enforce effectively against real estate or other collateral granted to it, this will delay recovery of the relevant loan and could expose the NLB Group to increased losses on the relevant loan, especially in the case of falling property markets.

Enforcement of collateral located outside the EU may prove to be more difficult, more time consuming and more expensive than for collateral located within the EU, and may be subject to different requirements and restrictions than for collateral located in the EU.

If the NLB Group is not able to enforce security over collateral held in or outside the EU in a timely manner or at all, it may have an adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flow.

2.3 *A substantial portion of the NLB Group's loans are secured by property interests and the NLB Group is therefore exposed to any downturn in the property markets in which it operates, including various disrupting factors in SEE which influence volatility in the local real estate market*

Of the EUR 2,581 million and EUR 2,615 million of lending in NLB's credit portfolio secured by collateral as at 31 December 2021 and 31 December 2020, respectively, EUR 1,867 million and EUR 1,701 million were secured by real estate collateral. Of the EUR 5,713 million and EUR 5,439 million of lending in the NLB Group's credit portfolio secured by collateral as at 31 December 2021 and 31 December 2020, respectively, EUR 4,153 million and EUR 3,829 million were secured by real estate collateral.

In 2015, prices of residential real estate in the Republic of Slovenia started to grow after a period of substantial decline. The real estate market in Slovenia in the years 2020 and 2021, which was in all aspects marked by the COVID-19 pandemic, shows that the volume of trading on the residential real estate market was lower than before the pandemic, however residential real estate prices continued to rise. Price growth continues also in 2022. Although the real estate market is currently in a favourable condition, a downturn in economic activity and subsequently in the real estate market could adversely affect the value of the collateral pool.

The NLB Group applies a cash flow-based credit policy that considers the repayment capacity of a customer when extending on or off-balance loans and other exposures. This policy also applies to all lending backed or collateralised by residential or commercial real estate. However, circumstances may change over time. Any economic downturn in the countries in which the NLB Group operates, including declines in the value of real estate and increases in unemployment rates, could adversely affect NLB's and the NLB Group's collateral coverage of its loan portfolio with respect to new and existing NPL and generate increases in impairment losses, which could materially affect NLB's and the NLB Group's financial condition and results of operations. In addition, the effects of declining property values on the wider economies in which the NLB Group operates may also contribute to higher default rates and impairment losses on other loans extended by them.

2.4 *The NLB Group has concentrations of both loans and deposits geographically and in terms of customer type. These concentrations, along with an associated concentration of its investment portfolio, expose the NLB Group to enhanced levels of risk*

The NLB Group's loans and deposits are geographically concentrated. The NLB Group's corporate, retail and small and medium-sized enterprise ("SME") loans are largely concentrated in the Republic of Slovenia (45.0 per cent. of funded loans as at 31 December 2021, 44.1 per cent. as at 31 December 2020). With

respect to liabilities, 54.2 per cent. and 53.2 per cent. of its deposits were from Slovenian depositors at 31 December 2021 and 31 December 2020, respectively.

The NLB Group's investment portfolio also has a concentration of Slovenian credit risk, with 12.8 per cent. and 15.8 per cent. of the portfolio representing Slovenian Government and private sector bonds held by the NLB Group as at 31 December 2021 and 31 December 2020, respectively. Accordingly, the NLB Group is particularly exposed to any future downturn in the economy of the Republic of Slovenia.

In addition, the NLB Group's loan portfolio is concentrated in relation to its largest corporate customers (as at 31 December 2021 the NLB Group's 10 and 20 largest customers accounted for 5.2 per cent. and 7.3 per cent., respectively, of the NLB Group's total loan portfolio). As a result, any decision by one or more of these customers to move its business to another bank or any default by one or more of these customers would likely have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

2.5 *NLB may be required to increase its capital in future for a range of different reasons, including as a result of changing regulatory requirements (including MREL requirement), and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group*

As of 1 March 2022, NLB is required to maintain, on a consolidated basis, an overall capital requirement ("**OCR**") of at least 14.10 per cent. (consisting of 9.46 per cent. Common Equity Tier 1 ("**CET 1**") capital; 11.45 per cent. Tier 1 capital), consisting of a 10.60 per cent. of total supervisory review and evaluation process ("**SREP**") capital requirement (consisting of 5.96 per cent. CET 1 capital; 7.95 per cent. Tier 1 capital) and a 3.5 per cent. combined buffer requirement (the "**Combined Buffer Requirement**") (consisting of a 2.5 per cent. capital conservation buffer, 1.0 per cent. other systemically important buffer¹ and 0 per cent. countercyclical buffer, to be made up of CET 1 capital only) based on an European Central Bank ("**ECB**") decision as of 2 February 2022 (see "*Description of the Issuer and the Group – Capital Requirements*" and "*Recent Developments*" for more information regarding these capital requirements, changes in the capital requirements applicable from 1 January 2023 and the Issuer's capital position).

On 24 November 2021, the Bank of Slovenia issued a decision under which it requests that the Bank maintains the capital buffer requirement for other systemically important institutions ("**O-SII Buffer**") in the amount of 1.25 per cent. as of 1 January 2023.

On 6 May 2022, the Bank of Slovenia issued a decision under which it introduces a systemic risk buffer with the aim of mitigating and preventing excessive credit growth and excessive leverage and limiting the concentration of direct and indirect exposure. The decision determines the requirement to maintain a systemic risk buffer for sectoral exposures in the Republic of Slovenia with following weights -1.0 per cent. of all retail exposures to natural persons secured by residential real estate and 0.5 per cent. for all other retail exposures. This requirement must be fulfilled from 1 January 2023 onwards.

As the regulations or risk profile of the Group may additionally change in the future, capital requirements could change as well.

Should NLB be required to increase its capital in future for any reason, including changes in regulatory capital requirements and continued significant losses, no assurance can be given that it will be successful in doing so on favourable terms, in a timely manner or at all. NLB's ability to obtain additional capital may be restricted by a number of factors, including:

- its ability to obtain any required regulatory approvals;
- decisions of its shareholders with respect to the approval of future capital increases;
- general market conditions for capital-raising activities by commercial banks;

¹ Please see also "*Recent Developments*".

- the financial condition, results of operations and cash flows of NLB at the time of the proposed capital increase; and
- the credit rating of NLB at the time of the proposed capital increase.

As of 1 January 2024, NLB must comply with the MREL requirement on a consolidated basis at the resolution group level (the "NLB Resolution Group", consisting of the Issuer and other members of the Group, excluding banks) which amounts to 31.38 per cent. of Total Risk Exposure Amount (TREA) (excluding Combined Buffer Requirement (CBR)) and 9.97 per cent. of the Leverage Ratio Exposure (LRE). NLB has to ensure a linear build-up of own funds and eligible liabilities towards the MREL requirement and its compliance with 25.19 per cent. of TREA (excluding CBR) and 8.03 per cent. of the LRE on 1 January 2022 (see "Description of the Issuer and the Group – Capital Requirements"). Breaching the MREL requirement could have potential implications on NLB's performance and would prohibit NLB from distributing more than the maximum distributable amount related to MREL (M-MDA).

Any failure by NLB to comply with applicable capital requirements or otherwise to maintain sufficient levels of capital to conduct its business could have a material adverse effect on NLB's and the NLB Group's business, financial condition and results of operations. Moreover, a breach of capital requirements and other regulatory ratios could result in NLB being subject to administrative sanctions. These sanctions could increase its operating costs and could adversely affect its reputation and, consequently, could have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

Each of the other banks in the NLB Group is subject to local regulations relating to required levels of capital, including:

- local capital regulations following Basel III guidelines, subject to different stages of convergence with EU regulation²; and
- a minimum required level of capital. This is generally higher than 8 per cent., with most countries setting NLB Group entities higher minimum capital levels (12 per cent. in Bosnia and Herzegovina and Kosovo and 8 per cent. in North Macedonia, Montenegro and Serbia). In line with newly adopted regulation in Serbia, North Macedonia, Bosnia and Herzegovina, Montenegro and Kosovo, minimum capital requirements are more closely aligned with CRR rules. However, all of these requirements are not directly or fully comparable to the EU requirement for a minimum required level of capital, as the definitions of risk-weighted assets ("**RWA**") and of capital instruments may differ. In addition, the implementation and enforcement of locally defined Pillar 2 requirements, capital buffers and other capital deductions (for example, the deduction for provisions as a result of differences between local standards and the International Financial Reporting Standards as adopted by the EU ("**IFRS**")) may depend on the local regulator's view and guidance.

Should any NLB Group banking member be required to increase its capital for any reason, it is likely to look first to NLB (as principal shareholder) to assure such capital increase, but NLB will not necessarily grant such request. If NLB was unable to provide the required capital, its shareholding in the banking member concerned may be diluted by the issue of additional shares or sale of the capital investment to the other potential shareholders. Each of these outcomes could adversely affect the NLB Group's business, financial condition, results of operations, cash flows and prospects.

3. **Risks relating to liquidity, market conditions and operational risk**

3.1 ***The NLB Group is subject to the risk that liquidity and sources of funding that it currently utilises may not always be readily available***

Liquidity risk is the risk that an entity will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including,

² As of January 2020 Serbia is included to the list of the third countries and territories whose supervisory and regulatory requirements are considered equivalent under the EU regime (i.e. Third country firm treatment and equivalence under the EU Banking Package (as defined below)). The same treatment has also come into force for Bosnia and Herzegovina and North Macedonia in October 2021.

for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Even after the issuance of a senior preferred bonds in July 2022 the NLB Group's average funding cost is still relatively low due to its funding structure, relying mostly on NBS deposits. However, funding costs could increase due to changes in market conditions or new regulatory requirements, including the amendments on the minimum requirement for own funds and eligible liabilities ("**MREL**") under the EU Banking Package (see "*The Issuer is subject to a number of strict and extensive regulatory rules and requirements*"), which may require NLB to increase its long-term funding requirements. As the result of such developments, the NLB Group must meet a MREL requirement.

However, even the perception that a financial institution is experiencing greater liquidity risk can cause significant damage to the institution. If the NLB Group's short-term funding sources become volatile or unavailable, the NLB Group would be required to utilise other, more expensive, sources to meet its funding needs, such as collateralised borrowing or asset sales. The NLB Group's ability to sell assets at a commercially desirable price or to sell at all may be impaired if other market participants are seeking to sell similar assets at the same time or are not in a position to finance themselves; or when the market value of assets, including financial instruments underlying derivative transactions to which the NLB Group members are party, is difficult to ascertain. This has occurred at certain times during and since the global financial crisis. In addition, financial institutions with which the NLB Group interacts may exercise set-off rights or rights to require additional collateral. Any of these or other events could impair the NLB Group's access to liquidity.

Future disruptions, uncertainty or volatility in the capital and credit markets could limit the NLB Group's ability to refinance maturing liabilities with long-term funding. The availability to the NLB Group of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit both generally and to borrowers in the financial services industry specifically, the volume of trading activities, the NLB Group's financial condition, its credit ratings and its credit capacity. It will also be affected by the possibility that customers or lenders could develop a negative perception of the NLB Group's financial prospects; as might happen if for example, the NLB Group experiences significant deposit outflows or if the level of the NLB Group's business activity decreases due to a market downturn. In particular, the NLB Group's access to funds may be impaired if regulatory authorities or rating agencies impose additional regulatory capital requirements or downgrade the NLB Group's debt rating. Any of these developments may limit the NLB Group's ability to raise additional capital to support business growth, counterbalance the consequence of losses or satisfy increased regulatory capital requirements, and could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, liquidity and prospects.

In addition, as is the case with many banks, the NLB Group relies on customer deposits to meet a substantial portion of its funding requirements. Such deposits are subject to fluctuation due to certain factors outside the NLB Group's control, such as any possible loss of confidence and competitive pressures, which could result in a significant outflow of deposits within a short period of time. A material decrease in the NLB Group's deposits could have a negative impact on the NLB Group's liquidity.

3.2 *NLB's borrowing costs, access to the capital markets, reputation and competitive position depend significantly on its credit ratings and the credit rating of the Republic of Slovenia*

Credit ratings represent an important component of the NLB Group's liquidity profile and affect the cost and other terms on which the NLB Group is able to obtain funding. Changes to the NLB Group's credit ratings reflect developments in the solvency, liquidity and overall financial profile of the Bank. NLB's credit rating could also be impacted by any change to the risk profile of the Republic of Slovenia, as reflected in the sovereign credit rating of the Republic of Slovenia.

Any downgrade in NLB's or the Republic of Slovenia's credit ratings could materially adversely affect NLB's liquidity including by negatively impacting its risk profile and competitive position, undermining confidence in the NLB Group, increasing its borrowing costs, limiting its access to the capital markets, or limiting the range of counterparties willing to enter into transactions with NLB and other NLB Group members. NLB's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure of the NLB Group to successfully implement its strategies. A downgrade of NLB's credit ratings could lead to reputational damage for the NLB Group, which may also lead to a loss of customers and counterparties that could in turn have an adverse effect on the NLB Group's business, results of operations and financial condition.

3.3 *The NLB Group is exposed to risks related to volatility in global liquidity in financial markets resulting from the monetary policies of central banks*

Central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, central banks are eliminating quantitative easing and tightening their monetary policies, which is leading to an increase of interest rates back to levels closer to historical norms.

A prolonged period of low interest rates carries the risk that market participants may have taken on more risk than they expected in a 'search for yield'. This may leave them exposed to faster than expected tightening of monetary policy. Changes to policy rates and sometimes inconsistent monetary policies by the U.S. Federal Reserve Board of Governors and other central banks, including the ECB, may also result in volatility in capital flows, adverse fluctuations in currency markets, a suppression of demand and a reduction in the availability of credit, which may limit economic activity in the Republic of Slovenia or elsewhere. In addition to market participants, corporations and households may be negatively impacted by rising interest rates and their ability to make payments on debt or loans could be negatively affected. This could lead to rising defaults, further economic slowdown and could negatively impact future economic development in areas in which the NLB Group operates.

3.4 *Fluctuations in interest rates may adversely affect the NLB Group's results*

The Group assesses its exposure to interest rate risk to remain moderate and within risk appetite. It arises mainly from the banking book positions. The Group places excess liquidity mainly into banking book securities with fixed interest rates, while in the low interest rate environment there was also a higher demand for products with fixed interest rate. In recent years the Group has recorded a growth of fixed interest rate loans and long-term banking book securities on the assets side and the transformation of deposits from term to sight as a consequence of low interest rate environment and excessive liquidity.

The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and fund transfer pricing policy. An important part of the interest rate risk management is the banking book securities portfolio, which is used to maintain adequate liquidity reserves and the stability of the interest rate margin. In addition, the Group also uses plain vanilla derivative financial instruments for interest rate risk management, such as interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements.

The Russia-Ukraine conflict has led to considerable volatility in the financial markets, in particular shifts in credit spreads, interest rates and foreign exchange rates. Special attention is given to the markets in the Balkans, neighbouring countries to Ukraine and Russia and international banks with operations in Russia. NLB Group is closely monitoring its major bond portfolio positions, mostly sovereigns, with stronger connection to the Russian crisis.

Since beginning of the crisis the Group has been observing raising yield environment and credit spreads widening which materially impacted Group's Fair Value through Other Comprehensive Income ("FVOCI") positions. Consequently, the Group carefully manages the structure and concentration of liquidity reserves, by incorporating early warning systems, keeping in mind the potential adverse negative market movements by further shortening of the portfolio duration, reducing certain exposures and classification of new investments with longer maturity in amortized cost group in order to decrease sensitivity of regulatory capital.

NLB's and the NLB Group's profitability is to a large extent based on their respective net interest income levels. This is the reason that stabilising net interest income is NLB's important goal when managing interest rate risk additionally, future changes in the financial markets, namely required yields to maturity and credit spreads, may have a material effect on NLB's and the NLB Group's FVOCI positions. While the NLB Group monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments, any significant and unanticipated interest rate movements in the Republic of Slovenia and the Eurozone or in other markets where the NLB Group operates could adversely affect NLB's and the NLB Group's operations, financial condition and corresponding regulatory capital position.

3.5 ***The NLB Group is exposed to risks related to exchange rate fluctuations***

The NLB Group operates its main business activities in Euro, which is the reporting currency of the Group. Subsidiary banks conduct business mainly in Euro (in addition to their domestic currencies). The Group's net open foreign exchange position from transactional risk amounts to 1.1 per cent. of capital as of 31 December 2021.

For the purposes of the NLB Group consolidated financial statements, transactions executed in currencies other than Euro are converted into Euro at the exchange rate prevailing at the date of such a transaction. Any gains or losses resulting from such transactions and from converting assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. Assets and liabilities denominated in the domestic currencies of foreign non-Euro subsidiaries are converted into Euro and any resulting exchange differences are recognised in other comprehensive income. Gains or losses that appear in other comprehensive income may affect shareholder's equity and the CET 1 capital ratio.

Some of the NLB Group's banking members operate their main business activities in Euro, whereby they are exposed to foreign exchange lending risk if the domestic currency materially depreciates against the Euro, even though they include this risk evaluation within the process of a client's creditworthiness assessment.

The Russia-Ukraine conflict has led to considerable volatility in the financial markets, in particular shifts in credit spreads, interest rates and foreign exchange rates. Regarding the Group's major FX positions, no material movements were observed so far. Current developments, market observations and potential mitigations are monitored and movements may occur in the future if the conflict continues for a prolonged period of time. However, NLB Group may not be able to identify significant changes in a timely manner and mitigate them adequately due to limited scope of disposable measures.

Nonetheless, fluctuations in exchange rates between the Euro and other currencies could impact the NLB Group's financial results in a number of ways. Future changes in the financial markets, namely foreign exchange fluctuations, may have a material effect on NLB's and the NLB Group's business and operations. No assurance can be given that they will not have an adverse effect on the results of operations of the NLB Group.

3.6 ***The NLB Group faces interest rate, liquidity, foreign exchange, credit, market, investment, operational and associated climate & environmental risks that could adversely affect if its risk management policies would not succeed***

The NLB Group faces a number of business risks that could adversely affect it. These include interest rate, liquidity, foreign exchange, credit, market, investment operational and associated climate & environmental risks. Although NLB invests substantial effort in its risk management strategies, framework and systems, these strategies, framework and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that NLB did not identify correctly or in a timely fashion. Furthermore, NLB may not be able to make a correct assessment or evaluation of the risks to which it is exposed.

Some of the measures taken by the NLB Group to manage various risks are to enter into hedging transactions to manage market risks, to set credit risk limits for each counterparty's investment (within a two-stage decision-making process) and, on an NLB Group portfolio level (to which the NLB Group is exposed in its lending business), to have sufficient collateral for credit provided and to do due diligence to manage legal risks. Some of these and other methods used by the NLB Group to manage, estimate and measure risk are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical market developments may also not adequately allow a sufficiently accurate prediction of future circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the NLB Group. Such information may not always be correct, updated or correctly evaluated.

In addition, the risk methodologies and techniques used by the NLB Group may not cover adequately the entire spectrum of risks to which the NLB Group is subject. If any such risks materialise, the associated

losses could be greater than NLB may have anticipated, which may have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

4. Risks relating to NLB Group operations

4.1 *The NLB Group is exposed to risks related to current and potential future acquisitions or disposals of assets*

On 1 March 2022, the Single Resolution Board ("SRB") in coordination with the local regulator (Bank of Slovenia) decided to adopt a resolution scheme in respect of Slovenian Sberbank banka d.d. ("Sberbank"). The resolution scheme envisaged the application of the sale of business tool for Sberbank and Bank of Slovenia issued a decision for the sale of 100 per cent. shares issued by Sberbank. Under the resolution scheme, and following a marketing procedure, the SRB has decided to transfer all the shares issued by the Sberbank to NLB. Therefore, as of 1 March 2022, NLB became a 100 per cent. owner of Sberbank.

Activities for integration of Sberbank within NLB Group and harmonisation with the Group standards are already underway. However, there can be no assurance that this process will be successful or completed within the intended timeframe. The integration may lead to key employees and staff leaving with replacement being hard to find. IT and other systems need to be merged, which may prove more difficult than expected and further delayed by ongoing IT transformation projects of NLB Group. Finally, due to the Bank Identifier Code (BIC) and Bank Identification Number (BIN) still relating to Sberbank, some customers are still experiencing difficulties with the execution of payment transactions and issues with credit and debit card acceptance across domestic and international merchant networks in connection with the financial and economic sanctions imposed against Russia.

For more information see "*Recent Developments*".

NLB may undertake mergers, acquisitions and disposals of assets and entities in the future. The NLB Group evaluates potential acquisitions on an opportunistic basis, taking into consideration its objectives to strengthen its position in certain strategic markets. Such transactions may entail significant risks related to the implementation of transactions, including risk of mispricing assets or entities, inadequate due diligence, risks related to contractual obligations entered into in such transactions and others.

There can be no assurance that the NLB Group will be successful in any acquisition process that it participates in or that it would be able to successfully integrate business operations of entities that it acquires in the future. In the context of an acquisition, the NLB Group would strive to achieve revenue and cost synergies, operating efficiencies, business growth opportunities, as well as other benefits from any acquisition. Integrating entities following an acquisition, however, may be complex and expensive and may present a number of challenges. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may not materialise, in part because of the assumptions upon which the NLB Group determines to proceed with any acquisition may prove to be incorrect. It is NLB Group policy to complete due diligence in relation to any potential acquisition, but there can be no guarantee that such due diligence would be sufficient to uncover all material issues or that the quality of assets acquired would not have a negative impact on the NLB Group's capital position. As a result, if anticipated synergies or other benefits of an acquisition are not achieved, or if those achieved are materially different from those that were expected, then this could have a material adverse effect on the NLB Group's business, financial condition, results of operations or prospects.

4.2 *The NLB Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate*

The preparation of the NLB Group's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events. Some areas involving a higher degree of judgement, where assumptions are significant to the financial statements, include the recognition of the expected losses for all financial instruments, not measured at fair value through profit and loss, including loan commitments and financial guarantees,

recognition of deferred tax assets and the fair value of unquoted financial instruments and investments in subsidiaries, associates and joint ventures.

If the judgements, estimates and assumptions used by the NLB Group in preparing its consolidated financial statements are subsequently found to be incorrect there could be a significant loss to them beyond that anticipated or provided for or an adjustment to those consolidated financial statements, which could have a material adverse effect on the Group's business, financial condition and results of operations. (For further detail please refer to "*Description of the Issuer and the Group – Loan Portfolio – Impairment methodology*").

4.3 *The NLB Group's IT systems may fail or their security may be compromised*

The NLB Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and/or employees, and maintaining financial records. In addition, the NLB Group uses distribution channels based on an IT platform comprising online banking, mobile banking and call centres.

The IT systems used by the NLB Group may be vulnerable to physical and electronic breaches, computer viruses and other attacks by cyber criminals, internet fraudsters or internal abuse. This could lead to, amongst other things, a leakage of the NLB Group's customer data, damage related to incursions, destruction of documents, failures or delays in processing transactions and unauthorised transactions. Furthermore, software errors and similar problems could have a significant effect on the NLB Group's ability to support and satisfy the needs of customers in a timely manner, interrupt the NLB Group's activities, damage its reputation, expose the NLB Group to increased regulatory audits or cause it to incur substantial technical, legal or other costs. The occurrence of any IT systems failures or a security breach may adversely affect the business, financial condition, results of operations or development prospects of the NLB Group.

4.4 *The NLB Group is dependent on the strength of its reputation*

The NLB Group's market position relies in large part on its reputation and ability to provide a wide range of services to its customers.

In the event that the NLB Group's brand or reputation is damaged, for example as a result of litigation or other claims against one or more of the NLB Group members, administrative investigations or proceedings, negative press coverage or general negative perceptions about the NLB Group's services, this may have a negative effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

4.5 *The NLB Group's insurance policies and own risk assessment premiums may not cover particular future losses*

While the NLB Group believes that the insurance policies presently held by the NLB Group to cover its assets and operations are in line with general market practice, and is actively following the development of and implementing insurance products pursuant to changes in the business and regulatory environment, there is no guarantee that the NLB Group's insurance adequately covers every possible future loss, or that the terms of currently implemented insurance will be sufficient to cover losses as they occur.

Any loss which is not covered by the NLB Group's existing insurance policies or own risk assessment premiums may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows, and even if covered, may result in increased insurance costs, increased risk assessment premiums charged to the clients or increased difficulties in acquiring insurance for the NLB Group.

4.6 *NLB Group is subject to the risk of money laundering and financing terrorism whereby third parties might use NLB Group as a conduit for illegal or terrorist activities, without the knowledge of the NLB Group, which could have a material adverse effect on the NLB Group*

The NLB Group is subject to legal provisions in connection with measures to avoid money laundering, corruption and terrorism financing ("**AML Rules**") which are continuously amended and tightened.

The Issuer's obligation to comply with these AML Rules causes significant costs and expenses for the Issuer. In addition, any (factual or even only alleged) breach of the AML Rules may have main negative legal, financial and reputational consequences for the Issuer.

NLB is subject to direct supervision of the ECB, and under the Slovenian anti-money laundering ("**AML**") and anti-terrorist financing ("**CFT**") law "*Zakon o preprečevanju pranja denarja in financiranja terorizma, ZPPDFT-2*", NLB can be subject to inspection procedures by the Slovenian Office for Money Laundering Prevention (*Urad za preprečevanje pranja denarja*) and Slovenian Securities Markets Agency. There is a risk that third parties could use the financial system of NLB or the other NLB Group members (or their respective correspondent banks) as a conduit for money laundering or terrorist financing (including illegal cash operations), or bribery or breaches of financial and economic sanctions without NLB's or another NLB Group member's (or their respective correspondent banks') knowledge. Failure to comply adequately with such regulations and standards could have a material adverse effect on the NLB or other NLB Group members or could trigger any other misdemeanour procedures for non-material violations. Following NLB Group level audit, the Bank of Slovenia issued an order in June 2019, requiring NLB to improve the efficiency of its AML and CFT policies. NLB was in the process of updating certain policies relating to AML and CFT when it received the order. NLB successfully met all the expectations and was in early 2021 informed by Bank of Slovenia that the order is closed; following that Bank of Slovenia issued a written warning and closed the procedure (For further detail please refer to "*Description of the Issuer and the Group – Compliance*").

The Federal Banking Agency, as the banking regulator for Bosnia and Herzegovina ("**BiH**"), conducts routine AML reviews of all banks in the federation, including NLB Banka Sarajevo. On September 2021 NLB Banka Sarajevo received a supervisory letter to remedy eight findings of deficiencies in NLB Banka Sarajevo's AML processes, and on April 2022, NLB Banka, Sarajevo received a decision and minor fine following the supervisory letter issued on September 2021. The Issuer does not consider the scope or nature of any of these findings to be material and NLB Banka Sarajevo expects to remedy all findings within the relevant deadlines.

The Financial Intelligence Unit of Kosovo, as the banking regulator for Kosovo conducts routine AML reviews on NLB Banka, Prishtina. On August 2021 NLB Banka, Prishtina received a decision and minor fine with recommendation for remedial action regarding country details in regular reporting, which were solved immediately. The Issuer does not consider the scope or nature of any of these findings to be material.

SEE is considered to be a higher risk region by field experts in the banking industry and at regulatory institutions, as well as by AML, anti-bribery and CFT authorities such as the FATF and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, with respect to money laundering, bribery, terrorist financing and corruption. This is particularly the case as regards those countries outside the EU, including Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia and Kosovo. Such region specific risks include:

- a significantly higher occurrence of cash transactions in comparison with other parts of Europe, which may result in difficulties establishing the source of funds;
- a large number of transactions to or from high-risk countries, especially those defined as "offshore" by the IMF;
- a significant number of investments and financial transactions involving or deriving from non-resident clients (especially from Russian residents as a result of long-standing ties in SEE countries to Russia, where the source of funds is often poorly disclosed); and
- a low grade on the corruption perception index by Transparency International.

NLB must also comply with the U.S. Patriot Act as a foreign bank, especially in the area of correspondent banking relationships defined as high risk. Special attention is paid to ensure that NLB does not enter into business relationships with shell banks (directly or indirectly) and offshore banks; and that it does not support correspondent accounts which are used directly by third parties to transact business on their own behalf (payable through account). However such measures may not be sufficient to ensure compliance with the U.S. Patriot Act.

In 2017, NLB was subject to extensive media exposure regarding AML and CFT as a result of a case involving transactions relating to Iran that took place in the years 2009 and 2010 (the "**Iran Case**"). This case was subject to a parliamentary investigation in 2017 and 2018, following which a special Parliamentary Commission was established in order to investigate the alleged AML breach (*Preiskovalna komisija o ugotavljanju domnevnega pranja denarja in financiranja terorizma, jedrske proliferacije ter financiranja aktivnosti tujih obveščevalno-varnostnih služb v NLB d.d. ter domnevnega pranja denarja v Novi KBM d.d.*). It concluded its work in May 2018. Part of the final report of the Parliamentary Commission has been published publicly, with portions of the report still restricted, including from NLB. Based on publicly available information, the Parliamentary Commission has not found any signs of criminal offences or breach of AML legislation in the case. It found that the former Management and Supervisory Boards of NLB had breached their duties. Furthermore, there were criminal charges filed against two former employees of NLB for false testimony during the hearing before the Parliamentary Commission, and former governmental representatives and a former representative of the Bank of Slovenia were found to have political responsibility in this case. As of the date of this Offering Circular, NLB is not aware of any proceedings regarding this case against NLB or its current employees with respect to the above investigation, or regarding the final findings of the authorities or the Parliamentary Commission mandated to investigate this case. According to Slovenian legislation any civil motion connected with the Iran Case has been time barred in accordance with the general statute of limitations of five years (*see – Description of the Issuer and the Group – Compliance*).

If NLB or any other Group member is associated with, or even accused of being associated with, money laundering or terrorist financing, then its and the NLB Group's reputation could suffer and it could become subject to criminal or regulatory fines, sanctions and/or legal enforcement (including being added to "blacklists" that might prohibit certain parties from engaging in transactions with NLB or other relevant NLB Group members). Any such actions may have a material adverse effect on NLB's or the NLB Group's business, financial condition, results of operations, cash flows and prospects.

4.7 The NLB Group is exposed to the risk of external or internal fraud

NLB and the other NLB Group member companies are exposed to various risks resulting from fraudulent activities, particularly in connection with loan approval processes, procurement and client account processing. The NLB Group may be negatively affected by, *inter alia*, instances of stolen or misappropriated NLB Group or customer funds, manipulation of the NLB Group's objective evaluation processes (e.g. for the valuation of collateral, credit risk, etc.), the breach or falsification of data and documentation any other types of deception.

For example, on 24 September 2018 NLB Montenegro received a formal indictment from the Special Prosecutor's Office of Montenegro in which, in addition to five other persons, a former member of the management board of NLB (the "**Management Board**") and NLB Montenegro (as a legal entity) were charged on suspicion of a criminal offence for the misuse of their position. (For further information see "*Description of the Issuer and the Group – Legal and Administrative Proceedings – Other monetary claims involving substantial amounts*").

The NLB Group has undertaken measures to upgrade its internal control and compliance system, and set up measures to facilitate fraud risk management. However these measures may not fully prevent future fraudulent activities, which could have adverse effects on NLB's finances, operations and reputation.

5. Legal risks

5.1 Unfavourable outcomes of pending litigation may adversely affect NLB and the Group

NLB and members of the NLB Group are involved in a number of legal proceedings, some of which, if resolved adversely to the interests of NLB or the relevant member of the NLB Group, could have a material adverse effect on NLB and the Group. As at 31 August 2022, NLB was involved in 17 legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). The aggregate amount of these claims, excluding accrued interest, was EUR 221.6 million. As at 31 August 2022, the NLB Group was involved in 43 legal disputes with monetary claims against NLB Group members exceeding EUR 1 million per case, excluding accrued interest, in the aggregate principal amount of EUR 465.9 million. Other than the Croatian litigation regarding transferred deposits and the litigation regarding the Bail-In (as defined below), each discussed below, such legal proceedings have arisen in connection with the ordinary course of business of NLB and the NLB Group.

NLB has established provisions in the amount of EUR 1.8 million in its financial statements for certain of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings. As at 31 August 2022, provisions with respect to monetary claims exceeding EUR 1 million per case were EUR 8.4 million at the NLB Group level, respectively. While management believes that NLB's financial statements make adequate provision for pending legal proceedings, a worse than expected outcome in any legal proceedings would mean that such provisions, or the absence of any provision, insufficiently cover NLB's liabilities and consequently could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

5.2 ***A failure by NLB to comply with its obligations under ZVKNNLB and the related agreement with the Fund would deprive NLB of the protection granted to it by ZVKNNLB***

NLB is currently involved in proceedings whereby the plaintiffs claim that NLB is responsible for the liabilities relating to foreign currency deposits that were held with Ljubljanska banka, Zagreb Branch ("**Ljubljanska banka Zagreb Branch**"). Ljubljanska banka Zagreb Branch is the Croatian branch of Ljubljanska banka d.d., Ljubljana ("**Ljubljanska banka**"), which in turn is an entity from which NLB received certain assets and liabilities in 1994 (as discussed below).

Two Croatian banks have filed claims against Ljubljanska banka and NLB, as the alleged co-debtor, in Croatian courts in relation to deposits in various foreign currencies with Ljubljanska banka Zagreb Branch that were transferred to Privredna banka Zagreb and Zagrebačka banka by their original depositors in line with Croatian legislation set up after the dissolution of the Socialist Federal Republic of Yugoslavia (the "**SFRY**"). The proceedings were filed during the period from 1994 to 1996. The aggregate principal amount of the claims against NLB is as at 31 August 2022 equivalent to approximately EUR 175.2 million (calculated at the exchange rates applicable on 31 August 2022), excluding any default interest. Due to the fact that the proceedings have been pending for a significant period of time, the default interest exceeds the principal amount of the transferred deposits. If NLB was found liable for these amounts, it would also be responsible for paying the litigation expenses of the plaintiffs.

Seven cases related to the transferred deposits have been litigated through to final judgment. The remaining matters are pending in various stages.

If NLB were to be found liable for the entire amount claimed, it would be obliged to pay significant amounts in principal, default interest and expenses. Pursuant to the Act on the Protection of the Value of Capital Investment of the Republic of Slovenia in NLB (*Zakon za zaščito vrednosti kapitalne naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana* – the "**ZVKNNLB**"), the Succession Fund of the Republic of Slovenia (*Sklad Republike Slovenije za nasledstvo, javni sklad*, (the "**Fund**")) is obliged to compensate NLB for the sums recovered from NLB by enforcement of final judgments delivered by Croatian courts in relation to the transferred deposits. However, the obligation of the Fund is subject to the compliance by NLB with certain obligations which include the use of all reasonable legal remedies against unfavourable court decisions and NLB may be obliged to repay to the Fund all sums received from the Fund if it voluntarily makes any payment in satisfaction of any such judgment.

Accordingly, an unfavourable outcome in any of these pending proceedings may result in a negative financial impact to NLB and there is a risk that a failure by NLB to comply with its obligations under ZVKNNLB would deprive NLB of the protection granted to it by ZVKNNLB. (For more detail please see "*Description of the Issuer and the Group – Legal and Administrative Proceedings – Claims in relating to liabilities in respect of transferred deposits*").

5.3 ***If NLB would be found liable for claims relating to the Bail-In, it may incur substantial financial burdens***

In relation to the decision of the Slovenian government for the Republic of Slovenia to participate in capital increases of NLB in 2011 and 2012, the European Commission ("**EC**") initiated a procedure to determine the compatibility of this participation with EU state aid rules. In accordance with the recommendations of the European Council published in June 2013, NLB (along with the majority of Slovenian banks) underwent an asset quality review (the "**AQR**") and "bottom-up" stress tests. In December 2013, the results of the AQR and stress test exercise revealed a capital shortfall for NLB of EUR 1,904 million. As a result, several measures aimed at ensuring the capital adequacy of NLB and the NLB Group were taken, including, amongst other measures, termination of all of NLB's obligations in respect of its share capital and subordinated financial instruments ("**Qualified Liabilities**") by way of a bail-in ("**Bail-In**").

Pursuant to the Slovenian Banking Act (*Zakon o bančništvu (ZBan-1)*) ("**ZBan-1**"), which was applicable in 2013, the only remedy available to persons who, as a result of the Bail-In, lost their investments in the Qualified Liabilities (the "**Affected Investors**"), is to claim compensation from the Bank of Slovenia. The Constitutional Court of the Republic of Slovenia (the "**Constitutional Court**") conducted the constitutional review of the provisions of ZBan-1 that provided the grounds for the Bank of Slovenia's Decision on extraordinary measures number 24.20-021/13-010 of 17 December 2013 (the "**Bank of Slovenia Decision**"). On 19 October 2016, the Constitutional Court deemed the provisions of ZBan-1 that govern the Bail-In were constitutional, including the provision which did not allow Affected Investors to claim damages or use any contractual remedy against NLB. However, the Constitutional Court further determined that the provisions relating to the claims against the Bank of Slovenia failed to provide an effective remedy to Affected Investors and were therefore unconstitutional. The Constitutional Court ordered the National Assembly to amend the legislation before 19 April 2017 in order to, amongst other things, address concerns regarding a disparity in the access to information and evidence between the Bank of Slovenia and Affected Investors and ruled that all court proceedings in which the Affected Investors claim compensation from the Bank of Slovenia shall be suspended until the said unconstitutionality is removed. The act addressing such unconstitutionality (*Zakon o postopku sodnega varstva imetnikov kvalificiranih obveznosti bank* ("**ZPSVIKOB**")) came into force on 19 December 2019. However, the proceedings against the Bank of Slovenia may be further delayed as the Bank of Slovenia filed with the Constitutional Court a petition for the constitutional review of ZPSVIKOB and, on 5 March 2020 the Constitutional Court has granted the request of the Bank of Slovenia to suspend the application of ZPSVIKOB until it the court makes its final decision.

The outcome of the constitutional review of ZPSVIKOB is not likely to affect NLB directly. However, further delays and uncertainty in relation to the enforcement of potential claims of Affected Investors against the Bank of Slovenia may induce the Affected Investors to try to recover their losses from NLB. Namely, although any claims against NLB in relation to the Bail-In are expressly excluded by law, certain Affected Investors nevertheless started lawsuits against NLB in which they are claiming compensation for the losses they incurred as a result of the Bail-In.

The claims made by the plaintiffs are based on various allegations, including misrepresentations made by NLB in the context of its public offering of the subordinated notes, a failure to disclose the conflict of interest and a failure to contest the Bank of Slovenia Decision, amongst others. Some plaintiffs have not specified the grounds for their claim.

These claims, if determined in favour of the plaintiffs, may result in a substantial financial burden to NLB.

As of 31 August 2022, 131 of these proceedings with claims amounting to nearly EUR 5.6 million are still pending while claims of 7 plaintiffs have been finally rejected by the courts and additional 6 plaintiffs have withdrawn their claims (see "*Description of the Issuer and the Group – Legal and Administrative Proceedings – Proceedings relating to the Bank of Slovenia Decision*"). As certain Affected Investors publicly announced claims exceeding such amount and since there is a possibility that NLB has not yet been notified of all the legal proceedings initiated against it in December 2016, this amount may increase in the course of time and such additional claims may be material. Based on allegations made by an attorney representing certain plaintiffs, NLB understands that the amount of these additional claims could exceed EUR 24 million.

No provision for any of these claims has been recorded and any losses recorded as a result of such claims may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

5.4 ***Unfavourable outcomes of pending Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs (CHF Law) may adversely affect NLB and the Group***

On 2 February 2022, the Slovenian National Assembly adopted the Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs ("**CHF Law**"). The CHF Law affects all loan agreements denominated in Swiss francs (regardless of whether the agreements are still in force) concluded between banks operating in Slovenia (including NLB) as lenders and individuals as borrowers in the period from 28 June 2004 to 31 December 2010, and provides for a cap on the exchange rate between Swiss francs and Euro to be set at 10 per cent. volatility and shall be applied from the conclusion of any of the affected loan agreements. On 28 February 2022, Slovenian

banks (including NLB) filed an initiative with the Constitutional Court of the Republic of Slovenia to initiate proceedings to assess the constitutionality of the CHF Law and a proposal for its temporary suspension of enforcement. The Constitutional Court of the Republic of Slovenia adopted a decision to suspend the implementation of the CHF Law in its entirety on 10 March 2022. The implementation of the law has been suspended until the final decision of the Constitutional Court on the conformity of the CHF Law with the Slovenian Constitution. The suspension became effective on 19 March 2022. During this time, the deadlines set for individual liabilities of Slovenian banks do not apply. Until the final decision of the Constitutional Court is made, NLB will act in accordance with the applicable legislation and court decisions, and will, at the same time, exercise all legal remedies at its disposal. Based on the assessment of the CHF Law and if outlined legal remedies are unsuccessful, the Bank estimates that a negative pre-tax effect on the operations of NLB Group should not exceed EUR 100 million (N Banka included).

Unfavourable outcome for in these legal proceedings for NLB could have a material adverse effect on NLB's and the NLB Group's business, financial condition, results of operations, cash flows and prospects.

6. Regulatory risks

6.1 *The Issuer is subject to a number of strict and extensive regulatory rules and requirements, including capital requirements*

The NLB Group is subject to a wide variety of laws and regulations relating to banking, insurance and financial services, including those governing its marketing and selling practices, and faces the risk of significant interventions by a number of regulatory and enforcement authorities in each of the jurisdictions in which it operates.

EU Banking Package and Reform of the Banking Union

NLB is subject to capital requirements and liquidity rules imposed by the EU which govern the activities in which banks may engage and are designed to maintain the safety and soundness of banks, and limit their exposure to risk. These include Directive 2013/36/EU as implemented in the Republic of Slovenia and Regulation (EU) No 575/2013, as amended, replaced or supplemented from time to time (including as amended by Regulation (EU) No 876/2019) (see "*Description of the Issuer and the Group – Capital Requirements*").

The Banking Union is a system for the supervision and resolution of credit institutions (including the Issuer) on EU level which is based on EU wide rules and currently consists of the Single Supervisory Mechanism and the Single Resolution Mechanism.

On 7 June 2019, a legislative package for amendments of the following EU legal acts regarding the Banking Union was published in the Official Journal of the EU ("**EU Banking Package**") which successively entered into force from 27 June 2019 onwards:

- (i) Directive 2013/36/EU ("**CRD IV**");
- (ii) Regulation (EU) No 575/2013 ("**CRR 2**");
- (iii) Directive 2014/59/EU ("**BRRD**"); and
- (iv) Regulation (EU) No 806/2014 ("**SRMR**").

The EU Banking Package ("**EU Banking Package**"), *inter alia*, includes the following measures which are a specific and material risk to the Issuer:

- a leverage ratio requirement for all institutions;
- a net stable funding requirement;
- revised rules on capital requirements for counterparty credit risk and for exposures to central counterparties;
- a revised Pillar 2 framework;

- enhanced minimum requirement for own funds and eligible liabilities (MREL) subordination rules for large banks referred to as top-tier banks;
- stricter conditions for liabilities in order to qualify as eligible liabilities instruments for MREL purposes;
- a new moratorium power for the resolution authority; and
- restrictions to distributions in case of MREL breaches.

The EU Banking Package entered into force on 27 June 2019. Certain amendments of the CRR apply already since 27 June 2019; further amendments of the CRR apply since 28 December 2020 and 28 June 2021, respectively, those of the SRMR since 28 December 2020. The EU Member States should have implemented the amendments of the BRRD and the CRD IV into national legislation by 28 December 2020. In Slovenia however, the relevant provisions entered into force on 23 June 2021.

On 27 October 2021, the European Commission adopted a further package of a review of the CRR and the CRD IV which is open for feedback until 24 August 2022. These new rules are aimed to ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. This package which is currently being discussed by the European Parliament and Council is comprised of the following legislative elements:

- implementing Basel III (for details, see "*Amended BCBS Standards*" below);
- sustainability; and
- stronger enforcement tools.

Additionally, the NLB Group is subject to stress tests, including regular stress testing exercises by the ECB, and other regulatory enquiries. Any negative outcomes could lead to a loss of trust in the NLB Group and materially and adversely affect the NLB Group's reputation and financing costs in addition to potentially triggering enforcement action by relevant competent authorities. The NLB Group is included in the ECB stress testing exercises each year. In 2016, 2017, 2018, 2019, 2020 and 2021 the NLB Group concluded the ECB's stress testing exercise in accordance with its requirements and the results were included in the SREP decision for the NLB Group.

Amended BCBS Standards

On 7 December 2017 and on 14 January 2019, the Basel Committee on Banking Supervision ("**BCBS**") published amended standards for its international regulatory framework for credit institutions developed by the BCBS. Within the EU, the revised standards must be transposed into EU law for being applicable. These Basel III reforms, inter alia, include the following key measures which are a specific and material risk to the Issuer if transposed into EU law:

- a revised standardised approach and the internal ratings-based approach for credit risk;
- revisions to the credit valuation adjustment (CVA) framework;
- a revised standardised approach for operational risk;
- revisions to the measurement of the leverage ratio;
- an aggregate output floor, which will ensure that RWA generated by internal models are not lower than 72.5 per cent. of RWA as calculated by the Basel III framework's standardised approaches; and
- the finalised revised market risk framework.

The revised BCBS standards will (due to a deferral because of the COVID-19 pandemic) take effect from 1 January 2023 and will be phased in over five years.

On 7 December 2017, the BCBS also published a discussion paper on the regulatory treatment of sovereign exposures which would result in higher risk weights for certain sovereign exposures for the Issuer.

In addition, on 31 March 2021, the BCBS released documents on the principles for the sound management of operational risk and operational resilience.

Compliance with these regulatory rules and requirements, in particular including the ongoing monitoring and implementation of new or amended rules and regulations cause significant costs and additional effort for the Issuer and any (factual or even only alleged) breach of such rules and requirements, such as the EU Banking Package and the amended BCBS standards, may result in major regulatory measures and bear a main legal and reputational risk. Furthermore, stricter regulatory rules and requirements, in particular the EU Banking Package and the amended BCBS Standards, result in significant capital demand for the Issuer and/or result in constraints and limitations on risk related business and other business of the Issuer; the latter will negatively affect the income and revenues of the Issuer.

Any failure to comply with applicable laws, regulations and requirements may result in the NLB Group being exposed to many forms of risk which could have an adverse effect on its business. These include financial and reputational losses, measures such as blacklisting by financial institutions, the termination of business partnerships and legal proceedings and penalisation by the relevant authorities. It could lead to legal or administrative sanctions, which may also affect the NLB Group's long-term ability to conduct its business and in turn its financial condition and results of operations.

6.2 ***The Issuer is obliged to contribute to the Single Resolution Fund and to the deposit guarantee fund***

The Single Resolution Fund ("**SRF**") has been established by the SRMR (as defined below) and is composed of contributions by credit institutions (including the Issuer) and certain investment firms in the participating EU Member States of the banking union. The SRF shall be gradually built up during an initial period of eight years (2016 – 2023) and shall reach the target level of at least 1 per cent. of the amount of covered deposits of all credit institutions within the banking union by 31 December 2023.

Furthermore, Directive 2014/49/EU (*Directive on Deposit Guarantee Schemes – "DGSD"*) stipulates a target level of the *ex-ante* financed funds for the deposit guarantee schemes of 0.8 per cent. of covered deposits. According to the Slovenian Deposit Guarantee Scheme Act (*Zakon o sistemu jamstva za vloge (ZSJV)*), which implements the DGSD in Slovenia, the deposit guarantee fund is to be fully funded by 3 July 2024. If necessary, credit institutions would have to pay certain additional (*ex post*) contributions in cases where the deposit guarantee fund does not have sufficient funds at its disposal to repay deposits covered by the guarantee.

The Slovenian Bank Resolution Authority and Fund Act (*Zakon o organu in skladu za reševanje bank*) established the Slovenian Bank Resolution Fund ("**BRF**"), to which Slovenian banks have to contribute. The BRF is operated and managed by the Bank of Slovenia and its purpose is to finance the compulsory winding-up measures that can be imposed by the Bank of Slovenia. Among other things, the funds of the BRF may be used for: (i) payment of the subscribed capital of the company established for the holding of the separate assets; (ii) payment of compensation to a bank in compulsory winding-up in cases where the BRF takes over its assets, rights and liabilities; and (iii) loans, guarantees, sureties or other collateral granted with respect to measures of compulsory winding-up. The assets of the BRF may not be used to cover past losses of a bank in compulsory winding-up. The target level of the assets in the BRF is 2.3 per cent. of all the guaranteed deposits at the banks in Slovenia. The BRF will cease its operations as of 31 December 2024, following which the contributions of the banks will be returned proportionally to their payments.

The Issuer's obligation to make such contributions may be an additional financial burden for the Issuer and may have a negative impact on the Issuer's business operations as well as its assets, financial position and results of operation.

6.3 ***If the relevant conditions are met, the resolution authority shall apply resolution actions in relation to the Issuer***

The BRRD and SRMR are the main legal basis for the recovery and resolution of credit institutions (including the Issuer) within the Banking Union.

If the conditions for resolution are met, the resolution authority shall take resolution actions (i.e. resolution tools and resolution powers) in relation to the Issuer in order to be able to exercise an orderly resolution, if the Issuer is failing (or likely to fail) and to preserve the financial stability.

The conditions for resolution of the Issuer are:

- the determination that the Issuer is failing or likely to fail has been made by the competent authority or the resolution authority;
- having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, or supervisory action, including early intervention measures or the write-down or conversion of relevant capital instruments and eligible liabilities taken in respect of the Issuer, would prevent the failure of the Issuer within a reasonable timeframe; and
- a resolution action is necessary in the public interest.

The resolution tools are: (i) the sale of business tool; (ii) the bridge institution tool; (iii) the asset separation tool; and (iv) the bail-in tool.

By applying the bail-in tool, the resolution authority may write down eligible liabilities in a cascading contribution to loss absorption of the Issuer or convert them into instruments of ownership. Moreover, the resolution authority can separate the performing assets from the impaired or under-performing assets and transfer the shares in the Issuer or all or part of the assets of the Issuer to a private purchaser or a bridge institution without the consent of the shareholders.

In addition, the resolution authority has so-called resolution powers, which it may exercise individually or in any combination in relation to or for the preparation of the application of a resolution tool in relation to the Issuer.

The BRRD and SRMR (as amended) indicate that as resolution strategies both, a single or multiple point-of-entry ("SPE" or "MPE") approach, are allowed. Under the SPE resolution strategy, only one group entity, typically the parent undertaking, is resolved (resolution entity), whereas other group entities, usually operating subsidiaries, are not subject to resolution action. Instead, the losses of those subsidiaries are transferred to the resolution entity and capital is down streamed to the subsidiary. Under the MPE resolution strategy, more than one entity of the banking group may be resolved. The SRB and all relevant national resolution authorities of the resolution college have reached a joint decision that an MPE approach is the preferred resolution strategy for NLB Resolution Group. Therefore, NLB Resolution Group pursues the MPE approach.

6.4 ***Changes in the regulatory framework within which the NLB Group operates could have a material adverse effect on NLB and/or the NLB Group***

NLB and the NLB Group are exposed to risks relating to changes in the regulatory framework within which they operate, including:

- changes in the monetary, interest rate, capital requirements and other policies of central banks and regulatory authorities;
- changes in laws and regulations or changes in regulatory regimes that could significantly influence investor decision-making in the markets within which the NLB Group operates or increase the costs of operating in those markets; for more information with regard to recent legislative proposals see "*Recent Developments*";
- changes to the regulatory requirements that the NLB Group must meet, such as prudential rules relating to capital requirements creating more onerous obligations than expected, the compliance with which may increase the NLB Group's capital requirements, expose it to additional costs and

liabilities, and require it to change how it conducts its business, including the reduction of risk and leverage of certain activities, or otherwise have an adverse impact on its business, the products and services it offers and the value of its assets;

- changes in laws and regulations that may influence the way in which the NLB Group provides banking, payment, investment and other services which increase the cost and/or risks associated with providing such services; for more information with regard to recent legislative proposals see "*Recent Developments*";
- restrictions on business growth or pricing and additional requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes to financial reporting standards;
- changes in competition and pricing environments, such as the harmonisation of card payment interchange fees;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to bank customer deposits and the terms attaching to such guarantees, including requirements for certain members of the NLB Group to accept exposure to the risk of the failure of any third-party participants in such guarantee schemes;
- the design and implementation of government-mandated resolution or insolvency regimes;
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes;
- regulations relating to, and enforcement of, data protection, anti-bribery, AML, CFT or other similar regimes;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty that, in turn, may affect demand for the NLB Group's products and services.

The financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Group's business, financial performance, capital and risk management strategies (see "*The Issuer is subject to a number of strict and extensive regulatory rules and requirements*").

The NLB Group prepares long-term capital plan projections, monitors regulatory and internal capital usage on a quarterly basis and prepares projections where changes to capital requirements or other ECB/EBA guidelines are anticipated. Nevertheless, changes to capital requirements or other conditions, if implemented, could force the NLB Group to acquire additional capital, which may be unavailable in the future or unavailable at an attractive rate or within the time frame necessary in order to ensure compliance with such requirements (see "*NLB may be required to increase its capital in future for a range of different reasons, including as a result of changing regulatory requirements, and may experience material difficulty in raising any such additional capital and other Group banks are subject to capital requirements in their own jurisdictions of operation and any failure by one or more of these banks to maintain appropriate levels of capital could have a material adverse effect on the NLB Group*").

In the regulatory environment in the rest of the region where the Group operates (non-EU countries), regulatory changes are taking place in the direction of harmonisation with EU legislation. Local regulatory authorities made changes in areas: (i) prudential and macroeconomic measures to ensure stable functioning of the financial systems, (ii) changes in regulatory reporting and risk management rules (liquidity, operational risk, collateral valuation, outsourcing, ICAAP/ILAAP, LCR), (iii) deposit guarantee schemes, (iv) bank recovery and resolution law, (v) bankruptcy and liquidation law, (vi) electronic money issuance and electronic payment systems, (vii) NPL and restructuring prudential treatment, (viii) personal data protection, harmonising with GDPR.

Changes to the regulatory framework within which the NLB Group operates may have a material effect on NLB's and the NLB Group's business and operations. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the NLB Group.

6.5 *The NLB Group is exposed to risks related to tax regulations*

The NLB Group is subject to financial reporting regulations and tax liabilities in all of the jurisdictions in which it operates. If the governments of these jurisdictions increase tax rates or impose additional taxes, this could thus reduce the NLB Group's profitability. Revisions to tax legislation or to its interpretation might also affect the NLB Group's financial condition in the future. In addition, the NLB Group is subject to tax audits. As a general rule, a tax inspection, which could result in additional tax assessments, may be initiated at any time within 4 to 6 years from the date of tax statement or from the year in which tax should have been assessed. Any such assessments could be material and might also affect the NLB Group's financial condition in the future.

Negative dispositions from tax authorities or unanticipated changes to financial reporting regulations and tax liabilities in any of the jurisdictions in which it operates could have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flow.

6.6 *Risks relating to IT infrastructure in connection with payment services*

In 2018, Directive (EU) 2015/2366 (Payment Services Directive II – "**PSD II**"), respective regulatory technical standards and The Payment Services, Services of Issuing Electronic Money and Payment Systems Act (*Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih*) came into force. Following these new regulatory requirements, the Issuer implemented its concept of "open banking" which provides access to the bank's clients' accounts (upon such clients' consent) to third party providers of payment services, offering payment initiation and account information services. Due to the additional technical interfaces required for these types of services, there is an increased risk of cyberattacks and failure in the IT structure. While the Issuer has introduced management measures to monitor these risks and no major incidents related to these new channels were registered so far, there can be no guarantee that these services operate without interruption or cyberattacks in the future.

Besides the realisation of regulatory requirements, the Issuer is striving to adequately respond to payment standards and infrastructure changes which are essential for payments processing. In this respect, the Issuer last year adhered to the EPC (European Payments Council) SEPA Inst scheme and to the ECB payment system for instant payments TIPS (TARGET instant payments settlement), which enables cross-border payment transactions in EUR to be processed instantly. Simultaneously, a significant effort is being put in necessary adaptations and adjustments in banks payments process and its IT infrastructure (applications) in order to be properly set for new requirements arising from TARGET2 and TARGET2 Securities consolidation and migration to ISO XML (Extensive markup language of The International Organization for Standardization) messaging standard for payments.

Nevertheless, such large-scale changes are accompanied with an increased risk of failure of upgraded systems or new components of IT systems.

In addition, an on-site solution audit by a regulator could result in the imposition of additional regulatory requirements relating to payment services on the NLB Group.

6.7 *Risks relating to changes in consumer financing regulation*

To minimise the growth of excessive consumer lending, the Bank of Slovenia adopted the Regulation on macroprudential restrictions on household lending (*Sklep o makrobonitetnih omejitvah kreditiranja prebivalstva*) which stipulates the following binding macroprudential instruments: (i) a maximum ratio of annual debt servicing costs to a consumer's annual income (DSTI) when a loan agreement is concluded; (ii) limits on maturity, and (iii) limits and rules on creditworthiness calculations. This effectively sets binding minimum credit standards. The regulation may therefore have a negative impact on demand for consumer lending products in Slovenia, and thus have an adverse effect on the business and results of operations of the NLB Group.

RISKS ARISING FROM THE NOTES

1. Risks associated with the nature of the Notes

1.1 *Noteholders are subject to risks resulting from the subordination of the Notes.*

The Notes are intended to qualify as Additional Tier 1 instruments pursuant to Article 52 of Regulation (EU) No 575/2013, as amended (*Capital Requirements Regulation* – the "CRR"). They constitute direct, unsecured, unguaranteed and subordinated obligations of the Issuer. In the event of normal insolvency proceedings (bankruptcy proceedings (*stečaj*)) or compulsory liquidation (*prisilna likvidacija*) of the Issuer, the obligations of the Issuer under the Notes will rank:

- (i) junior to all present or future: (a) unsubordinated instruments or obligations of the Issuer; and (b) any Tier 2 Instruments and any instruments or obligations which rank *pari passu* with or senior to Tier 2 Instruments; and (c) 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);
- (ii) *pari passu*: (a) among themselves; and (b) with all other present or future AT 1 Instruments; and (c) with all other present or future instruments or obligations ranking or expressed to rank *pari passu* with the AT 1 Instruments (as defined in the Terms and Conditions); and
- (iii) senior to all present or future: (a) ordinary shares of the Issuer and any other CET 1 Instruments (as defined in the Terms and Conditions); and (b) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank: (x) subordinated to the obligations of the Issuer under the Notes; or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

Although the Notes may pay a higher rate of distributions than other debt instruments which are not subordinated, there is a substantial risk that investors in subordinated notes such as the Notes will lose all or some of their investment, should the Issuer become insolvent or, following a write-down, either have insufficient profit to write up the Notes or decide in its sole discretion to not (or not fully) write up its Notes at all.

Furthermore, claims of the Issuer are not permitted to be set-off or netted against payment obligations of the Issuer under the Notes which are not, and may not become secured or subject to a guarantee or any other arrangement that enhances the seniority of the claim under the Notes. A Noteholder should therefore not expect to be able to set-off any obligations of the Issuer under the Notes against obligations of the Noteholder *vis-à-vis* the Issuer.

1.2 *The Issuer is not prohibited from issuing further debt which may rank pari passu with or senior to the Notes.*

The Terms and Conditions place no restriction on the amount of debt that the Issuer may issue or guarantee that ranks senior to, or *pari passu* with, the Notes. The Issuer may also issue debt instruments with trigger levels for write-down or conversion that are lower than those of the Notes (to the extent permitted by the applicable supervisory regulations), so that such debt instruments absorb losses after the Notes.

The issue or guaranteeing of any such debt instruments may reduce the amount recoverable by Noteholders upon the Issuer's insolvency. If the Issuer's financial condition were to deteriorate, the Noteholders could suffer direct and materially adverse consequences, including cancellation of distributions and reduction of the principal amount of the Notes and, if the Issuer were liquidated, the Noteholders could suffer loss of their entire investment (total loss).

In addition, the Issuer is not prohibited from issuing or guaranteeing other instruments that share in, or which depend upon, Available Distributable Items (as defined below), thereby reducing the amount available for distributions under the Notes. This could result in distributions on the Notes being either reduced or even cancelled entirely.

"**Available Distributable Items**" means in respect of any payment of distributions on the Notes the distributable items as defined in Article 4(1)(128) CRR.

- 1.3 ***The Issuer may, in its full discretion, cancel payments of distributions on the Notes and may, in certain circumstances be required to cancel such payments. The cancellation of distribution payments will be definitive and non-cumulative.***

Distributions on the Notes will be due and payable only at the sole discretion of the Issuer, and the Issuer shall have sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any distribution that would otherwise be payable on any Distribution Payment Date. Distributions will only be due and payable on a Distribution Payment Date to the extent it is not cancelled in accordance with the Terms and Conditions. If the Issuer does not make a distribution payment on the relevant Distribution Payment Date (or if the Issuer elects to make a payment of a portion, but not all, of such distribution payment), such non-payment shall evidence the Issuer's exercise of its discretion to cancel such distribution payment (or the portion of such distribution payment not paid), and accordingly such distribution payment (or the portion thereof not paid) shall not be due and payable.

The Issuer may cancel (in whole or in part) any distribution payment on the Notes at its discretion and may pay dividends on its shares notwithstanding such cancellation. In addition, the Issuer may without restriction use funds that could have been applied to make such cancelled payments to meet its other obligations as they become due.

Subject to the extent permitted in the following paragraph in respect of partial distribution payments, the Issuer shall not make a distribution payment on the Notes on any Distribution Payment Date (and such distribution payment shall therefore be deemed to have been cancelled and thus shall not be due and payable on such Distribution Payment Date) if the Issuer has an amount of Available Distributable Items on such Distribution Payment Date that is less than the sum of all distributions or interest payments on all other own funds instruments of the Issuer paid or required to be paid in the then financial year.

Although the Issuer may, in its sole discretion, elect to make a partial distribution payment on the Notes on any Distribution Payment Date, it may only do so to the extent that such partial distribution payment may be made without breaching the restriction in the preceding paragraph.

If and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on the Notes pursuant to the applicable banking regulations (including, without limitation, any such restrictions or prohibitions relating to circumstances where the "maximum distributable amount" (if any), determined in accordance with Article 141 (*Restrictions on distributions*) of Directive 2013/36/EU, as amended (*Capital Requirements Directive - the "CRD"*) (or, as the case may be, any provision of the law of Slovenia transposing or implementing such Article or analogous restrictions arising from the requirement to meet capital buffers under the applicable banking regulations) ("**Maximum Distributable Amount**") applies to the Issuer and/or the Issuer's Regulatory Group, no payments will be made on the Notes (whether by way of principal, distribution or otherwise). The Maximum Distributable Amount is a complex concept, and its determination is subject to considerable uncertainty and may change over time.

"**Issuer's Regulatory Group**" means, from time to time, the Issuer and each entity which is part of the banking group with a parent institution and/or any banking group with a parent financial holding company: (i) to which the Issuer belongs; and (ii) to which the own funds requirements on a consolidated basis due to prudential consolidation in accordance with the applicable supervisory regulations apply.

Additionally, pursuant to the EU Banking Package, a new Article 141a was introduced to better clarify, for the purposes of restrictions on distributions, the relationship between the additional own funds requirements, the minimum own funds requirements and the Combined Buffer Requirement (the so-called "**stacking order**"), with Article 141 (*Restrictions on distributions*) amended to reflect the stacking order in the calculation of the Maximum Distributable Amount. Under this new provision, an institution such as the Issuer will be considered as failing to meet the Combined Buffer Requirement for the purposes of Article 141 (*Restrictions on distributions*) of the Capital Requirements Directive where it does not have own funds and eligible liabilities in an amount and

of the quality needed to meet at the same time the requirement defined in Article 128(6) of the Capital Requirements Directive (*i.e.*, the Combined Buffer Requirement) as well as each of the minimum own funds requirements and the additional own funds requirements. In addition, the new Article 16a of the BRRD was introduced to better clarify the stacking order between the Combined Buffer Requirement and the minimum requirements for own funds and eligible liabilities ("**MREL**"). Pursuant to this new provision, a resolution authority will have the power to prohibit an entity from distributing more than the Maximum Distributable Amount for own funds and eligible liabilities (calculated in accordance with the proposed Article 16a(4) of the BRRD (the "**M-MDA**")) where the Combined Buffer Requirement and the MREL target are not met. Article 16a of the BRRD includes a nine-month grace period whereby the resolution authority assesses on a monthly basis whether to exercise its powers under the provision before such resolution authority is compelled to exercise its power under the provisions (subject to certain limited exceptions).

Furthermore, a new Article 141b of the Capital Requirements Directive applicable to global systemically important banks ("**G-SIBs**") was introduced to introduce a restriction on distributions in the case of a failure to meet the leverage ratio buffer, with provision for a new leverage ratio "maximum distributable amount" ("**L-MDA**") to be calculated. The M-MDA and, if in the future applicable to the Issuer, the L-MDA will both limit the same distributions as the Maximum Distributable Amount and so may limit the aggregate amount of distributions and redemption amounts that may be payable on the Notes. Furthermore, Noteholders will bear the risk of changes to the Issuer's or the Issuer's Regulatory Group's capital, leverage and/or MREL resources in general and, in particular, to the Issuer CET 1 Capital Ratio and the Group CET 1 Capital Ratio. Any changes to the rules to include more onerous requirements, and/or any decrease in the Issuer's or the Issuer's Regulatory Group's capital, leverage and/or MREL resources, and/or increase in such requirements applicable to the Issuer or the Issuer's Regulatory Group, may increase the risk of the Issuer breaching its Combined Buffer Requirements and being bound by Article 141 (*Restrictions on distributions*) of the Capital Requirements Directive which may, in turn, increase the risk of the Issuer exercising its discretion to cancel distributions in respect of the Notes.

"**Group CET 1 Capital Ratio**" refers to the common equity tier 1 capital ratio pursuant to Article 92(2)(a) CRR of the Issuer's Regulatory Group on a consolidated basis and "**Issuer CET 1 Capital Ratio**" refers to the common equity tier 1 capital ratio pursuant to Article 92 (2)(a) CRR of the Issuer on an individual basis.

Cancelled distributions shall not be due and shall not accumulate or be payable at any time thereafter, and Noteholders shall have no rights thereto or to receive any additional distributions or compensation as a result of such cancellation. Furthermore, no cancellation of distributions in accordance with the Terms and Conditions, shall constitute a default in payment or otherwise under the Notes.

Any actual or anticipated cancellation of distributions on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the distributions cancellation provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Moreover, any indication that the Issuer CET 1 Capital Ratio or the Group CET 1 Capital Ratio is trending towards the minimum applicable combined buffer or, more generally, a decline or perceived decline in the Issuer's or the Issuer's Regulatory Group's capital, leverage and/or MREL resources towards a level at which a breach of the Combined Buffer Requirement may occur may have an adverse effect on the market price of the Notes.

- 1.4 ***The Issuer may be required to reduce the initial principal amount of the Notes to absorb losses, which would reduce any redemption amount and any distribution payable on the Notes while the Notes are written down.***

The Notes are issued in order to meet prudential capital requirements with the intention and purpose of being eligible as own funds of the Issuer. In the opinion of the Issuer the Notes shall constitute AT 1 Instruments of the Issuer upon issue, *i.e.* Additional Tier 1 instruments pursuant to Article 52 CRR on a solo and/or group level of the Issuer. Such eligibility depends on a number of

statutory conditions being satisfied. One of these conditions relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, under the Terms and Conditions, if it has been determined that: (i) the Group CET 1 Capital Ratio and/or (ii) the Issuer CET 1 Capital Ratio fall to an amount that is lower than the applicable minimum trigger level (a "**Trigger Event**"), the Issuer will reduce the then Current Principal Amount of the Notes by the Write-down Amount (as defined in the Terms and Conditions).

For the avoidance of doubt, a Trigger Event may be determined at any time and may occur on more than one occasion and each Note may be subject to a write-down on more than one occasion. The occurrence of a Trigger Event, which would result in a write-down of the then Current Principal Amount of the Notes, is inherently unpredictable and depends on a number of factors, many of which may be outside the Issuer's control.

The Issuer's current and future outstanding junior securities might not include write-down or similar features with triggers comparable to those of the Notes and/or the write-down or conversion features of other loss absorbing instruments may not be fully effective in all circumstances. As a result, it is possible that the Notes will be subject to a write-down, while junior securities (including equity securities) remain outstanding and continue to receive payments and, as such, the Noteholders may be subject to losses ahead of holders of junior securities (including equity securities). It is also possible that Noteholders may be subject to greater losses if the write-down or conversion features of other loss absorbing instruments are not fully effective.

If a write-down pursuant to the Terms and Conditions occurs during any distribution period, unpaid distributions accrued on the then Current Principal Amount to but excluding the Effective Date (as defined in the Terms and Conditions) are cancelled. In accordance with the Terms and Conditions, the Notes shall bear distributions on the then adjusted Current Principal Amount from and including the Effective Date.

Noteholders may lose all or some of their investment as a result of a write-down. If the Issuer is liquidated or becomes insolvent prior to the Notes being written up in full (if at all) pursuant to the Terms and Conditions, Noteholders' claims for principal and distributions will be based on the then reduced Current Principal Amount of the Notes.

1.5 ***Upon the occurrence of a Trigger Event, there may be a write-down of the Notes even if other capital instruments of the Issuer are not written down or converted into Common Equity Tier 1 instruments.***

The Terms and Conditions of other capital instruments already in issue or to be issued after the date hereof by the Issuer may vary and accordingly such instruments may not be written down at the same time as the Notes if the Notes are written down, or to the same extent, as the Notes, or at all. Alternatively, such other capital instruments may provide that they shall convert into common equity tier 1 instruments, or become entitled to reinstatement of the principal amount of the Notes or other compensation in the event of a potential recovery of the Issuer and/or any other member of the Group or a subsequent change in the financial condition thereof. Such capital instruments may also provide for such reinstatement or compensation in different circumstances from those in which, or to a different extent to which, the principal amount of the Notes may be reinstated.

Upon the occurrence of a Trigger Event, to the extent that the prior or pro *rata* write-down or conversion of any other capital instruments issued by the Issuer is not applicable under their respective terms, or if applicable, does not occur for any reason, this shall not in any way affect the write-down of the Note.

1.6 ***The Issuer is under no obligation to reinstate any written down amounts.***

The Issuer is under no obligation to reinstate any principal amounts which have been subject to any write-down up to a maximum of the Original Principal Amount, even if certain conditions (further described in the Terms and Conditions) that would permit the Issuer to do so were met. Any write-up of the Notes is at the sole discretion of the Issuer.

Moreover, the Issuer will, *inter alia*, only have the option to write-up the Current Principal Amount of the Notes if, at a time when the then Current Principal Amount of the Notes is less than their

Original Principal Amount, (i) no Trigger Event is continuing or such write-up would give rise to a Trigger Event, (ii) positive Profit is recorded on an individual basis and consolidated basis, and (iii) if the Maximum Distributable Amount (if any) (when the amount of the write-up is aggregated together with other distributions on CET 1 Instruments) would not be exceeded when operating a write-up.

No assurance can be given that these conditions will ever be met or that the Issuer will ever write up (fully or partially) the principal amount (i.e. the then Current Principal Amount) of the Notes following a write-down.

The market price of the Notes is expected to be affected by fluctuations in the common equity tier 1 capital ratio of the Issuer and the Issuer's Regulatory Group. Any indication that the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio are approaching the level that would trigger a Trigger Event may have an adverse effect on the market price of the Notes.

1.7 ***Noteholders will bear the risk of changes in the Issuer CET 1 Capital Ratio and the Group CET 1 Capital Ratio.***

The market price of the Notes is expected to be affected by changes in the Issuer CET 1 Capital Ratio and the Group CET 1 Capital Ratio. Changes in the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio may be caused by changes in the amount of CET1 capital and/or risk exposure amounts, as well as changes to their respective definition and interpretation under the applicable banking regulations.

The Issuer only publicly reports the Issuer CET 1 Capital Ratio and Group CET 1 Capital Ratio quarterly as of the period end, and therefore during the quarterly period there is no published updating of the such ratios and there may be no prior warning of adverse changes in the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio. However, any indication that the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio is moving towards the level of a Trigger Event or a breach of the Maximum Distributable Amount may have an adverse effect on the market price of the Notes.

In addition, the authority having primary responsibility for the prudential supervision of the Issuer and/or the Issuer's Regulatory Group at the relevant time (the "**Competent Authority**"), as part of its supervisory activity, may instruct the Issuer to calculate such ratios as at any time, including if the Issuer and/or the Issuer's Regulatory Group is subject to recovery and resolution actions by the relevant resolution authority, or the Issuer might otherwise determine to calculate such ratios in its own discretion at any time. Moreover, the relevant resolution authority is likely to allow a Trigger Event to occur rather than to resort to the use of public funds.

1.8 ***The circumstances surrounding a Trigger Event are unpredictable, and there are a number of factors that could affect the Issuer CET 1 Capital Ratio as well as the Group CET 1 Capital Ratio and, more generally, the Issuer's and the Issuer's Regulatory Group's overall capital position.***

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, including those discussed in greater detail in the following paragraphs, any of which may be outside the Issuer's control.

The calculation of the Issuer CET 1 Capital Ratio or the Group CET 1 Capital Ratio, and, more generally, their overall capital position, could be affected by one or more factors, including, among other things, changes in the mix of the Issuer's Regulatory Group's business, major events affecting the Issuer's Regulatory Group's earnings, dividend payments by the Issuer, regulatory changes (including changes to definitions and calculations of regulatory capital ratios and their components) and the Issuer's Regulatory Group's ability to manage its risk exposure amount in both its ongoing businesses and those which it may seek to exit. In addition, the Issuer's Regulatory Group has capital resources and risk exposure amounts denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the balance sheet value of foreign currency denominated capital resources and risk exposure amounts. As a result, the Issuer CET 1 Capital Ratio as well as the Group CET 1 Capital Ratio (and the Issuer and the Issuer's Regulatory Group's overall capital position) are exposed to foreign currency movements.

The calculation of the Issuer CET 1 Capital Ratio and the Group CET 1 Capital Ratio (and overall capital position) may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the Competent Authority could require the Issuer to reflect such changes in any particular calculation of the Issuer CET 1 Capital Ratio. Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Issuer's Regulatory Group's calculations of regulatory capital, including the Group CET 1 Capital Ratio.

The calculation of the Issuer CET 1 Capital Ratio and the Group CET 1 Capital Ratio and their constituent elements (and the overall capital position) and the levels at which the Trigger Level is set may continue to vary from time to time. Because of the inherent uncertainty regarding whether a Trigger Event will occur, it will be difficult to predict when, if at all, a write-down may occur. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of security. Any indication that a Trigger Event may occur can be expected to have a material adverse effect on the market price of the Notes.

1.9 ***The Noteholders have no ownership or voting rights in the Issuer and the Issuer's interests may not be aligned with those of investors in the Notes.***

An investment into the Notes is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Issuer or any of the subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments. Noteholders therefore cannot influence any decisions by the Issuer concerning the capital structure or any other matters relating to the Issuer.

The Issuer CET 1 Capital Ratio as well as the Group CET 1 Capital Ratio, the Available Distributable Items and the Maximum Distributable Amount will depend in part on decisions made by the Issuer and/or other members of the Issuer's Regulatory Group relating to their businesses and operations, as well as the management of their capital position. The Issuer and/or other members of the Issuer's Regulatory Group will have no obligation to consider the interests of Noteholders in connection with their strategic decisions, including in respect of capital management and the relationship among the various members of the Issuer's Regulatory Group.

The Issuer may decide not to raise capital at a time when it is feasible to do so, even if that would result in the occurrence of a Trigger Event. Moreover, in order to avoid the use of public resources, the Competent Authority and/or the Resolution Authority (as defined herein) may decide that the Issuer should allow a Trigger Event to occur at a time when it is feasible to avoid it.

Noteholders will not have any claim against the Issuer and/or other members of the Issuer's Regulatory Group relating to decisions that affect the capital position of the Issuer and/or the Issuer's Regulatory Group, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause Noteholders to lose all or part of their investment in the Notes.

1.10 ***The regulatory classification of the Notes as Additional Tier 1 instruments may be changed.***

In the opinion of the Issuer the Notes shall qualify as Additional Tier 1 instruments pursuant to Article 52 CRR upon issue.

There is the risk that there is a change in the regulatory classification of Additional Tier 1 instruments that would be likely to result in the exclusion of the Notes from own funds or reclassification as a lower quality form of own funds. If that is the case, this can have a negative impact on the capitalisation of the Issuer and might lead, subject to further conditions being fulfilled, to a redemption of the Notes.

1.11 ***The Notes are perpetual and may not be redeemed at the option of Noteholders, any rights of the Issuer to redeem or repurchase Notes are subject to the prior permission of the competent***

authority, and redemption may occur at a time when the redemption proceeds are less than the market price of the Notes.

The Notes are perpetual and have no scheduled maturity date. The Issuer is under no obligation to redeem the Notes at any time before its liquidation or insolvency.

The Issuer may redeem the notes at any time at the then Current Principal Amount plus accrued distributions, if any, if, by 23 March 2023, the Issuer fails to obtain the permission of the Competent Authority pursuant to Article 149(2) of the Slovenian Banking Act to include the Notes in whole in the calculation of its Additional Tier 1 capital.

In addition, the Issuer may, at its sole discretion, redeem the Notes at any time either for tax or regulatory reasons at the then Current Principal Amount plus accrued distributions, if any. In addition, the Issuer may, at its sole discretion, redeem the Notes, on (i) each Business Day (as defined in the Terms and Conditions) during the period from (and including) 23 September 2027 to (but excluding) the First Reset Date; (ii) the First Reset Date; and (ii) each Distribution Payment Date (each an "**Optional Redemption Date**") following the First Reset Date at the Current Principal Amount plus accrued distributions, if any.

Subject to the limitations and conditions in the Terms and Conditions, the Issuer may exercise its right to redeem the Notes at its option on Optional Redemption Dates only if the Current Principal Amount of each Note is equal to its Original Principal Amount.

Such optional redemption features are likely to limit the market price of the Notes, as during any period when the Issuer may decide to redeem the Notes, the market price of the Notes generally will not rise substantially above the price at which they can be redeemed.

Any such redemption and any repurchase of the Notes (including any repurchase for market making purposes) are subject to the prior permission pursuant to Article 77 et seqq. CRR of the Competent Authority which is responsible to supervise the Issuer and/or the Issuer's Regulatory Group and compliance with regulatory capital rules applicable from time to time to the Issuer. In addition, it might be possible that the Issuer also requires the prior permission by the resolution authority pursuant to Article 4(1)(130) of the CRR and/or Article 7(1) SRM Regulation (the "**Resolution Authority**").

Under the CRR, the Competent Authority may only permit institutions to redeem Additional Tier 1 instruments such as the Notes if certain conditions prescribed by the CRR are complied with. These conditions, as well as a number of other technical rules and standards relating to regulatory capital requirements applicable to the Issuer, should be taken into account by the Competent Authority in its assessment of whether or not to permit any redemption or repurchase. It is uncertain how the Competent Authority and/or the Resolution Authority will apply these criteria in practice and such rules and standards may change during the tenor of the Notes. It is therefore difficult to predict whether, and if so, on what terms, the Competent Authority and/or the Resolution Authority will grant its prior permission for any redemption or repurchase of the Notes.

Furthermore, even if the Issuer would be granted the prior permission of the Competent Authority and/or the Resolution Authority, any decision by the Issuer as to whether it will redeem the Notes will be made at the absolute discretion of the Issuer, and the Issuer may have regard to external factors such as the economic and market impact of exercising a redemption right, regulatory capital requirements and prevailing market conditions. The Issuer disclaims, and investors should therefore not expect, that the Issuer will exercise any redemption right in relation to the Notes. Noteholders should therefore be aware that they may be required to bear the financial risks of an investment in the Notes perpetually.

The Noteholders have no rights to call for redemption of their Notes and should not invest in the Notes in the expectation that any redemption right will be exercised by the Issuer. Excluding the Noteholders' right to demand for redemption of the Notes is mandatory due to the applicable supervisory regulations. Thus, without redemption by Noteholders being excluded, the Issuer would not be able to issue the Notes at all. Investors should therefore carefully consider whether they think that a right of redemption only for the Issuer would be to their detriment, and should, if they think that this is the case, not invest in the Notes.

Even if the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market price of the Notes (i.e. in case of redemption at the option of the Issuer, if the Notes are trading above par or, in case of redemption for regulatory reasons or reasons of taxation, if the Current Principal Amount is below par), which may result in a crystallisation of a loss for the Noteholders, in particular if the Current Principal Amount is less than the Original Principal Amount, in case of a redemption of the Notes for regulatory reasons or reasons of taxation.

1.12 ***In the event that any Notes are redeemed, Noteholders may be exposed to risks, including the risk that their investment will have a lower than expected yield (risk of redemption).***

According to the Terms and Conditions, the Issuer has the right to call the Notes in certain circumstances. If the Issuer redeems the Notes, a Noteholder is exposed to the risk that, due to such redemption, its investment will have a lower than expected yield. The Issuer might exercise its call right if the yield on comparable notes in the capital markets falls, which means that the Noteholders may only be able to reinvest the redemption proceeds in notes with a lower yield or with a similar yield of a higher risk, in particular if the Current Principal Amount is less than the Original Principal Amount.

1.13 ***The Notes do not include express events of default***

The Terms and Conditions do not provide for events of default allowing acceleration of the Notes if certain events occur. Accordingly, if the Issuer fails to meet any obligations due and payable under the Notes (although in any case, payments of distributions are at the sole discretion of the Issuer) investors will not have a right of acceleration of the Notes. Upon a payment default relating to any obligations under the Notes, the sole remedy available to Noteholders for recovery of amounts owing in respect of any such payment will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the opening of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

1.14 ***Noteholders are exposed to the risk of statutory loss absorption.***

The BRRD entered into force in July 2014 and has been amended in EU Banking Package. The stated aim of the BRRD is to provide authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The BRRD, as amended, was implemented in Slovenia through the Resolution and Compulsory Winding-Up of Banks Act (Zakon o reševanju in prisilnem prenehanju bank (ZRPPB-1), the "**ZRPPB-1**").

The Issuer is also subject to the SRM Regulation which gives specific powers to the Single Resolution Mechanism to exercise resolution powers similar to those under the BRRD.

The powers granted to the authorities designated by EU Member States to apply the resolution tools and exercise the resolution powers set forth in the BRRD ("**resolution authorities**") include the introduction of a statutory "write-down and conversion power" with respect to capital instruments and a "bail-in power", which will give the relevant resolution authority the power to cancel all or a portion of the principal amount of, or interest on, certain other eligible liabilities, whether unsubordinated or subordinated, of a failing financial institution and/or to convert certain debt claims into another security, including ordinary shares of the surviving group entity, if any, which may itself be written down.

The bail-in power can be used to recapitalise an institution that is failing or about to fail, allowing authorities to restructure it through the resolution process and restore its viability after reorganisation and restructuring. The write-down and conversion power can be used to ensure that tier 1 and tier 2 capital instruments fully absorb losses at the point of non-viability of an institution (or, if applicable, its group) and before any other resolution action is taken. The ZRPPB-1 specifies the order in which the bail-in tool should be applied in relation to the Issuer, reflecting the hierarchy of capital instruments under CRD and otherwise respecting the hierarchy of claims in an ordinary insolvency.

The Notes could be subject to the bail-in power and to the statutory write-down and conversion power. The determination that all or a part of the principal amount of the Notes will be subject to bail-in or statutory write-down and/or conversion, is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. The application of the bail-in tool or the exercise of the statutory write-down and/or conversion power, may result in the cancellation of all or a portion of the principal amount of, or interest on, the Notes and/or the conversion of all, or a portion, of the principal amount of, or outstanding amount payable in respect of, or interest on, the Notes into ordinary shares or other securities of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to such application of the bail-in tool and/or the statutory write-down and/or conversion power (as the case may be).

Accordingly, potential investors in the Notes should consider the risk that the bail-in tool and/or the statutory write-down and/or conversion power may be applied in such a manner as to result in holders of the Notes losing all or a part of the value of their investment in the Notes or receiving a different security than the Notes, which may be worth significantly less than the Notes and which may have significantly fewer protections than those typically afforded to debt securities. Moreover, the resolution authority may exercise its authority to apply the bail-in tool and/or the statutory write-down and/or conversion power (as the case may be) without providing any advance notice to the holders of the Notes. Noteholders may also have limited or no rights to challenge any decision of the resolution authority to exercise the bail-in power and/or the statutory write-down and/or conversion power or to have that decision reviewed by a judicial or administrative process or otherwise.

In addition to the bail-in power and the statutory write-down and conversion power, the BRRD (as implemented through the ZRPPB-1) provides resolution authorities with broader powers to implement other resolution measures with respect to distressed banks, which may include (without limitation): (i) directing the sale of the bank or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transferring all or part of the business of the bank to a "bridge institution" (a publicly controlled entity), (iii) transferring all or part of the assets of the bank, including impaired or problem assets, to an asset management vehicle to allow them to be managed and worked out over time, (iv) replacing or substituting the bank as obligor in respect of debt instruments, (v) modifying the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments), and/or (vi) discontinuing the listing and admission to trading of financial instruments. The resolution authorities will likely allow the use of financial public support only as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool and/or the statutory write-down and/or conversion powers.

The exercise of any actions contemplated in the BRRD (as implemented through the ZRPPB-1) or any suggestion of such exercise will likely materially adversely affect the price or value of an investment in Notes and/or the ability of the Issuer to satisfy its obligations under such Notes and could lead to the holders of the Notes losing some or all of their investment in the Notes. Prospective investors in the Notes should consult their own advisors as to the consequences of the implementation of the BRRD.

2. **Risks associated with specific provisions of the Notes**

2.1 ***The Notes are subject to certain risks related to the rate of distributions linked to the 5-year mid swap rate.***

After the First Reset Date, the Notes will bear distributions at a rate which will be determined for each such period at the 5-year mid swap rate for the relevant period plus a margin as determined on the issuance date.

Floating rate Notes tend to be volatile investments. In periods for which a floating rate of distributions is applicable, Noteholders are exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the profitability of Notes for periods for which a floating rate of distributions is applicable in advance.

2.2 *Following the regulation and reform of "benchmarks", including the Euro Interbank Offered Rate (EURIBOR), benchmarks may perform differently than in the past or disappear entirely, or there could be other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes.*

Distributions payable under the Notes are calculated by reference to the annual swap rate for swap transactions denominated in Euro with a term of 5 years, which appears on the Bloomberg Screen Page EUSA5 Curney.

This swap-rate, the Euro Interbank Offered Rate (EURIBOR) underlying the floating leg of this swap rate and other interest rates or other types of rates and indices which are deemed "benchmarks" (each a "**Benchmark**" and together, the "**Benchmarks**") have become the subject of regulatory scrutiny and recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such Benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes.

International proposals for reform of Benchmarks include the Benchmark Regulation which is fully applicable since 1 January 2018. The Benchmark Regulation could have a material impact on the Notes, including in any of the following circumstances:

- a rate or index which is a Benchmark may only be used if its administrator obtains authorisation or is registered and in case of an administrator which is based in a non-EU jurisdiction, if the administrator's legal benchmark system is considered equivalent (Article 30 Benchmark Regulation), the administrator is recognised (Article 32 Benchmark Regulation) or the relevant Benchmark is endorsed (Article 33 Benchmark Regulation) (subject to applicable transitional provisions). If this is not the case, Notes linked to such Benchmarks could be impacted; and
- the methodology or other terms of the Benchmark could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level, and could have an impact on the Notes, including determination of the rate by the Issuer or an independent adviser, as the case may be.

In addition to the aforementioned Benchmark Regulation, there are numerous other proposals, initiatives and investigations which may impact Benchmarks.

Following the implementation of any such potential reforms, the manner of administration of Benchmarks may change, with the result that they may perform differently than in the past, or Benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted.

Any changes to a Benchmark as a result of the Benchmark Regulation or other initiatives, could have a material adverse effect on the costs of administering or otherwise participating in the setting of a Benchmark and complying with any such regulations or requirements. Investors should be aware that any changes to a relevant Benchmark may have a material adverse effect on the market price of the Notes.

Under the Terms and Conditions, certain benchmark replacement provisions will apply if a Benchmark (or any component part thereof) used as a reference for the calculation of distributions payable under the Notes were to be discontinued or otherwise became unavailable (a "**Benchmark Event**"):

If a Benchmark (or any component part thereof) used to calculate distributions payable under the Notes has ceased to be calculated or administered, the Issuer shall endeavour to appoint an independent adviser, which must be an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets. Such independent adviser will be tasked with determining whether an officially recognised successor rate to the discontinued Benchmark exists. If that is not the case, the independent adviser will

attempt to find an alternative rate which, possibly after application of adjustments or spreads, can replace the discontinued Benchmark. If the independent adviser determines a successor rate or alternative rate (the "**Alternative Benchmark Rate**"), such rate will replace the previous Benchmark for purposes of determining the relevant rate of distributions. Such determination will be binding for the Issuer and the Noteholders. Any amendments pursuant to these fallback provisions will apply with effect from the respective effective date specified in the Terms and Conditions.

If the Issuer fails to appoint an independent adviser or if the adviser fails to determine an Alternative Benchmark Rate following a discontinuation of a relevant Benchmark, the reference rate applicable shall be the reference rate determined on the last determination date immediately prior to the occurrence of the Benchmark Event. If this fall-back provision is to be applied on the first determination date, the reference rate applicable shall be 2.521 per cent. per annum.

No adjustment to the reference rate upon occurrence of a Benchmark Event will be made if and to the extent that, in the determination of the Issuer, such adjustments could reasonably be expected to prejudice the qualification of the Notes as AT 1 Instruments under the applicable supervisory regulations.

The replacement of a Benchmark could have adverse effects on the economic return of the Noteholders compared to the applicable original benchmark rate.

2.3 ***The Terms and Conditions may be amended by resolution of the Noteholders in which a Noteholder may be subject to the risk of being outvoted by a majority resolution of the Noteholders.***

The Terms and Conditions may be amended by majority resolution of the Noteholders and a Noteholder is subject to the risk of being outvoted by a majority resolution of the Noteholders. The relevant majority for Noteholders' resolutions is based on the aggregate principal amount of the Notes outstanding. As such a majority resolution is binding on all Noteholders and certain rights of a Noteholder against the Issuer under the Terms and Conditions may be amended or reduced or even cancelled, which could have significant negative effects on the market price of the Notes and the return from the Notes.

The Issuer will notify the Competent Authority and/or the Resolution Authority of the amendments of the Terms and Conditions proposed for resolution prior to holding the vote.

2.4 ***Because the Notes are issued in dematerialised form as entries in the Central Register holders of the Notes will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The Notes will be issued in dematerialised form as entries in the central register maintained by KDD. KDD will maintain records of the title in the Notes. The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of KDD for distribution to their account holders. A holder of a Note must rely on the procedures of KDD to receive payments under the Notes. The Issuer has no responsibility or liability for the KDD's records relating to, or payments made by KDD in respect of, the Notes.

2.5 ***The risk associated with withholding tax***

According to the Slovenian rules applicable to taxation of interest, the payment of distributions under the Notes is treated as payment of dividends rather than as interest and, accordingly, shall be subject to withholding tax imposed by the Republic of Slovenia in the same circumstances as payments of dividends. The person who is considered a Slovenian payer of distributions under the Notes pursuant to the Slovenian tax legislation, being either KDD or the KDD member operating the KDD account in which the Notes are held, may be obliged to deduct from each payment of distributions tax at the rate of up to 25 per cent. depending on who is the holder of such KDD account and whether or not such person is holding the notes on behalf of another person, see "*Taxation – Taxation in Slovenia – Taxation of income from distributions*".

Pursuant to Condition 6.1 (*General Taxation*), in a situation where the Issuer would be required to make any withholding or deduction in respect of any payment of distributions, the Issuer would be

required to increase the relevant distribution payments by additional amounts which would result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding been required. However, in circumstances where the withholding or deduction is not made by the Issuer, but by another person, such as KDD or a KDD member, no such additional amounts will be payable by the Issuer. In addition, even if pursuant to the Slovenian tax legislation the Issuer would be required to make any withholding or deduction the Issuer's obligation to pay such additional amounts is subject to a number of exceptions set out in Condition 6.1 (*General Taxation*). Accordingly, certain Noteholders may receive less than the full amount of distributions under the Notes which may adversely affect the market value of the Notes.

Furthermore, the Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes applies only to payments of distributions under the Notes and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Noteholders may receive less than the full amount of principal due under the Notes upon redemption, and the market value of the Notes may be adversely affected.

3. **Market Risks relating to the Notes**

3.1 ***Noteholders are exposed to the risk of partial or total inability of the Issuer to make distribution and/or redemption payments under the Notes.***

Noteholders are subject to the risk of a partial or total inability of the Issuer to make distribution and/or redemption payments that are, subject to the limitations described in the Terms and Conditions, scheduled to be made under the Notes. Any deterioration of the creditworthiness of the Issuer would increase the risk of loss. A materialisation of the credit risk may result in partial or total inability of the Issuer to make distribution and/or redemption payments.

3.2 ***Noteholders assume the risk that the credit spread of the Issuer widens resulting in a decrease in the market price of the Notes.***

A credit spread is the margin payable by the Issuer to the holder of an instrument as a premium for the assumed credit risk. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and credit rating of the Issuer, probability of default, recovery rate, remaining term of the Notes and obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation of the market, the general level of interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a negative effect.

Noteholders are exposed to the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

3.3 ***Risk of change in rating.***

Ratings assigned to the Issuer by certain independent rating agencies are an indicator of the Issuer's ability to meet its obligations in a timely manner. The lower the assigned rating is on the respective scale, the higher the respective rating agency assesses the risk that obligations will not be met at all or not be met in a timely manner. The market value of the Notes from time to time is likely to depend upon the level of credit rating assigned to the long-term debt of the Issuer. Rating agencies may change, suspend or withdraw their ratings at short notice. A rating change, suspension or withdrawal may affect the price and the market value of the outstanding Notes. An investor may thus incur financial disadvantages as he may not be able to sell the Notes at a fair price. The Notes are expected to be assigned a credit rating by S&P. The ratings may not reflect the potential impact of all risks related to the structure, market and additional factors discussed herein, and other factors that may affect the value of the Notes. In addition, S&P or any other rating agency may change its methodologies for rating securities with features similar to the Notes in the future. This may include the relationship between ratings assigned to an issuer's senior securities and ratings assigned to

securities with features similar to the Notes, sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Notes were to be subsequently lowered, this may have a negative impact on the trading price of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). The list of registered and certified credit rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

The Notes are expected to be assigned a rating of B+ by S&P. As at the date of this Offering Circular, S&P is a credit rating agency established in the EU and is registered under the CRA Regulation. As such, S&P is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

3.4 *There is no active trading market for the Notes*

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If a market does develop, it may not be very liquid. Therefore, no liquidity of any market in the Notes can be assured; nor the ability of the holders of the Notes to sell their Notes or the prices at which they would be able to sell their Notes.

If the Notes are traded after their initial issuance, they may be traded at a discount or at a premium to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. It is possible that the market for the Notes will be subject to disruptions or volatility. Any such disruption or volatility may have a negative effect on holders of either series of the Notes, regardless of the Issuer's prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, Noteholders may not be able to resell a holding of the Notes at a fair value, if at all.

Although a request will be made for listing of the Notes on the Luxembourg Stock Exchange, Euro MTF market, there is no guarantee that the Notes will be actually listed on that stock exchange or that they will be actively traded. Consequently, there is no guarantee regarding development of trading and creating liquidity with the Notes on an organised market. It can thus happen that the Noteholder is unable to sell the Notes prior to their redemption by the Issuer.

The Issuer has no agreement with any liquidity provider for trading with Notes. Should there be no active trading in these Notes, this could have negative impact on the market price and liquidity of the Notes.

4. **Risks relating to changes in law and regulation**

4.1 *Changes in laws, regulations or administrative practices could entail risks*

The conditions of the Notes are based on the laws of Slovenia in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to the laws of Slovenia or administrative practice after the date of this Offering Circular. Furthermore, the Issuer operates in a heavily regulated environment and has to comply with extensive regulations imposed by the European Union and the Republic of Slovenia. No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative practices of the European Union or the Republic of Slovenia after the date of this Offering Circular.

In addition, changes to regulatory provisions or to their interpretation, to regulatory procedures or measures adopted by supervisory or other regulatory bodies following the issue of the Notes could have a negative impact on the value of the Notes or the rights of the Noteholders arising from the Notes.

USE OF PROCEEDS

In connection with the issue of the Notes, the Issuer will receive net proceeds of EUR 82,000,000. The Issuer intends for the Notes to constitute Additional Tier 1 capital of the Issuer, with the purpose of strengthening and optimising its capital structure on an individual and consolidated level, and to use the net proceeds from the issuance of the Notes for general corporate purposes and for meeting MREL requirements.

TERMS AND CONDITIONS OF THE NOTES

1. CURRENCY, DENOMINATION, FORM, CERTAIN DEFINITIONS

1.1 Currency, Denomination

This issue of subordinated notes (the "**Notes**") of Nova Ljubljanska banka d.d., Ljubljana (the "**Issuer**") is being issued in Euro (the "**Specified Currency**") in the aggregate principal amount of EUR 82,000,000 (in words: eighty two million Euro) (the "**Original Principal Amount**") in the denomination of EUR 200,000 (two-hundred thousand Euro) each.

1.2 Form

The Notes are issued in dematerialised form in accordance with the provisions of the Slovenian Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih*) ("**ZNVP-1**") as entries in the central register (the "**Central Register**") maintained by KDD d.o.o., Tivolska cesta 48, SI-1000 Ljubljana, Slovenia ("**KDD**"). No global or definitive Notes will be issued in respect of the Notes in any circumstances.

1.3 Transferability and Title

- (a) The Notes are transferable in accordance with the provisions of the ZNVP-1, other applicable Slovenian legislation and the rules and regulations applicable to, and/or issued by, KDD. Title to the Notes is determined and will pass by registration in the Central Register.
- (b) Each person to whose account a Note is credited in the Central Register will be considered as the legal holder of such a Note (each such person a "**Noteholder**"). Any certificate or other document issued by KDD as to the number of Notes standing to the account of any person shall be conclusive and binding for all purposes.
- (c) No person other than the Issuer and the respective Noteholder shall have any right to enforce any term or condition of any Note. Notwithstanding the aforesaid, the right to receive payments in respect of a Note may be enforced by the Beneficiary (as defined in Condition 4.1 (*Payments*)) of such payments.

1.4 Certain Definitions

In these Terms and Conditions:

"**Applicable Supervisory Regulations**" means the provisions of bank supervisory laws and any regulations, requirements, standards, guidelines, policies or other rules thereunder applicable from time to time (including, but not limited to, the guidelines, interpretations and recommendations of the European Banking Authority, the European Central Bank and/or the Bank of Slovenia (*Banka Slovenije*), final administrative or court decisions binding on the Issuer and any applicable transitional provisions) relating to capital adequacy, solvency, other prudential requirements and/or resolution and applicable to the Issuer and/or the Issuer's Regulatory Group from time to time, including but not limited to the provisions of the Slovenian Banking Act, the BRRD, the SRM Regulation, the CRD IV, the CRR, the CDR and the SSM Regulation, or such other law, regulation or directive as may come into effect in place thereof.

"**AT 1 Instruments**" means any (directly or indirectly issued) capital instrument of the Issuer that qualifies as Additional Tier 1 instruments pursuant to Article 52 CRR, including any capital instrument or other instrument that qualifies as Additional Tier 1 items pursuant to transitional provisions under the CRR.

"**BRRD**" means Directive 2014/59/EU, as implemented in the Republic of Slovenia and as amended or replaced from time to time, and any references in these Terms and Conditions to any relevant articles of the BRRD include references to any applicable provisions of law amending or replacing such articles from time to time.

"**Business Day**" means a calendar day (other than a Saturday or a Sunday) on which the Trans-European Automated Real-time Gross settlement Express Transfer system 2 or its successor ("TARGET") is open to settle payments in Euro.

"**CDR**" means Commission Delegated Regulation (EU) No 241/2014, as amended or replaced from time to time, and any references in these Terms and Conditions to relevant articles of the CDR include references to any applicable provisions of law amending or replacing such articles from time to time.

"**CET 1 Instruments**" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 CRR.

"**Competent Authority**" means the competent authority pursuant to Article 4(1)(40) CRR and/or Article 9(1) SSM Regulation, in each case, which is responsible to supervise the Issuer and/or the Issuer's Regulatory Group.

"**Compulsory Liquidation**" means compulsory liquidation (*prisilna likvidacija*) pursuant to the provisions of section 3.2 of the Resolution and Compulsory Winding-Up of Banks Act (Zakon o reševanju in prisilnem prenehanju bank; ZRPPB-1), as in force as of the date of issuance of the Notes, or any equivalent or similar proceedings under the provisions of law amending or replacing such provisions from time to time.

"**CRD IV**" means Directive 2013/36/EU, as amended, as implemented in the Republic of Slovenia and as may be further amended or replaced from time to time, and any references in these Terms and Conditions to any relevant articles of the CRD IV include references to any applicable provisions of law amending or replacing such articles from time to time.

"**CRR**" means Regulation (EU) No 575/2013, as amended or replaced from time to time, and any references in these Terms and Conditions to any relevant articles of the CRR include references to any applicable provisions of law amending or replacing such articles from time to time.

"**Current Principal Amount**" means initially the Original Principal Amount (as defined in Condition 1.1 (*Currency, Denomination*)), which from time to time, on one or more occasions, may be reduced by a Write-down (as defined in Condition 5.9(a)(iv) (*Write-down*)) and, subsequent to any such reduction, may be increased by a Write-up (as defined in Condition 5.10 (*Write-up*)), if any (up to the Original Principal Amount).

"**Issuer's Regulatory Group**" means, from time to time, the Issuer and each entity which is part of the banking group with a parent institution and/or any banking group with a parent financial holding company: (i) to which the Issuer belongs; and (ii) to which the own funds requirements on a consolidated basis due to prudential consolidation in accordance with the Applicable Supervisory Regulations apply.

"**KDD Business Day**" means a day on which KDD is open for business.

"**Liquidation**" means Ordinary Liquidation or Compulsory Liquidation.

"**Ordinary Liquidation**" means ordinary liquidation (*redna likvidacija*) pursuant to section 3.8 of the Slovenian Banking Act.

"**Resolution Authority**" means the resolution authority pursuant to Article 4(1)(130) of the CRR and/or Article 7(1) SRM Regulation, in each case, having responsibility for recovery or resolution of the Issuer on an individual and/or consolidated basis.

"**Slovenian Banking Act**" means the Slovenian Banking Act (*Zakon o bančništvu*; ZBan-3), as amended or replaced from time to time, and any references in these Terms and Conditions to any relevant articles or sections of the Slovenian Banking Act include references to any applicable provisions of law amending or replacing such provisions from time to time.

"**SRM Regulation**" means the Regulation (EU) No 806/2014, as amended or replaced from time to time, and any references in these Terms and Conditions to any relevant articles of the SRM

Regulation include references to any applicable provisions of law amending or replacing such articles from time to time.

"**SSM Regulation**" means the Council Regulation (EU) No 1024/2013, as amended or replaced from time to time, and any references in these Terms and Conditions to any relevant articles of the SSM Regulation include references to any applicable provisions of law amending or replacing such articles from time to time.

"**Terms and Conditions**" means these terms and conditions of the Notes.

"**Tier 1 Instruments**" means: capital instruments which, according to the CRR, qualify as: (i) CET 1 Instruments; or (ii) AT 1 Instruments.

"**Tier 2 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 CRR, including any capital instruments that qualify as Tier 2 items pursuant to transitional provisions under the CRR.

"**United States**" means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

2. STATUS

2.1 Ranking

The Notes shall constitute direct, unsecured and subordinated obligations of the Issuer and shall qualify as AT 1 Instruments. In the event of normal insolvency proceedings of the Issuer (being bankruptcy proceedings (*stečaj*) or Compulsory Liquidation (*prisilna likvidacija*)), the obligations of the Issuer under the Notes will rank:

- (a) junior to all present or future:
 - (i) unsubordinated instruments or obligations of the Issuer; and
 - (ii) any Tier 2 Instruments and any instruments or obligations which rank *pari passu* with or senior to Tier 2 Instruments; and
 - (iii) 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*:
 - (i) among themselves; and
 - (ii) with all other present or future AT 1 Instruments; and
 - (iii) with all other present or future instruments or obligations ranking or expressed to rank *pari passu* with the AT 1 Instruments; and
- (c) senior to all present or future:
 - (i) ordinary shares of the Issuer and any other CET 1 Instruments;
 - (ii) preferred shares of the Issuer; and
 - (iii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank:
 - (A) subordinated to the obligations of the Issuer under the Notes; or

- (B) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

The rights of the Noteholders of the Notes to payment of principal on the Notes are at any time conditional as set forth in these Terms and Conditions and limited to a claim for the prevailing Current Principal Amount.

2.2 **Priority of Payments**

In the event of the insolvency (bankruptcy proceedings (*stečaj*)) or Liquidation of the Issuer, the Noteholders will be entitled to payments, if any, under the Notes only if all other creditors (other than creditors the claims of which rank or are expressed to rank *pari passu* with or junior to the Notes) of the Issuer have been satisfied first and before any payments are made in respect of the preferred or ordinary shares of the Issuers or any other claims ranking or expressed to rank junior to the Notes.

2.3 **No Set-off or Netting; No Security; No enhancement of Seniority**

The Notes are not subject to any set-off or netted arrangements that would undermine their capacity to absorb losses. The Notes are neither secured nor subject to any guarantee that enhances the seniority of the claims under the Notes. The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or Liquidation.

2.4 **Solvency Condition – Note on Payment Restrictions prior to an Insolvency**

Even prior to the imposition of any resolution measures upon the Issuer, the insolvency or Compulsory Liquidation of the Issuer, or the commencement of other proceedings to avoid the insolvency of the Issuer, any payment of distributions on the Notes will be subject to the conditions set forth in Condition 3.6 (*Cancellation of Distributions*) being fulfilled and any redemption or repurchase of the Notes will be subject to the conditions to redemption and repurchase set forth in Condition 5.7 (*Conditions to Redemption and Repurchase*) being fulfilled.

Note to this Condition 2.4: The conditions set forth in Condition 3.6 (Cancellation of Distributions) and the conditions to redemption and repurchase set forth in Condition 5.7 (Conditions to Redemption and Repurchase) include the conditions that, on the date on which the relevant amount of principal or distributions is scheduled to be paid, (i) the Issuer is not insolvent; and (ii) the payment of the relevant amount would not result in the insolvency of the Issuer.

This means that irrespective of, and even prior to, the opening of any insolvency or Compulsory Liquidation proceedings over the assets of the Issuer, the Issuer shall not make any payment of distributions or principal if (i) the Issuer is insolvent; or (ii) the payment of the relevant amount would result in the insolvency of the Issuer. Such a prohibition on payment may be in effect for an indefinite period of time and even permanently.

2.5 **Note on the possibility of statutory resolution measures**

Prior to any normal insolvency proceedings (bankruptcy proceedings (*stečaj*)) or any Compulsory Liquidation (*prisilna likvidacija*) of the Issuer, the Resolution Authority may, under the Applicable Supervisory Regulations, (i) either independently of, or in combination with, any resolution action, exercise the power to write down (including to zero) the obligations of the Issuer under the Notes or convert the Notes into shares or other instruments of ownership of the Issuer, in each case in whole or in part, or (ii) apply any other resolution tool or action, including (but not limited to) any deferral or transfer of the obligations to another entity, an amendment of the Terms and Conditions or a cancellation of the Notes.

3. **DISTRIBUTIONS**

3.1 **Distribution Rates and Distribution Payment Dates**

The Notes shall bear distributions on the Current Principal Amount at a rate per annum equal to the Rate of Distributions (as defined below) from and including 23 September 2022 (the "**Distribution Commencement Date**").

Distributions shall be scheduled to be paid annually in arrear on 23 September in each year (each such date, a "**Distribution Payment Date**"), commencing on 23 September 2023.

Distributions will fall due subject to the provisions set out in Conditions 3.6, 4.4 and 5.9.

The "**Rate of Distributions**" will be:

- (i) from and including the Distribution Commencement Date to but excluding 23 March 2028 (the "**First Reset Date**"), a rate of 9.721 per cent. per annum; and
- (ii) from and including the First Reset Date, the relevant Reset Rate (as determined according to Condition 3.4(a)) for the relevant Reset Period.

3.2 **Calculation of Amount of Distributions**

If the amount of distributions scheduled to be paid on the Notes is required to be calculated for any period of time such amount of distributions for any Distribution Period shall be calculated by applying the prevailing Rate of Distributions to the Current Principal Amount, multiplying such amount by the applicable Day Count Fraction (as defined below), and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention.

If a Write-down occurs during any Distribution Period, unpaid distributions accrued on the Current Principal Amount to but excluding the Write-down Effective Date (as defined in Condition 5.9) are cancelled in accordance with Condition 3.6(c) and the Notes shall bear distributions on the adjusted Current Principal Amount from and including the Write-down Effective Date.

If, pursuant to Condition 5.10, the Current Principal Amount of the Notes is subject to a Write-up, during a Distribution Period, the Notes shall, from and including the Write-up Effective Date, bear distributions on the Current Principal Amount as increased by such Write-up as if such Distribution Period were comprised of two or more (as applicable) consecutive distribution periods, with distribution calculations based on the number of days for which each Current Principal Amount was applicable.

"**Distribution Period**" means the period from and including the Distribution Commencement Date to but excluding the first Distribution Payment Date and each successive period from and including a Distribution Payment Date to but excluding the next succeeding Distribution Payment Date.

3.3 **Day Count Fraction**

"**Day Count Fraction**" means, in respect of the calculation of an amount of distributions on the Notes for any period of time (from and including the first day of such period to but excluding the last day of such period) (the "**Calculation Period**"):

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the number of days in such Determination Period; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (i) the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the number of days in such Determination Period; and
 - (ii) the number of days in such Calculation Period falling in the next Determination Period divided by the number of days in such Determination Period.

Where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"Determination Date" means 23 September in any year.

3.4 Determination of the Reset Rate

(a) *Reset Rate.* The rate of distributions for each Reset Period (each a **"Reset Rate"**) shall be the sum of:

(i) the Reference Rate (as defined below); and

(ii) the Margin (as defined below),

provided that, for purposes of the determination of the Reset Rate if the relevant Reference Rate is not expressed as an annual rate, such sum will be converted to an annual basis in a commercially reasonable manner.

The Issuer will determine the relevant Reset Rate for the Reset Period in accordance with this Condition 3.4 on each Reset Determination Date.

(b) *Reference Rate.* The **"Reference Rate"** for a Reset Period will be determined by the Issuer on the relevant Reset Determination Date (as defined below) prior to the Reset Date on which the relevant Reset Period commences (the **"Reference Reset Date"**) as follows:

(i) For each Reset Period beginning prior to the relevant Benchmark Replacement Effective Date (as defined in Condition 3.4(d)(vii)), the following will apply:

(A) The Reference Rate will be equal to the Original Benchmark Rate on the relevant Reset Determination Date.

(B) If the Original Benchmark Rate does not appear on the Screen Page as at such time on the relevant Reset Determination Date, the "Reference Rate" will be equal to the Reference Bank Rate on that Reset Determination Date.

(C) If the Reference Bank Rate cannot be determined in accordance with the definition of such term, the "Reference Rate" shall be equal to the Original Benchmark Rate on the Screen Page on the last day preceding the Reset Determination Date on which such Original Benchmark Rate was displayed.

(ii) For each Reset Period commencing on or after the Benchmark Replacement Effective Date, the "Reference Rate" on the relevant Reset Determination Date will be determined in accordance with Condition 3.4(d).

Where:

"Margin" means 7.20 per cent. per annum.

"Original Benchmark Rate" on any Business Day means the annual swap rate which is fixed at 11:00 a.m. (Frankfurt time) and is expressed as a percentage per annum for Euro denominated swap transactions with a maturity of 5 years which appears on the Screen Page on such Business Day at or around 11:00 a.m. (Frankfurt time).

"Reference Bank Rate" means the percentage rate determined by the Issuer on the basis of the 5-year Mid Swap Rate Quotations provided to the Issuer upon its request by up to five leading swap dealers in the interbank market selected by the Issuer at approximately 11:00 a.m. (Central European Time) on the Reset Determination Date. If at least three 5-year Mid Swap Rate Quotations are provided, the Reference Bank Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of

equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two 5-year Mid Swap Rate Quotations are provided, the Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one 5-year Mid Swap Rate Quotation is provided, the Reference Bank Rate will be the quotation provided. For this purpose, "**5-year Mid Swap Rate Quotation**" means the arithmetic mean of the bid and offered rates for the annual fixed rate leg (calculated on a 30/360 day count basis) of a fixed-for-floating Euro interest rate swap transaction which transaction (x) has a term of 5 years and commencing on the relevant Reset Date, (y) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (z) has a floating leg based on the 6-months EURIBOR rate (calculated on an Actual/360 day count basis).

"**Reset Date**" means the First Reset Date and each fifth anniversary thereof for as long as the Notes remain outstanding.

"**Reset Determination Date**" means the second Business Day prior to the relevant Reference Reset Date.

"**Reset Period**" means the period from and including a Reset Date to but excluding the next following Reset Date.

"**Screen Page**" means Bloomberg Screen Page EUSA5 Curncy" under the heading "EUR Swap Annual (VS 6M) 5Y" and the caption "11:00 AM Frankfurt time" (as such headings and captions may appear from time to time). If the Screen Page permanently ceases to quote the Original Benchmark Rate but such quotation is available from another page selected by the Issuer in its reasonable discretion (the "**Replacement Screen Page**"), the Replacement Screen Page must be used for the purpose of the calculation of the Original Benchmark Rate.

- (c) *Notification of Reset Rate.* The Issuer will cause the Reset Rate to be notified to any stock exchange on which the Notes are from time to time listed (if required by the rules of such stock exchange) and to the Noteholders in accordance with Condition 9 as soon as possible after its determination.
- (d) *Benchmark Event.* If a Benchmark Event occurs in relation to the Original Benchmark Rate, the relevant Reference Rate in accordance with Condition 3.4(b) will be determined as follows:
 - (i) *Independent Adviser.* The Issuer shall, as soon as this is (in the Issuer's view) required following the occurrence of the Benchmark Event and prior to the next Reset Determination Date, endeavour to appoint an Independent Adviser, who will determine a New Benchmark Rate (as defined in Condition 3.4(d)(vi)), the Adjustment Spread (as defined in Condition 3.4(d)(vi)) and any Benchmark Amendments (in accordance with Condition 3.4(d)(iv)).
 - (ii) *Fallback rate.* If, prior to the 10th Business Day prior to the relevant Reset Determination Date,
 - (A) the Issuer does not appoint an Independent Adviser; or
 - (B) the Independent Adviser appointed by it does not determine a New Benchmark Rate in accordance with this Condition 3.4(d),

the Reference Rate applicable to the immediately following Reset Period shall be the Reference Rate determined on the last Reset Determination Date immediately prior to the occurrence of the Benchmark Event.

If this Condition 3.4(d)(ii) is to be applied on the first Reset Determination Date prior to the commencement of the first Reset Period, the Reference Rate applicable to the first Reset Period shall be 2.521 per cent. per annum.

If the fallback rate determined in accordance with this Condition 3.4(d)(ii) is to be applied, Condition 3.4(d) will be operated again to determine the Reference Rate applicable to the next subsequent (and, if required, further subsequent) Reset Period(s).

(iii) *Successor Benchmark Rate or Alternative Benchmark Rate.* If the Independent Adviser determines in its reasonable discretion that:

- (A) there is a Successor Benchmark Rate, then such Successor Benchmark Rate shall subsequently be the New Benchmark Rate; or
- (B) there is no Successor Benchmark Rate but that there is an Alternative Benchmark Rate, then such Alternative Benchmark Rate shall subsequently be the New Benchmark Rate.

In either case the "Reference Rate" for the immediately following Reset Period and all following Reset Periods, subject to Condition 3.4(d)(x), will be the sum of

- (x) the New Benchmark Rate on the relevant Reset Determination Date; and
- (y) the Adjustment Spread.

(iv) *Benchmark Amendments.* If any relevant New Benchmark Rate and the applicable Adjustment Spread are determined in accordance with this Condition 3.4(d), and if the Independent Adviser determines in its reasonable discretion that amendments to these Terms and Conditions are necessary to ensure the proper operation of such New Benchmark Rate and the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"), then the Independent Adviser will determine the Benchmark Amendments in its reasonable discretion and the Issuer will give notice thereof in accordance with Condition 3.4(d)(v).

The Benchmark Amendments may include, without limitation, the following conditions of these Terms and Conditions:

- (A) the Reference Rate including the "Screen Page" and/or (in replacement of clause (i) of the definition of the term "Reference Rate" in Condition 3.4(b)) the method for determining the fallback rate in relation to the Reference Rate, including the Reference Bank Rate; and/or
 - (B) the definitions of the terms "Business Day", "Distribution Payment Date", "Business Day Convention", "Reset Date", "Reset Period", "Day Count Fraction" and/or "Reset Determination Date" (including the determination whether the Reference Rate will be determined on a forward looking or a backward looking basis); and/or
 - (C) Condition 4.4 (Payment Business Day).
- (v) *Notices, etc.* The Issuer will notify any New Benchmark Rate, the Adjustment Spread and the Benchmark Amendments (if any) determined under this Condition 3.4(d) in accordance with Condition 9, the Noteholders as soon as such notification is (in the Issuer's view) required following the determination thereof, but in any event not later than on the 10th Business Days prior to the relevant Reset Determination Date. Such notice shall be irrevocable and shall specify the Benchmark Replacement Effective Date.

The New Benchmark Rate, the Adjustment Spread and the Benchmark Amendments (if any), each as specified in such notice, will be binding on the Issuer and the Noteholders (for the avoidance of doubt: no consent of the Noteholders shall be required). The Terms and Conditions shall be deemed to have been amended by the New Benchmark Rate, the Adjustment Spread and the

Benchmark Amendments, if any, with effect from the Benchmark Replacement Effective Date.

(vi) *Definitions.* As used in this Condition 3.4(d):

The "**Adjustment Spread**", which may be positive, negative or zero, will be expressed in basis points and means either (a) the spread, or (b) the result of the operation of the formula or methodology for calculating the spread, which

- (1) in the case of a Successor Benchmark Rate, is formally recommended in relation to the replacement of the Original Benchmark Rate with the Successor Benchmark Rate by any Relevant Nominating Body; or
- (2) (if no such recommendation has been made, or in the case of an Alternative Benchmark Rate) is customarily applied to the New Benchmark Rate in the international debt capital markets to produce an industry-accepted replacement benchmark rate for the Original Benchmark Rate, provided that all determinations will be made by the Independent Adviser in its reasonable discretion; or
- (3) (if the Independent Adviser in its reasonable discretion determines that no such spread is customarily applied) is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Benchmark Rate, where the Original Benchmark Rate has been replaced by the New Benchmark Rate, provided that all determinations will be made by the Independent Adviser in its reasonable discretion.

"**Alternative Benchmark Rate**" means an alternative benchmark or screen rate which is customarily applied in international debt capital markets transactions (or, alternatively, the international swap markets) for the purpose of determining floating rates of interest or mid swap rates, respectively in the Specified Currency, provided that all determinations will be made by the Independent Adviser in its reasonable discretion.

"**Benchmark Amendments**" has the meaning given to it in Condition 3.4(d)(iv).

A "**Benchmark Event**" occurs if:

- (1) the Original Benchmark Rate ceases to be published on a regular basis or ceases to be calculated or administered; or
- (2) a public statement by the administrator of the Original Benchmark Rate is made that it has ceased or that it will cease publishing the Original Benchmark Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue the publication of the Original Benchmark Rate); or
- (3) a public statement by the supervisor of the administrator of the Original Benchmark Rate is made that the Original Benchmark Rate has been or will be permanently or indefinitely discontinued; or
- (4) a public statement by the supervisor of the administrator of the Original Benchmark Rate is made that, or as a consequence of which, the Original Benchmark Rate will, by a specified future date be prohibited from being used or that its use will be subject to restrictions or adverse consequences either generally or in respect of the Notes; or
- (5) it has, or will by a specified date within the following six months, become unlawful for the Issuer to calculate or determine any Reference Rate using the Original Benchmark Rate; or

- (6) a public statement by the supervisor for the administrator of the Original Benchmark Rate is made announcing that, in the view of such supervisor, the Original Benchmark Rate is, or will by a specified future date be, no longer representative.

"Successor Benchmark Rate" means a successor to or replacement of the Original Benchmark Rate which is formally recommended by any Relevant Nominating Body.

"New Benchmark Rate" means the Successor Benchmark Rate or, as the case may be, the Alternative Benchmark Rate determined in accordance with this Condition 3.4(d).

"Relevant Nominating Body" means, in respect of the replacement of the Original Benchmark Rate:

- (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"Independent Adviser" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense.

- (vii) *Benchmark Replacement Effective Date.* The effective date for the application of the New Benchmark Rate, the Adjustment Spread and the Benchmark Amendments (if any) determined under this Condition 3.4(d) (the **"Benchmark Replacement Effective Date"**) will be the Reset Determination Date falling on or after the earliest of the following dates:
- (A) if the Benchmark Event has occurred as a result of clauses (1) or (6) of the definition of the term "Benchmark Event", the date of the occurrence of the Benchmark Event; or
 - (B) if the Benchmark Event has occurred as a result of clauses (2), (3) or (4) of the definition of the term "Benchmark Event", the date of cessation of publication of the Original Benchmark Rate or of the discontinuation of the Original Benchmark Rate, as the case may be; or
 - (C) if the Benchmark Event has occurred as a result of clause (5) of the definition of the term "Benchmark Event", the date from which the prohibition applies.
- (viii) If a Benchmark Event occurs in relation to any New Benchmark Rate, Condition 3.4(d) shall apply *mutatis mutandis* to the replacement of such New Benchmark Rate by any new Successor Benchmark Rate or Alternative Benchmark Rate, as the case may be. In this case, any reference in this Condition 3.4(d) to the term Original Benchmark Rate shall be deemed to be a reference to the New Benchmark Rate that last applied.

- (ix) Any reference in this Condition 3.4(d) to the term Original Benchmark Rate shall be deemed to include a reference to any component part thereof, if any, in respect of which a Benchmark Event has occurred.
- (x) No adjustment to the Original Benchmark Rate in accordance with Condition 3.4(d)(i)-(ix) in case of a Benchmark Event will be made if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as AT 1 Instruments under the Applicable Supervisory Regulations.

If this Condition 3.4(d)(x) were to be applied on the first Reset Determination Date prior to the commencement of the first Reset Period, the Reference Rate applicable to the first and each subsequent Reset Period would be 2.521 per cent. per annum.

If this Condition 3.4(d)(x) were to be applied on a Reset Determination Date falling after the commencement of the first Reset Period, the Reference Rate applicable to the next and each subsequent Reset Period shall be the Original Benchmark Rate determined on the last preceding Reset Determination Date.

- (e) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3.4 by any Independent Advisor or the Issuer, shall (in the absence of gross negligence, wilful default, bad faith, inequitableness or manifest error) be binding on the Issuer and the Noteholders.

3.5 Default Distributions

The Notes shall cease to bear distributions from the end of the calendar day preceding the date fixed for redemption (if any). If the Issuer fails to redeem the Notes when due, distributions shall continue to accrue on the Current Principal Amount of the Notes from and including the date fixed for redemption to but excluding the date of actual redemption of the Notes at the applicable statutory default interest rate (*zakonske zamudne obresti*), which will, subject to the provisions set out in Condition 3.6 (*Cancellation of Distributions*) and Condition 5.9 (*Write-down*), fall due on the date of actual redemption. This does not affect any additional rights that might be available to the Noteholders.

3.6 Cancellation of Distributions

- (a) The Issuer, in its full discretion, may, at any time cancel, in whole or in part, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date for an unlimited period and on a non-cumulative basis.

If the Issuer makes use of such right, it shall endeavour to give notice to the Noteholders in accordance with Condition 9 (*Notices*) on or before the Distribution Payment Date. A notice which has not been given on or before the relevant Distribution Payment Date shall be given without undue delay thereafter. Any failure or delay to give any such notice shall not affect the validity of the decision on the cancellation, shall in no event result in an obligation of the Issuer to make a cancelled distribution payment at a later date and shall not constitute a default for any purpose.

- (b) Without prejudice to such full discretion of the Issuer pursuant to Condition 3.6(a) (*Cancellation of Distributions*), any payment of distributions scheduled to be paid on the Notes on any Distribution Payment Date and any Additional Amounts thereon shall be cancelled mandatorily and automatically, in whole or in part, if and to the extent that:
 - (i) the Issuer is insolvent or the payment of the relevant amount would result in the insolvency of the Issuer; or
 - (ii) the amount of such distribution payment and any Additional Amounts thereon together with any further Relevant Distributions would exceed the Available

Distributable Items, provided that, for such purpose, the Available Distributable Items shall be increased by an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including payments of distributions on the Notes and any Additional Amounts thereon) in the calculation of the profit on which the Available Distributable Items are based; or

- (iii) the Competent Authority orders the relevant distribution payment scheduled to be paid on the Notes to be cancelled in whole or in part; or
- (iv) another prohibition or restriction to make a distribution on the Notes, or to make such distribution on the Notes when aggregated with any other Relevant Distributions, is imposed by law or any authority.

Prohibitions of distributions imposed by law or any authority pursuant to clause (iv) include, but are not limited to,

- (A) any restrictions of distributions as a result of non-compliance with the combined buffer requirement (howsoever defined in the Applicable Supervisory Regulations) applicable at the time;
- (B) any prohibition of distributions in connection with the calculation of the Maximum Distributable Amount (including, for the avoidance of doubt, M-MDA and/or L-MDA); and
- (C) the limit resulting from, or any other restriction operating as, any Maximum Distributable Amount in accordance with any legal or regulatory requirements applicable to the Issuer and/or the Issuer's Regulatory Group at the time under the Applicable Supervisory Regulations.

If any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date is so mandatorily and automatically cancelled, the Issuer shall give notice to the Noteholders in accordance with Condition 9 (*Notices*) on or before the Distribution Payment Date. A notice which has not been given on or before the relevant Distribution Payment Date shall be given without undue delay thereafter.

Any failure to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose. A notice which has not been given until the relevant Distribution Payment Date shall be given without undue delay thereafter.

- (c) If a Write-down occurs during any Distribution Period, unpaid distributions accrued on the Current Principal Amount to but excluding the Write-down Effective Date will be cancelled mandatorily and automatically in full.
- (d) Any distribution payment cancelled in accordance with Condition 3.6(a) to (c) (*Cancellation of Distributions*) will be non-cumulative and will be cancelled permanently and no payments will be made nor will any Noteholder be entitled to receive any payment or indemnity in respect thereof. Any such cancellation of distributions will not constitute an event of default of the Issuer and will not impose any restrictions on the Issuer. The Issuer may use such cancelled payments without restrictions to meet its obligations as they fall due.
- (e) *Definitions.* In these Terms and Conditions:

"**Available Distributable Items**" means in respect of any payment of distributions on the Notes the distributable items as defined in Article 4(1)(128) CRR, as amended from time to time, in respect of each financial year of the Issuer, as at the end of the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date for which such Relevant Financial Statements are available, all as determined in accordance with the accounting principles applied by the Issuer and as derived from the most recent Relevant Financial Statements.

"Maximum Distributable Amount" means any maximum distributable amount relating to the Issuer and/or the Issuer's Regulatory Group, as the case may be, that may be required to be calculated in accordance with Article 141 CRD IV, as amended or replaced from time to time (or as the case may be, any provision of applicable law transposing or implementing the CRD IV, as amended or replaced from time to time, or any equivalent or similar law, rule or provision of the Applicable Supervisory Regulations which requires a maximum distributable amount to be calculated if the Issuer or the Issuer's Regulatory Group is failing to meet any capital adequacy requirement, in each case to the extent then applicable to the Issuer or the Issuer's Regulatory Group, such as the maximum distributable amount related to the minimum requirement for own funds and eligible liabilities (M-MDA) and the maximum distributable amount related to the leverage ratio (L-MDA), if applicable to the Issuer, as may be required from time to time in accordance with the Applicable Supervisory Regulations).

"Relevant Distributions" means the sum of:

- (i) any other payments of distributions on the Notes that were made or are scheduled to be made by the Issuer in the then current financial year of the Issuer; and
- (ii) any payments of interest, dividends or distributions (including any write-ups) that were made, are simultaneously made or are scheduled to be made by the Issuer on other Tier 1 Instruments in the then current financial year of the Issuer;
- (iii) the amount of any Write-up (as defined below) that were made in the then current financial year or are simultaneously made on the relevant Distribution Payment Date, if any; and
- (iv) any amount, payment or distribution as may be relevant under any restriction operating as a maximum distributable amount in accordance with any legal or regulatory requirements applicable to the Issuer at the time.

"Relevant Financial Statements" means: (i) the audited and adopted unconsolidated annual financial statements of the Issuer, prepared in accordance with the International Financial Reporting Standards (IFRS) or such other accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date; or (ii) if such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant Distribution Payment Date, unaudited unconsolidated *pro forma* financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements.

4. **PAYMENTS**

4.1 **Payments**

Payment of principal and any distributions and any Additional Amounts in respect of the Notes shall be made, subject to Condition 4.2 (*Manner of Payment*) below, to or to the order of KDD for distribution to the accounts of the persons which are entitled to receive such payments according to the entries in the Central Register at the end of the KDD Business Day prior to the due date of such payment (each such person: a "**Beneficiary**").

4.2 **Manner of Payment**

Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in the Specified Currency.

4.3 **Discharge**

The obligations of the Issuer shall be discharged by payment to, or to the order of KDD.

4.4 **Payment Business Day**

If the due date for any payment in respect of the Notes would otherwise fall on a calendar day which is not a Payment Business Day (as defined below), the due date for such payment shall be postponed to the next calendar day which is a Payment Business Day.

"Payment Business Day" means a calendar day (other than a Saturday or a Sunday) which is both: (i) a KDD Business Day; and (ii) a Business Day.

4.5 **References to Principal**

References in these Terms and Conditions to "principal" in respect of the Notes shall be deemed to include, as applicable: the Current Principal Amount or the Redemption Amount of the Notes (as defined in Condition 5.8 (*Redemption Notice; Redemption Amount*)). References in these Terms and Conditions to "distributions" in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts (as defined in Condition 6.1) which may be payable under Condition 6.1 (*General Taxation*).

5. **REDEMPTION AND WRITE-DOWN**

5.1 **No Scheduled Maturity**

The Notes are perpetual and have no scheduled maturity date and shall not fall due for redemption except in the cases provided for in Condition 5.3 (*Early Redemption for Reasons of Non-Approval*), Condition 5.4 (*Redemption at the Option of the Issuer*), Condition 5.5 (*Redemption for Reasons of Taxation*) or Condition 5.6 (*Redemption for Regulatory Reasons*) (in each case in connection with Condition 5.7 (*Conditions to Redemption and Repurchase*)) or (subject always to the ranking of the Issuer's obligations under the Notes set forth in Condition 2 (*Status*)) in the case of a Liquidation of the Issuer (unless this is done for the purpose or as a result of a merger, restructuring or re-organisation in respect of which the Issuer is still solvent and the continuing entity assumes substantially all of the assets and obligations of the Issuer).

5.2 **No Redemption at the Option of a Noteholder**

The Noteholders do not have a right to demand the redemption of the Notes.

5.3 **Early Redemption for Reasons of Non-Approval**

If a Non-Approval Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8 (*Redemption Notice; Redemption Amount*), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of early redemption specified in the notice. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to Conditions 3.6 (*Cancellation of Distributions*) and 5.9 (*Write-down*).

A **"Non-Approval Event"** occurs if, by 23 March 2023 the Issuer fails to obtain the permission of the Competent Authority pursuant to Article 149(2) of the Slovenian Banking Act to include the Notes in whole in the calculation of its Additional Tier 1 capital.

5.4 **Redemption at the Option of the Issuer**

The Issuer may, upon giving notice in accordance with Condition 5.8 (*Redemption Notice; Redemption Amount*), redeem the Notes in whole, but not in part, at the Redemption Amount on any Optional Redemption Date. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to Condition 3.6 (*Cancellation of Distributions*) and Condition 5.9 (*Write-down*). Any such redemption pursuant to this Condition 5.4 (*Redemption at the Option of the Issuer*) shall only be possible provided that the conditions to redemption and repurchase laid down in Condition 5.7 (*Conditions to Redemption and Repurchase*) are met.

"Optional Redemption Date" means:

- (i) each Business Day during the period from and including 23 September 2027 to but excluding the First Reset Date;
- (ii) the First Reset Date; and
- (iii) each Distribution Payment Date following the First Reset Date.

The Issuer may exercise its redemption right pursuant to this Condition 5.4 only if the Current Principal Amount of each Note is equal to its Original Principal Amount.

5.5 **Redemption for Reasons of Taxation**

If a Tax Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8 (*Redemption Notice; Redemption Amount*), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of redemption specified in the notice, provided that the conditions to redemption and repurchase laid down in Condition 5.7 (*Conditions to Redemption and Repurchase*) are met. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to Conditions 3.6 (*Cancellation of Distributions*) and 5.9 (*Write-down*).

Where:

A "**Tax Event**" means the certification by an authorised signatory of the Issuer to the effect that, as a result of a Tax Law Change affecting the applicable tax treatment of the Notes:

- (i) the Issuer has paid, or will or would on the next Distribution Payment Date be required to pay, Additional Amounts that are higher than the Additional Amounts which the Issuer has paid or would be required to pay prior to such Tax Law Change;
- (ii) the Issuer, in computing its taxation liabilities in the Republic of Slovenia, would not be entitled to claim a deduction in respect of distributions paid on the Notes, or such deductibility is reduced below the deductible amount at the date of issuance of the Notes;
- (iii) the Issuer would be required to take into account a taxable income if the Current Principal Amount were Written-down, where the Issuer was not so required prior to the Tax Law Change; or
- (iv) the Issuer would be materially adversely affected by a material change in the applicable tax treatment of the Notes,

in each case which cannot be avoided by the Issuer taking such measures it (acting in good faith) deems reasonable and appropriate.

"**Tax Law Change**" means any a change in, or an amendment to, or clarification of, applicable legislation, regulation or relevant jurisprudence, including (but not limited to) a change in any fiscal legislation, regulation, rules or interpretations thereof (which interpretations shall be evidenced in writing) by the relevant tax authorities that occurs on or after the date of issuance of the Notes.

5.6 **Redemption for Regulatory Reasons**

If a Regulatory Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8 (*Redemption Notice; Redemption Amount*), redeem the Notes in whole, but not in part, at the Redemption Amount at any time on the date of redemption specified in the notice, provided that the conditions to redemption and repurchase laid down in Condition 5.7 (*Conditions to Redemption and Repurchase*) are met. In addition, the Issuer will pay distributions, if any, accrued on the Current Principal Amount to but excluding the date of redemption specified in the notice, subject to cancellation of distributions pursuant to Condition 3.6 (*Cancellation of Distributions*) and Condition 5.9 (*Write-down*).

A "**Regulatory Event**" occurs if there is a change in the regulatory classification of the Notes under the Applicable Supervisory Regulations that would be likely to result in their exclusion in full or in part from own funds or reclassification as a lower quality form of own funds (in each case, on an individual basis of the Issuer and/or on a consolidated basis of the Issuer's Regulatory Group).

5.7 **Conditions to Redemption and Repurchase**

Any redemption pursuant to this Condition 5 and any repurchase pursuant to Condition 8.1 (*Repurchases*) is subject to:

- (a) (i) the Issuer not being insolvent; and (ii) the payment of the relevant amount not resulting in the insolvency of the Issuer; and
- (b) the Issuer having obtained the prior permission of the Competent Authority for such redemption or repurchase in accordance with Articles 77 and 78 CRR, whereas such permission may, *inter alia*, require that:
 - (i) either before or at the same time as the redemption or repurchase, the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
 - (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds and eligible liabilities of the Issuer would, following such redemption or repurchase, exceed the requirements laid down in the CRR, the CRD IV and the BRRD by a margin that the Competent Authority considers necessary; and
- (c) in the case of any redemption or repurchase during the five years following the date of issuance of the Notes:
 - (i) in the case of any redemption due to a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the date of issuance of the Notes; or
 - (ii) in the case of any redemption due to a Regulatory Event, the Competent Authority considers such change to be sufficiently certain and the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the date of issuance of the Notes; or
 - (iii) in the case of any redemption or repurchase in circumstances other than as described in clause (i) or (ii), either before or at the same time as the redemption or repurchase the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer and the Competent Authority has permitted that redemption or repurchase based on the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances; or
 - (iv) the Notes being repurchased for market making purposes in accordance with the Applicable Supervisory Regulations.

For the avoidance of doubt, any refusal of the Competent Authority to grant any permission, approval or other authorization required in accordance with the Applicable Supervisory Regulations shall not constitute a default for any purpose.

Notwithstanding the above conditions, if, at the time of any redemption or repurchase, the prevailing Applicable Supervisory Regulations permit the redemption or repurchase only after compliance with one or more alternative or additional pre-conditions to those set out above, the Issuer shall comply with such other and/or, as appropriate, additional pre-conditions, if any.

5.8 **Redemption Notice; Redemption Amount**

Any notice of redemption in accordance with Condition 5.3 (*Early Redemption for Reasons of Non-Approval*), Condition 5.4 (*Redemption at the Option of the Issuer*), Condition 5.5 (*Redemption for Reasons of Taxation*) or Condition 5.6 (*Redemption for Regulatory Reasons*) shall be given by the Issuer to the Noteholders in accordance with Condition 9 (*Notices*) observing a notice period of not less than 30 calendar days nor more than 60 calendar days. Subject to Condition 5.9(b) (*Write-down*) such notice shall be irrevocable and shall specify:

- (a) the date fixed for redemption;
- (b) the description of the Notes including the securities codes;
- (c) in the case of a notice of redemption in accordance with Condition 5.4 (*Redemption at the Option of the Issuer*) the Optional Redemption Date or in the case of a notice of redemption in accordance with Condition 5.3 (*Early Redemption for Reasons of Non-Approval*), Condition 5.5 (*Redemption for Reasons of Taxation*) or Condition 5.6 (*Redemption for Regulatory Reasons*) the grounds for redemption and the date of redemption; and
- (d) the Redemption Amount at which the Notes are to be redeemed.

"Redemption Amount" per Note means the Current Principal Amount per Note.

Any notice of redemption in accordance with Condition 5.3 (*Early Redemption for Reasons of Non-Approval*), Condition 5.4 (*Redemption at the Option of the Issuer*), Condition 5.5 (*Redemption for Reasons of Taxation*) or Condition 5.6 (*Redemption for Regulatory Reasons*) and this Condition 5.8 (*Redemption Notice; Redemption Amount*) will be subject to Condition 5.9(b) (*Write-down*).

5.9 **Write-down**

- (a) If a Trigger Event (as defined below) has occurred:
 - (i) the Issuer will immediately inform the Competent Authority that the Trigger Event has occurred;
 - (ii) the Issuer will determine the Write-down Amount (as defined below) as soon as possible, but in any case, within a maximum period of one month following the determination that a Trigger Event has occurred;
 - (iii) the Issuer will without undue delay inform the Noteholders that a Trigger Event has occurred by publishing a notice (such notice a **"Write-down Notice"**) which will specify the Write-down Amount as well as the new/reduced Current Principal Amount of each Note and the Write-down Effective Date (as defined below);
 - (iv) the Issuer will (without the need for the consent of Noteholders) reduce the Current Principal Amount of each Note by the relevant Write-down Amount (such reduction being referred to as a **"Write-down"** and **"Written-down"** being construed accordingly) without undue delay with effect as from the Write-down Effective Date; and
 - (v) unpaid distributions accrued on the Current Principal Amount to but excluding the Write-down Effective Date will be cancelled in accordance with Condition 3.6(c) (*Cancellation of Distributions*).

Whether a Trigger Event has occurred shall be determined by the Issuer, the Competent Authority or any agent appointed for such purpose by the Competent Authority, as applicable, and such determination will be binding on the Noteholders.

For the avoidance of doubt, a Trigger Event may be determined at any time and may occur on more than one occasion, each Note may be subject to a Write-down on more than one

occasion, provided however, that the Current Principal Amount of a Note may never be reduced to below EUR 0.01 under this Condition 5.9 (*Write-down*).

For the purposes of determining whether a Trigger Event has occurred, the Group CET 1 Capital Ratio (as defined below) or the Issuer CET 1 Capital Ratio (as defined below) may be calculated at any time based on information (whether or not published) available to the Issuer or the Issuer's Regulatory Group (as applicable), including information internally reported within the Issuer pursuant to its procedures for monitoring the Group CET 1 Capital Ratio and/or the Issuer CET 1 Capital Ratio.

Any failure or delay to give the notice pursuant to Condition 5.9(a)(i) (*Write-down*) and/or the Write-down Notice will not affect the effectiveness of, or otherwise invalidate, any Write-down. Any such notice which has not been given shall be given without undue delay.

- (b) The Issuer shall not give a notice of redemption after a Trigger Event has occurred until the Write-down has been effected in respect of the relevant Trigger Event.

In addition, if a Trigger Event occurs after a notice of redemption but before the date on which such redemption becomes effective, the notice of redemption shall automatically be deemed revoked and without effect and the relevant redemption shall not be made, and the rights and obligations in respect of the Notes shall remain unchanged.

- (c) *Definitions.* In these Terms and Conditions:

"Group CET 1 Capital Ratio" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) CRR of the Issuer's Regulatory Group on a consolidated basis, as calculated in accordance with the Applicable Supervisory Regulations.

"Issuer CET 1 Capital Ratio" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) CRR of the Issuer on an individual basis, as calculated in accordance with the Applicable Supervisory Regulations.

"Loss Absorbing Instrument" means, at any time, any AT 1 Instrument (other than the Notes) that may have all or some of its current principal amount written down (whether on a permanent or temporary basis) or converted into Common Equity Tier 1 instruments (in each case, in accordance with its terms or otherwise) on the occurrence or as a result of the Group CET 1 Capital Ratio and/or the Issuer CET 1 Capital Ratio falling below a certain trigger level.

"Minimum Trigger Level" means in respect of: (i) the Group CET 1 Capital Ratio 5.125 *per cent.*; and/or (ii) the Issuer CET 1 Capital Ratio 5.125 *per cent.*

"Required Loss Absorption Amount" means the amount which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write-down of the other Notes; and (b) the concurrent (or substantially concurrent) write-down or the conversion into Common Equity Tier 1 instruments of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments required in each case in the manner and to the extent required to restore the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to or above the relevant Minimum Trigger Level. If upon the occurrence of a Trigger Event other Loss Absorbing Instruments are also subject to a write-down or are subject to conversion into Common Equity Tier 1 instruments (in each case, in accordance with its terms or otherwise), where the respective terms of Absorbing Instruments such provide for a trigger event on a level for the Common Equity Tier 1 Capital Ratio at or above the Minimum Trigger Level (together with the Notes the **"Relevant AT1 Instruments"**), any such write-down or conversion will occur in such order of application or ratio as required in accordance with the Applicable Supervisory Regulations. If no such order or ratio is required by the Applicable Supervisory Regulations, the following applies:

- (i) Any Write-down will, subject to the provision set out in the following sentence, be effected *pro rata* with all other Relevant AT1 Instruments.

The Notes and all other Relevant AT1 Instruments will only participate in a write-down or (as the case may be) a conversion into Common Equity Tier 1 instruments to the extent required in aggregate to restore the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to the ratio provided for in their respective terms as the ratio triggering the event resulting in such write-down and/or conversion into Common Equity Tier 1 instruments; provided that the total amount of the write-downs and conversions shall not exceed the sum of the outstanding current principal amounts of the Relevant AT1 Instruments at the time of occurrence of the Trigger Event.

- (ii) Any other Relevant AT1 Instrument that may be written down or converted in full but not in part will, for the purposes of determining the relevant *pro rata* amounts for a write-down and calculation of the Write-down Amount, be treated as if its terms permit a partial write-down or conversion.

To the extent the write-down (or write-off) or conversion into Common Equity Tier 1 instruments of any Loss Absorbing Instrument whose trigger events for a write-down or conversion pursuant to their terms has occurred is not effective for any reason:

- (i) the ineffectiveness of any such write-down (or write-off) or conversion shall not prejudice the requirement to effect a Write-down of the Notes; and
- (ii) the write-down (or write-off) or conversion of any other Loss Absorbing Instrument that is not effective shall not be taken into account in determining such Write-down of the Notes.

A "**Trigger Event**" occurs if it has been determined that: (i) the Group CET 1 Capital Ratio; and/or (ii) the Issuer CET 1 Capital Ratio fall to an amount that is lower than the applicable Minimum Trigger Level.

"**Write-down Amount**" per Note means the amount by which the Current Principal Amount per Note is to be Written-down on a Write-down Effective Date, being the lower of (i) the *pro rata* share of the Note in the Required Loss Absorption Amount; and (ii) the amount necessary to reduce the Current Principal Amount to EUR 0.01.

"**Write-down Effective Date**" the date on which the Write-down will take effect, being no later than one month (or such shorter period as the Competent Authority may require) following the occurrence of the relevant Trigger Event.

- (d) Any Write-down of a Note pursuant to this Condition 5.9 (*Write-down*) shall not constitute a default by the Issuer for any purpose, and no amount will be due under these Terms and Conditions to the Noteholders for repayment of the amounts Written-down, including, but not limited to the insolvency or Liquidation, save to the extent (if any) such amounts are subject to a Write-up in accordance with Condition 5.10 (*Write-up*).

5.10 **Write-up**

The Issuer may, in its sole discretion, effect a reversal of a Write-down by writing up the Current Principal Amount, in whole or in part, up to a maximum of the Original Principal Amount (a "**Write-up**"), provided that a positive Profit has been recorded for each of the Issuer and the Issuer's Regulatory Group, and subject to the below limitations. There will be no obligation for the Issuer to operate or accelerate a Write-up under any specific circumstances.

If the Issuer so decides in its sole discretion, the Write-up will occur with effect as of the Write-up Effective Date (as defined below) (including).

In its discretion (without being obliged to) the Issuer may effect such Write-up provided that:

- (a) at the time of the Write-up, there must not exist any Trigger Event that is continuing; any Write-up is also excluded if such Write-up would give rise to the occurrence of a Trigger Event;

- (b) at the time of the Write-up, the Issuer is not insolvent and the Write-up would not result in the insolvency of the Issuer;
- (c) such Write-up is applied on a *pro rata* basis to all Notes and among Loss Absorbing Written-down Instruments; and
- (d) the sum of: (i) the aggregate amount attributed to the relevant Write-up of the Notes and the aggregate increase in principal amount of Loss Absorbing Written-down Instruments resulting from any previous write-up since the end of the then previous financial year; and (ii) the aggregate amount of any distribution and any Additional Amounts thereon paid on the aggregate Current Principal Amount of the Notes and the aggregate amount of any distribution and any additional amounts thereon paid on Loss Absorbing Written-down Instruments as calculated at the moment the Write-up is operated will not exceed the Maximum Write-up Amount at any time after the end of the then previous financial year.

The amount of any Write-up shall be subject to the restrictions relating to any applicable Maximum Distributable Amount as at the time of the Write-up.

For the avoidance of doubt, a Write-up of the Notes may occur on one or more occasions until the Current Principal Amount equals the Original Principal Amount. Write-ups do not have priority over dividend payments and other distributions on shares and other CET 1 Instruments, i.e. such payments and distributions are permitted even if no full Write-up of the Notes has been effected.

If the Issuer elects to effect a Write-up, it will publish in accordance with Condition 9 (*Notices*) no later than 10 calendar days prior to the relevant Write-up Effective Date a notice to the Noteholders giving details of the Write-up (including the amount of the Write-up as a percentage of the Original Principal Amount and the effective date of the Write-up (in each case a "**Write-up Effective Date**"). The Write-up shall be deemed to be effected at the time when the notice to the Noteholders is given in accordance with Condition 9 (*Notices*) and the Current Principal Amount shall be deemed to be increased by the amount specified in the notice with effect as of the Write-up Effective Date.

Where:

"**Maximum Write-up Amount**" means the lower of:

- (i) the consolidated Profit multiplied by the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial principal amount of all Loss Absorbing Written-down Instruments of the Issuer's Regulatory Group (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 capital pursuant to Article 25 CRR of the Issuer's Regulatory Group as at the date the relevant Write-up is operated; and
- (ii) the Profit on an unconsolidated basis multiplied by the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial principal amount of all Loss Absorbing Written-down Instruments of the Issuer (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 capital pursuant to Article 25 CRR of the Issuer as at the date the relevant Write-up is operated;

or any higher or lower amount permitted to be used under the Applicable Supervisory Regulations in effect on the date of the relevant Write-up.

"**Loss Absorbing Written-down Instrument**" means any Loss Absorbing Instrument that has had all or some of its principal amount written-down on a temporary basis, and that has terms permitting a principal write-up to occur on a basis similar to that provided herein in the circumstances existing on the date of the Write-up of the Notes.

"**Profit**" means: (i) the net income for the year of the Issuer on an unconsolidated basis recorded in the Relevant Financial Statements; or (ii) the consolidated net income for the year on a consolidated basis recorded in the consolidated financial statements of the Issuer's Regulatory Group, in each case after such Relevant Financial Statements or

consolidated financial statements have formally been determined by either the supervisory board or, if so requested, the shareholders' meeting of the Issuer.

6. TAXATION

6.1 General Taxation

All payments of principal and distributions in respect of the Notes will be made by the Issuer without withholding or deduction for or on account of any taxes, duties or governmental charges of whatever nature (the "**Taxes**") imposed or levied by way of withholding or deduction by or on behalf of the Republic of Slovenia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. If the Issuer is required by law to make any withholding or deduction in respect of any payment of distributions, the Issuer will pay such additional amounts in relation to distributions (but not principal) as will be necessary in order that the net amounts received by the Noteholder (or a third party on behalf of the Noteholder) after such withholding or deduction will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction (the "**Additional Amounts**"). However, no such Additional Amounts will be payable:

- (a) in respect of any amount payable in respect of a Note received by or on behalf of a person who is subject to such Tax in respect of such payment by reason of being connected with the Republic of Slovenia (or any political subdivision thereof) otherwise than merely by holding such Note or receiving distributions in respect thereof; or
- (b) in respect of any amount payable in respect of a Note received by or on behalf of a person who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the Issuer or relevant tax authority if, after the Issuer has, not less than 30 days before the due date for payment of the relevant distribution, notified the Noteholders in accordance with Condition 9 (Notices) of the possibility and consequences of making such declarations or claims, such person fails to do so (provided that a mechanism is available for such declaration or claim to be provided); or
- (c) on account of any Taxes which are deducted or withheld because the Noteholder is holding the Notes on behalf of one or more other persons (each a "*beneficial owner*") except to the extent that such Noteholder demonstrates to the satisfaction of the Issuer that such deduction or withholding would also be required if each beneficial owner would itself be a Noteholder; or
- (d) on account of any Taxes which are refundable or for which a relief at source is available pursuant to the laws of the Republic of Slovenia, a European Union directive or regulation or an international treaty or understanding to which the Republic of Slovenia and/or the European Union is a party/are parties to the extent that such refund or relief either applies unconditionally or the relevant Noteholder has confirmed the satisfaction of all applicable conditions.

6.2 U.S. Foreign Account Tax Compliance Act (FATCA)

The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Noteholder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or the intergovernmental agreement between the United States and the other jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any Additional Amounts in respect of any FATCA Withholding.

7. FURTHER ISSUES OF NOTES

The Issuer may from time to time, without the consent of the Noteholders, issue further Notes having the same terms as the Notes in all respects (or in all respects except for the date of issuance, issue price, Distribution Commencement Date and/or first Distribution Payment Date) so as to form a single series with the Notes.

The issuance of additional notes is excluded if it results in a right of the Issuer to redeem the Notes in accordance with Condition 5.5 (*Redemption for Reasons of Taxation*) or Condition 5.6 (*Redemption for Regulatory Reasons*).

8. REPURCHASES AND CANCELLATION

8.1 Repurchases

Provided that all applicable regulatory and other statutory restrictions are observed, and provided further that the conditions to redemption and repurchase laid down in Condition 5.7 (*Conditions to Redemption and Repurchase*) are met, the Issuer and any of its subsidiaries may repurchase Notes in the open market or otherwise. Notes repurchased by the Issuer or any subsidiary of the Issuer may, at the option of the Issuer or any such subsidiary may be held, resold or cancelled.

8.2 Cancellation

All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

9. NOTICES

9.1 Notices of the Issuer

All notices of the Issuer to a Noteholder or a Beneficiary concerning the Notes shall be valid if either (in the sole discretion of the Issuer, subject to any mandatory provisions of the applicable law): (a) sent to such Noteholder or Beneficiary at the address registered for a Noteholder or Beneficiary in the Central Register and any such notice shall be deemed to have been given on the eighth day following the day the notice was sent by mail; or (b) published: (i) if and for as long as the Notes are listed on the Luxembourg Stock Exchange, on the website of the Luxembourg Stock Exchange (www.bourse.lu); or (ii) if and for as long as the Notes are listed on any stock exchange other than the Luxembourg Stock Exchange, in such media as determined by law and the rules and regulations of such other stock exchange; and, in each case; (iii) in electronic form on the website of the Issuer (www.nlb.si). Any notice given by publication will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of the first such publication) unless the notice provides for a later effective date.

9.2 Notices to the Issuer

Notices to the Issuer shall be sent by letter or by e-mail to the following address:

NLB d.d. Ljubljana, Investor Relations
Trg republike 2
1520 Ljubljana, Slovenija
e-mail: IR@nlb.si

or, in any case, to such other address or for the attention of such other person or department as the Issuer has specified for a particular purpose by prior notice to the Noteholders and Beneficiaries.

Notices to the Issuer shall be valid upon receipt by the addressee, provided, however, that any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day or on any day which is not a Business Day in the place of the addressee shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the place of the addressee.

9.3 Language

- (a) Notices to Noteholders regarding the Notes shall only be valid if made in English.
- (b) Notices to the Issuer shall only be valid if made in English or Slovenian.

10. Amendments to the Terms and Conditions

10.1 Amendment of the Terms and Conditions

Subject to compliance with the Applicable Supervisory Regulations for the Notes to qualify as AT 1 instruments of the Issuer and the Issuer's Regulatory Group and the prior consent of the Competent Authority and/or the Resolution Authority, the Issuer may amend the Terms and Conditions with the consent of all or a majority of the Noteholders pursuant to this Condition 10 (*Amendment to the Terms and Conditions*). The Terms and Conditions cannot be amended without the Issuer's consent.

The Issuer will notify the Competent Authority and/or the Resolution Authority of the amendments of the Terms and Conditions proposed for resolution prior to holding the vote.

10.2 Definitions

In these Conditions, the following expressions have the following meanings:

- (a) a Note shall be considered to be "**outstanding**" unless one or more of the following events has occurred:
 - (i) it has been redeemed in full or purchased under Condition 8.1 (*Repurchases*) and cancelled in accordance with Condition 8.2 (*Cancellation*); or
 - (ii) for the purposes of this Condition 10 (*Amendment to the Terms and Conditions*), it is being held by or on behalf of the Issuer or a member of the Issuer's Regulatory Group;
- (b) "**Reserved Matter**" means, subject as provided in the paragraph below (Matters requiring unanimity), any proposal of the Issuer:
 - (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
 - (ii) to change the currency in which any amount due in respect of the Notes is payable or the manner in which any payment is to be made;
 - (iii) to substitute any person for the Issuer as principal obligor under the Notes;
 - (iv) to change the majority required to pass a Resolution;
 - (v) to change this definition, the definition of outstanding or the definition of Resolution;
 - (vi) to change or waive the provisions of the Notes set out in Condition 2 (*Status*); or
 - (vii) to decide on withdrawal of the Notes from listing or trading on a regulated market.
- (c) "**Matter requiring unanimity**" means any proposal:
 - (i) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes or the waiver of immunity by the Issuer, in respect of actions or proceedings brought by any Noteholder;
 - (ii) to modify the provisions of this paragraph (Matters requiring unanimity)

which may only be given effect with the consent of the Issuer and the holders of all of the outstanding Notes;

- (d) **"Resolution"** means a resolution proposed by the Issuer and passed by consent given (in writing, by giving instructions through KDD, or in any other manner specified by the Issuer and notified to the Noteholders in accordance with Condition 9 (*Notices*)) by or on behalf of the holders of outstanding Notes which, at the relevant time specified by the Issuer, represent:
- (i) in the case of a Matter requiring unanimity, 100 per cent. of the aggregate principal amount of all outstanding Notes;
 - (ii) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of all outstanding Notes;
 - (iii) in all other cases, more than 50 per cent. of the aggregate principal amount of all outstanding Notes.

10.3 Powers

By a Resolution the Noteholders may approve:

- (i) any Matter requiring unanimity;
- (ii) any Reserved Matter;
- (iii) any other proposal by the Issuer for any modification, abrogation, variation or compromise of any of the Conditions or any arrangement in respect of the obligations of the Issuer under or in respect of the Notes or waiver of any Noteholders' rights under the Notes.

10.4 Effects of a Resolution

A Resolution shall be binding on each Noteholder whether or not such Noteholder consented to it.

10.5 Manifest Error

These Terms and Conditions may be amended without the consent of the Noteholders to correct a manifest error or for the purposes of any amendment which is of a formal, minor or technical nature.

11. EXCHANGE OF THE NOTES

If (a) a Resolution is signed, approving in each case an amendment, modification, variation or abrogation of any provision of the Notes or these Terms and Conditions or the substitution of any person for the Issuer as obligor under the Notes; or (b) an amendment of the Notes or these Conditions is permitted pursuant to Condition 10.5 (*Manifest Error*) such amendment, modification, variation, abrogation or substitution shall, to the extent required under applicable law, be effected by the Issuer procuring that, on the Exchange Date (as defined below), Replacement Notes (as defined below) are credited to the account of each Noteholder with KDD in exchange for each Note which had been credited to the account of such Noteholder with KDD at close of business on the KDD Business Day prior to the Exchange Date.

It shall be deemed that each Noteholder has consented to the exchange of Notes in accordance with the foregoing and has authorised KDD to debit its securities account maintained with KDD accordingly.

In this Condition:

- (i) **"Exchange Date"** means the date specified by the Issuer in a notice given to the Noteholder in accordance with Condition 9 (*Notices*) not less than seven days before such date; and
- (ii) **"Replacement Notes"** means securities differing from the Notes solely in such respects as had been approved by the relevant Resolution or as permitted pursuant to Condition 10.5 (*Manifest Error*).

12. **APPLICABLE LAW AND JURISDICTION**

12.1 **Applicable Law**

The Notes, as to form and content, and all rights and obligations of the Noteholders and the Issuer, shall be governed by, and shall be construed exclusively in accordance with, Slovenian law.

12.2 **Arbitration and Jurisdiction**

The courts of the Republic of Slovenia shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes.

DESCRIPTION OF THE ISSUER AND THE GROUP

INTRODUCTION

NLB

Nova Ljubljanska banka d.d., Ljubljana is a company organised in accordance with the Slovenian Companies Act (*Zakon o gospodarskih družbah (ZGD-1)*) in the form of *delniška družba* (joint stock company), and is registered in the court register (*sodni register*) under identification number (*matična številka*) 5860571000. NLB's corporate seat is in Ljubljana, its registered office is Trg Republike 2, 1000 Ljubljana, Republic of Slovenia, and its telephone number is +386 1 476 39 00.

NLB traces its origins back to 1889 (when Mestna hranilnica Ljubljanska was established). NLB was established in the Republic of Slovenia under its current name on 27 July 1994, with certain assets of Ljubljanska banka transferred to NLB. NLB is a financial and banking institution incorporated in the Republic of Slovenia as a joint stock company, with a network of 75 branches in its domestic market as at 31 December 2021. NLB provides services to corporate and retail clients and had 2,510 employees as at 31 December 2021. NLB pursues a universal banking model comprising retail banking operations and corporate and investment banking. It is also a leading bank in Slovenia with a 26.3 per cent. market share (by total assets) as at 31 December 2021³. NLB's shares are listed on the Prime Market of the Ljubljana Stock Exchange and the global depositary receipts representing shares ("**GDRs**") are listed on the Main Market of the London Stock Exchange. The largest shareholder is the Republic of Slovenia which holds 25 per cent. plus one share of the share capital of NLB as at 31 December 2021.

Moody's Investors Service Cyprus Ltd ("**Moody's**") and S&P currently assign ratings to the Issuer. As at the date of this Offering Circular, the Issuer's ratings are as follows:

	<u>Moody's⁽ⁱ⁾</u>	<u>S&P</u>
Long-term debt.....	Baa1	BBB
Short-term debt.....	P-2	A-2
Rating outlook.....	Stable	Stable

Note: Credit or corporate ratings may not reflect all risks. One or more independent rating agencies may assign ratings to the Notes and/or the Issuer. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this section, and other factors that may affect the value of the Notes or the standing of the Issuer. A credit rating and/or a corporate rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

⁽ⁱ⁾ Unsolicited rating.

NLB, which is the NLB Group's (as defined below) largest operating entity (representing 58.9 per cent. of the total assets of the NLB Group as at 31 December 2021), is the parent company of the NLB Group and as such is responsible for its strategic direction. In addition, it sets the objectives of the individual subsidiaries, provides operational support and monitors risks.

As at 31 December 2021, NLB had total assets on an unconsolidated basis of EUR 12,700 million, net loans to customers⁴ of EUR 5,153 million, deposits from customers of EUR 9,660 million, and in shareholders' equity EUR 1,552 million.

NLB is regulated by the ECB and the Bank of Slovenia under the Single Supervisory Mechanism.

NLB Group

NLB Group is a Slovenian banking and financial group. From 2000 to 2008 the NLB Group focused on expanding its business in South-Eastern Europe (SEE). Thereafter, it pursued a strategy of reducing the number of companies in the Group, changes to corporate governance and organisational structure, and strengthening control mechanisms.

³ Source: Data of Bank of Slovenia.

⁴ Net loans to customers include Loans and advances to customers, measured at amortised cost and Non-trading Loans and advances to companies, mandatorily at fair value through profit or loss.

From 2011, the NLB Group implemented a strategy of focusing on its core activities while gradually withdrawing from other (non-core) activities, with a view to improving its competitive position and financial performance.

The NLB Group has successfully undertaken a restructuring strategy since 2016 and thereby has stabilised its business and returned to profit in all of its core markets.

On 30 December 2020, the NLB Group concluded the acquisition of 83.23 per cent. of the ordinary shares of Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd). The Issuer believes that this acquisition strengthens the Group's presence in SEE (in the markets in which it operates), enables the Group to extend the number of products and services it offers and allows for greater cross-border activity within the Group. On 12 November 2021, the Bank successfully concluded the merger (legal and technical) of NLB Banka, Podgorica and Komercijalna Banka, Podgorica where Komercijalna Banka, Podgorica ceased to exist. On 9 December 2021, Komercijalna Banka, Beograd successfully sold 100 per cent. of its ordinary shares of Komercijalna Banka, Banja Luka to Banka Poštanska štedionica, Beograd.

As at 31 December 2021, NLB Group's core and non-core activities consisted of eight banks⁵ (including NLB d.d.) and several companies located in the Republic of Slovenia, SEE and elsewhere. The core activities of the NLB Group principally comprise of banking and asset management (investment funds). The key core market of the NLB Group is NLB's home market, the Republic of Slovenia, where 55.1 per cent. of the NLB Group's profit was generated in the year ended 31 December 2021. Other core markets include those markets where the NLB Group carries out banking activities; namely, Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia and Serbia. In these markets, NLB Group banks have a strong market position with over 10 per cent. market share⁶ in most countries. The strategic foreign market segment of the banks is a major profit maker, contributing 43 per cent. of the Group's profit before tax in 2021. The Group continues to work towards creating synergies between its subsidiaries and seeking to streamline its operations.

As at 31 December 2021, the NLB Group had a total of 479 branches, total assets of EUR 21,577 million, net loans to customers of EUR 10,587 million, deposits from customers of EUR 17,641 million and EUR 2,079 million in shareholders' equity.

SHAREHOLDER STRUCTURE OF NLB

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

As at 31 August 2022, NLB had an equity market capitalisation of EUR 1,240,000,000.

The following table shows NLB's main shareholders as of 31 August 2022⁽¹⁾:

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders ⁽²⁾	10,973,594	54.87
• of which European Bank for Reconstruction and Development ⁽³⁾	/	>5 and <10
Republic of Slovenia	5,000,001	25.00
Other shareholders	4,026,405	20.13
Total	20,000,000	100.00

⁽¹⁾ Information is sourced from NLB's shareholders book accessible at the web services of CSD (Central Security Depository, Slovenian: KDD - Centralna klirinško depotna družba) and available to CSD members. Information on major holdings is based on the self-declarations by individual holders pursuant to the applicable provisions of Slovenian legislation, which require that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings pass the set thresholds of 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 1/3, 50 per cent. or 75 per cent. The table lists all self-declared major holders whose notifications have been received. In reliance on this obligation vested with the holders of major holdings,

⁵ For more information see "*Recent Developments*".

⁶ Data from central banks and NLB own calculations.

the Bank postulates that no other entities nor any natural person holds directly and/or indirectly 10 or more per cent. of the Bank's shares.

- (2) The Bank of New York Mellon holds shares in its capacity as the depositary (the "GDR Depositary") for the GDR holders and is not the beneficial owner of such shares. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the shareholder meeting or to exercise any voting rights under the deposited shares.
- (3) The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

HISTORY OF THE ISSUER

NLB was established under its current name by the Slovenian Constitutional Act (*Ustavni zakon o dopolnitvah ustavnega zakona za izvedbo Temeljne ustavne listine o samostojnosti in neodvisnosti Republike Slovenije (UZITUL-A)*) on 27 July 1994.

Pursuant to the Constitutional Act, NLB took over part of the assets, liabilities and operations of Ljubljanska banka.

Since 1994, a number of events have contributed to the NLB Group in its current form. After having consolidated its leading market position in its home market of the Republic of Slovenia in the late 1990s and early 2000s, NLB focused on expanding its business in the rest of SEE between 2000 and 2008.

In 2001, the Republic of Slovenia adopted a privatisation programme for NLB. The first phase of privatisation concluded in 2002 with a 34 per cent. stake being purchased by the Belgian banking and insurance group, KBC Bank ("**KBC**"), and a 5 per cent. stake by the European Bank for Reconstruction and Development ("**EBRD**"). EBRD withdrew from NLB's ownership structure in 2008 by way of a sale of its stake to the private equity arm of the financial group Poteza.

From the onset of the global financial crisis in 2008, NLB began reducing the number of companies in the NLB Group and made changes to its corporate governance and organisational structure in order to strengthen its internal control mechanisms. The number of NLB Group entities was also reduced through a series of mergers of its subsidiaries conducted for the purposes of synergy benefits and cost rationalisation. From 2010 onwards, the NLB Group has been in the process of divesting non-core subsidiaries based on its new strategy and a restructuring plan (the "**Restructuring Plan**") which aims to improve the sustainability of NLB's operations.

In March 2011, NLB completed a EUR 250 million capital increase, with the Republic of Slovenia subscribing for 97.35 per cent. of the newly issued shares due to a lack of interest from private investors and paying in a total amount of EUR 243.4 million, with other investors subscribing for 2.65 per cent. of the capital increase. In line with relevant EU legislation, the Slovenian authorities notified the measure to the EC and, with a decision dated 7 March 2011, the EC authorised such recapitalisation as emergency aid on the basis of Article 107(3)(b) of the Treaty on the Functioning of the European Union ("**TFEU**") upon the submission of the Restructuring Plan.

In 2012, NLB's Tier I capital was further increased by more than EUR 500 million through the provision of a hybrid loan of EUR 320 million by the Republic of Slovenia, the issue of new shares to Pension Fund Management ("**KAD**") and the Slovenian Restitution Fund ("**SOD**") in the amount of EUR 61 million, and through net profit of EUR 153 million recorded during 2012 as a result of the repurchase of certain of NLB's existing subordinated instruments at a discount. Although, in a decision dated 2 July 2012, the EC concluded that this recapitalisation constituted state aid pursuant to Article 107(1) of the TFEU, it was found it was temporarily compatible with the internal market as rescue aid for reasons of financial stability until a final decision was issued on the Restructuring Plan. At the same time, the EC initiated the procedure set out in Article 108(2) of the TFEU relating to the formal investigation of NLB's Restructuring Plan. In order to comply with the EC's decision, the Republic of Slovenia additionally increased NLB's capital by an amount of EUR 1.9 million at a discounted share price, which brought the total amount of state aid received by NLB in 2012 to EUR 382.9 million. In December 2012, its share in NLB capital further increased after KBC sold its existing 22.04 per cent. stake to the Republic of Slovenia, resulting in KBC's complete withdrawal from the ownership structure of NLB.

In 2013, the principal and interest of the EUR 320 million hybrid loan was converted into NLB's common equity as a result of the fulfilment of conditions for its conversion.

In January 2013, the Republic of Slovenia submitted a draft of the Restructuring Plan to the EC. On the basis of the Restructuring Plan and commitments provided by the Republic of Slovenia to the EC on 13 December 2013 and as amended on 11 May 2017, on 18 December 2013 the EC issued the "decision SA.33229 (2012/C) — (ex 2011/N) — Restructuring of NLB — Slovenia which Slovenia is planning to implement for Nova Ljubljanska banka d.d. of 18 December 2013 on State Aid" (the "**EC Decision**"), approving the state aid received by NLB up to that point (EUR 243.4 million in 2011 and EUR 382.9 million in 2012) and the state aid which was received by NLB in December 2013 (EUR 1,558 million and the transfer of impaired assets to the Bank Assets Management Company ("**BAMC**") with an aid element of EUR 130 million as discussed below).

Pursuant to the Bank of Slovenia Decision on extraordinary measures of 17 December 2013, which was issued in relation to the EC Decision, all Qualified Liabilities of NLB were terminated, including NLB's share capital and the subordinated liabilities, and the Republic of Slovenia paid in EUR 1,551 million into the capital of NLB (NLB's share capital was simultaneously reduced to zero via the termination of liabilities therefrom and the rescinding and deletion of NLB's shares and then increased to EUR 200 million). On 20 December 2013, impaired assets with a gross value of EUR 2.2 billion were transferred from NLB to the BAMC, a so-called "bad bank" (i.e. a bank that is to hold the illiquid and/or high risk assets) established by the Republic of Slovenia, for which NLB received bonds issued by the BAMC (and guaranteed by the Republic of Slovenia) in compensation.

From 2014 onwards there has been a significant increase in NLB's market penetration and improvements to its organisational structure.

The main milestones of the transformation programme first established in 2012 have been achieved or exceeded and in 2015 and 2016, all the NLB Group's members in core international markets including North Macedonia, Bosnia and Herzegovina, Montenegro, Kosovo and Serbia, where the NLB Group operates through its banking subsidiaries (together with the NLB Group's members in the Republic of Slovenia, the "**Core NLB Group Members**") as well as all core business segments recorded profits. In addition, the action plan to reduce NPL and to wind down the NLB Group's non-core activities has seen substantial progress.

In its core business, NLB has continued to pursue three main sets of activities: a focus on SMEs, an improvement in the effectiveness of its sales force and an intensified development of distribution channels and new solutions for clients.

Amongst other measures undertaken to improve operations across the NLB Group, since May 2016 all subsidiary banks have operated under the uniform brand "NLB Banka" with the goal of improving brand recognition and enabling the Group to achieve targeted synergies including enabling multiple banks to participate in joint advertising campaigns across several markets decreasing marketing and branding costs.

In March 2018 NLB Banka, Skopje sold its subsidiary NLB Nov penziski fond, Skopje to Sava RE. Prior to the sale, NLB Nov penziski fond, Skopje was 51 per cent. owned by NLB and 49 per cent. owned by NLB Banka, Skopje.

In September 2018, NLB sold the shares representing 28.13 per cent. of the share capital of Skupna pokojninska družba d.d. Ljubljana to Zavarovalnica Triglav d.d., as a result of which NLB is no longer a shareholder in Skupna pokojninska družba d.d. Ljubljana.

The first phase of privatisation of the Bank was concluded on 14 November 2018, after which the Republic of Slovenia reduced its shareholding in NLB from 100 per cent. to 35 per cent. of NLB's share capital. On 19 June 2019, the second phase of the privatisation process of NLB was completed by way of an accelerated book building of 10 per cent. of the Republic of Slovenia's stake in the NLB's share capital minus one share. After the completion of these phases, the Republic of Slovenia remains the largest shareholder of NLB, owning a 25 per cent. stake plus one share. On the conclusion of the privatisation almost all restrictions resulting from the commitments made by the Republic of Slovenia to the EC were lifted.

In accordance with its commitments to the EC, the Bank was required to divest its interests in the insurance company NLB Vita, življenjska zavarovalnica d.d., Ljubljana ("**NLB Vita**") by the end of 2019. On 27 December 2019, NLB entered into a sale and purchase agreement for its share in NLB Vita and thus, in the Bank's view, fulfilled this commitment. On 29 May 2020, having met all the suspensive conditions under the sales agreement, the Bank sold its 50 per cent. stake in the share capital of NLB Vita in a joint sales

process together with the KBC. Vita, življenjska zavarovalnica d.d. (the new name of NLB Vita) remains a strategic partner of the Bank.

On 26 February 2020, the Bank entered into a share purchase agreement with the Republic of Serbia for the acquisition of 83.23 per cent. of the ordinary shares of Komercijalna Banka, Beograd for EUR 387 million. The Bank announced on 22 December 2020 that it has obtained all the required regulatory approvals contemplated by the share purchase agreement and on 30 December 2020 the Bank completed the acquisition.

On 29 May 2020, the Bank announced that the newly founded company, NLB Lease&Go, a provider of leasing services, entered the Slovenian market and joined the Group. The company offers leasing for personal vehicles, lorries, buses, agricultural machinery and construction machinery.

On 30 December 2020, the NLB Group concluded the acquisition of 83.23 per cent. of the ordinary shares of Komercijalna banka a.d. Beograd (Komercijalna Banka, Beograd). As a result of the acquisition, the NLB Group obtained three banks (Komercijalna Banka, Beograd; Komercijalna Banka, Podgorica; and Komercijalna Banka, Banja Luka) and the investment fund company Kombank INvest, Beograd.

On 12 November 2021, the merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica was completed.

On 9 December 2021, the Komercijalna Banka, Beograd successfully sold 100 per cent. of its ordinary shares of Komercijalna Banka, Banja Luka to Banka Poštanska štedionica, Beograd.

On 22 December 2021, NLB executed the transfer of ownership of Leasing Ljubljana – in liquidation to NLB Lease&Go.

On 1 March 2022, NLB became a 100 per cent. owner of Sberbank (on 11 April 2022 renamed to N Banka). For more information see "Recent Developments".

NLB's Serbian subsidiaries, Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the new entity operates under the name NLB Komercijalna banka a.d. Beograd.

On 13 July 2022, NLB successfully squeezed out the remaining shareholders of NLB Komercijalna Banka, Beograd and thereby became a 100% owner of the bank.

COMPETITION FACING THE GROUP

The NLB Group is a banking and financial services group operating, headquartered in and with an exclusive focus in the Republic of Slovenia and the SEE⁷ markets. NLB classifies its competitors in the Republic of Slovenia into three categories: domestic banks; foreign banks; and investment banking and brokerage firms. In the financial services market, NLB faces competition from domestic banks and subsidiaries of foreign banks such as Nova KBM, SKB Banka, UniCredit Banka Slovenija, Addiko Bank (formerly Hypo Alpe-Adria Bank), Gorenjska banka and major regional banks such as Banka Intesa Sanpaolo (formerly Banka Koper).

Since the Republic of Slovenia entered the EU, the presence of foreign banks in the region has increased considerably in both corporate and retail banking. However, there has been an ongoing consolidation of Slovenian banks in the last two years. Further consolidation may change NLB's market position. In specialised services, such as investment banking, NLB's competitors are specialised companies (in particular, stock brokerage companies).

Competition in SEE

Serbia

The Serbian banking market is highly competitive with 23 banks operating in the market as of December 2021. These consist of 2 state-owned banks, 2 privately-owned banks and 19 banks under foreign ownership.

⁷ Source: Data of the Bank of Slovenia.

The presence of the NLB Group in the Serbian market increased at the end of 2020 when NLB purchased Komercijalna Bank Beograd. Following the merger between Komercijalna Banka, Beograd and NLB Banka, Beograd in April 2022, the new entity has become the second largest bank in the market with the fourth largest loan portfolio. The largest banks in Serbia currently are Banca Intesa, UniCredit Serbia, OTP, Raiffeisen, AIK, Eurobank, Direktna, Erste, and Banka Poštanska Štedionica.

Despite competition in the region, the NLB Group sees significant potential in the Serbian market and has ambitious growth plans.

North Macedonia

The banking sector in the Republic of North Macedonia is highly concentrated with NLB Banka, Skopje and the two other largest banks in the region, Komercijalna Bank, Skopje and Stopanska Bank Skopje holding an asset market share of 58.04 per cent. as of 31 December 2021⁸. NLB Banka, Skopje is the second systematically important bank in the country with the second largest loan portfolio in retail and the fourth in the corporate segment.

In July 2021, the acquisition of Ohridska Bank AD Skopje by Sparkasse Bank Makedonija AD Skopje was completed. The newly integrated Sparkasse Bank Makedonija AD Skopje is now one of the largest banks in North Macedonia with 11.52 per cent. asset market share and is now fourth in the banking sector, replacing Halk Bank.

Kosovo

There are 11 banks operating in Kosovo. NLB Bank, Prishtina is the second largest in terms of net assets and net loans, at around 18 per cent. in loans and deposits. The competition in the market is concentrated, with nine banks with foreign ownership which dominate the banking sector (86.1 per cent. of total assets⁹). The main competing banks come from Austria (Raiffeisen Bank), Germany (ProCredit) and Albania with one bank, while Turkey is represented by four banks (TEB Bank, Is Bankasi, Ziraat, BKT).

Bosnia and Herzegovina

Bosnia and Herzegovina consists of two entities, i.e. the Republic of Srpska and the Federation of BiH, with banking supervision performed by the Banking Agency of the Republic of Srpska and the Banking Agency of the Federation of BiH. Currently 23 banks are operating on the whole BiH market, of which 15 banks are domiciled in the Federation BiH and 8 in the Republic of Srpska.

There are 15 banks domiciled in the Federation of BiH with an additional 3 banks from the Republic of Srpska also present in the BiH Federation market. As of 31 December 2021 the largest banks are Unicredit Bank, Raiffeisen Bank and Intesa Sanpaolo. NLB Bank, Sarajevo is ranked seventh in the banking sector of the Federation, with a market share of 5.3 per cent. per total assets and 5.6 per cent. per total loans.

There are 8 banks domiciled in the Republic of Srpska with an additional 7 banks from the Federation of BiH also present on the Republic of Srpska market. NLB Bank, Banja Luka is the second largest bank in the market in terms of total assets as of 31 December 2021. While Nova Bank, which is domestically owned, is the largest bank in the market, several international groups like Unicredit, Addiko, Sberbank and Raiffeisen are also present.

Montenegro

In the relatively small market of Montenegro, there are 13 banks. NLB Bank, Podgorica merged successfully with Komercijalna Bank, Podgorica in November 2021. The merged bank is the second largest by total assets in the local market. CKB (OTP Group) remains the largest bank, followed by NLB Bank, Podgorica, Erste, Hipotekarna bank and Prva bank. Prior to the merger, NLB Bank, Podgorica's market share of non-banking sector loans in Montenegro was 17 per cent. and 8.5 per cent., respectively as at 31 December 2021.

⁸ Source: Central Bank and banks report.

⁹ Source: Central Bank and Kosovo Banking Association statistics.

STRATEGY

Despite the challenging and uncertain economic environment caused by the COVID-19 pandemic, the Group has not changed its course and continues to pursue its strategy, putting focus on protecting and strengthening its market position in its home region, and actively participating in the growth and consolidation of the market. Digitalisation, client centricity and cost efficiency remain some of key strategic orientations to deliver the Group's mission and vision.

- **Strategic focus**

Become regional champion: The Group aims to further strengthen its role as a systemically important financial institution in the SEE region and strives to become a market leader in all of its core markets. With the completion of the acquisition of Komercijalna Banka, Beograd in 2020, the Group made an important step in this direction. The deal holds potential for the whole region given the complementing product offerings of Komercijalna Banka, Beograd combined with cost- and capability-related business synergies derived from its integration into the Group. With the acquisition of Sberbank in March 2022, the Group contributed to the stability of the Slovenian banking system while improving its market share in its home market.

Putting clients first: In retail banking, the Bank continues to strive to get closer to its clients by offering anchor products and digital services (e.g. omnichannel, marketplace) that are personalised and the most accessible to suit its clients' lifestyles. In corporate banking, the Bank is looking to provide more complex cross-border products and services, and find new entry points in order to suit all its clients' financial needs. The whole Group strives to have a prominent role in the region's development. One of the key efforts is improved availability for all clients. The Group has made itself available anywhere and anytime by building a strong customer centre and upgrading its portfolio of digital sales channels. These now offer a growing set of banking products and services, both for retail and corporate clients. This has also become a very important issue due to the COVID-19 outbreak.

Grow its market position: The Group is working to protect and strengthen its market position as a systemic player¹⁰ in its home region. It also works to actively participate in the expected growth and consolidation of the market, while focusing on increasing profitability through a more customer-centric approach and digitalisation.

Exploit opportunities and synergies: Significant strategic business efforts are undertaken to achieve business synergies across the Group, both in terms of costs and operational efficiency. These can help offset significant negative economic effects of the COVID-19 pandemic on the Group's future business results. The Bank is pursuing growth through entering and expanding its presence into selected adjacencies (e.g. leasing and bancassurance) and diversifying its services on a horizontal level. With the acquisition of Komercijalna Banka, Beograd at the end of 2020, and merger of Komercijalna Banka, Beograd with NLB Banka, Beograd in April 2022, the Bank is now aiming to achieve all of its synergy potential. Further synergy opportunities could arise from the integration of recently acquired Sberbank into the Group.

The Bank is simultaneously monitoring additional potential M&A opportunities (to consolidate processes in the banking sector in the SEE). Although, these are not part of the immediate strategic plan.

- **Continuing transformation**

The Group has identified a series of projects and initiatives and has also dedicated considerable investment funds for their implementation. One overall strategic transformation program is channelled into all change efforts in relation to these projects.

The backbone of the strategy is strengthening customer-centricity by establishing customer-based market management, improving the understanding of the clients, reimagining digital client journeys and accelerating innovation to provide lifestyle and value chain services to lock relationships.

The transformation program also focuses some efforts into increased operational efficiency, cost management and the improved utilisation of the Group's capital. Simultaneously, overall operational capabilities are being enhanced by improving human capital, optimising IT, digitalising internal processes

¹⁰ Source: Data of the ECB/Bank of Slovenia.

and leveraging information capital. To drive transformation, a new change management platform has been set up.

- **Digitalisation**

In connection with the COVID-19 pandemic, the Group continues to implement comprehensive and substantial strategic efforts toward digital transformation. The new circumstances related to the pandemic and the economic uncertainty continue to affect the growth and acceptance of digital channels by our customers. The Group was prepared for such a market trend as it was already the leading provider and innovator in its core markets before the outbreak.

At the same time, the Group is striving to simplify and automate processes in order to minimise costs and uses digitalisation as its main tool. The focus on digitalisation is to enable quicker and better customer service, a higher level of internal processes efficiency, and consequently additional cost savings.

The Group will continue to invest substantially in IT infrastructure and its capabilities. The focus will be on improving the speed with which the IT department can deliver results by adopting agile methodology principles, the provision and implementation of the best online experience for customers in the SEE and how to enhance capabilities for processing data, modelling, and the relevance of services to clients.

- **Sustainable development vision**

Sustainability has become a Group-wide initiative. In 2020, the Bank developed the basis for the intensive integration of ESG factors into the Group's business model. Moreover, NLB became the first bank from Slovenia to commit to the UN Principles for Responsible Banking. By meeting stakeholder needs and expectations and driving business value through sustainability, the Bank will reinforce its efforts towards delivering the 2025 strategy.

- **Other strategic priorities**

Due to the positive effects from working remotely during the pandemic, the Bank will continue its working from home initiative in the future, offering more flexibility to its workforce and achieving cost benefits at the same time.

Following the lifting of EC State Aid constraints, the Group is now fully engaged in re-establishing some of the key financial services that were subject to restrictions (e.g. leasing and factoring). In December 2021, the Group initiated the needed steps for expanding leasing operations in Serbia and North Macedonia.

The Group is also putting additional efforts into cross-border loan activity. The Group's knowledge of the region and its presence are opening new possibilities for the Bank.

KEY FINANCIAL HIGHLIGHTS

For the years ended 31 December 2021 and 31 December 2020, the NLB Group generated a net profit after tax attributable to owners of NLB in the amount of EUR 236.4 million and EUR 269.7 million, respectively, while the total assets amounted to EUR 21,577.5 million and EUR 19,565.9 million, respectively.

The following table shows the financial highlights of the NLB Group (on a consolidated basis) and of NLB (stand-alone) for the years ended 31 December 2020 and 31 December 2021.

	NLB Group		NLB	
	Year ended 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Key income statement figures				
Net interest income	299.6	409.4	138.9	139.1
Net non-interest income	204.9	257.6	172.8	222.4
Total costs	(293.9)	(415.4)	(180.5)	(183.6)
Result after income tax.....	269.7	236.4	114.0	208.4
Key financial position statement figures				
Total assets.....	19,565.9	21,577.5	11,026.6	12,699.5
Loans and advances to non-banking sector (gross).....	10,033.3	10,903.5	4,753.1	5,250.4

	NLB Group		NLB	
	Year ended 31 December			
	2020	2021	2020	2021
Deposits from customers.....	16,397.2	17,640.8	8,850.8	9,659.6
Key performance figures	<i>(in millions of Euros)</i>			
Return on equity after tax.....	15.4	11.4	8.2	13.8
Cost income ratio.....	58.3	62.3	57.9	50.8

The following table shows the contribution to NLB Group's revenues and total assets by region as at and for the years ended 31 December 2020 and 2021. The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income.

	Contribution to NLB Group's revenues by region		Contribution to NLB Group's total assets by region	
	Year ended 31 December		As at 31 December	
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>		<i>(in millions of Euros)</i>	
Slovenia.....	322.1	352.1	10,142.7	11,716.3
SEE ⁽ⁱ⁾	265.6	458.6	9,411.7	9,845.1
Western Europe ⁽ⁱⁱ⁾	-	-	11.5	16.1
Total.....	<u>587.7</u>	<u>810.6</u>	<u>19,565.9</u>	<u>21,577.5</u>

⁽ⁱ⁾ North Macedonia, Serbia, Montenegro, Croatia, Bosnia and Herzegovina and Kosovo.

⁽ⁱⁱ⁾ Germany and Switzerland.

ACTIVITIES

The NLB Group is the second largest banking and financial group in the Republic of Slovenia with an exclusive strategic focus on selected markets in SEE¹¹. The NLB Group is principally involved in retail banking and corporate banking, offering a comprehensive range of competitive products and services.

The NLB Group provides universal banking services to retail and corporate clients, as well as asset management and bancassurance products.

NLB is a universal bank whose objects are to provide banking and other financial services, as authorised by the Bank of Slovenia, as well as to perform other business operations in accordance with applicable regulations. NLB may perform business operations in the Republic of Slovenia and abroad. NLB's segments are defined in accordance with NLB's long-term strategy and divided into two major categories: core and non-core.

NLB's business comprised of the following core and non-core segments:

Core Segments:

- **Retail Banking in Slovenia** includes banking with individuals and micro companies, asset management (NLB Skladi) and the part of NLB Lease&Go, which deals with retail clients as well as the contribution to the result from the associated company Bankart.
- **Corporate and Investment Banking in Slovenia** includes banking with key corporate clients, SMEs, and cross-border corporates, investment banking and custody, restructuring and workout, and one part of NLB Lease&Go that renders services to corporate clients.
- **Strategic Foreign Markets** include the operations of strategic Group banks in the strategic markets (North Macedonia, BiH, Kosovo, Montenegro, and Serbia).
- **Financial Markets in Slovenia** covers treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).

¹¹ Source: Based on the market share by total assets (source: Bank of Slovenia).

- Other accounts for the Banks categories whose operating results cannot be allocated to specific segments as well as the subsidiary The NLB Cultural Heritage Management Institute.

Non-Core Segment:

- **Non-Core Members** include the operations of non-core Group members, namely REAM and leasing entities (except NLB Lease&Go), NLB Srbija and NLB Crna Gora.

The table below sets out the contribution of each operating segment to the NLB Group's loss/profit before tax, and total net operating income, derived from the NLB Group's consolidated financial statements for the years ended 31 December 2020 and 31 December 2021.

	NLB Group's loss/profit before income tax for the year by activity		NLB Group's total net operating income ⁽⁶⁾	
	Year ended 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Corporate banking (Slovenia)	42.4	86.8	75.2	101.5
Retail banking (Slovenia)	42.0	49.0	170.4	171.0
Financial markets (Slovenia)	30.8	15.8	39.6	24.1
Strategic Foreign Markets	178.8	113.2	209.1	361.9
Non-Core Members	(4.6)	1.3	5.4	7.2
Other	(11.5)	(4.7)	8.0	6.1
Total	277.9	261.4	507.7	671.8

⁽⁶⁾ Note: The sum of net revenues and costs of the segments is greater than items from the leading income statement of the NLB Group. The difference results from the activities between the segments, since the effects of these activities appear as revenue on one segment and as a cost to the second segment, and therefore are not netted on the segment level.

The NLB Group has a banking presence across SEE. The following table sets out the NLB Group member banks by total assets (before intercompany elimination adjustments) and market share (based on data provided by the central banks of individual countries) in local markets as at 31 December 2021.

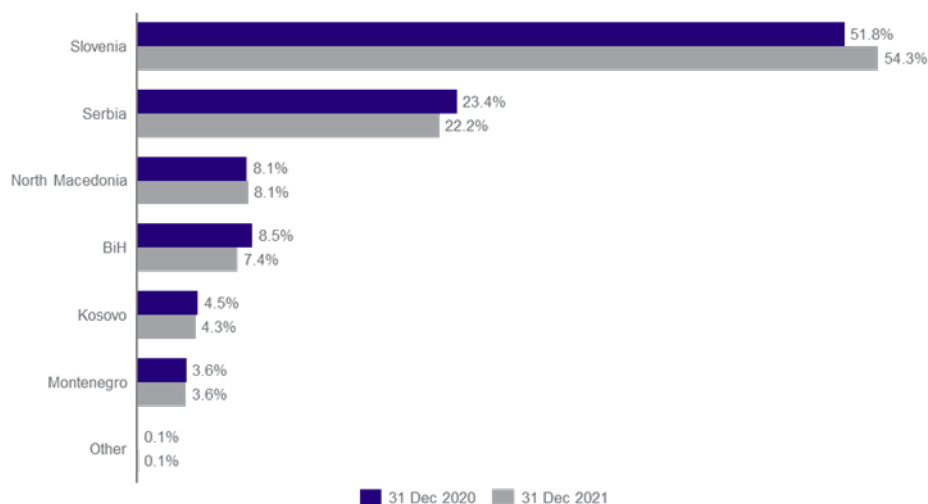
NLB Group member	Total assets <i>(in millions of Euros)</i>	Market share by total assets in local markets	
		Local market	<i>(in per cent.)¹²</i>
NLB d.d., Ljubljana	21,577	Slovenia	26.3
Komercijalna Banka, Beograd ¹³	4,165	Serbia	9.7
NLB Banka, Beograd	715	Serbia	1.7
NLB Banka, Skopje	1,771	North Macedonia	16.9
NLB Banka, Banja Luka	927	BiH-Republika Srpska	19.1
NLB Banka, Podgorica ¹⁴	751	Montenegro	14.1
NLB Banka, Prishtina	931	Kosovo	16.3
NLB Banka, Sarajevo	728	BiH-Federation	5.5

¹² Source: Data from the Bank of Slovenia, the National Bank of the Republic of North Macedonia, the Central Bank of Bosnia and Herzegovina, the National Bank of Serbia, the Central Bank of Kosovo and the Central Bank of Montenegro, each of which is the competent institution of its country.

¹³ Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the new entity operates under the name NLB Komercijalna banka a.d. Beograd.

¹⁴ NLB Banka, Podgorica and Komercijalna Banka, Podgorica successfully merged on 12 November 2021.

The following figure sets out the composition of the NLB Group's total assets by country as at 31 December 2021:



Retail banking in Slovenia

The retail banking segment in the Republic of Slovenia is key to the NLB Group's operations. NLB has a strong and established position in the Slovenian retail banking market, with approximately 24.7 per cent. and 30.7 per cent. market share in retail lending and deposit-taking as at 31 December 2021, respectively¹⁵. NLB offers its products and services via multi-channel distribution, including through its physical network of 75 branches as at 31 December 2021 and one mobile branch NLB Bank&Go, as well as through its digital channels and the only 24/7 banking contact centre in the country, providing also chat and video call functionalities. In the years ended 31 December 2021 and 31 December 2020, profit-before-tax generated in this segment reached EUR 49.0 million and EUR 42.0 million, respectively, and segment assets were EUR 2.8 billion and EUR 2.5 billion, respectively.

The following table shows the performance of the NLB Group's retail banking segment in Slovenia as at the years ended 31 December 2020 and 31 December 2021.

	As at and for year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	81.4	79.5
Net non-interest income.....	89.0	91.5
Total net operating income.....	170.4	171.0
Total costs.....	(114.1)	(116.5)
Result before impairments and provisions.....	56.2	54.5
Impairments and provisions.....	(15.1)	(6.7)
Net gains from investments in subsidiaries, associates, and joint ventures.....	0.9	1.1
Result before tax.....	42.0	49.0
Segment assets.....	2,545.7	2,811.2
Investments in associates, and joint ventures	8.0	11.5
Segment liabilities.....	7,367.1	7,720.7

NLB provides a range of banking products and services to its retail customers in Slovenia, offering current accounts (the Bank had 690,155 personal account holders as at 31 December 2021, equivalent to 32.7 per cent. of Slovenia's population) and other deposit accounts (including savings accounts), together with related debit cards and credit cards for access to domestic and international automated teller machines ("ATM") networks, overdraft facilities, mortgage and housing loans, personal loans, payment services and foreign exchange services. The NLB Group also provides other retail financial services in Slovenia, including asset management and life and non-life insurance. Particular attention is being given to offering simple and easy ways to access banking products and services available 24/7.

¹⁵ Source: Data of the Bank of Slovenia, NLB's calculation.

Since the COVID-19 pandemic, customers have been offered an even wider range of 24/7 accessible digital solutions as well as uninterrupted branch operations and cash services. The Bank was continuously supporting its customers and their vital businesses and households by offering them moratoria and liquidity lines where needed.

In 2021, the Bank upgraded its range of retail products and services and enhanced customer experience, as summarised below.

- Following the ESG orientation of the Group special financing for the purchase of solar panels, power storage and heat pumps were agreed for customers of one of the Slovenian retailers of technical products.
- The **mobile branch NLB Bank&Go** is becoming more and more recognisable. It offers banking and also other customer services in areas where a traditional branch is no longer available. Higher daily limit of cash withdrawals on ATMs was implemented to encourage clients to use ATMs and to strengthen the advisory role of branch offices.
- The number of digital users continued to increase (13.3 per cent. compared to 31 December 2020). In the period from 31 December 2020 to 31 December 2021, the number of m-bank Klikin and e-bank NLB Klik users increased by 23.5 per cent. (72,076 new users) and 6.5 per cent. (22,771 new users), respectively. The total volume and number of payments processed in the e-bank and m-bank in the period from 31 December 2020 to 31 December 2021 increased by 31.8 per cent. and 13.9 per cent., respectively, which also nicely presents the Bank's focus on the digital path.
- Launching the sales of different products (consumer and housing loans with simple collateral, Vita and Generali insurance products, deposits, savings and cards) via a video call was an important step towards strengthening the role of the Contact Centre as a 24/7 sales channel. In the period from 31 December 2020 to 31 December 2021, the Contact Centre experienced increases of 11.4 per cent. in total contacts, o/w 57.4 per cent. in video calls.
- **New debit Mastercard cards** (NLB Debit Mastercard, NLB Debit Mastercard World and NLB Mastercard World Elite) can be digitised and are now part of the client's wallet and mobile wallet NLB Pay instead of Maestro card, initially for all new clients and gradually, after expiring of Maestro cards, for existing clients. The Mastercard debit card offers added value for them in times when most purchases are made online.
- **New type of extraordinary overdraft** with a gradual decrease and automatic renewal for individuals was introduced to offer additional possibilities of financing customers.

Card operations

As at 31 December 2021, the Bank's card market share according to the Bank of Slovenia represents 27.4 per cent. of the Slovenian market. Individuals' debit and credit cards' payment transactions represented a total volume of EUR 2,674 million, and cash withdrawals came to a total of EUR 2,565 million.

The Bank was the first on the Slovenian market to offer contactless ATMs to clients (481 ATMs as at 31 December 2021). As contactless functionality has improved, contactless ATMs have become more secure.

NLB's card operations focus is to improve its competitive position following developments in technology, and to increase usage. At the moment, debit cards can be issued as virtual card (digital only), enabling the card and PIN to be issued instantly. Cards can be used immediately as they are issued directly in the NLB Pay m-wallet. The introduction of a new method of payment within the local instant payment scheme Flik P2M is an important step to migrate cash to non-cash transactions. Flik P2M is included in m- wallet NLB Pay and POS at merchants acquired by NLB will be step by step upgraded with Flik.

SMS Instalments for personal pay-later payment cards were introduced. The only condition to activate this option is the activation of SMS Alarm service. This new service complements instalment purchases for all possible card transactions (POS and e-commerce purchases, ATM withdrawals).

Electronic banking

In general, NLB is shifting the focus in its development activities from a product-oriented approach towards integrated user-friendly solutions embedded in the lifecycle of retail and corporate customers. In future, NLB aims to develop new ways of interacting with its client base in an evolving 'omnichannel' environment, allowing it to explore new ways of originating and servicing new business opportunities beyond established channels. E-solutions such as NLB Pay mobile wallet, mobile bank Klikin and online bank NLB Klik have already been introduced to the market.

Bankassurance

As the result of additional commitments given to the EC, a divestment of NLB's share in NLB Vita was required to be realised by end of 2019. On 27 December 2019 both owners of the NLB Vita (NLB and KBC Insurance NV) signed a sales and purchase agreement with Pozavarovalnica Sava, d.d. for the sale of 100 per cent. ownership. On 29 May 2020, having met all the suspensive conditions under the sales agreement, the Bank sold its 50 per cent. stake in the share capital of NLB Vita in a joint sales process together with the KBC.

The insurance company Vita (the new name of NLB Vita) remains the Bank's strategic partner. Its products are sold through the Bank's distribution network including savings and investment insurance products, risk and health insurance products. In 2021, Vita introduced a new health insurance product – NLB Vita Specialist, which among others covers the costs of medical specialists and more complex diagnostic examinations. The non-life insurance products, including car and home insurance, are provided to the clients in cooperation with GENERALI Zavarovalnica.

Asset and fund management

NLB Skladi d.o.o., Ljubljana ("**NLB Skladi**") is the asset and fund management company of the NLB Group, with its products exclusively distributed by NLB. The NLB Group's model for linking banking and asset management services plays a key role within the NLB Group's retail segment. NLB Skladi is a wholly owned subsidiary of NLB and has operated in the asset management sector since 2004.

The company is one of the leading providers of investment fund management services in the Republic of Slovenia. According to the Slovenian Investment Fund Association, its market share was 37.3 per cent. as at 31 December 2021. The company continues to be ranked first in the Republic of Slovenia with 50.4 per cent. of all net inflows in the market in 2021. The company remained the largest asset management company and the largest mutual funds management company in Slovenia (Securities Market Agency and ZDU-GIZ (Slovenian Investment Fund Association)). As at 31 December 2021, total assets under management were EUR 2,128.0 million, of which EUR 1,610.4 million were in mutual funds and EUR 517.6 million in the discretionary portfolio.

In addition to mutual funds, NLB Skladi offers adjustable savings plans, competitive commission rates and costs, management in line with international standards, transparent investment policies and investment services to other members of the NLB network.

Corporate and Investment Banking in Slovenia

The corporate banking segment in the Republic of Slovenia includes banking with key corporate clients, SMEs, investment banking and custody and restructuring and work-out. As at 31 December 2021, the corporate and investment banking segment in total represented 10,315 business clients. With a 18.3 per cent. and 18.9 per cent. market share in total corporate loans and deposits, respectively, as at 31 December 2021¹⁶, NLB is a leading bank in the Slovenian corporate banking market. NLB offers its products and services by focusing on relationship-based banking via business centres across the country and through its digital channels. After it was confirmed in August 2018 that the Commitments relating to cross-border financing ceased to apply on 31 December 2017, the Bank has actively started to exploit business opportunities in the SEE (see below – "*Cross-border Financing*") to offer a complete range of services as a leading regional bank and the strength of the NLB Group balance sheet available for financing. In the years ended 31 December 2021 and 31 December 2020, profit-before-tax generated in this segment reached

¹⁶ Source: Data of Bank of Slovenia. NLB's calculation.

EUR 86.8 million and EUR 42.4 million, respectively, and as at 31 December 2021 and 31 December 2020 segment assets were EUR 2.3 billion and EUR 2.0 billion, respectively.

The following table shows the performance of the NLB Group's corporate and investment banking segment in Slovenia as at the year ended 31 December 2020 and the year ended 31 December 2021.

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	34.0	35.7
Net non-interest income.....	41.2	65.8
Total net operating income.....	75.2	101.5
Total costs.....	(41.8)	(45.1)
Result before impairments and provisions.....	33.4	56.4
Impairments and provisions.....	9.0	30.5
Result before tax.....	42.4	86.8
Segment assets.....	2,043.3	2,333.8
Segment liabilities.....	1,519.1	1,966.5

The NLB Group provides comprehensive corporate financial services in the Republic of Slovenia and abroad to its corporate customers. Services are accessible to small and medium-sized corporate clients through the business network, while commercial centres at NLB are available to larger corporate clients.

The NLB Group offers its corporate clients current and deposit accounts as well as short-, medium- and long-term secured and unsecured loans, revolving credit facilities, overdraft facilities, export/import financing, issuance of guarantees and letters of credit, credit cards, e-banking via NLB Proklik, m-banking via Klikpro, where digital authentication and signing of certain documents is also possible, and certain payment services. Additionally, the NLB Group provides its corporate and institutional clients with a full range of offerings in debt and equity capital markets, M&A, advisory, brokerage, treasury solutions and custodian services.

Payment systems have vastly changed with the transition to instant processing, which is why NLB introduced instant payments, including instant internal transfers and Flik payments in m-wallet NLB Pay. Instant outgoing payments are also available to clients in m-bank Klikpro. By transitioning to instant processing of payments (operating 24/7), NLB aims to enhance user experience and digitalisation. The Flik P2M payment method was implemented for all merchants with NLB POSes with NLB being the first bank in Slovenia to do so. NLB also offers a modern payment platform NLB E-commerce to e-commerce providers and their clients, providing safety and simplicity, competitiveness to providers and good user experience. The Group, as a first banking group in the region, fully onboarded the GPI (Global Payment Initiative), i.e. service from SWIFT, which enables more efficient processing and easier tracking of international payment orders, thus enabling considerable improvement and smoother international payments experience for customers involved in international business.

New debit Mastercard products (NLB Debit Mastercard Business and NLB Debit Mastercard World) were also introduced to business account holders using the Maestro business card. New debit cards are included in the renewed package offer for legal entities, namely NLB Business Package Basic, Advanced, and Comprehensive, with a special offer for the target group of newly established and non-profit clients.

Cross-border Financing

Through NLB's Cross-border Financing, which connects all banking members of the NLB Group, NLB approaches and services clients in a more structured and uniform way throughout the region, utilising the extra cross-border lending capability of NLB. This allows the NLB Group to further strengthen its position as the largest banking and financial group headquartered in SEE with an exclusive strategic interest in this region.

The Bank has actively started to exploit business opportunities in SEE arising after the EC commitments affecting the Group were lifted. NLB increasingly presents itself in its home markets as a leading regional bank, with a complete range of Corporate and Investment Banking services. Overliquidity of NLB coupled with limited demand for loans in the Slovenian market and a wish to expand the operation with existing and new clients are the main reasons why cross-border financing is becoming more and more important. In

the Western Balkans, the Bank is among others currently supporting selected projects mainly in the telecommunications and food industry, as well as renewable energy sources. In addition to home region financing, the Bank entered into different EU markets and diversified its cross-border portfolio across the EEA. Deals are primary made through participation in syndicated international facilities or through participation in Schuldschein loans, which includes also some of world-renowned brands and leaders in their industries.

Investment banking

In 2021, NLB was involved in assisting Slovenian companies to raise funding by organising syndicated facilities in total amount of EUR 652.1 million. It also acted as the mandated lead arranger, as an agent and as the leading bank with a participation of EUR 275.7 million.

In addition, NLB advised on other corporate finance transactions, including sales of stakes in companies and takeovers, as well as providing valuations of such stakes. NLB also provides syndication services for private equity projects and infrastructure projects.

Within brokerage services, in 2021 NLB executed clients' buy and sell orders in the total amount of EUR 902.9 million (2020: EUR 941.3 million). While in the area of dealing in financial instruments, NLB executed foreign exchange spot deals in the total amount of EUR 946.6 million (2020: EUR 724.0 million) and for EUR 382.5 million (2020: EUR 242.6 million) worth of derivatives transactions.

International trade finance transactions

NLB supports its clients with a range of trade finance services offered in international markets through a network of correspondent relationships and international trade financing lines.

The main services the Bank offers its clients, besides trade finance products such as letters of credit and bank guarantees, are confirmations of letters of credit and guarantees, reimbursement undertakings, post-financing and the repurchase of receivables under documentary letters of credit, the issue of guarantees based on the counter guarantees of foreign banks as well as supply chain finance services. The purchase of receivables is also available through digital channels in a safe and fast way.

Custody services

The Bank is one of the top Slovenian players in custodian services for Slovenian and international customers, strengthening its position by expanding its client base in both of these business areas, whilst providing custodian services both as ancillary investment services and depositary services for funds. The Bank acts as a gateway into the SEE region, using its own network and partner institutions to offer seamless service to its customers. The Bank's focus as a client-oriented service provider remains strong. As at 31 December 2021, the total value of assets under custody increased to EUR 15.9 billion (compared to EUR 16.2 billion as at 31 December 2020).

Financial markets

The financial markets in the Slovenian segment include treasury activities, trading in financial instruments and asset and liability management for the Bank and the NLB Group. Treasury covers all treasury operations with banks and financial institutions (money market deposits, repos, trading with securities, foreign exchange and derivatives). In the years ended 31 December 2021 and 31 December 2020, profit-before-tax generated in this segment on Group level reached EUR 15.8 million and EUR 30.8 million, respectively, and as at 31 December 2021 and 31 December 2020 segment assets were EUR 6.2 billion and EUR 5.2 billion, respectively. On the other hand, the segment liabilities grew from EUR 557 million as at 31 December 2020 to EUR 1,232 million as at 31 December 2021 due to the participation on ECB's targeted longer-term refinancing operation ("TLTRO") in amount of EUR 750 million.

The following table shows the performance of the NLB Group's financial markets segment as at and for the year ended 31 December 2020 and the year ended 31 December 2021.

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income	23.5	26.4

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net non-interest income.....	16.2	-2.3
Total net operating income.....	39.6	24.1
Total costs.....	(7.6)	(8.6)
Result before impairments and provisions.....	32.0	15.5
Impairments and provisions.....	(1.3)	0.3
Result before tax.....	30.8	15.8
Segment assets.....	5,218.0	6,190.2
Segment liabilities.....	557.4	1,231.7

NLB continues to play an important role in maintaining the liquidity of Slovenian government bonds through the electronic MTS Slovenia platform, which lists certain Slovenian bonds. The Bank also maintains its active role in the primary market of Slovenian government treasury bills.

Strategic Foreign Markets

As at 31 December 2021, the core part of the NLB Group in foreign markets consisted of 7 banks¹⁷ and one investment fund company. The primary focus of banking members is on the retail and small and micro enterprises' segments. As at 31 December 2021, the NLB Group's bank subsidiaries in five out of six foreign markets (North Macedonia, Republika Srpska, Kosovo, Montenegro and Serbia) had market shares exceeding 10 per cent., measured by total assets.¹⁸ NLB's core subsidiaries in SEE markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Serbia and Montenegro) had, for the years ended 31 December 2021 and 31 December 2020, an aggregate profit-before-tax of EUR 178.8 million and EUR 113.2 million, respectively, including the results of minority owners. They had segment assets of EUR 9.8 billion and EUR 9.3 billion, respectively and segment liabilities of EUR 8.3 billion and EUR 7.9 billion, respectively.

Following the acquisition of Komercijalna Banka, Beograd and the merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica in November 2021 and the merger of Komercijalna Banka, Beograd and NLB Banka, Beograd¹⁹ in April 2022, the harmonisation with NLB Group standards is completed. The sale process of Komercijalna Banka, Banja Luka was concluded on 9 December 2021.

The following table shows the performance of the NLB Group's strategic foreign markets segment as at and the years ended 31 December 2020 and 31 December 2021.

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	159.3	266.8
Net non-interest income.....	49.8	95.1
Total net operating income.....	209.1	361.9
Total costs.....	(109.0)	(227.9)
Result before impairments and provisions.....	100.1	134.0
Impairments and provisions.....	(59.1)	(20.8)
Result before tax.....	178.8	113.2
Result of minority shareholders.....	3.0	11.5
Segment assets.....	9,346.3	9,797.8
Segment liabilities.....	7,879.1	8,315.3

The NLB Group's focus in strategic foreign markets is banking as its primary activity, with a medium-term emphasis on retail and SME banking.

¹⁷ For more information see "*Recent Developments*".

¹⁸ Data of the National Bank of the Republic of North Macedonia, BARS: Banking Agency of Republika Srpska, FBA - Federal Banking Agency, the Central Bank of Kosovo, the Central Bank of Montenegro and the National Bank of Serbia, each of which is the competent institution of its country.

¹⁹ Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the new entity operates under the name NLB Komercijalna banka a.d. Beograd.

The banks in the Group's strategic foreign markets offer a full range of financial services to retail and corporate clients. The NLB Group aims to promote organic growth in its subsidiary banks. In 2021, the Group banks marked a double-digit growth of gross loans to customers, especially in housing loans segments with raised demand for housing loans. The Group also seeks to exploit synergies, with a focus on improving client centricity, the introduction of modern technologies and digitalisation, improving operational performance and managing talent.

In 2021, the Group banks accelerated their digital transformation by offering e-identification (NLB Banka, Skopje), pay mobile card solution, end-to-end automated loan processing (Komercijalna Banka, Beograd) to robotics solutions in several internal processes (NLB Banka, Sarajevo), and implemented SWIFT GPI services to enable faster, more transparent, and reliable international transactions to its clients.

The following tables show the key balance sheet and profit and loss data for NLB Group banks in SEE as at and for the year ended 31 December 2020 and the year ended 31 December 2021.

Komercijalna Banka, Beograd²⁰

	As at and for the year ended 31 December	
	2020 ⁽ⁱ⁾	2021
	<i>(in millions of Euros)</i>	
Net interest income	102.6	88.6
Net non-interest income	41.5	40.1
Impairments and provisions	(9.1)	(7.6)
Result after tax	24.9	34.8
Total assets	3,907.4	4,165.2
Net loans to customers ²¹	1,630.3	1,795.9
Deposit from customers	3,194.3	3,424.6

⁽ⁱ⁾ Note: Acquisition process of Komercijalna banka a.d., Beograd concluded on 30 December 2020. Therefore, the information on the key financials for 2020 are extracted directly from individual Komercijalna Banka group's company accounts.

NLB Banka, Beograd

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income	21.8	23.4
Net non-interest income	4.8	7.0
Impairments and provisions	(3.6)	(3.2)
Result after tax	2.6	4.3
Total assets	686.7	715.4
Net loans to customers ²²	472.2	511.7
Deposit from customers	496.3	449.5

NLB Banka, Skopje

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income	48.1	50.4
Net non-interest income	14.5	18.0
Impairments and provisions	(15.4)	3.2
Result after tax	19.2	39.0
Total assets	1,585.7	1,770.6

²⁰ Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the new entity operates under the name NLB Komercijalna banka a.d. Beograd.

²¹ Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

²² Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net loans to customers ²³	956.9	1,084.1
Deposit from customers.....	1,288.8	1,399.5

NLB Banka, Banja Luka

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	18.6	20.1
Net non-interest income.....	11.5	13.1
Impairments and provisions.....	(5.0)	1.4
Result after tax.....	10.1	18.2
Total assets.....	796.5	927.2
Net loans to customers ²⁴	430.7	471.1
Deposit from customers.....	633.5	759.9

NLB Banka, Sarajevo

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	17.8	17.8
Net non-interest income.....	8.9	10.3
Impairments and provisions.....	(5.1)	(0.9)
Result after tax.....	5.9	10.0
Total assets.....	647.2	727.9
Net loans to customers ²⁵	399.1	453.0
Deposit from customers.....	521.6	593.0

NLB Banka, Prishtina

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	32.3	34.5
Net non-interest income.....	6.4	7.4
Impairments and provisions.....	(11.3)	(1.1)
Result after tax.....	13.3	24.4
Total assets.....	879.1	930.5
Net loans to customers ²⁶	559.2	634.5
Deposit from customers.....	748.3	798.8

NLB Banka, Podgorica

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income.....	20.6	22.0
Net non-interest income.....	3.7	6.2

²³ Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

²⁴ Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

²⁵ Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

²⁶ Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Impairments and provisions	(8.9)	0.6
Result after tax	1.4	10.1
Total assets	537.6	751.4
Net loans to customers ²⁷	367.2	491.6
Deposit from customers	431.7	609.8

Komercijalna Banka, Podgorica²⁸

	As at and for the year ended 31 December	
	2020 ⁽ⁱ⁾	2021
	<i>(in millions of Euros)</i>	
Net interest income	5.2	5.3
Net non-interest income	1.5	0.5
Impairments and provisions	(0.9)	(5.7)
Result after tax	0.5	(5.8)

⁽ⁱ⁾ Note: Acquisition process of Komercijalna banka a.d. Beograd concluded on 30 December 2020. Therefore, the information on the key financials for 2020 are extracted directly from individual Komercijalna Banka group's company accounts.

Non-Core Members

The non-core members segment includes the operations of non-core Group members, namely REAM and leasing entities (except NLB Lease&Go), NLB Srbija, and NLB Crna Gora.

For the years ended 31 December 2021 and 31 December 2020, profit-before-tax generated in this segment reached EUR 1.3 million and EUR 4.6 million, respectively, and as at 31 December 2021 and 31 December 2020 segment assets were EUR 95.9 million and EUR 131.2 million, respectively.

The following table shows the performance of the non-core members segment as at and for the years ended 31 December 2020 and 31 December 2021.

	As at and for the year ended 31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Net interest income	1.2	1.3
Net non-interest income	4.2	5.9
Total net operating income	5.4	7.2
Total costs	(12.9)	(11.4)
Result before impairments and provisions	(7.4)	-4.1
Impairments and provisions	2.9	5.4
Result before tax	(4.6)	1.3
Segment assets	131.2	95.9
Segment liabilities	4.6	7.7

The main objective of the non-core members segment is to wind down all non-core portfolios and consequently reduce costs.

LIQUIDITY

As of the date of this Offering Circular, the NLB Group has at its disposal sufficient liquidity reserves to cover liabilities that fall or may fall due for payment. Liquidity reserves are required to be available at short notice, following the realisation of a stress scenario (that is, immediately or within one week). Liquidity reserves are unencumbered liquid assets, which include funds on settlement accounts with central banks

²⁷ Financial assets measured at amortised cost (loans and advances to customers) and financial assets mandatorily at fair value through profit and loss (loans and advances to companies).

²⁸ NLB Banka, Podgorica and Komercijalna Banka, Podgorica successfully merged on 12 November 2021. For more information see "*Recent Developments*".

(funds exceeding the reserve requirement), debt securities and ECB-eligible credit claims. Encumbered liquidity reserves (as at 31 December 2021 and 31 December 2020 amounted to EUR 877.6 million and EUR 55.5 million for NLB Group, respectively, the increase being a result of TLTRO secured funding; excluding obligatory reserves), used for operational and regulatory purposes, are excluded from the liquidity reserves portfolio.

The liquidity reserves management in the NLB Group is decentralised. Each Group member is responsible for its own portfolio, while financial markets in Slovenia manage the liquid assets of NLB.

Debt securities are classified into trading or banking book securities depending on the purpose of their acquisition and on the intended manner of their disposal. Securities placed in the banking book serve as an instrument for the placement of excess liquidity, as explained below, while the purpose of trading book securities is to generate profits from resale.

The purpose of banking book securities is to provide liquidity, to stabilise the interest margin and to help manage interest rate risk.

The following table shows the unencumbered liquidity reserves for the NLB Group and NLB as at 31 December 2020 and 2021.

	NLB Group		NLB	
	As at 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Unencumbered liquidity reserves.....				
Cash and central bank reserves	2,683.9	3,567.9	2,106.5	3,068.1
Trading book securities.....	68.8	0.0	2.5	0.0
Banking book securities.....	4,946.6	4,615.4	2,896.7	2,480.0
ECB eligible credit claims	583.0	80.0	583.0	80.0
Total	8,282.3	8,263.3	5,588.7	5,628.1

As at 31 December 2021 and 31 December 2020, unencumbered liquidity reserves made up 38.3 per cent. and 44.6 per cent. of the NLB Group's total assets, respectively. The liquidity coverage ratio of the NLB Group, as defined by Basel Committee on Banking Supervision, stood at 252.6 per cent. and 257.5 per cent., respectively.

As at 31 December 2021 and 31 December 2020, the NLB Group had a LTD of 60.0 per cent. and 58.8 per cent., meeting liquidity targets high above the regulatory requirements, and confirming the low liquidity risk approach of the NLB Group. The NLB Group holds a comfortable liquidity position at both the Group and subsidiary bank levels.

As at 31 December 2021 and 31 December 2020, the banking book securities portfolio represented 55.9 per cent. and 59.9 per cent., respectively of the NLB Group's liquidity reserves; and was dispersed appropriately in terms of issuers, countries and remaining maturity, with the aim of achieving adequate liquidity and interest risk management as well as capital consumption.

FUNDING

Non-banking sector deposits represented the highest proportion of the NLB Group's funding as at 31 December 2021 and 31 December 2020, accounting for 81.8 per cent. and 83.8 per cent. of total liabilities and equity on the respective dates.

As at 31 December 2021 and 31 December 2020, the proportion of total liabilities and equity accounted for by subordinated debt securities issued by NLB was 2.27 per cent. and 2.61 per cent., respectively, while the proportion of total liabilities and equity accounted for by deposits from banks was 0.86 per cent. and 0.38 per cent., respectively.

As at 31 December 2021 and 31 December 2020, the NLB Group subordinated debt securities issued were 1.34 per cent. and 1.47 per cent. of total liabilities and equity on the respective dates, while the proportion of total liabilities and equity accounted for by deposits from banks was 0.33 per cent. and 0.37 per cent. on the respective dates.

The following table shows the split of total liabilities for the NLB Group as at 31 December 2020 and 31 December 2021.

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros)</i>	
Deposits from customers.....	16,397.2	17,640.8
Corporate.....	3,949.1	4,463.7
Individuals.....	12,023.5	12,680.8
Government.....	424.5	496.4
Deposits from banks and central banks.....	72.6	71.8
Borrowings.....	249.8	932.6
Other liabilities.....	434.9	427.7
Subordinated liabilities.....	288.3	288.5
Equity.....	1,952.8	2,078.7
Non-controlling interests.....	170.3	137.4
Total liabilities and equity.....	19,565.9	21,577.5

Deposits

The NLB Group is primarily funded by deposits. The following table shows deposits from banks and other customers for the NLB Group and NLB as at 31 December 2020 and 31 December 2021.

	NLB Group		NLB	
	As at 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Deposits on demand				
Banks.....	52.3	56.4	41.6	94.3
Other customers.....	13,633.9	15,319.1	8,129.0	8,982.5
- governments.....	307.1	401.3	86.3	109.2
- financial organisations.....	192.2	303.9	137.2	265.9
- companies.....	3,223.6	3,653.7	1,552.0	1,870.1
- individuals.....	9,911.0	10,960.2	6,353.5	6,737.3
Other deposits				
Banks.....	20.4	15.4	-	15.0
Other customers.....	2,763.3	2,321.7	721.8	677.1
- governments.....	117.4	95.1	35.5	34.8
- financial organisations.....	134.7	125.3	34.5	71.6
- companies.....	398.6	380.8	193.0	229.1
- individuals.....	2,112.5	1,720.5	458.9	341.6
Total.....	16,469.8	17,712.6	8,892.4	9,768.9

The following table shows deposits from government, from individuals and from corporates for the Bank as at 31 December 2020 and 31 December 2021.

	As at 31 December	
	2020	2021
		<i>(in billions of Euros)</i>
Deposits from government.....	0.1	0.1
Deposits from corporates.....	1.9	2.4
Deposits from individuals.....	6.8	7.1
Total.....	8.9	9.7

The above shows an inflow of deposits. The Bank's deposit structure from a maturity perspective is still changing in favour of sight deposits, with continued pressure on the deposit rates.

The following table shows deposit rates for the Bank as at 31 December 2020 and 31 December 2021.

	As at 31 December	
	2020	2021
		<i>(per cent.)</i>
Long term.....	0.73	0.84
Short term.....	0.10	0.08
Sight.....	0.01	0.00

The following table shows deposits from government, from individuals and from corporates for the banks in the NLB Group strategic foreign markets as at 31 December 2020 and 31 December 2021.

	As at 31 December	
	2020	2021
	<i>(in billions of Euros)</i>	
Deposits from government.....	0.3	0.4
Deposits from corporates.....	2.0	2.1
Deposits from individuals.....	5.2	5.6
Total.....	7.6	8.0

The following table shows deposit rates in the banks in the NLB Group strategic foreign markets as at 31 December 2020 and 31 December 2021.

	As at 31 December	
	2020	2021
	<i>(per cent.)</i>	
Deposit rate.....	0.43 ⁽ⁱ⁾	0.29

⁽ⁱ⁾ Without the effect of the acquisition of Komercijalna Banka, Beograd.

Deposit structure of the banks in the NLB Group's strategic foreign markets is also changing in favour of sight deposits, with notable decrease in deposit rates.

For the years ended 31 December 2021 and 2020, interest expenses for the Bank from deposits was EUR 3.1 million and EUR 3.8 million, respectively. For the years ended 31 December 2021 and 2020, interest expenses from deposits in the banks in the NLB Group's strategic foreign markets was EUR 22.9 million and EUR 16.9 million, respectively.

The following table shows the average cost of funding for the NLB Group and NLB as at 31 December 2020 and 31 December 2021:

	NLB Group		NLB	
	As at 31 December		As at 31 December	
	2020	2021	2020	2021
	<i>(in per cent.)</i>			
Average cost of funding ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	0.26 ⁽ⁱ⁾	0.21	0.17	0.11

⁽ⁱ⁾ Without the effect of the acquisition of Komercijalna Banka, Beograd.

⁽ⁱⁱ⁾ Annualised interest expenses and income from Liabilities (interest income from liabilities due to negative interest rate) / Average balance of interest bearing liabilities.

⁽ⁱⁱⁱ⁾ Unaudited data.

Borrowings from banks / financial institutions

As at 31 December 2021 and 31 December 2020, the NLB Group's borrowings in the form of loans amounted EUR 932.6 million and EUR 249.8 million, respectively (the change reflects the participation in the ECB's TLTRO operation in amount of EUR 750 million), while the subordinated debt amounted to EUR 285.0 million and EUR 285.0 million, respectively.

The following table shows the volume of borrowings from banks and other customers for the NLB Group and NLB for years ended 31 December 2020 and 31 December 2021.

	NLB Group		NLB	
	Year ended 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Loans				
- banks.....	158.2	858.5	143.5	873.5
- governments.....	20.2	20.6	-	-
- financial organisations.....	71.0	53.0	-	-
- companies.....	0.4	0.5	-	0.4
Total.....	249.8	932.6	143.5	873.9

Outstanding Senior debt securities

The Bank had no outstanding senior debt securities as at 31 December 2021 and 31 December 2020²⁹.

Subordinated liabilities

As at 31 December 2021 and 31 December 2020, the NLB Group had EUR 285 million and EUR 285 million (nominal amount) of subordinated liabilities, respectively.

On 31 December 2021, the outstanding subordinated liabilities were the following:

- the Bank's EUR 45 million of Tier 2 subordinated notes issued on 6 May 2019, with maturity on 6 May 2029, if not prepaid earlier (NLB27 and ISIN SI0022103855). It carries a fixed coupon interest rate during the first five years of 4.2 per cent. p.a. (based on a five-year mid-swap and a fixed margin of 4.159 per cent.); thereafter the fixed coupon interest rate shall be determined based on the sum of the then applicable reference interest rate (a five-year mid-swap) and the fixed margin as defined at the issuance date of the notes. On 28 June 2019, the Bank obtained the ECB's approval to count these Tier 2 notes towards its Tier 2 capital.

- the Bank's EUR 120 million of Tier 2 subordinated notes issued on 19 November 2019, with maturity on 19 November 2029, if not prepaid earlier (ISIN XS2080776607). It carries a fixed coupon interest rate during the first five years of 3.65 per cent. p.a. (based on a five-year mid-swap and a fixed margin of 3.833 per cent.); thereafter the fixed coupon interest rate shall be determined based on the sum of the then applicable reference interest rate (a five-year mid-swap) and the fixed margin as defined at the issuance date of the notes. On 4 March 2020, NLB obtained the ECB's approval to include these subordinated Tier 2 notes in the calculation of Tier 2 capital.

- the Bank's EUR 120 million of Tier 2 subordinated notes issued on 5 February 2020, with a final maturity on 5 February 2030, if not prepaid earlier (ISIN code XS2113139195). It carries a fixed coupon interest rate during the first five years of 3.4 per cent. p.a. (based on a five-year mid-swap and a fixed margin of 3.658 per cent.); thereafter the fixed coupon interest rate shall be determined based on the sum of the then applicable reference interest rate (a five-year mid-swap) and the fixed margin as defined at the issuance date of the notes. On 25 March 2020, the Bank obtained the ECB's permission for the instrument's inclusion in the calculation of Tier 2 capital.

Subordinated liabilities			NLB Group			
			As at 31 December 2021		As at 31 December 2020	
Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated notes						
EUR	6 May 2029	4.2 per cent. p.a., after 5 years: 5 years MS + 4.159% p.a.	45,903	45,000	45,867	45,000
EUR	19 November 2029	3.65 per cent. p.a., after 5 years: 5 years MS + 3.833% p.a.	119,577	120,000	119,480	120,000
EUR	5 February 2030	3.4 per cent. p.a., after 5 years: 5 years MS + 3.658% p.a.	123,039	120,000	122,974	120,000
Total			288,519	285,000	288,321	285,000

INVESTMENTS

Description of recent material investments

In recent years, the NLB branch network has undergone significant changes due to digitalisation and global changes and trends in the banking industry. In light of the development and wider use of digital channels, material investments in the branch network have been made to offer a network of universal, modern, open and client and employee friendly branches in all relevant regions, while at the same time optimising branch costs. In the last couple of years activities focused on branch network optimisation have included:

²⁹ For more information see "Recent Developments".

- minor adaptations of branches (refreshment and partial adaptations) according to NLB "white book" branch standards;
- complete renovations and new locations (e.g. new prime location of Koper branch was opened in 2020, including operations of NLB Lease&Go; at an investment of almost EUR 2.5 million in 2020);
- closure of non-profitable locations; and
- introduction of new branch channels (e.g. immediately prior to the second COVID-19 lock-down period in 2020, the Bank introduced the first mobile branch in Slovenia, NLB Bank & Go, which will enable the Bank to get closer to residents in the local environment).

There is also focus on space and cost optimisation of other business premises including a major adaptation of our back-office building which is underway. In 2020, a first phase of renovation was completed (investment value of more than EUR 2.5 million in 2020), with the aim of concentrating HQ offices in the same business district. The purchase of additional office space was completed in July 2021 in the neighbouring building (EUR 1.3 million in 2021).

In addition to the above, as part of the NLB contribution to Slovenian cultural heritage, the historic building of Ljubljana City Saving Bank from 1905 was renovated and in the old banking hall Bankarium – Slovenian banking museum was opened for the public in June 2021 (an investment of almost EUR 1.7 million).

The NLB Group has also invested in the purchase of licenses and maintenance contracts for several data and digital software and hardware solutions by renowned global and regional providers of banking software and IT equipment.

Description of ongoing material investments

Another key area of investment is IT infrastructure platforms, in particular, the investment in a disk storage SAN system which is standardised on NLB Group level. NLB is also modernising its internal network equipment by implementing state of the art networking equipment which is also standardised across the Group.

Regarding material investments in new platforms to be used at NLB Group level, the Bank continues to invest in digitalisation and process automation. There are several strategic projects under way including the implementation of a new digital banking platform (for new e/m banking solutions in the retail and corporate area) and a new data platform (replacement of existing data warehouse solution with a state-of-the-art data management platform).

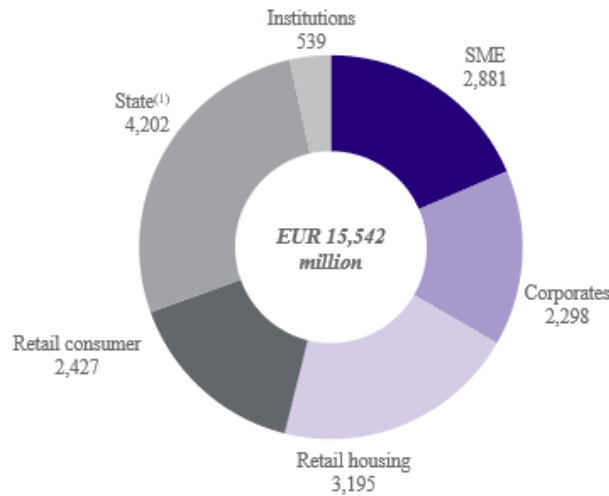
With the adoption of our IT security strategy in 2021, the Bank plans to invest in cyber security tools which will enable it to increase and strengthen the resilience in the field of cyber security on the Group level. These tools will enable the Bank to better monitor, alert and prevent potential security breaches and reduce the security related risks.

LOAN PORTFOLIO

Quality of credit portfolio

Although the NLB Group is concentrated in SEE, the NLB Group's credit portfolio of EUR 15.5 billion as at 31 December 2021 is diversified without any large concentration in any specific industry or client segment. The share of the retail portfolio within the whole credit portfolio is substantial with the segment of mortgage loans prevailing. As at 31 December 2021 the portfolio consisted of 14.8 per cent. large corporates, 18.5 per cent. SMEs and micro companies and 36.2 per cent. retail loans. The remainder of the portfolio consists of other liquid assets. Geographically, loans in the Republic of Slovenia accounted for 50.6 per cent. of the total portfolio and 81.5 per cent. were denominated in Euros as at 31 December 2021. In connection with the acquisition of N Banka (previously: Sberbank) there were no major changes in the corporate and retail credit portfolio structure. In the assessment of the Issuer, the credit portfolio remains diversified with no large concentration in any specific industry or client segment.

The following figure sets out the NLB Group structure of the credit portfolio⁽²⁾ (gross loans) by segment as at 31 December 2021 (in millions of Euros):



⁽¹⁾ State includes exposures to central banks.

⁽²⁾ Loan portfolio also includes reserves at central banks and demand deposits at banks.

The following tables provide the overview of NLB Group corporate loan portfolio by industry as at 31 December 2021 and 31 December 2020.

	NLB Group			
	31 December 2021		31 December 2020	
	Credit portfolio (in thousands of Euros)	per cent.	Credit portfolio (in thousands of Euros)	per cent.
Corporate sector by industry				
Accommodation and food service activities.....	156,310	3	141,196	3
Act. of extraterritorial org. and bodies.....	0	0	8	0
Administrative and support service activities.....	108,145	2	121,756	2
Agriculture, forestry and fishing.....	310,738	6	288,703	6
Arts, entertainment and recreation.....	22,670	0	21,008	0
Construction industry.....	434,643	8	373,751	8
Education.....	13,282	0	14,123	0
Electricity, gas, steam and air conditioning	318,170	6	258,085	5
Finance.....	120,226	2	167,689	3
Human health and social work activities.....	37,921	1	50,042	1
Information and communication.....	244,089	5	233,930	5
Manufacturing.....	1,091,117	21	986,111	20
Mining and quarrying.....	50,388	1	79,992	2
Professional, scientific and techn. act.....	175,367	3	171,643	3
Public admin., defence, compulsory social.....	172,357	3	219,357	4
Real estate activities.....	251,267	5	221,582	5
Services.....	11,985	0	13,911	0
Transport and storage.....	573,282	11	592,085	12
Water supply.....	43,875	1	41,123	1
Wholesale and retail trade.....	1,043,094	20	923,120	19
Other.....	545	0	1,828	0
Total Corporate sector	5,179,469	100	4,921,044	100

	NLB Group			
	31 December 2021		31 December 2020	
	Credit portfolio (in thousands of Euros)	per cent.	Credit portfolio (in thousands of Euros)	per cent.
Main manufacturing activities				
Manufacture of basic metals.....	153,137	3	112,352	2
Manufacture of food products.....	173,967	3	160,747	3
Manufacture of fabricated metal products, except machinery and equipment.....	150,420	3	118,086	2

NLB Group			
31 December 2021		31 December 2020	
Credit portfolio	per cent.	Credit portfolio	per cent.
<i>(in thousands of Euros)</i>		<i>(in thousands of Euros)</i>	
Manufacture of electrical equipment	94,258	2	136,761
Manufacture of rubber and plastic products	57,243	1	64,553
Manufacture of other non-metallic mineral products...	64,382	1	52,451
Other manufacture activities.....	397,709	8	341,162
Total manufacturing activities	1,091,117	21	986,111

NLB Group			
31 December 2021		31 December 2020	
Credit portfolio	per cent.	Credit portfolio	per cent.
<i>(in thousands of Euros)</i>		<i>(in thousands of Euros)</i>	
Main wholesale and retail trade activities			
Wholesale trade, except of motor vehicles and motorcycles	577,730	11	510,740
Retail trade, except of motor vehicles and motorcycles	352,053	7	299,603
Wholesale and retail trade and repair of motor vehicles and motorcycles.....	113,311	2	112,777
Total wholesale and retail trade	1,043,094	20	923,100

The NLB Group applies a conservative, disciplined and sustainable credit policy and regularly monitors effectiveness of its risk management processes to identify, monitor and control or mitigate material risks, including loan approval processes, proactive handling of problematic customers, changes in credit processes and early warning systems for detecting increased credit risk. A prudent credit approach and the improved economic environment in the NLB Group's core countries of operation have resulted in cumulatively low new formation of NPL and a sustainable, relatively low cost of risk.

The following table provides the overview of NLB Group COVID-19 moratoria as at 31 December 2021 (in millions of Euros).

COVID-19 moratoria					
Exposure	Of which expired	Outstanding amount	Relevant book	Per cent. of Relevant book	Per cent. of relevant book (excl. expired moratoria)
<i>(in millions of Euros)</i>	<i>(in millions of Euros)</i>	<i>(in millions of Euros)</i>	<i>(in millions of Euros)</i>		
NLB Group Member					
NLB	395.6	372.1	23.5	8,256.1	4.8%
NLB Banka, Beograd	141.1	141.1	0.0	590.8	23.9%
NLB Leasing d.o.o. – v likvidaciji, Ljubljana	1.4	1.4	0.0	9.0	16.0%
NLB Banka, Podgorica	159.0	158.0	1.0	600.8	26.5%
NLB Banka, Banja Luka	12.4	12.4	0.0	687.4	1.8%
NLB Banka, Skopje	237.6	237.6	0.0	1,399.3	17.0%
NLB Banka, Sarajevo	23.2	22.9	0.3	615.0	3.8%
NLB Banka, Prishtina	179.5	179.5	0.0	805.4	22.3%
KB Banka, Beograd ³⁰	531.5	531.5	0.0	2,553.6	20.8%
Total NLB Group	1,681.5	1,656.6	24.8	15,517.3	10.8%

In the assessment of the Issuer, COVID-19 did not have a meaningful impact on the quality of the credit portfolio of the Group. The schemes introduced by the governments in the countries in which the Group operates providing moratoriums to eligible clients as part of the COVID-19 pandemic measures phased out during 2021. The exposures with expired moratoria are closely monitored, but do not show material

³⁰ Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the new entity operates under the name NLB Komercijalna banka a.d. Beograd.

deviations in quality compared to the remaining portfolio. Non-expired moratoria were already reclassified accordingly in 2020 based on future expectations.

In addition to moratoria, the governments in Serbia and Slovenia provided public guarantee schemes for new financing of clients whose business has been materially impacted due to the COVID-19 pandemic. As at 31 December 2021, these loans amounted to EUR 177.2 million; none of the guarantees have been exercised.

The combination of a high-quality portfolio, the exercise of COVID-19 related legislative options, uncertain macroeconomic conditions and harmonisation process in Komercijalna Banka group led to cumulative new NPLs formation in year ended 31 December 2021 in the amount of EUR 143.0 million, which is 0.9 per cent. of the total portfolio.

The reduction of NPL on the NLB Group level remains a key focus. The Group has defined a NPL strategy where by it uses different workout approaches for the management of the non-performing portfolio. The NLB Group's approach to NPL management puts an emphasis on restructuring and use of other active NPL management tools, such as foreclosure of collateral, the sale of claims and pledged assets. In 2021, the multi-year declining trend of the non-performing credit portfolio stock continued, mostly due to repayments, collection, sale of claims, and cured clients. As at 31 December 2020 the existing non-performing credit portfolio stock in the NLB Group was EUR 474.7 million and decreased during the year 2021 to EUR 367.4 million as at 31 December 2021 (the reduction exceeded the set targets). The combined result of contraction in non-performing credit portfolio stock and credit growth of a higher quality portfolio led to the lower share of NPL from 3.5 per cent. as at 31 December 2020 to 2.4 per cent. as at 31 December 2021, while the internationally more comparable non-performing exposure ("NPE") per cent. based on EBA methodology decreased from 2.3 per cent. to 1.7 per cent. The Group's indicator gross NPL ratio, defined by the EBA, is equal to 3.4 per cent. as at 31 December 2021 and is below the regulatory defined threshold for establishment of NPL strategy framework.

Due to the experience gained in the last few years dealing with clients with financial difficulties, resulting primarily from legacy portfolios, the NLB Group has developed a knowledge base both in the prevention of financial difficulties for clients, (including to restructure viable clients in case of need) and to efficiently work out exposures with no realistic recovery prospects. This extensive knowledge base is available throughout the NLB Group and risk units as well as restructuring and workout teams are properly staffed and have the capacity to deal, if needed, with considerably increased volumes in a professional and efficient manner. Due to this fact, as well as due to implemented early warning tools and efficient analysis and reporting mechanisms the NLB Group was able to proactively identify and engage with potentially distressed borrowers. The NLB Group estimates that it is well prepared to deal proactively with potentially distressed debtors also in the context of COVID-19.

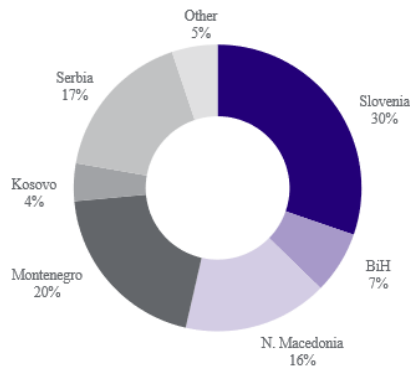
An important strength of the NLB Group is its high non-performing loan coverage ratio. As at 31 December 2020 and 31 December 2021, the non-performing loans coverage ratio ¹³¹ remained high at 81.8 per cent. and 86.1 per cent., respectively, and non-performing loan coverage ratio ²³² was 57.3 per cent. and 57.9 per cent., respectively (which is well above the EU average as published by the EBA (45.1 per cent. for September 2021)). As such, this enables a further reduction in NPL without significantly influencing the cost of risk in the coming years. Moreover, it proves that past reductions in NPL were on average carried out without a negative impact to the profit and loss account.

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

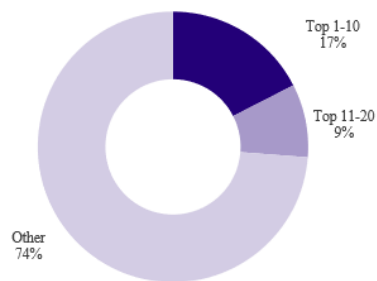
³¹ NPL coverage ratio 1: the coverage of the gross NPL portfolio by loan loss allowances on the entire loan portfolio.

³² NPL coverage ratio 2: the coverage of the gross NPL portfolio by loan loss allowances on the NPL portfolio.

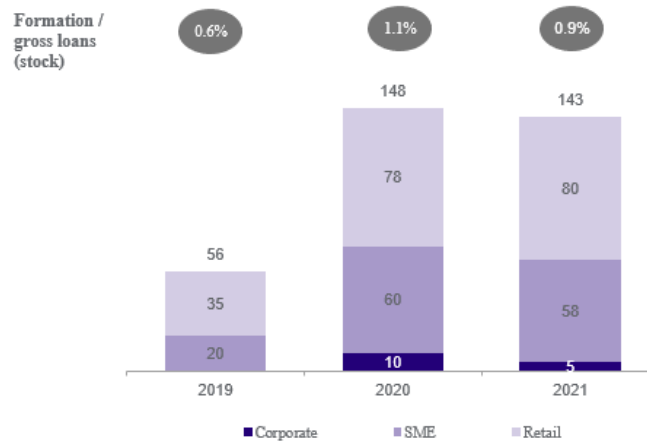
The following figure shows NPL (in terms of volume) by geographical location of the NLB Group as at 31 December 2021:



The following figure shows the top 20 NPL (in terms of volume) of the NLB Group as at 31 December 2021:



The following figure shows the NLB Group's gross NPL formation by segment since 2019 (in EUR million):



As at 31 December 2020 and 31 December 2021 the gross NPL formation as a percentage of gross loans was 1.1 per cent. and 0.9 per cent., respectively.

The following table analyses the maximum exposure to credit risk of the NLB Group and NLB as at 31 December 2020 and 2021.

	NLB Group		NLB	
	As at 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Cash, cash balances at central banks, and other demand deposits at banks.....	3,961.8	5,005.1	2,261.5	3,250.4
Financial assets held for trading.....	84.9	7.7	18.8	7.7
Non-trading financial assets mandatorily at fair value through profit or loss.....	27.2	4.3	30.9	7.9
Financial assets measured at fair value through other comprehensive income.....	3,446.5	3,395.3	1,671.2	1,541.0
Financial assets measured at amortised cost				
Debt securities.....	1,503.1	1,717.6	1,277.9	1,436.4
Loans to government.....	368.4	281.0	170.7	143.9
Loans to banks.....	197.0	140.7	158.3	199.3
Loans to financial organisations.....	158.9	141.7	177.2	226.1
Loans to individuals.....	4,933.1	5,519.3	2,377.8	2,656.9
Loans to other customers.....	4,159.5	4,645.1	1,838.5	2,118.2
Other financial assets.....	113.1	122.2	54.5	92.4
Derivatives – hedge accounting.....	-	0.6	-	0.6
Total net financial assets.....	18,953.5	20,980.5	10,037.4	11,680.9
Guarantees.....	1,126.4	1,236.7	689.7	727.1
Financial guarantees.....	479.1	533.6	258.0	289.9
Non-financial guarantees.....	647.3	703.1	431.7	437.2
Loan commitments.....	1,816.4	1,879.0	1,306.8	1,259.5
Other potential liabilities.....	32.1	48.8	8.1	3.0
Total contingent liabilities.....	2,975.0	3,164.5	2,004.6	1,989.6
Total maximum exposure to credit risk.....	21,928.5	24,145.0	12,042.0	13,670.5

Total maximum exposure to credit risk shown above presents the NLB Group's exposure to credit risk, separating out the risks arising from different types of financial assets and conditional obligations. The exposures stated in the above table values balance sheet items at their net book value as reported in the relevant statement of financial position and values off-balance sheet items at their nominal value.

The most important clients for NLB and the NLB Group are large corporate customers, SMEs and individuals.

The following table sets out net loans and advances by geographical location of the borrower for the NLB Group and NLB as at 31 December 2020 and 2021.

Country	NLB Group		NLB	
	As at 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Republic of Slovenia.....	4,360.1	4,862.0	4,354.1	4,856.3
Other European Union members.....	157.6	249.8	73.3	156.4
Other countries.....	5,437.5	5,738.3	380.5	432.0
Total.....	9,955.1	10,850.0	4,807.9	5,444.7

The most important geographic market for NLB and the NLB Group is Slovenia, with other (principally SEE) countries also being important for the NLB Group.

The NLB Group's loan portfolio is diverse. The most important sectors in terms of net loans as at 31 December 2021 were individual clients, heavy and trade industry, transport and communications, and services. The net loans granted to these five sectors represented 83.0 per cent. of total loans held by the NLB Group (82.4 per cent. in NLB) as at 31 December 2021, compared to 81.2 per cent. (84.4 per cent. in NLB) as at 31 December 2020.

The following table shows gross loans for the Bank as at 31 December 2020 and 2021.

	As at 31 December	
	2020	2021
	<i>(in billions of Euros)</i>	
Loans to government	0.2	0.1
Loans to corporates.....	2.2	2.4
Loans to individuals.....	2.4	2.7
Total	4.8	5.3

The Bank's loan volume is increasing due to the increase of individual loans, mostly due to newly approved housing loans. Despite higher volumes, lower interest income was recorded due to continued pressure on interest rates.

The following table shows gross loans for the NLB Group banking subsidiaries as at 31 December 2020 and 2021.

	As at 31 December	
	2020	2021
	<i>(in billions of Euros)</i>	
Loans to government	0.2	0.1
Loans to corporates.....	2.4	2.6
Loans to individuals.....	2.6	2.9
Total	5.2	5.6

Interest income has increased, despite decreasing loan yields due to higher loan volume, even without effects of the acquisition of Komercijalna Banka, Beograd. Macro-economic growth in the SEE region could further contribute to improvements in operations.

The following table shows loan yields for the Bank as at 31 December 2020 and 2021.

	As at 31 December	
	2020	2021
	<i>(per cent.)</i>	
Loans to corporates.....	1.85	1.91
Loans to individuals.....	4.05	3.84

The following table shows loan yields for the NLB Group's banking subsidiaries as at 31 December 2020 and 2021.

	As 31 December	
	2020	2021
	<i>(per cent.)</i>	
Loans to corporates.....	4.15 ⁽ⁱ⁾	3.96
Loans to individuals.....	6.28 ⁽ⁱ⁾	5.83

⁽ⁱ⁾ Without the effect of the acquisition of Komercijalna Banka, Beograd.

For the year ended 31 December 2021 and 2020, interest income from loans for the Bank was EUR 144.5 million and EUR 141.5 million, respectively. For the year ended 31 December 2021 and 2020, the interest income from loans in the NLB Group banking subsidiaries was EUR 265.8 million and EUR 171.2 million, respectively. The majority of the increase was related to the acquisition of Komercijalna Banka, Beograd.

In the light of the war in Ukraine, the Group has analysed potential impact on its credit portfolio. The direct exposure to counterparties is limited and predominantly refers to Russian government bonds maturing in September 2023. The Group may be affected by the secondary effect of the crisis, where increasing prices of raw materials and energy may represent an important factor for certain corporate clients. The Group is closely monitoring the circumstances in the most affected industries (energy, transport, automotive, construction, food production) and has a close communication with key clients to identify any changes in the business circumstances. In the assessment of the Issuer, the loan exposure of the Group to clients exposed to high indirect impact of the war in Ukraine is moderate. On the other hand, the inflation pressure and prices of energy sources may limit the credit capabilities in the retail segment. The Group has performed stress testing using the ECB adverse and severe scenarios, which resulted in the potential estimated losses being perceived as sustainable.

Impairment methodology

The NLB Group assesses specific and collective loan impairments at the end of each month for all exposures valued at amortised cost based on IFRS 9, a method which came into force as of 1 January 2018. IFRS 9 requires a shift from an incurred loss model to an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes incorporating forecasts of future economic conditions. The expected loss model requires the NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for ECL is required for all loans and other debt financial assets not held at FVTPL (fair value through profit and loss), together with loan commitments and financial guarantee contracts.

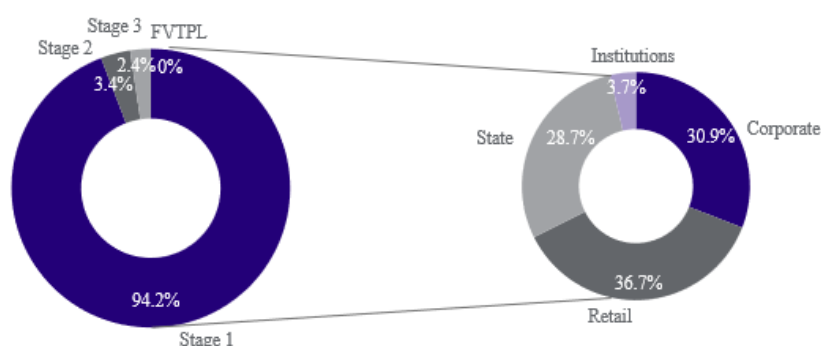
The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since the initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset ("LECL"). When determining whether the risk of default increased significantly since the initial recognition, the NLB Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the NLB Group's historical data, experience, expert credit assessment and incorporation of forward-looking information.

The NLB Group has prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, calculating risk indicators and validating models. The NLB Group classifies financial instruments into Stage 1, Stage 2 and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since the initial recognition, NLB Group recognises an allowance based on 12-month period;
- Stage 2 – underperforming portfolio: significant increase in credit risk since the initial recognition, NLB Group recognises an allowance for lifetime period; and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these defaulted financial assets. The bank uses a unified definition of past due and default exposures that is aligned with Article 178 of Regulation EU 575/2013. Defaulted clients are rated based on the bank's internal rating system; and include clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. Retail clients are rated on their facility level, however the rating can be reduced based on the rating of other credit facilities of the same clients.

The majority of the NLB Group's loan portfolio as at 31 December 2021 is classified in Stage 1 (94.2 per cent.), then 3.4 per cent. in Stage 2, and 2.4 per cent. in Stage 3. Loans in Stages from 1 to 3 are booked at amortised cost, while the remaining minor part (0.002 per cent.) represents fair value loans through P&L (FVTPL).

The following figure sets out the NLB Group loan portfolio by stages as at 31 December 2021:



The following figure sets out the NLB Group loan portfolio by stages as at 31 December 2021 (in EUR million):

	Credit portfolio								
	Stage1			Stage2			Stage3 & FVTPL		
	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change
Total NLB Group	14,638.0	94.2%	1,987.2	532.4	3.4%	-27.6	371.4	2.4%	-104.3
o/w Corporate ..	4,525.5	87.4%	389.9	412.2	8.0%	-14.6	241.7	4.7%	-116.8
o/w Retail.....	5,371.1	95.6%	591.9	120.2	2.1%	-13.1	129.7	2.3%	12.6
o/w State	4,202.4	100.0%	912.3	-	-	-	-	-	-
o/w Institutions	538.9	100.0%	93.2	-	-	-	-	-	-

	Provisions and FV changes for credit portfolio						
	Stage1		Stage2		Stage3 & FVTPL		Coverage with provisions and FV changes
	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes		
Total NLB Group	70.4	0.5%	34.0	6.4%	212.1	57.1%	
o/w Corporate ..	50.6	1.1%	26.6	6.5%	136.0	56.3%	
o/w Retail.....	18.3	0.3%	7.4	6.2%	76.0	58.6%	
o/w State	1.3	0.0%	-	-	-	-	
o/w Institutions	0.2	0.0%	-	-	-	-	

The portfolio quality in 2020 and 2021 was very stable with increasing Stage 1 exposures and a reduction of NPL, which are close to the Slovenian average (as per Bank of Slovenia, Financial Stability Review, October 2021). The high percentage of Stage 1 loans in the loan portfolio of the Group is a result of a cautious lending policy. While the volume of Stage 2 loans is limited, it is decreasing due to positive resolution of exposures in this stage.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition;
- when a financial asset has material delays regarding repayment over 30 days (days-past due are also included in the credit rating assessment);
- if the NLB Group grants forbearance to the borrower; or
- if the facility is placed on the watch list ("WL").

The WL is an internal list of performing clients that have been identified (at an early stage) as experiencing financial difficulty. The WL is divided into:

- WL1: where the seriousness of a client's financial deterioration is relatively small or temporary and where it can be expected that such client should eliminate the anomalies in a relatively short period of time; and
- WL2: where the seriousness of a client's financial deterioration is large and is the result of structural or strategic problems in such client's operations and profitability.

The process of identifying clients experiencing financial difficulty is aimed at the rapid detection of potential problems with performing customers on the basis of early warning indicators (financial, non-financial) of increased credit risk. The Early Warning System ("EWS") has been put in place at the bank for this purpose. EWS identifies any anomalies for our performing clients on daily, monthly and other bases and makes proposals for inclusion such clients in the WL.

ECL for Stage 1 financial assets is calculated based on twelve-month probabilities of default ("PD") or shorter period PDs, if the maturity of the financial asset is shorter than one year. The twelve-month PD already includes the macroeconomic impact effect. Allowance in Stage 1 is designed to reflect ECL that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs ("LPD") because their credit risk has increased significantly since their initial recognition. This calculation is also based on forward-looking assessments that takes into account a number of economic scenarios in order to recognise the probability of losses associated with a range of predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for instruments considered to be credit impaired. Exposures below the materiality threshold give rise to a collective allowance calculated using PD 100 per cent. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria for being credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments, where only the cumulative changes in the lifetime expected losses since initial recognition are recognised as a loss allowance.

RISK MANAGEMENT

One of the NLB Group's key strategies for supporting a sustainable and profitable business is to pursue, and incrementally improve upon, a risk management framework that holistically and proactively monitors all relevant risk categories of the NLB Group. Such a robust risk management framework is comprehensively integrated into decision making, steering and mitigation processes within the Group. The NLB Group places high importance on risk culture and awareness of all relevant risks within the entire Group.

The NLB Group's risk management policy is consistently applied throughout the NLB Group's organisational structure and aims to ensure the prudent and efficient use of the NLB Group's capital and compliance with all legal, regulatory and best practice requirements. Governance and risk management tools enable adequate oversight of the Group's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures into NLB Group's operations.

The NLB Group's risk management framework supports business decision-making on strategic and operational levels, comprehensive steering, and proactive risk management by incorporating:

- risk appetite statements and risk strategy orientations;
- regular reviews of strategic business goals, budgeting, and the capital planning process;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP);
- recovery plan activities;
- other internal stress-testing capabilities and ongoing risk analysis; and
- regulatory and internal management reporting.

The NLB Group plans a prudent risk profile, optimal capital usage and profitable operations in the long-term. The key risk management category for the NLB Group is the management of credit risk, which the NLB Group addresses through a focus on taking moderate risks and aiming for an optimal return relative to the risks assumed. In regards to liquidity risk, tolerance is low and the Group's risk management policies are geared towards ensuring an adequate liquidity position on an ongoing basis. The Group's limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio used as liquidity reserves, is at a moderate level. The Group takes the view that such operational risk should not significantly impact its operations. The Group's risk appetite for operational risk is low to moderate, with a focus on mitigating important risks and using key risk indicators as an early warning system. The Group's tolerance for market risks is guided by the principle that such risks must not significantly impact its operations. The tolerance for other risk types is low, with a focus on minimising their potential impacts on the NLB Group's operations.

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 this framework the Group monitors a range of risk metrics in order to ensure the Group's risk profile is in line with its risk appetite. Risk limits are monitored and potential deviations from limits and target values are reported regularly to the relevant committees and/or the Management Board of NLB. A comprehensive risk report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board and the

Supervisory Board. Additionally, the NLB Group has set up early warning systems in different risk areas with the intention of strengthening the existing internal controls and ensuring timely responses when necessary.

In its operations, the NLB Group is above all exposed to credit risk, the risk of losses due to the failure of a debtor to settle its liabilities to the NLB Group. For this reason, the NLB Group proactively and comprehensively monitors and assesses credit risk and follows IFRS, relevant regulations as well as ECB and EBA guidelines. In addition, credit risk management is governed in detail by the NLB Group's internal methodologies and procedures, particularly those contained in its risk appetite, risk strategy and credit policy. The Group manages credit risk at two levels; at the level of the individual customer or group of customers and at the level of the quality of the credit portfolio.

For the purposes of an efficient risk mitigation process, the NLB Group applies a single set of standards to retail and corporate loan collateral, which is a secondary source of repayment, with the aim of efficient credit risk management and optimal capital consumption. The NLB Group has a system for monitoring and reporting collateral at fair market value in accordance with the international valuation standards. When hedging market risks, the NLB Group follows the principle of natural hedging or by using derivatives in line with hedge accounting principles.

Each of the banking subsidiaries within the NLB Group has adapted a corresponding approach to its internal risk management policies, which are aligned with key NLB Group risk management guidelines and tailored for the requirements arising from local regulations.

CAPITAL REQUIREMENTS

The European Union's legal framework for banks which applies to the NLB Group is based on the Basel III guidelines. In this regard, the Issuer is required to satisfy applicable minimum capital requirements pursuant to the CRR (the "**Pillar 1 Requirement**") at all times. This includes a CET 1 capital ratio of at least 4.5 per cent., a Tier 1 capital ratio of at least 6 per cent. and a Total Capital Ratio of at least 8 per cent. These requirements apply on a consolidated basis.

In addition to these Pillar 1 requirements, the Bank must at all times meet the capital requirements that are imposed by the ECB following the supervisory review and evaluation process (the "**Pillar 2 Requirements**", and together with the Pillar 1 Requirement, the ("**TSCR**").

Furthermore, the Issuer is required to satisfy at all times a Combined Buffer Requirement within the meaning of Article 229 of (*Zakon o bančništvu (ZBan-3)*) – ("**ZBan-3**"), in the form of CET 1 capital. For the Issuer, the Combined Buffer Requirement consists of the sum of: (i) a capital conservation buffer; (ii) a countercyclical buffer; and (iii) an O-SII Buffer, in each case, on a consolidated basis. The TSCR and the Combined Buffer Requirement make up the Bank's OCR, which operates as its maximum distributable amount threshold.

In 2021, the OCR of the Bank amounted to 14.25 per cent. on a consolidated basis, consisting of:

- 10.75 per cent. TSCR (comprising an 8 per cent. Pillar 1 Requirement and 2.75 per cent. Pillar 2 Requirement); and
- 3.5 per cent. Combined Buffer Requirement (comprising a 2.5 per cent. capital conservation buffer, a 1 per cent. O-SII Buffer and a 0 per cent. Countercyclical Buffer, to be met with CET 1 capital only).

The Issuer must also follow Pillar 2 guidance, a capital recommendation over and above the OCR, set by the ECB through the SREP. Pillar 2 guidance amounts to 1.0 per cent. of CET 1 capital.

On 24 November 2021, the Bank of Slovenia issued a decision under which it requests that the Bank maintains the O-SII Buffer in the amount of 1.25 per cent. (increase from previously applicable 1 per cent.) as of 1 January 2023.

On 6 May 2022, the Bank of Slovenia issued a decision under which it introduces a systemic risk buffer with the aim of mitigating and preventing excessive credit growth and excessive leverage and limiting the concentration of direct and indirect exposure. The decision determines the requirement to maintain a systemic risk buffer for sectoral exposures in the Republic of Slovenia with following weights-1.0 per cent.

of all retail exposures to natural persons secured by residential real estate and 0.5 per cent. for all other retail exposures. This requirement must be fulfilled from 1 January 2023 onwards.

As of 1 March 2022, NLB is required to maintain, on a consolidated basis, an OCR of at least 14.10 per cent. (consisting of 9.46 per cent. CET 1 capital; 11.45 per cent. Tier 1 capital), consisting of a 10.60 per cent. of total SREP capital requirement (consisting of 5.96 per cent. CET 1 capital; 7.95 per cent. Tier 1 capital) and a 3.5 per cent. Combined Buffer Requirement (consisting of a 2.5 per cent. capital conservation buffer, 1.0 per cent. other systemically important buffer and 0 per cent. countercyclical buffer, to be made up of CET 1 capital only) based on an ECB decision as of 2 February 2022. This does not affect the Bank of Slovenia's decision to request NLB to maintain an O-SII Buffer in the amount of 1.25 per cent. as of 1 January 2023.

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

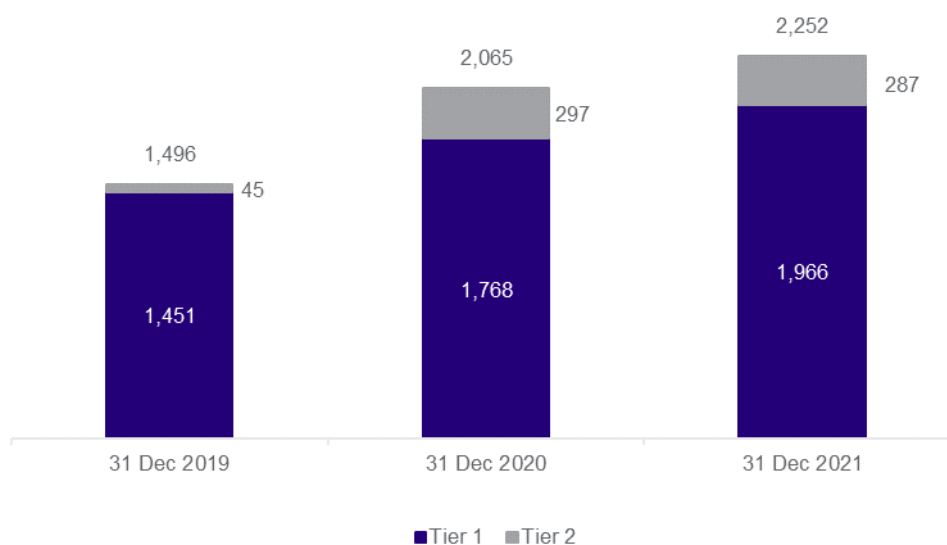
To strengthen and optimise the Group's capital structure, the Bank issued and entered into the following Tier 2 instruments in 2019 and 2020:

- 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 45 million on 6 May 2019 (recognised in the capital of the Issuer from 30 June 2019);
- 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million on 19 November 2019 (recognised in the capital of the Issuer from 31 March 2020); and
- 10NC5 subordinated Tier 2 notes in the aggregate nominal amount of EUR 120 million on 5 February 2020 (recognised in the capital of the Issuer from 31 March 2020).

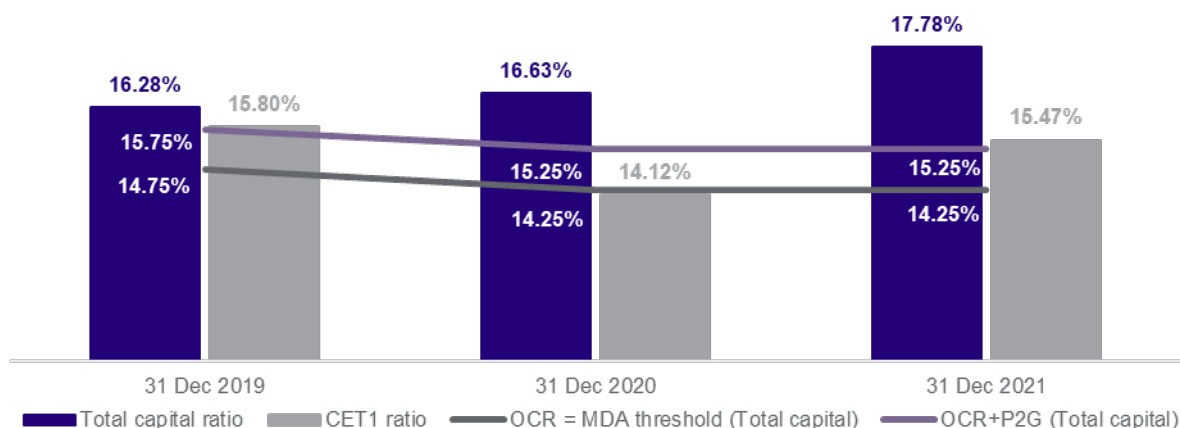
As at 31 December 2021, the Total Capital Ratio for the NLB Group stood at 17.8 per cent. (1.2 percentage points higher than at the end of 2020) and for NLB at 24.6 per cent. (2.5 percentage points lower than at the end of 2020). The CET 1 capital ratio stood at 15.5 per cent. (1.4 percentage points higher than at the end of 2020). The higher total capital adequacy compared to the end of 2020 derives from higher capital (EUR 187.0 million for the NLB Group) which offset increased risk weighted assets ("RWAs"). The main effect was inclusion of negative goodwill in retained earnings in the amount of EUR 137.9 million and partial inclusion of 2021 profit in the amount of EUR 136.0 million.

The cumulative dividend pay-out in 2021 from profit of 2020 was EUR 92.2 million and was not included in the capital at any point in the year 2021, therefore there was no effect on the capital due to dividend pay-out in that amount.

The following figure shows NLB Group Capital (in EUR million).



The following figure shows NLB Group capital ratios and regulatory thresholds.



The following table shows the capital ratios of the NLB Group and NLB as at 31 December 2020 and 31 December 2021.

	NLB Group		NLB	
	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021
	As at			
	(in thousands of Euros)			
Paid-up capital instruments.....	200,000	200,000	200,000	200,000
Share premium.....	871,378	871,378	871,378	871,378
Retained earnings - from previous years.....	552,146	767,152	228,040	249,845
Profit or loss eligible - from current year.....	63,635	135,968	21,658	39,613
Accumulated other comprehensive income.....	21,588	(10,091)	24,102	8,768
Other reserves.....	13,522	13,522	13,522	13,522
Minority interest.....	71,562	27,905	-	-
Prudential filters: Value adjustments due to the requirements for prudent valuation.....	(3,632)	(3,498)	(1,755)	(1,606)
(-) Goodwill.....	(3,529)	(3,529)	-	-
(-) Other intangible assets.....	(33,222)	(39,116)	(9,914)	(18,829)
(-) Insufficient coverage for non-performing exposures.....	-	(90)	-	(10)
COMMON EQUITY TIER 1 (CET 1).....	1,753,448	1,959,601	1,347,031	1,362,681
Additional Tier 1 capital.....	14,614	5,950	-	-
Tier 1 capital.....	1,768,062	1,965,551	1,347,031	1,362,681
Tier 2 capital.....	297,401	286,939	284,595	284,595
TOTAL CAPITAL (OWN FUNDS).....	2,065,463	2,252,490	1,631,626	1,647,276
RWA for credit risk.....	10,222,923	10,205,172	4,805,127	5,411,433
RWA for market risks.....	1,250,563	1,206,363	657,088	698,463
RWA for credit valuation adjustment risk.....	200	11,850	200	11,850
RWA for operational risk.....	947,342	1,244,023	566,385	586,781
TOTAL RISK EXPOSURE AMOUNT (RWA).....	12,421,028	12,667,408	6,028,800	6,708,527
CET 1 Ratio.....	14.1%	15.5%	22.3%	20.3%
Tier 1 Ratio.....	14.2%	15.5%	22.3%	20.3%
Total Capital Ratio.....	16.6%	17.8%	27.1%	24.6%

Pursuant to the ECB regulation and Bank of Slovenia decision, dividends pay-out in 2021 was split into two tranches. The first instalment in the amount of EUR 12.0 million was paid on 22 June 2021 and the second instalment in the amount of EUR 12.8 million was paid on 18 October 2021. In addition, the Bank paid on 24 December 2021 an additional incremental dividends of EUR 67.4 million, totalling EUR 92.2 million in 2021.

In accordance with the ZRPPB-1, the NLB Group is required to meet a MREL requirement set by the Bank of Slovenia on the basis of a determination of the SRB. On 22 December 2021, NLB received a decision of the Bank of Slovenia relating to MREL requirement which superseded its previous decision dated 29 June 2021. According to the new decision, NLB must comply with the MREL requirement on a consolidated basis at resolution group level (i.e. NLB Resolution Group, consisting of NLB and other

members of the Group excluding banks) which amounts to 31.38 per cent. of Total Risk Exposure Amount (TREA) (excluding Combined Buffer Requirement (CBR)) and 9.97 per cent. of the Leverage Ratio Exposure (LRE) and has to be complied as of 1 January 2024. NLB has to ensure a linear build-up of own funds and eligible liabilities towards the MREL requirement and its compliance with 25.19 per cent. of TREA (excluding CBR) and 8.03 per cent. of the LRE on 1 January 2022. MREL requirement forms part of NLB Group's risk appetite, whereby its fulfilment is regularly analysed and monitored. NLB complies with currently applicable interim targets. On 30 June 2022, MREL ratio amounts to 29.07% (MREL buffer was strengthened in July 2022 with senior preferred bond issuance of EUR 300 million).

CORPORATE GOVERNANCE OF NLB

In accordance with applicable legislation, NLB employs a two-tier system of corporate governance, pursuant to which NLB is managed by its Management Board and its operations are supervised by its Supervisory Board.

The Supervisory Board is responsible for the appointment of the President of the Management Board, the Chief Executive Officer ("CEO") and other members of the Management Board. The Supervisory Board is also responsible for the overall supervision of NLB's and the NLB Group's operations in line with EU and Slovenian banking law and other applicable regulations. The Management Board is responsible for the NLB Group and manages NLB's business operations.

Management Board

NLB's Management Board leads, represents and acts on behalf of the Bank, independently and at its own discretion, as provided for by law and the Bank's Articles of Association. The Management Board of the Bank is comprised of three to seven members, one of whom is appointed President of the Management Board of the Bank. The President of the Management Board may appoint one of the members of the Management Board as his/her Deputy subject to a prior approval by the Supervisory Board. The number of Management Board members is determined by a resolution of the Bank's Supervisory Board.

The President and other members of the Management Board of the Bank are appointed and recalled by the Supervisory Board of the Bank; the President of the Management Board of the Bank may propose to the Chair of the Supervisory Board of the Bank to appoint or recall an individual member or the remaining members of the Management Board of the Bank.

The President and members of the Management Board of the Bank are appointed for a period of five years and may be re-appointed for another term of office. The president and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and these Articles of Association.

As of the date of this Offering Circular, the Management Board of the Bank consists of Blaž Brodnjak as President, CEO ("CEO"), Archibald Kremser as Chief Financial Officer ("CFO"), Andreas Burkhardt as Chief Risk Officer ("CRO") as well as Hedvika Usenik as Chief Marketing Officer ("CMO") (responsible for Retail Banking and Private Banking), Antonio Argir (responsible for Group governance, payments and innovations) and Andrej Lasič as CMO (responsible for Corporate and Investment Banking), as new members of the Management Board, who received the approval from the regulator on 28 April 2022.

The terms of office of Blaž Brodnjak, Archibald Kremser and Andreas Burkhardt will expire on 6 July 2026. The five years term of office of the three newly elected members of the Management Board will expire on 28 April 2027.

The table below sets out the members of the Management Board of NLB as of the date of this Offering Circular.

Name, surname and position	Immediate responsibility	Principal activities performed outside NLB
Blaž Brodnjak (CEO) President of the Management Board (since 6 July 2016)	• Communication	Chairman of the Supervisory Board: NLB Banka a.d., Skopje
	• Strategy and Business Development	Chairman of the Board of Directors: NLB Banka sh.a., Prishtina
	• Legal and Secretariat	Member of the Board of Directors: NLB Komercijalna Banka a.d., Beograd
	• Human Resources and Organisation Development	President of the Association of Banks in Slovenia
	• Internal Audit	President of the Board of Governors: AmCham Slovenia
	• Compliance and Integrity	Member of Executive Committee of the Handball Federation of Slovenia Member of the Board of Directors: Cedevita Olimpija
Andreas Burkhardt (CRO) Member of the Management Board (since 18 September 2013)	• Global Risk	Chairman of the Board of Directors: NLB Lease&Go
	• Credit Risk – Corporate	NLB Banka, Banja Luka
	• Credit Risk – Retail	NLB Banka, Sarajevo
	• Evaluation and Control	
	• Restructuring	
	• Workout and Legal Support	
	• Financial Instruments Processing	
	• Corporate Customer Delivery	
	• Retail Banking Processing	

Name, surname and position	Immediate responsibility	Principal activities performed outside NLB
Archibald Kremser (CFO) Member of the Management Board (since 31 July 2013)	<ul style="list-style-type: none"> • Financial Accounting and Administration • Controlling • Financial Markets • Group Real Estate Management • IT Architecture • IT Delivery • IT Infrastructure • Data Management • IT Shared Service Centre • IT Security • Procurement 	Chairman of the Board of Directors: NLB Banka a.d., Podgorica NLB Komercijalna Banka a.d., Beograd
Antonio Argir Member of the Management Board (since 28 April 2022) Responsible for Group governance, payments and innovations	<ul style="list-style-type: none"> • Group Steering • Cash Processing • Payments Processing • Card Operations, ATM business and payment services 	Vice President: Economic Chamber of North Macedonia
Andrej Lasič (CMO) Member of the Management Board (since 28 April 2022) Responsible for Corporate and Investment Banking	<ul style="list-style-type: none"> • Capital Structure Advisory and Cross Border Financing • Large Corporates • Small and Mid-Corporates • Trade Finance Services • Investment Banking and Custody 	Chairman of the Supervisory Board: N Banka Member of the Supervisory Board: NLB Lease&Go NLB Banka, Sarajevo
Hedvika Usenik (CMO) Member of the Management Board (since 28 April 2022) Responsible for Retail and Private Banking	<ul style="list-style-type: none"> • Private Banking • Call Centre 24/7 • Distribution Network • Sales Development and Management 	Chairman of the Supervisory Board: NLB Skladi Member of the Supervisory Board: NLB Banka, Banja Luka

In their capacity as members of the Management Board, the members of the Management Board are all domiciled at the Issuer's registered office, being at Trg Republike 2, 1000 Ljubljana, Republic of Slovenia.

The key collective decision-making and advisory bodies of the Management Board are:

- the Corporate Credit Committee;
- the Group Assets and Liabilities Committee;
- the Operational Risk Committee;
- the Group Real Estate Asset Management Committee;
- the Sales Board;
- the Change the Bank Committee; and
- the Private Individual Credit Committee.

The Management Board also appointed the following working bodies that operate at a lower level:

- the Committee for New and Existing Products;
- the Group Real Estate Asset Management Sub-Committee;
- the Committee for Business IT Architecture;
- the Data Management Committee;
- the Anti-Money Laundering Committee; and
- the Corporate Customer Acceptability Committee.

Advisory bodies of the Bank's Management Board

The Watch List Committee

The Watch List Committee is an advisory body which acknowledges the activities related to the clients on the Watch List (for more information, see "*- Loan Portfolio - Impairment methodology*" above). As a rule, Committee meetings are convened quarterly. The Committee has seven members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The Risk Committee

The Risk Committee monitors and periodically reviews matters related to risk and prepares materials for the Management Board to obtain decisions. The Committee has 11 members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

NLB Group Non-Performing Assets Divestment Committee

The NLB Group Non-Performing Assets Divestment Committee monitors operations of Non-Core Group Members and issues opinions, recommendations and initiatives. The Committee discusses the strategies regarding optimal management of the Group members and monitors realisation of their strategic objectives. The Committee has seven members.

NLB Group Sustainability Committee

Committee oversees the integration of the ESG factors to the NLB Group business model in a focused and coordinated way across the company and issues opinions, recommendations, initiatives and takes relevant decisions when needed. The Committee has seventeen members.

Supervisory Board

The Supervisory Board supervises the management of the Bank and its duty of diligent and prudent conduct in line with powers defined in ZGD-1 and according to provisions of the ZBan-3, other regulations, and internal rules of the Bank (the Articles of Association and Rules of Procedures of the Supervisory Board of the Bank).

In accordance with the Articles of Association the Supervisory Board of the Bank consists of 10 members, of which 8 members represent the interests of shareholders and 2 members represent the interests of employees. Members of the Supervisory Board of the Bank representing the interests of shareholders are elected and recalled by the Bank's General Meeting from persons proposed by shareholders or the Supervisory Board of the Bank. Members of the Supervisory Board of the Bank representing the interests of employees are elected and recalled by the Workers' Council of the Bank. All Supervisory Board members must be independent experts.

The table below sets out the members of the Supervisory Board of NLB as of the date of this Offering Circular.

<u>Name, surname and position</u>	<u>Immediate responsibility</u>	<u>Principal activities performed outside NLB</u>
• Members of the Supervisory Board, representatives of capital		
Primož Karpe, Chairman Term of office: 2016-2020, renewed term 2020-2024	<ul style="list-style-type: none"> • Nomination Committee (Chairman) • Audit Committee (Member) • Operations and IT Committee (Member) 	<ul style="list-style-type: none"> • Angler Ltd. - Director
Andreas Klengen, Deputy Chair Term of office: 2015-2019, renewed term 2019-2023	<ul style="list-style-type: none"> • Nomination Committee (Deputy Chairman) • Risk Committee (Chairman) • Operations and IT Committee (Member) 	<ul style="list-style-type: none"> • Kyrgyz Investment and Credit Bank CISC - Supervisory Board Member • Nepi Rockcastle plc - Independent Non-Executive Director
David Eric Simon, Member Term of office: 2016-2020, renewed term 2020-2024	<ul style="list-style-type: none"> • Audit Committee (Chairman) • Risk Committee (Member) 	<ul style="list-style-type: none"> • Jihlavan a.s. - Chairman of the Supervisory Board • Czech Aerospace industries sro - legal representative • Central Europe Industry Partners a.s. - Supervisory Board Member
Shrenik Dhirajlal Davda, Member Term of office: 2019-2023	<ul style="list-style-type: none"> • Remuneration Committee (Member) • Audit Committee (Deputy Chairman) • Risk Committee (Deputy Chairman) 	<ul style="list-style-type: none"> • Ukgasbank - Independent Member of the Supervisory Board • IPSO, UK - Lay Member of the Board.

Name, surname and position	Immediate responsibility	Principal activities performed outside NLB
Mark William Lane Richards, Member Term of office: 2019-2023	<ul style="list-style-type: none"> • Remuneration Committee (Deputy Chairman) • Risk Committee (Member) • Operations and IT Committee (Chairman) 	<ul style="list-style-type: none"> • Vencap International (UK) - Chairman of the Board of Directors • BPL Global (Lloyds of London insurance Broker) - Non-Executive Director • Sheffield Haworth Ltd - Non-Executive Director
Gregor Rok Kastelic, Member Term of office: 2019-2023	<ul style="list-style-type: none"> • Remuneration Committee (Chairman) • Audit Committee (Member) • Risk Committee (Member) 	<ul style="list-style-type: none"> • none
Verica Trstenjak, Member Term of office: 2020-2024	<ul style="list-style-type: none"> • Nomination Committee (Member) 	<ul style="list-style-type: none"> • University in Ljubljana, Sigmund Freud University Vienna, University of Vienna - Professor of European Law • Permanent Court of Arbitration in the Hague - Member
Islam Osama Zekry, Member Term of office: 2021-2025	<ul style="list-style-type: none"> • Risk Committee (Member) • Operations and IT Committee (Deputy Chairman) 	<ul style="list-style-type: none"> • CIB Housing association, Egypt - President • Egyptian AI Council (Ministry of Communication and Information Technology) - Member of the Supervisory Board
<ul style="list-style-type: none"> • Members of the Supervisory Board, representatives of employees 		
Sergeja Kočar, Member Term of office: 2020-2024	<ul style="list-style-type: none"> • Remuneration Committee (Member) • Nomination Committee (Member) 	
Tadeja Žbontar Rems, Member Term of office: 2021-2025	<ul style="list-style-type: none"> • Operations and IT Committee (Member) 	

In their capacity as members of the Supervisory Board, the members of the Supervisory Board are all domiciled at the Issuer's registered office, being at Trg Republike 2, 1000 Ljubljana, Republic of Slovenia.

The key collective decision-making and advisory bodies of the Supervisory Board are:

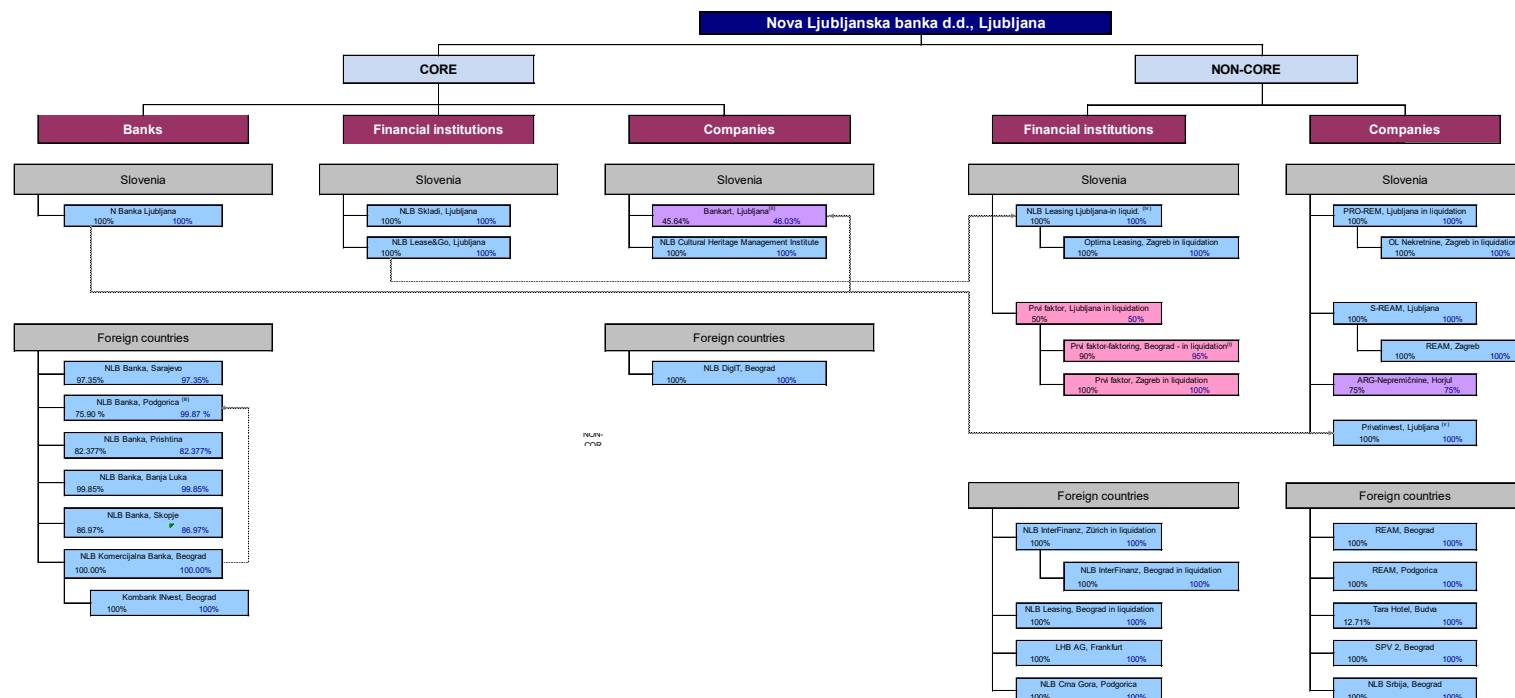
- the Audit Committee;
- the Risk Committee;
- the Nomination Committee;
- the Remuneration Committee; and
- the Operations and Information Technology (IT) Committee.

CONFLICTS OF INTEREST

The Issuer is not aware of any actual or potential material conflicts of interest with respect to the duties owed to it by the members of its Management Board or Supervisory Board and their private interests or other duties or activities performed by the members of the Management Board or the Supervisory Board outside the Issuer.

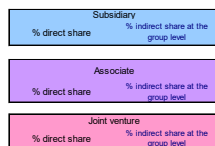
ORGANISATIONAL STRUCTURE

The following diagram presents an overview of the organisational structure of the NLB Group as at 31 August 2022³³:



Legend:

The chart shows voting rights shares. The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).



⁽¹⁾ 90% direct ownership Privi Faktor, Ljubljana in liquidation, 5% NLB, 5% SID banka d.d.

⁽²⁾ - 45.64% share NLB d.d., 0.39% share N Banka

- Abankia merged into Nova KBM, which currently has a 29.22% share in Bankart. This is over the 25% threshold set in the Founding agreement - no shareholder other than NLB can have more than 25% capital share in Bankart.

⁽³⁾ 75.90% direct ownership NLB d.d.; 23.97% NLB Komercijalna Banka, Beograd.

⁽⁴⁾ 100% direct ownership NLB Lease&Go d.o.o., Ljubljana

⁽⁵⁾ 100% direct ownership N Banka d.d., Ljubljana

CORPORATE GOVERNANCE OF NLB GROUP

As the parent bank, the Bank implements the corporate governance of the NLB Group members in compliance with EU and Slovenian legislation, local legislation and regulatory requirements applicable to respective NLB Group members, while also considering internal rules and other applicable regulations.

The roles, authorisations, and responsibilities of individual bodies and organisational units, as well as how to coordinate their operations to achieve business goals are stipulated comprehensively in the NLB Group Corporate Governance Policy.

The NLB Group's corporate governance is implemented:

- in accordance with fundamental corporate rules through various bodies of the NLB Group members:
 - by voting at general meetings of the NLB Group members;
 - by exercising supervision through the supervisory bodies of the NLB Group members;
 - with proposals for appointing the management of the NLB Group members;
 - with proposals for appointing representatives of the Bank to the supervisory bodies of the NLB Group members; and
 - through participation of the Bank's representatives in various committees and commissions of the NLB Group members.
- through mechanisms that ensure efficient business monitoring and governance, such as:
 - harmonisation of operations in accordance with the competence line principle;
 - NLB Group Management Board Meetings, NLB Group Leadership meetings, NLB Group ALCO meetings and similar;
 - development activities carried out via cross-functional working groups, group projects, competence centres and centres of excellence; and
 - through additional supervision of NLB Group members carried out by control functions (risk management, audit, compliance, AML, information and physical security) and external supervising authorities (European Central Bank, local regulators and external auditors).

In recent years the corporate governance of the NLB Group has been significantly upgraded and the role of the members of the Management Board of the Bank in management of the Group members strengthened. Two new senior group functions have been established: country manager and stream coordinator. The target composition of supervisory bodies in the NLB Group members has been established, the functioning of the supervisory bodies optimised, and the reporting and standards related to the harmonisation of operations simplified.

INDEPENDENT AUDITORS

Ernst & Young d.o.o. ("**Ernst & Young**"), Dunajska cesta 111, 1000 Ljubljana, Republic of Slovenia, were appointed as NLB's auditor for 2021 by the General Meeting of Shareholders. Ernst & Young d.o.o. is a registered audit firm at the Slovenian Institute of Auditors (*Slovenski inštitut za revizijo*) and audited the Issuer's consolidated and non-consolidated financial statements as at and for the years ended 31 December 2020 and 31 December 2021, incorporated by reference herein. Ernst & Young has been NLB's independent auditor since 2013 and is the appointed auditor of the Bank also for the business year 2022.

INTERNAL AUDIT

Internal Audit is the independent, objective and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness, and

functionality of internal control systems and the management of the Group operations on an ongoing basis. Internal Audit provided broad assurance to the Management Board and Supervisory Board on the management of risks in key areas, i.e., cyber security, Linux and Windows server platforms, restructuring – retail, ICAAP process, personal accounts, outsourcing process, liquidity and credit risk management, lending processes (loans to retail – overdraft facilities, credit cards facilities, non-performing loans, leveraged transactions), corporate real estate management, cash management in branches, and others. Internal Audit also performs "Group audits" in which internal auditors of the NLB Group members participate in order to provide assurance at the NLB Group level, as well as to provide additional expertise and assistance. Furthermore, a review of the quality of the internal audit service performance was carried out over a two-year cycle on all banking members of the NLB Group.

Internal Audit reviews key risks in the Group's operations, advises management at all levels and deepens understanding of the Bank's operations. NLB, 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 and consequently helps to strengthen and protect the value of the NLB Group. Internal Audit directly reports on its activities primarily to the Supervisory Board and to the latter's Audit Committee and secondarily to the Management Board. By providing assurances and advice, and with a deep understanding of operations, Internal Audit helps to strengthen and protect the value of the NLB 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) constitute the criteria used by Internal Audit to cover all control objectives and risk management.

Internal Audit and all other internal audit departments in the NLB Group work in accordance with International Standards for the Professional Practice of Internal Auditing, the Banking Act or other relevant laws which regulate the operations of a Group member, the Code of Ethics of an Internal Auditor, and the Code of Internal Auditing Principles. It regularly reports on its activities to the Supervisory Board, Audit Committee and Management Board.

Internal Audit performs its tasks and responsibilities at its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Internal Audit also introduces uniform rules of operation of internal audit function and regularly monitors the compliance with these rules within the Group.

HUMAN RESOURCE MANAGEMENT

Human resources ("**HR**") drives improvements and innovative practices to enable the best possible employee engagement and strong business results. Investment in employees is as a key change enabler. Acting as a strategic partner to the business, HR has been focusing on organisational and cultural development. In the last year all employees were involved in targeted development, with a focus on management and sales profiles, lean processes, data management and implementing practices to enhance employee efficiency and engagement. The NLB Group believes that investments in its employees are crucial for the successful introduction of business changes.

In the past few years, NLB Group has made substantial progress improving its HR management function by performance management, promotion schemes, remuneration schemes, alterations to organisational culture and target development for key employee groups. Changing organisational culture remained the top HR priority and innovative practices are constantly being implemented.

In recent years, NLB Group undertook efforts to gradually optimise and right-size its staffing level in line with the current organisational structure. Between 2015 and 2020, the Group reduced the number of employees by 13.5 per cent. to 5,807. However, due to the acquisition of Komercijalna Banka, Beograd and its subsidiaries in December 2020, the number of staff at the 2020 YE rose to 8,792 but has downsized throughout the year to reach 8,185 at the 2021 YE. With this comprehensive HR strategy, NLB Group's business needs are profoundly analysed and workforce planning schemes formed. Accordingly, talent career activities are carried out throughout NLB Group, aiming to support future business needs.

The following table shows the number of employees in *the* NLB Group and NLB as at 31 December 2020 and 31 December 2021.

	NLB Group		NLB	
	As at 31 December			
	2020	2021	2020	2021
Employees.....	8,792	8,185	2,591	2,510
Total	8,792	8,185	2,591	2,510

INFORMATION TECHNOLOGY

The Group continues to provide its clients with sustainable and efficient services supported through highly reliable and secure technology platforms. The Bank is pursuing a technology transformation programme. In line with the refreshed IT strategy introduced in 2020, the IT team began delivering on outlined roadmaps and also successfully delivered a proof of concept for a consolidated core banking system. The Group is aiming to centralise and unify governance, applications, and infrastructure. The Bank also continued to rollout an effective online collaboration solution throughout the Group and enabled a majority of employees to work from home without interruption to operations. Due to the general cyber security risks increase, special focus, extra resources, and investments were made to raise the overall level of cyber security resilience.

IT infrastructure and reliability

IT performance is monitored through a set of relevant indicators that are linked to the Balanced Scorecard (BSC) system. The indicators show a high performance of IT operations and successful risk management in this area. The availability of the information system in the Bank is at very high level of 99.98 per cent. in 2021 (99.92 per cent. in 2020) and the share of unplanned interruptions is very low, 0.02 per cent. in 2021 (0.08 per cent. in 2020). In 2021, the number of days without system/service interruptions were at 83.6 per cent. (in 2020: 78.5 per cent.). Harmonised Service Level Agreements (SLA) are in place with users of the information system, which the Bank managed to fulfil in a very high proportion. High IT operational performance was also recorded in the Group members.

Main IT initiatives

The main focus of the IT transformation was placed on organisation, processes, people and technology. IT supported a more agile way of delivery, to better partner with the business and be more efficient and effective. It also hired new experts in strategic positions.

The approach of delivery was changed with an emphasis on insourcing and keeping strategic knowledge and resources 'in-house.' Several initiatives were started, from mainframe to distributed systems, on-premise to the cloud, paid to open-source where possible and moving resources from back-end to front delivery.

Additionally, the ongoing projects were revised with the aim to ensure timely delivery, while the relationships with key vendors were reviewed in order to improve costs. Application architecture on the Group level was assessed in terms of solution GAPS and maturity, as well as the Group's synergy potential which then was included in the Group IT strategy.

Group-wide capabilities were significantly extended (mainly in the Group competence centre in Beograd, Serbia) for the new digital banking platform, enterprise integration platform and business process management platform development within the region, for cyber security and for the infrastructure group.

The Bank achieved several new milestones in the implementation of a Group-wide data management platform which encompasses an enterprise data warehouse, advanced analytics, risk management analytics, profitability, data governance and consolidated Group regulatory reporting.

In the coming years, the Bank is expected to continue to invest in newly adopted technologies to support the business strategy, especially in the areas of digital, data, and customer relationship management (CRM), consolidating the Group's infrastructure, simplifying core systems and to achieving superior client experience in terms of quality, innovation, reliability, and security.

Cyber security

The Group places a special focus on cyber security, and consequently assuring confidentiality, integrity, and the availability of data, information, and IT systems that support banking services and products for customers. Cyber security in the Group is constantly tested and upgraded by security assessments, independent reviews and penetration testing. Cyber security is regularly discussed at the Bank's Group Information Security Steering Committee, Operational Risk Committee and Management Board meetings. During 2021, the Group increased its capacity in terms of human resources by hiring specialists in different domains. The Group now has a group team on two locations, in Ljubljana and Belgrade. Beside increasing capacity in human resources, improvement was made in detection capabilities by fine tuning detection systems, as well as by performing hardening on network devices across the Group. The threat intelligence process was established and new IT Security strategy was adopted focusing on unification of IT security systems and centralisation of processes. A new Group vulnerability management platform and penetration testing partner were selected. A technical measures guideline, as the Group standard for tools and processes, was also adopted and rolled out to the Group.

All employees in the Group are also being continually educated about the importance of information/cyber security, as well as social engineering techniques. The Group banks are providing employees and customers with security notifications, especially for the occurrence of threats in the (global) environment with potential impact on the Bank's IT systems, services, products and customers. The Bank is also testing the awareness of its employees with social engineering attack simulations. Threat intelligence data is shared by the Group team to all Group members with information on the latest threats and recommendations on mitigation measures.

COMPLIANCE

NLB's compliance and integrity programme is managed by the Compliance and Integrity organisational unit in NLB ("**Compliance and Integrity**"), through a three-pillar structure: (i) regulatory compliance and integrity; (ii) supervision and internal investigations; and (iii) AML and CFT protocols.

The Compliance and Integrity addresses, the following risk areas:

- fraud prevention and investigation;
- AML and CFT;
- privacy data protection and information security;
- regulatory compliance;
- corruption prevention;
- conflict of interests, gifts and hospitality management;
- fit and proper assessment procedures (as part of assessing reputation, financial strength, time availability and conflict of interests);
- identification, enterprise wide assessment and management of compliance and integrity risks at the NLB and NLB Group level;
- oversight, monitoring, steering and managing the compliance function in the NLB Group and the NLB Group compliance programme (established by standards for compliance and integrity for the NLB Group and implementation of monitoring by off-site data analysis and on-site visits);
- business ethics and corporate integrity; and
- physical/technical security.

Compliance and Integrity performs the compliance function in NLB with respect to the activities for identification and monitoring of compliance risks, regular compliance monitoring and independent internal investigations in cases of suspected compliance or ethics breaches. In close cooperation with different organisational units, Compliance and Integrity also helps in assessing and managing compliance risks in

different areas of operations in NLB. Compliance and Integrity reports quarterly to the Supervisory Board and the Management Board. It also reports on individual compliance issues at the request of the Supervisory Board or the Management Board or when such reports may be otherwise needed. It also advises the Management Board and NLB senior management with regard to compliance, including the development of regulations and standards applicable to NLB. It also responds to queries from other employees regarding compliance and ethics.

The main activities of Compliance and Integrity are:

- conducting compliance checks at various areas covered by Compliance and Integrity (compliance audits), identifying shortcomings in this regard, suggesting mitigation measures to be undertaken and monitoring of improvement;
- managing the system/channels for reporting suspected harmful behaviour and conducting internal investigations of reported and detected cases;
- providing advisory services on compliance-related issues and regular analysis of compliance trends or observed problems and weaknesses in NLB;
- identifying and assessing compliance and integrity risks in the process of (new) product and service developments, projects and other material changes in the NLB Group's business;
- providing compliance communication, training, workshops and targeted surveys for all NLB employees, together with its Board members;
- overseeing the regulatory compliance management system (monitoring, reporting and adopting changes required in NLB's legal environment);
- managing and monitoring all communication with regulators and monitoring the implementation status of regulators' recommendations and measures; and
- ensuring implementation of harmonised policies and procedures for compliance and integrity throughout the NLB Group, following the principle of proportionality and a risk-minimisation based approach.

The Bank complies with national regulations on AML and CTF, including the Guidelines of the Bank of Slovenia. The Republic of Slovenia is a member of EU, and thus is subject to the standards of the Financial Action Task Force (FATF) and the European legislation based on them. For the Group, it is important to effectively mitigate the risk of money laundering and terrorism financing. As such, the rules, procedures and technology in the area of AML and CTF are the subject of strict and unified policies and standards. The same approach is applied for sanctions and embargo screening. The Group's AML team upgraded and introduced further enhancements of Group AML governance in line with directions set by the Bank of Slovenia. The headquarters exercises constant onsite and off-site monitoring of the implementation and execution of standards throughout the Group.

The Bank monitors AML and CTF indicators and, whenever necessary, transactions are reported to the relevant competent national authority pursuant to AML and CTF legislation. Furthermore, business relationships are terminated where certain criteria is met in relation to AML and CTF legislation. The Bank has adopted additional measures to prevent the onboarding of clients with new types of AML and CTF indicators. Following the 2018 and 2020 increase in the AML and CTF team's caseload, the Bank dedicated additional resources to the team.

An internal periodical survey on ethics and compliance was conducted in 2020 to understand the pulse and perception of these topics among employees. In combination with the assessment of compliance risks (so-called Enterprise Compliance Risk Assessment), the management team of the Bank and Compliance and Integrity teams in particular can plan its activities, all with the aim to reduce or mitigate the compliance and integrity risks. As part of compliance programme, Compliance and Integrity is also involved, inter alia, in risk assessments regarding new and changed products, fit and proper assessments for key function holders, outsourcing and other changes materially affecting the Bank's business.

As a standard Compliance function, several workshops and compulsory e-education on ethics, the prevention of corruption, conflicts of interest, protection of personal data, AML and CTF, Information Security, Physical Security and other relevant topics related to everyday work were prepared. For all employees, annual e-trainings are mandatory on subjects such as prevention of insider trading and market manipulation, ethics, anti-corruption, mitigation of conflict of interests, personal data protection, information security and similar themes. The Group seeks to promote a corporate culture that facilitates compliance and by continuously raising awareness of, for example, through communication via its monthly compliance newsletter, detailing not only important regulatory changes but also current information and case studies on different compliance and ethics topics.

Other changes due to listing of shares and GDRs on the Ljubljana and London Stock Exchanges

Certain additional requirements apply as a result of the fact that the Bank's shares are listed on the Prime Market of the Ljubljana Stock Exchange, such as financial reporting requirements in accordance with IFRS, the publication of information in English, the publication of quarterly statements, the publication of a statement of compliance with the Slovenian Corporate Governance Code for Public Companies and the publication of a financial calendar. The fact that the GDRs are admitted to listing on the Official List of the FCA and to trading on the Main Market for listed securities of the London Stock Exchange gives rise to the application of provisions of the FCA's Listing Rules and Disclosure Guidance and Transparency Rules relating to methods of publication of regulated information which apply to issuers of securities listed in the UK regardless of their home EEA Member State.

Related to the rules on transparency, the requirements in relation to the disclosure of periodic and ongoing information regarding issuers whose securities are admitted to trading on a regulated market situated or operating within the EU (i.e. Public Companies) are set out in Directive 2004/109/EC (as amended, the "**Transparency Directive**") and the national legislation implementing the Transparency Directive. The Bank is required to observe primarily provisions of Slovenian law relating to the disclosure of periodic and ongoing information by the Bank, as well as those transparency rules in the UK that apply to the GDRs that are listed on the London Stock Exchange.

Information security and personal data protection

The information security area, *inter alia*, focused on the implementation of measures for increasing the level of information/cyber security, as well testing the resilience of systems took place (pen-tests). Furthermore, in line with the plan, several internal assessments/compliance checks were made on the basis of ISO 27001: 2013 and ISO 27002: 2013 standard, including related to external (service) providers (e.g., data processors and external software providers). Special obligatory e-training for all employees in the area of information security was prepared and was followed by testing of awareness related to social engineering; all as part of prevention measures in this area.

The Bank runs its operations in line with Regulation (EU) 2016/679 (General Data Protection Regulation - "**GDPR**") requirements, including the retention and processing of personal data, dedicated Data Privacy Officer, education, and training of employees. The new Slovenian Personal Data Protection Act (ZVOP-2) was not adopted in 2020 as expected. If necessary, further alignments will be made when the national legislation is in place.

MATERIAL CONTRACTS

There are no material contracts that have not been entered into in the ordinary course of the Issuer's business, which could result in any group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to noteholders in respect of the notes being issued.

RECENT DEVELOPMENTS

Hedvika Usenik, Antonio Argir and Andrej Lasič, who were appointed by the Supervisory Board on 20 January 2022 received all necessary approvals to assume the office of the Management Board member(s) as of 28 April 2022. The Management Board now has six members.

On 2 February 2022, the Slovenian National Assembly adopted the "Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs" (the "**CHF Law**"), disregarding the negative opinions of the Slovenian Government, the legislative and legal service of the Slovenian National Assembly and the European Central Bank. The CHF Law affects all loan

agreements denominated in Swiss francs (regardless of whether the agreements are still in force) concluded between banks operating in Slovenia (including NLB) as lenders and individuals as borrowers in the period from 28 June 2004 to 31 December 2010, and provides for a cap on the exchange rate between Swiss francs and the Euro to be set at 10 per cent. volatility (the "**FX Cap**") and shall be applied from the conclusion of any of the affected loan agreements. During the validity of the FX cap, the value of instalments and other payments under such loans shall equal the amount at which the FX cap has been triggered and the lender would be required to repay any overpayment to the relevant borrower. Further, any overpayment on such loans by the relevant borrowers shall be subject to default interest to be paid by the lender.

Since the CHF Law affects civil law contractual relationships retroactively, the constitutionality of the CHF Law has been extensively debated during the legislative process with a number of national and European authorities considering the CHF Law to violate the Slovenian Constitution. The shareholders of affected Slovenian banks (including NLB) submitted a joint letter to several Slovenian and European authorities expressing great concern regarding the CHF Law. On 28 February 2022, NLB filed with the Constitutional Court a petition for the constitutional review of CHF Law and a request to suspend the application of CHF Law (which the Constitutional Court granted on 10 March 2022 and suspended the application of CHF Law until its final decision), and intends to use all legal remedies against the CHF Law, including, if necessary, in front of relevant European forums.

Based on the assessment of the CHF Law and if outlined legal remedies are unsuccessful, NLB estimates that a negative pre-tax effect on the operations of NLB Group should not exceed EUR 100 million (N Banka included), subject to further detailed analysis. Impact on NLB and NLB Group is material but very manageable given the historically limited extent to which NLB engaged in Swiss francs lending.

As of 1 March 2022, NLB is required to maintain, on a consolidated basis, an OCR of at least 14.10 per cent. (consisting of 9.46 per cent. CET 1 capital; 11.45 per cent. Tier 1 capital), consisting of a 10.60 per cent. of total SREP capital requirement (consisting of 5.96 per cent. CET 1 capital; 7.95 per cent. Tier 1 capital) and a 3.5 per cent. Combined Buffer Requirement (consisting of a 2.5 per cent. capital conservation buffer, 1.0 per cent. other systemically important buffer and 0 per cent. countercyclical buffer, to be made up of CET 1 capital only) based on an ECB decision as of 2 February 2022. This does not affect the Bank of Slovenia's decision to request NLB to maintain an O-SII Buffer in the amount of 1.25 per cent. as of 1 January 2023.

In February 2022, the Russian Federation began a military invasion of Ukraine. NLB Group has limited exposure to the Russian Federation and Ukraine which mainly derives from NLB's investment in Russian sovereign bonds. As of 31 March 2022, NLB held EUR 20 million of Russian government bonds maturing in April 2022 and in September 2023. Bonds maturing in April 2022 in the amount of EUR 13.3 million were fully repaid on 2 May 2022, which decreased exposure towards Russian government to EUR 7.6 million. Since the beginning of the tensions, the credit spreads widening was observed, which is currently impacting the NLB's FVOCI positions.

On 1 March 2022, the SRB in coordination with local regulator Bank of Slovenia decided to adopt a resolution scheme in respect of Sberbank. The resolution scheme envisaged the application of the sale of business tool for Sberbank and Bank of Slovenia issued a decision for the sale of 100 per cent. shares issued by Sberbank. The purchase price for Sberbank was EUR 5,109,000 and was fully paid in cash. Under the resolution scheme, and following a marketing procedure, the SRB decided to transfer all the shares issued by the Sberbank to NLB. Therefore, as of 1 March 2022, NLB became a 100 per cent. owner of Sberbank. There are no contingent consideration arrangements. On 11 April 2022, Sberbank was renamed to N Banka. Activities for the integration of N Banka with NLB Group are in the process. The initial accounting for the business combination has not yet been completed, therefore assets, liabilities, and gain on a bargain purchase (negative goodwill) recognised as a result of the acquisition are not disclosed. A formal application for merger approval has not yet been submitted.

Key information of Sberbank:

	Sberbank banka d.d.	
	<i>(in EUR million and per cent.)</i>	
Income Statement	1 January to 31 December 2020	1 January to 31 December 2021 unaudited
Net interest income	30	26
Net fee and commission income	12	14

Sberbank banka d.d.		
<i>(in EUR million and per cent.)</i>		
Income Statement	1 January to 31 December 2020	1 January to 31 December 2021 unaudited
Other income	-1	2
Total income	43	43
Expenses	-29	-30 ⁽ⁱ⁾
Pre-provision income	13	13
Provisions and impairments	-11	1
Profit before tax	1	13
Profit after tax	1	10
Balance Sheet	As of 31 Dec 2020	As of 31 Dec 2021
Total assets	1,839	1,721
Loans and advances to customers	1,200	1,153
Deposits from non-bank customers	1,340	1,274
Shareholders' equity	184	195
Ratios⁽ⁱⁱ⁾		
in per cent.	As of 31 Dec 2020	As of 31 Dec 2021 unaudited
Net interest margin ⁽ⁱⁱⁱ⁾	1.61	1.49
Business operating margin ⁽ⁱⁱⁱ⁾	2.29	2.49
ROE a.t.	0.52	5.4
NPL ratio ^(iv)	5.5	4.4
CET1 ratio	18.8	18.7

Source:

Sberbank banka d.d. reports: for 2020 Annual report, for 2021 data from Sberbank banka d.d. (not published)

Notes:

(i) Labour costs (57.4 per cent.); Costs of material and services (34.7 per cent.); Amortisation and depreciation (8.0 per cent.).

(ii) Ratios as calculated by Sberbank

(iii) Based on total assets.

(iv) Non-performing loans and other financial assets / classified loans and other financial assets (excluding balances with central bank accounts and sight deposits with banks).

On 7 March 2022, the shareholding of Schrodgers Plc in NLB changed from 5.061 per cent. to 4.95 per cent.

In March 2022, Komercijalna Banka, Beograd bought 2.90 per cent. of its ordinary shares, valued EUR 19 million as treasury shares from dissenting shareholders.

On 11 April 2022, a general meeting of the Slovenian bank Sberbank (member of NLB Group since 1 March 2022) changed the bank's name to N Banka d.d. and appointed new supervisory board members of the bank.

NLB's Serbian subsidiaries, Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the new entity operates under the name NLB Komercijalna banka a.d. Beograd.

On 18 April 2022, NLB established NLB DigIT in Serbia to act as a development hub for common IT Group solutions.

In May 2022, Standard and Poor's raised NLB's credit rating to BBB/A-2 from BBB-/A-3 with a stable outlook.

On 6 May 2022, the Bank of Slovenia issued a decision under which it introduces a systemic risk buffer with the aim of mitigating and preventing excessive credit growth and excessive leverage and limiting the concentration of direct and indirect exposure. The decision determines the requirement to maintain a systemic risk buffer for sectoral exposures in the Republic of Slovenia with following weights -1.0 per cent. of all retail exposures to natural persons secured by residential real estate and 0.5 per cent. for all other retail exposures. This requirement must be fulfilled from 1 January 2023 onwards.

On 23 May 2022, NLB acquired additional 442,799 ordinary shares of NLB Komercijalna Banka, Beograd and (combined with existing shareholding) reached ownership of 90.2155 per cent. of the basic capital and 91.7294 per cent. of shares with voting rights, effectively reaching the squeeze-out threshold as defined by Article 515 paragraph 1 of the Serbian Company Law. On 24 May 2022, NLB sent a request for the squeeze-out of all remaining shareholders to NLB Komercijalna Banka, Beograd.

On 3 June 2022, the shareholding of Brandes Investment Partners, L.P. in NLB changed to 4.78 per cent.

On 6 June 2022, the Bank officially joined the Net-Zero Banking Alliance, an industry-led, UN-convened alliance of banks worldwide, committed to aligning their lending and investment portfolios with net-zero emissions by 2050 or sooner, as set by the most ambitious targets of the Paris Climate Agreement.

The General Meeting of Shareholders of NLB took place on 20 June 2022 and among others the shareholders decided that a part of the distributable profit in the total amount of EUR 50 million shall be paid out to the shareholders as dividends, which is EUR 2.50 gross per share. The dividends were paid on 28 June.

On 29 June 2022, NLB early repaid TLTRO funding in the amount of EUR 750 million.

As of 8 July 2022, Janja Žabjek Dolinšek, workers' representative, is no longer a member of the Supervisory Board.

On 13 July 2022, NLB successfully squeezed out the remaining shareholders of NLB Komercijalna banka a.d. Beograd and thereby became a 100% owner of the bank.

On 19 July 2022, NLB issued 3NC2 senior preferred notes in the amount of EUR 300 million on international markets for meeting MREL requirement.

As of 12 September 2022, Bojana Šteblaj, workers' representative, is no longer a member of the Supervisory Board.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

General

As at 31 August 2022, NLB was involved in 17 legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). The total amount of these claims, excluding accrued interest, was EUR 221.6 million. As at 31 August 2022, the NLB Group was involved in 43 legal disputes with monetary claims against NLB Group members exceeding EUR 1 million per case, excluding accrued interest, in the aggregate principal amount of EUR 465.9 million. NLB has established provisions in the amount of EUR 1.8 million in its financial statements for some of these proceedings in which it is involved based on an assessment of the possible outcome of the proceedings. At the NLB Group level provisions with respect to claims exceeding EUR 1 million per case amount to EUR 8.4 million, as at 31 August 2022.

Claims relating to liabilities in respect of transferred deposits

NLB is currently involved in proceedings whereby the plaintiffs claim that NLB is responsible for the liabilities relating to the foreign currency deposits held with Ljubljanska banka, Zagreb Branch. Ljubljanska banka, Zagreb Branch is the Croatian branch of Ljubljanska banka, which in turn is an entity from which NLB received certain assets and liabilities when NLB was established in 1994 (as discussed below).

Two Croatian banks, Privredna banka Zagreb and Zagrebačka banka, filed claims against Ljubljanska banka and NLB, as the alleged co-debtor, in the Croatian courts in relation to transferred deposits. The proceedings were filed during the period from 1994 to 1996. The aggregate principal amount of the claims against NLB is as at 31 August 2022 equivalent to approximately EUR 175.2 million (calculated at the exchange rates applicable on 31 August 2022), excluding any default interest. Due to the fact that the proceedings have been pending for a significant period of time, the default interest exceeds the principal amount of the transferred deposits.

NLB denies all liability in respect of the transferred deposits for a number of reasons, including, amongst others, that NLB has never assumed the obligations of Ljubljanska banka, Zagreb Branch under the transferred deposits, that the proceedings in the courts of Croatia are in violation of an agreement on succession between the successor states of the SFRY made in Vienna on 29 June 2001 and that it also violates a memorandum of understanding between the governments of Slovenia and Croatia concluded in March 2013 (the "**Memorandum of Understanding**"), pursuant to which the Republic of Croatia assumed an obligation to ensure the stay of all the proceedings commenced by the Privredna banka Zagreb and Zagrebačka banka in relation to the transferred deposit until the issue was finally resolved between the two countries.

Despite the Memorandum of Understanding, the courts of Croatia ruled with final decisions in six claims in favour of the plaintiff. In four of those cases, NLB filed a constitutional suit with the Constitutional Court of the Republic of Croatia and in two an extraordinary legal measures with the Supreme Court of the Republic of Croatia. In three cases, the Constitutional Court of the Republic of Croatia rejected the constitutional suit of NLB. In one case a claim against NLB, filed by the PBZ, was rejected, including a dismissal by the Supreme Court of the Republic of Croatia.

In the other eight cases, with respect to which court procedures described above are pending, final court decisions have not yet been issued.

NLB Shareholders' Meeting provided the Management Board of NLB with instructions how to act in the event of existing or potential new final decisions by Croatian courts against Ljubljanska banka, Zagreb Branch and NLB regarding the transferred foreign currency deposits, and especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies and regarding the management of the property from that perspective.

On 19 July 2018 the National Assembly passed the ZVKNNLB, which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Fund shall compensate NLB for the sums recovered from NLB by enforcement of final judgments delivered by Croatian courts with regard to the transferred deposits (that is the principal amount, accrued interest, expenses of court, legal fees and other expenses of the plaintiff and expenses related to enforcement with the accrued interest). The Fund shall compensate NLB for the negative financial implications within 30 days after having received notice from NLB that the enforcement has taken place and after the relevant evidence has been presented. If the payment due exceeds the value of the Fund's special-purpose budget or if it could jeopardise the payment of the Fund's other liabilities and obligations payable from the Fund's special-purpose budget, the due date shall be extended by as long as deemed necessary for the Republic of Slovenia to provide an increase of the Fund's special-purpose budget, but by no more than 60 days. Should the Fund fail to settle its obligations in 30 days for the reasons stated in the immediately preceding sentence, the Republic of Slovenia as its founder shall be liable, in addition to the Fund being liable, for the obligations of the Fund and shall to this end increase the special-purpose budget of the Fund so that the Fund can settle its obligation to NLB in the extended time period. The Fund shall compensate NLB only for the amounts recovered from NLB by enforcement and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings.

The Fund is also not obliged to compensate NLB for any payments made by NLB voluntarily, **provided that** a payment made by NLB on the basis of a request or decision of a competent regulator is not considered voluntary.

In accordance with the ZVKNNLB and pursuant to an agreement between NLB and the Fund relating to the implementation of the ZVKNNLB (the "**Agreement with the Fund**"), NLB has to contest the claims made against it in court proceedings in relation to the transferred deposits and use all reasonable legal remedies against court decisions that are disadvantageous for NLB, including those which were already enforced against it and take other lawful steps which may prevent or minimise the risk of enforcement of such court decisions.

In accordance with the ZVKNNLB, NLB shall regularly consult the High Representative of the Republic of Slovenia for Succession Issues (*Visoki predstavnik Republike Slovenije za nasledstvo*) regarding the legal procedures and legal remedies and regarding the contesting of judicial decisions and shall, in particular, obtain his opinion before filing new legal remedies. Should NLB breach its obligation to inform and consult with the High Representative of the Republic of Slovenia for Succession or later takes actions that are different from the ones proposed to, and agreed by, the High Representative of the Republic of Slovenia for Succession Issues, for example by failing to file a legal remedy against a court decision, it shall be obliged to reimburse the Fund within 30 days from receipt of the Fund's request, for all the funds it has received in connection with the enforcement of such court decision, including the default interest accrued since the day NLB received the funds.

In addition, if after the date of the Agreement with the Fund, NLB voluntarily makes a payment in satisfaction of a judicial decision by a court of the Republic of Croatia relating to the transferred deposits, NLB will be obliged to repay to the Fund all sums received from the Fund.

In accordance with the ZVKNNLB and the Agreement with the Fund, NLB requested and received a reimbursement from the Fund of the enforced amount from the first negative final judgment from May 2015 in the amount of EUR 3,461.31.

NLB is considering all options available to protect its interests in the belief that, in accordance with the Constitutional Act and international agreements, the obligations in question are not the obligations of NLB. Provisions for any of these claims have not been recorded because NLB believes that there are no legal grounds for such claims. Additionally, on the basis of the ZVKNNLB, subject to compliance with certain obligations, NLB is expected to be compensated for the sums recovered from NLB by enforcement of final judgments delivered by Croatian courts, which should provide an effective risk transfer. However, an unfavourable outcome in any of these pending proceedings may have a negative financial impact on NLB (see "*Risk Factors - A failure by NLB to comply with its obligations under ZVKNNLB and the related agreement with the Fund would deprive NLB of the protection granted to it by ZVKNNLB*").

Proceedings relating to the Bank of Slovenia Decision

In relation to the decision of the Slovenian government for the Republic of Slovenia to participate in the capital increases of NLB in 2011 and 2012, the EC initiated a procedure to determine the compatibility of this participation with the EU state aid rules. In accordance with recommendations of the European Council published in June 2013, NLB (along with the majority of other Slovenian banks) underwent the AQR and "bottom up" stress tests. In December 2013, the results of the AQR and stress test exercise revealed a capital shortfall for NLB of EUR 1,904 million. As a result, several measures were taken, aimed at ensuring the capital adequacy of NLB and the NLB Group, including, amongst other measures, termination of all of the Qualified Liabilities by way of the Bail-In pursuant to the Bank of Slovenia Decision (see "*Risk factors – If NLB would be found liable for claims relating to the Bail-In, it may incur substantial financial burdens*").

Although any claims against NLB in relation to the Bail-In are expressly excluded by law, certain Affected Investors nevertheless started lawsuits against NLB in which they are claiming compensation for the losses they incurred as a result of the Bail-In.

The claims made by the plaintiffs are based on various allegations, including misrepresentations made by NLB in the context of the public offering of the subordinated notes, failure to disclose the conflict of interest and failure to contest the Bank of Slovenia Decision, amongst others. Some plaintiffs have not specified the grounds for their claims.

As of 31 August 2022, 131 of these proceedings with claims amounting to nearly EUR 5.6 million are still pending while claims of 7 plaintiffs have been finally rejected by the courts and additional 6 plaintiffs have withdrawn their claims. As certain Affected Investors publicly announced claims exceeding such amount and since there is a possibility that NLB has not yet been notified of all the legal proceedings initiated against it in December 2016, this amount may increase in the course of time and such additional claims may be material. Based on allegations made by an attorney representing certain plaintiffs, NLB understands that the amount of these additional claims could exceed EUR 24 million.

No provision for any of these claims have been recorded and any losses recorded as a result of such claims may have a material adverse effect on the NLB Group's business, prospects, financial condition, results of operations or cash flows.

Collective consumer claims

The consumer organisation Zavod Kolektiv 99 filed a collective claim against NLB. NLB received a class action on 21 July. After submitting our answer, the court will firstly decide whether the preliminary conditions for class action are fulfilled.

The plaintiff (Zavod Kolektiv 99) claim includes:

- a claim that NLB, among others, ceases to apply interest rate floor in consumer loan agreements and compensates the borrowers for the losses incurred due to application of interest rate floor, together with statutory default interest; and/or;
- a claim for partial repayment of the total cost of the loan to consumers who prepaid their loans.

The claim is estimated in the amount of EUR 37 million.

If adjudicated adversely to NLB, each of these claims could potentially result in NLB's material financial liability but would not affect NLB's ability to comply with its other obligations. If, before or after commencement of the relevant court proceedings, NLB will determine that any part of the above claims has merit, it may also decide to settle the relevant liabilities voluntarily.

Other monetary claims involving substantial amounts

The NLB Group members are involved in other legal proceedings involving substantial monetary claims. Some of these proceedings are briefly described below. Based on an assessment of the probable outcome of this proceedings, NLB Group has not established any provisions in its financial statements for the proceedings described below.

In April 2017, a Montenegrin court imposed a temporary injunction preventing NLB Montenegro from disposing of certain real estate properties acquired by NLB Montenegro, as a result of the enforcement of security related to an NPL which was underwritten in 2009. The loan was also guaranteed by the state of Montenegro for an amount of up to EUR 4.5 million. The loan defaulted in 2010. In 2014, as part of NLB Group's review of exposures to large NPL, NLB Montenegro discovered certain irregularities in the loan underwriting process and filed a criminal charge against anonymous persons in this case in 2014. However, to the best knowledge of NLB, the authorities in Montenegro did not pursue the investigation at the time. Based on information currently available to NLB, the temporary injunction granted in 2017 is related to an alleged criminal abuse of authority by several individuals, including employees of the government of Montenegro and, among others, a former member of the management board of NLB Montenegro. The mandate of this former member of the management board expired in 2011. Among other things, the criminal proceedings may focus on the validity of the issuance of the guarantee by Montenegro in 2010. On 24 September 2018, NLB was informed that NLB Montenegro received a formal indictment from the Special Prosecutor's Office of Montenegro which was filed with the High Court of Montenegro, in which, in addition to five other persons, this former member of the management board and NLB Montenegro, as a legal entity, were charged on suspicion of a criminal offence for the misuse of their position. The indictment is confirmed and, after several postponements, the preparatory hearing has taken place. The main trial has also started with testimonies of accused persons. Up until the date of this Offering Circular, two of the main accused have given statements in which they denied guilt. Due to the difficulties caused by the COVID-19 pandemic, the hearings were postponed from March 2020. The next hearing is scheduled for 18 October 2022. If it were determined that an abuse of authority was carried out in the name of NLB Montenegro, it could be found liable as a legal entity and possibly incur a financial penalty. Under Montenegrin law, there are a range of potential penalties for such a criminal offence, including a suspended sentence and also a fine (based on the incurred damage or the gained profit) which can range from *de minimis* amounts up to a multiple of the profits gained from the offending action, as may be determined by the court. The determination of a penalty depends on the circumstances of the case, with the law permitting the court to take into consideration, among other things, the previous conduct of the legal person, its previous compliance with relevant legislation, the conduct of the legal person after the criminal offence was committed (including the remedial measures it undertook) and, in particular, if the legal person notified the relevant authorities of the events of the case. According to the indictment, the profits gained amount to EUR 6,651,611.09. Pursuant to the laws of Montenegro, a legal entity may be exempted from punishment or penalties if it voluntarily filed a criminal charge prior to having knowledge of a related investigation. In addition, because in such an instance the court may exempt the legal entity from any punishment, the law also necessarily allows the court to reduce the fines without any limitation. NLB Montenegro initiated the filing of a criminal charge against persons-then-unknown in 2014 and, based on the evidence presented to the court, it does not believe that it should be found guilty and subject to fines in relation to these proceedings, and therefore has made no provisions in relation to these proceedings. However, there can be no assurance that the High Court of Montenegro will not take a different position.

In addition, in March 2022, the Revenue and Customs Administration of Montenegro (*Uprava prihoda I carina Crne Gore*) carried out an inspection of payment of taxes and contributions on salaries in NLB Montenegro and determined that, during the period between 1 January 2011 to 31 March 2019, NLB Montenegro has failed to comply with applicable laws and regulations and paid salaries to its employees in lower amounts than it should, which also resulted in avoidance of payment of a part of taxes and contributions on the unpaid part of the salaries. As a result, the Revenue and Customs Administration of Montenegro issued a decision by which it directed NLB Montenegro to remedy the breach by paying the taxes and contributions on unpaid part of salaries. NLB Montenegro has appealed against such decision and the appeal is still pending. Nevertheless, according to the news published by certain media in Montenegro in July 2022, the Revenue and Customs Administration of Montenegro reported NLB Montenegro and

responsible individuals to the Chief Special Prosecutor Vladimir Novović on suspicion of creating a criminal organisation and tax evasion by which NLB Montenegro allegedly profited several hundred thousand Euro at the expense of the city of Podgorica and the state of Montenegro. NLB Montenegro has publicly denied any wrongdoing stressing that the Revenue and Customs Administration of Montenegro is misinterpreting the relevant laws and regulations, that it has appealed against the relevant decision, that the appeal is still pending, and that the Revenue and Customs Administration of Montenegro has suspended execution of their decision until the appellate procedure is completed. In addition, a vast majority of employees of NLB Montenegro do not consider themselves as being deprived of any of their rights since only a minority of its employees (73 out of 300) sued NLB Montenegro for payment of the difference in salaries, while the remaining 227 confirmed in writing that they do not have any claim. Although NLB is confident that NLB Montenegro has never intentionally breached any relevant laws and regulations and, consequently, no grounds for any criminal liability exist, any criminal proceedings involving a member of NLB Group, its employees or directors could adversely affect the reputation of NLB and NLB Group.

Other substantial claims against the members of the NLB Group include:

- A claim against Prvi faktor faktoring d.o.o. Beograd (a subsidiary of a joint-venture of NLB and SID Banka) in an amount equivalent to approximately EUR 50 million, relating to compensation for damages caused by the defendant because of the freezing of its account with the defendant and the resulting financial breakdown of the plaintiff. After initiating these lawsuit, bankruptcy proceedings have been opened in relation to the plaintiff. Accordingly, the litigation has been suspended and is only likely to continue if the bankruptcy administrator decides to pursue the claim. NLB believes that this claim is without ground.
- A claim amounting to approximately EUR 113 million against NLB InterFinanz AG in Liquidation, relating to Glumina banka's bankruptcy in 1999. The decision of the court of first instance, pronounced on 11 October 2021, was that NLB InterFinanz AG did not abuse its rights in challenging the plaintiff's claim in the aforementioned bankruptcy proceedings. The plaintiff appealed against the ruling. The court of appeal confirmed on 17 May 2022 (decision received on 19 July 2022) the first instance decision in favour of NLB InterFinanz AG and rejected again the lawsuit for seeking compensation for damages. The court of appeal also confirmed the plaintiff's obligation to reimburse NLB InterFinanz AG for litigation costs in the amount of HRK 375,500. It can be reasonably expected that the plaintiff will ask for the permission to file a revision against this (enforceable) second instance decision.

ALTERNATIVE PERFORMANCE MEASURES

In this Offering Circular, the Bank uses the following financial measures in the analysis of its business and financial position, which the Bank considers to constitute Alternative Performance Measures for the purposes of the ESMA Guidelines on Alternative Performance Measures. The Bank has chosen to present these APMs, either because they are in common use within the industry or because they are commonly used by investors and as such are useful for disclosure. The APMs are used internally to monitor and manage operations of NLB and the NLB Group, and are not considered to be directly comparable with similar key performance indicators presented by other companies. The Bank's APMs are described below together with definitions.

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

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total cost	293.9	415.4
Denominator		
Total net operating income	504.5	666.9
Cost to income ratio (CIR)	58.3%	62.3%

	NLB	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total cost	180.5	183.6
Denominator		
Total net operating income	311.7	361.5
Cost to income ratio (CIR)	57.9%	50.8%

IFRS 9 classification into stages for loan portfolio.

The loan portfolio includes loans to banks, loans to other customers, loans mandatorily measured at fair value through profit or loss (FVTPL) and balances with central banks and other banks. The majority of the loan portfolio is classified into IFRS 9 stages. The remaining minor part (0.3 per cent. at the end of December 2020 and 0.002 per cent. at the end of December 2021) represents FVTPL. FVTPL assets are not classified into stages and are therefore shown separately (before deduction of fair value adjustment for credit risk).

The classification into stages is calculated on the internal data source, by which the Group measures the loan portfolio quality, and is also published in Business Report of Annual and Interim Reports.

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 1	12,650.8	14,638.0
Denominator		
Total gross loans.....	13,686.6	15,541.8
IFRS 9 classification into Stage 1	92.4%	94.2%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 2	560.1	532.4

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Denominator		
Total gross loans.....	13,686.6	15,541.8
IFRS 9 classification into Stage 2	4.1%	3.4%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 3	434.5	371.1
Denominator		
Total gross loans.....	13,686.6	15,541.8
IFRS 9 classification into Stage 3	3.2%	2.4%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (FVTPL) loans.....	41.2	0.4
Denominator		
Total gross loans.....	13,686.6	15,541.8
IFRS 9 classification into FVTPL	0.3%	0.002%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 1 to Corporates	4,135.7	4,525.5
Denominator		
Total gross loans to Corporates.....	4,921.0	5,179.5
Corporates - IFRS 9 classification into Stage 1	84.0%	87.4%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 2 to Corporates	426.8	412.2
Denominator		
Total gross loans to Corporates.....	4,921.0	5,179.5
Corporates - IFRS 9 classification into Stage 2	8.7%	8.0%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 3 to Corporates	358.6	241.7
Denominator		
Total gross loans to Corporates.....	4,921.0	5,179.5
Corporates - IFRS 9 classification into Stage 3	7.3%	4.7%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 1 to Retail	4,779.2	5,371.1
Denominator		
Total gross loans to Retail.....	5,029.7	5,621.1
Retail - IFRS 9 classification into Stage 1	95.0%	95.6%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 2 to Retail	133.3	120.2
Denominator		
Total gross loans to Retail.....	5,029.7	5,621.1
Retail - IFRS 9 classification into Stage 2	2.7%	2.1%

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 3 to Retail	117.1	129.7
Denominator		
Total gross loans to Retail.....	5,029.7	5,621.1
Retail - IFRS 9 classification into Stage 3	2.3%	2.3%

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

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

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Stock of HQLA.....	5,003.0	5,367.1
Denominator		
Net liquidity outflow.....	1,943.1	2,125.0
LCR.....	257.5%	252.6%

Note: Based on the European Commission's Delegated Act on LCR.

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

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Loans to customers	9,644.9	10,587.1
Denominator		
Deposits from customers	16,397.2	17,640.8
Loan to deposit ratio	58.8%	60.0%

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

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

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

Below presented calculations are based on internal data sources.

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total Non-Performing on-balance and off-balance Exposure in Finrep18.....	513.0	415.5
Denominator		
Total on-balance and off-balance exposures in Finrep18.....	22,042.3	24,328.0
NPE per cent.	2.3%	1.7%

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

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

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total Non-Performing Loans	474.7	367.4
Denominator		
Total gross loans and advances	13,686.6	15,541.8
NPL per cent.	3.5%	2.4%

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

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Loan loss allowances entire loan portfolio.....	388.4	316.5
Denominator		
Total Non-Performing Loans.....	474.7	367.4
NPL coverage ratio 1 (NPL CR 1)	81.8%	86.1%

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

	NLB Group	
	31 December	
	2020	2021
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Loan loss allowances non-performing loans loan portfolio.....	272.1	212.9
Denominator		
Total Non-Performing Loans.....	474.7	367.4
NPL coverage ratio 2 (NPL CR 2)	57.3%	57.9%

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

	NLB Group		NLB	
	31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros, except per cent.)</i>			
Numerator				
Profit after tax ⁽ⁱ⁾	269.7	236.4	114.0	208.4
Denominator				
Average total equity ⁽ⁱⁱ⁾	1,751.2	2,069.9	1,384.6	1,507.2
ROE a.t.	15.4%	11.4%	8.2%	13.8%

(i) Result after tax is annualised and calculated as result after tax in the period divided by number of months for reporting period and multiplied by 12.

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

Total capital ratio (TCR) - Calculated by expressing the funds of the institution as a percentage of the total risk exposure amount (RWA) of the institution. The RWA is comprised of the Bank's assets and off-balance-sheet exposures, weighted according to risk.

	NLB Group		NLB	
	31 December 2020	31 December 2021	31 December 2020	31 December 2021
	<i>(in EUR million and per cent.)</i>			
Numerator				
Total capital (Own funds).....	2,065.5	2,252.5	1,631.6	1,647.3
Denominator				
Total risk exposure Amount (RWA).....	12,421.0	12,667.4	6,028.8	6,708.5
Total capital ratio (TCR)	16.6%	17.8%	27.1%	24.6%

TAXATION

Taxation in Slovenia

Taxation of income from distributions

Withholding tax

According to Article 70(1)(b) of the Slovenian Corporate Income Tax Act (ZDDPO-2), the amounts of distributions paid in respect of the Notes are treated as dividends rather than as interest.

Accordingly, the Issuer or any other legal entity or individual conducting business which is both:

- (i) a "**Slovenian Resident**", being (1) a person which is resident for taxation purposes in the Republic of Slovenia or (2) a person which is not resident for taxation purposes in the Republic of Slovenia when acting through a branch or a permanent establishment in the Republic of Slovenia; and
- (ii) an "**Intermediary**", being a person which receives payment of interest in respect of the Notes (the "**Distribution Payment**") for the benefit of another person or persons (the "**Payee**") and forwards such payment to the Payee;

(hereinafter: the "**Slovenian Payer**") is required to deduct and withhold the amount of Slovenian corporate or personal income tax (collectively: "**Slovenian Withholding Tax**") from Distribution Payments made to the certain categories of Payees, as shown in the below table:

<u>Payee</u>	<u>Tax Rate</u>	<u>Exemption(s)</u>
Individuals	25 per cent.	
Intermediaries	25 per cent.	<ul style="list-style-type: none">• the Payee qualifies as Slovenian Payer (i.e. is Slovenian Resident);• the Intermediary is registered as an authorised foreign intermediary (<i>pooblaščen tuji posrednik</i>) and provides the Slovenian Payer with the required information on beneficiaries of such payment;
Legal entities (other than Intermediaries and tax exempt persons)	15 per cent.	<ul style="list-style-type: none">• the Payee is Slovenian resident which provides the Slovenian Payer with its tax identification number;• the Payee is permanent establishment in the Republic of Slovenia of non-resident legal entity which provides the Slovenian Payer with its tax identification number;• the Payee is resident of another EU and/or EEA member state which is liable for income tax in the country of residence, provided that (1) the AT 1 Interest Payment does not constitute the income of its permanent establishment in the Republic of Slovenia; (2) it is unable to claim such tax in the country of residence; and (3) that the purpose of the transaction is not avoidance of tax;• the Payee is pension fund, investment fund or insurance undertaking authorised to implement the pension scheme, resident in another EU and/or EEA member state, provided that (1) the AT 1 Interest Payment does not constitute the income of its permanent establishment in the Republic of Slovenia; and (2) it is unable to claim such tax pursuant in the country of residence (even if

such inability is attributable to the fact that 0 per cent. tax rate applies in that country);

- the Payee is entitled to benefit from the common system of taxation applicable in the case of parent companies and subsidiaries of different EU member states.

Tax exempt persons 0% N/A

If a Slovenian Payer makes a Distribution Payment to an Intermediary which is neither a Slovenian Resident nor authorised foreign intermediary (*pooblaščen tuji posrednik*), then such Distribution Payment will be subject to the deduction and withholding of Slovenian tax at the rate of 25 per cent. regardless of the fact that the ultimate beneficiary of such Distribution Payment (the beneficial owner) may be a person which is exempt from tax or is subject to tax at the lower rate.

Application of Double Tax Treaties

If the Payee is not an Intermediary, Slovenian tax authorities may approve the application of a lower tax rate specified in the double tax treaty between the Republic of Slovenia and the country of residence of the Payee if the Slovenian Payer provides certain information on the Payee and a confirmation that the Payee is resident for taxation purposes in such country, issued by the tax authorities of such country.

Refund of withholding tax

A person, other than an Intermediary, which receives a Distribution Payment from which an amount Slovenian tax was deducted and withheld, is entitled to claim from the Slovenian tax administration a refund of the amount, if any, by which (a) the amount of Slovenian tax deducted and withheld from such Distribution Payment exceeds (b) the amount of Slovenian tax that would be deducted and withheld from such Distribution Payment if a Slovenian Payer would make the Distribution Payment directly to such person as a Payee (in which case such person can also request that a lower tax rate under the respective double tax treaty is applied).

Legal entities

Distributions received by a legal person which is Slovenian Resident are exempt from Slovenian corporate income tax (*davek od dohodkov pravnih oseb*).

Individuals

The amount of tax withheld from a Distribution Payment received by an individual constitutes the final amount of Slovenian Personal Income Tax (*dohodnina*) in respect of such Distribution Payment unless such individual has not opted for inclusion of interest income into annual tax base. If, however, the beneficial owner of such interest is an individual resident for taxation purposes in the Republic of Slovenia who has opted for inclusion of interest income into annual tax base, the amount of tax so withheld will be considered paid on the account of such person's personal income tax for the relevant year.

Taxation of capital gains

Legal entities

Capital gains earned on the sale or disposition of the Notes by a legal person resident for taxation purposes in the Republic of Slovenia or a permanent establishment (*poslovna enota*) in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia will be subject to Slovenian Corporate Income Tax as a part of its overall income tax (currently levied at the rate of 19 per cent.).

Capital gains earned by legal persons not resident for taxation purposes in the Republic of Slovenia and having no permanent establishment (*poslovna enota*) in the Republic of Slovenia are not subject to Slovenian taxation.

Individuals

Under the Slovenian Personal Income Tax Act (Zakon o dohodnini (ZDoh-2)), capital gains from the sale or other disposition of debt securities held as non-business assets are in general exempt from taxation, while capital gains earned as business income (dohodek iz dejavnosti) of an individual resident for taxation purposes in the Republic of Slovenia may be subject to Slovenian Personal Income Tax as a part of such individual's overall annual business income at the rate applicable in accordance with the progressive tax scale which may reach up to 45 per cent.

Capital gains earned on the sale or disposition of the Notes by a natural person resident for taxation purposes in the Republic of Slovenia may, in circumstances described in the Act on the Taxation of Profits from the Disposal of Derivatives (Zakon o davku od dobička od odsvojitve izvedenih finančnih instrumentov (ZDDOIFI)), be subject to tax levied at the rate of up to 40 per cent.

Value added tax

Pursuant to Value Added Tax Act (Zakon o davku na dodano vrednost (ZDDV-1)), transactions with securities are VAT-exempt in the Republic of Slovenia. According to the law, interest on debt securities is not subject to VAT, thus VAT is neither charged nor payable.

Inheritance and gift taxations

Individuals persons and private law entities, within the meaning of the Slovenian Inheritance and Gift Tax Act (Zakon o davku na dediščine in darila (ZDDD)) may be subject to Slovenian inheritance and gift tax in case of the transfer of the Notes mortis causa or inter vivos. The value of all transfers by the same person in one year is considered when ascertaining the taxable amount for such purposes.

Inheritance tax and gift tax is assessed by reference to the market value of property subject to taxation at the time of the occurrence of tax liability, decreased by debts, costs and charges relating to this property. In the case of movable property (such as the Notes), the tax base for inheritances and gifts is decreased by EUR 5,000.

Tax on inheritance and gifts is not paid by the heir or recipient of a gift of a first hereditary order (children and spouse).

Tax rates are progressive and differ depending on the hereditary order. Tax rates for inheritance and gift tax range:

- from 5 per cent. up to 14 per cent. for the second hereditary order (parents, siblings and their descendants);
- from 8 per cent. up to 17 per cent. for the third hereditary order (grandparents); and
- from 12 per cent. up to 39 per cent. for all subsequent hereditary orders (others).

SALE OF THE NOTES

Selling Restrictions

General

No action is taken or will be taken by the Issuer in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of any offering material relating to them, in any jurisdiction where action for that purpose is required.

European Economic Area

In relation to each EEA Member State and the United Kingdom, no Notes may be sold or made available to any retail investor in the EEA or the United Kingdom. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II (as amended); or
- (b) a customer within the meaning of Directive 2016/97/EU, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.
- (b) not a qualified investor as defined in the Prospectus Regulation.

The identified target market for the debt securities described in the Offering Circular (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients only; and no key information document (KID) under the PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any debt securities described in the Offering Circular (or any beneficial interests therein) from the Issuer the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

United States of America and its Territories

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by the U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Notes may not be offered, sold or delivered (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom of Great Britain and Northern Ireland

The Issuer acknowledges that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the

meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

GENERAL INFORMATION

Authorisations

The creation and issue of the Notes has been authorised by a resolution of the Supervisory Board of the Issuer dated 17 June 2022 and resolutions of the Management Board of the Issuer dated 15 September 2022.

Legal Entity Identifier

The legal entity identifier (LEI) of the Issuer is: 5493001BABFV7P27OW30.

Expenses of the Issue

The total expenses related to the admission to trading of the Notes are expected to amount EUR 8,550.

Clearing System

The Notes have been accepted for clearing and settlement through KDD - Centralna klirinško depotna družba, d.o.o. Tivolska cesta 48, 1000 Ljubljana, Slovenija, and through Clearstream.

The Notes have the following securities codes:

ISIN: SI0022104275

Common Code: 253372818

Ticker: NLB28

Listing and Admission to Trading

Application has been made for the Notes to be admitted to the official list of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. The Euro MTF market of the Luxembourg Stock Exchange is not a regulated market for the purposes of MIFID II.

Documents on Display

For so long as any Note is outstanding, electronic versions of the following documents are available for viewing in electronic form at the website of the Issuer (www.nlb.si), free of charge:

- (a) the Articles of Incorporation of the Issuer; and
- (b) the Documents specified in the section "*Documents incorporated by reference*" below.

This Offering Circular and all documents incorporated by reference will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu), free of charge.

Third Party Information

With respect to any information included herein and specified to be sourced from a third party (i) the Issuer confirms that any such information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information available to it from such third party, no facts have been omitted the omission of which would render the reproduced information inaccurate or misleading and (ii) the Issuer has not independently verified any such information and the Issuer accepts no responsibility for the accuracy thereof.

Yield

For the investors, the yield of the Notes is 9.721 per cent. per annum, calculated on the basis of the Issue Price to the First Reset Date.

Such yield is calculated in accordance with the ICMA (International Capital Markets Association) Method. The ICMA method determines the effective interest rate on notes by taking into account accrued interest on a daily basis.

Material Change

There has been no material adverse change in the prospects or the financial position of the Issuer since 30 June 2022.

Ratings

The Issuer has received the following ratings as of the date of this Offering Circular:

<u>International credit ratings NLB</u>	<u>Rating</u>	<u>Outlook</u>
Standard & Poor's	BBB	Stable
Moody's ⁽ⁱ⁾	Baa1	Stable

⁽ⁱ⁾ Unsolicited rating.

The Notes are expected to be rated as follows:

B+ by S&P

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Offering Circular and which have been filed with the Luxembourg Stock Exchange are incorporated by reference into this Offering Circular:

- (i) the section entitled "*Audited Financial Statements of NLB Group and NLB*" on pages 95 to 176 of the NLB Group Annual Report, containing the audited consolidated financial statements of the Issuer and the independent auditor's report thereon, in respect of the financial year or the year ended 31 December 2020;
- (ii) the section entitled "*Audited Financial Statements of NLB Group and NLB*" on pages 170 to 341 of the NLB Group Annual Report, containing the audited consolidated financial statements of the Issuer and the independent auditor's report thereon, in respect of the financial year or the year ended 31 December 2021; and
- (iii) the section entitled "*Unaudited Condensed Interim Financial Statements of NLB Group and NLB*" on pages 67 to 110 of the NLB Group H1 2022 Report, containing the unaudited consolidated financial statements of the Issuer in respect of the six months ended 30 June 2022 (the "**NLB Group H1 2022 Interim Report**"). Any information not incorporated by reference into this Offering Circular but contained in one of the documents mentioned as source documents in the list above is either not relevant for the investor or covered in another part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained (without charge) from the website of the Issuer (www.nlb.si) and the website of the Luxembourg Stock Exchange (www.bourse.lu).

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ISSUER

Nova Ljubljanska banka d.d., Ljubljana

Trg republike 2
1000 Ljubljana
Republic of Slovenia

AUDITORS

Ernst & Young d.o.o.

Dunajska 111
1000 Ljubljana
Republic of Slovenia

LEGAL ADVISERS

To the Issuer as to English Law

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ
United Kingdom

To the Issuer as to Slovenian Law

Odvetniki Vidmar, Ogrič in Pejovnik

Slovenska cesta 29
1000 Ljubljana
Republic of Slovenia