



## Nova Ljubljanska banka d.d., Ljubljana

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

### EUR 225,000,000 Callable Subordinated Tier 2 Notes due 2032

ISIN XS2413677464, Common Code 241367746

Issue Price: 99.076 per cent.

Nova Ljubljanska banka d.d., Ljubljana (the "Issuer" or "NLB") will issue on 28 November 2022 (the "Issue Date") EUR 225,000,000 Callable Subordinated Tier 2 Notes due 2032 (the "Notes") in the denomination of EUR 100,000 (the "Specified Denomination") each.

The Notes will bear interest at the rate of 10.750 per cent. *per annum* (the "First Rate of Interest") from and including 28 November 2022 (the "Interest Commencement Date") to but excluding 28 November 2027 (the "Reset Date") and thereafter at the relevant Rate of Interest from and including the Reset Date to but excluding the Maturity Date. The "Reset Rate" will be the sum of the reference rate for the Reset Period (the "Reference Rate") and the Margin of 8.298 per cent. (all as defined and further described in the terms and conditions of the Notes (the "Terms and Conditions")). Interest will be paid annually in arrear on 28 November in each year, commencing on 28 November 2023.

Subject to certain limitations and conditions as described in the Terms and Conditions, the Notes shall be redeemed at their Specified Denomination on 28 November 2032 (the "Maturity Date"). The Issuer may redeem the Notes in whole, but not in part, at their Specified Denomination on 28 November 2027, subject to certain limitations and conditions as described in the Terms and Conditions.

The Issuer may further redeem the Notes in whole, but not in part, at their Specified Denomination upon occurrence of certain changes in the applicable tax or regulatory treatment of the Notes (each as described in the Terms and Conditions) or if the Issuer does not obtain the permission of the Competent Authority pursuant to Article 149(2) of the Slovenian Banking Act (*Zakon o bančništvu (ZBan-3)*) – ("ZBan-3") to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the Regulation (EU) No 575/2013 (as amended, the "CRR"), all subject to certain limitations and conditions as described in the Terms and Conditions.

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 Germany (except for the status condition which will be governed by the laws of Slovenia).

The Notes will initially be represented by a temporary global note in bearer form (the "Temporary Global Note"). Interests in the Temporary Global Note will be exchangeable, in whole or in part, for interest in a permanent global note (the "Permanent Global Note" and, together with the Temporary Global Note, the "Global Note") on or after the date 40 days after the later of the commencement of the offering and the Issue Date, upon certification as to non-U.S. beneficial ownership.

This offering circular (the "Offering Circular") does not constitute a prospectus within the meaning of Regulation (EU) No 2017/1129 (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 (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](http://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.**

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.

*Sole Lead Manager and Bookrunner*

**BofA Securities**

*Co-Lead Manager*

**Nova Ljubljanska banka d.d., Ljubljana**

23 November 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 its 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 and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers (as defined in the section "**Subscription and Sale of the Notes**").

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 or the Managers 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 or the Managers 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, neither BofA Securities Europe SA nor any of its affiliates nor any other 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. BofA Securities Europe SA has not independently verified any such information and it does not accept any responsibility for the accuracy thereof.

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 "*Subscription and 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.

### **PRIIPS REGULATION / PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS**

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 any retail investor in the EEA. For these purposes, a 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; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**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. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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 any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK 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 and/or the Managers 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**

Following the Reset Date, interest amounts payable 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 Reuters Screen Page ICESWAP2 / EURFIXA and which is provided by ICE Benchmark Administration Limited ("**IBA**"). As at the date of this Offering Circular, IBA does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) 2016/1011 (as amended, the "**Benchmark Regulation**").

## STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, BOFA SECURITIES EUROPE SA (THE "STABILISATION MANAGER") (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## 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, neither the Issuer nor the Managers assume any 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, has 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 the 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 a recession is increasing as risks arising from the economic implications of the war in Ukraine and the energy crisis, which Europe in particular is facing, are growing. A long-lasting war in Ukraine represents a significant risk to growth, particularly in case of firms and households which 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 2022 to 2 September 2022. However, gas flows from Russia through the Nord Stream 1 pipeline have not returned which is expected 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 around EUR 280 billion. Moreover, the EU energy ministers agreed on emergency measures to reduce energy prices. The approved package consists of mandatory power savings, a cap on excess market revenues and a levy to capture surplus corporate profits. Different options to cap EU gas prices are still being reviewed and up for discussion.

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.

With regard to monetary policy, the European Central Bank ("**ECB**") and the US Federal Reserve ("**Fed**") continue with the interest rate hiking cycle in order to tame the inflation which became widespread as second-round effects stemming from energy inflation emerged. Therefore, at the October 2022 meeting, the ECB increased the deposit facility rate by 75 bps to 1.5 per cent. At its November meeting, the Fed provided a fourth consecutive 75 bps interest rate increase, raising its benchmark rate to a range of 3.75 per cent. – 4.00 per cent. It is expected that both, the ECB and the Fed will raise interest rates further, because inflation remains 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 - ZIUPOPOK*) 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 third quarter of 2022. After dividend pay-out lift by local regulators in Bosnia and Herzegovina, Kosovo 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, fuel and energy, with annual inflation reaching 9.9 per cent. in October 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 2020. 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 19.8 per cent. in October 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 14.0 per cent. in September 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 96<sup>th</sup> 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. Lately, the long-running licence plate row stoked additional tensions 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 12.7 per cent. in the second 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. The labour market is recovering after the pandemic-induced crisis, with the unemployment rate standing at 14.8 per cent. in the second quarter of 2022. Annual inflation reached 16.0 per cent. in September 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. Political instability continues, since the government lost a vote of no confidence, initiated by the president's party on 20 August 2022. On 20 September 2022, the president proposed a snap election after refusing to confirm the three political blocs' candidate for prime minister. On 29 September 2022, the parliament rejected the president's call for early elections. However, the defeat of the president's party in important local elections held on 23 October 2022 could push Montenegro towards early elections.

Bosnia and Herzegovina's economy grew by 5.9 per cent. in the second 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 although declining, unemployment rate which stood at 15.7 per cent. in the second 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 17.3 per cent. in September 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. The general parliamentary elections held on 2 October 2022 did not resolve political and social polarisation. 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 2.1 per cent. in the second quarter of 2022 according to the Statistical Office of Kosovo. However, its economy suffers from a high unemployment rate, which stood at 17.7 per cent. in the third 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. Lately, the long-running licence plate row increased tensions between Serbia and Kosovo. 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 being recorded at 12.7 per cent. in September 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 limited. The Group has thoroughly analysed potential impacts of increasing energy prices, inflationary pressures and forecast of a decrease in economic growth on its credit portfolio. The Group carefully monitors the most affected industries with the intention to detect any significant increase in credit risk at a very early stage. Increased inflationary pressures might cause some deterioration of credit portfolio quality in the retail segment, though its impact should not be excessive. As a result, the Group strengthened the early warning system for this segment. 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 on different 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 buffer<sup>1</sup> 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 (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

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<sup>1</sup> Please see also "Recent Developments".

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;
- 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 regulation<sup>2</sup>; 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

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<sup>2</sup> 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.



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, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. NLB has issued Senior Preferred notes in July 2022 and Additional Tier 1 notes in September 2022. Nevertheless, the NLB Group's average funding cost is still relatively low due to its funding structure, relying mostly on non-banking sector 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***

In the past years, 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. 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. Despite the current rising interest rate environment, the demand for products with fixed interest rate still persists.

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 concerning market trends and price movements is given to the markets in the Balkans, neighbouring countries to Ukraine and Russia and international banks with operations in Russia.

Since the beginning of the Russian-Ukraine conflict, NLB Group has been observing a rising yield environment and credit spreads widening which materially impacted NLB Group's Fair Value through Other Comprehensive Income ("**FVOCI**") positions. Despite careful management of the structure and concentration of NLB Group liquidity reserves, no assurance can be given that there will be no additional negative affect on NLB Group's capital position.

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 regulatory capital requirements.

### 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 a 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 Sberbank banka d.d., Slovenia ("**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 information see "*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 (For further information see "*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 in 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.

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*).

Sberbank Slovenia was a subject of the inspection of Bank of Slovenia in 2019 (before NLB's ownership) in the area of AML. Several deficiencies were identified and a respective order was issued. The order was closed by Bank of Slovenia in early February 2022 (before NLB's ownership). Following that Bank of Slovenia initiated a misdemeanour procedure against Sberbank Slovenia and issued the monetary fine of approx. EUR 45,000. This is not final, since N Banka (ex. Sberbank) appealed at the court of law.

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 15 October 2022, NLB was involved in 17 legal disputes with monetary claims against NLB exceeding EUR 1 million per case (excluding accrued interest). As at

15 October 2022, the aggregate amount of these claims, excluding accrued interest, was EUR 222 million. As at 15 October 2022, the NLB Group was involved in 42 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 461.9 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.

As at 15 October 2022, 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 15 October 2022, provisions with respect to monetary claims exceeding EUR 1 million per case were EUR 7.6 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.

Further, there may be additional claims against NLB and NLB Group which have not yet been served on NLB or of which NLB and NLB Group are not yet aware (For example, see "*Description of the Issuer and the Group – Legal and Administrative Proceedings – Collective consumer claims*").

An unfavourable outcome of any such proceedings 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 15 October 2022 equivalent to approximately EUR 175.7 million (calculated at the exchange rates applicable on 15 October 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 kapitalske 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 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 15 October 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. Out of 7 final rejection cases, two of them have been accepted for review by the Slovenian Supreme Court which is currently pending and may result in the reversal or modification of the final judgment if the court will find that it is based on the incorrect application of substantive law or the most severe breaches of procedure (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 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 rules include Directive 2013/36/EU, as amended and implemented in the Republic of Slovenia and Regulation (EU) No 575/2013, as amended (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**");
- (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. 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.

Because of the COVID-19 pandemic, the BCBS announced a deferral of implementation date of the revised standards to 1 January 2023 (to be phased in over five years), while the Commission's proposal for amendments to the CRR implementing the revised standards (referred to as CRR III), indicates an application date of 1 January 2025, with transitional arrangements applying over a further five-year period.

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 the regulatory rules and requirements listed under this section (*Regulatory risks – The Issuer is subject to a number of strict and extensive regulatory rules and requirements, including capital 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 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; and (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 four to six 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 mark-up 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**

#### **7. Risks associated with the characteristics of the Notes**

##### **7.1 Noteholders are subject to risks resulting from the subordination of the Notes**

The Notes constitute direct, unsecured and subordinated obligations of the Issuer. In the event of normal insolvency proceedings of the Issuer (being bankruptcy proceedings (*stečaj*) or compulsory liquidation (*prisilna likvidacija*)) of the Issuer, the claims on the principal amount of the Notes and any unpaid interest under the Notes will rank: (a) junior to all present or future claims from: (i) unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR; and (iii) subordinated instruments or obligations of the Issuer that rank senior to Tier 2 instruments (such as claims that do not result from an own funds item of the Issuer); (b) *pari passu*: (i) among themselves; and (ii) with all other present or future claims from Tier 2 instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 ("**AT 1**") instruments of the Issuer pursuant to Article 52 of the CRR; and (ii) ordinary shares of the Issuer and any other CET 1 instruments of the Issuer pursuant to Article 28 of the CRR; and (iii) all other subordinated instruments or obligations of the Issuer ranking *pari passu* with the instruments or obligations referred to in clauses (i) and (ii) of this clause (c) or otherwise ranking or expressed to rank junior to the obligations of the Issuer under the Notes.

Further, according to Article 48(7) BRRD, EU Member States shall ensure that all claims resulting from own funds items (such as the Notes and to the extent the Notes qualify as own funds items) have, in normal insolvency proceedings, a lower priority ranking than any claim that does not result from an own funds item. As a result, EU Member States should ensure that claims resulting from Tier 2 instruments which are not recognised as own funds items, should rank in priority to Tier 2 instruments which are recognised as own funds items. A provision having such effect has not been fully included in the Resolution and Compulsory Winding-Up of Banks Act (*Zakon o reševanju in prisilnem prenehanju bank - ZRPPB-1*) (the "**ZRPPB-1**") which purports to implement the BRRD. According to the first subparagraph of Article 48(7) BRRD, EU Member States shall ensure that, for (among others) institutions established in the European Union, all claims resulting from own funds items have, in national laws governing normal insolvency proceedings, a lower priority ranking than any claim that does not result from an own funds item. According to the second subparagraph of Article 48(7) BRRD, to the extent that an instrument is only partly recognised as an own funds item, the whole instrument shall be treated as a claim resulting from an own funds item and shall rank lower than any claim that does not result from an own funds item. The wording of the ZRPPB-1 does not contain the part of the second subparagraph of the Article 48(7) BRRD stating "and shall rank lower than any claim that does not result from an own funds item" and, moreover, expressly provides that the claims resulting from Tier 2 instruments shall, in the case of insolvency proceedings, have equal priority ranking as other claims which, according to the applicable contractual provisions, rank equally with Tier 2 instruments. Therefore, ZRPPB-1 might be interpreted either (i) in a way that in the case of full derecognition of the Notes from own funds, there is no mandatory override of the contractually agreed ranking in the Terms and Conditions which generally state that the Notes shall rank *pari passu* with all other present or future claims from Tier 2 instruments of the Issuer, or (ii) in a way that subordinated claims resulting from other (former) own funds items of the Issuer, which would no longer be fully recognised as such, would rank prior to the Notes. Therefore, claims resulting from the Notes may (depending on the above possible interpretation) potentially rank junior also to certain subordinated claims,



including any obligations of the Issuer under the claims that result from other Tier 2 instruments, which are no longer fully recognised as own funds items, if any.

Noteholders must be aware that, in the circumstances described above, (a) the Issuer will make payments in respect of the Notes only in accordance with the subordination described above, and (b) the rights of the Noteholders under the Notes will be subject to the provisions of the ZRPPB-1 and the SRMR (as the Issuer may be subject to resolution tools and powers stipulated therein (see "*Risk Factors – In the event of the Issuer's resolution, the Notes could be subject to write-down and conversion powers*") and subsequently, the rights of the Noteholders under the Notes may be subject to the provisions of other (national) insolvency laws applicable to the Issuer from time to time. In a liquidation, dissolution, bankruptcy, composition, resolution or other proceeding for the avoidance of bankruptcy of, or against, the Issuer, it is very likely that the Noteholders may recover proportionately less than the holders of unsubordinated obligations of the Issuer or may recover nothing at all.

#### **7.2 *Noteholders are exposed to the risk of statutory loss absorption***

The Single Resolution Mechanism shall provide the relevant resolution authorities with uniform and effective resolution tools and resolution powers in order to achieve the resolution objectives.

The main resolution tool is the bail-in tool. When applying the bail-in tool, the resolution authority shall exercise the write-down and conversion powers in accordance with the following sequence (also called "loss absorbing cascade"): (i) CET 1 items; (ii) AT 1 instruments; (iii) Tier 2 instruments (such as the Notes); (iv) other subordinated debt (that is not AT 1 or Tier 2 capital); (v) unsecured claims resulting from debt instruments which meet the conditions pursuant to Article 230(2)(9) of ZRPPB-1 (so-called "non-preferred senior debt instruments"); (vi) other claims resulting from debt instruments and similar financial instruments; and (vii) the rest of bail-inable liabilities in accordance with the hierarchy of claims in normal insolvency proceedings, including the ranking of deposits, all in accordance with the Article 230(2) of ZRPPB-1, to the extent required.

Furthermore, where the Issuer meets the conditions for resolution and the resolution authority decides to apply to the Issuer a resolution tool which would result in losses being borne by creditors or their claims being converted, the resolution authority shall exercise the write down or conversion power in relation to relevant capital instruments (i.e. CET 1, AT 1 and Tier 2 instruments) and eligible liabilities together with or before applying such other resolution tool.

If the power of write-down or conversion of relevant capital instruments or the bail-in tool is applied to the Issuer, the principal amount of the Notes may be fully or partially written down or converted into instruments of ownership, although claims of other creditors of the Issuer might not be affected.

#### **7.3 *There is the risk that an investor in the Notes will lose all or some of its investment should the Issuer become bankrupt***

Any person who purchases the Notes is relying on the creditworthiness of the Issuer and has no rights against any other person under the Notes. Investors in the Notes are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Notes. The Issuer's ability to meet its obligations arising from the Notes and the ability of the Noteholders to receive payments arising from the Notes depend on the financial position and the results of operations of the Issuer, which are subject to other risks described in this Offering Circular. A materialisation of the credit risk (for example, due to the materialisation of any of the risks described above under "*Risk Factors – Risk relating to the Issuer and the Group*") may result in partial or total failure of the Issuer to make interest and/or redemption payments under the Notes.

This risk is aggravated by the fact that the Notes are unsecured and subordinated (see "*Noteholders are subject to risks resulting from the subordination of the Notes*") and the Notes are not in any way covered by a guarantee of the Issuer, its associated persons or based on any other form of contract which, in the legal or economic view, would improve the level of priority of payments before other creditors or claims of other creditors of the Issuer. In the event of bankruptcy proceedings of the Issuer, the proceeds of the sale of the Issuer's assets will first be applied for settlement of any outstanding expenses of compulsory liquidation and bankruptcy proceedings and then distributed among the creditors according to the ranking of their claims. Consequently, for purposes of such distribution, the claims on the principal amount of the Notes and any unpaid interest thereon will rank junior to the following categories of claims:

- (i) preferential claims, such as claims arising from salaries and severance payments and related taxes and contributions;
- (ii) covered deposits, i.e. deposits guaranteed under the deposits guarantee scheme;
- (iii) claims with an original maturity of less than seven days and held by (x) an institution which is not part of the same group or (y) a payment or settlement system or an operator or participant of that system, if the claims are the result of participation of the resolution entity in the payment or settlement system and the rules on finality of settlement of orders apply to the settlement in the system in the event of insolvency or other procedure for winding-up of the member in accordance with the law governing payment systems and services or the law governing the market in financial instruments;
- (iv) deposits which are not excluded from protection pursuant to Article 5 of Directive 2014/49/EU (the "**eligible deposits**") from depositors who are natural persons or legal persons meeting the criteria for micro, small and medium-sized enterprises as defined in the law governing companies in amounts in excess of the covered deposits, including deposits which would have been eligible if they had not been made with a branch of the bank in a third country;
- (v) other eligible deposits;
- (vi) deposits which do not qualify as eligible deposits or liabilities referred to in sub-paragraph (iii) above; and
- (vii) unsecured claims, other than claims arising from debt securities and similar instruments issued by the Issuer;
- (viii) unsecured claims from debt instruments and other similar financial instruments, except for instruments referred to in sub-paragraph (ix) below;
- (ix) unsecured claims from debt instruments fulfilling the following conditions (so called senior non-preferred instruments): (x) having their original maturity of at least one year; (y) not having implemented characteristics of derivative financial instruments or not being themselves a derivative financial instrument, and (z) having in their contractual or issue documentation explicitly stated that they shall in the case of compulsory winding-up of the bank be repaid after the claims from sub-paragraphs (i) – (viii) above and before claims as stated in Article 230 (2) (10) of ZRPPB-1, which include claims from sub-paragraph (x) below, Tier 2 instruments and Additional Tier 1 instruments; and
- (x) subordinated claims which according to the applicable contractual provisions rank junior to claims from the above sub-paragraphs (i) – (ix) and do not fulfil conditions to be qualified (I) as Tier 2 instruments or Additional Tier 1 instruments, or (II) as other subordinated claims which, according to the applicable contractual provisions, rank equally with the Tier 2 instruments or Additional Tier 1 instruments.

Furthermore, such claims may, depending on the interpretation of the relevant provisions of ZRPPB-1 (see "*Noteholders are subject to risks resulting from the subordination of the Notes*"), potentially rank junior also to certain subordinated claims, including any obligations of the Issuer under the claims that result from other Tier 2 instruments, which are no longer fully not recognised as own funds items, if any.

Also, the Notes are not considered either guaranteed deposits which are part of the system of guaranteed deposits in the Republic of Slovenia, or a part of the guarantee scheme of the Republic of Slovenia. As a result of the above, there is a risk that the Noteholders could lose part or all of their investments in the Notes.

**7.4 *Noteholders are exposed to the risk that the Issuer may issue further (senior) debt instruments or incur further (senior) liabilities***

There are no restrictions (contractual or otherwise) on the amount of ordinary unsecured or subordinated debt or other liabilities that the Issuer may (or may have to) issue, borrow and/or incur, ranking senior to or *pari passu* with the Notes.

Any issue of such instruments and/or any incurring such liabilities may reduce the amount recoverable by Noteholders of the Notes upon the Issuer's insolvency.

**7.5 *The Noteholders have no ownership or voting rights***

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 Notes represent an unsecured debt obligation of the Issuer, granting the Noteholders only such rights as set forth in the Terms and Conditions. The value of the Notes might be affected by the actions of the shareholders of the Issuer over which the investors do not have control.

**7.6 *Any rights of the Issuer to redeem or repurchase the Notes are subject to the prior permission of the Competent Authority (or any other relevant supervisory authority)***

Potential investors should not invest in the Notes in the expectation that any redemption right will be exercised by the Issuer.

The Issuer may, at its sole discretion, redeem the Notes at any time either for reasons of taxation or regulatory reasons or on 28 November 2027 as further specified in the Terms and Conditions and provided that in each case the conditions to early redemption and repurchase set forth in the Terms and Conditions are met.

If the Issuer redeems the Notes, a Noteholder is exposed to the risk that, due to such redemption, its investment may have a lower than expected yield. The Issuer might redeem the Notes if the yield on comparable notes in the capital markets falls, which means that the Noteholder may only be able to reinvest the redemption proceeds in notes with a lower yield or with a similar yield of a higher risk.

Any redemption and any repurchase of the Notes is subject to the prior permission of the Competent Authority (or any other relevant supervisory authority), all if and as applicable from time to time to the Issuer. Under the CRR, the Competent Authority may only permit institutions to redeem or repurchase Tier 2 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 will apply these criteria in practice and such rules and standards may change during the maturity of the Notes. It is therefore difficult to predict whether, and if so, on what terms, the Competent 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, any decision by the Issuer as to whether it will redeem the Notes will be made at the sole discretion of the Issuer with 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 (and not invest in the expectation), that the Issuer will exercise any redemption right in relation to the Notes.

**7.7 *The Notes do not give the right to accelerate future payments, and are not subject to set-off or any guarantee***

The Terms and Conditions do not provide for any events of default and Noteholders do not have the right to accelerate any future scheduled payment of interest or principal.

Furthermore, the Notes are not subject to any set-off or netting arrangements that would undermine their capacity to absorb losses in resolution, insolvency or liquidation and are neither secured nor subject to a guarantee or any other arrangement that enhances the seniority of the claims under the Notes.

7.8 ***The Notes may not be redeemed at the option of the Noteholders***

The Noteholders will have no rights to demand the early redemption of their Notes.

Therefore, potential investors should not invest in the Notes in the expectation that they have a redemption right. Furthermore, Noteholders should be aware that they may be required to bear the financial risks of an investment in the Notes until their final maturity.

7.9 ***Market making by the Issuer for the Notes is subject to the prior permission of the Competent Authority and certain conditions and thresholds***

The Notes may be repurchased by the Issuer (also for market making purposes) only subject to certain conditions, such as the prior permission of the Competent Authority, and within certain thresholds.

These conditions and thresholds also restrict the Issuer's possibility for market making for the Notes. Such restrictions may have a negative impact on the liquidity of the Notes and may lead to inadequate or delayed market prices for the Notes.

7.10 ***The Notes may be redeemed at the option of the Issuer if the Issuer does not obtain the permission of the Competent Authority to include the Notes in whole in the calculation of its Tier 2 capital***

If the Issuer does not obtain the permission of the Competent Authority pursuant to Article 149(2) of ZBan-3 to include the Notes in whole in the calculation of its Tier 2 capital pursuant to the CRR by 31 March 2023, the Issuer may, in accordance with the Terms and Conditions, redeem the Notes at their Specified Denomination, together with accrued and unpaid interest thereon, if any, any time prior to the maturity date. As a result, Noteholders are exposed to the risk that their investment will have a lower than expected yield (see – "Risk Factors – In the event that the Notes are redeemed prior to their maturity, Noteholders may be exposed to certain risks, including the risk that their investment will have a lower than expected yield" below). (For more information see – "Description of the Issuer and the Group – Funding - Subordinated liabilities").

7.11 ***In the event that the Notes are redeemed prior to their maturity, Noteholders may be exposed to certain risks, including the risk that their investment will have a lower than expected yield***

If either: (i) the Issuer does not obtain the permission of the Competent Authority pursuant to Article 149(2) of ZBan-3 to include the Notes in whole in the calculation of its Tier 2 capital pursuant to the CRR by 31 March 2023; or (ii) there is a change in the regulatory classification of the Notes which becomes effective on or after the issue date that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds as further described in the Terms and Conditions; or (iii) there is a change in the applicable tax treatment of the Notes as further described in the Terms and Conditions and which becomes effective on or after the issue date, and provided that in each case the conditions to early redemption and repurchase set forth in the Terms and Conditions are met, there is a risk that the Notes may be redeemed at the option of the Issuer, and at their Specified Denomination, together with accrued and unpaid interest thereon, if any, prior to the maturity date. In addition, the Issuer may redeem the Notes early in whole at their Specified Denomination together with accrued and unpaid interest thereon to but excluding the date specified for the redemption, if any, on 28 November 2027, provided that the conditions for early redemption and repurchase set forth in the Terms and Conditions are met.

If the Notes are redeemed prior to their maturity, a Noteholder is exposed to the risk that due to the early redemption the Noteholder's investment will have a lower than expected yield and to the risks connected with any reinvestment of the cash proceeds received as a result of the early redemption. Such cash proceeds may be lower than the then prevailing market price of the Notes immediately prior to the publication of a notice of redemption.

7.12 ***The Notes are subject to the fixed rate interest rate applicable until the Reset Date and thus, Noteholders are exposed to the risk that the market price of the Notes falls as a result of changes in the market yield***

The Notes bear interest at a fixed rate from and including the Interest Commencement Date to but excluding the Reset Date.

During that time, Noteholders are exposed to the risk that the market price of such Notes may fall because of changes in the market yield. While the nominal interest rate (i.e. the coupon) of the Notes is fixed to but excluding the Reset Date, the market yield typically changes on a daily basis. As the market yield changes, the market price of the Notes typically changes in the opposite direction. If the market yield increases, the market price of the Notes typically falls. If the market yield falls, the market price of the Notes typically increases. Noteholders should be aware that movements of the market yield can adversely affect the market price of the Notes and can lead to losses for the Noteholders.

Noteholders should also be aware that the market yield has two components, namely the risk-free rate and the credit spread. The credit spread is reflective of the yield that investors require in addition to the yield on a risk-free investment of equal tenor as a compensation for the risks inherent in the Notes. The credit spread changes over time and can decrease as well as increase for a large number of different reasons. The market yield of the Notes can change due to changes of the credit spread, the risk-free rate, or both.

7.13 ***The Notes are subject to certain risks related to the reset of the interest rate linked to the 5-year mid swap rate***

From and including the Reset Date to but excluding the Maturity Date, the Notes bear interest at a rate which will be determined two TARGET Business Days prior to the Reset Date by reference to the annual swap rate for Euro denominated swap transactions with a maturity of 5 years plus a margin.

Investors should be aware that the performance of the annual swap rate for Euro denominated swap transactions with a maturity of 5 years and the interest income on the Notes cannot be anticipated and neither the current nor the historical level of this swap rate is an indication of the future development of the annual swap rate for Euro denominated swap transactions with a maturity of 5 years. Due to varying interest income, investors are not able to determine a definite yield to maturity of the Notes at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. In addition, after interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Furthermore, during the Reset Period, it cannot be ruled out that the market price of the Notes may fall as a result of changes in the current interest rate on the capital market (market interest rate), as the market interest rate fluctuates. During such period, the investor is exposed to the same risk as described in the above risk factor (see "*The Notes are subject to the fixed rate interest rate applicable until the Reset Date and thus, Noteholders are exposed to the risk that the market price of the Notes falls as a result of changes in the market yield.*").

7.14 ***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***

Following the Reset Date, 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 Reuters Screen Page ICESWAP2 / EURFIXA.

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 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, the Calculation Agent 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 interest amounts payable under the Notes were to be discontinued or otherwise became unavailable:

If a Benchmark Event occurs, the Issuer shall endeavour to determine in its reasonable discretion whether an officially recognised successor rate to the discontinued Benchmark exists, which, possibly after application of adjustments or spreads, can replace the discontinued Benchmark.

If the Issuer determines in its reasonable discretion that there is no officially recognised successor rate to the discontinued Benchmark but that there may be an alternative rate, then 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 debt capital markets. The independent adviser will attempt to find an alternative rate which, possibly after application of adjustments or spreads, can replace the discontinued Benchmark. Any adjustments or spreads determined by the Issuer or the independent adviser, as the case may be, are intended to be applied in order to produce an industry-accepted replacement benchmark rate, however the relevant adjustments or spreads may not be successful in doing so and the Notes may still perform differently than if the original Benchmark had continued to be used. If the Issuer determines a successor rate or the independent adviser determines an alternative rate (the "**New Benchmark Rate**"), such rate will replace the previous Benchmark for purposes of determining the relevant rate of interest. Such determination will be binding for the Issuer, the Principal Paying Agent, the Paying Agents, the Calculation Agent 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 does not appoint an independent adviser or if the Issuer or the independent adviser appointed by it do not determine a New Benchmark Rate, an Adjustment Spread or Benchmark Amendments (if required) following a discontinuation of a relevant Benchmark, the reference rate applicable to the Reset Period shall be 2.702 per cent. *per annum*.

If, in the determination of the Issuer, the determination of the Reference Rate would cause a Regulatory Event or could reasonably be expected to entitle the Issuer to redeem the Notes for regulatory reasons and/or would prejudice the qualification of the Notes as Tier 2 instruments under the prevailing supervisory

regulations applicable to the Issuer from time to time, the reference rate applicable to the Reset Period shall be 2.702 per cent. *per annum*.

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

**7.15 *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***

Because the Terms and Conditions provide for meetings of Noteholders or the taking of votes without a meeting, 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 rules pertaining to resolutions of Noteholder are set out in the German Act on Issues of Debt Securities (*Gesetz über Schuldverschreibungen aus Gesamtemissionen* - "**SchVG**") and are largely mandatory. Pursuant to the SchVG the relevant majority for Noteholders' resolutions is generally based on votes cast, rather than on the aggregate principal amount of the Notes outstanding, therefore, any such resolution may effectively be passed with the consent of less than a majority of 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.

Because the Terms and Conditions provide that Noteholders are entitled to appoint a Holders' Representative by a majority resolution of the Noteholders, it is possible that a Noteholder may be deprived of its individual right to pursue and enforce its rights under the Terms and Conditions against the Issuer, such right passing to the Holders' Representative, who is then exclusively responsible to claim and enforce the rights of all the Noteholders.

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

There is no restriction on the amount of debt that the Issuer may issue that ranks senior to the Notes or on the amount of securities that it may issue that rank *pari passu* with the Notes. The issue of any such debt or securities may reduce the amount recoverable by Noteholders in the event of voluntary or involuntary liquidation or bankruptcy of the Issuer.

**7.17 *Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, Noteholders will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Notes will be represented by the Global Notes. The Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. Investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

**7.18 *The risk associated with withholding tax***

According to the Slovenian rules applicable to taxation of interest, the payment of interest under the Notes shall not be subject to withholding tax imposed by the Republic of Slovenia if the Notes are admitted to trading on the regulated market or traded in a multilateral trading facility in an EU Member State or a member of the Organisation for Economic Co-operation and Development. If, for any reason, the Notes are not admitted to trading on such market or traded on such trading facility, the person who is considered a Slovenian payer of interest under the Notes pursuant to the Slovenian tax regulations may be obliged to deduct from each payment of interest tax at the rate of 25 per cent. In particular, this would be the case if such withholding or deduction would have been required to be made pursuant to the laws applicable on the

issue date of the Notes. Pursuant to Condition 7 (*Taxation*), in such a situation the Issuer would be required to increase the relevant interest 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 the Issuer's obligation to do so is subject to a number of exceptions set out in Condition 7 (*Taxation*).

8. **Risks resulting from the Notes representing regulatory capital of the Issuer**

8.1 ***In the event of the Issuer's resolution, the Notes could be subject to write-down and conversion powers***

Amongst other powers, the SRMR gives the Resolution Authority (as defined in the Terms and Conditions) the power to cancel or convert all or a portion of the principal amount of, and/or interest on, capital instruments, which include the Notes (see "*Regulatory risks - If the relevant conditions are met, the resolution authority shall apply resolution actions in relation to the Issuer*".)

Should the Resolution Authority take a resolution action in relation to the Issuer, the Noteholders may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of such Noteholders), which may result in such Noteholders losing some or all of their investment or receiving other securities to replace the Notes which are worth less than the Notes.

The exercise of such mandatory write-down and conversion powers could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and, accordingly, the application, announcement or expectations of any resolution measures being applied to the Issuer would negatively impact the rights of the Noteholders, the value of the Notes and the performance of the Issuer's obligations in respect of the Notes.

8.2 ***In the event of the Issuer's resolution, payments under the Notes would be subject to the approval of the Resolution Authority***

The ZRPPB-1 provides that an institution under resolution shall not be permitted to make any payments of principal or interest under its capital instruments (which include the Notes), regardless of their maturity, unless prior approval of the Resolution Authority has been obtained.

Therefore, should the Resolution Authority take a resolution action in relation to the Issuer, it is likely that the Noteholders will not receive payments of principal or interest payable under the Notes when due. Accordingly, the application, announcement or expectations of resolution measures being applied to the Issuer would negatively impact the rights of the Noteholders, the value of the Notes and the performance of the Issuer's obligations in respect of the Notes.

8.3 ***In the event of the Issuer's resolution, the admission of the Notes to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange may be suspended or discontinued***

The ZRPPB-1 provides that the Resolution Authority shall have the power to discontinue or suspend the admission to trading on a market or the official listing of financial instruments issued by an institution under resolution without the consent of the holders of such financial instruments.

The exercise of such powers in relation to the Notes or even the announcement or expectations of resolution measures being applied to the Issuer would negatively impact the liquidity and the value of the Notes.



## 9. **Market Risks relating to the Notes**

### 9.1 ***There is the risk that the market price of the Notes could decrease if the creditworthiness of the Issuer worsens***

If the likelihood that the Issuer will be in a position to fully perform all obligations under the Notes when they fall due decreases, for example, because of the materialisation of any of the risks described above under "*Risk Factors – Risk relating to the Issuer and the Group*", the market price of the Notes will fall. In addition, even if the likelihood that the Issuer will be in position to fully perform all obligations under the Notes when they fall due actually has not decreased, market participants could nevertheless have a different perception. Furthermore, the market participants' assessment of the creditworthiness of corporate debtors in general or debtors operating in the same business as the Issuer could adversely change. If any of these risks materialises, third parties would only be willing to purchase Notes for a lower price than before the materialisation of mentioned risk. Under these circumstances, the market price of the Notes is likely to decrease.

### 9.2 ***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 Global Ratings Europe Limited ("**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 BB 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.

### 9.3 ***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 Noteholders 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 Noteholders, 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, 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 maturity.

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.

## **USE OF PROCEEDS**

In connection with the issue of the Notes, the Issuer will receive net proceeds of EUR 222,921,000. The Issuer intends for the Notes to qualify as Tier 2 instruments of the Issuer being eligible as Tier 2 capital on an individual and consolidated basis of the Issuer, with the purpose of strengthening and optimising its capital structure and meeting future MREL requirement, and to use the net proceeds from the issuance of the Notes for general corporate purposes.

## TERMS AND CONDITIONS OF THE NOTES

### 1. **Currency, Denomination, Form, Certain Definitions**

#### 1.1 ***Currency, Denomination***

The subordinated notes (the "**Notes**") of Nova Ljubljanska banka d.d., Ljubljana (the "**Issuer**") are being issued in Euro ("**EUR**") (the "**Specified Currency**") in the aggregate principal amount of EUR 225,000,000 (in words: Euro two hundred twenty five million) in the denomination of EUR 100,000 (in words: Euro one hundred thousand) (the "**Specified Denomination**").

#### 1.2 ***Form***

- (a) The Notes are issued in bearer form.
- (b) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without interest coupons. The Temporary Global Note will be exchanged for Notes in the Specified Denomination represented by a permanent global note (the "**Permanent Global Note**") and, together with the Temporary Global Note, the "**Global Notes**") without interest coupons. The Temporary Global Note and the Permanent Global Note shall each be only valid if they bear the signatures of two authorised representatives of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent. Definitive notes and interest coupons will not be issued.
- (c) The Temporary Global Note shall be exchangeable for the Permanent Global Note on a date not earlier than 40 days after the date of issue of the Temporary Global Note. Such exchange shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note are not U.S. persons (other than certain financial institutions or certain persons holding Notes through such financial institutions) as required by U.S. tax law. Payment of interest on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of interest. Any such certification received on or after the 40th day after the date of issue of the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to Condition 1.2(c). Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States.

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

#### 1.3 ***Custody – Clearing Systems***

The Global Note will be kept in safekeeping by or on behalf of the Clearing System until all obligations of the Issuer under the Notes have been satisfied.

"**Clearing System**" means each of: Clearstream Banking S.A., Luxembourg, ("**CBL**") and Euroclear Bank SA/NV, as operator of the Euroclear System ("**Euroclear**") (CBL and Euroclear are each an "**ICSD**" (International Central Securities Depository) and together the "**ICSDs**").

The Notes are issued in classical global note form and are kept in safekeeping by a common depository on behalf of the ICSDs.

#### 1.4 ***Certain Definitions***

"**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 and commercial banks and foreign exchange markets in Frankfurt am Main, London and Ljubljana and the Clearing System settle payments in Euro.

"**Holder**" means any holder of a co-ownership interest or other beneficial interest or right in the Global Note.

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

## 2. **Status**

### 2.1 **Ranking**

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and are intended to qualify as Tier 2 Instruments (as defined below).

In the event of normal insolvency proceedings of the Issuer (being bankruptcy proceedings (*stečaj*) or compulsory liquidation (*prisilna likvidacija*)), the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank:

- (a) junior to all present or future claims from: (i) unsubordinated instruments or obligations of the Issuer; (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR; and (iii) subordinated instruments or obligations of the Issuer that rank senior to Tier 2 Instruments (such as claims that do not result from an own funds item of the Issuer);
- (b) *pari passu*: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and
- (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; and (ii) ordinary shares of the Issuer and any other Common Equity Tier 1 instruments of the Issuer pursuant to Article 28 of the CRR; and (iii) all other subordinated instruments or obligations of the Issuer ranking *pari passu* with the instruments or obligations referred to in clauses (i) and (ii) of this Clause 2.1(c) or otherwise ranking or expressed to rank junior to the obligations of the Issuer under the Notes.

"**CRR**" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended or replaced from time to time, and any references in these Terms and Conditions to relevant articles of the CRR include references to any applicable provisions of law amending or replacing such articles from time to time.

"**Tier 2 Instruments**" means any capital instruments of the Issuer which meet the conditions laid down in Article 63 of the CRR, including any capital (or other) instruments that are (fully or partly) recognised as Tier 2 items pursuant to transitional provisions under the CRR.

### 2.2 **No Set-off; No Netting**

The Notes are not subject to any set-off or netting arrangements that would undermine their capacity to absorb losses in resolution, insolvency or liquidation of the Issuer.

### 2.3 **No Security/Guarantee; No Enhancement of Seniority**

The Notes are neither secured nor subject to a 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. No security or guarantee of whatever kind is, or shall at any time be, provided by the Issuer or any other person securing rights of the Holders.

### 2.4 **Possibility of statutory resolution measures**

Prior to any normal insolvency proceedings of the Issuer (being bankruptcy proceedings (*stečaj*) or compulsory liquidation (*prisilna likvidacija*)), under the applicable banking resolution laws, the Resolution Authority may exercise the power to write down (including to zero) the obligations of the Issuer under the Notes, convert the Notes into shares or other instruments of ownership of the

Issuer, in each case in whole or in part, or 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.

Upon the Issuer being informed or notified by the Resolution Authority of the actual exercise of any statutory resolution tool or action with respect to the Notes, the Issuer shall notify the Holders without delay. Any delay or failure by the Issuer to notify the Holders shall not affect the validity and enforceability of the statutory resolution tool or action nor the effects on the Notes described in this Condition 2.4.

**"Resolution Authority"** means the resolution authority pursuant to Article 4(1)(130) of the CRR which is responsible for recovery or resolution of the Issuer on an individual and/or consolidated basis.

### 3. **Interest**

#### 3.1 ***Rate of Interest and Interest Payment Dates***

The Notes shall bear interest on their Specified Denomination at a rate *per annum* equal to the applicable Rate of Interest (as defined below) from and including 28 November 2022 (the **"Interest Commencement Date"**).

Interest shall be paid annually in arrear on 28 November in each year, commencing on 28 November 2023 (each such date, an **"Interest Payment Date"**).

The applicable **"Rate of Interest"** will be,

- (a) from and including the Interest Commencement Date to but excluding 28 November 2027 (the **"Reset Date"**), a fixed rate of 10.750 per cent. *per annum*; and
- (b) from and including the Reset Date to but excluding the Maturity Date, the Reset Rate determined in accordance with Condition 3.3.

#### 3.2 ***Calculation of Amount of Interest***

If the amount of interest scheduled to be paid under the Notes is required to be calculated for any period of time such amount of interest shall be calculated by the Calculation Agent by applying the prevailing Rate of Interest to the Specified Denomination, multiplying such amount by the Day Count Fraction (as defined below), and rounding the resultant figure to the nearest full cent with EUR 0.005 being rounded upwards.

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the **"Calculation Period"**):

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

Where:

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

**"Determination Date"** means 28 November in each year.

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

### 3.3 **Determination of the Reset Rate**

- (a) **Reset Rate.** The Rate of Interest for the Reset Period (the "**Reset Rate**") will be the sum of the Reference Rate (as defined below) and the Margin (as defined below).

**"Reset Period"** means the period from and including the Reset Date to but excluding the Maturity Date.

The Calculation Agent will determine the Reference Rate for the Reset Period in accordance with this Condition 3.3 on the Reset Determination Date (as defined below).

- (b) **Reference Rate.** The "**Reference Rate**" for the Reset Period will be determined by the Calculation Agent on the Reset Determination Date as follows:

- (i) If the Reset Period is commencing prior to the occurrence of the Effective Date (as defined in Condition 3.3(d)(vii)), the following will apply:

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

(B) If the Original Benchmark Rate does not appear on the Screen Page as at such time on the 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) If the Reset Period is commencing on or after the relevant Effective Date, the "Reference Rate" on the Reset Determination Date will be determined in accordance with Condition 3.3(d).

- (iii) If, in the determination of the Issuer, the determination of the Reference Rate would cause a Regulatory Event or could reasonably be expected to entitle the Issuer to redeem the Notes for regulatory reasons pursuant to Condition 5.6 and/or would prejudice the qualification of the Notes as Tier 2 Instruments under the prevailing supervisory regulations applicable to the Issuer from time to time, the Reference Rate applicable to the Reset Period shall be 2.702 per cent. *per annum*.

Where:

**"Margin"** means 8.298 per cent. *per annum*.

**"Original Benchmark Rate"** on any TARGET Business Day means the annual swap rate which is fixed at 11:00 a.m. (Frankfurt am Main 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 TARGET Business Day at or around 11:00 a.m. (Frankfurt time).

**"Reference Bank Rate"** means the percentage rate determined by the Calculation Agent on the Reset Determination Date on the basis of the 5-year Mid Swap Rate Quotations provided by up to five leading swap dealers in the interbank market selected by the Issuer to the Calculation Agent at the request of the Issuer at approximately 11:00 a.m. (Frankfurt am Main 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 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 Determination Date**" means the second TARGET Business Day prior to the Reset Date.

"**Screen Page**" means Reuters Screen Page "ICESWAP2 / EURFIXA" under the heading "EURIBOR BASIS" 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 shall be used for the purpose of the determination of the Original Benchmark Rate.

"**TARGET Business Day**" means a day on which TARGET is open.

- (c) *Notification of Reset Rate.* The Calculation Agent will cause any Reset Rate to be notified to the Issuer, any stock exchange on which the Notes are from time to time listed at the initiative of the Issuer (if required by the rules of such stock exchange) and to the Holders in accordance with Condition 11 as soon as possible after its determination.
- (d) *Benchmark Event.* If a Benchmark Event occurs in relation to the Original Benchmark Rate, the Reference Rate and the interest on the Notes in accordance with Condition 3.3(a) and 3.3(b) will be determined as follows:
  - (i) **Successor Benchmark Rate or Alternative Benchmark Rate**
    - (A) If the Issuer determines in its reasonable discretion that there is a Successor Benchmark Rate (as defined in Condition 3.3(d)(vi)), then the Issuer shall determine in its reasonable discretion such Successor Benchmark Rate, the Adjustment Spread (as defined in Condition 3.3(d)(vi)) and any Benchmark Amendments (in accordance with Condition 3.3(d)(iv)) (if required) as soon as this is required following the occurrence of the Benchmark Event and prior to the Reset Determination Date.
    - (B) If the Issuer determines in its reasonable discretion that there is no Successor Benchmark Rate but that there may be an Alternative Benchmark Rate (as defined in Condition 3.3(d)(vi)), then the Issuer shall endeavour to appoint an Independent Adviser, who will determine the Alternative Benchmark Rate, the Adjustment Spread and any Benchmark Amendments.
  - (ii) **New Benchmark Rate.**
    - (A) If the Issuer determines in accordance with Condition 3.3(d)(i)(A) that there is a Successor Benchmark Rate, then such Successor Benchmark Rate shall subsequently be the New Benchmark Rate.
    - (B) If the Independent Adviser appointed by the Issuer determines in accordance with Condition 3.3(d)(i)(B) that there is an Alternative



Benchmark Rate, then such Alternative Benchmark Rate shall subsequently be the New Benchmark Rate.

(C) In either case the Reference Rate for the Reset Period, subject to Condition 3.3(d)(viii), will then be the sum of

- (1) the New Benchmark Rate on the Reset Determination Date; and
- (2) the Adjustment Spread,

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

(iii) *Fallback rate.* If, prior to the 10<sup>th</sup> Business Day prior to the Reset Determination Date,

(A) the Issuer has not determined a Successor Benchmark Rate, the Adjustment Spread or the Benchmark Amendments (if required) in accordance with Condition 3.3(d)(i)(A) and (ii)(A); and

(B)

(1) the Issuer has not appointed an Independent Adviser in accordance with Condition 3.3(d)(i)(B); or

(2) the Independent Adviser appointed by the Issuer has not determined an Alternative Benchmark Rate, the Adjustment Spread or the Benchmark Amendments (if required) in accordance with Condition 3.3(d)(i)(B) and (ii)(B),

then the Reference Rate applicable to the Reset Period shall be 2.702 per cent. *per annum.*

(iv) *Benchmark Amendments.* If a New Benchmark Rate and the applicable Adjustment Spread are determined in accordance with this Condition 3.3(d), and if the Issuer or the Independent Adviser, as applicable, 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 Issuer or the Independent Adviser, as applicable, will determine the Benchmark Amendments in its reasonable discretion.

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 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", "Interest Payment Date", "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) the business day convention in Condition 4.5.

(v) *Notices, etc.* The Issuer will notify any New Benchmark Rate, the Adjustment Spread and the Benchmark Amendments (if any) determined under this Condition 3.3(d) to the Principal Paying Agent, the Paying Agents, the Calculation Agent and, in accordance with Condition 11, the Holders 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 10<sup>th</sup> Business Day prior to the Reset Determination Date. Such notice shall be irrevocable and shall specify the Effective Date.

The New Benchmark Rate, the Adjustment Spread and the Benchmark Amendments (if any) or the fallback rate, as the case may be, each as specified in such notice, will be binding on the Issuer, the Principal Paying Agent, the Paying Agents, the Calculation Agent and the Holders (for the avoidance of doubt: no consent of the Holders 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 Effective Date.

On or prior to the date of such notice, the Issuer shall deliver to the Principal Paying Agent and the Calculation Agent a certificate signed by two authorized signatories of the Issuer:

- (A)
  - (1) confirming that a Benchmark Event has occurred;
  - (2) specifying the relevant New Benchmark Rate determined in accordance with the provisions of this Condition 3.3(d);
  - (3) specifying the applicable Adjustment Spread and the Benchmark Amendments (if any), each determined in accordance with the provisions of this Condition 3.3(d); and
  - (4) specifying the Effective Date; and
- (B) confirming that the Benchmark Amendments, if any, are necessary to ensure the proper operation of the New Benchmark Rate and/or the applicable Adjustment Spread.

(vi) *Definitions.* As used in this Condition 3.3(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:

- (A) 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
- (B) (if no recommendation pursuant to clause (A) 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 Issuer or the Independent Adviser, as applicable, in its reasonable discretion; or
- (C) (if the Issuer or the Independent Adviser, as applicable, in its reasonable discretion determines that no such spread is customarily applied and that the following would be appropriate for the Notes) 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 Issuer or the Independent Adviser, as applicable, in its reasonable discretion.

**"Alternative Benchmark Rate"** means an alternative benchmark or an alternative screen rate which is customarily applied in the international debt capital markets (or, alternatively, the international swap markets) for the purpose of determining rates of interest based on mid swap rates with a 5-year maturity in the Specified Currency, provided that all determinations will be made by the Independent Adviser in its reasonable discretion.

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

- (A) a public statement or publication of information by or on behalf of the regulatory supervisor of the Original Benchmark Rate administrator is made, stating that said administrator has ceased or will cease to provide the Original Benchmark Rate permanently or indefinitely, unless there is a successor administrator that will continue to provide the Original Benchmark Rate; or
- (B) a public statement or publication of information by or on behalf of the Original Benchmark Rate administrator is made, stating that said administrator has ceased or will cease to provide the Original Benchmark Rate permanently or indefinitely, unless there is a successor administrator that will continue to provide the Original Benchmark Rate; or
- (C) a public statement by the regulatory supervisor of the Original Benchmark Rate administrator is made that, in its view, the Original Benchmark Rate is no longer, or will no longer be, representative of the underlying market it purports to measure and no action to remediate such a situation is taken or expected to be taken as required by the supervisor of the Original Benchmark Rate administrator; or
- (D) it has become, for any reason, unlawful under any law or regulation applicable to any Paying Agent, the Calculation Agent, the Issuer or any other party to use the Original Benchmark Rate; or
- (E) the Original Benchmark Rate is permanently no longer published without a previous official announcement by the competent authority of the administrator.

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

**"New Benchmark Rate"** means the Successor Benchmark Rate or, as the case may be, the Alternative Benchmark Rate determined in accordance with this Condition 3.3(d).

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

- (A) 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
- (B) 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.

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

- (vii) *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 3.3(d) (the "**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 (A), (B) or (C) of the definition of the term "Benchmark Event", the date of cessation of publication of the Original Benchmark Rate, the date of the discontinuation of the Original Benchmark Rate or the date as from which the Original Benchmark Rate is no longer, or will no longer be, representative, as the case may be; or
  - (B) if the Benchmark Event has occurred as a result of clause (D) of the definition of the term "Benchmark Event", the date from which the prohibition applies; or
  - (C) if the Benchmark Event has occurred as a result of clause (E) of the definition of the term "Benchmark Event", the date of the occurrence of the Benchmark Event.
- (viii) Any reference in this Condition 3.3 to the term Original Benchmark Rate shall be deemed to include a reference to any component part thereof, if any, if a Benchmark Event in respect of that component part has occurred.
- (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 by the Calculation Agent or, as the case may be, any Independent Adviser or the Issuer shall (in the absence of wilful default, bad faith, inequity or manifest error) be binding on the Issuer, Principal Paying Agent, the Paying Agent(s) and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Principal Paying Agent, the Paying Agents or the Holders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### 3.4 ***Cessation of Interest Accrual***

The Notes shall cease to bear interest from the expiry of the calendar day preceding their due date for redemption. If the Issuer fails to redeem the Notes when due, interest shall continue to accrue on the Specified Denomination of the Notes from and including the due date for redemption to but excluding the date of actual redemption of the Notes at the applicable rate of interest determined pursuant to this Condition 3. This does not affect any additional rights that might be available to the Holders.

### 4. **Payments**

#### 4.1 ***Payments of Principal***

Payment of principal in respect of the Notes shall be made, subject to Condition 4.3 below, to the Clearing System or to its order for credit to the accounts of the relevant account holders of the Clearing System.

#### 4.2 ***Payments of Interest***

Payment of interest on the Notes and any Additional Amounts (as defined in Condition 7.1) shall be made, subject to Condition 4.3, to the Clearing System or to its order for credit to the relevant account holders of the Clearing System, upon due certification as provided in Condition 1.2(c).

4.3 ***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.

4.4 ***Discharge***

The Issuer shall be discharged by payment to, or to the order of, the Clearing System.

4.5 ***Payment Day***

If any payment of principal or interest with respect to a Note is to be effected on a day other than a Business Day, payment shall be effected on the next following Business Day. In this case, the relevant Holders shall not be entitled to any payment claim nor to any interest claim or other compensation with respect to such delay.

4.6 ***References to Principal and Interest***

References in these Terms and Conditions to "**principal**" in respect of the Notes shall be deemed to include, as applicable the Redemption Amount of the Notes (as defined in Condition 5.1); and any premium and any other amounts (other than interest) which may be payable under or in respect of the Notes.

5. **Redemption**

5.1 ***Redemption at Maturity***

Unless previously redeemed, repurchased or cancelled, the Notes shall be redeemed at their Specified Denomination on 28 November 2032 (the "**Maturity Date**").

5.2 ***No Early Redemption at the Option of a Holder***

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

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

If a Non-Approval Event occurs, the Issuer may, upon giving notice in accordance with Condition 5.8, redeem the Notes in whole, but not in part, at their Specified Denomination together with accrued and unpaid interest thereon, if any, to but excluding the date of redemption, on the date of redemption specified in the notice.

A "**Non-Approval Event**" occurs if, by 31 March 2023, the Issuer fails to obtain the permission of the Competent Authority pursuant to Article 149(2) of the Slovenian Banking Act (*Zakon o bančništvu – "ZBan-3"*) to include the Notes in whole in the calculation of its Tier 2 capital pursuant to Article 71 of the CRR.

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

The Issuer may, upon giving notice in accordance with Condition 5.8, redeem the Notes, in whole, but not in part, at their Specified Denomination together with accrued and unpaid interest thereon, if any, to but excluding the date of redemption, on 28 November 2027, provided that the conditions to early redemption and repurchase set forth in Condition 5.7 are met. Any notice of redemption given in accordance with Condition 5.8 may only be given if the conditions to early redemption set forth in Condition 5.7 are met.

5.5 ***Early Redemption for Reasons of Taxation***

If a Tax Event occurs, the Issuer may at any time, upon giving notice in accordance with Condition 5.8, redeem the Notes early in whole, but not in part, at their Specified Denomination together with accrued and unpaid interest thereon, if any, to but excluding the date of redemption, on the date of redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in Condition 5.7 are met. Any notice of redemption given in accordance

with Condition 5.8 may only be given if the conditions to early redemption set forth in Condition 5.7 are met.

A "**Tax Event**" occurs if there is a Tax Deductibility Event or a Gross-up Event, which change or amendment or clarification: (x) subject to (y), becomes effective on or after the issue date of the Notes; or (y) in the case of a change, if such change is enacted on or after the issue date of the Notes.

A "**Gross-up Event**" occurs if there is a change in the applicable tax treatment of the Notes based on a decision or change in law, regulation or interpretation of the tax authority of the Republic of Slovenia (or any political subdivision or any authority thereof or therein having power to tax) having competence over the Issuer which becomes effective on or after the issue date of the Notes, as a result of which the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, any Additional Amounts.

A "**Tax Deductibility Event**" occurs if there is a change in the applicable tax treatment of the Notes based on a decision or change in law, regulation or interpretation of the tax authority of the Republic of Slovenia (or any political subdivision or any authority thereof or therein having power to tax) having competence over the Issuer which becomes effective on or after the issue date of the Notes as a result of which the Issuer, in computing its taxation liabilities in the Republic of Slovenia, would not be entitled to claim a deduction in respect of interest paid on the Notes, or such deductibility is materially reduced.

#### 5.6 ***Early Redemption for Regulatory Reasons***

If a Regulatory Event occurs, the Issuer may at any time, upon giving notice in accordance with Condition 5.8, redeem the Notes in whole, but not in part, at their Specified Denomination together with accrued and unpaid interest thereon, if any, to but excluding the date of redemption, on the date of redemption specified in the notice, provided that the conditions to early redemption and repurchase set forth in Condition 5.7 are met. Any notice of redemption given in accordance with Condition 5.8 may only be given if the conditions to early redemption set forth in Condition 5.7 are met.

A "**Regulatory Event**" occurs if there is a change in the regulatory classification of the Notes which becomes effective on or after the issue date of the Notes 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 and/or consolidated basis of the Issuer) (other than as a consequence of the amortisation in accordance with Art. 64 CRR).

#### 5.7 ***Conditions to Early Redemption and Repurchase***

Any early redemption pursuant to Condition 5.4, Condition 5.5 or Condition 5.6 and any repurchase pursuant to Condition 10.2 is subject to the Issuer having obtained the prior permission of the Competent Authority for the redemption or any repurchase pursuant to Condition 10.2 in accordance with Articles 77 and 78 of the CRR, if applicable to the Issuer at that point in time, whereas:

- (a) such permission may, *inter alia*, require that:
  - (i) either the Issuer (before or at the same time with such early redemption or such repurchase) 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 provided in the CRR, in Directive 2013/36/EU and in Directive 2014/59/EU, each as amended, by a margin that the Competent Authority considers necessary at such time; and

- (b) in the case of any early redemption or any repurchase prior to the fifth anniversary of 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 issue date 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 issue date of the Notes; or
  - (iii) either before or at the same time as such action, 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 action based on the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances.

Notwithstanding the above conditions, if, at the time of any early redemption or repurchase, the prevailing supervisory regulations permit the early 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.

For the avoidance of doubt, any refusal of the Competent Authority (or any other relevant supervisory authority) to grant any required permission, approval or other consent shall not constitute a default for any purpose.

"**Competent Authority**" means the competent authority pursuant to Article 4(1)(40) of the CRR which is responsible to supervise the Issuer on an individual and/or the consolidated basis.

## 5.8 ***Early Redemption Notice***

Any notice of early redemption in accordance with Condition 5.3, Condition 5.4, Condition 5.5 and Condition 5.6 shall be given by the Issuer to the Holders in accordance with Condition 11 observing a notice period of not less than 30 calendar days nor more than 60 calendar days. Such notice shall be irrevocable and shall specify the date of early redemption.

## 6. **Paying Agent(s) and Calculation Agent**

### 6.1 ***Appointment; Specified Offices***

The initial principal paying agent (the "**Principal Paying Agent**"), the initial paying agent(s) (the "**Paying Agent(s)**") and the initial calculation agent (the "**Calculation Agent**" and, together with the Paying Agent(s), the "**Agents**") and their respective initial specified offices are:

Principal Paying Agent: Citibank N.A., London Branch, 6<sup>th</sup> Floor, Citigroup Centre, Canada Square, London E14 5LB, United Kingdom.

Where these Terms and Conditions refer to the term "**Paying Agent(s)**", such term shall include the Principal Paying Agent.

Calculation Agent: Citibank N.A., London Branch, 6<sup>th</sup> Floor, Citigroup Centre, Canada Square, London E14 5LB, United Kingdom.

The Paying Agent(s) and the Calculation Agent reserve the right at any time to change their respective specified office to some other specified office in the same country.

## 6.2 *Variation or Termination of Appointment*

The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent or the Calculation Agent, additional or other Paying Agent or another Calculation Agent. The Issuer shall at all times maintain: (i) provided that the Notes are listed on a stock exchange at the initiative of the Issuer, a Paying Agent with a specified office in such country as may be required by the rules of such stock exchange or its supervisory authorities; and (ii) a Calculation Agent. The Issuer will give notice to the Holders of any variation, termination, appointment of or any other change in any Agent as soon as possible upon the effectiveness of such change.

## 6.3 *Agents of the Issuer*

The Agents act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust to any Holder.

## 6.4 *Determinations Binding*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by any Agent shall (in the absence of wilful default, bad faith, inequitableness or manifest error) be binding on the Issuer, all other Agents and the Holders.

## 6.5 *Independent Adviser*

If the Issuer appoints an Independent Adviser in accordance with Condition 3.3, the provisions in Condition 6.3 and Condition 6.4 shall apply mutatis mutandis to the Independent Adviser.

## 7. **Taxation**

### 7.1 *General Taxation*

All payments of interest 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 such withholding or deduction is required by law, the Issuer will, to the extent permitted by law, pay such additional amounts in relation to interest (but not principal) as will be necessary in order that the net amounts received by the Holder (or a third party on behalf of the Holder) 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 his being connected with the Republic of Slovenia (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest 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 having been requested to make such a declaration or claim, 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 payable by any person (including the Issuer) acting as custodian bank or collecting agent on behalf of a Holder, or by the Issuer if no custodian bank or collecting agent is appointed or otherwise in any manner which does not constitute a withholding or deduction by the Issuer from payments of principal or interest made by it; or



- (d) on account of any Taxes withheld or deducted pursuant to an international treaty or a civil law agreement concluded by a state and/or one of its political subdivisions and/or one of its authorities and/or a group of states on the one hand and the Republic of Slovenia and/or one of its political subdivisions and/or the European Union and/or the Issuer and/or an intermediary on the other hand; or
- (e) 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.

## 7.2 ***U.S. Foreign Account Tax Compliance Act (FATCA)***

The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder 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 FATCA Withholding.

## 8. **Amendments to the Terms and Conditions, Holders' Representative**

### 8.1 ***Amendment of the Conditions***

The Issuer may agree with the Holders on amendments to the Terms and Conditions or on other matters by virtue of a majority resolution of the Holders pursuant to §§ 5 et seqq. of the German Act on Issues of Debt Securities (*Gesetz über Schuldverschreibungen aus Gesamtemissionen - "SchVG"*), as amended from time to time.

The Issuer's right under this Condition 8.1 is subject to the prior permission of the Competent Authority (or any other relevant supervisory authority) of the Issuer if such consent is required at the time of any such amendment.

In particular, the Holders may consent to changes which materially change the substance of the Terms and Conditions by resolutions passed by such a majority of votes of the Holders as stated under Condition 8.2 below, including such measures as provided for under § 5 paragraph 3 of the SchVG. A duly passed majority resolution shall be binding upon all Holders.

### 8.2 ***Majority***

Except as provided for by the following sentence and the quorum requirements in accordance with § 15 paragraph 3 of the SchVG or § 18 paragraph 4 of the SchVG in connection with § 15 paragraph 3 of the SchVG being met, the Holders shall pass resolutions by simple majority of the voting rights participating in the vote. Resolutions which materially change the substance of the Terms and Conditions, in particular in the cases of § 5 paragraph 3 numbers 1 through 8 of the SchVG, may only be passed by a majority of at least 75 per cent. of the voting rights participating in the vote (a "**Qualified Majority**").

### 8.3 ***Vote***

Resolutions of the Holders shall be made either in a Holders' meeting or by means of a vote without a meeting (*Abstimmung ohne Versammlung*) (§§ 9 et seq. and § 18 of the SchVG).

The convening notice of a Holders' meeting will provide the further details relating to the resolutions and the voting procedure. The subject matter of the vote as well as the proposed resolutions will be notified to Holders in the agenda of the meeting. The attendance at the Holders' meeting or the exercise of voting rights requires a registration of the Holders prior to the meeting.

Any such registration must be received at the address stated in the convening notice by no later than the third calendar day preceding the Holders' meeting.

Resolutions of the Holders by means of a vote not requiring a physical meeting (*Abstimmung ohne Versammlung*) will be made in accordance with § 18 of the SchVG.

8.4 ***Eligibility***

Holders must demonstrate their eligibility to participate in the vote at the time of voting by means of a special confirmation of their depository bank and by submission of a blocking instruction by their depository bank for the benefit of the Principal Paying Agent as depository (*Hinterlegungsstelle*) for the voting period.

8.5 ***Notices***

Any notices concerning this Condition 8 shall be made exclusively pursuant to the provisions of the SchVG.

8.6  ***Holders' Representative***

The Holders may by majority resolution provide for the appointment or dismissal of a holders' representative (the "**Holders' Representative**"), the duties and responsibilities and the powers of such Holders' Representative, the transfer of the rights of the Holders to the Holders' Representative and a limitation of liability of the Holders' Representative. Appointment of a Holders' Representative may only be passed by a Qualified Majority if such Holders' Representative is to be authorised to consent, in accordance with Condition 8.2 hereof, to a material change in the substance of the Terms and Conditions or other material matters.

9. **Prescription/Presentation Period**

The period for presentation of the Notes (§ 801, paragraph (1), sentence 1 of the German Civil Code) shall be reduced to ten years and the period of limitation for claims under the Notes presented during the period for presentation shall be two years calculated from the expiry of the relevant presentation period.

10. **Further Issues of Notes, Repurchases and Cancellation**

10.1 ***Further Issues of Notes***

The Issuer may without the consent of the Holders subject to regulatory and other statutory provisions, issue further Notes having the same conditions as the Notes in all respects (or in all respects except for the issue date, issue price and the first interest payment) so as to form a single series with the Notes.

10.2 ***Repurchases***

The Issuer may not repurchase any Notes in the open market or otherwise at any price at any time, unless the Issuer has obtained the prior permission of the Competent Authority for the redemption of the Notes and the further conditions to early redemption and repurchase set forth in Condition 5.7 are met and all applicable regulatory and other statutory restrictions are observed. Notes repurchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to the Principal Paying Agent for cancellation.

10.3 ***Cancellation***

Any Notes repurchased subject to Condition 10.2 or redeemed in full shall be cancelled forthwith and may not be reissued or resold.

## 11. Notices

### 11.1 *Notices of the Issuer/to the Holders*

All notices of the Issuer concerning the Notes shall be 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](http://www.bourse.lu)); (ii) if and for as long as the Notes are listed on any stock exchange other than the Luxembourg Stock Exchange at the initiative of the Issuer, 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](http://www.nlb.si)). Any notice so given will be deemed to have been validly given on the fifth calendar day following the date of such publication (or, if published more than once, on the fifth calendar day following the date of the first such publication) unless the notice provides for a later effective date.

### 11.2 *Publication of Notices of the Issuer via the Clearing System*

If the publication of notices pursuant to Condition 11.1 is no longer required by law, the Issuer may, in lieu of publication in the media set forth in Condition 11.1, deliver the relevant notices to the Clearing System, for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been given to the Holders on the seventh calendar day after the calendar day on which said notice was given to the Clearing System.

### 11.3 *Form of Notice*

Notices regarding the Notes shall only be valid if made in English.

## 12. Applicable Law, place of Jurisdiction and Enforcement

### 12.1 *Applicable Law*

Except as provided in the next sentence, the Notes, as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by German law. The status provisions in Condition 2 shall be governed by, and shall be construed exclusively in accordance with, Slovenian law.

### 12.2 *Jurisdiction*

The District Court (*Landgericht*) in Frankfurt am Main, Germany, shall have non-exclusive jurisdiction for any action or other legal proceedings ("**Proceedings**") arising out of or in connection with the Notes. This is subject to any exclusive court of venue for specific legal proceedings in connection with the SchVG.

### 12.3 *Enforcement*

Any Holder may in any Proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in its own name its rights arising under such Notes on the basis of a statement issued by the Custodian (as defined below) with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b).

For purposes of the foregoing, "**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System. Each Holder may, without prejudice to the foregoing, also protect and enforce its rights under the Notes in any other way which is admitted in the country of the proceedings.

## 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 2021<sup>3</sup>. 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<sup>(i)</sup></u>	<u>S&amp;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.

<sup>(i)</sup> 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 customers<sup>4</sup> 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.

<sup>3</sup> Source: Data of Bank of Slovenia.

<sup>4</sup> 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.

## 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.

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 banks<sup>5</sup> (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 share<sup>6</sup> 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 30 September 2022, NLB had an equity market capitalisation of EUR 1,072,000,000.

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<sup>5</sup> For more information see "*Recent Developments*".

<sup>6</sup> Data from central banks and NLB own calculations.

The following table shows NLB's main shareholders as of 30 September 2022<sup>(1)</sup>.

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders <sup>(2)</sup> .....	10,946,534	54.73
• of which European Bank for Reconstruction and Development <sup>(3)</sup> .....	/	>5 and <10
Republic of Slovenia .....	5,000,001	25.00
Other shareholders .....	4,053,465	20.27
<b>Total</b> .....	<b>20,000,000</b>	<b>100.00</b>

<sup>(1)</sup> 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, 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. For more information see "Recent Developments".

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 NLB Komercijalna Banka, Beograd.

## **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 SEE<sup>7</sup> 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

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<sup>7</sup> Source: Data of the Bank of Slovenia.



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.

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 2021<sup>8</sup>. 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 assets<sup>9</sup>). 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

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<sup>8</sup> Source: Central Bank and banks report.

<sup>9</sup> Source: Central Bank and Kosovo Banking Association statistics.

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.

## 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 centrality 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 player<sup>10</sup> 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

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<sup>10</sup> Source: Data of the ECB/Bank of Slovenia.

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 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.

Leasing activities represent a significant part of Group's business mix. Leasing operations in Slovenia (Lease&Go) are gaining momentum with increased total assets, a new leasing company was established in

North Macedonia (NLB Liz&Go) and all regulatory approvals for purchase of leasing entity in Serbia were obtained.

## 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>			
<b>Key income statement figures</b>				
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
<b>Key financial position statement figures</b>				
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
Deposits from customers .....	16,397.2	17,640.8	8,850.8	9,659.6
<b>Key performance figures</b>				
	<i>(in per cent.)</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 <sup>(i)</sup> .....	265.6	458.6	9,411.7	9,845.1
Western Europe <sup>(ii)</sup> .....	-	-	11.5	16.1
<b>Total</b> .....	<b>587.7</b>	<b>810.6</b>	<b>19,565.9</b>	<b>21,577.5</b>

<sup>(i)</sup> North Macedonia, Serbia, Montenegro, Croatia, Bosnia and Herzegovina and Kosovo.

<sup>(ii)</sup> 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 SEE<sup>11</sup>. 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

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

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 as at 31 December 2021:

**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).
- **Other** accounts for the Banks categories whose operating results cannot be allocated to specific segments as well as its 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.

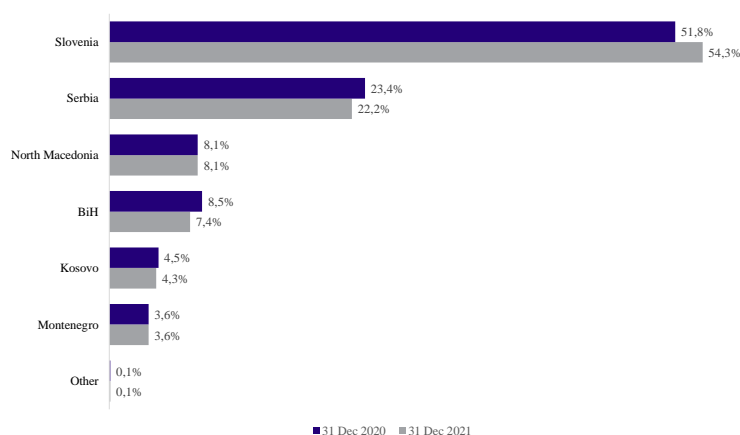
	NLB Group's loss/profit before income tax for the year by activity		NLB Group's total net operating income <sup>(i)</sup>	
	Year ended 31 December			
	2020	2021	2020	2021
	<i>(in millions of Euros)</i>			
Corporate banking (Slovenia).....	42.4	86.8	75.2	101.5
Retail banking (Slovenia).....	42.0	49.0	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
<b>Total .....</b>	<b>277.9</b>	<b>261.4</b>	<b>507.7</b>	<b>671.8</b>

<sup>(i)</sup> 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 (in millions of Euros)	Market share by total assets in local markets	
		Local market	(in per cent.) <sup>12</sup>
NLB d.d., Ljubljana .....	21,577	Slovenia	26.3
Komercijalna Banka, Beograd <sup>13</sup> .....	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 <sup>14</sup> .....	751	Montenegro	14.1
NLB Banka, Prishtina .....	931	Kosovo	16.3
NLB Banka, Sarajevo .....	728	BiH-Federation	5.5

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, respectively<sup>15</sup>. 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.

<sup>12</sup> 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.

<sup>13</sup> 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.

<sup>14</sup> NLB Banka, Podgorica and Komercijalna Banka, Podgorica successfully merged on 12 November 2021.

<sup>15</sup> Source: Data of the Bank of Slovenia, NLB's calculation.

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
<b>Total net operating income</b> .....	<b>170.4</b>	<b>171.0</b>
Total costs .....	(114.1)	(116.5)
<b>Result before impairments and provisions</b> .....	<b>56.2</b>	<b>54.5</b>
Impairments and provisions .....	(15.1)	(6.7)
Net gains from investments in subsidiaries, associates, and joint ventures .....	0.9	1.1
<b>Result before tax</b> .....	<b>42.0</b>	<b>49.0</b>
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.

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 (Slovenia 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 an 18.3 per cent. and 18.9 per cent. market share in total corporate loans and deposits, respectively, as at 31 December 2021<sup>16</sup>, 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 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
<b>Total net operating income</b> .....	<b>75.2</b>	<b>101.5</b>
Total costs .....	(41.8)	(45.1)
<b>Result before impairments and provisions</b> .....	<b>33.4</b>	<b>56.4</b>
Impairments and provisions .....	9.0	30.5
<b>Result before tax</b> .....	<b>42.4</b>	<b>86.8</b>
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

<sup>16</sup> Source: Data of Bank of Slovenia. NLB's calculation.

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 primarily 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 segment in Slovenia includes 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, which was repaid in June 2022.

The following table shows the performance of the NLB Group's financial markets segment in Slovenia 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
Net non-interest income .....	16.2	-2.3
<b>Total net operating income</b> .....	<b>39.6</b>	<b>24.1</b>
Total costs .....	(7.6)	(8.6)
<b>Result before impairments and provisions</b> .....	<b>32.0</b>	<b>15.5</b>
Impairments and provisions .....	(1.3)	0.3
<b>Result before tax</b> .....	<b>30.8</b>	<b>15.8</b>
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 banks<sup>17</sup> 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.<sup>18</sup> 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

<sup>17</sup> For more information see "Recent Developments".

<sup>18</sup> 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.

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, Beograd<sup>19</sup> 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.

	<b>As at and for the year ended 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>(in millions of Euros)</i>	
Net interest income .....	159.3	266.8
Net non-interest income .....	49.8	95.1
<b>Total net operating income</b> .....	<b>209.1</b>	<b>361.9</b>
Total costs .....	(109.0)	(227.9)
<b>Result before impairments and provisions</b> .....	<b>100.1</b>	<b>134.0</b>
Impairments and provisions .....	(59.1)	(20.8)
<b>Result before tax</b> .....	<b>178.8</b>	<b>113.2</b>
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.

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.

<sup>19</sup> 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.

Komercijalna Banka, Beograd<sup>20</sup>

	As at and for the year ended 31 December	
	2020 <sup>(i)</sup>	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)
<b>Result after tax</b> .....	<b>24.9</b>	<b>34.8</b>
Total assets.....	3,907.4	4,165.2
Net loans to customers <sup>21</sup> .....	1,630.3	1,795.9
Deposit from customers .....	3,194.3	3,424.6

<sup>(i)</sup> 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)
<b>Result after tax</b> .....	<b>2.6</b>	<b>4.3</b>
Total assets.....	686.7	715.4
Net loans to customers <sup>21</sup> .....	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
<b>Result after tax</b> .....	<b>19.2</b>	<b>39.0</b>
Total assets.....	1,585.7	1,770.6
Net loans to customers <sup>21</sup> .....	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
<b>Result after tax</b> .....	<b>10.1</b>	<b>18.2</b>
Total assets.....	796.5	927.2
Net loans to customers <sup>21</sup> .....	430.7	471.1
Deposit from customers .....	633.5	759.9

<sup>20</sup> 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.

<sup>21</sup> 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).

## 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)
<b>Result after tax</b> .....	<b>5.9</b>	<b>10.0</b>
Total assets.....	647.2	727.9
Net loans to customers <sup>21</sup> .....	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)
<b>Result after tax</b> .....	<b>13.3</b>	<b>24.4</b>
Total assets.....	879.1	930.5
Net loans to customers <sup>21</sup> .....	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
Impairments and provisions .....	(8.9)	0.6
<b>Result after tax</b> .....	<b>1.4</b>	<b>10.1</b>
Total assets.....	537.6	751.4
Net loans to customers <sup>21</sup> .....	367.2	491.6
Deposit from customers .....	431.7	609.8

## Komercijalna Banka, Podgorica<sup>22</sup>

	As at and for the year ended 31 December	
	2020 <sup>(i)</sup>	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)
<b>Result after tax</b> .....	<b>0.5</b>	<b>(5.8)</b>

<sup>(i)</sup> 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.

<sup>22</sup> NLB Banka, Podgorica and Komercijalna Banka, Podgorica successfully merged on 12 November 2021. For more information see "Recent Developments".

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
<b>Total net operating income</b> .....	<b>5.4</b>	<b>7.2</b>
Total costs .....	(12.9)	(11.4)
<b>Result before impairments and provisions</b> .....	<b>(7.4)</b>	<b>-4.1</b>
Impairments and provisions .....	2.9	5.4
<b>Result before tax</b> .....	<b>(4.6)</b>	<b>1.3</b>
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 (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 (which was repaid in June 2022); 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 an 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.

	<b>NLB Group</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2021</b>
	<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
<b>Total liabilities and equity</b>	<b>19,565.9</b>	<b>21,577.5</b>



## 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>			
<b>Deposits on demand</b>				
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
<b>Other deposits</b>				
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
<b>Total .....</b>	<b>16,469.8</b>	<b>17,712.6</b>	<b>8,892.4</b>	<b>9,768.9</b>

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
<b>Total .....</b>	<b>8.9</b>	<b>9.7</b>

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
<b>Total .....</b>	<b>7.6</b>	<b>8.0</b>

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
Deposit rate <sup>(ii)</sup> .....	<i>(per cent.)</i>	
	0.43 <sup>(i)</sup>	0.29

<sup>(i)</sup> Without the effect of the acquisition of Komercijalna Banka, Beograd.

<sup>(ii)</sup> Unaudited data.

The 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
Average cost of funding <sup>(ii) (iii)</sup> .....	<i>(in per cent.)</i>			
	0.26 <sup>(i)</sup>	0.21	0.17	0.11

<sup>(i)</sup> Without the effect of the acquisition of Komercijalna Banka, Beograd.

<sup>(ii)</sup> Annualised interest expenses and income from Liabilities (interest income from liabilities due to negative interest rate) / Average balance of interest bearing liabilities.

<sup>(iii)</sup> 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, which was repaid in June 2022), 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>			
<b>Loans</b>				
- 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
<b>Total</b> .....	<b>249.8</b>	<b>932.6</b>	<b>143.5</b>	<b>873.9</b>

### Outstanding Senior debt securities

The Bank had no outstanding senior debt securities as at 31 December 2021 and 31 December 2020.<sup>23</sup>

<sup>23</sup> For more information see "Recent Developments".

## 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:<sup>24</sup>

- 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
<i>(in thousands of Euros)</i>						
<b>Subordinated notes</b>						
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
<b>Total</b>			<b>288,519</b>	<b>285,000</b>	<b>288,321</b>	<b>285,000</b>

## 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:

<sup>24</sup> 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).

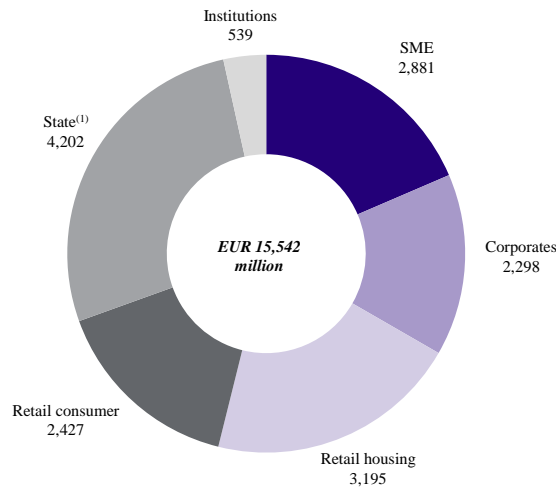
With the adoption of our IT security strategy in 2021, the Bank plans to invest in cyber security tools which will enable it to increase and strengthen the resilience in the field of cyber security on the Group level. These tools will enable the Bank to better monitor, alert and prevent potential security 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<sup>(2)</sup> (gross loans) by segment as at 31 December 2021 (in millions of Euros):



<sup>(1)</sup> State includes exposures to central banks.

<sup>(2)</sup> 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.

	<b>NLB Group</b>			
	<b>31 December 2021</b>		<b>31 December 2020</b>	
	<b>Credit portfolio</b>	<b>per cent.</b>	<b>Credit portfolio</b>	<b>per cent.</b>
	<i>(in thousands of Euros)</i>		<i>(in thousands of Euros)</i>	
<b>Corporate sector by industry</b>				
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
<b>Total Corporate sector.....</b>	<b>5,179,469</b>	<b>100</b>	<b>4,921,044</b>	<b>100</b>

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>	
<b>Main manufacturing activities</b>				
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
Manufacture of electrical equipment.....	94,258	2	136,761	3
Manufacture of rubber and plastic products .....	57,243	1	64,553	1
Manufacture of other non-metallic mineral products...	64,382	1	52,451	1
Other manufacture activities.....	397,709	8	341,162	7
<b>Total manufacturing activities .....</b>	<b>1,091,117</b>	<b>21</b>	<b>986,111</b>	<b>20</b>

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>	
<b>Main wholesale and retail trade activities</b>				
Wholesale trade, except of motor vehicles and motorcycles.....	577,730	11	510,740	10
Retail trade, except of motor vehicles and motorcycles.....	352,053	7	299,603	6
Wholesale and retail trade and repair of motor vehicles and motorcycles.....	113,311	2	112,777	2
<b>Total wholesale and retail trade .....</b>	<b>1,043,094</b>	<b>20</b>	<b>923,100</b>	<b>19</b>

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>		
<b>NLB Group Member</b>						
NLB .....	395.6	372.1	23.5	8,256.1	4.8%	0.3%
NLB Banka, Beograd.....	141.1	141.1	0.0	590.8	23.9%	0.0%
NLB Leasing d.o.o. – v likvidaciji, Ljubljana .....	1.4	1.4	0.0	9.0	16.0%	0.0%
NLB Banka, Podgorica .....	159.0	158.0	1.0	600.8	26.5%	0.2%
NLB Banka, Banja Luka .....	12.4	12.4	0.0	687.4	1.8%	0.0%
NLB Banka, Skopje .....	237.6	237.6	0.0	1,399.3	17.0%	0.0%
NLB Banka, Sarajevo.....	23.2	22.9	0.3	615.0	3.8%	0.1%
NLB Banka, Prishtina .....	179.5	179.5	0.0	805.4	22.3%	0.0%
KB Banka, Beograd <sup>25</sup> .....	531.5	531.5	0.0	2,553.6	20.8%	0.0%
<b>Total NLB Group .....</b>	<b>1,681.5</b>	<b>1,656.6</b>	<b>24.8</b>	<b>15,517.3</b>	<b>10.8%</b>	<b>0.2%</b>

<sup>25</sup> 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.

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 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 <sup>1</sup><sup>26</sup> remained high at 81.8 per cent. and 86.1 per cent., respectively, and non-performing loan coverage ratio <sup>2</sup><sup>27</sup> was 57.3 per cent. and 57.9 per cent., respectively (which is well above the EU average as published by the EBA (44.5 per cent. for December 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.

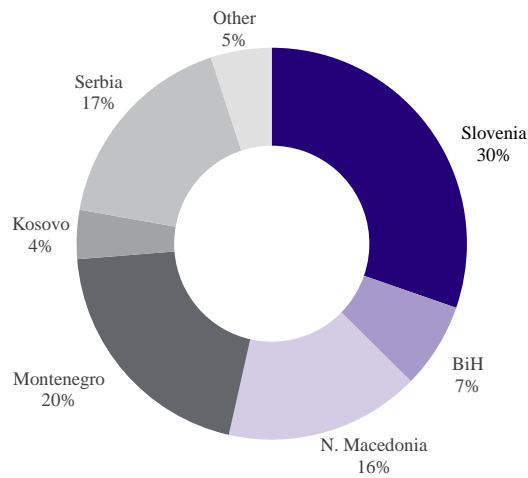
The NLB Group strives to ensure the best possible collateral for long-term loans, namely mortgages in most cases. Thus, the real-estate mortgage is the most frequent form of loan collateral for corporate and retail clients. In corporate loans, it is followed by government and corporate guarantees. In retail loans, other most frequent types of loan collateral are loan insurances by insurance companies and guarantors.

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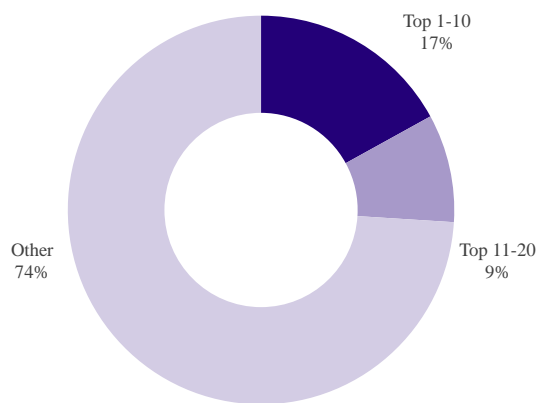
<sup>26</sup> NPL coverage ratio 1: the coverage of the gross NPL portfolio by loan loss allowances on the entire loan portfolio.

<sup>27</sup> NPL coverage ratio 2: the coverage of the gross NPL portfolio by loan loss allowances on the NPL portfolio.

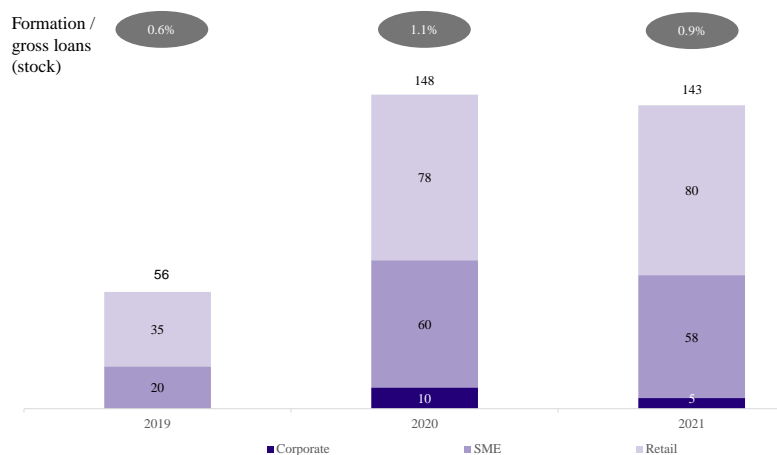
The following figure shows NPL (in terms of volume) by geographical location of the NLB Group as at 31 December 2021:



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.<sup>28</sup>, 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
<b>Financial assets measured at amortised cost</b>				
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
<b>Total net financial assets.....</b>	<b>18,953.5</b>	<b>20,980.5</b>	<b>10,037.4</b>	<b>11,680.9</b>
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
<b>Total contingent liabilities.....</b>	<b>2,975.0</b>	<b>3,164.5</b>	<b>2,004.6</b>	<b>1,989.6</b>
<b>Total maximum exposure to credit risk.....</b>	<b>21,928.5</b>	<b>24,145.0</b>	<b>12,042.0</b>	<b>13,670.5</b>

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
<b>Total.....</b>	<b>9,955.1</b>	<b>10,850.0</b>	<b>4,807.9</b>	<b>5,444.7</b>

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

<sup>28</sup> Cumulative new NPLs formation in selected period divided by gross loans stock.

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.

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<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
<b>Total</b> .....	<b>4.8</b>	<b>5.3</b>

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.

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<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
<b>Total</b> .....	<b>5.2</b>	<b>5.6</b>

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.

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<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.

	<b>As 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>(per cent.)</i>	
Loans to corporates.....	4.15 <sup>(i)</sup>	3.96
Loans to individuals.....	6.28 <sup>(i)</sup>	5.83

<sup>(i)</sup> 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 the 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.

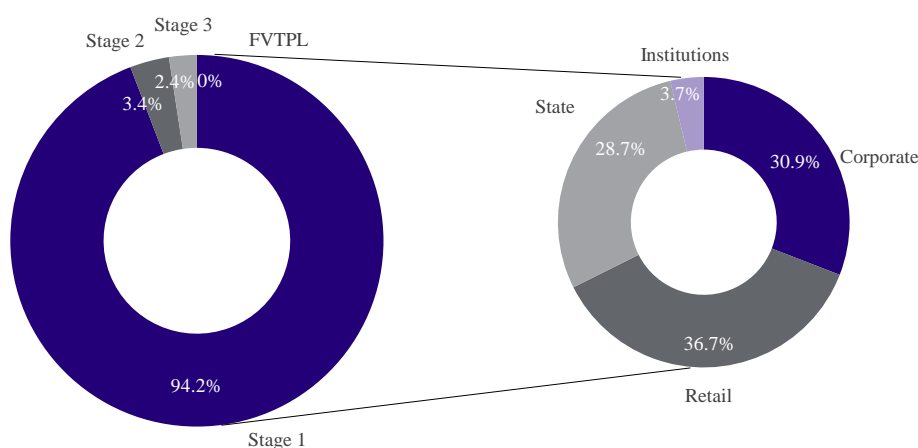
The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since the initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset ("**LECL**"). 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
<b>Total NLB Group</b>	<b>14,638.0</b>	<b>94.2%</b>	<b>1,987.2</b>	<b>532.4</b>	<b>3.4%</b>	<b>-27.6</b>	<b>371.4</b>	<b>2.4%</b>	<b>-104.3</b>
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		
<b>Total NLB Group</b>	<b>70.4</b>	<b>0.5%</b>	<b>34.0</b>	<b>6.4%</b>	<b>212.1</b>	<b>57.1%</b>	
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 regard 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:<sup>29</sup>

- 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).

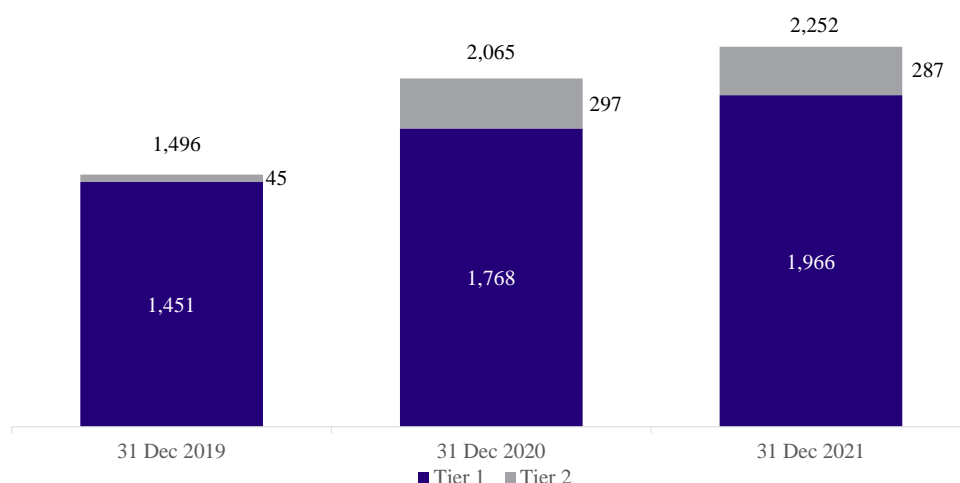
As at 31 December 2021, the Total Capital Ratio for the NLB Group stood at 17.8 per cent. (1.2 percentage points higher than at the end of 2020) and for NLB at 24.6 per cent. (2.5 percentage points lower than at the end of 2020). The CET 1 capital ratio stood at 15.5 per cent. (1.4 percentage points 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.

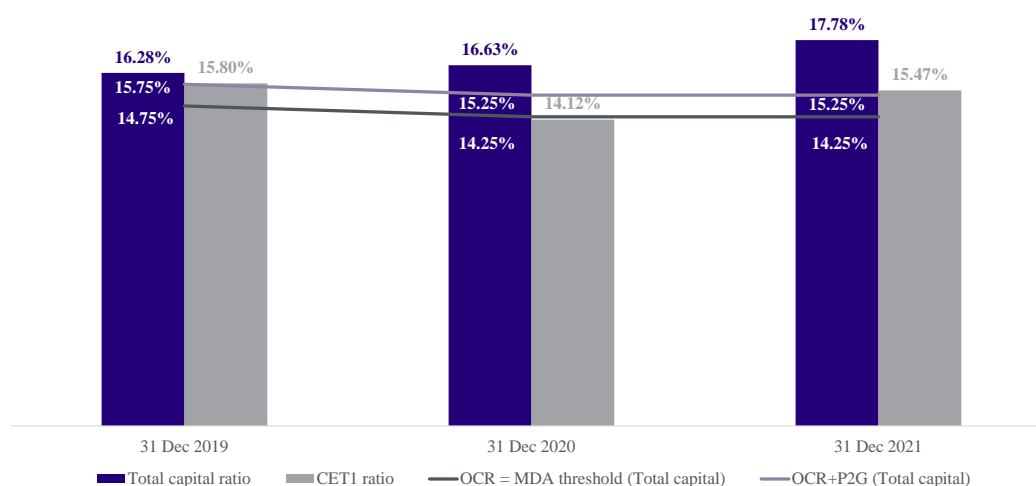
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<sup>29</sup> For more information see "Recent Developments".

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
	(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)
<b>COMMON EQUITY TIER 1 (CET 1) .....</b>	<b>1,753,448</b>	<b>1,959,601</b>	<b>1,347,031</b>	<b>1,362,681</b>
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
<b>TOTAL CAPITAL (OWN FUNDS) .....</b>	<b>2,065,463</b>	<b>2,252,490</b>	<b>1,631,626</b>	<b>1,647,276</b>



	NLB Group		NLB	
	As at			
	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021
	<i>(in thousands of Euros)</i>			
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
<b>TOTAL RISK EXPOSURE AMOUNT (RWA) .....</b>	<b>12,421,028</b>	<b>12,667,408</b>	<b>6,028,800</b>	<b>6,708,527</b>
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 September 2022, NLB's MREL ratio amounted to 33.58% (the MREL buffer was strengthened in July 2022 with the issuance of EUR 300 million Senior Preferred notes and in September 2022 with the issuance of EUR 82 million of Additional Tier 1 notes).

## 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"), 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.

<u>Name, surname and position</u>	<u>Immediate responsibility</u>	<u>Principal activities performed outside NLB</u>
<b>Blaž Brodnjak (CEO)</b>  President of the Management Board (since 6 July 2016)	<ul style="list-style-type: none"> <li>• Communication</li> </ul>	<b>Chairman of the Supervisory Board:</b>  NLB Banka a.d., Skopje
	<ul style="list-style-type: none"> <li>• Strategy and Business Development</li> </ul>	<b>Chairman of the Board of Directors:</b>  NLB Banka sh.a., Prishtina
	<ul style="list-style-type: none"> <li>• Legal and Secretariat</li> </ul>	<b>Member of the Board of Directors:</b>  NLB Komercijalna Banka a.d., Beograd
	<ul style="list-style-type: none"> <li>• Human Resources and Organisation Development</li> </ul>	President of the Association of Banks in Slovenia
	<ul style="list-style-type: none"> <li>• Internal Audit</li> </ul>	<b>President of the Board of Governors:</b>  AmCham Slovenia
	<ul style="list-style-type: none"> <li>• Compliance and Integrity</li> </ul>	<b>Member of the Executive Committee:</b>  Handball Federation of Slovenia
		<b>Member of the Board of Directors:</b>  Cedevisa Olimpija

<b>Name, surname and position</b>	<b>Immediate responsibility</b>	<b>Principal activities performed outside NLB</b>
<b>Andreas Burkhardt (CRO)</b> Member of the Management Board (since 18 September 2013)	<ul style="list-style-type: none"> <li>• Global Risk</li> <li>• Credit Risk – Corporate</li> <li>• Credit Risk – Retail</li> <li>• Evaluation and Control</li> <li>• Restructuring</li> <li>• Workout and Legal Support</li> <li>• Financial Instruments Processing</li> <li>• Corporate Customer Delivery</li> <li>• Retail Banking Processing</li> </ul>	<b>Chairman of the Board of Directors:</b> NLB Lease&Go NLB Banka, Banja Luka NLB Banka, Sarajevo
<b>Archibald Kremser (CFO)</b> Member of the Management Board (since 31 July 2013)	<ul style="list-style-type: none"> <li>• Financial Accounting and Administration</li> <li>• Controlling</li> <li>• Financial Markets</li> <li>• Group Real Estate Management</li> <li>• IT Architecture</li> <li>• IT Delivery</li> <li>• IT Infrastructure</li> <li>• Data Management</li> <li>• IT Shared Service Centre</li> <li>• IT Security</li> <li>• Procurement</li> </ul>	<b>Chairman of the Board of Directors:</b> NLB Banka a.d., Podgorica NLB Komercijalna Banka a.d., Beograd
<b>Antonio Argir</b> Member of the Management Board (since 28 April 2022) Responsible for Group governance, payments and innovations	<ul style="list-style-type: none"> <li>• Group Steering</li> <li>• Cash Processing</li> <li>• Payments Processing</li> <li>• Card Operations, ATM business and payment services</li> </ul>	<b>Vice President:</b> Economic Chamber of North Macedonia

<b>Name, surname and position</b>	<b>Immediate responsibility</b>	<b>Principal activities performed outside NLB</b>
<b>Andrej Lasič (CMO)</b> Member of the Management Board (since 28 April 2022) Responsible for Corporate and Investment Banking	<ul style="list-style-type: none"> <li>Capital Structure Advisory and Cross Border Financing</li> <li>Large Corporates</li> <li>Small and Mid-Corporates</li> <li>Trade Finance Services</li> <li>Investment Banking and Custody</li> </ul>	<b>Chairman of the Supervisory Board:</b> N Banka  <b>Member of the Supervisory Board:</b> NLB Lease&Go NLB Banka, Sarajevo
<b>Hedvika Usenik (CMO)</b> Member of the Management Board (since 28 April 2022) Responsible for Retail and Private Banking	<ul style="list-style-type: none"> <li>Private Banking</li> <li>Call Centre 24/7</li> <li>Distribution Network</li> <li>Sales Development and Management</li> </ul>	<b>Chairman of the Supervisory Board:</b> NLB Skladi  <b>Member of the Supervisory Board:</b> 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;
- the Corporate Customer Acceptability Committee; and
- the Development Council.

## 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).

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>
<b>• Members of the Supervisory Board, representatives of capital</b>		
Primož Karpe, Chairman Term of office: 2016-2020, renewed term 2020-2024	<ul style="list-style-type: none"><li>• Nomination Committee (Chairman)</li><li>• Audit Committee (Member)</li><li>• Operations and IT Committee (Member)</li></ul>	<ul style="list-style-type: none"><li>• Angler Ltd. - Director</li></ul>

<b>Name, surname and position</b>	<b>Immediate responsibility</b>	<b>Principal activities performed outside NLB</b>
Andreas Klingen, Deputy Chair  Term of office: 2015-2019, renewed term 2019-2023	<ul style="list-style-type: none"> <li>• Nomination Committee (Deputy Chairman)</li> <li>• Risk Committee (Chairman)</li> <li>• Operations and IT Committee (Member)</li> </ul>	<ul style="list-style-type: none"> <li>• Kyrgyz Investment and Credit Bank CISC – Supervisory Board Member</li> <li>• Nepi Rockcastle plc – Independent Non-Executive Director</li> </ul>
David Eric Simon, Member  Term of office: 2016-2020, renewed term 2020-2024	<ul style="list-style-type: none"> <li>• Audit Committee (Chairman)</li> <li>• Risk Committee (Member)</li> </ul>	<ul style="list-style-type: none"> <li>• Jihlavan a.s. - Chairman of the Supervisory Board</li> <li>• Czech Aerospace industries sro - legal representative</li> <li>• Central Europe Industry Partners a.s. - Supervisory Board Member</li> </ul>
Shrenik Dhirajlal Davda, Member  Term of office: 2019-2023	<ul style="list-style-type: none"> <li>• Remuneration Committee (Member)</li> <li>• Audit Committee (Deputy Chairman)</li> <li>• Risk Committee (Deputy Chairman)</li> </ul>	<ul style="list-style-type: none"> <li>• Ukgasbank - Independent Member of the Supervisory Board</li> <li>• IPSO, UK - Lay Member of the Board.</li> </ul>
Mark William Lane Richards, Member  Term of office: 2019-2023	<ul style="list-style-type: none"> <li>• Remuneration Committee (Deputy Chairman)</li> <li>• Risk Committee (Member)</li> <li>• Operations and IT Committee (Chairman)</li> </ul>	<ul style="list-style-type: none"> <li>• Vencap International (UK) – Chairman of the Board of Directors</li> <li>• BPL Global (Lloyds of London insurance Broker) - Non-Executive Director</li> <li>• Sheffield Haworth Ltd - Non-Executive Director</li> </ul>
Gregor Rok Kastelic, Member  Term of office: 2019-2023	<ul style="list-style-type: none"> <li>• Remuneration Committee (Chairman)</li> <li>• Audit Committee (Member)</li> <li>• Risk Committee (Member)</li> </ul>	<ul style="list-style-type: none"> <li>• none</li> </ul>

<b>Name, surname and position</b>	<b>Immediate responsibility</b>	<b>Principal activities performed outside NLB</b>
Verica Trstenjak, Member Term of office: 2020-2024	<ul style="list-style-type: none"> <li>Nomination Committee (Member)</li> </ul>	<ul style="list-style-type: none"> <li>University in Ljubljana, Sigmund Freud University Vienna, University of Vienna - Professor of European Law</li> <li>Permanent Court of Arbitration in the Hague – Member</li> </ul>
Islam Osama Zekry, Member Term of office: 2021-2025	<ul style="list-style-type: none"> <li>Risk Committee (Member)</li> <li>Operations and IT Committee (Deputy Chairman)</li> </ul>	<ul style="list-style-type: none"> <li>CIB Housing association, Egypt - President</li> <li>Egyptian AI Council (Ministry of Communication and Information Technology) – Member of the Supervisory Board</li> </ul>

• **Members of the Supervisory Board, representatives of employees**

Sergeja Kočar, Member Term of office: 2020-2024	<ul style="list-style-type: none"> <li>Remuneration Committee (Member)</li> <li>Nomination Committee (Member)</li> </ul>
Tadeja Žbontar Rems, Member	<ul style="list-style-type: none"> <li>Operations and IT Committee (Member)</li> </ul>

Term of office: 2021-2025

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:

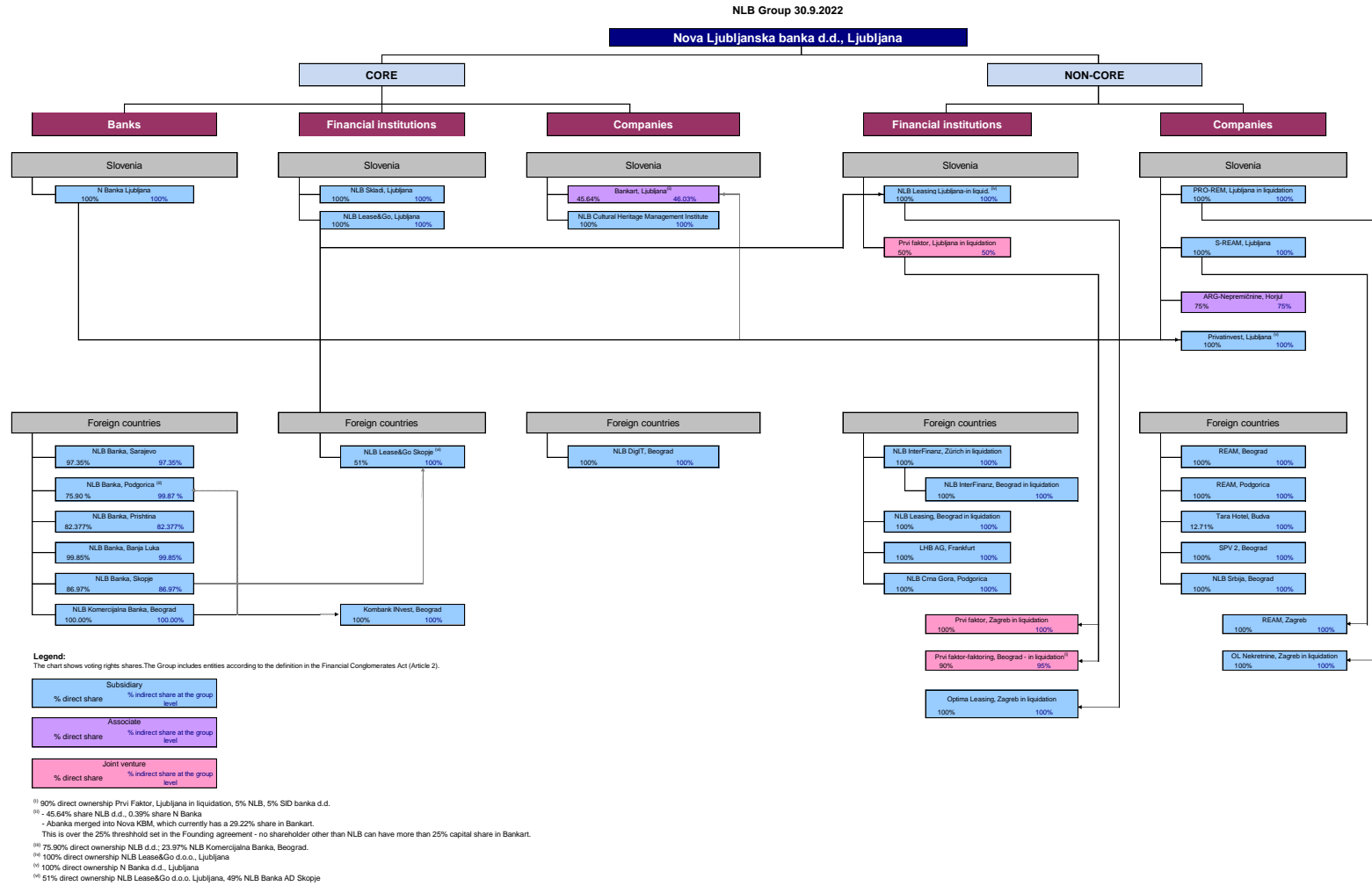
- the Audit Committee;
- the Risk Committee;
- the Nomination Committee;
- the Remuneration Committee; and
- the Operations and Information Technology (IT) Committee.

### **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 30 September 2022<sup>30</sup>:



<sup>30</sup> Banks in Slovenia: As of 1 March 2022, NLB became a 100 per cent. owner of Sberbank. On 11 April 2022, Sberbank was renamed to N Banka. The bank will be integrated within NLB Group.  
 Banks in foreign countries: NLB Banka, Podgorica and Komercijalna Banka, Podgorica successfully merged on 12 November 2021. The sale process of Komercijalna Banka, Banja Luka was concluded on 9 December 2021, therefore it is no longer part of NLB Group. Komercijalna Banka, Beograd and NLB Banka, Beograd, merged and from 30 April 2022, the bank operates under the new name NLB Komercijalna banka a.d. Beograd. Non-Core: NLB Leasing Ljubljana – in liquidation – Transfer of ownership to NLB Lease&Go executed in December 2021.



## 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 (ECB, 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
	<i>(numbers)</i>			
Employees.....	8,792	8,185	2,591	2,510
<b>Total .....</b>	<b>8,792</b>	<b>8,185</b>	<b>2,591</b>	<b>2,510</b>

## 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 progress. 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. The acquisition of N Banka resulted in a gain from a bargain purchase (negative goodwill) in the amount of EUR 172,810 thousand, which is recognised in income statement under line item 'Negative goodwill'. Current market conditions, when banks are generally valued below their net book values, usually result in recognition of a gain from a bargain purchase, which is in the case of N Banka even higher than it would be as a result of an orderly transaction, since the

bank was acquired in the process of resolution. Negative goodwill is not taxable. NLB obtained all the necessary information for measuring fair values, therefore no amounts were measured and recognised on a provisional basis.

Key information of N Banka:

<b>N Banka</b>		
<i>(in EUR million and per cent.)</i>		
<b>Income Statement</b>	<b>1 January to 31 December 2020 audited</b>	<b>1 January to 31 December 2021 audited</b>
Net interest income	30	26
Net fee and commission income	12	14
Other income	-1	2
Total income	43	43
Expenses	-29	-30 <sup>(i)</sup>
Pre-provision income	13	13
Provisions and impairments	-11	1
Profit before tax	1	13
Profit after tax	1	10
<b>Balance Sheet</b>	<b>As of 31 Dec 2020</b>	<b>As of 31 Dec 2021</b>
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
<b>Ratios<sup>(ii)</sup> in per cent.</b>	<b>As of 31 Dec 2020 unaudited</b>	<b>As of 31 Dec 2021 unaudited</b>
Net interest margin <sup>(iii)</sup>	1.61	1.49
Business operating margin <sup>(iii)</sup>	2.29	2.49
ROE a.t.	0.52	5.4
NPL ratio <sup>(iv)</sup>	5.5	4.4
CET1 ratio	18.8	18.7

Source:

N Banka reports: for 2020 Annual report, for 2021 data from N Banka (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 N Banka.

(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).

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 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 2022.

On 29 June 2022, NLB early repaid TLTRO funding in the amount of EUR 750 million.

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.

On 21 September 2022, the leasing company NLB Liz&Go, Skopje was established. In the Group Strategy, leasing activities represent a significant part of Group's business mix.

On 23 September 2022, NLB issued Additional Tier 1 notes in the amount of EUR 82 million to strengthen and optimise its capital position and for meeting MREL requirements.

On 28 October 2022, the Bank announced that the 39th General Meeting of Shareholders of NLB will be held on 12 December 2022. The Bank proposed that the second tranche of the dividend payment in the amount of EUR 50 million shall be made to the shareholders on 20 December 2022.

On 28 October 2022, the shareholding of Schroders in the Bank changed from 4.95% to 5.05% and on 9 November 2022 from 5.05% to 5.12%.

## **LEGAL AND ADMINISTRATIVE PROCEEDINGS**

### **General**

As at 15 October 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 222 million. As at 15 October 2022, the NLB Group was involved in 42 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 461.9 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 7.6 million, as at 15 October 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 15 October 2022, equivalent to approximately EUR 175.7 million (calculated at the exchange rates applicable on 15 October 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 15 October 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. Out of 7 final rejection cases, two of them have been accepted for review by the Slovenian Supreme Court which is currently pending and may result in the reversal or modification of the final judgment if the court will find that it is based on incorrect application of substantive law or the most severe breaches of procedure. 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 and an identical claim was also filed against N Banka. NLB received a class action lawsuit on 21 July 2022 and N Banka on 29 July 2022. NLB submitted its answer, and is now waiting for the court to decide whether the preliminary conditions for the class action are fulfilled. A timeframe for the court's decision is not set.

The plaintiff (Zavod Kolektiv 99) claims include 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.

The claims against NLB and N Banka combined are estimated at EUR 47 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 material proceedings, actual or threatened***

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 Court has decided that the process shall continue in the absence of one of the accused. The process will start from the beginning due to the newly

appointed judicial panel and prosecutor. The hearing is scheduled for 27 December 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 Ministry of Finance as the second instance authority annulled it and ordered a renewal of procedure. The Revenue and Customs Administration of Montenegro conducted the new procedure and again issued a decision by which it directed NLB Montenegro to remedy the breach by paying the taxes and contributions on unpaid part of salaries. As this decision became enforceable and binding, NLB Montenegro paid its obligations arising from the decision in October 2022 and appealed again to the second instance authority. The Ministry of Finance this time confirmed the first instance decision, therefore NLB Montenegro initiated a procedure before the administrative court disputing such ruling. 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 and that it has appealed against the relevant decision. 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 this litigation, 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. In August 2022, the plaintiff was sold to another legal entity. The plaintiff can now continue the litigation. 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 (approximately EUR 50,000). 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, either because they are in common use within the industry or because they are commonly used by investors and as such 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.

	<b>NLB Group</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2021</b>
	<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
<b>Cost to income ratio (CIR)</b> .....	<b>58.3%</b>	<b>62.3%</b>

	<b>NLB</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2021</b>
	<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
<b>Cost to income ratio (CIR)</b> .....	<b>57.9%</b>	<b>50.8%</b>

**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.

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
		<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
<b>IFRS 9 classification into Stage 1</b> .....	<b>92.4%</b>	<b>94.2%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<i>(in millions of Euros, except per cent.)</i>	
Numerator		
Total (AC) loans in Stage 2.....	560.1	532.4
Denominator		
Total gross loans.....	13,686.6	15,541.8
<b>IFRS 9 classification into Stage 2 .....</b>	<b>4.1%</b>	<b>3.4%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>IFRS 9 classification into Stage 3 .....</b>	<b>3.2%</b>	<b>2.4%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>IFRS 9 classification into FVTPL .....</b>	<b>0.3%</b>	<b>0.002%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Corporates - IFRS 9 classification into Stage 1 .....</b>	<b>84.0%</b>	<b>87.4%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Corporates - IFRS 9 classification into Stage 2 .....</b>	<b>8.7%</b>	<b>8.0%</b>



	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Corporates - IFRS 9 classification into Stage 3 .....</b>	<b>7.3%</b>	<b>4.7%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Retail - IFRS 9 classification into Stage 1 .....</b>	<b>95.0%</b>	<b>95.6%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Retail - IFRS 9 classification into Stage 2 .....</b>	<b>2.7%</b>	<b>2.1%</b>

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Retail - IFRS 9 classification into Stage 3 .....</b>	<b>2.3%</b>	<b>2.3%</b>

**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 below presented calculations are based on internal data sources.

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>LCR</b> .....	<b>257.5%</b>	<b>252.6%</b>

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.

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>Loan to deposit ratio</b> .....	<b>58.8%</b>	<b>60.0%</b>

**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.

	<b>NLB Group</b>	
	<b>31 December 2020</b>	<b>31 December 2021</b>
	<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
<b>NPE per cent.</b> .....	<b>2.3%</b>	<b>1.7%</b>

**NPL** – Non-performing loans include loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

**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	31 December 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
<b>NPL per cent.</b> .....	<b>3.5%</b>	<b>2.4%</b>

**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	31 December 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
<b>NPL coverage ratio 1 (NPL CR 1)</b> .....	<b>81.8%</b>	<b>86.1%</b>

**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	31 December 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
<b>NPL coverage ratio 2 (NPL CR 2)</b> .....	<b>57.3%</b>	<b>57.9%</b>

**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		31 December	
	2020	2021	2020	2021
	<i>(in millions of Euros, except per cent.)</i>			
Numerator				
Profit after tax <sup>(i)</sup> .....	269.7	236.4	114.0	208.4
Denominator				
Average total equity <sup>(ii)</sup> .....	1,751.2	2,069.9	1,384.6	1,507.2
<b>ROE a.t.</b> .....	<b>15.4%</b>	<b>11.4%</b>	<b>8.2%</b>	<b>13.8%</b>

<sup>(i)</sup> 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.

<sup>(ii)</sup> 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
<b>Total capital ratio (TCR) .....</b>	<b>16.6%</b>	<b>17.8%</b>	<b>27.1%</b>	<b>24.6%</b>

## TAXATION

*The following is a general overview of certain tax considerations relating to the purchasing, holding and disposing of Notes. It does not purport to be a legal opinion or a complete analysis of all tax considerations relating to the Notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder. The discussions that follow for each jurisdiction are based upon the applicable laws in force and their interpretation on the date of this Offering Circular. These tax laws and interpretations are subject to change that may occur after such date, even with retroactive effect.*

The information contained in this section is limited to taxation issues and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Prospective Noteholders should consult their own tax advisers as to the particular tax consequences of subscribing, purchasing, holding and disposing the Notes, including the application and effect of any federal, state or local taxes, under the tax laws of each country of which they are residents or citizens.

### **Taxation in Slovenia**

#### ***Taxation of interest income***

##### *Withholding tax*

Taxation of interest income derived from the Notes will differ depending on whether, at the time when the Issuer will make payments of interest under the Notes, the Notes will be admitted to trading on a regulated market or traded on a multilateral trading facility ("**MTF**") within an EU member state or OECD (the Notes, while so admitted to trading on a regulated market or traded on an MTF, hereinafter referred as "**Listed Securities**").

If, and for as long as the Notes qualify as Listed Securities, the Issuer will be entitled to make all payments of interest under the Notes free and clear of any withholding or deduction for or on account of taxes pursuant to applicable Slovenian law.

If, however, at the time when the Issuer will make a payment of interest under the Notes, the Notes do not qualify as Listed Securities, then such payment will be subject to withholding tax payable by the Issuer at the maximum rate applicable under Slovenian taxation law (currently being 25 per cent), whereupon:

- (a) in the event that the beneficial owner of such interest is:
  - (i) a natural person resident for taxation purposes in the Republic of Slovenia who has not opted for inclusion of interest income into annual tax base; or
  - (ii) a natural person resident for taxation purposes outside the Republic of Slovenia who does not benefit from a reduced tax rate under applicable law or double taxation treaty;

the amount of tax so withheld shall be the final tax imposed by the Republic of Slovenia on the relevant amount of interest; and

- (b) in the event that the beneficial owner of such interest is a natural person 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; and
- (c) in any other case, the beneficial owner of such interest will be entitled to claim from the Slovenian tax administration a refund of the amount by which the amount actually withheld exceeds the amount calculated at the rate applicable to such beneficial owner, whereas the rate applicable to such beneficial owner being:
  - (i) 0 per cent. in the case where the beneficial owner of such interest is a legal person, other than a legal person resident for taxation purposes in (a) a non-EU jurisdiction where the general or average nominal income tax rate is lower than 12.5 per cent. and which is included in the list of "tax havens" published from time to time by the Ministry of Finance

of the Republic of Slovenia, or (b) a jurisdiction included on the EU list of non-cooperative jurisdictions for tax purposes, published in the official journal of the EU;

- (ii) the reduced rate applicable under the applicable law or double taxation treaty, where the beneficial owner of such interest is a natural person entitled to benefit from such reduced tax rate; or
- (iii) 15 per cent. where the beneficial owner of such interest is a legal person resident for taxation purposes in (a) a non-EU jurisdiction where the general or average nominal income tax rate is lower than 12.5 per cent. and which is included in the list of "tax havens" published from time to time by the Ministry of Finance of the Republic of Slovenia or (b) a jurisdiction included on the EU list of non-cooperative jurisdictions for tax purposes, published in the official journal of the EU.

#### *Other methods of taxation*

Interest on the Notes received by (a) a legal person resident for taxation purposes in the Republic of Slovenia or (b) 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 tax as a part of the net annual income of such legal person or permanent establishment, being Slovenian Corporate Income Tax (*davek od dohodkov pravnih oseb*) which is currently levied at the rate of 19 per cent.

Any natural person who is liable for Slovenian Personal Income Tax on interest under the Notes and receives an amount of interest under the Notes free of any deduction for account of this tax shall (i) declare each amount so received and (ii) pay the amount of tax in accordance with the relevant decision of the tax authorities.

#### **Taxation of capital gains**

##### ***Legal Persons***

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.

##### ***Natural Persons***

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***

Natural 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).

### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such.

However, if additional notes (as described under "Terms and Conditions—Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE OF THE NOTES

### Subscription by the Managers

BofA Securities Europe SA (the "**Sole Lead Manager**") and Nova Ljubljanska banka d.d., Ljubljana (the "**Co-Lead Manager**") and together with the Sole Lead Manager, the "**Managers**") and the Issuer have entered into a subscription agreement dated 21 November 2022 (the "**Subscription Agreement**") in which the Sole Lead Manager agrees, subject to customary closing conditions and the terms of the Subscription Agreement, to subscribe for the Notes on a firm commitment basis. The Sole Lead Manager will be entitled, under certain circumstances, to terminate the Subscription Agreement. In such event, no Notes will be delivered to investors.

The Sole Lead Manager has undertaken, subject to certain customary closing conditions and the terms of the Subscription Agreement, to purchase Notes which remain unplaced during the offering (bookbuilding) of the Notes, if any. Any such Notes purchased by the Sole Lead Manager may subsequently be sold to investors in the secondary market.

The Issuer has agreed in the Subscription Agreement to indemnify BofA Securities Europe SA against certain liabilities in connection with the offer and sale of the Notes. The Issuer has furthermore agreed to pay certain fees to BofA Securities Europe SA in connection with the offering, placement and subscription of the Notes and to reimburse BofA Securities Europe SA for certain expenses incurred in connection with the issue of the Notes.

### Selling Restrictions

#### General

The Managers have acknowledged that other than explicitly mentioned in this Offering Circular 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.

Each Manager has represented and agreed that it will comply with all applicable laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes any offering material relating to them.

#### European Economic Area

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. 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.

#### 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 under the Securities Act ("**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.

The Managers have represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes (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**

### *Prohibition of Sales to UK Retail Investors*

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the UK. 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

### *Other regulatory restrictions*

Each Manager has further represented and agreed 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 any 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 any Notes in, from or otherwise involving the UK.

## **Switzerland**

The offering of the Notes in Switzerland is exempt from requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("**FinSA**"), because the Notes will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Circular does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes.

## GENERAL INFORMATION

**Interest of Natural and Legal Persons involved in the Issue/Offer:** Certain of the Managers and their affiliates may be customers of, borrowers from or creditors of the Issuer and/or its affiliates. In addition, certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or its affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. The Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer, other members of the Group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and / or instruments of the Issuer or the Issuer's affiliates. The Managers and/or their affiliates may receive allocations of Notes (subject to customary closing conditions), which could affect future trading of the Notes. The Managers or certain of their affiliates that have a lending relationship with the Issuer and / or the Issuer's affiliates routinely hedge their credit exposure to the Issuer and / or the Issuer's affiliates consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Managers and their affiliates may also make investment recommendations and / or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and / or short positions in such securities and instruments.

**Authorisations:** The creation and issue of the Notes has been authorised by a resolution of the Supervisory Board of the Issuer dated 11 November 2021 and resolution of the Management Board of the Issuer dated 21 November 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 7,050.

**Clearing System:** The Notes have been accepted for clearing and settlement through Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium and Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The Notes are freely transferable.

The Notes have the following securities codes:

ISIN: XS2413677464

Common Code: 241367746

**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](http://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](http://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) neither the Issuer nor the Managers has independently verified any such information and neither the Issuer nor the Managers accepts any responsibility for the accuracy thereof.

**Yield:** For the investors, the yield of the Notes until the Reset Date is 11.000 per cent. *per annum*, calculated on the basis of the Issue Price.

Such yields are calculated in accordance with the ICMA (International Capital Market Association) Method. The ICMA method determines the effective interest rate on notes by taking into account accrued interest on a daily basis.

The yield of the Notes for the Reset Period thereafter cannot be determined as of the date of this Offering Circular.

**Material Change:** There has been no material adverse change in the prospects or the financial position of the Issuer since 30 September 2022.

**Ratings:**

The Issuer has received the following ratings as of the date of this Offering Circular:

**International credit ratings**

<b>NLB</b>	<b>Rating</b>	<b>Outlook</b>
Standard & Poor's .....	BBB	Stable
Moody's <sup>(i)</sup> .....	Baa1	Stable

<sup>(i)</sup> Unsolicited rating.

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.

The Notes are expected to be rated as follows:

- BB by Standard and Poor's

## 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 66 to 110 of the NLB Group Interim Report Q3 2022, containing the unaudited consolidated financial statements of the Issuer in respect of the nine months ended 30 September 2022 (the "**NLB Group Interim Report Q3 2022**").

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](http://www.nlb.si)) and the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

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