We believe in this region's potential

Pillar 3 Disclosures | 2021

Contents

1. Key highlights

(Article 438 b and 447 of CRR)

Table 1 – EU KM Key metrics template of NLB Group

		31.12.2021	30.09.2021	30.06.2021	31.03.2021	31.12.2020
		a	b	c	d	e
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,959,601	1,891,439	1,879,419	1,734,201	1,753,448
2	Tier 1 capital	1,965,551	1,905,247	1,885,268	1,739,075	1,768,062
3	Total capital	2,252,490	2,200,649	2,172,353	2,025,437	2,065,463
	Risk-weighted exposure amounts					
4	Total risk exposure amount (TREA)	12,667,408	12,824,373	12,755,591	12,615,065	12,421,028
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	15.47%	14.93%	14.73%	13.75%	14.12%
6	Tier 1 ratio	15.52%	15.04%	14.78%	13.79%	14.23%
7	Total capital ratio	17.78%	17.37%	17.03%	16.06%	16.63%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.75%	2.75%	2.75%	2.75%	2.75%
EU 7b	of which: to be made up of CET1 capital	1.55%	1.55%	1.55%	1.55%	1.55%
EU 7c	of which: to be made up of Tier 1 capital	2.06%	2.06%	2.06%	2.06%	2.06%
EU 7d	Total SREP own funds requirements	10.75%	10.75%	10.75%	10.75%	10.75%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50%	2.50%	2.50%	2.50%	2.50%
EU 10a	Other Systemically Important Institution buffer	1.00%	1.00%	1.00%	1.00%	1.00%
11	Combined buffer requirement	3.50%	3.50%	3.50%	3.50%	3.50%
EU 11a	Overall capital requirements	14.25%	14.25%	14.25%	14.25%	14.25%
12	CET1 available after meeting the total SREP own funds requirements	749,864	661,260	661,260	529,462	567,240
	Leverage ratio					
13	Total exposure measure	19,229,497	19,145,896	21,767,392	22,958,066	22,603,903
14	Leverage ratio	10.22%	9.95%	8.66%	7.58%	7.82%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Total SREP leverage ratio requirements	3.14%	3.14%	3.14%	3.00%	-
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	3.14%	3.14%	3.14%	3.00%	-
EU 14e	Overall leverage ratio requirement	3.14%	3.14%	3.14%	3.00%	-
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	5,174,269	5,063,883	4,912,483	4,754,938	4,493,341
EU 16a	Cash outflows - Total weighted value	2,551,704	2,420,081	2,259,409	2,079,145	1,875,194
EU 16b	Cash inflows - Total weighted value	590,383	550,236	478,443	410,137	379,425
16	Total net cash outflows	1,961,279	1,869,802	1,780,866	1,668,894	1,495,611
17	Liquidity coverage ratio	263.92%	271.86%	277.78%	287.02%	302.88%
	Net Stable Funding Ratio					
18	Total available stable funding	18,446,656	18,170,538	18,031,347	16,758,272	16,514,623
19	Total required stable funding	9,960,818	9,667,399	9,484,900	10,119,584	9,966,839
20	NSFR ratio	185.19%	187.96%	190.11%	165.60%	165.70%

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

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

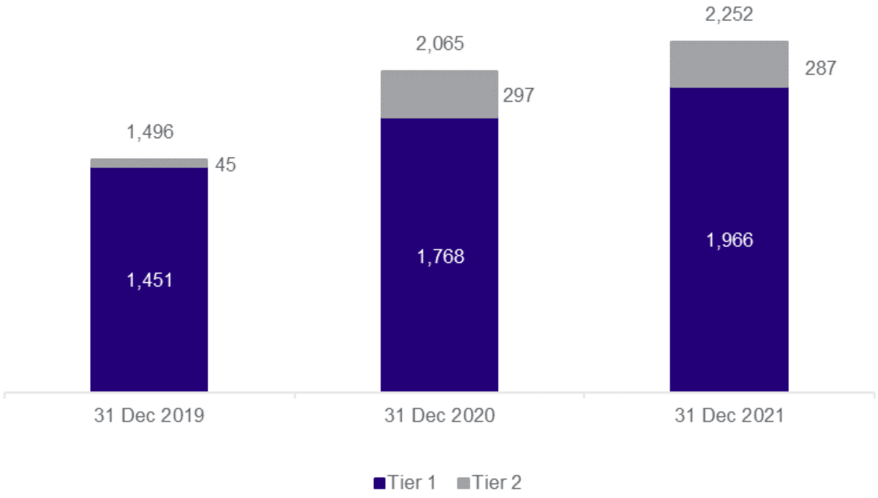


Figure 2: Total capital and capital ratio evolution YoY of NLB Group

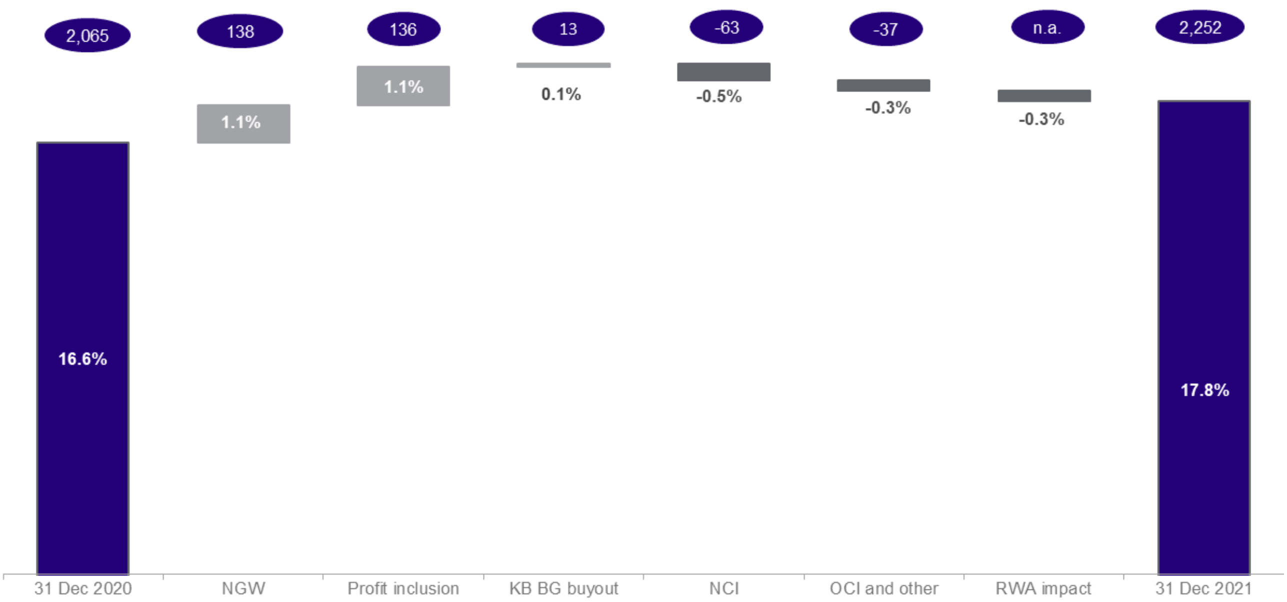
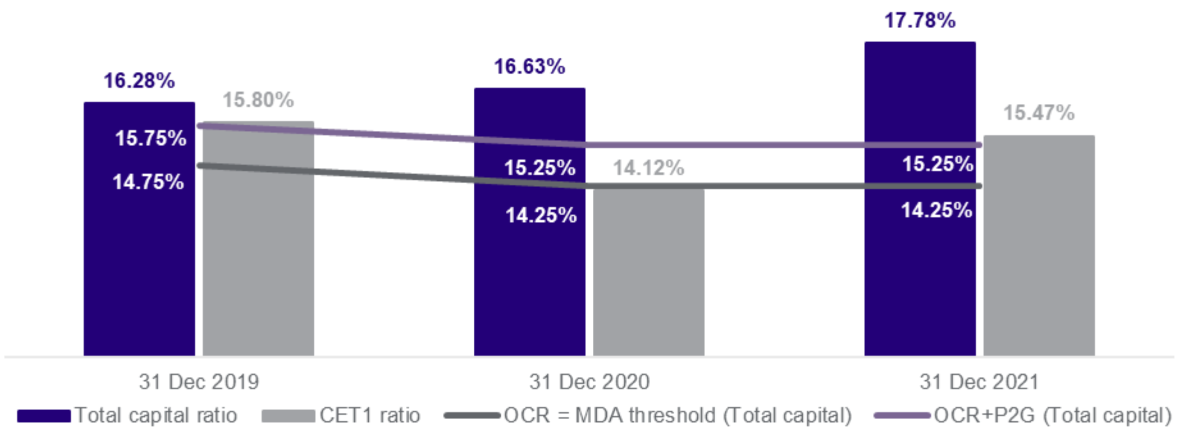


Figure 3: Capital ratios and regulatory thresholds (in %) of NLB Group



Statement of Management of Risk

(Article 435 e and f of CRR)

NLB's Management Board and Supervisory Board provide herewith a concise statement of the Risk Management according to Article 17 of the Decision on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks (Official Gazette of the RoS, no. 73/2015 and 115/2021), Regulation (EU) 575/2013, article 435 (Risk management objectives and policies), point (e) and (f), as well as EBA Guidelines on Internal Governance (EBA/GL/2021/05), and EBA Guidelines on Disclosure requirements (EBA GL/2016/11).

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

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

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

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

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

The Group is one of the largest Slovenian banking and financial groups with an important presence in the SEE region. In accordance with its strategic orientations intends to be a sustainably profitable, predominantly working with clients on its core markets, providing innovative but simple customer-oriented solutions and actively contributing to a more balanced and inclusive economic and social system. The Group has a well-diversified business model. Efficient managing of risks and capital is crucial for the Group to sustain long-term profitable operations. Based on the Group's business strategy, credit risk is the dominant risk category, followed by credit spread risk on banking book portfolio, interest rate risk in banking book, operational risk, liquidity risk, market risk, and other non-financial risks. Regular risk identification and their assessment is performed within ICAAP process with the aim of assuring their overall control and effective Risk Management on an ongoing basis.

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

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

Sustainable ESG financing in accordance with Environmental and Social Management System (ESMS) will be integrated in the Group's Risk appetite statement in the year 2022. Additional key risk indicators and targets in the area of ESG are going to be addressed based on NLB Group Sustainability programme and ESMS.

The values of the most important risk appetite indicators of the Group, as at the end of year 2021, reflecting the interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile, were following:

- Total capital ratio 17.8%,
- Tier 1 capital ratio 15.5%,
- Common Equity Tier 1 ratio (CET1) 15.5%,
- Leverage ratio 10.2%,
- Cost of risk -41 bps,
- The share of non-performing exposure (NPE%) by EBA 1.7%,
- Non-performing loans coverage ratio 2 (NPL CR 2) 57.9%,
- Loan-to-deposit ratio (LTD) 60.0%,
- LCR 252.6%,
- NSFR 185.2%,
- EVE sensitivity (of 200 bps) -6.4% of capital,
- Transactional FX risk 1.10% of capital,
- Net losses from operational risk 1.6% of capital requirement for operational risk.

COVID-19 did not have a meaningful impact on the quality of the credit portfolio. The Group is compliant with EBA guidelines on payment moratoria and is very prudent in identifying any increase in credit risk. The vast schemes introduced by the governments in the Group countries providing moratoriums to eligible clients as part of the COVID-19 pandemic measures had been phasing out during the 2021. With respect to the COVID-19 pandemic and its implications on the business environment, the Group faced growing excess liquidity and managed to stay well capitalised.

Consequently, the Group concluded the year 2021 as selffunded, with a strong liquidity and solid capital position, demonstrating the Group's financial resilience. The acquired Komercijalna Banka group has a similar business model to the Group's, and so, its impact on the Group's risk profile at the end of the year 2020 was moderate with no other major impacts during the year 2021. Otherwise, there were no other transactions of sufficiently material nature to impact on the Group's risk profile or distribution of the risks on the Group level.

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

Ljubljana, 11 April 2022

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Blaž Brodnjak
CEO & CMO

2. Introduction

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

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

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

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

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

Areas covered

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

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

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

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

Frequency of disclosures and media

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

Verifications and source of information

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

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

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

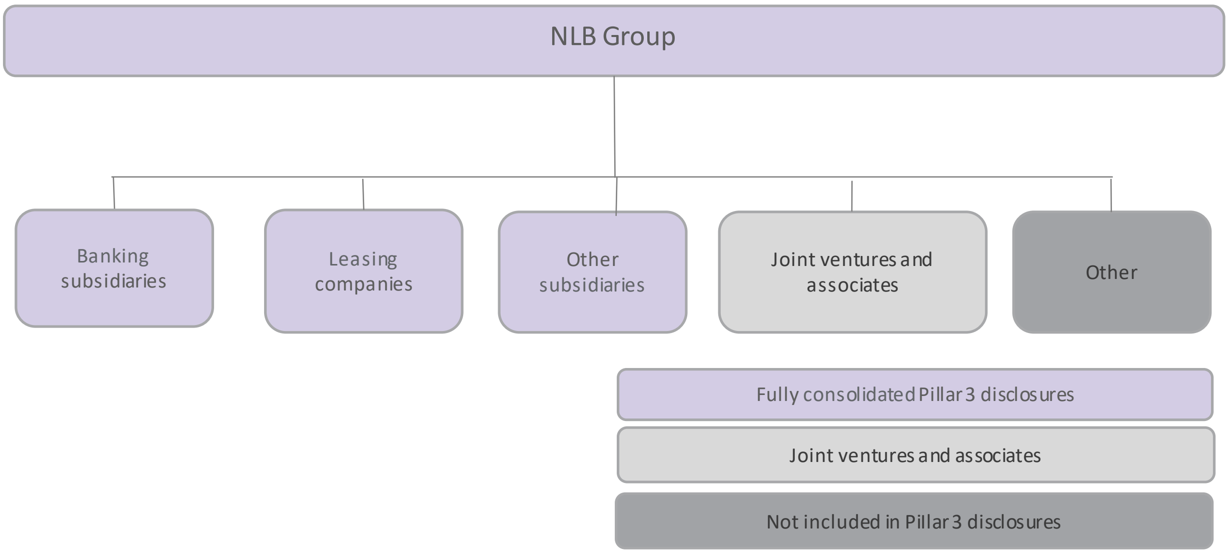
It should be noted that while some quantitative information in this document is based on financial data contained in the 2021 NLB Group Annual Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the 2021 NLB Group Annual Report. Some details of the key differences between the Group's accounting and regulatory exposures are presented in Table 2 – EU CC2.

3. Scope of application

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

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

Picture 4: NLB Group scheme



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

Table EU CC2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the 2021 NLB Group Annual Report, and under the scope of regulatory consolidation.

The differences between the scope of consolidation for regulatory and accounting purposes (pursuant to the IFRS) of NLB Group (entity by entity) as at 31 December 2021 are shown in Table EU LI3 (disclosed in Appendix 3). The consolidation for *accounting purposes* comprises all:

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

In contrast to the accounting consolidation, the *regulatory consolidation* includes only (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings and asset management companies. As regards NLB Group, this means that the regulatory consolidation does not include entity operating in the area of other activities (ZUKD – The NLB Cultural Heritage Management Institute).

The difference between accounting consolidation and regulatory consolidation as at 31 December 2021 represents the company operating in the area of other activities ZUKD which is not included in regulatory consolidation in accordance with Article 4 of CRR. Companies from the Prvi Faktor Group (see Table 63 – EU LI3) are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amount to zero. More details are disclosed in the 2021 NLB Group Annual Report – note 5.12 d Analysis by type of investment in associates and joint ventures (page 242).

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

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to rows in CC1
		31.12.2021	31.12.2021	
		a	b	c
Assets - *Breakdown by asset clases according to the balance sheet in the published financial statements*				
1	Cash, cash balances at central banks and other demand deposits at banks	5,005,052	5,005,051	
2	Financial assets held for trading	7,678	7,678	
3	Non-trading financial assets mandatorily at fair value through profit or loss	21,161	21,161	
4	Financial assets measured at fair value through other comprehensive income	3,461,860	3,461,860	72
5	Financial assets measured at amortised cost			
6	- debt securities	1,717,626	1,717,626	72
7	- loans and advances to banks	140,683	140,683	
8	- loans and advances to customers	10,587,121	10,587,121	
9	- other financial assets	122,229	122,229	
10	Derivatives - hedge accounting	568	568	
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	7,082	7,082	
12	Investments in subsidiaries	-	10	
13	Investments in associates and joint ventures	11,525	11,525	73
14	Tangible assets			
15	Property and equipment	247,014	246,537	
16	Investment property	47,624	47,624	
17	Intangible assets	59,076	59,064	
18	Goodwill	3,529	3,529	8
19	Other intangible assets	55,547	55,535	8
20	Current income tax assets	3,948	3,948	
21	Deferred income tax assets	38,977	38,977	75
22	that rely on future profitability and arise from temporary differences	38,977	38,977	75
23	Other assets	91,221	91,022	
24	Non-current assets held for sale	7,051	7,051	
25	**Total assets**	**21,577,496**	**21,576,817**	
Liabilities - *Breakdown by liability clases according to the balance sheet in the published financial statements*				
26	Financial liabilities held for trading	7,585	7,585	
27	Financial liabilities measured at amortised cost			
28	- deposits from banks and central banks	71,828	71,828	
29	- borrowings from banks and central banks	858,531	858,531	
30	- due to customers	17,640,809	17,640,864	
31	- borrowings from other customers	74,051	74,051	
32	- subordinated liabilities	288,519	288,519	46
33	- other financial liabilities	206,878	206,960	
34	Derivatives - hedge accounting	35,377	35,377	
35	Provisions	119,404	119,404	
36	Current income tax liabilities	5,878	5,878	
37	Deferred income tax liabilities	3,045	3,045	
38	Other liabilities	49,468	49,456	
39	**Total liabilities**	**19,361,373**	**19,361,498**	
Shareholders' Equity				
40	Share capital	200,000	200,000	1
41	Share premium	871,378	871,378	1
42	Accumulated other comprehensive income	(10,552)	(10,091)	3
43	Profit reserves	13,522	13,522	3
44	**Retained earnings**	**1,004,385**	**1,003,120**	**2**
		2,078,733	**2,077,929**	
45	Non-controlling interests	137,390	137,390	5; 34; 48
46	**Total shareholders' equity**	**2,216,123**	**2,215,319**	
47	**Total liabilities and shareholders' equity**	**21,577,496**	**21,576,817**	

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

	31.12.2021	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items			
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
		a	b	c	d	f	g
1	Cash, cash balances at central banks, and other demand deposits at banks	5,005,052	5,005,051	5,005,051	-	-	-
2	Financial assets held for trading	7,678	7,678	-	7,678	7,678	-
3	Non-trading financial assets mandatorily at fair value through profit or loss	21,161	21,161	21,161	-	-	-
4	Financial assets measured at fair value through other comprehensive income	3,461,860	3,461,860	3,461,860	-	-	-
5	Financial assets measured at amortised cost						
6	- debt securities	1,717,626	1,717,626	1,709,201	-	-	8,425
7	- loans and advances to banks	140,683	140,683	140,683	-	-	-
8	- loans and advances to customers	10,587,121	10,587,121	10,587,061	-	-	60
9	- other financial assets	122,229	122,229	122,229	-	-	-
10	Derivatives - hedge accounting	568	568	-	-	-	-
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	7,082	7,082	-	-	-	-
12	Investments in subsidiaries	-	10	10	-	-	-
13	Investments in associates and joint ventures	11,525	11,525	11,525	-	-	-
14	Tangible assets						
15	Property and equipment	247,014	246,537	246,537	-	-	-
16	Investment property	47,624	47,624	47,624	-	-	-
17	Intangible assets	59,076	59,064	16,419	-	-	42,645
18	Current income tax assets	3,948	3,948	3,948	-	-	-
19	Deferred income tax assets	38,977	38,977	38,977	-	-	-
20	Other assets	91,221	91,022	91,022	-	-	-
21	Non-current assets held for sale	7,051	7,051	7,051	-	-	-
22	**TOTAL ASSETS**	**21,577,496**	**21,576,817**	**21,510,359**	**7,678**	**7,678**	**51,130**
23	Financial liabilities held for trading	7,585	7,585	-	7,585	7,585	-
24	Financial liabilities measured at amortised cost						
25	- deposits from banks and central banks	71,828	71,828	-	-	-	-
26	- borrowings from banks and central banks	858,531	858,531	-	-	-	-
27	- due to customers	17,640,809	17,640,864	-	-	-	-
28	- borrowings from other customers	74,051	74,051	-	-	-	-
29	- subordinated liabilities	288,519	288,519	-	-	-	-
30	- other financial liabilities	206,878	206,960	-	-	-	-
31	Derivatives - hedge accounting	35,377	35,377	-	35,377	-	-
32	Provisions	119,404	119,404	-	-	-	-
33	Current income tax liabilities	5,878	5,878	-	-	-	-
34	Deferred income tax liabilities	3,045	3,045	-	-	-	-
35	Other liabilities	49,468	49,456	-	-	-	-
36	**TOTAL LIABILITIES**	**19,361,373**	**19,361,498**	**-**	**42,962**	**7,585**	**-**
37	**EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT**						
38	Share capital	200,000	200,000	-	-	-	-
39	Share premium	871,378	871,378	-	-	-	-
40	Accumulated other comprehensive income	(10,552)	(10,091)	-	-	-	-
41	Profit reserves	13,522	13,522	-	-	-	-
42	Retained earnings	1,004,385	1,003,120	-	-	-	-
		2,078,733	**2,077,929**	**-**	**-**	**-**	**-**
43	Non-controlling interests	137,390	137,390	-	-	-	-
44	**TOTAL EQUITY**	**2,216,123**	**2,215,319**	**-**	**-**	**-**	**-**
45	**TOTAL LIABILITIES AND EQUITY**	**21,577,496**	**21,576,817**	**-**	**42,962**	**7,585**	**-**

Table 3 (EU LI 1) provides the reconciliation of the accounting consolidated financial statements (as presented in the 2021 NLB Group Annual Report (Audited Financial Statements of NLB Group Pursuant to the International Financial Reporting Standards as adopted by the European Union) with the regulatory consolidated financial statements. Certain assets can be subject to multiple RWA frameworks. The details of items not subject to capital requirement or subject to deduction from capital or explanation of differences with the comparative period are explained below:

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

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

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

	31.12.2021	Total	Items subject to		
			Credit risk framework	CCR framework	Market risk framework
		a	b	d	e
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**21,525,715**	**21,510,359**	**7,678**	**7,678**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**(50,547)**	**-**	**(42,962)**	**(7,585)**
3	**Total net amount under the scope of prudential consolidation**	**21,475,168**	**21,510,359**	**(35,284)**	**93**
4	**Off-balance-sheet amounts**	**3,562,389**	**3,562,389**	**-**	**-**
5	*Differences in valuations*	29,949	-	29,949	-
12	**Exposure amounts considered for regulatory purposes**	**25,067,506**	**25,072,748**	**(5,335)**	**93**

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

4. Capital and capital requirements

4.1. Capital adequacy

(Article 438 b of CRR)

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

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

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

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

Table 5 – Capital requirements and buffers of NLB Group

		2021	from 12 March 2020 onwards	as at 1 January till 11 March 2020
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%
Pillar 2 (P2R)	CET1	1.55%	1.55%	2.75%
	Tier 1	2.06%	2.06%	2.75%
	Total Capital	2.75%	2.75%	2.75%
Total SREP Capital requirement (TSCR)	CET1	6.05%	6.05%	7.25%
	Tier 1	8.06%	8.06%	8.75%
	Total Capital	10.75%	10.75%	10.75%
Combined buffer requirement (CBR)				
Capital Conservation buffer	CET1	2.5%	2.5%	2.5%
O-SII buffer	CET1	1.0%	1.0%	1.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	9.55%	10.75%
	Tier 1	11.56%	11.56%	12.25%
	Total Capital	14.25%	14.25%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.55%	10.55%	11.75%

In 2021, NLB was required to maintain the OCR at the level of 14.25% on the consolidated basis, consisting of:

- 10.75% TSCR (8% P1R and 2.75% P2R); and
- 3.5% CBR (2.5% Capital conservation buffer, 1% O-SII buffer and 0% Countercyclical buffer).

Pillar 2 Guidance (P2G) which should be comprised entirely of CET1 capital, remains at a relatively low level 1.0%.

On 2 February 2022, the ECB issued a new SREP decision for the Bank under which it has reduced the P2R from 2.75% to 2.60%, while P2G remains at 1.00%. The new SREP decision shall apply as at 1 March 2022. Consequently, the Bank is as at this date required to maintain the OCR at the level of 14.10% on a consolidated basis, consisting of (i) 10.60% TSCR, and (ii) 3.5% CBR.

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

Table 6 – Capital adequacy of NLB Group:

	31.12.2021	30.09.2021	31.12.2020
Paid up capital instruments	200,000	200,000	200,000
Share premium	871,378	871,378	871,378
Retained earnings	767,152	766,466	552,146
Current result	135,968	-	63,635
Accumulated other comprehensive income	(10,091)	15,756	21,588
Other reserves	13,522	13,522	13,522
Minority interest	27,905	62,029	71,562
Prudential filters: Additional Valuation Adjustments (AVA)	(3,498)	(3,568)	(3,632)
(-) Goodwill	(3,529)	(3,529)	(3,529)
(-) Other intangible assets	(39,116)	(30,522)	(33,222)
(-) Insufficient coverage for non-performing exposures	(90)	(93)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,959,601**	**1,891,439**	**1,753,448**
Minority interest	5,950	13,808	14,614
Additional Tier 1 capital	**5,950**	**13,808**	**14,614**
TIER 1 CAPITAL	**1,965,551**	**1,905,247**	**1,768,062**
Capital instruments and subordinated loans eligible as T2 capital	284,595	284,595	284,595
Minority interest	2,344	10,807	12,806
Tier 2 capital	**286,939**	**295,402**	**297,401**
TOTAL CAPITAL	**2,252,490**	**2,200,649**	**2,065,463**
Risk exposure amount for credit risk	10,205,172	10,648,018	10,222,923
Risk exposure amount for market risks	1,206,363	1,228,663	1,250,563
Risk exposure amount for CVA	11,850	350	200
Risk exposure amount for operational risk	1,244,023	947,342	947,342
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,667,408**	**12,824,373**	**12,421,028**
Common Equity Tier 1 Ratio	15.5%	14.7%	14.1%
Tier 1 Ratio	15.5%	14.9%	14.2%
Total Capital Ratio	**17.8%**	**17.2%**	**16.6%**

The TCR for the Group stood at 17.8% (or 1.2 p.p. higher than at the 2020 YE), and for NLB at 24.6% (or 2.5 p.p. lower than at the 2020 YE). As at 31 December 2021, the CET1 ratio stood at 15.5% (1.4 p.p. YoY increase). The higher NLB Group total capital adequacy compared to the end of 2020 derives from higher capital (increase of EUR 187.0 million YoY) which compensated RWA increase of EUR 246.4 million YoY for the Group. Higher RWA derives from the increase of RWA for operational risk. Total capital increased mainly due to inclusion of negative goodwill in retained earnings in the amount of EUR 137.9 million and partial inclusion of 2021 profit (EUR 136.0 million).

The drivers behind the differences between the RWAs in year 2021 are explained in Chapter 4.3 Capital requirements in the Table 8 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group.

Dividend distribution

Due to the ECB regulation/BoS decision valid till 30 September 2021, the dividend payout in 2021 was split into two tranches. The first instalment in the amount of EUR 12.0 million was paid on 22 June 2021, while the second was paid in the amount of EUR 12.8 million after expiry of the BoS decision on 18 October 2021. Besides that, the Bank paid on 24

December 2021 additional incremental dividend in the amount of EUR 67.4 million, contributing to the 2021 cumulative pay-out of EUR 92.2 million.

The Bank's general intention is to distribute dividends on yearly basis in line with its capacity, while at the same time fulfilling all regulatory requirements, including the P2G and risk appetite. 2021 YE capital calculation does not include part of the 2021 result in the amount of EUR 100.0 million. Therefore, there will be no effect on the capital in case the dividends are paid.

Increase of shareholding in Komercijalna banka Beograd
On 10 March 2021, NLB announced the takeover bid in the Republic of Serbia for the acquisition of all remaining regular and priority shares of Komercijalna banka Beograd. The acceptance period in the takeover bid closed on 9 April 2021. The Bank acquired additional 801,876 ordinary shares; after the closing the Bank held combined 14,799,562 ordinary shares (87.99858% of voting rights). The Bank also acquired 57,250 preferred shares; after the closing the Bank held 57,250 (15.32757%) of this class of shares. The purchase price was RSD 2.7 billion (EUR 23.1 million).

In May 2021, the Bank, trough public offer, has acquired additional 47,485 ordinary shares and increased its share of voting rights to 88.28093% as at 31 December 2021. The purchase price was RSD 157.4 million (EUR 1.3 million).

4.2. Detailed presentation of capital elements

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

The table below shows in detail the elements of the calculation of the capital of NLB Group at the end of 2021. A summarised substantive presentation of the elements relevant for NLB Group is given in Chapter 4.1. Capital adequacy.

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

Table 7 – EU CC1 – Composition of regulatory own funds

	31.12.2021	Amounts	Source based on reference numbers (CC2 column b)
		a	b
Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,071,378	42 + 43
	of which: ordinary shares	1,071,378	42 + 43
2	Retained earnings	903,120	part of 46
3	Accumulated other comprehensive income (and other reserves)	3,431	44 + 45
5	Minority interest (amount allowed in consolidated CET1)	27,905	part of 47
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,005,834**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(3,498)	
8	Intangible assets (net of related tax liability) (negative amount)	(42,645)	17 + part of 19
27a	Other regulatory adjustments	(90)	
27a1	Deduction item related to insufficient coverage for non-performing exposures	(90)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(46,233)**	
29	**Common Equity Tier 1 (CET1) capital**	**1,959,601**	
Additional Tier 1 (AT1) capital: instruments			
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	5,950	part of 47
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**5,950**	
44	**Additional Tier 1 (AT1) capital**	**5,950**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**1,965,551**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	284,595	part of 34
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	2,344	part of 47
51	**Tier 2 (T2) capital before regulatory adjustments**	**286,939**	
58	**Tier 2 (T2) capital**	**286,939**	
59	**Total capital (TC = T1 + T2)**	**2,252,490**	
60	**Total risk exposure amount**	**12,667,408**	
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital ratio	15.47%	
62	Tier 1 capital ratio	15.52%	
63	**Total capital ratio**	**17.78%**	
64	Institution CET1 overall capital requirements	9.55%	
65	of which: capital conservation buffer requirement	2.50%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	9.47%	
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	73,762	part of 4 and part of 6
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	11,525	13
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	38,977	24

4.3. Capital requirements
(Article 438 d and 445 of CRR)

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

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

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

Table 8 shows the detailed composition of the risk weighted exposure amounts of NLB Group at the end of 2021, at the end of September 2021, and at the end of 2020; and also, composition of own fund (capital) requirements at the end of 2021.

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

		Total risk exposure amounts (TREA)			Total own funds requirement
		31.12.2021	30.09.2021	31.12.2020	31.12.2021
		a	b	b-3	c
1	**Credit risk (excluding CCR)**	**10,049,886**	**10,512,377**	**10,095,394**	**803,991**
2	of which the standardised approach	10,049,886	10,512,377	10,095,394	803,991
6	**Counterparty credit risk - CCR**	**40,881**	**34,386**	**28,286**	**3,270**
7	of which the standardised approach	29,031	34,036	28,086	2,322
EU 8b	of which credit valuation adjustment - CVA	11,850	350	200	948
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,206,363**	**1,228,663**	**1,250,563**	**96,509**
21	of which the standardised approach	1,206,363	1,228,663	1,250,563	96,509
23	**Operational risk**	**1,244,023**	**947,342**	**947,342**	**99,522**
EU 23a	of which basic indicator approach	1,244,023	947,342	947,342	99,522
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**126,255**	**101,605**	**99,443**	**10,100**
29	**Total**	**12,667,408**	**12,824,373**	**12,421,028**	**1,013,393**

In 2021, the RWA for Credit risk decreased by EUR 17.8 million (lines 2, 7, and 24 in Table 8). On one hand, the factors to increase were loan growth to the corporates and retail, new investments in subordinated, state and EU institutions bonds. On the other hand, the increase was compensated by regulatory changes – namely the inclusion of Bosnia and Herzegovina, and North Macedonia on EBA's third party equivalent list, legislation criteria changes for the CRR collateral adequacy, signing of additional guarantee agreements with MIGA as well as changed investment policy such as the shift of some liquid assets from the central governments to lower risk-weighted counterparties (NLB Banka, Prishtina, NLB Banka, Podgorica) or optimisation of deposits with banks (Komercijalna Banka, Beograd). Furthermore, successful recovery of NPL clients, where the biggest part represented repayments by a large client, contributed to the RWA decrease, while in contrast RWA for high-risk exposures is higher mainly due to new project finance loans.

The RWA for market risk decreased by EUR 32.6 million YoY (lines EU 8b and 21 in Table 8) due to a lower fixed income position in the trading book. In contrast, RWA for FX risk increased by EUR 35.3 million YoY and RWA for CVA increased by EUR 10.7 million, EUR 10.6 million of which was because of new regulatory requirements which became effective from June 2021 onward (calculation of original exposure method (OEM) with residual maturity).

The increase in the RWA for operational risks (EUR 296.7 million YoY) derives from the higher three-year average of relevant income, as defined in Article 316 of CRR, which represents the basis for the calculation. The main reason for increased relevant income was acquisition of Komercijalna Banka, Beograd in December 2020.

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

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

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

As at 1 January 2024, the Bank must comply with MREL requirement of 34.88% of Total Risk Exposure Amount (TREA) (including Combined Buffer Requirement) and 9.97% of the Total Exposure Measure (TEM). The Bank has to ensure a linear build-up of own funds and eligible liabilities towards MREL requirement; and a linear build-up of own funds and eligible liabilities towards MREL requirement and must comply as at 1 January 2022 of 28.69% TREA (including CBR) and 8.03% TEM.

As at 31 December 2021, the MREL ratio was 30.12% as percentage of TREA compared to an interim requirement of 28.69% of TREA (with CBR). This means the Bank has a MREL surplus of EUR 84.5 million above its interim MREL requirement. Expressed as percentage of the TEM, the Bank ratio was 13.36%, while the interim requirement is 8.03% of TEM.

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

	31.12.2021	Minimum requirement for own funds and eligible liabilities (MREL)
		a
	Own funds and eligible liabilities, ratios and components	
1	Own funds and eligible liabilities	1,769,663
EU-1a	Of which own funds and subordinated liabilities	1,704,663
2	Total risk exposure amount of the resolution group (TREA)	5,875,244
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	30.12%
EU-3a	Of which own funds and subordinated liabilities	29.01%
4	Total exposure measure of the resolution group	13,243,533
5	Own funds and eligible liabilities as percentage of the total exposure measure	13.36%
EU-5a	Of which own funds or subordinated liabilities	12.87%
	Minimum requirement for own funds and eligible liabilities (MREL)	
EU-7	MREL requirement expressed as percentage of the total risk exposure amount	28.69%
EU-9	MREL requirement expressed as percentage of the total exposure measure	8.03%

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

Composition of own funds and eligible liabilities
As at 31 December 2021, the Bank's available own funds and eligible liabilities amounted to EUR 1,769.6 million, consisting of EUR 1,704.2 million own funds (CET1 and Tier 2 bonds) and EUR 65.4 million of eligible deposits and other eligible liabilities. The Bank is fulfilling MREL requirement predominantly with capital. Only 3.7% of the MREL capacity is fulfilled with eligible liabilities, which are not subordinated (MREL deposits).

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

	31.12.2021	Minimum requirement for own funds and eligible liabilities (MREL)	Memo item: Amounts eligible for the purposes of MREL, but not TLAC
		a	c
	Own funds and eligible liabilities and adjustments		
1	Common Equity Tier 1 capital (CET1)	1,419,663	-
2	Additional Tier 1 capital (AT1)	-	-
6	Tier 2 capital (T2)	284,595	-
11	Own funds for the purpose of Articles 92a CRR and 45 BRRD	1,704,258	-
	Own funds and eligible liabilities: Non-regulatory capital elements		
EU-12c	Tier 2 instruments with a residual maturity of at least one year to the extent they do not qualify as Tier 2 items	405	-
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre cap)	65,000	-
17	Eligible liabilities items before adjustments	65,405	65,405
EU-17a	Of which subordinated	405	405
	Own funds and eligible liabilities: Adjustments to non-regulatory capital elements		
18	Own funds and eligible liabilities items before adjustments	1,769,663	1,769,663
22	Own funds and eligible liabilities after adjustments	1,769,663	-
EU-22a	Of which own funds and subordinated	1,704,663	-
	Risk-weighted exposure amount and leverage exposure measure of the resolution group		
23	Total risk exposure amount	5,875,244	-
24	Total exposure measure	13,243,533	-
	Ratio of own funds and eligible liabilities		
25	Own funds and eligible liabilities (as a percentage of total risk exposure amount)	30.12%	-
EU-25a	Of which own funds and subordinated	29.01%	-
26	Own funds and eligible liabilities (as a percentage of total exposure measure)	13.36%	-
EU-26a	Of which own funds and subordinated	12.87%	-
27	CET1 (as a percentage of TREA) available after meeting the resolution group's requirements	24.16%	-

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

As at 31 December 2021, 16.8% of the volume of own funds end eligible liabilities represented subordinated Tier 2 bonds, with original maturity of 10 years and prepayment option after 5 years. The currency is the Euro.
A description of the main features of the subordinated Tier 2 bonds issued by the Bank and being eligible for MREL purpose is published on Bank's website (**https://www.nlb.si/debt-instruments**) and in Appendix 4.

As at 31 December 2021, the Bank had total of EUR 65 million of MREL eligible deposits, of which: EUR 20 million with a maturity of over 1 year and up to 2 years, EUR 40 million with a maturity above 2 years and up to 5 years and EUR 5 million with a maturity above 5 years.

Ranking in the creditor hierarchy and maturity (Article 230 of the Resolution and Compulsory Winding-Up of Banks Act (ZRPPB-1))
The following table provides a simplified overview of the reverse ranking of liabilities in an insolvency proceeding under Slovenian law for the MREL reporting purpose.

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

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

As at 31 December 2021, the Bank had the following composition of capital items and qualifying liabilities with which it meets the MREL requirement, as Table 12 shows:

Type of instrument	Classification of repayment in ordinary insolvency proceedings
Common Equity Tier 1 instruments: Ordinary shares (ISIN SI0021117344)	After repayment of all other liabilities
Additional capital instruments: Subordinated bonds for inclusion in additional capital (ISIN SI0022103855) Subordinated bonds for inclusion in additional capital (ISIN XS2080776607) Subordinated bonds for inclusion in additional capital (ISIN XS2113139195)	Before repayment of Common Equity Tier 1 instruments, Additional Tier 1 instruments, and after repayment of all other liabilities
Eligible liabilities: MREL eligible deposits	After repayment of all liabilities from items 1 to 6 of the second paragraph of Article 230 of ZRPPB-1 and before repayment of additional capital instruments.

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

		Insolvency ranking			
	31.12.2021	1 (most junior)	2	6	Sum 1 to 12
1	Description of insolvency rank	Claims for instruments of ownership, including claims for instruments that were issued by a bank and meet the conditions for a bank's Common Equity Tier 1 instruments, and other subordinated claims repaid simultaneously with claims for instruments of ownership under the contractual arrangement in the event of proceedings for compulsory winding-up of a bank	Subordinated claims repaid under a contractual arrangement between the parties in the event of proceedings for compulsory winding-up of a bank after the repayment of the claims referred to in points 11 to 3	Bank deposits which are not deemed to be eligible or claims referred to in point 9, including: - deposits by banks and investment firms and other financial institutions made on their behalf and for their account - deposits by insurance undertakings, reinsurance undertakings and insurance holding companies - deposits by undertakings for collective investment in transferable securities, including investment undertkings of the closed-ended type - deposits by pension funds and pension companies - deposits by states and central banks and deposits by entities that are direct or indirect users of the state budget - deposits by local communities and deposits by direct and indirect users of the budgets of local communities	
5	Own funds and liabilities potentially eligible for meeting MREL	1,419,663	285,000	65,000	1,769,663
6	of which residual maturity ≥ 1 year < 2 years	-	-	20,000	20,000
7	of which residual maturity ≥ 2 year < 5 years	-	-	40,000	40,000
8	of which residual maturity ≥ 5 years < 10 years	-	285,000	5,000	290,000
9	of which residual maturity ≥ 10 years, but excluding perpetual securities	-	-	-	-
10	of which perpetual securities	1,419,663	-	-	1,419,663

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

(Article 438 a of CRR)

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

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

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

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

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

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

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

4.6. Capital instruments included in the capital

(Articles 437 b and c of CRR)

In 2021, the capital of NLB Group consisted of all three elements of capital (Common Equity Tier 1 capital, Tier 1 capital, and Tier 2 capital). The shares of the parent entity NLB are included in Common Equity Tier 1 capital and the subordinated Tier 2 notes issued in May 2019, November 2019, and February 2020 by NLB are included in Tier 2 capital. All three elements of capital also include Minority Capital (Non-controlling interest).

Subordinated liabilities for NLB Group are disclosed in the 2021 NLB Group Annual Report – note 5.15 c) Subordinated liabilities (page 256).

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

4.7. Risk factors and Outlook

Risk factors

The economic momentum in the region where the Group operates was affected by the COVID-19 pandemic. In 2021, the Group's region returned to growth on the back of revival in private and investment consumption. However, it is not possible to assume with a high degree of confidence that such economic momentum will continue.

Lending growth in the corporate segment remained relatively moderate, especially in the current circumstances. On the other hand, the Group benefited from increased demand for mortgage loan financing, especially in Slovenia, as well as in banking subsidiaries. During 2021 impacts of the COVID-19 pandemic did not have a meaningful impact on the credit portfolio quality. The Group faced a favourable NPL movement resulting in lower percentage of NPLs and positive effects from on- and off-balance sheet collection. Credit risk is usually materially increased in times of economic slowdown. Notwithstanding the established procedures in the Group's credit risk management, there can be no assurance that they will be sufficient to ensure that the Group's quality of credit portfolio or the corresponding impairments will remain at the adequate level in the future.

The investment strategy of the Group, referring to the Group's bond portfolio kept for liquidity purposes, adapts to the expected market trends in accordance with the set risk appetite. While the Group monitors its liquidity position and corresponding trends, impacts of credit spread and interest rate fluctuations on its positions, any significant and unanticipated movements on the markets or variety of factors, such as competitive pressures, customer's confidence or other certain factors outside the Group's control, could adversely affect the Group's operations and financial condition.

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

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

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

In this regard, the Group closely follows the macroeconomic indicators relevant to its operations:
- GDP trends and forecasts
- Economic sentiment
- Unemployment rate
- Consumer confidence
- Construction sentiment
- Deposit stability and growth of loans in the banking sector
- Credit spreads and related future forecasts
- Interest rate development and related future forecasts
- FX rates
- Other relevant market indicators

During 2021, the Group reviewed IFRS 9 provisioning by **testing a set of relevant macroeconomic scenarios** to adequately reflect the current circumstances and the related impacts in the future. The Group established and developed multiple scenarios (i.e. baseline, mild and severe) on the level of ECL calculation:

- The **baseline scenario** presents a common forecast macroeconomic view for all countries that are present in the Group. This scenario is constructed with the purpose to culminate various outlooks into a unified projection of macroeconomic and financial variables for the Group. This is in line with the concept that the Bank has a consolidated view on the future of economic development in SEE. The IFRS 9 baseline scenario is based on the NLB monthly Economic Outlook that was created in April 2021.
- The macroeconomic rationale behind the **alternative scenarios** is related to a range of plausible impacts of the COVID-19 pandemic on economic development during the next 3 years. The basis for the alternative scenarios is related to the ECB's view of economic development after the coronavirus outbreak since early 2020. Based on the ECB illustration of a mild and severe scenario resolution of the pandemic crisis through the lens of possible expected impact on economic activity in the Euro area, the Group developed both alternative scenarios. In general, the mild scenario envisions a resolution of the health crisis by the end of 2021 and a long-term reviving process of the economy, while a severe scenario assumes a more protracted crisis and permanent losses in economic potential. These scenarios were included in the calculation of ECL in accordance with IFRS 9 as of 30 June 2021. Apart from this the Group had kept track of the latest economic developments and changing official projections.
- The latest set of IFRS 9 scenarios for macroeconomic variables is applied in the modelling process for the probability of default (PD) and loss given default (LGD) estimates. Nevertheless, the focus in macroeconomic scenarios is on the trajectory of real GDP and the unemployment rate over the projection horizon from 2021 to 2023. Both variables are included in the modelling process of PD and LGD, respectively.

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

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

Outlook 2022

Macroeconomic

The global economy is expected to continue with the recovery in 2022. The impact of pandemic on economic activity has considerably waned over time, and it should further wane over the coming years. In the Euro area, output recovery is expected to continue in 2022. GDP growth is expected to moderate to 3.6% in 2022, with the re-opening effects set to fade out. Growth in the Euro area will be primarily driven by strong private consumption and business investment, which is expected to recover substantially, additionally supported by the Next Generation EU funds. The withdrawal of emergency support measures targeting firms and households should result in a tighter fiscal policy stance, while the ECB gives the impression of being headed for the exit from the accommodative monetary policy. Supply chain bottlenecks and the surge in energy prices are expected to sustain inflationary pressures in 2022 with inflation being projected to be higher. However, there are still some risks to the outlook. Despite the weakened impact of the pandemic on economic activity, it still represents some degree of risk. Furthermore, supply bottlenecks could be more severe, prolonged, and widespread than expected, while the emergence of new sources of supply bottlenecks is also possible. Protracted staff shortages could drag on economic activity and exacerbate supply chain issues. Inflation could continue to surprise on the upside and even more broad-based price increases could not be excluded. The latter could undermine households' purchasing power. Geopolitical tensions in Eastern Europe adds yet another layer to the overall pile of risks to the outlook. The war in Ukraine has several economic implications resulting in a renewed downside risks to global growth, with Europe being the most exposed in this regard. Elevated uncertainty, potential energy supply disruptions, more widespread commodity shortages and new supply chain disruptions will weigh on the economy. A surge in commodity prices, with oil and gas prices accelerating higher in particular, will push up inflation in the coming months. In fact, inflation could rise even further and remain elevated for longer due to commodity price surge and additionally due to second round effects, in terms of the impact on the underlying inflation, wage growth and higher inflation expectations. This erodes household purchasing power and together with a squeeze on company profits, and deteriorated business and consumer confidence will weigh on economic growth. Consequently, with elevated downside risks to growth and upside risks to inflation, the risks of stagflation have increased. Regarding the Group's region, the economic growth could be at around 3.7% in 2022. The recovery is expected to lose some momentum. Nevertheless, growth should be mainly driven by firming private consumption and investment. Tighter labour market could propel household spending and wage growth while further improvement in the tourism sector should be beneficial especially for tourism-dependent countries. That said, supply disruptions, and rising commodity and energy prices, which are set to be be additionally affected by economic implications of the war in Ukraine, represents downside risks to the economic outlook of the Group's region because persistently higher inflation levels could undermine households' purchasing power. Moreover, political tensions and uncertainty in some countries of the Group's region cannot be disregarded due to its impact on economic confidence while economic activity in tourism-dependent countries is particularly dependent on the path of the pandemic, despite its waning effect on economic activity.

Revenues and loan growth
On the back of continuing economic rebound with strong private consumption and business investment, the Group expects high single digit loan growth in 2022. Retail Banking in Slovenia is expected so see continuation of strong loan growth also in 2022, with a healthy demand for mortgage loans. Corporate and Investment Banking in Slovenia is also expected to grow on the back of cross-border lending and revival in investment spending. Strategic Foreign Markets will maintain robust performance with loan growth expected to reach double digit growth. Therefore, interest income growth is expected to be primarily driven by loan book growth, and productive use of liquid assets. Post COVID-19 opening of the economies and introduction of high balance fees stimulated demand for fee generating products and income. All of the above should result in total regular revenues of around EUR 670 million in 2022.

Costs and cost of risk
The Group will continue to pursue a strong cost containment agenda addressing both labour and non-labour cost elements. Total costs continue to be impacted by a business environment with a visible labour cost inflation throughout the region. Additionally, the Group continues with its investment activities into information technology upgrades, amid the growing relevance of digital banking. Importantly, integration costs associated with the acquired Komercijalna Banka, Beograd will contribute to total costs in 2022. Based on this, costs including integration expenses are expected to remain at 2021 level.

The realised cost of risk in 2021 at -41 bps outperformed previous outlook guidance for 2021 (around -20 bps) due to very strong development in NPL resolution. It is expected that resolutions will continue to positively impact cost of risk in 2022, but with a diminished importance. Based on assessed environment the expected cost of risk will be in the range of 20 bps to 30 bps, and somewhat lower than expected in the 2023 (30-50 bps).

Loan portfolio quality
The Group anticipates lending growth in all key segments. Special focus will be given to the retail segment where the Group experienced strong growth in the previous year. The Group is very prudent in identifying any increase in credit risk, as well as proactive in the area of NPL management. On this basis well diversified and stable quality of credit portfolio is expected during the year 2022. Potential moderation of current positive economic trends due to COVID-19 uncertainties might have a negative impact on the existing loan portfolio quality, but its impact should not be excessive.

Liquidity
From liquidity perspective, deposits at the Group level are still increasing (in the Bank and in banking members), although growth of retail deposits has moderated in H2 2021. The liquidity position of the Group is expected to remain solid even if a highly unfavourable liquidity scenario materialises, as the Group holds sufficient liquidity reserves in the form of placements at the ECB, prime debt securities, and money market placements. Significant attention is given to the structure and concentration of liquidity reserves, by incorporating early warning systems, keeping in mind the potential adverse negative market movements by further shortening of the portfolio duration and classification of new investments with longer duration as hold to collect in order to decrease sensitivity to regulatory capital. High levels of deposit inflows are putting an additional strain on profitability.

In June 2021 the Bank participated in the ECB TLTRO operation and has drawn a credit tranche of EUR 750 million. The Bank is considering early repayment in June 2022. If materialized, this will not have a material impact on the Group's liquidity position.

Capital
The capital position represents a strong base to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance. If legal remedies against the adopted law in February 2022 concerning loan agreements in Swiss francs concluded by banks operating in Slovenia (including NLB) and individuals are unsuccessful, the Bank estimated a negative pre-tax effect on the operations of NLB and NLB Group should not exceed EUR 70 - 75 million. This would have a limited (up to 55 bps) negative impact on the capital position, leaving the Bank's capital position comfortably above all current requirements.

The Bank is exploring opportunities for MREL funding, issuance of Tier 2, and potential issuance of Additional Tier 1 instrument(s) to further strengthen and optimize its capital on solo and consolidated level. Based on transitional increase of MREL requirement, the Bank in 2022 intends to strengthen MREL eligible liabilities in the amount of around EUR 400 million. Also, in 2022 the Group continues with activities to optimise RWAs.

M&A opportunities
The Group might explore further value accretive M&A opportunities in its domestic and other regional markets where the Group is not yet present with the aim to increase shareholders' value.

Dividends
The Bank's general intention is to distribute dividends on yearly basis in line with its capacity, while at the same time fulfilling all regulatory requirements, including the Pillar 2 Guidance and risk appetite. 2021 YE capital calculation does not include part of the 2021 result in the amount of EUR 100 million. Therefore, there will be no effect on the capital in case the dividends are paid. The dividend payment in the year 2022 might be split in two instalments. The Bank envisages cumulative dividend payout of EUR 210 million in the period 2022-2023.

COVID-19
Despite the COVID-19 related circumstances the Group ensured continuity of service provision to its clients by adjusting the Group's offer, increased use of digital channels, and enhancing customer experience. The Group is aiming to further support its clients, by constant development including creating flexible local digital ecosystem of offering products and services.

Sustainability
The Group has committed to sustainability and has been enhancing the management of environmental and social risks of its operations, among others to meet EBRD and MIGA standards. It also substantially increased the use of digital channels, improved customer experience, and aims to create a flexible local digital ecosystem for offering products and services.

In 2022, the Group intends to make sustainability more tangible throughout the Group. The resources are shifting towards a low-carbon economy and engaging with customers is key in financing the transition. An important step forward will be done by expanding the product portfolio with loans dedicated to supporting energy efficiency and renewable energy production and introducing digital only card. The Group supports global decarbonization goals and aims to expand the Group's measurements of emissions to Scope 3. Implementation of climate related and environmental risk management follows ECB and EBA guidelines. Moreover, participation in ECB climate-risk stress test exercise will provide additional important insights, which will surely have an effect on further adaptation of the existing Group's business model. Effective integration of sustainability-related regulatory requirements will be important in 2022 for ESG disclosures and reporting (e.g., EU Taxonomy, BASEL Pillar III). The Group plans to make required steps in order to obtain our first ESG rating. However, all of the above mentioned cannot be achieved without highly motivated and adequately skilled teams, hence relevant trainings will be an important part of the working agenda.

4.8. Information on COVID-19 moratoria

Table 14 – Information on loans and advances subject to legislative and non-legislative moratoria for NLB Group

	31.12.2021	Gross carrying amount			Gross carrying amount
			Performing		
		Total	Total	Of which: exposures with forbearance measures	Inflows to non-performing exposures
		a	b	c	o
1	Loans and advances subject to moratorium	329	329	-	-
4	of which: Non-financial corporations	329	329	-	-
5	of which: Small and Medium-sized Enterprises	329	329	-	-
6	of which: Collateralised by commercial immovable property	329	329	-	-

Table 15 – Breakdown of loans and advances subject to moratoria by residual maturity of moratoria for NLB Group

	31.12.2021	Number of obligors	Gross carrying amount			
			Total	Of which: legislative moratoria	Of which: Expired	Residual maturity of moratoria > 6 months <= 9 months
		a	b	c	d	g
1	Loans and advances for which moratorium was offered	209,520	1,838,748			
2	Loans and advances subject to moratorium (granted)	187,111	1,571,579	1,346,488	1,571,250	329
3	of which: Households		931,615	898,409	931,615	-
4	of which: Collateralised by residential immovable property		434,517	421,087	434,517	-
5	of which: Non-financial corporations		631,580	439,713	631,251	329
6	of which: Small and Medium-sized Enterprises		464,850	289,594	464,520	329
7	of which: Collateralised by commercial immovable property		433,861	269,724	433,531	329

Table 16 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis for NLB Group

	31.12.2021	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
		a	b	c	d
1	**Newly originated loans and advances subject to public guarantee schemes**	**177,246**	**45**	**57,419**	**710**
2	of which: Households	26,678			157
3	of which: Collateralised by residential immovable property	12			-
4	of which: Non-financial corporations	150,561	45	50,917	545
5	of which: Small and Medium-sized Enterprises	130,839			545
6	of which: Collateralised by commercial immovable property	7,170			-

4.9. Capital buffers – Countercyclical buffer

(Article 440 of CRR)

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

Table 17 – Amount of bank-specific countercyclical capital buffer for NLB Group

31.12.2021	NLB Group
Total risk exposure amount	12,667,408
Institution specific countercyclical buffer rate	0.0024%
Institution specific countercyclical buffer requirement	310

The buffer value for exposures in Slovenia was 0% as at 31 December 2021, which remained unchanged since its introduction on 1 January 2016. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposure in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country are 0%. Counter-cyclical capital rates have generally been set at 0%, except for Slovakia and Norway which had a countercyclical capital rate of 1.0% as at 31 December 2021, while Bulgaria and Czech Republic and Luxembourg have rates of 0.5%.

Table 18 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer of NLB Group

31.12.2021	General credit exposures	Own funds requirements		Risk-weighted exposure amounts	Own funds requirement weights (%)	Counter-cyclical capital buffer rate (%)
	Exposure value under the SA	Relevant credit risk exposures - Credit risk	Total			
Country	a	g	j	k	l	m
Slovenia	4,874,539	273,799	273,799	3,422,488	42.49%	-
Serbia	2,399,841	150,851	150,851	1,885,638	20.42%	-
North Macedonia	1,156,673	73,247	73,247	915,588	11.16%	-
Bosnia and Herzegovina	935,684	58,362	58,362	729,525	10.05%	-
Kosovo	666,267	40,916	40,916	511,450	6.38%	-
Montenegro	536,381	34,599	34,599	432,488	5.78%	-
France	40,195	3,198	3,198	39,975	1.04%	-
Switzerland	40,177	4,157	4,157	51,963	0.53%	-
Luxembourg	39,824	3,183	3,183	39,788	0.53%	0.50%
Austria	38,991	3,050	3,050	38,125	0.50%	-
Netherlands	38,654	3,092	3,092	38,650	0.38%	-
United States	35,276	2,754	2,754	34,425	0.26%	-
Belgium	23,175	1,810	1,810	22,625	0.22%	-
Croatia	8,367	793	793	9,913	0.13%	-
Germany	7,580	575	575	7,188	0.09%	-
United Kingdom	1,756	103	103	1,288	0.01%	-
Italy	395	18	18	225	0.00%	-
China	286	17	17	213	0.00%	-
Sweden	217	13	13	163	0.00%	-
Czech Republic	210	8	8	100	0.00%	0.50%
United Arab Emirates	190	11	11	138	0.00%	-
Cyprus	136	6	6	75	0.00%	-
Spain	134	7	7	88	0.00%	-
Latvia	119	7	7	88	0.00%	-
Russian Federation	106	6	6	75	0.00%	-
Ireland	99	8	8	100	0.00%	-
Albania	61	4	4	50	0.00%	-
New Zealand	61	2	2	25	0.00%	-
Hungary	48	3	3	38	0.00%	-
Lithuania	44	1	1	13	0.00%	-
Poland	43	3	3	38	0.00%	-
Australia	43	3	3	38	0.00%	-
Bulgaria	38	2	2	25	0.00%	0.50%
Turkey	35	2	2	25	0.00%	-
Norway	33	2	2	29	0.00%	1.00%
Slovakia	22	2	2	29	0.00%	1.00%
Kenya	19	1	1	16	0.00%	-
Canada	16	1	1	16	0.00%	-
Saudi Arabia	9	1	1	16	0.00%	-
Kuwait	6	-	-	-	0.00%	-
Ukraine	4	-	-	-	0.00%	-
Belarus	1	-	-		0.00%	-
Other	20	-	-		0.00%	-
Total	**10,845,775**	**654,619**	**654,619**	**8,182,731**	**100.00%**	**-**

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

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

4.10. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amending regulation (two Regulations were amended) to address the impact of COVID-19 pandemic on the economy in order to maximise the capacity of credit institutions to lend and absorb losses related to the pandemic.

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

- Modification of the calculation of the leverage ratio to exclude central bank reserves,
- Extension of the provisions of ECL accounting under the IFRS 9 from 2018–2022 to 2020–2024,
- Temporary treatment of public debt issued in the currency of another Member State,
- Extension of the preferential treatment regarding provisioning requirements to exposures guaranteed by the public sector for seven years. The preferential treatment is usually only available for NPLs guaranteed of official export credit agencies.

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

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

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

NLB Group so far implemented:

- Changes in the SME-supporting factor,
- Temporary treatment of public debt issued in the currency of another Member State,
- Exempt prudently valued software assets from CET1 calculations,
- Modification of the calculation of the leverage ratio to exclude central bank reserves.

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

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

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

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

4.11. Events after the reporting date

The Swiss Francs Law

On 2 February 2022, the Slovenian Parliament passed the ‘Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs’ (here and after the CHF Law). 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% 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 Law has been extensively debated during the legislative process with a number of national and European authorities considering the 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 Law. On 28 February 2022, the banks filed an initiative with the Constitutional Court of the Republic of Slovenia to initiate proceedings to assess the constitutionality of the CHF Law and a proposal for its temporary suspension of enforcement.

The Constitutional Court of the Republic of Slovenia adopted a decision on 10 March 2022 to suspend in whole the implementation of the CHF Law. The decision has been adopted unanimously. 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 Constitution. During this time the deadlines set for individual liabilities of banks do not apply. Until the final decision of the Constitutional Court on the constitutionality of the CHF Law is made, the NLB will act in accordance with the applicable legislation and courts’ decisions, and will, at the same time, exercise all legal remedies at its disposal.

Based on the assessment of the CHF Law, NLB estimated that negative pre-tax effect on the operations of NLB and NLB Group should not exceed EUR 70 – 75 million. Impact on NLB and NLB Group is material but manageable given the historically limited extent to which NLB engaged in Swiss francs lending. NLB considers this as a non-adjusting event after the reporting period.

Acquisition of Sberbank banka d.d., Ljubljana

On the level of the European Central Bank and the Single Resolution Board, a decision was made on 28 February 2022 to suspend the business operations of the banking group Sberbank Europe AG, which also had a subsidiary bank in Slovenia. At the same time, a transitional period or short-term moratorium was adopted, during which a solution for the Slovenian subsidiary, Sberbank banka d.d., was found with the aim to ensure the continuity of the business operations for all of its clients. On 1 March 2022, in order to maintain financial stability in Slovenia, the Single Resolution Board, in cooperation with the Bank of Slovenia, adopted a scheme and resolution plan for Sberbank banka d.d., Ljubljana. Based on this resolution, the Bank of Slovenia issued a decision using the instrument of sale of operation in a way that all shares are transferred from the shareholders to the transferee. In the process of finding a new owner of Sberbank banka d.d., Ljubljana, a sale agreement was concluded with NLB d.d., which became an owner of 100% of the bank's shares as at 1 March 2022.

The purchase price for the bank was EUR 5,109 thousand and was fully paid in cash. There are no contingent consideration arrangements. 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.

Russian-Ukrainian conflict

In February 2022, Russia began a military invasion of Ukraine. The Russian-Ukrainian conflict has led to quite considerable volatility in the financial markets, in particular shifts in credit spreads, interest rates and foreign exchange rates. Special attention is given to the markets in the Balkans, neighbouring countries to Ukraine and Russia and international banks with operations in Russia. The NLB Group is closely monitoring its major bond portfolio positions, mostly sovereigns, with a stronger connection to the Russian crisis. Besides, the Group holds EUR 20 million of Russian government bonds maturing in April 2022 and in September 2023. The fair value of these securities has decreased by approximately 30% by 31 March 2022. The manner and timing of their settlement in the given circumstances is not determined yet. Since the beginning of the crisis, the Bank has observed credit spreads widening from 50 to 200 bps for selected positions (with the exception of Russia where the escalation is more severe), which is currently impacting the Bank's FVOCI positions. Compared to 31 December 2021, the fair value revaluation reserve has decreased by more than EUR 50 million at the NLB Group level and EUR 40 million at the NLB level. Regarding the Group's major FX positions, no material movements were observed so far. Current developments, market observations and potential mitigations are discussed at daily monitoring meetings.

Dependence on Russia and Ukraine within the country trade balance in the NLB Group region is moderate; the highest part of trade is done with the EU.

Country	Export to Russia	Import from Russia
Bosnia and Hercegovina	1.10%	2.10%
Montenegro	0.00%	0.00%
North Macedonia	0.91%	1.70%
Kosovo	no data available	no data available
Serbia	3.90%	5.30%
Slovenia	2.60%	1.20%

Direct and indirect exposures of NLB toward Russia and Ukraine is moderate, but on the other hand Russia's invasion of Ukraine has increased risks globally. Effects on the global economy will occur through three major channels:

- commodity price shocks,
- financial repercussions (new sanctions against Russia and market risk aversion), and
- security challenges associated with military conflict or through cyberattacks.

In particular, commodity prices will have effects on the whole corporate output leading to an increased inflation rate in NLB Group markets.

With regards to the credit portfolio, the NLB Group carefully monitors its clients being present or having direct and indirect connection with Russia, Ukraine, Belarus or its neighbouring countries. These clients are closely monitored with the intention of identifying any significant increase in credit risk at a very early stage. Corporate clients are still assessing the possible impacts of this conflict on their business model and financial performance, however at this stage these effects are not very excessive. Moreover, the length and intensity of the Russian-Ukrainian conflict might cause additional spill-over effects in the mid-term period, such as raising the price of energy sources or their availability, which may at a later period have some impact also on other segments of the credit portfolio.

Sberbank d.d. Slovenia with its entire portfolio become a member of the NLB Group in March 2022. The Bank strategy was focused on the Slovenian SME segment, so the NLB Group does not expect major direct exposures toward Russia or Ukraine. All identified risks will be appropriately considered when assessing fair values of assets, liabilities and contingent liabilities and final calculation of gain on a bargain purchase (negative goodwill).

5. Risk management, objectives, and policies

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

(Articles 435.1 and 435.2 e of CRR)

NLB Group is one of the largest banking and financial groups in Slovenia, with a strategic focus on selected markets in SEE, namely Serbia, Bosnia and Herzegovina, North Macedonia, Kosovo, and Montenegro. The acquisition of Komercijalna Banka Beograd further strengthened the Group's long-standing presence in the SEE region and ensured the strategic and systemic positions on all the markets where the Group operates. The Group is, as at 31 December 2021, comprised of NLB as the parent entity in Slovenia, seven subsidiary banks in SEE, several companies for ancillary services (asset management, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down.

The Group has a leading position in selected SEE markets with significant growth potential, focusing mainly on corporate and retail lending. The Group continues to pursue its vision to become an innovative partner with simple, customer-oriented solutions focused on Slovenia and SEE countries, as well actively contributing to a more balanced and inclusive economic and social system. Its implementation is expected to sustain the Group's profitability and achieve growth, including the alertness for future challenges in the banking environment.

COVID-19 did not have a meaningful impact on the quality of the credit portfolio. Its impacts caused moderate credit quality deterioration in 2020. In Q2 2021 a reversal was observed, mainly due to successful recovery of on- and off-balance sheet NPLs. Respectively, the Group's credit portfolio quality remained solid, with stable rating structure and portfolio diversification. The Group is compliant with EBA guidelines on payment moratoria and is very prudent in identifying any increase in credit risk. The vast schemes introduced by the governments in the Group countries providing moratoriums to eligible clients as part of the COVID-19 pandemic measures had been phasing out during the 2021. Apart from moratoria, the Group provided additional liquidity by granting new loans to creditworthy clients to help them with the specific situation due to the COVID-19 crisis.

Though COVID-19 coupled with its implications on the business environment, the Group faced growing excess liquidity and managed to stay well capitalised. The Group is perceived as a safe heaven, and as such it faced growing excess liquidity. Impacts of the pandemic did not cause any material liquidity outflows. The Group's liquidity and capital position remained strong in both the Group and subsidiary bank levels.

Additionally, the Group has taken necessary measures to protect its customers and employees by ensuring the relevant safety conditions and making sure that the services offered by the Group are provided without any disruption. The Group continuously offered necessary services to clients, especially through digital channels (mobile banking, video calls, and telebanking). Special attention was paid to the continuous provision of services to clients, their monitoring, health protection measures, and the prevention of cyber fraud.

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

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

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

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

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

Risk appetite

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

The Group is one of the largest Slovenian banking and financial groups and has an important presence in the SEE region. In accordance with its strategic orientations, the Group's intention is to: be a sustainably profitable; to work predominantly with clients in its core markets; and to provide innovative, but simple customer-oriented solutions, and to actively contribute to a more balanced and inclusive economic and social system. The Group has a well-diversified business model. Based on the Group's business strategy, credit risk is the dominant risk category, followed by valuation risk, interest rate risk in the banking book, operational risk, liquidity risk, market risk, and other non-financial risks. Regular risk identification and their assessment is performed within the ICAAP process in order to assure their overall control and effective risk management in a very early stage. In addition, internal capital and liquidity consumption are integrated into an overall risk management system to assure proactive support for informed decision-making on strategic and operational levels.

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

The main Group risk appetite objectives are disclosed in Statement of Management of Risk on page 6. The values of the most important risk appetite indicators of NLB Group, reflecting the interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile are also disclosed in the Statement of Management of Risk on page 6.

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

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

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

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

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

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

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

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

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

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

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

Stress-testing

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

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

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

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

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

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

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

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

In 2021, the Group was included into an ECB Stress test exercise. On 30 July, the results of stress tests carried out for important banks by the ECB to assess the resilience of the financial institutions were disclosed. Under the adverse scenario, the CET1 ratio (fully-loaded) would fall by a maximum 483 bps (published range 300–599 bps) after three years without mitigation measures from the 2020 YE. The Group's results of adverse depletion were lower than for the peer group and SSM sample banks. Besides, the Group's data quality and accuracy were assessed as above average. Final results of the bottom-up stress test showed that even in a very unfavourable market conditions defined by the EBA and ECB, the Group holds sufficient resilience in terms of capitalisation. The qualitative outcomes were included in the determination of capital requirements by ECB, namely setting Pillar 2 Guidance.

As a systemically important institution, the Group will be included into the 2022 ECB Climate Stress test exercise. Preparation activities in the Group for the purpose of this exercise, consisting of three modules, are already underway. By performing this exercise, the ECB intends to assess how banks are prepared for dealing with financial and economic shocks stemming from climate risk. The exercise will be conducted in the first half of 2022, after which the ECB will publish aggregate results in July 2022.

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

The uniform stress-testing programme, which includes internally developed models, stress scenarios, and sensitivity analysis, was further complemented. In 2021, the Group established its own ESG stress-testing concept to identify most relevant financial vulnerabilities stemming from climate risk. Such a stress-testing framework is the subject of a regular internal validation cycle and related procedures where the Group established comprehensive validation framework. Namely, the Group supports a strong validation governance process and controls over applied selected risk approaches and internal models.

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

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

Risk measurement and reporting systems

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

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

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

Data and IT system

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

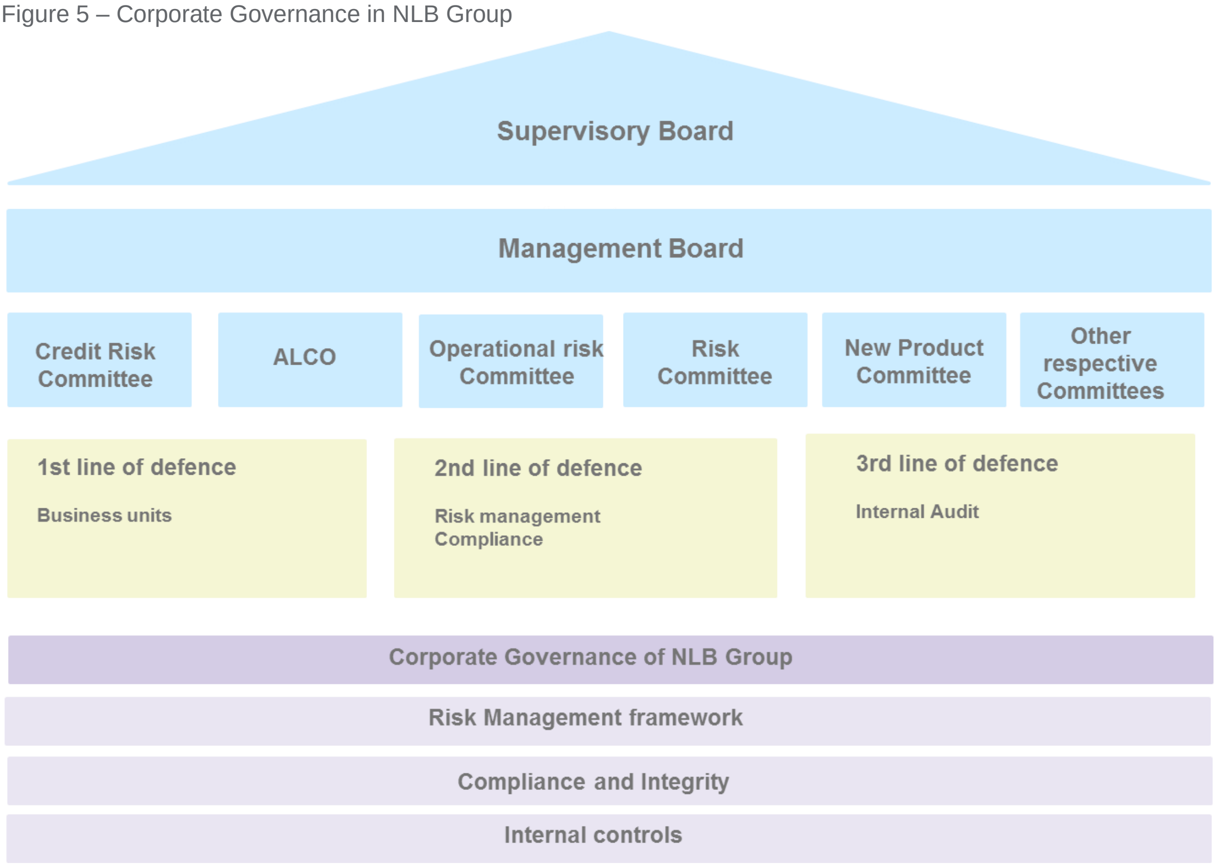
Corporate governance in relation to risk management and internal controls

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

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

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

Figure 5 – Corporate Governance in NLB Group



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

Figure 6 – Three lines of defence framework of NLB Group

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

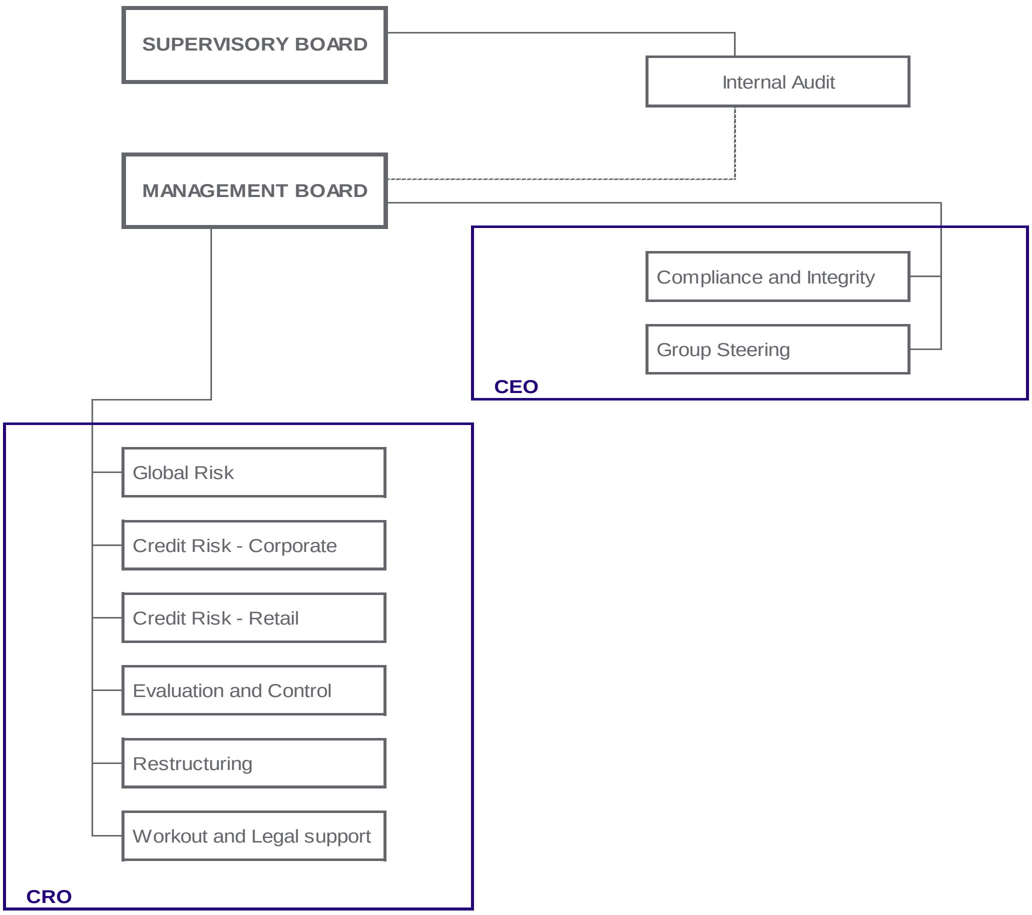
Risk Management and Compliance comprise the second line of defence. Risk management defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring, and management. Some units within the Chief Risk Officer area (in relation to underwriting, restructuring, and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

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

The tasks and responsibilities of Global Risk, Compliance (also covering the information security function in accordance with the BoS regulation), and Internal Audit are set out in accordance with the definitions of the Zban-3, under which all such functions are independent and have direct access to NLB's Supervisory Board. During 2021, there were no material changes in functions presenting the second and third line of defence of the internal control framework (Global Risk, Compliance, and Internal Audit in NLB).

Risk management organisation in NLB

Figure 7 – Risk management organisation in NLB



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

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

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

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

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

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

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

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

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

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

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

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

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

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

The main activities of the Compliance and Integrity Centre are:

- Conducting compliance checks in various areas covered by the compliance audits, identification of shortcomings in this regard, suggestion of mitigation measures to be undertaken, and the monitoring of improvement,
- Managing the system for the reporting of suspected harmful practices (directing the system for reporting on violations through different channels) and conducting internal investigations of the reported cases,

- Providing advisory services on compliance-related issues and regular analysis of compliance trends or observed problems and weaknesses in the Group,
- Identifying and assessing risks associated with compliance and integrity that occur in the daily operations of the bank, including investment processes, processes for the development of (new) products and services, projects (IT and other projects), organisational and HR changes, and other changes which can have a significant impact on the Bank’s operations, as well as through conducting regular annual comprehensive assessment of the risks for compliance and integrity at NLB and NLB Group levels within the ECRA process (Enterprise compliance and integrity risk assessment);
- Participation in assessing the suitability of key functions holders in NLB and NLB Group, as well as members of the Management Board and the Supervisory Board of NLB,
- Providing compliance communication, training, workshops, and targeted surveys for employees and the implementation of activities for strengthening the culture of assuming and managing the risks of compliance and integrity in NLB and NLB Group,
- Overseeing the regulatory compliance and assessing regulatory compliance risks (monitoring, reporting, and assessing the implementation of regulatory changes required in NLB’s legal environment),
- Managing the Compliance and Integrity Competence Line for ensuring the same standards throughout the Group, with higher requirements for the core subsidiaries.

As regulatory risk is one of the top compliance risks in which NLB is additionally exposed to due to the listing of its financial instruments on the London, Luxembourg, and the Ljubljana Stock Exchange, the Group has in place a regulatory compliance management system for handling and managing changes in the legal environment. This system is managed centrally by the compliance function, while implementation processes are decentralised. This means that OUs responsible for certain areas affected by a change in applicable regulations prepare action plans and lead implementation processes, thus ensuring Group’s compliance. The Compliance and Integrity function oversees the relevant regulatory changes’ effects and the status of implementation. Focusing also on other compliance and integrity risks specific to the SEE region where the Group operates, specific policies and procedures are in place to identify and manage other types of compliance and integrity risks within the Group where higher requirements are set for core subsidiaries.

As part of its approach to standards for conduct within the Group and building a risk culture within NLB and NLB Group, the Group has in place a uniform NLB Group Code of Conduct which as a standard regulates zero tolerance for all types of harmful conduct, and this standard is consistently implemented in the Group. The Code also prohibits, *inter alia*, breaches of internal acts (including risk procedures and policies). The Group has dedicated reporting (whistleblowing) channels (including anonymous ones) to report any suspected violations or breaches are reported and dealt with to prevent damages to the Group members, as well as prevent prohibited or harmful practices.

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

The compliance functions in the Group thus define the rules for managing the risks of compliance and integrity, and analyse which risks the bank exposes in its operations, and with recommendations and guidelines, supports other organisational units in determining control mechanisms that can adequately manage the risks of compliance and integrity. The compliance of operations and the strengthening of integrity, as well as other compliance functions in the strategic members of the Group, is directly responsible to the Management Board and has direct access to the Supervisory Board.

The compliance functions of NLB Group are thus focused on systematic monitoring of the regulatory environment, including the assessment of its impact on the operations of the Group. In addition to regulatory issues, the compliance function in the Group members also, in line with NLB Standards, deals with ethics and integrity, and depending on local regulatory requirements, as well as other areas governed by Standards in the field of compliance and integrity (i.e., AMLTF, internal investigations, regulatory relations, protection of information and protection of personal data). For some banking members of the Group, for example, due to local requirements, fraud, AMLTF, CISO, or DPO area is organised in a separate organisational unit, separate from the compliance function.

The compliance functions within NLB Group thus give great emphasis on preventive activities with the aim of preventing harmful behaviour and incidents in the entire Group.

Internal Audit

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

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

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

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

(Articles 435.2 a of CRR)

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

Director	Number of directorships	External directorships as counted under Article 91(3) and 91(4) of Directive 2013/36/EU
Blaž Brodnjak	4	President of the Association of Banks in Slovenia, President of the Board of Governors: AmCham Slovenia, Member of Executive Committee of the Handball Federation of Slovenia
Andreas Burkhardt	4	None
Archibald Kremser	3	None

Details on functions, held by members of the management body are disclosed in the 2021 NLB Group Annual Report, in the Corporate Governance chapter (page 116).

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

(Articles 435.2 b of CRR)

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

Candidates for members of the management body of the Bank may only be persons who meet the legally prescribed conditions for a management board member under the law governing banking and could obtain a permit from the Bank of Slovenia.

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

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

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

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

Selection procedure of the candidate for the Supervisory Board

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

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

The procedure consists of the following steps:

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

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

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

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

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

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

As at the end of June 2021, the Management Board was composed of four members, namely: the President of the Management Board, who is also responsible for the Large Corporates area, Retail Banking, and Private Banking; a member of the Management Board responsible for risk; a member of the Management Board responsible for financial the area of the bank and a member of the management board responsible for the area of operational operations, which, in addition to the area of IT and procurement, also includes the Back Office area. From July onwards, the Management Board consisted of three members of the Management Board: the President of the Management Board responsible for Large Corporates area, Retail Banking, and Private Banking, a Member of the Management Board responsible for risks and back-office areas, a Member of the Management Board responsible for the Bank's financial area and operational operations, including IT, Procurement, and the Back-Office area

Given the changes in the composition of the Management Board in 2021, and in order for the Management Board as a whole to have a wide range of relevant knowledge, skills, and experience from the international environment, as well as a number of successfully completed projects, the appropriate expertise, skills, and experience to lead the Bank effectively and successfully, changes in the overall composition of the Management Board are foreseeable.

On 20 January 2022, the Supervisory Board appointed Hedvika Usenik, Antonio Argir, and Andrej Lasič as members of the Management Board, thus expanding it to six members in total. Their five-year term of office will start after they have obtained their respective licences. Until then, they will continue to act as executive assistants to the Management Board.

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

(Article 435.2 c of CRR)

The Bank accepted the Policy of Supervisory Board Diversity on 8 August 2016 and published it on its internet page. A new Policy of diversity with regard to selection of members of the management body was prepared in 2019 referring not only to the Supervisory board, but also to the Management Board and B-1 level, and was confirmed at the General Assembly on 29 April 2019. In 2021, only the appendix to the Diversity Policy was updated and approved by the Supervisory Board on 11 November 2021.

With the policy on provision of diversity of the Management Body and senior management (hereinafter: 'Diversity Policy') based on Article 35 of ZBan-3, NLB sets the framework in the area of diversity of and representation of both genders in the management and supervision bodies (Supervisory Board and Management Board) and the senior management, and lays down the process of the selection and appointment of candidates (defined in more detail in the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board), which enables the management body to be composed in such manner that, as a whole, it possesses suitable knowledge, skills and experience needed for in-depth understanding of the strategy and challenges of the Bank, and the risks the latter is exposed to. With this Policy, NLB also sets the framework for diversity with regard to education, range of knowledge, skills and experience, age, gender, and international experience.

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

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

- expert experience,
- knowledge and skills,
- international experience,
- gender structure and
- age structure.

The Policy aims at the following:

- The management body as a whole must cover an adequately wide range of knowledge, skills, and expert experience of its members, and be composed with regard to the following criteria: experience, reputation, management of any conflicts of interest, independence, available time, and collective suitability of the body as a whole.
- The management body as a whole must cover different international experience of its members in different areas, especially identified, where a certain gap appears.
- It is encouraged to achieve diversity as regards gender representation, and the plan of activities and the period for achieving the goals shall be set.
- It is encouraged to achieve diversity as regards the age structure, which should reflect the age structure in the Bank as much as possible.
- The goals of the Policy shall also be reasonably applied to the provision of diversity of the wider management.

The diversified composition of the Supervisory Board is recognised as one of the Bank's key business strengths through its diversity policy. A Supervisory Board member can only be a person who fulfill the requirements according to the Zban-3 and other regulations.

Supervisory Board members must subordinate their personal interests, partial interest of third parties, as well as interests which could arise from the candidate's past functions or other activities, and economic, professional, and private relationships (including Management Board and Supervisory Board members), which could by any means influence their decisions in monitoring the Bank. In the composition of the Supervisory Board, recommendations of both genders being appropriately represented is followed.

In 2020, four worker's representatives were elected and appointed for the first time as the members of the Supervisory Board of NLB. As part of employee participation in the bank's management, the appointment of four representatives brings additional diversity at all levels, including the achievement of gender quotas in the bank's governing bodies, and employees' representatives with their diverse work experience will be able to contribute to better employee involvement in governing bodies.

The Bank has established succession systems, career and mobility planning, training, mentoring, coaching, and talent management, especially for those who will potentially assume positions in the Management Board or senior management. In the table below the structure of the Supervisory Board, Management Board, and senior management is presented.

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

Goal	Supervisory Board		Management Board		Senior Management	
Wide range of knowledge, skills, professional experience	H		H		H	
International experience of members in various fields	H		H		MH	
Age structure	30-40	0	30-40	0	30-40	5
	40-50	1	40-50	3	40-50	18
	50-60	8	50-60	0	50-60	14
	60+	3	60+	0	60+	0
Proportion of women	42%		0		45%	

H = High, M= Medium

The achievement of the diversity targets is evaluated annually, and more detailed action plans are drawn up where necessary.

6. Credit risk and general information on CRM

6.1. General qualitative information on credit risk

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

In addition to information disclosed in Section 4.1 (General information on risk management, objectives, and policies), specifics related to credit risk are disclosed below.

Credit risk management strategies and policies

The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities within the region and EU. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized companies, and small enterprise segments, whereas on the corporate segment, the Bank established cooperation with selected corporate clients (through different types of lending or investment instruments). All other banking members in the SEE region, where the Group is present, are universal banks, mainly focused on the retail, medium-sized companies, and small enterprise segments. Their primary goal is to provide comprehensive services to clients by applying prudent Risk Management principles. Credit portfolio remains well diversified, there is no large concentration in any specific industry or client segment.

The Group is oriented towards appropriate credit portfolio diversification to avoid large concentration. The Group carefully monitors its loan portfolio and new approved loans from different aspects, including their migration and default rate.

In recent years, NLB Group has focused on active NPL management and used the positive momentum of macroeconomic recovery to improve its portfolio quality. COVID-19 did not have a meaningful impact on the quality of the credit portfolio. The vast schemes introduced by the governments in the Group countries providing moratoriums to eligible clients as part of the COVID-19 pandemic measures had been phasing out during the 2021. The Group's credit portfolio quality remained solid with a stable rating structure and portfolio diversification. Favourable macroeconomic situation across the region resulted in a negative cost of risk, which was materially impacted by repayments of written-off receivables.

Credit Risk appetite

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

Credit risk management and mitigation

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

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

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. To objectively assessing a client's operation comprehensively, internal scoring models for particular client segments or product types have been developed. It is also important to secure high-quality collateral even though it does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. In this part of the credit process, regular monitoring of clients within the Early Warning System (EWS) is important. In the case of client default, restructuring or work-out is initiated depending on the severity of the client position.

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

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

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

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

The Group is constantly developing a wide range of advanced approaches, supported by mathematical and statistical models, in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools. In order to manage exposures with higher risk, the Group established several measures, including the introduction of an early warning system and a loan watch committee. The restructuring approaches built in the past are focused on the early warning detection of clients with potential financial difficulties and their proactive resolving. These approaches encompass systematic usage of standardised tools for the timely restructuring of exposures.

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

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

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

- The Group finances only clients that it knows (Know Your Client) and trusts, and only those acting according to ethical and moral values, conducting legal business, and transparently disclosing their operations.
- The Group finances only clients with a sufficient level of anticipated free cash flow, as the primary source of repayment. Furthermore, credit approval is not based only on client's financial statements, a comprehensive analysis is done by also considering the client's industry specifics, future cash flow generation capability, the references and competences of owners and management bodies, and critical judgement of future financial plans.

- In COVID-19 circumstances, the Group has offered moratoria in line with the local regulation or non-legislative agreements for clients to overcome the specific circumstances.
- The received collateral cannot influence the client's creditworthiness assessment. The accepted collateral represents a secondary source of repayment as a risk mitigation tool.
- In case of restructuring, the Group primarily follows restructuring criteria and measures with the aim to optimally resolve the client's financial difficulties. Before restructuring, a detailed analysis is performed testing the client's viability to reach sustainable financial indebtedness in mid-term and the willingness to cooperate in the restructuring process. For corporate clients, different economic options are tested and the option that maximises the NPV for the bank is selected.

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

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

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

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

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

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

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

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

Methods used for determining general and specific credit risk adjustments are described in the 2021 NLB Group Annual Report – note 2.13 Allowances for financial assets (page 192)

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

In 2021, Internal Audit performed several reviews in the area of credit risk management and mitigation. As the leading strengths, they identified an enhanced automatisation, implemented further efficient key controls in credit process, and invested in process optimisation activities. In addition, monitoring of moratoria and post -COVID financing for all corporate segments have been performed with due care and aligned with credit risk criteria. The existing Early Warning System has been upgraded with additional activities identified as prevention for possible deterioration of the client`s business due to COVID-19 impact. Also, on retail segments the improvements have been identified, and also on overdrafts lending and retail restructuring processes. With regards to NPL, continuous reduction of NPLs portfolio with active NPL management and comprehensive renewal of the end-to-end collection process were also assessed as strengths of credit risk management process. As a result of that, the Call Centre for the early collection had been established. It is also worth to mention the effective foreclosed management with positive contribution to the reduction of non-performing exposures on the Group level.

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

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

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

During 2021, Compliance and Integrity closely cooperated with credit risk management in supporting the identification and management of compliance and integrity risk, as well as reputation risk related to proposed investments of the bank, including AML/CTF, personal data protection, and information security risks. These assessments are also an integral part of major changes of the bank's business or internal processes (usually managed through a project management approach) to enable the Bank to foresee risks related to changes in credit risk management policies, processes, and methodologies (this approach is followed for other risks, as well). The same approach to manage credit risks, compliance risks, and other types of risks is followed when assessing risks related to new or existing products which the Bank offers to its clients, i.e., before introducing a new product or when regularly assessing the existing products and services of the Bank.

Furthermore, as part of fraud prevention and management, Compliance and Integrity monitors all information communicated in relation to any deviations from standard procedures, and is actively involved in the conduct of investigations, corrective actions, and issuing recommendations to eliminate any irregularities detected and possible damage in cases where suspected of fraudulent or other types of harmful behaviour. This approach was also used in 2021 as a standard procedure for compliance functions in the Group.

6.2. Credit risk quality

(Article 442 c and g of CRR)

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

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

At the end of 2021, 47.2% of net on-balance exposure has remaining maturity of “Over 5 years”, followed by the “1 year to 5 years” category with 37.5%, and the “Up to 1 year” category with 15.0%. In the last year, the highest increase was noticed in the “Over 5 years” category.

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

31.12.2021		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		a	b
1	Property, plant, and equipment (PP&E)	13,817	(258)
2	Other than PP&E	144,786	(32,620)
3	Residential immovable property	15,122	(2,297)
4	Commercial immovable property	128,649	(30,042)
5	Movable property (auto, shipping, etc.)	999	(267)
7	Other	16	(14)
8	**Total**	**158,603**	**(32,878)**

6.3. Non-performing and forborne exposures

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

The Bank uses a unified definition of past due and default exposures that is aligned with Article 178 of CRR. The Bank has aligned its definition to the new European Banking Authority (EBA) definition of non-performing loans as at 31 December 2020. Defaulted clients are rated D, DF, or E based on the Bank’s internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The aforementioned new definition brought changes to the private individuals, where the rating is no longer attributed on facility level; all facilities of the same client now obtain a common rating grade.

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

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

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

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

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

31.12.2021		Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing				
	Exposures	Total	Total	Of which defaulted			
		a	b	c	e	f	g
1	**On-balance-sheet**	**16,294,762**	**375,870**	**375,870**	**(337,718)**	**-**	**(56)**
2	Slovenia	5,592,831	113,250	113,250	(81,321)	-	-
3	Serbia	3,579,870	64,100	64,100	(45,998)	-	(48)
4	North Macedonia	1,564,108	60,373	60,373	(62,965)	-	-
5	Bosnia and Herzegovina	1,159,556	26,168	26,168	(40,240)	-	(8)
6	Kosovo	789,537	18,701	18,701	(42,019)	-	-
7	Montenegro	626,141	74,322	74,322	(46,424)	-	-
8	Other countries	2,982,719	18,956	18,956	(18,751)	-	-
9	**Off-balance-sheet**	**3,536,910**	**39,624**	**39,624**	**-**	**(33,419)**	**-**
10	Slovenia	2,179,452	27,443	27,443	-	(20,173)	-
11	Serbia	659,159	7,762	7,762	-	(2,112)	-
12	North Macedonia	218,228	2,375	2,375	-	(4,965)	-
13	Bosnia and Herzegovina	165,929	94	94	-	(2,201)	-
14	Kosovo	118,447	72	72	-	(2,042)	-
15	Montenegro	105,271	1,878	1,878	-	(1,821)	-
16	Other countries	90,424	-	-	-	(105)	-
17	**Total**	**19,831,672**	**415,494**	**415,494**	**(337,718)**	**(33,419)**	**(56)**

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

	2021	Gross carrying amount
1	**Initial stock of non-performing loans and advances**	**465,884**
2	Inflows to non-performing portfolios	211,516
3	Outflows from non-performing portfolios	(302,328)
4	Outflows due to write-offs	(50,059)
5	Outflow due to other situations	(252,269)
6	**Final stock of non-performing loans and advances**	**375,072**

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

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
	31.12.2021	**Total**	**Not past due or past due ≤ 30 days**	**Past due > 30 days ≤ 90 days**	**Total**	**Unlikely to pay that are not past due or are past due ≤ 90 days**	**Past due > 90 days ≤ 180 days**	**Past due > 180 days ≤ 1 year**	**Past due > 1 year ≤ 2 years**	**Past due > 2 years ≤ 5 years**	**Past due > 5 years ≤ 7 years**	**Past due > 7 years**	**Of which defaulted**
		a	b	c	d	e	f	g	h	i	j	k	l
005	Cash balances at central banks and other demand deposits	4,496,350	4,476,667	19,683	-	-	-	-	-	-	-	-	-
010	Loans and advances	10,797,414	10,750,122	47,292	375,072	203,669	17,895	22,441	53,797	32,196	4,093	40,981	375,072
020	*Central banks*	10,405	10,404	1	-	-	-	-	-	-	-	-	-
030	*General governments*	329,696	329,580	116	427	21	-	267	139	-	-	-	427
040	*Credit institutions*	164,144	164,120	24	13	10	-	1	2	-	-	-	13
050	*Other financial corporations*	158,422	158,400	22	2,907	55	-	-	320	-	-	2,532	2,907
060	*Non-financial corporations*	4,276,444	4,271,876	4,568	232,166	127,444	4,450	7,697	32,073	23,660	1,890	34,952	232,166
070	*Of which SMEs*	2,684,721	2,680,815	3,906	194,964	103,621	4,450	6,883	31,615	16,303	1,890	30,202	194,964
080	*Households*	5,858,303	5,815,742	42,561	139,559	76,139	13,445	14,476	21,263	8,536	2,203	3,497	139,559
090	Debt securities	5,121,478	5,121,478	-	798	798	-	-	-	-	-	-	798
100	*Central banks*	28,031	28,031	-	-	-	-	-	-	-	-	-	-
110	*General governments*	3,906,553	3,906,553	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	1,033,606	1,033,606	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	62,072	62,072	-	798	798	-	-	-	-	-	-	798
140	*Non-financial corporations*	91,216	91,216	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	3,497,286			39,624								39,624
160	*Central banks*	128			-								-
170	*General governments*	138,770			183								183
180	*Credit institutions*	89,607			-								-
190	*Other financial corporations*	26,997			33								33
200	*Non-financial corporations*	2,556,925			36,727								36,727
210	*Households*	684,859			2,681								2,681
220	***Total***	23,912,528	20,348,267	66,975	415,494	204,467	17,895	22,441	53,797	32,196	4,093	40,981	415,494

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

		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Accumu-lated partial write-off	On performing exposures	On non-performing exposures
	31.12.2021	Total	Of which stage 1	Of which stage 2	Total	Of which stage 3	Total	Of which stage 1	Of which stage 2	Total	Of which stage 3			
		a	b	c	d	f	g	h	i	j	l	m	n	o
005	Cash balances at central banks and other demand deposits	4,496,350	4,496,350	-	-	-	(894)	(894)	-	-	-	-	395,109	-
010	**Loans and advances**	**10,797,414**	**10,260,538**	**533,202**	**375,072**	**341,314**	**(103,372)**	**(70,130)**	**(34,048)**	**(219,081)**	**(218,369)**	**(4,635)**	**5,055,171**	**121,921**
020	Central banks	10,405	10,405	-	-	-	(109)	(109)	-	-	-	-	-	-
030	General governments	329,696	327,761	1,935	427	424	(5,182)	(4,967)	(215)	(423)	(421)	-	56,090	-
040	Credit institutions	164,144	164,143	1	13	13	(419)	(419)	-	(12)	(12)	-	978	-
050	Other financial corporations	158,422	157,385	1,037	2,907	2,907	(550)	(541)	(9)	(2,901)	(2,901)	-	21,113	2
060	Non-financial corporations	4,276,444	3,882,025	392,414	232,166	201,576	(68,548)	(42,672)	(25,978)	(131,291)	(131,278)	(4,635)	2,095,985	83,871
070	Of which SMEs	2,684,721	2,383,117	299,599	194,964	180,494	(55,266)	(32,930)	(22,438)	(113,629)	(113,517)	(4,635)	1,500,530	77,353
080	Households	5,858,303	5,718,819	137,815	139,559	136,394	(28,564)	(21,422)	(7,846)	(84,454)	(83,757)	-	2,881,005	38,048
090	**Debt securities**	**5,121,478**	**5,109,813**	**184**	**798**	**798**	**(14,523)**	**(14,401)**	**(122)**	**(798)**	**(798)**	**-**	**167,427**	**-**
100	Central banks	28,031	28,031	-	-	-	(13)	(13)	-	-	-	-	-	-
110	General governments	3,906,553	3,906,262	184	-	-	(12,835)	(12,765)	(122)	-	-	-	-	-
120	Credit institutions	1,033,606	1,033,606	-	-	-	(1,037)	(1,037)	-	-	-	-	88,984	-
130	Other financial corporations	62,072	62,072	-	798	798	(496)	(496)	-	(798)	(798)	-	7,087	-
140	Non-financial corporations	91,216	79,842	-	-	-	(142)	(90)	-	-	-	-	71,356	-
150	**Off-balance-sheet exposures**	**3,497,286**	**3,384,210**	**113,003**	**39,624**	**25,264**	**(14,558)**	**(12,912)**	**(1,640)**	**(18,886)**	**(14,545)**	**-**	**521,279**	**8,499**
160	Central banks	128	128	-	-	-	-	-	-	-	-	-	-	-
170	General governments	138,770	138,609	148	183	30	(484)	(477)	(4)	(169)	(17)	-	112,368	-
180	Credit institutions	89,607	89,607	-	-	-	(39)	(39)	-	-	-	-	921	-
190	Other financial corporations	26,997	26,917	80	33	33	(61)	(60)	-	(3)	(3)	-	1,667	8
200	Non-financial corporations	2,556,925	2,454,384	102,538	36,727	22,596	(12,074)	(10,540)	(1,534)	(17,543)	(13,381)	-	399,265	8,469
210	Households	684,859	674,565	10,237	2,681	2,605	(1,900)	(1,796)	(102)	(1,171)	(1,144)	-	7,058	22
220	**Total**	**23,912,528**	**23,250,911**	**646,389**	**415,494**	**367,376**	**(133,347)**	**(98,337)**	**(35,810)**	**(238,765)**	**(233,712)**	**(4,635)**	**6,138,986**	**130,420**

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

31.12.2021		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Total	Of which defaulted	Of which impaired				
		a	b	c	d	e	f	g	h
1	**Loans and advances**	**57,058**	**182,150**	**182,150**	**182,094**	**(4,602)**	**(100,963)**	**109,177**	**68,273**
3	General governments	828	265	265	265	(11)	(265)	-	-
5	Other financial corporations	213	2,531	2,531	2,531	(8)	(2,531)	12	-
6	Non-financial corporations	35,422	145,332	145,332	145,276	(3,268)	(83,243)	79,260	51,864
7	Households	20,595	34,022	34,022	34,022	(1,315)	(14,924)	29,905	16,409
9	Loan commitments given	96	621	621	621	-	(374)	294	206
10	**Total**	**57,154**	**182,771**	**182,771**	**182,715**	**(4,602)**	**(101,337)**	**109,471**	**68,479**

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

31.12.2021		Gross carrying amount / nominal amount		Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Total	Of which defaulted		
		a	c	e	f
1	Agriculture, forestry and fishing	91,598	3,871	(3,543)	-
2	Mining and quarrying	49,942	42	(1,606)	-
3	Manufacturing	1,060,197	33,155	(30,851)	(8)
4	Electricity, gas, steam and air conditioning supply	318,000	893	(2,369)	-
5	Water supply	43,669	2,661	(3,060)	-
6	Construction	420,855	32,456	(30,040)	-
7	Wholesale and retail trade	998,739	57,352	(65,169)	-
8	Transport and storage	547,920	29,832	(19,065)	-
9	Accommodation and food service activities	148,470	38,200	(14,606)	-
10	Information and communication	244,127	3,793	(6,118)	-
11	Financial and insurance actvities	27,878	18	(286)	-
12	Real estate activities	251,185	9,732	(7,004)	-
13	Professional, scientific and technical activities	170,093	8,806	(7,036)	-
14	Administrative and support service activities	66,576	1,871	(2,482)	(48)
15	Public administration and defense, compulsory social security	111	41	(41)	-
16	Education	9,814	2,042	(1,356)	-
17	Human health services and social work activities	36,255	2,290	(1,973)	-
18	Arts, entertainment and recreation	16,988	4,841	(2,922)	-
19	Other services	6,193	270	(256)	-
20	**Total**	**4,508,610**	**232,166**	**(199,783)**	**(56)**

6.4. Credit risk mitigation techniques

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

Credit protection policy

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group accepts the following material types of loan collateral:

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

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

The Group accepts the following types of personal loan collateral:

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

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

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

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

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

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

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

	31.12.2021	Unsecured carrying amount	Secured carrying amount		
			Total	of which secured by collateral	of which secured by financial guarantees
		a	b	c	d
1	Loans and advances	10,491,746	5,177,091	4,680,381	496,710
2	Debt securities	4,954,849	167,427	-	167,427
3	**Total**	**15,446,595**	**5,344,518**	**4,680,381**	**664,137**
4	of which non-performing exposures	253,949	121,921	121,273	648
5	of which defaulted	253,949	121,921	121,273	648

At the end of 2021, the secured part of the portfolio represents 25.7% of the total portfolio. However, it has to be considered that such a low share is due to stick rules applied to the eligible collateral in the standardised approach.

7. Credit risk – standardised approach

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

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

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

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

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

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

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

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

The table shows exposures before CRM and CCF, exposure post-CCF and -CRM and RWA for all customer segments. At the end of 2021, the increase of exposures was noticed in the Central government and central banks segment, Corporate and in the Retail segment, which is in line with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight decreased from 50.6% in 2020. to 45.6% in 2021 mainly due to inclusion Bosnia and Herzegovina, and North Macedonia in the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures in accordance with CRR.

Table 35 – EU CR5 – Standardised Approach of NLB Group

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

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. At the end of 2021, the highest increase was noticed on the 0% weight in the Central government and central banks segment mainly due to inclusion Bosnia and Herzegovina, and North Macedonia in the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures in accordance with CRR. Risk weight 250% is used for deffered tax assets and capital investments in subject in financial sector where NLB Group possess more than 10%.

8. Exposure to counterparty credit risk

8.1. Goals and Principles of Counterparty Credit Risk Management

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

Management of Counterparty Credit Risk

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

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

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

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

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

Organisation

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

Risk Measurement and control of CCR

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.6. Downgrading impacts on collaterisation

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

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

Table 36 – EU CCR1 – Analysis of CCR exposure by approach for NLB Group

	31.12.2021	Replace-ment cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
		a	b	c	d	e	f	g	h
EU-1	EU - Original Exposure Method (for derivatives)	8,231	18,645		1.4	37,627	37,627	37,627	24,777
EU-2	EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*Of which securities financing transactions netting sets*			-		-	-	-	-
2b	*Of which derivatives and long settlement transactions netting sets*			-		-	-	-	-
2c	*Of which from contractual cross-product netting sets*			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					**37,627**	**37,627**	**37,627**	**24,777**

Table 37 - EU CCR2 – Transactions subject to own funds requirements for CVA risk for NLB Group

	31.12.2021	Exposure value	RWEA
		a	b
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	16,527	11,850
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**16,527**	**11,850**

Table 38 – EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weights of NLB Group

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

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. At the end of 2021, the highest increase was noticed on the 0% weight in the Central government and central banks segment mainly due to inclusion Bosnia and Herzegovina, and North Macedonia in the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures in accordance with CRR.

9. Unencumbered assets

(Article 443 of CRR)

General narrative information on asset encumbrance

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

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

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

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

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

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

In alignment with Liquidity Risk Management Policy, the unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high-quality debt securities, and ECB eligible loans.

NLB Group holds an adequate amount of unencumbered High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. NLB Group can use those stocks of assets as a source of contingent funds that are available to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period. According to Basel III, NLB Group demonstrates monthly that its LCR ratio – HQLA divided by total net cash outflows – is always greater than 100% (253% at the end of December 2021) which indicates that the Group does not need any additional liquidity to withstand cash outflows during a "significant stress scenario" lasting 30 days. Also, from this point of view, there is no need to carry a greater extent of encumbered assets. However, all assets that have been pledged are treated and reported as encumbered.

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

As at 31 December 2021, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level, the amount of encumbered assets equalled EUR 875 million, which presented 10% of total liquidity reserves.

Encumbered assets consist of debt securities (EUR 498 million) and ECB eligible loans (EUR 457 million). Group members are self-funded and have a strong liquidity position, so, NLB has the majority of encumbered assets in NLB Group.

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

The values of asset encumbrance are calculated as the median of the end-of-period values from in ITS AE (F 32) reporting for each of the four quarters in a year (used for display in tables 39 to 41).

Table 39 – EU AE1 – Encumbered and unencumbered assets of NLB Group

31.12.2021		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		Total	of which notionally eligible EHQLA and HQLA	Total	of which notionally eligible EHQLA and HQLA	Total	of which EHQLA and HQLA	Total	of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the disclosing institution**	1,969,726	834,824			19,272,191	3,821,680		
030	Equity instruments	780	-	-	-	81,441	-	-	-
040	Debt securities	439,395	439,395	443,091	443,091	4,838,375	3,732,265	4,872,436	3,763,605
050	of which: covered bonds	-	-	-	-	364,947	356,808	367,299	359,160
060	of which: securitisations	-	-	-	-	-	-	-	-
070	of which: issued by general governments	366,574	366,574	369,933	369,933	3,682,265	2,855,074	3,711,060	2,881,309
080	of which: issued by financial corporations	-	-	-	-	1,103,704	833,944	1,107,686	839,000
090	of which: issued by non-financial corporations	72,993	72,993	-	-	17,682	14,603	17,707	14,653
120	Other assets	1,522,709	419,857			14,352,860	122,944		

Table 40 – EU AE2 – Collateral received and own debt securities issued of NLB Group

31.12.2021		Fair value of encumbered collateral received or own debt securities issued	
		Total	of which notionally eligible EHQLA and HQLA
		010	030
250	**Total collateral received nad own debt securities issued**	**1,969,726**	**834,824**

Table 41 – EU AE3 – Sources of encumbrance of NLB Group

31.12.2021		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**792,931**	**890,171**

10. Exposure to market risk

(Article 445 of CRR)

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

Table 42 – EU MR1 – Market risk under the standardised approach of NLB Group

		31.12.2021	31.12.2020
		RWEAs	RWEAs
		a	b
	Outright products		
1	Interest rate risk (general and specific)	1,113	80,650
3	Foreign exchange risk	1,205,250	1,169,913
9	**Total**	**1,206,363**	**1,250,563**

10.1. Goals and principles of market risk management

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

The objectives and risk management policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee's key objectives define and monitor the implementation of NLB Group policies related to risk management and the balance sheet, and define methodologies and limits for interest rate risk in the banking book, liquidity risk, foreign currency risk, transfer pricing, the Funding Plan, and the Contingency Funding Plan. The Group ALCO also discusses the profitability of security portfolios and other activities in treasury and investment banking. Furthermore, the Committee ensures the alignment of practices and methodologies of NLB subsidiaries to NLB Group best practices in the respective areas and targets to optimise the liquidity and capital management aligned with the Group Business Strategy and Risk Appetite.

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

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

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

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

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

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

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

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

10.2. Policies for hedging or mitigating risk
(Article 435.1 d of CRR)

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

When hedging interest rate risk in the banking book, NLB Group applies hedge accounting principles in most cases. Within that process, NLB Group regularly measures hedge effectiveness of hedges monthly. Hedging in the banking book is well-documented, where a description is given of the: reasons for hedging, a description of the hedged risk, hedged items, and derivatives; the hedge accounting method (fair value hedge or cash flow hedge); the method for measuring effectiveness of the hedge; and how the results of hedges are recognised in NLB Group's financial statements. The trading book items are directly recognised in the income statement. NLB Group has BPV, VaR, and stop-loss limits in place, and open positions are managed within those limits.

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

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

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

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

External reporting is as follows:

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

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

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

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

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

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

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

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

More precisely, the different and complementary perspectives involve:

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

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

well. All procedures are standardised and well-documented. The prudent valuation is set in the Financial Instruments Evaluation Methodology and other internal operational guides. Valuation adjustments are made where applicable (e.g., low liquid assets). On a daily level, different types of controls are performed to ensure that real-time data gathered for valuation purposes are appropriate.

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

(Article 448 of CRR)

11.1. The nature of the interest rate risk and key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and the frequency of measurement of the interest rate risk

Interest rate risk in the Banking Book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, limit systems, and controls. NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in the level and shape of the interest rate yield curve and, furthermore, applies a cash flow modelling approach for positions with uncertain maturity and behavioural options. Part of non-maturing deposits, which is considered a core part, is allocated long-term by using a replicating portfolio and considering the supervisory maximum average maturities (i.e., retail up to 5 years; retail savings 4.5 years; non-financial wholesale 4 years). Optionality risk is mainly derived from behavioural options, reflecting in prepayments, and withdrawals, and embedded options such as caps and floors. Moreover, in light of expected cash flows, non-performing exposures, as well as off-balance sheet items are considered when measuring interest rate risk exposure. Optionality models are, to a large extent, based on linear regression using the historical data as input.

The management of NLB Group’s interest rate exposure is decentralised. Each member is responsible for its own interest rate risk policy, which includes a limit system and is in line with local regulatory requirements as well as the parent Bank’s guidelines and standards. NLB monitors the interest rate risk exposure on weakly basis and of individual member of NLB Group on a monthly basis in accordance with the Standards for Risk Management in NLB Group.

Interest rate risk exposure arises mainly from banking book positions, particularly in the current low interest rate environment and surplus liquidity where NLB Group records increased volume of fixed interest rate loans, mostly housing loans, and long-term high-quality debt securities. In terms of funding, non-banking sector deposits continue to increase mostly in the form of sight deposits and savings accounts.

11.2. The variation in earnings, economic value, or other relevant measures used by the management for upward and downward rate shocks according to management’s method for measuring the interest rate risk, and broken down by currency

Interest rate risk is the risk to NLB Group’s capital and earnings arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking book according to regulatory standards. It considers the positions in each significant currency (EUR, USD, CHF, and others). Interest rate risk management in NLB Group is adopted in accordance with conservative risk strategy and is based on general Basel standards and EBA guidelines.

NLB Group is managing interest rate risk exposure through two main measures:

- Economic value sensitivity – using the BPV method, which measures the extent to which the value of the portfolio would change if interest rates changed according to the scenario,
- Sensitivity of net interest income – using the EaR method, which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

Table 43: The impact of interest rate supervisory shock scenarios on the change in the NLB Group’s economic value

31.12.2021	*Amount*	*as % of Equity*
+ 200bp/400bp	(126,651)	*-6.42%*
- 200bp/400bp	191,629	*9.72%*
Steepener	272,445	*13.81%*
Flattener	(10,640)	*-0.54%*
Short IR up	(49,297)	*-2.50%*
Short IR down	(36,686)	*-1.86%*

The impact on change in the net interest income as at 31 December 2021 amounts to EUR -18.5 million, or - 0.94% of Group's equity considering the parallel shock scenario -50 bps for EUR and -100 bps for RSD, MKD, and BAM.

NLB Group manages interest rate positions and stabilises its interest rate margin through an appropriate pricing policy and a fund transfer pricing policy. An important part of managing interest rate risk is also the securities portfolio of the banking book whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin. This is why a valuation risk has been included in NLB Group's interest rate risk management model. NLB Group also manages risk by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules.

12. Liquidity risk management, requirements, and LCR

(Article 435.1 and 451a of CRR)

Liquidity Risk Management Framework

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

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

Strategies and processes in the management of liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Global Risk reports liquidity risk such as:

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

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

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

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

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

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

Furthermore, NLB Group prepares adverse scenarios, considering additional deterioration of liquidity situation of the Bank and future cash flows.

Dynamic liquidity projections are prepared monthly or, if necessary, more often. Static liquidity gaps are prepared by the Global Risk, Market, and Liquidity Risk. Dynamic liquidity projections are prepared by the Financial Markets, and Assets and Liabilities Management. In the projection of cash flows, the real assumptions and information on new transactions from business plans and the known business events are also included. The Assets and Liabilities

Management presents the dynamic liquidity projections to the ALCO, which then adopts the necessary decisions for successful management of the Bank's liquidity in the future, based on the presented results.

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

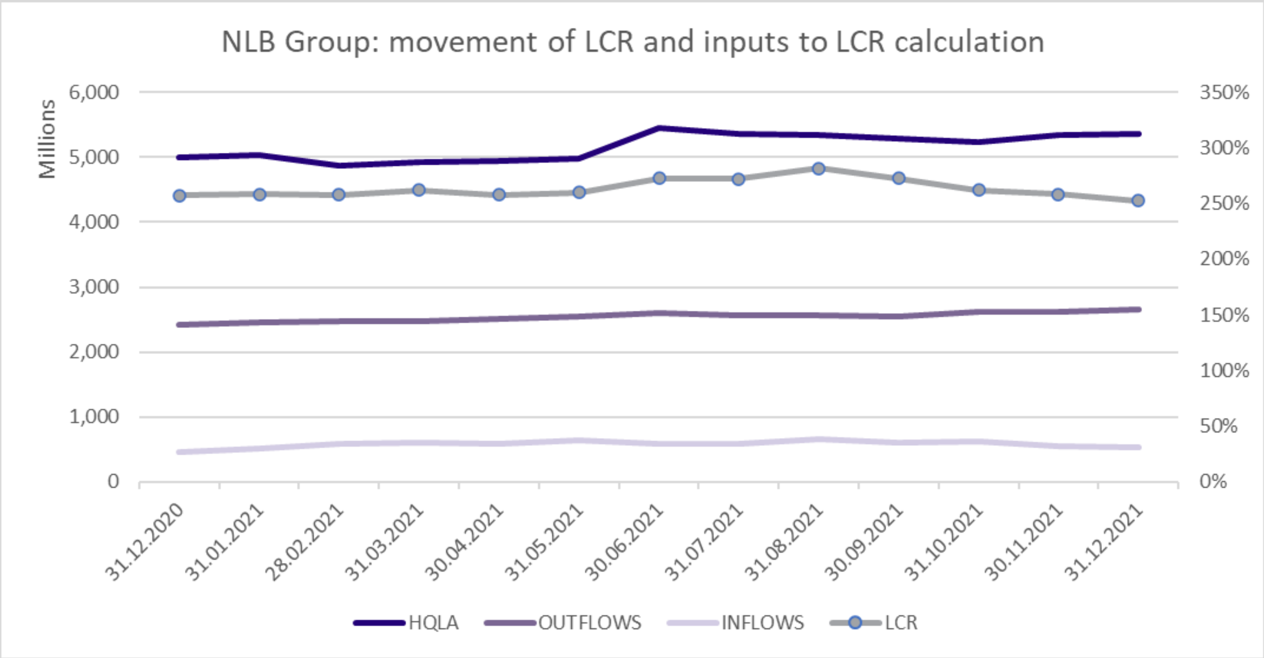
The purpose of the Liquidity Contingency Plan (LCP) is to establish guidelines for liquidity management in stressed circumstances. The objective of the LCP is timely identification of potential problems, drafting proposals, and finding resolutions for performing activities in stressed circumstances.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

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

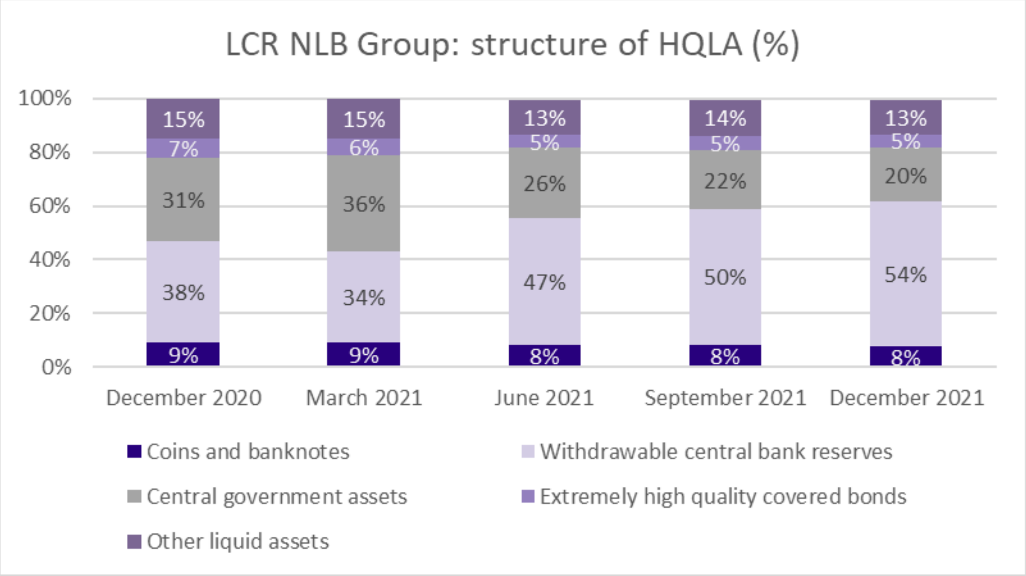
NLB Group maintains the appropriate level of liquidity reserves in the form of cash and other highly liquid and unencumbered assets that are available in a relatively short time. Liquidity reserves enable the settling of overdue liabilities within a predefined short period of stressed liquidity situation. Unencumbered assets represent a liquidity buffer, which includes cash, money market placements, high quality debt securities, and ECB eligible loans. At the end of December 2021, NLB Group had 38.30% of unencumbered liquidity reserves in total assets (42.56% at the end of 2020).

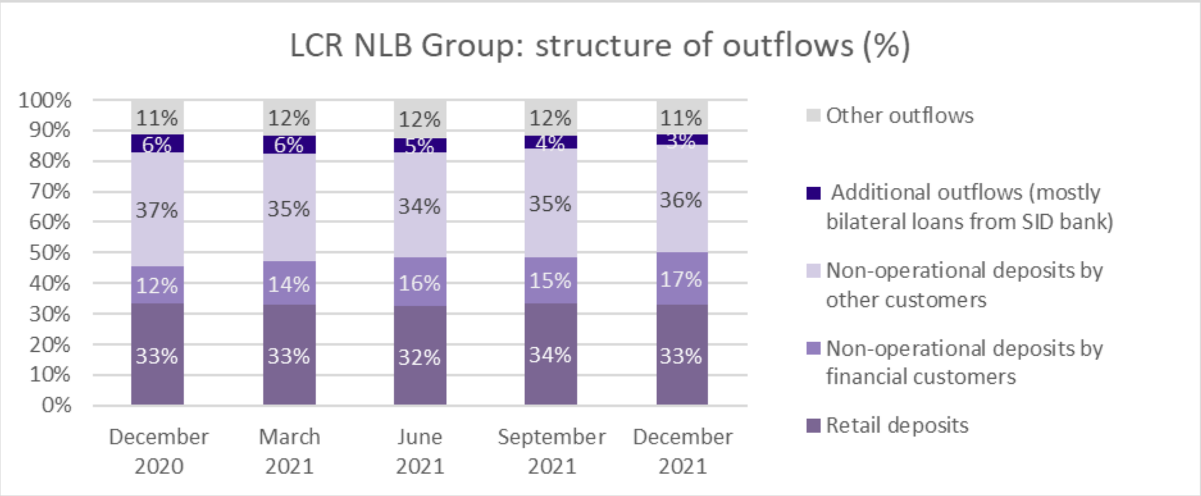
Liquidity coverage ratio

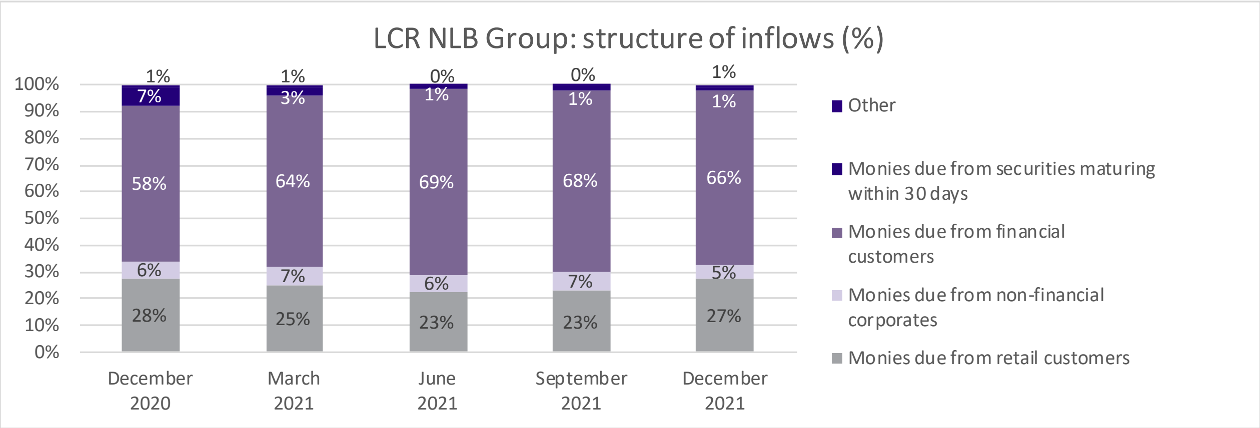
NLB Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In 2021, the LCR of NLB Group ranged between 253% and 281% (252.6% as at 31 December 2021). The surplus of HQLA is at a very high level in NLB Group, ranging between EUR 2.98 billion and EUR 3.45 billion in the past year (EUR 3.24 bn as at 31 December 2021).



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







Concentration of funding and liquidity sources

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

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

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

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

On the NLB Group level, at the end of 2021, the top 30 counterparties provided 3.4% of the total liabilities, mostly in retail, while the top 30 counterparties in NLB provided 4.0% of the total liabilities.

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

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

Derivative exposures and potential collateral calls

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

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

Currency mismatch in the LCR

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

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is from the acquisition of Komercijalna Banka, Beograd in 2020 in Serbian dinar (RSD), whereas before the second significant currency was the Macedonian denar (MKD). As at 31 December 2021, the aggregate liabilities in RSD represented 6.72% of total liabilities of the Group, therefore, RSD qualified as a significant currency.

Other items in the LCR calculation that are not captured in the LCR disclosure table

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

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

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

Table 44 – LIQ1 – Quantitative information of LCR of NLB Group, data in EUR millions

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	**Quarter ending on**	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**
		a	b	c	d	e	f	g	h
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	5,174	5,064	4,912	4,755
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	14,262	13,503	12,465	11,416	842	793	728	664
3	*Stable deposits*	10,514	9,889	9,050	8,188	526	494	452	409
4	*Less stable deposits*	2,702	2,551	2,351	2,176	316	299	275	255
5	Unsecured wholesale funding	2,640	2,491	2,307	2,108	1,277	1,195	1,106	1,012
7	*Non-operational deposits (all counterparties)*	2,639	2,491	2,306	2,108	1,276	1,194	1,105	1,011
8	*Unsecured debt*	1	1	1	1	1	1	1	1
10	Additional requirements	1,976	1,938	1,864	1,777	276	285	288	284
11	*Outflows related to derivative exposures and other collateral requirements*	124	139	148	153	124	139	148	153
13	*Credit and liquidity facilities*	1,851	1,799	1,715	1,625	152	146	139	132
14	Other contractual funding obligations	203	191	181	167	86	80	73	56
15	Other contingent funding obligations	1,183	1,136	1,089	1,042	70	68	65	62
16	**TOTAL CASH OUTFLOWS**					**2,552**	**2,420**	**2,259**	**2,079**
Cash-inflows									
18	Inflows from fully performing exposures	783	731	643	566	580	539	465	397
19	Other cash inflows	10	11	13	13	10	11	13	13
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	10	11	13	13	10	11	13	13
20	**TOTAL CASH INFLOWS**	**792**	**742**	**657**	**579**	**590**	**550**	**478**	**410**
EU-20a	***Fully exempt inflows***	**792**	**742**	**657**	**579**		**-**	**-**	**-**
EU-20c	***Inflows subject to 75% cap***	**792**	**742**	**657**	**579**	**590**	**550**	**478**	**410**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**5,174**	**5,064**	**4,912**	**4,755**
22	**TOTAL NET CASH OUTFLOWS**					**1,961**	**1,870**	**1,781**	**1,669**
23	**LIQUIDITY COVERAGE RATIO**					**263.92%**	**271.86%**	**277.78%**	**287.02%**

Table 45 – LIQ1 – Net Stable Funding Ratio of NLB Group

	31.12.2021	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		a	b	c	d	e
Available stable funding (ASF) Items						
1	**Capital items and instruments**	**-**	**-**	**-**	**2,252,490**	**2,252,490**
2	*Own funds*	-	-	-	2,252,490	2,252,490
4	**Retail deposits**		**13,631,467**	**443,042**	**604,796**	**13,827,085**
5	*Stable deposits*		10,793,451	311,147	380,969	10,930,338
6	*Less stable deposits*		2,838,016	131,895	223,827	2,896,747
7	**Wholesale funding:**		**2,739,282**	**132,909**	**1,093,779**	**2,330,363**
9	*Other wholesale funding*		2,739,282	132,909	1,093,779	2,330,363
11	**Other liabilities:**	**42,961**	**589,792**	**2,957**	**43,342**	**44,821**
12	*NSFR derivative liabilities*	42,961				
13	*All other liabilities and capital instruments not included in the above categories*		589,792	2,957	43,342	44,821
14	**Total available stable funding (ASF)**					**18,454,759**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**523,161**
17	**Performing loans and securities:**		**2,252,402**	**1,242,771**	**8,386,936**	**8,543,483**
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,310,911	882,950	3,941,948	5,016,904
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		50,135	10,810	114,649	122,263
22	*Performing residential mortgages, of which:*		322,348	308,977	3,537,468	2,615,017
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		38,781	32,553	1,102,348	752,193
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		619,143	50,844	907,520	911,562
26	**Other assets:**		**463,713**	**22,341**	**412,592**	**703,108**
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*				11,685	9,932
29	*NSFR derivative assets*				8,246	8,246
30	*NSFR derivative liabilities before deduction of variation margin posted*				42,059	2,103
31	*All other assets not included in the above categories*		401,723	22,341	412,592	682,827
32	**Off-balance sheet items**		**3,157,016**			**190,276**
33	**Total RSF**					**9,960,028**
34	**Net Stable Funding Ratio**					**185.29%**

13. Leverage ratio

(Article 451 of CRR)

The leverage ratio is calculated in line with provisions from the CRR and CRD, including the amendments. The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk-based supplementary measure to the risk-based capital requirements. The purpose of the leverage ratio is to limit the size of bank balance sheets, and with a special emphasis on exposures, which are not weighted within the framework of the existing capital requirement calculations. Therefore, the leverage calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made, in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. From 1 January 2018 onwards, the leverage ratio is calculated in accordance with the fully phased definition of the capital measure and has become one of the mandatory minimum capital requirements.

Table 46 – Leverage ratio of NLB Group

	31.12.2021	30.06.2021	31.12.2020
Tier 1 capital	1,965,557	1,885,268	1,768,062
Total leverage exposures	19,229,497	19,147,158	22,603,903
Leverage ratio	**10.22%**	**9.85%**	**7.82%**

The leverage ratio of NLB Group as at 31 December 2021 amounted to 10.22%, which is well above the 3% threshold defined by the BCBS. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. NLB Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, NLB Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceedings of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Boards of NLB. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 31 December 2021 increased in comparison with the end of June 2021, by 0.4 p.p. by the higher value of the total leverage exposure in the amount of EUR 82 million and the increase of the capital by EUR 80 million. Higher total leverage exposure arose from the EUR 392 million rise on-balance exposures, especially to sovereigns, households, and corporates, while off-balance sheet exposures increased by EUR 27 million. In contrast to the end of June 2021, derivative exposures decreased by EUR 12 million and their share in the total exposure measures is very low.

As at 31 December 2021, the leverage exposure was mainly driven by on-balance sheet exposures (95.4%), and other off-balance sheet exposure (4.4%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (38%), retail exposures (26%), exposures to corporates (14.5%), and 6.7% to other exposures.

With Article 500b of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 and Regulation (EU) 2020/873, as regards the temporary exclusion of some central bank exposures from their total leverage exposure measure, the bank exercised this option related to CRR quick fix amendments from 11 August 2020 till 27 June 2021. With the decision of the European Central Bank of 18 June 2021 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic the ECB determined further existence of exceptional circumstances in the period starting on 28 June 2021 and ending on 31 March 2022. The amount of excluded exposures as at 31 December 2021 was EUR 3,142 million.

Table 47 – LRCom - Leverage ratio common disclosure for NLB Group

		CRR leverage ratio exposures		
		a	b	c
		31.12.2021	**30.06.2021**	**31.12.2020**
On-balance sheet exposures (excluding derivatives and SFTs)				
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,540,991	21,141,043	21,986,015
6	(Asset amounts deducted in determining Tier 1 capital)	(46,143)	(38,602)	(40,383)
7	**Total on-balance sheet exposures (excluding derivatives, SFTs)**	**21,494,848**	**21,102,441**	**21,945,632**
Derivative exposures				
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	-	-	16,049
EU-9b	Exposure determined under Original Exposure Method	58,899	73,607	15,245
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(21,272)	(23,905)	(6,836)
13	**Total derivative exposures**	**37,627**	**49,702**	**24,458**
Securities financing transaction (SFT) exposures				
18	**Total securities financing transaction exposures**	**-**	**-**	**-**
Other off-balance sheet exposures				
19	Off-balance sheet exposures at gross notional amount	3,536,911	3,431,434	3,282,066
20	(Adjustments for conversion to credit equivalent amounts)	(2,698,018)	(2,619,521)	(2,474,076)
22	**Off-balance sheet exposures**	**838,893**	**811,913**	**807,990**
Excluded exposures				
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-	-	(174,177)
EU-22l	(Excluded exposures to the central bank exempted in accordance with point (n) of Article 429a(1) CRR	(3,141,871)	(2,816,898)	-
EU-22k	**(Total exempted exposures)**	**(3,141,871)**	**(2,816,898)**	**(174,177)**
Capital and total exposure measure				
23	Tier 1 capital	1,965,557	1,885,268	1,768,062
24	**Total exposure measure**	**19,229,497**	**19,147,158**	**22,603,903**
Leverage ratio				
25	**Leverage ratio**	**10.22%**	**9.85%**	**7.82%**
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans)	10.22%	9.85%	
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	8.79%	8.58%	
26	Regulatory minimum leverage ratio requirement	3.14%	3.14%	
27	Leverage ratio buffer requirement (%)	3.14%	3.14%	
EU-27a	Overall leverage ratio requirement	3.14%	3.14%	
Choice on transitional arrangements and relevant exposures				
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in	Fully phased in
Disclosure of mean values				
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	19,229,497	19,147,158	
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	22,371,368	21,964,056	
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10.22%	9.85%	
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.79%	8.58%	

Table 48 – EU LR1 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures for NLB Group

		a
		31.12.2021
1	**Total assets as per published financial statements**	**21,577,496**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(679)
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	(3,141,871)
8	Adjustments for derivative financial instruments	29,381
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	838,893
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(3,498)
12	Other adjustments	(70,225)
13	**Total exposure measure**	**19,229,497**

Table 49 – EU LR3 LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) for NLB Group

		a
		31.12.2021
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**21,540,991**
EU-3	Banking book exposures, of which:	21,540,977
EU-4	Covered bonds	361,140
EU-5	Exposures treated as sovereigns	8,112,418
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	397,434
EU-7	Institutions	1,126,170
EU-8	Secured by mortgages of immovable properties	1,248,907
EU-9	Retail exposures	5,581,830
EU-10	Corporate	3,132,273
EU-11	Exposures in default	144,894
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,435,911

14. Operational risk management

(Article 446 of CRR)

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

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

Table 50 – EU LR3 LRSpl – Operational risk own funds requirements and risk-weighted exposure amounts of NLB Group

	Banking activities	Relevant indicator			Own funds requirements	Risk exposure amount
		31.12.2019	31.12.2020	31.12.2021		
		a	b	c	d	e
1	Banking activities subject to basic indicator approach (BIA)	665,999	642,145	682,292	99,522	1,244,023

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

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The risk is also gradually decreasing due to the reduced complexity of operations in the NLB Group, with the disinvestment process of non-core activities and optimisation of internal processes. The NLB Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks. This is particularly valid in strategic banking members.

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

In NLB Group, the reported incurred net loss arising from loss events in 2021 were higher than in the previous year, mostly due to inclusion of the net losses arising from acquired Komercijalna banka Beograd. Nevertheless, the reported incurred net loss remain within the set tolerance limits for operational risk.

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

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

15. Remuneration policy

(Article 450 of CRR)

15.1. The bodies that oversee remuneration

The competent specialised departments, the Management Board, the Remuneration Committee of the Supervisory Board, and the Supervisory Board of the NLB, which also adopts the Remuneration Policy, are involved in the decision-making process on the formulation, changes, and amendments to the Remuneration Policy. In accordance with the Companies Act (ZGD-1), the remuneration policy of the members of the Management Board must be submitted to the General Meeting of Shareholders of NLB for approval after approval by the Supervisory Board of NLB. Voting on the Remuneration policy at the General Meeting of Shareholders of the Bank is consultative.

Members of Remuneration Committee as per 31 December 2021:

- Gregor Kastelic, President,
- Mark Richards, Vice President,
- Shrenik Davda, member,
- Sergeja Kočar, member,
- Bojana Šteblaj, member,

In 2021, the Remuneration Committee of the NLB Supervisory Board held four regular and five correspondence meetings.

An external contractor – a legal advisor for corporate law, who is a permanent associate of the Bank, also participates in the formulation, preparation, or implementation of the Remuneration Policy.

Considering local legislation and other regulations, the remuneration policy is also implemented at the level of all members of the NLB Group through the management and control system of the NLB Group.

Remuneration policy regulates the remuneration of employees performing special work, i.e., those employees who, within the scope of their work tasks and activities, can significantly influence the bank's risk profile. In the Remuneration policy are included members of the Management Board, senior management, and other employees who, with their powers and responsibilities, can influence the bank's risk profile.

15.2. Design and structure of the remuneration system for identified staff

The Remuneration Policy for employees performing special work shall be consistent with the goals of the Bank and NLB Group, the business strategy of Bank and NLB Group, the organisational culture and values, long-term interests, the environmental, social and governance (ESG) factors, the measures to prevent conflicts of interest, the risk profile, and the risk appetite.

The Remuneration Policy has been designed in a way not to stimulate the employees performing special work to take the non-proportionally high risks or risks that exceed the ability of NLB and/or NLB Group to assume risks, considering all risks, including reputation risks and risks resulting from mis-selling or unethical selling of products or other unethical or non-compliant behaviour.

The following stakeholders are involved in the decision-making process on the formulation, changes, and amendments to the remuneration policy:

- The competent specialised departments (prepare and coordinate proposals, check the compliance of the policy with regulations, policies, risk-taking, and perform a central review of compliance with regulations, policies, procedures, internal acts, etc.).
- Management Board of NLB (Within the scope of its powers, the Management Board of NLB ensures, inter alia, the adequacy of remuneration practices that are consistent with prudent and effective risk management as well as that they are thus managed, that they encourage such management and are gender-neutral).
- Remuneration Committee of the Supervisory Board of NLB (is an advisory body of the Bank's Supervisory Board with the duty to carry out expert and independent assessment of the remuneration policies and practices and, on that basis, drafts initiatives for the measures related to the improvement in the management of the Bank's risks, capital and liquidity; prepare proposals for the decisions of the Supervisory Board in

relation to remuneration, including those affecting the Bank's risks and their management; supervise the remuneration of senior management performing the function of risk management and the compliance function, as well as senior management performing the internal audit function; support and advise the Bank's Supervisory Board in formulating the Bank's remuneration policy, including that such remuneration policy is gender-neutral and supports equal treatment of employees).

- Risk Committee of the Supervisory Board of NLB is an advisory body of the Bank's Supervisory Board with the duty to advise on the Bank's general present and future risk appetite and on the risk management strategy; help to supervise the senior management regarding the implementation of the risk management strategy; without interfering with the duties of the remuneration committee, check whether the stimulations provided by the remuneration system take into account the risk, capital, liquidity and probability and schedule of the Bank's revenues, in order to design prudential remuneration policies and practices.
- Supervisory Board of NLB, adopts remuneration policies and within the scope of its powers, supervises the implementation of the general principles of remuneration policies. In accordance with the EBA Guidelines, the Bank's Supervisory Board is responsible for adopting and maintaining the remuneration policy and for supervising its implementation to ensure that it is fully implemented at the level of NLB, as well as at the consolidated level of the NLB Group.
- The General Meeting of NLB, after the confirmation of the Remuneration policy of the members of the Management Board by the Supervisory Board of NLB in accordance with the Companies Act (ZGD-1) a voting of the bank's shareholders is conducted to approve the policy. The vote on the remuneration policy at the General Meeting of Shareholders of the Bank is consultative.

With the Remuneration Policy guidelines for the prudent remuneration of employees performing special work are set in accordance with binding regulations and for the purpose of prudent and effective risk management.

In accordance with the provisions of the remuneration policy, the Supervisory Board to a member of the Management Board or Management Board to employees performing special work prior to allocating the variable part of salary adjusts this variable part to performance and risk, taking into account adjustment criteria based on KPI & KRI goals and criteria stated in the remuneration policy and relating to the Bank's or NLB Group's operations, as well as the conduct of the employee performing special work. In the remuneration policy certain cases are defined when the Supervisory board to a member of the management board or the Management Board to employee performing special work prior to allocation reduces the amount of variable remuneration (possibly to zero) due to prior or subsequent adjustment to the risk.

The Policy of Remuneration for the Employees Performing Special Work entered into force on 1 January 2012. In 2021, the Bank adopted a new Remuneration Policy for members of the Supervisory Board of NLB and members of the Management Board of NLB and the new Remuneration Policy for employees in NLB and the NLB Group, which have replaced previous Policy of Remuneration for the Employees Performing Special Work. Both policies were discussed at the Bank's Management Board, approved by the Remuneration Committee of the Supervisory Board of NLB and adopted by the Supervisory Board of NLB. The remuneration policy of members of the Supervisory Board of NLB and members of the Management Board of NLB, however, was submitted for voting to the General Meeting of NLB, where it was also voted in December 2021.

Significant changes to the two policies adopted concerned:

- a more detailed definition of the role of individual participants in the process of adoption and control over the implementation of the remuneration policy,
- introduction of a structured process of supervision over the implementation of remuneration policies in the NLB Group,
- definition of fixed and variable remuneration of defined employees,
- a gender-neutral policy,
- definition of performance and evaluation criteria for different categories of employees,
- determination of the length of the period of deferral of the deferred part of variable remuneration for members of the Management Board and senior management for at least five years, which is due in proportional shares. If the amount is extremely high, the bank must defer it at least 60 percent.

The Bank uses different remuneration policies and mechanisms of adjusting variable remuneration to risks for different employee categories.

The performance criteria for supervisory/control functions are established on the basis of the goals of their function and powers. Variable remuneration is awarded and paid depending on the achievement of goals linked to their functions, which should be independent from the performance of the supervised organisational units.

The following goals in the following ratios shall be used for assessing the performance of an individual member of the Management Board:

- financial goals of the NLB Group 50%,
- financial goals in the areas covered by the member of the Management Board 30%,
- personal goals of the member of the Management Board 20%.

To assess the performance of employees performing special work in control or supervisory functions, only the goals of the organisational unit and personal goals are considered, so the remuneration of these employees is not dependent on the performance of the Bank.

Table 51 - Definition of the amount of the variable part of the salary for the category of employees performing special work in control or supervisory functions for an individual financial year

Assessment of performance	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 1 salary
4 – most of the goals exceeded	up to 1.5 salary	up to 0.75 salary
3 – goals achieved	up to 1 salary	up to 0.5 salary
2 – goals partly not achieved	-	-
1 – goals not achieved	-	-

The employment contract may only stipulate guaranteed variable remuneration of an identified employee for the first year of their employment in accordance with the Bank's long-term interests. Where the guaranteed part of variable remuneration is awarded to a new employee prior to the first performance assessment period, such a variable part of remuneration is not included in the calculation of the relationship between fixed and variable components of the total remuneration for the first performance assessment period. The provisions of the Policy on malus, retention, and return of the variable part of the salary do not apply to the guaranteed variable remuneration, the total amount of the guaranteed variable remuneration is paid in cash and is not deferred.

For the members of Management Board, pursuant to point 8 of the second paragraph of Article 190 of the ZBan-3, payment to an individual in connection with early termination of their employment contract shall reflect the performance of that individual during a specific period and shall not reward them for failures or possible breaches at the Bank. According to the above it may not be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office if they are dismissed by the Supervisory Board due to:

- a severe violation of the obligations; or
- the inability to manage business; or
- due to a vote of non-confidence issued by the General Meeting of the Bank, except in the case such vote of no confidence is obviously ungrounded.

Furthermore, it may not be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office:

- if they are re-employed by the Bank or the NLB Group after the termination of the term of office; or
- in the event of a regular termination of the term of office.

It may be stipulated in the contract on the employment of a member of the Management Board with the Bank that a member of the Management Board is entitled to a compensation for early termination of the term of office only if dismissed for other business or economic reasons, in which case the proposal of the President of the Management Board for the dismissal of a member of the Management Board can be considered an 'other business or economic reason' (the second paragraph of Article 27 of the Bank's Articles of Association) and in case the member of the Management Board resigns (in such case, they can only be entitled to a compensation for early termination of the term of office if so decided by the Bank's Supervisory Board). In the sense of point 154 a and point 149 of the EBA Guidelines, the compensation for early termination of the term of office hereunder is not considered in the calculation of the ratio between the variable and fixed components of the remuneration, and it is not subject to deferment and payment in instruments.

Severance pay to employees performing special work
The Bank pays severance pay to employees performing special work who are not members of the Bank's Management Board, as stipulated by labour regulations and collective agreements are considered as fixed remuneration and not as variable remuneration in the calculation of the ratio between variable and fixed components of remuneration, thus not subject to deferment and payment in instruments.

15.3. The ways in which current and future risks are considered in the remuneration processes

Before allocation and payment of variable remuneration (including deferred part), the bank considers adjustment criteria resulting from risk management through the performance monitoring system based on KPI & KRI goals at the level of the NLB Group. As criteria, e.g., compliance with adopted policies, methodologies, policies, requirements of regulators and auditors, and authorisations related to the work of a member of the Management Board.

As defined in the Remuneration policy before paying the variable remuneration, the Bank shall check whether the strength of the capital base of the Bank and/or the NLB Group is endangered and whether the variable remuneration would be unsustainable given the financial condition of the Bank as a whole and/or the NLB group as a whole.

Variable remuneration shall not be awarded or paid out when the effect would be that the capital base of the Bank and/or the NLB Group would no longer be sound. If the soundness of the Bank's/NLB Group's capital base could be at risk due to allocating and paying the variable remuneration, the Bank shall take the following measures within the required scope:

- reduce the bonus pool for the previous business year, even down to zero, and appropriately consider such reduction when awarding the variable remuneration for the previous business year,
- apply the necessary measures to adjust the performance, particularly the maluses for the reduction of previously awarded but not paid deferred variable remuneration,
- reduce the previously paid remuneration based on the agreement on the return of variable remuneration,
- use the net profit of the Institution for the previous business year and potentially for the current and the subsequent business years to strengthen the Bank's/NLB Group's capital base.

15.4. The ratio between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD

Remuneration of the members of the Supervisory Board
In relation to their function members of the Supervisory Board may only receive remuneration that is compliant with the relevant resolutions of the Bank's General Meeting. The Bank's General Meeting may determine and change the remuneration of the members of the Supervisory Board independently from this Remuneration Policy, and may change, repeal, or replace any of its resolutions in relation to the remuneration of the Supervisory Board members at any time, or adopt a new resolution in relation to the remuneration of the Supervisory Board members.

All remuneration of the members of the Supervisory Board defined in resolutions of the Bank's General Meeting shall constitute fixed remuneration.

Remuneration of the members of the Management Board

The following principles are observed in the remuneration of the members of the Management Board:

- appropriate remuneration (remuneration of members of the Management Board comparable to the wage trend on the market and thus competitive in comparison with the remuneration of members of the Management Board of eligible international institutions)
- reward related to performance (achieving and exceeding the set goals is rewarded accordingly, which is also reflected in the amount of variable remuneration).

The remuneration of a Management Board member shall consist of:

- A fixed part of the salary, which reflects the relevant professional experience, responsibilities, and duties of a member of the Management Board, as defined in the job description of the member of the Management Board which is part of the recruitment conditions. The fixed part of the salary of the member of the Management Board was determined by the Supervisory Board based on the international benchmark of comparable banks with regard to the function/area covered by an individual member of the Management Board.
- A variable part of the salary, which reflects sustainable and risk-adjusted performance and performance that is better than expected and defined in the job description of the Management Board member which is part of the recruitment conditions. The amount of the variable part of the salary of a Management Board member depends on:

    - the achievement of the financial goals of the NLB Group,
    - the achievement of the financial goals in areas within the competence of the Management Board member,
    - the personal goals of the Management Board member.

The components of the fixed remuneration are the following:

- Salary:
    - comprises all bonuses and other payments to which the employees of the NLB are entitled under any relevant document,
- Allowances:
    - annual holiday pay and other paid absence from work in circumstances stated in the relevant documents indicated in the contract,
    - compensation for the non-competition period,
- Other remuneration:
    - annual holiday allowance paid to a member of the Management Board in accordance with the resolutions of the Bank applicable at the time,
    - separation allowance if they perform work and reside outside the place where their family resides,
- Cost reimbursements:
    - for travel and accommodation expenses in relation to the business trips of the Management Board member,
    - for the purchase of airline tickets when the Management Board member permanently resides abroad,
    - as compensation for the use of own funds when working from home in accordance with the relevant documents,
- Other benefits:
    - use of a company car for business and private purposes of the Management Board member,
    - company car with a driver for business purposes,
    - company mobile phone and an annual budget in accordance with the relevant documents,
    - air transport within the EU in economy class and outside the EU in business class,
    - training of the Management Board member in relation to the employment,
    - membership fees for professional associations and publications in relation to the employment and/or fulfilment of the obligations of the Management Board member,
    - medical examinations, spa treatment and rehabilitation,
    - collective accident insurance,
    - health insurance at home and abroad,
    - collective voluntary supplementary pension insurance,
    - accommodation of the Management Board member in Ljubljana,
    - liability insurance (D&O),
    - remuneration of the costs of tax consulting when the Management Board member is a tax resident of another country up to the ceiling for an individual calendar year specified in the contract,
    - housing loans for the staff under the same terms and conditions as those applying to the key staff employed under collective agreement,
    - entertainment allowance,
    - payment of education expenses for minor family members of the Management Board member if the latter moves from abroad in order to perform the function.

The components of the variable remuneration are the following:

- variable part of the salary (performance bonus) based on the criteria set by the Supervisory Board within the annual business plan of the Bank,
- severance pay – compensation for early termination of the term of office.

The ration of gross salary to maximum variable part of the salary shall be 1:0.67.

Remuneration of other employees performing special work
The salary of an employee performing special work shall consist of:

- A fixed part of the salary, which reflects the relevant professional experience and responsibilities at the Bank, as described in the employee’s job description, which is part of the recruitment conditions.
- A variable part of the salary which, for the employees performing special work who are not members of the Management Board, consists of:
  - the part depending on the performance of NLB or the NLB Group (for the employees performing special work able to affect the risk profile of the NLB Group within the scope of their powers) or depending on the performance of NLB (for other employees performing special work); control and supervisory functions are not entitled to this part of variable remuneration,
  - work depending on the performance of the organisational unit of the employee performing special work,
  - work depending on individual performance of employee performing special work.

However, the ratio between the variable and fixed part of the salary for identified employees differs according to the defined categories of identified employees as defined in the remuneration policy.

Tables 52 to 55 define the amounts of remuneration for employee performing special work by individual categories:

Table 52 – Determination of the amount of the variable part of the salary for category 2 of employees performing special work for each business year

Assessment of performance	Goals of the NLB Group / NLB	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 2 salaries	up to 2 salaries
4 – most of the goals exceeded	up to 1.5 salary	up to 1.5 salary	up to 1.5 salary
3 – goals achieved	up to 1 salary	up to 1 salary	up to 1 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The maximum possible amount of the variable part of the salary for category 2 of employees performing special work for each business year is six salaries.

Table 53 – Determination of the amount of the variable part of the salary for category 3 of employees performing special work for each business year

Assessment of performance	Goals of the NLB Group / NLB	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 2 salaries	up to 1 salary
4 – most of the goals exceeded	up to 1.5 salary	up to 1.5 salary	up to 0.75 salary
3 – goals achieved	up to 1 salary	up to 1 salary	up to 0.5 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The maximum possible amount of the variable part of the salary for category 3 of employees performing special work for each business year is five salaries.

Table 54 – Determination of the amount of the variable part of the salary for category 4 of employees performing special work for each business year

Assessment of performance	Goals of the NLB Group / NLB	Goals of the OU	Personal goals
5 – all goals exceeded	up to 1 salary	up to 1 salary	up to 1 salary
4 – most of the goals exceeded	up to 0.75 salary	up to 0.75 salary	up to 0.75 salary
3 – goals achieved	up to 0.5 salary	up to 0.5 salary	up to 0.5 salary
2 – goals partly not achieved	-	-	-
1 – goals not achieved	-	-	-

The maximum possible amount of the variable part of the salary for category 4 of employees performing special work for each business year are three salaries.

Table 55 – Determination of the amount of the variable part of the salary for category 5 of employees performing special work for each business year

Assessment of performance	Goals of the OU	Personal goals
5 – all goals exceeded	up to 2 salaries	up to 1 salary
4 – most of the goals exceeded	up to 1.5 salary	up to 0.75 salary
3 – goals achieved	up to 1 salary	up to 0.5 salary
2 – goals partly not achieved	-	-
1 – goals not achieved	-	-

The maximum possible amount of the variable part of the salary for category 5 of employees performing special work for each business year are three salaries.

15.5. Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration

An overview of main performance criteria and metrics for institution, business lines, and individuals

Criteria for assessing the performance of members of the Management Board
The financial performance indicators arise from the strategic plan of the NLB Group and are, in line with the strategic orientations, oriented towards acquisitions and optimisations, and support the implementation of the strategy and strategic projects and goals arising from the ESG guidelines. The non-financial performance indicators arise from the activities supporting long-term changes reflected in the method of operation and approach to clients, supporting changes in the corporate culture, and supporting the values of the Bank and the employees. The goals, criteria, and methodology for establishing the performance of the Management Board members shall be set by the Bank's Supervisory Board for each individual business year.

For determining the performance of an individual member of the Management Board the following goals are applied:

- financial goals of the NLB Group (profit after taxes, revenues, expenses, etc.)
- financial goals in areas within the competence of the member of the Management Board (NPS, ESG implementation, cyber risk, etc.)
- personal goals of a member of the Management Board (related to acting in accordance with the values of the NLB Group).

Criteria for assessing performance of other employees performing special work

- Goals of NLB and the NLB Group:
  The Management Board sets the goals of NLB and the NLB Group for each business year and the Bank's Supervisory Board approves them.
  For the employees performing special work able to affect the risk profile of the NLB Group within the scope of their powers, the goals of NLB or the NLB Group are taken into account. The goals that are set for NLB also apply to other employees performing special work.
- The goals of the organisational unit of the employee performing special work:
  The concrete targets which derive from the targets of NLB and/or the goals of the NLB Group of the organisational unit where the employee performing special work assumes risk are defined by their direct superior officer for each business year and include the following areas:
  - business goals of the organisational unit, project goals, cross-functional goals,
  - financial goals of the organisational unit (if specified).
- Personal goals of the employee performing special work (development, project, and other goals)
  Personal goals of an employee performing special work are defined by their direct superior officer for each business year.

An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance

The Remuneration policy stipulates that the decision on whether the performance criteria have been met and the decision on the payment of annual variable work for the Management Board is made by the Supervisory Board, and for other employees performing special work by the Bank's Management Board. An employee who does not achieve personal goals is not entitled to the annual variable part of the salary, regardless of whether the goals of the bank and the goals of the organisational unit have been achieved. Likewise, an employee is not entitled to the annual variable part of the salary insofar as it grossly violates the values of the NLB Group defined in the NLB Group Code of Ethics.

In assessing the work performance of members of the Management Board, the Supervisory Board also considers the year-on-year conditions of the local, regional, and global banking and economic market. When assessing the performance of the members of the Management Board, the Supervisory Board also considers the interim situation on the local, regional, as well as global banking and economic markets, and the achievement of the goals of the members of the Management Board, considering their activities in pursuing the Bank's best interest.

An interviewed regarding the achievement of results for the previous year and the agreement on goals for the next year is conducted with employees performing special work, based on the NLB Group's strategy, NLB's goals and the Bank's development and project goals. During the year, the achievement of goals is also checked, especially those related to strategic projects on individual level with individual employees performing special work as on a collective level, on the Bank's committees and on the Supervisory Board.

Definition of the amount of variable remuneration for members of the Management Board

The members of the Management Board are entitled to the annual variable part of the salary based on their achievement of financial and non-financial performance criteria under the terms and conditions of this Policy.

The following goals in the following ratios shall be used for assessing the performance of an individual member of the Management Board:

- financial goals of the NLB Group 50%,
- financial goals in the areas covered by the member of the Management Board 30%,
- personal goals of the member of the Management Board 20%.

The maximum possible amount of the variable part of the salary of a member of the Management Board for an individual business year for the period until including 05 July 2021 shall be eight salaries, while for the period as at 06 July 2021 it shall be seven salaries.

Definition of the amount of variable remuneration for employees performing special work

Goals of NLB and the NLB Group:

The Management Board sets the goals of NLB and the NLB Group for each business year and the Bank's Supervisory Board approves them. For the Management Board and for those employees performing special work who have the possibility to influence the risk profile of the NLB Group within their competences, the goals set for the NLB Group are considered. For other employees performing special work, except for employees in the supervisory or control function, the goals set for NLB are considered.

The amount of the variable part of the salary varies according to the category of the employees performing special work, who are divided into the following five categories:

- Members of the Management Board of NLB,
- Employees performing special work who are members of the senior management in the Bank's front office and the assistants to the Bank's Management Board,
- Employees performing special work in the Bank's front office at level B-2 and area managers for the NLB Group,
- Employees performing special work in the back office of the Bank, who are members of the senior management, and employees not belonging to any other category hereunder but who are considered to have an important impact on the Bank's risk profile pursuant to the Commission Delegated Regulation (EU) No 604/2014,
- Supervisory or control functions.

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined depending on the achievement of the relevant goals from the previous paragraph; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- two salaries for categories 2 and 3 of the employees performing special work,
- one salary for category 4 of the employees performing special work,
- category 5 of the employees performing special work is not entitled to the variable part of the salary for this segment.

The goals of the organisational unit of the employee performing special work:

The concrete targets which derive from the targets of NLB and/or the goals of the NLB Group of the organisational unit where the employee performing special work assumes risk are defined by their direct superior officer for each business year and include the following areas:

- business goals of the organisational unit, project goals, cross-functional goals,
- financial goals of the organisational unit (if specified).

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined depending on the achievement of the goals of the OU; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- 2 salaries for categories 2, 3 and 5 of the employees performing special work,
- 1 salary for category 4 of the employees performing special work.

Personal goals of the employee performing special work (development, project and other goals)

Personal goals of an employee performing special work are defined by their direct superior officer for each business year.

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined depending on the achievement of the personal goals; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- two salaries for category 2 of the employees performing special work,
- one salary for categories 3, 4 and 5 of the employees performing special work.

Given the situation caused by the coronavirus pandemic and due to restrictions imposed by the Bank of Slovenia in 2020, in the year 2020 the Bank did not decide on the allocation and payment of non-deferred part of variable remuneration of employees performing special work for 2019 and on the payment of the deferred part of the variable remuneration for 2016.

In accordance with the Bank of Slovenia's Decision on the Macroprudential Limit on the Distribution of Bank Profits (hereinafter: the BS Decision) on 1 March 2021 NLB sent the Bank of Slovenia information on the allocation and payment of the non-deferred part of the variable part for 2019 and the payment of the deferred part of the variable part for 2016 and 2017, by which were given the legal basis for the allocation and payment of variable remuneration.

On 13 April 2021, the Supervisory Board decided on the allocation and payment of variable remuneration for 2019, 2017 and 2016 for members of the Management Board. The payment of the non-deferred variable part of the salary in-cash for 2019 and the deferred variable part of the salary for 2016 was made on 14 April 2021. On 11 July 2021, after three years from the payment of the non- deferred part the payment of the deferred variable part of the salary for 2017 was made.

In 2021, the Supervisory Board also decided on the allocation of variable remuneration to members of the Management Board for 2020. According to the achieved financial results of the NLB Group, which are arising from the economic situation in connection with the COVID-19 epidemic, the Bank allocated for employees performing special work a correspondingly reduced variable part of the salary for 2020 in the amount of 25% of the maximum possible amount of remuneration of an individual employee performing special work.

The Bank has not yet allocated a variable part of remuneration in financial instruments for 2019 and 2020 to employees performing special work.

In accordance with the Remuneration Policy for employees performing special work, a threshold is set for defining variable remuneration for the purposes of point 7 of the first paragraph of Article 170 of ZBan-2 (which stipulates that at least 50% of variable remuneration consists of bank shares or shares of related instruments, or equivalent non-monetary instruments, when the Bank's shares are not listed on a regulated market) so that variable remuneration of an employee with a special nature of work for an individual financial year, not exceeding EUR 50,000, do not represent variable renumeration for the purposes from point 7 of the first paragraph of Article 170 of the ZBan-2.

As is seen from the previous paragraph, NLB should, in accordance with the then valid ZBan-2, allocate and pay at least 50% of the variable part of the salary of an individual employee performing special work for an individual business year, exceeding EUR 50,000 in shares of NLB.

With the adoption of the new Banking Act (*Official Gazette of the Republic of Slovenia* Nos. 92/2021 and 123/2021, hereinafter: ZBan-3), which entered into force on 23 June 2021, the basic principles for rewarding bank employees were determined, which, within the scope of their competencies or work tasks and activities, may significantly influence the bank's risk profile (hereinafter: employees with a special nature of work or defined employees).

Thus, with regard to the variable remuneration of identified staff, it provides, *inter alia*, for the following:

- at least 50% of the variable remuneration of each individual must consist of ordinary or preference shares of the bank, or equity-related instruments, or equivalent non-monetary instruments,
- a significant share, but at least 40% of the variable remuneration of each individual, must be deferred for a period of four to five years (if the amount of variable remuneration is extremely high, the bank must defer it at least 60%). For members of the management body and senior management of an important bank (which NLB is), the deferral period may not be less than five years. Receipts subject to deferral are due on a pro rata basis (ie, they fall due in instalments over the period of deferral).

The obligation to pay part of the variable remuneration in instruments in accordance with ZBan-3 does not apply (among other things) to a defined employee whose annual variable remuneration does not exceed EUR 50,000 and does not exceed one third of his total annual remuneration.

In order to meet the requirements of ZBan-3, the Bank decided to introduce a new instrument for the payment of part of the variable part of remuneration for the purposes of variable remuneration of employees performing special work. The purpose of the instrument is to promote long-term orientation of employees performing special work, especially in the part of risk management, because by linking part of the variable part of remuneration to long-term performance, it promotes sustainable and prudent behaviour of employees and long-term operations of the bank.

Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options, and other instruments

If, pursuant to the binding regulations, part of the variable remuneration of a certain identified employee must consist of either ordinary or preference shares of the Bank, or instruments related to shares or equal non-cash instruments, the variable remuneration shall be set according to the criteria whereby the Bank ensures compatibility with a prudent and efficient risk management.

If the variable remuneration of an identified employee for an individual business year exceeds EUR 50,000 gross or/and is higher than one-third of their total remuneration for the respective business year, at least 50% of it must – if that is obligatory in accordance with the relevant regulations – consist of instruments, and the identified employee may only transfer these instruments upon the Bank's permission, which may only be issued after at least three years have passed since the acquisition. The provision of the previous sentence refers both to the non-deferred and the deferred part of the variable remuneration from the previous sentence.

The Bank determines the instruments to be used for the variable part of the remuneration of identified employees in accordance with the currently applicable regulations. Unless the Bank decides otherwise, the part of the variable remuneration of an identified employee consisting of instruments shall be awarded and paid, under the terms and conditions of this Policy, in instruments whose value is based on the value of the share of NLB (with these instruments not giving any dividends or other yields).

Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics

The award and payment of the variable remuneration depends on adjustment criteria which result from risk management through the system for monitoring performance based on KPI and KRI targets at the level of the NLB Group.

The criteria applied shall include compliance with the adopted policies, methodologies, orientations, regulators' and auditors' requirements, as well as authorisations linked to the work of the member of the Management Board.

In assessing the work performance of members of the Management Board, the Supervisory Board also considers the year-on-year situation of the local, regional, and global banking and economic market and assess the achievement of the goals of the members of the Management Board taking into account their activities in pursuit of the best interests of the bank.

In 2021, before allocating variable remuneration to employees performing special work for 2020, the Bank in accordance with the provisions of the Remuneration policy, adjusted this variable remuneration for performance and risk based on KPIs and KRI targets. According to the achieved financial results of the NLB Group, arising also from the economic situation in connection with the COVID-19 epidemic, the Bank for 2020 allocated a correspondingly reduced variable part of the salary for 2020 to employees performing special work.

15.6. The ways in which the institution seeks to adjust remuneration to take account of longterm performance

Members of the Management Board and other employees performing special work shall be entitled to the annual variable part of the salary which shall be awarded and/or paid based on their achieving the financial and non-financial performance criteria and other terms and conditions specified in this Policy.

The decision whether all the criteria have been achieved to pay the variable part of salary to members of the Management Board and the identified employees in control or supervisory functions shall be adopted by the Supervisory Board, whereas for other identified employees this decision shall be adopted by the Management Board of the Bank which reports to the Bank's Supervisory Board on the matter.

Allocation of variable remuneration

Prior to awarding variable remuneration to an employee performing special work, the Bank shall make an adjustment of such variable remuneration to performance and risks, considering the adjustment criteria based on the KPI and KRI goals, and the criteria listed in the table below. The table below shows the cases in which the Supervisory Board of the Bank reduces the amount of variable remuneration of member of the Management Board and the Management Board of the Bank reduces the amount for the other employee performing special work, due to prior risk adjustment before allocation reduces the amount of variable remuneration (possibly to zero). If reduction to zero is not mandatory according to the table below, the competent body determines the reduction of the variable remuneration on the basis of the circumstances of each case.

The amount of the variable remuneration to be awarded, its composition, the share of variable part of the remuneration to be deferred, and the period of payment deferment pursuant to this Remuneration Policy shall be determined by the Supervisory Board for the member of the Management Board and by the Management Board for other employees performing special work.

The variable remuneration of employee performing special work for an individual business year shall be awarded and paid in cash, provided that it does not exceed EUR 50,000 gross and is not higher than one-third of their total remuneration for the respective business year, and if that is in accordance with the relevant regulations.

If the variable remuneration of employee performing special work for an individual business year exceeds EUR 50,000 gross or/and is higher than one-third of their total remuneration for the respective business year, at least 50% of it must – if that is obligatory in accordance with the relevant regulations – consist of instruments, and the identified employee may only transfer these instruments upon the Bank's permission, which may only be issued after at least three years have passed since the acquisition. The provision of the previous sentence refers both to the non-deferred and the deferred part of the variable remuneration from the previous sentence. If the total variable remuneration of employee performing special work for an individual business year, which does not exceed EUR 50,000 gross and is no higher than one-third of their total remuneration for the respective business year, may not be awarded and paid in cash in accordance with the third paragraph of this Article, this fourth paragraph of this Article shall apply to it mutatis mutandis.

If that is obligatory in accordance with the relevant regulations, at least 50% of the variable remuneration of the employee performing special work awarded for an individual business year (or at least 60% if it is higher than 15 times the average annual gross remuneration at NLB for the business year before the award[1]) shall be deferred for a period of at least five years starting on the day of payment of the non-deferred part of this variable remuneration.

The non-deferred part of variable remuneration is paid no later than three months after the adoption of the Annual Report of the NLB Group for the business year to which the variable remuneration relates, provided also that the Supervisory Board of NLB adopts a decision on the allocation (or non-allocation) of the variable remuneration for the members of the Management Board of NLB for the said business year.

The deferred part of the variable remuneration shall be paid in proportion. It shall be paid under the terms and conditions of this Policy, in fifths, as follows:

- the first fifth of the deferred part of the variable remuneration shall be paid no later than three months after one year has passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the first fifth of the deferred part of the variable remuneration is paid: (i) one year has lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which one year lapses after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;
- the second fifth of the deferred part of the variable remuneration shall be paid no later than three months after two years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the second fifth of the deferred part of the variable remuneration is paid: (i) two years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial

[1] each individual member of the NLB Group uses 15 times the average annual gross remuneration in that member of the NLB Group in its remuneration policy

year in which two years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;

- the third fifth of the deferred part of the variable remuneration shall be paid no later than three months after three years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the third fifth of the deferred part of the variable remuneration is paid: (i) three years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which three years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;
- the fourth fifth of the deferred part of the variable remuneration shall be paid no later than three months after four years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the fourth fifth of the deferred part of the variable remuneration is paid: (i) four years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which four years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent;
- the fifth fifth of the deferred part of the variable remuneration shall be paid no later than three months after five years have passed from the payment of the non-deferred part of the variable remuneration, provided the following conditions have been cumulatively met before the last fifth of the deferred part of the variable remuneration is paid: (i) five years have lapsed after the payment of non-deferred part of the variable remuneration; and (ii) the NLB Group has adopted its annual report for the financial year before the financial year in which five years lapse after the day of payment of non-deferred part of the variable remuneration; and (iii) the Supervisory Board of NLB has decided on the payment of the variable remuneration to the members of the Management Board of NLB which (a) refers to the same financial year as the part of the variable remuneration indicated in this indent, and (b) falls due in the same financial year as the part of the variable remuneration indicated in this indent.

If the competent body of the Bank defines a deferral period that is longer than five years, the previous paragraph applies *mutatis mutandis*.

Table 56 – Cases in which the amount of variable remuneration is reduced (potentially down to zero)

Ser. No.	Circumstances	Mandatory reduction of variable remuneration to zero	Reduction of variable remuneration, potentially to zero
1	The Bank's performance shows material negative trends that result from the decisions adopted by the employee performing special work in the accounting period, to which the variable remuneration is related	X	
2	Fraud or abuse by the employee performing special work	X	
3	Severe violations of the Bank's regulations or internal documents by the employee performing special work	X	
4	The actions of the employee performing special work show signs of a criminal offence	X	
5	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related show signs of a minor offence		X
6	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related reduce or damage the Bank's reputation		X
7	Violation of obligations arising from the employment relationship by the employee performing special work in the accounting period, to which the variable remuneration is related		X
8	Non-diligent conduct of the employee performing special work, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the Bank	X	
9	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, result in a conflict of interest with the Bank's business interests	X	
10	Corruptive actions of the employee performing special work resulting in or increasing the non-transparency in the adoption of business decisions	X	
11	The cooperation of such employee performing special work in, or their responsibility for, the actions that led to significant losses for the Bank	X	
12	Fit & Proper assessment of such employee performing special work is negative		X
13	The actions of such employee performing special work is contrary to the Code of Conduct in the NLB Group		X
14	The Bank's soundness of the capital base could be at risk due to allocating and/or paying the variable remuneration		X
15	Considering the financial position of the Bank as a whole, the variable remuneration would not be sustainable		X
16	The financial performance of the Bank and/or the business unit in which the employee performing special work is employed is poor or negative		X
17	The Bank and/or the business unit in which the employee performing special work is employed, is particularly unsuccessful in the area of risk management		X
18	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, contributed to the Bank being imposed a regulatory fine		X

Note: The cases in which an individual option can be used are marked with a cross.

Malus, retention, and return of the variable part (clawback)

The table below sets out the cases when the Supervisory Board members of the Management Board and identified employees from supervisory functions or control functions, and the Management Board for other defined employees, due to subsequent adjustment to the risk before its maturity reduces deferred part of variable remuneration in cash or the number or the value of instruments that make up an individual part of the deferred part of variable remuneration (possibly to zero). If a reduction to zero is not mandatory according to the table below, the competent authority shall determine the reduction of an individual part of the deferred part of the variable remuneration according to the circumstances of the case.

If the circumstances of a case are not clear enough to allow for deciding on whether the deferred part of the variable remuneration of identified employee is paid out or not, or in what amount it is to be paid, the Bank can decide, that the deferred part of the variable remuneration shall not fall due upon initially set maturity and it may defer the decision on whether, in what amount and when to pay the deferred part of the variable until the circumstances are clarified. In the case from the previous sentence the bank decides whether the deferred part of the variable remuneration is to be paid or not, and in what amount, it is to be paid and when once the relevant circumstances have been clarified to its satisfaction. Decisions referred to in this paragraph regarding variable remuneration of members of the Management Board and defined employees from control or supervisory functions shall be made by the Bank's Supervisory Board, and regarding variable remuneration of other defined employees by the Management Board.

Table 57 – Cases in which the amount of deferred variable remuneration is reduced (potentially down to zero)

Ser. No.	Circumstances	Mandatory reduction of the deferred part of the variable remuneration to zero (holdback)	Reduction of the deferred part of the variable remuneration, potentially to zero (clawback)
1	The Bank's performance in the period of deferred payment shows material negative trends that result from the decisions adopted by the employee performing special work	X	
2	Fraud or abuse by the employee performing special work	X	
3	Severe violations of the Bank's regulations or internal documents by the employee performing special work	X	
4	The actions of the employee performing special work show signs of a criminal offence	X	
5	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related show signs of a minor offence		X
6	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related reduce or damage the Bank's reputation		X
7	The nullity of the annual report is established with a binding effect and the grounds for nullity refer to the items or facts based on which the variable part of the salary		X
8	Violation of obligations arising from the employment relationship by the employee performing special work in the accounting period, to which the variable remuneration is related		X
9	Non-diligent conduct of the employee performing special work, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the Bank	X	
10	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, result in a conflict of interest with the Bank's business interests	X	
11	Corruptive actions of the employee performing special work resulting in or increasing the non-transparency in the adoption of business decisions	X	
12	It is established with a special auditor's report that the criteria for defining the variable part of the salary were applied incorrectly or that the critical accounting, financial and other data and indicators were incorrectly established or applied.		X
13	The variable remuneration had not been awarded in accordance with this Policy		X
14	If a new fact is revealed that could change the decision on the award or the amount of the variable remuneration		X
15	The cooperation of such employee performing special work in, or their responsibility for, the actions that led to significant losses for the Bank	X	
16	Fit & Proper assessment of such employee performing special work is negative		X
17	The actions of such employee performing special work is contrary to the Code of Conduct in the NLB Group		X
18	The Bank's soundness of the capital base could be at risk due to paying the variable remuneration		X
19	Considering the financial position of the Bank as a whole, the variable remuneration is not sustainable		X
20	The financial performance of the Bank and/or the business unit in which the employee performing special work is employed is poor or negative		X
21	The Bank and/or the business unit in which the employee performing special work is employed, is particularly unsuccessful in the area of risk management		X
22	The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, contributed to the Bank being imposed a regulatory fine		X

Note: The cases in which an individual option can be used are marked with a cross.

If the case of circumstance from item 7, 12, 15, or 16 of the table from Policy occurs or is revealed and the (non-deferred or deferred) part of the variable remuneration has already been paid, the Bank has the right to demand, within a period of three years from the payment of the part of the variable remuneration from identified employee to return such part of variable remuneration, partially or in full, with *mutatis mutandis* application rules from Remuneration Policy. Furthermore, the Bank has the right to demand, within a period of three years from the payment of the part of the variable remuneration from identified employee to return such part of variable remuneration, partially or in full, if it is established after the payment that identified employee significantly contributed to poor or negative financial performance of the Bank or used fraud or taken any other intentional action or caused through gross negligence, great losses to the Bank. Decisions referred to in this paragraph regarding the variable remuneration of members of the Management Board and identified employees of control functions or supervisory functions shall be made by the Bank's Supervisory Board, and Management Board regarding the variable remuneration of other identified employees.

15.7. Main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR

The variable part of the remuneration refers to the payment, which depends on the achieved results, and which are directly related to the achievement of the goals of the NLB Group, NLB, and individual goals and is allocated and paid out in the form of cash and/or instruments. These objectives are aimed at achieving long-term value creation and sustainable results and combine financial objectives with environmental, social, and governance objectives.

The NLB Group contributes to sustainable financing by integrating environmental, social, and governance risks (ESGs) into its business strategies, risk management framework, and internal management. Thus, ESG risk management follows the guidelines of the ECB and the EBA and is included in all relevant processes.

Sustainability refers to managing the direct impact of the ESG while ensuring ethical and efficient operations. Our goal of improving sustainability is achieved by measuring, managing, and reporting in accordance with relevant EU regulations and UN principles. Effective risk and capital management at all levels is crucial for maintaining the long-term profitable operations of the NLB Group.

In defining the objectives of the NLB Group, financial and non-financial performance indicators are determined. Given the limited constraints of the COVID-19 pandemic, performance indicators have been slightly adjusted, but the following indicators have been tentatively set:

- Financial performance indicators (achievement of planned values):
  - net profit after taxes,
  - total revenues,
  - total costs,
  - RORAC,
  - cost of risk.
- Other financial and non-financial indicators:
  - implementation of the strategy and setting milestones in the IT strategy,
  - defining the ESG strategy and implementation,
  - NPS measurement,
  - performance management in accordance with the remuneration policy,
  - conduct in accordance with the valuesof the NLB Group.

15.8. The total remuneration for each member of the management body or senior management

The total remuneration of the members of the management body has already been disclosed by name and by type of remuneration in the annual report in Chapter 8. Related-party transactions are on page 335.

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

The derogation provided for in Article 94 (3) (b) of the CRD may apply to the bank andshall be applied by the Bank to the principle set out in Article 94 (1) (l). The competent authorities have not yet allocated variable remuneration for 2021, but it is estimated that there will be 43 employees for whom this derogation will apply. The estimated total remuneration for these employees is EUR 4,900,000, of which a fixed EUR 3,560,000 and a variable EUR 1,350,000.

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

The total remuneration of the members of the management body has already been disclosed by name and by type of remuneration in the annual report Chapter 8. Related-party transactions page 335.

15.11. Quantitative information on remuneration

(Article 450.1 g h, and i of CRR)

Table 58 – EU REM1 – Remuneration awarded for the financial year for NLB Group

in EUR

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
			a	b	c	d
1	Fixed remuneration	Number of identified staff	38	58	276	68
2		Total fixed remuneration	781,222	7,860,022	14,498,580	4,688,129
3		Of which: cash-based	781,222	7,860,022	14,498,580	4,688,129
9	Variable remuneration	Number of identified staff	38	58	276	68
10		Total variable remuneration	-	2,986,362	3,091,922	1,747,591
11		Of which: cash-based	-	2,986,362	3,091,922	1,747,591
12		Of which: deferred	-	597,466	640,327	376,120
17	Total remuneration (2 + 10)		781,222	10,846,384	17,590,502	6,435,720

Table 59 – EU REM2 – Remuneration awarded for the financial year for NLB Group

in EUR

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		a	b	c	d
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	1	3	1
7	Severance payments awarded during the financial year - Total amount	-	385,000	104,785	67,033
8	Of which paid during the financial year	-	385,000	104,785	67,033
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	385,000	75,956	67,033

Table 60 – EU REM3 – Deferred remuneration for NLB Group

in EUR

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year
		a	b	c	EU - g
7	MB Management function	1,456,524	657,873	798,651	657,873
8	Cash-based	1,456,524	657,873	798,651	657,873
13	Other senior management	1,889,905	931,611	958,294	931,611
14	Cash-based	1,889,905	931,611	958,294	931,611
19	Other identified staff	958,992	525,466	433,526	525,466
20	Cash-based	958,992	525,466	433,526	525,466
25	Total amount	4,305,421	2,114,950	2,190,471	2,114,950

None of the employees performing special work was paid EUR 1 million or more in 2021, therefore template EU REM4 is empty.

Table 61 – EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) for NLB Group

in EUR

		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
		a	b	c	d	e	f	g	h	i	j
1	Total number of identified staff										440
2	Of which: members of the MB	38	58	96							
3	Of which: other senior management				4	-	44	33	62	133	
4	Of which: other identified staff				-	68	-	-	-	-	
5	Total remuneration of identified staff	781,222	10,846,384	11,627,606	343,606	6,435,720	3,019,067	1,750,759	3,104,814	9,372,256	
6	Of which: variable remuneration	-	2,986,362	2,986,362	36,733	1,747,591	553,440	138,619	406,995	1,956,135	
7	Of which: fixed remuneration	781,222	7,860,022	8,641,244	306,873	4,688,129	2,465,627	1,612,140	2,697,819	7,416,121	

16. Appendices

16.1. Appendix 1

Information on whether or not the institution has set up a separate risk committee and the number of times the Risk Committee has met

(Article 435.2 d of CRR)

NLB has the Risk Committee as an advisory body of the Supervisory Board. Five meetings of the Risk Committee were held in 2021.

16.2. Appendix 2

Statement regarding internal controls and procedures

(Article 431 3 of CRR)

The undersigned

CERTIFY

that, pursuant to the Part Eight of Regulation (EU) No 575/2013 article 431 paragraph 3, disclosures have been prepared in accordance with the Policy of Disclosures on risk and capital management in the NLB Group and in accordance with agreed internal control processes.

Ljubljana, 29 March 2022

Anica Knavs General Manager Financial Accounting and Administration	Igor Žalar General Manager Global Risk	Archibald Kremser Member of the Management Board	Andreas Burkhardt Member of the Management Board

16.3. Appendix 3

Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

(Article 436 b of CRR)

Table 62 – EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) of NLB Group

Name of the entity	Method of accounting consolidation	Method of prudential consolidation			Description of the entity
		Full consolidation	Equity method	Neither consolidated nor deducted	
a	b	c	e	f	h
NLB Banka a.d., Skopje	Full consolidation	X			Banking
NLB Banka a.d., Podgorica	Full consolidation	X			Banking
NLB Banka a.d., Banja Luka	Full consolidation	X			Banking
NLB Banka sh.a., Priština	Full consolidation	X			Banking
NLB Banka d.d., Sarajevo	Full consolidation	X			Banking
NLB banka a.d., Beograd	Full consolidation	X			Banking
Komercijalna banka a.d. Beograd	Full consolidation	X			Banking
KomBank Invest a.d. Beograd	Full consolidation	X			Asset management
NLB Srbija d.o.o., Beograd	Full consolidation	X			Real estate
NLB Skladi d.o.o, Ljubljana	Full consolidation	X			Asset management
NLB Crna gora d.o.o., Podgorica	Full consolidation	X			Real estate
NLB Lease&Go d.o.o., Ljubljana	Full consolidation	X			Finance
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Full consolidation	X			Finance
Optima Leasing d.o.o., Zagreb "u likvidaciji"	Full consolidation	X			Finance
NLB Leasing d.o.o., Beograd "u likvidaciji"	Full consolidation	X			Finance
TARA HOTEL d.o.o., Budva	Full consolidation	X			Real estate
PRO-REM d.o.o., Ljubljana "v likvidaciji"	Full consolidation	X			Real estate
OL Nekretnine d.o.o., Zagreb "u likvidaciji"	Full consolidation	X			Real estate
REAM d.o.o., Beograd	Full consolidation	X			Real estate
REAM d.o.o., Podgorica	Full consolidation	X			Real estate
REAM d.o.o., Zagreb	Full consolidation	X			Real estate
SPV 2 d.o.o., Beograd	Full consolidation	X			Real estate
S-REAM d.o.o., Ljubljana	Full consolidation	X			Real estate
NLB InterFinanz AG, Zurich "in likvidation"	Full consolidation	X			Finance
NLB InterFinanz Beograd "u likvidaciji"	Full consolidation	X			Finance
LHB AG, Frankfurt	Full consolidation	X			Finance
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Full consolidation			X	Cultural heritage management
Prvi Faktor, Beograd "u likvidaciji"	Equity method			X	Finance
Prvi Faktor, Ljubljana "v likvidaciji"	Equity method			X	Finance
Prvi Faktor, Zagreb "u likvidaciji"	Equity method			X	Finance
Arg Nepremicnine d.o.o., Horjul	Equity method		X		Real estate
Bankart d.o.o., Ljubljana	Equity method		X		Card processing

Entities that are neither consolidated nor deducted are:

- in accordance with Article 19 of the CRR (this refers on members of Prvi Faktor Group),
- or because it is entity operating in the area of other activities (ZUKD – Zavod za upravljanje kulturne dediščine, The NLB Cultural Heritage Management Institute).

16.4. Appendix 4
Capital instruments main features templates
(Article 437 b and c of CRR)

Table 63 – The main characteristics of the capital instruments of NLB

1	Issuer	NOVA LJUBLJANSKA BANKA d.d., Ljubljana	NOVA LJUBLJANSKA BANKA d.d., Ljubljana	NOVA LJUBLJANSKA BANKA d.d., Ljubljana	NOVA LJUBLJANSKA BANKA d.d., Ljubljana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: SI0021117344	ISIN: SI0022103855	ISIN: XS2080776607	ISIN: XS2113139195
2a	Public or private placement	Public	Public	Public	Public
3	Governing law(s) of the instrument	Slovenian law	Slovenian law	German law, with the exception of status of the notes which is governed in accordance with Slovenian law	German law, with the exception of status of the notes which is governed in accordance with Slovenian law
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A	Yes	Yes	Yes
	Regulatory treatment				
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo&(sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary share	Tier 2 instruments (CRR, Article 63)	Tier 2 instruments (CRR, Article 63)	Tier 2 instruments (CRR, Article 63)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	EUR 1,071.8 million	EUR 44.6 million	EUR 120 million	EUR 120 million
9	Nominal amount of instrument (in EUR)	N/A – No par value shares – 20,000,000 shares	EUR 45,000,000	EUR 120,000,000	EUR 120,000,000
EU-9a	Issue price	EUR 77.55	99.1%	100 %	100 %
EU-9b	Redemption price	N/A	100 %	100 %	100 %
10	Accounting classification	Shareholders' equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	18.12.2013	6.5.2019	19.11.2019	5.2.2020
12	Perpetual or dated	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity	6.5.2029	19.11.2029	5.2.2030
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Optional call date: 6.5.2024 Contingent call dates: - if the issuer fails to obtain regulatory permission by 6.8.2019, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes, Redemption amount: 100% of principal plus accrued unpaid interest.	Optional call date: 19.11.2024; Contingent call dates: - if the issuer fails to obtain regulatory permission by 15.3.2020, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes. Redemption amount equals to 100% of principal amount plus accrued and unpaid interest.	Optional call date: 5.2.2025; Contingent call dates: - if the issuer fails to obtain regulatory permission by 31.7.2020, - early redemption for regulatory reasons, - early redemption due to change in applicable tax treatment of the Notes. Redemption amount equals to 100% of principal amount plus accrued and unpaid interest.
16	Subsequent call dates, if applicable	N/A	No	No	No
	Coupons / dividends				
17	Fixed or floating dividend/coupon	N/A	Fixed	Fixed	Fixed
18	Coupon rate and any related index	N/A	Interest rate means annual interest rate, which amounts to: (i) before the Fifth Anniversary (however excluding the Fifth Anniversary), 4.2%, (ii) from and including the Fifth Anniversary, the sum of reference rate (5y MS), applicable on Interest Rate Determination Date, and Margin (4.159%).	Interest rate means annual interest rate, which amounts to: (i) 3.65% up to but excluding 19.11.2024, (ii) from and including 19.11.2024, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.833%.	Interest rate means annual interest rate, which amounts to: (i) 3.40% up to but excluding 5.2.2025, (ii) from and including 5.2.2025, the sum of reference rate (5y MS), applicable on reset interest date, and margin of 3.658%.

19	Existence of a dividend stopper	N/A	No	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No	No	No
22	Noncumulative or cumulative	N/A	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	N/A	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	N/A	N/A	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	Statutory	Contractual	Contractual	Contractual
EU-34b	Ranking of the instrument in normal insolvency proceedings	First loss absorbent instrument by ranking, junior to all instruments	In the event of bankruptcy or liquidation of the Issuer, the claims arising from the principal amount of the Notes are repaid: (a) after repayment in full of all unsubordinated claims against the Issuer as well as of all subordinated claims (if any) which are not those referred to in sub-paragraph (b) or (c) below, (b) with the same priority (pari passu) as, and proportionally with, the following claims against the Issuer: (i) claims arising under other instruments which qualify as Tier 2 instruments, (ii) any other subordinated claims which are expressed to have in the event of insolvency of the Issuer the same priority of repayment as the Tier 2 instruments, (c) in priority to the following claims against the Issuer: (i) claims arising under instruments which qualify as Common Equity Tier 1 capital instruments or Additional Tier 1 instruments; and (ii) other subordinated claims which, pursuant to their contractual terms in the event of compulsory winding-up of the Issuer, have the same priority of repayment as Common Equity Tier 1 capital instruments or Additional Tier 1 instruments.	In the event of normal insolvency proceedings or compulsory liquidation of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank: (a) junior to all present or future claims from: (i) unsecured and unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR, (b) pari passu: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; (ii) ordinary shares of the Issuer and any other CET1 instruments of the Issuer pursuant to Article 28 of the CRR; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the obligations of the Issuer under the Notes.	In the event of normal insolvency proceedings or compulsory liquidation of the Issuer, the claims on the principal amount of the Notes and any unpaid interest payable under the Notes will rank: (a) junior to all present or future claims from: (i) unsecured and unsubordinated instruments or obligations of the Issuer; and (ii) eligible liabilities instruments of the Issuer pursuant to Article 72b of the CRR, (b) pari passu: (i) among themselves; and (ii) with all other present or future claims from Tier 2 Instruments of the Issuer; and (c) senior to all present or future claims from: (i) Additional Tier 1 instruments of the Issuer pursuant to Article 52 of the CRR; (ii) ordinary shares of the Issuer and any other CET1 instruments of the Issuer pursuant to Article 28 of the CRR; and (ii) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank junior to the obligations of the Issuer under the Notes.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1 instruments	Eligible liabilities instruments	Eligible liabilities instruments	Eligible liabilities instruments
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	https://www.nlb.si/shares https://www.nlb.si/public-offering-of-shares	https://www.nlb.si/nlb27-eng	https://www.nlb.si/novalj365-eng	https://www.nlb.si/novalj34-eng

The ordinary shares are fully included in the Common Equity Tier 1 capital of NLB Group. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of CRR.

16.5. Appendix 5
Material, practical, or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries
(Article 436 f and g of CRR)

In NLB Group, there are no substantial practical or legal impediments to the prompt transfer of capital or repayment of liabilities between the parent undertaking and its subsidiaries. In the case of a capital transfer provided by NLB, it is necessary to follow the provisions regarding the minimum capital in accordance with CRR and the ZBan-3. For subsidiary banks the provisions regarding liquidity, capital adequacy, and the level of capital to cover all risks are also considered, all in accordance with local legislation.

In asset management, company (NLB Skladi) provisions regarding capital adequacy and the level of capital to cover all risks arise from the Law on Investment Funds and Management Companies.

For several non-core companies that are in the liquidation process, there is a restriction according to the local Companies Law stipulating that during the duration of the liquidation process dividends are not paid out nor are assets disbursed to stakeholders until all claims are paid. The liquidation process can be concluded after all the court disputes are ended and the assets that are to be distributed to stakeholders, but exceed the subscribed share capital of a stakeholder, are considered as a dividend.

There are also contractual restrictions that are to be taken into account and arise from subordinated loans that NLB granted to its subsidiary banks, namely NLB Banka a.d., Skopje, NLB Banka a.d. Banja Luka, Komercijalna Banka Podgorica (merged with NLB Banka Podgorica), NLB Banka sh.a. Prishtina, NLB Banka a.d. Beograd, NLB Banka a.d. Sarajevo and to one of the companies NLB InterFinanz Zürich AG in Liquidation. According to the nature of the subordinated loan, it can be repaid after claims arising from all priority obligations are settled and to the extent permitted by the rest of the Bank's assets in the bankruptcy or liquidation procedure.

Subsidiary of NLB Group not included in the prudential consolidation (ZUKD – The NLB Cultural Heritage Management Institute) met the minimum capital requirements as at 31 December 2021.

16.6. Appendix 6

List of all disclosures required under Part 8 of CRR

Article	Chapter	Page
431.3	16.2	111
435.1 a)	5.1, 6.1, 8.1, 10.1, 12	34, 51, 66, 72, 79
b)	5.1, 6.1, 8.1, 10.1, 12	34, 51, 66, 72, 79
c)	5.1, 6.1, 8.1, 10.1, 12	34, 51, 66, 72, 79
d)	5.1, 6.1, 8.1, 10.1, 10.2, 12	34, 51, 66, 72, 74, 79
e)	1	4
f)	1	4
435.2 a)	5.2	46
b)	5.3	46
c)	5.4	49
d)	16.1	111
e)	5.1	34
436 a)	3	11
b)	3, 16.3	11, 112
c)	3	11
d)	3	11
e)	/	/
f)	16.5	115
g)	16.5	115
h)	/	/
437 a)	4.2	17
b)	4.6, 16.4	24, 113
c)	4.6, 16.4	24, 113
d)	4.2	17
e)	4.2	17
f)	4.2	17
437a	/	/
438 a)	4.5	24
b)	1, 4.1	4, 15
c)	/	/
d)	4.3	19
e)	/	/
f)	/	/
g)	/	/
h)	/	/
439 a)	8.3	67
b)	8.2, 8.4	67
c)	8.5	67
d)	8.6	68
e)	/	/
f)	8.6	68
g)	8.6	68
h)	8.6	68
i)	/	/
j)	/	/
k)	/	/
l)	8.6	68
m)	/	/
440 a)	4.9	29
b)	4.9	29
441	/	/
442 a)	6.3	55
b)	6.3	55
c)	6.2, 6.3	55
d)	6.3	55
e)	6.3	55
f)	6.3	55
g)	6.2	55
h)	6.3	55
443	9	70
444 a)	7	64
b)	7	64
c)	7	64
d)	7	64
e)	7, 8.6	64, 68
445	10	72
446 a)	14	90
b)	/	/
c)	14	90
447	1	4
448.1 a)	11	77
b)	11	77
c)	/	/
d)	11	77
e)	11	77
f)	11	77
g)	11	77
448.2	/	/
449	/	/
449a	/	/
450.1 a)	15	92
b)	15	92
c)	15	92
d)	15	92
e)	15	92
f)	15	92
g)	15.11	109
h)	15.11	109
i)	15.11	109
j)	/	/
k)	15.9	107
450.2	15.10	108
451	13	87
451a	12	79
452	/	/
453 a)	/	/
b)	6.4	60
c)	6.4	60
d)	/	/
e)	6.4	60
f)	6.4	60
g)	7	64
h)	7	64
i)	7	64
j)	/	/
454	/	/
455	/	/

16.7. Appendix 7

Overview of non-applicable disclosures

The following table provides an overview of the templates (from Commission Implementing Regulation EU 2021/637) not covered by the Disclosure Report with an explanation of reasons for non-disclosure.

	Template	Reason
1	EU INS1 – Insurance participations	NLB Group do not posses any insurance which is not deducted from own funds
2	EU INS2 – Financial conglomerates information on own funds and capital adequacy ratio	NLB Group is doesn't fulfil conditions to be classified as financial conglomerate
3	EU PV1 – Prudent valuation adjustments (PVA)	NLB Group does not use core approach
4	EU CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Non-performing exposures below 5%
5	EU CQ2 – Quality of forbearance	Non-performing exposures below 5%
6	EU CQ4 – Quality of non-performing exposures by geography (columns b and d)	Non-performing exposures below 5%
7	EU CQ5 – Credit quality of loans and advances by industry (columns b and d)	Non-performing exposures below 5%
8	EU CQ6 – Collateral valuation - loans and advances	Non-performing exposures below 5%
9	EU CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown	Non-performing exposures below 5%
10	EU CR6-A – Scope of the use of IRB and SA approaches	Internal approaches are not in use
11	EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range	Internal approaches are not in use
12	EU CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	Internal approaches are not in use
13	EU CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques	Internal approaches are not in use
14	EU CR8 – RWEA flow statements of credit risk exposures under the IRB approach	Internal approaches are not in use
15	EU CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Internal approaches are not in use
16	EU CR9.1 – IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	Internal approaches are not in use
17	EU CR10 – Specialised lending and equity exposures under the simple riskweighted approach	Internal approaches are not in use
18	EU CCR4 – IRB approach – CCR exposures by exposure class and PD scale	Internal approaches are not in use
19	EU CCR5 – Composition of collateral for CCR exposures	Collateral in CCR exposures is not in use
20	EU CCR6 – Credit derivatives exposures	NLB Group does not use credit derivatives
21	EU CCR7 – RWEA flow statements of CCR exposures under the IMM	Internal approaches are not in use
22	EU CCR8 – Exposures to CCPs	Indirect clearing arrangement with a clearing member is established and own fund requirements for exposures to a central counterparty is calculated by applying the risk weights used for the Standardised Approach to Credit risk as set out in Article 107(2b)
23	EU-SEC1 – Securitisation exposures in the non-trading book	Securitisation is not in use
24	EU-SEC2 – Securitisation exposures in the trading book	Securitisation is not in use
25	EU-SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as	Securitisation is not in use
26	EU-SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor	Securitisation is not in use
27	EU-SEC5 – Exposures securitised by the institution - Exposures in default and specific credit risk adjustments	Securitisation is not in use
28	EU MR2-A – Market risk under the internal Model Approach (IMA)	Internal approaches are not in use
29	EU MR2-B – RWA flow statements of market risk exposures under the IMA	Internal approaches are not in use
30	EU MR3 – IMA values for trading portfolios	Internal approaches are not in use
31	EU MR4 – Comparison of VaR estimates with gains/losses	Internal approaches are not in use

16.8. Appendix 8

Abbreviations

AE	Asset Encumbrance
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AML	Anti-Money Laundering
AMLTF	Anti-Money Laundering Task Force
ASF	Available stable funding
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BIA	Basic indicator approach
BoS	Bank of Slovenia
BPV	Basis point value
BRRD	Bank Recovery and Resolution Directive
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCP	Central Counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CET1	Common equity tier 1 capital
CFO	Chief Finance Officer
CISO	Chief Information Security Officer
CMO	Chief Marketing Officer
COBIT	Control Objectives for Information Technologies
COSO	Committee of Sponsoring Organisations of the Treadway Commission
COVID-19	Coronavirus Disease 2019
CRD	Capital Requirements Directive
CRD IV or CRD V	Capital Requirements Directive and Regulation
CRM	Credit Risk Mitigation
CRO	Chief risk officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CTF	Combating the Financing of Terrorism
CVA	Credit valuation adjustment
CVaR	Conditional Value at Risk
DPO	Data Protection Officer
DSTI	Debt service-to-income
DVA	Debit Valuation Adjustments
DWH	Data Warehouse
EAD	Exposure at default
EaR	Earnings at Risk
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
ECL	Expected Credit Losses
ECRA	Enterprise compliance and integrity risk assessment
EEA	European Economic Area
EHQLA	Extremely High-quality Liquid Assets
EMIR	European Market Infrastructure Regulation
ESG	Environmental, social and governance
ESMS	Environmental and Social Management System
ESRB	European Systemic Risk Board
EU	European Union
EVE	Economic Value of Equity
EVS	European Valuation Standards
EWS	Early Warning System
FVOCI	Fair Value Through Other Comprehensive Income
FX	Foreign Exchange
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
G-SII	Global systemically important institutions
HHI	Herfindahl-Hirschman Index
HQLA	High-quality liquid assets
HR	Human resources
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Interest rate
IRB	Internal ratings-based approach
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	Information Technology

IVS	International Valuation Standards
JST	Joint Supervisory Team
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LCP	Liquidity Contingency Plan
LCR	Liquidity coverage ratio
LGD	Loss given default
LTD	Loan-to-deposit
LTI	Loan-to-income
LTV	Loan-to-value
M&A	Mergers and acquisitions
MB	Management Board
MDA	Maximum Distributable Amount
MIGA	Multilateral Investment Guarantee Agency
MREL	Minimum Requirement for own funds and Liabilities
MRSA	Market Risk Standardised Approach
MS	Mid-swap
MTF	Multilateral trading facility
NCI	Non-controling interest
NGW	Neto Goodwill
NII	Net interest income
NPE	Non Performing Exposures
NPL	Non Performing Loans
NPL CR	Non-performing Loans Coverage Ratio
NPV	Net Present Value
NSFR	Net Stable Funding Ratio
OCI	Other comprehensive income
OCR	Overall capital requirement
OEM	Original exposure method
OpRC	Operational Risk Committee
O-SII	Other systemically important institutions
OTC	Over-the-counter
OU	Organisational unit
PD	Probability of default
P2G	Pillar 2 Guidance
P&L	Profit and Loss
P1R	Pillar 2 Requirement
P2R	Pillar 2 Requirement
PFE	Potential Future Exposure
PP&E	Property, plant and equipment
QCCP	Qualifying Central Counterparty
RAF	Risk Appetite Framework
RC	Replacement cost
RICO	Risk Committee
RICS	Royal Institution of Chartered Surveyors
RORAC	Return on risk-adjusted capital
RP	Recovery plan
RSF	Required stable funding
RWA	Risk-weighted assets
RWEA	Risk weighted exposure amount
SA	Standardised Approach
SB	Supervisory Board
SEE	Southeast Europe
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
ST	Stress test
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TC	Total Capital
TCR	Total Capital ratio
TEM	Total Exposure Measure
TLAC	
TLTRO	Targeted longer-term refinancing operation
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement
VaR	Value at risk
Zban	Banking Act
ZGD-1	Companies Act
ZRPPB-1	Law on Rescue and Forced Cessation of Banks
ZUKD	Zavod za upravljanje kulturne dediščine - NLB Cultural Heritage Management institute