NLB Group

We believe in this region's potential

NLB Group Annual Report 2021

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Report format

The Annual Report in PDF format represents its unofficial version. The Annual Report in ESEF format is pursuant to Commission Delegated Regulation (EU) 2019/815 and paragraph one of Article 134 of the Market in Financial Instruments Act (ZTFI-1) and represents its official version published on SEOnet.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this report are based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be different.

We are – where you are.

Our home is here.

Here are our families, friends, colleagues, neighbours, our favourite athletes, hosts, who know what kind of coffee we like ... All this is our home and we believe in it with all our hearts.

Since we are where you are, we know your potential and understand your commitment – even when no one else understands it. Where others merely see a spot on the map, we see a region full of opportunities.

And we believe you deserve each and every one of them.

Southeast Europe, a region of opportunities.

Who we are

The Group, headquartered in Ljubljana, is the **largest banking and financial group in Slovenia** with a strategic focus on selected countries in SEE, which have a population of approximately 17 million people – our home region.

The Group is comprised of the leading and systemically most important bank in Slovenia, **NLB**, **seven subsidiary banks in SEE**, several companies providing ancillary services (asset management, real estate management, leasing, etc.), and a limited number of non-core subsidiaries in a controlled wind-down.[1]

The Group utilises a **universal banking model** and supports its clients through retail, corporate, and investment banking services.

On six out of seven markets where the Group operates, the market share of member banks exceeds 10% (measured by total assets).

1 On 1 March 2022 NLB acquired the Slovenian Sberbank banka d.d. Further information is presented in chapter Events After the End of the 2021 Financial Year.

Vision

The Group will take care of the financial needs of its clients and improve the quality of life in its home SEE region.

Our strategic focus

Become a regional champion

Putting clients first

Grow our market position

Monetize opportunities and synergies

Sustainable banking

In 2021, the Group set the direction of sustainability activities by publishing the NLB Group Sustainability Framework and aligning its business model with UN's Sustainable Development Goals. The focus was on decisive implementation of activities in the three pillars:

- **Contribution to society**
- **Sustainable finance**
- **Sustainable operations**

As the first bank from Slovenia to commit to the UN Principles for Responsible Banking, the Bank performed an impact analysis and published regional sustainability targets (NLB Group Sustainability Report 2021).

The environmental dimension of the ESG was addressed by upgrading our climate-related and environmental risk management, integration of EU Taxonomy regulation, and measuring the carbon footprint of the Group's own operations in 2021. Focus was put on the social dimension, supported by continuing CSR activities and the #HelpFrame project.

Ratings

2016	2017	2018	2019	2020	2021
S&P: BB-	S&P: ↑BB	S&P: ↑BB+	S&P: ↑BBB-	S&P: BBB-	S&P: BBB-
Fitch: BB-	Fitch: ↑BB	Fitch: ↑BB+	Fitch: BB+	Fitch: BB+	Moody's: Baa1
Moody's: Ba3	Moody's: ↑Ba1	Moody's: ↓Baa2	Moody's: Baa2	Moody's: ↑Baa1	
CI: BB+	CI: ↑BBB-	CI: BBB-			

NLB has an **investment grade rating** from S&P and Moody's.

Note: Moody's: unsolicited rating.

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Antonio Argir
Member of the
Management Board[i]

Andreas Burkhardt
Member of the
Management Board (CRO)

Blaž Brodnjak
CEO and CMO

Hedvika Usenik
Member of the
Management Board[i]

Andrej Lasič
Member of the
Management Board[i]

Archibald Kremser
Member of the
Management Board (CFO)

Note:
(i) Appointed by the Supervisory Board of NLB on 20 January 2022; Mr. Argir, Ms. Usenik and Mr. Lasič are waiting for the relevant consent by the ECB to assume the office of the Management Board member.

Statement by the Management Board of NLB

Dear Stakeholders,

Are you well? How many times have you heard or asked this question in 2021, a year marked once again by the grip of COVID-19 and its consequent impact on the global economy and quality of life? We sincerely hope that you were able to do as we in the Group did: leave the epidemic behind you and answer with "we are more than just well – actually, we are stronger than ever."

EUR 236.4 million

net profit of NLB Group.

Encouraged by the economic recovery, driven by healthy private consumption and strong loan demand, the Group returned to robust growth, and achieved excellent results which exceeded set guidance. This growth was based on the strong underlying performance of all business segments, meaningful contribution from Komercijalna Banka, Beograd, while robust risk management supporting Group's business operations resulted also in strong asset quality. The Group generated EUR 236.4 million in profit after tax and increased market shares in all segments, with all banking members operating in our home region, SEE, reporting solidly positive net earnings and contributing 39% to the after tax result.

The results of the banking members prove once again that they are becoming an increasingly important factor in Group business operations, as well as in their respective markets – in five out of six markets where the Group operates, the market share (by total assets) of member banks exceeds 10 percent. We firmly believe that further intragroup consolidation, which is in full swing following the successful merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica in November, as well as the sale of Komercijalna Banka, Banja Luka in December, and the expected merger of NLB Banka, Beograd and Komercijalna Banka, Beograd in April 2022, will bring additional opportunities to leverage synergies.

The Group's strong business performance, together with the expiration of the BoS's decision on restricting the dividends payment, enabled the Bank to fulfil stakeholder expectations with a substantial dividend payout. Keeping its promise, the Bank paid out a total of EUR 92.2 million as dividends in 2021, thereby reaffirming the Group's stable and successful business operations, strong capital position, and solid dividend payment capacity also for the future. More specifically, the Bank's ambition is a total dividend payment to the shareholders of EUR 210 million in the 2022–2023 period.

In February 2022 the Slovenian parliament adopted law concerning loan agreements in Swiss francs concluded by banks operating in Slovenia (including NLB) and individuals. NLB has used legal remedies against the law. The implementation of the law is currently suspended by Constitutional Court while its final decision on the conformity of the CHF Law with the Constitution is pending. If legal remedies are unsuccessful, the estimated effects on pre-tax result will be material but manageable.[2]

In a remarkable milestone deserving special attention, the Bank's share price gained 67.2 percent YoY on the London Stock Exchange, 66.4 percent on the Ljubljana Stock Exchange, and received the 'Prime Market Share of the Year' award by the Ljubljana Stock Exchange.

Combining dividend payouts, privatisation proceeds, and the residual value of the RoS equity stake in NLB, the Bank has fully repaid the amount it received for the 2013 recapitalization. From here on out, we are creating new value for all our shareholders.

The Group will continue to prudently grow and increase its market shares organically, however, we are closely monitoring developments in our home region and will analyse and address any value accretive opportunities for new M&A-based growth. The Bank has the capacity to buy banks and/or portfolios in any of our existing, as well as other markets in the region, thus becoming a true regional champion. Accordingly, based on the SRB's resolution scheme for Slovenian Sberbank banka d.d. and decision of BoS regarding the sale of this bank, NLB on 1 March 2022 bought 100% of shares of Sberbank banka d.d. With this acquisition NLB contributed to the financial stability of the Slovenian banking sector and further improved NLB's market position in Slovenia. In the following months Sberbank banka d.d. will be integrated in NLB Group.

In spite of prevailing global geopolitical challenges, macroeconomic environment, and other impacts influencing our business environment in a Slovenian and wider Group's region context, our outlook for the future is positive.

Turning our gaze to the future, our focus will be on providing our clients with innovative solutions and the best user experience, 24 hours a day, every day. Currently in Slovenia, our clients can fulfil almost all their banking needs without having to visit a branch, and we strive to apply this digital

2 Further information is available in chapters Events after the end of the 2021 financial year and Outlook 2022.

leadership position to other markets in which our Group operates by working on frontend solutions to consolidate e- and m-banking platforms. Despite many predictions in the past decades that banks will cease to exist, we are here stronger than ever, since we have done our homework, adapted, and started to invest heavily in digitalization, and fintech technologies. Nowadays, the Group is no longer just a banking group, but one of the largest IT and data science companies in the region with an ambition to foster the evolution of a local flexible digital ecosystem that offers clients tailormade products and services. The Group is aware of a cyber security risks and continuously improves the resilience of its operations.

All of this fills us with confidence and sets good prospects for the future. Our most important stakeholders, our clients, understand what we offer them and value our contribution to society. Ultimately, they are ready to recommend our solutions, services, knowledge, and advice to their families, friends, acquaintances, and their community.

This, however, could not be secured without a dedicated team of colleagues who truly care about our mission and go the extra mile when needed. That is why we strive to attract, educate, develop, and retain best talents this region has to offer. We are not only focused on the field of IT where considerable effort has been made to attract the brightest and best IT talent by building a technological hub in Belgrade that will develop solutions for the whole group, but also in other vocations of which an institution such as NLB Group has no shortage.

We believe, that only a satisfied employee, one who feels the firm's trust and care for his or her work/life balance and potential, will help us address the opportunities that await us. That is why we continue to develop our employees and search for new approaches that will confirm our care for their well-being. This is why the Top Employer Institute has also recognized us, awarding the Bank the prestigious 'Top Employer' certificate for the seventh consecutive year.

We are also happy to report that in February 2022 the Supervisory Board decided to expand the Bank's Management Board by adding three new members. After they receive their respective licences, the Management Board will consist of six members which will, in our firm opinion, significantly contribute to the successful management of the Group and to meeting the strategic commitments given to you, our stakeholders.

Nevertheless, it is not only the welfare of our clients, our employees, and the rest of the stakeholders that is on our minds and in our focus, but also the prosperity and the quality of life in the entire region. Consequentially, the sustainability of our business operations and practices is increasingly becoming our priority. The Group is among the first in the financial industry in the SEE to set ambitious ESG goals, to withdraw support for projects using exclusively coal technologies, to focus on becoming paperless, to actively reduce its carbon footprint, and to work on introducing products that promote sustainability and energy efficiency.

In the Group, we do not say in vain that this is our home. Here are our families, friends, colleagues, neighbours, favourite athletes, hosts who know what kind of coffee we like . . . here we can breathe with full lungs, create, experience ups and downs, and expand our ties together. Here are our thoughts and our hearts. That's why we can see what this region is capable of firsthand and recognise its potential before anyone else. Because where others see just a spot on the map, we see a region of opportunities.

Yours truly,

Management Board of NLB

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Blaž Brodnjak
CEO & CMO

Statement by the Chairman of the Supervisory Board of NLB

Primož Karpe
President of the Supervisory Board of NLB

Dear Shareholders,

The times we find ourselves in make me think of the following quote which adequately reflects the logic we are trying to pursue at our NLB Group: “In these uncertain times, we don't necessarily need more command and control over what we already exercise in our regular business operations, but we do need all possible means to engage everyone's intelligence whilst solving and addressing business challenges as they arise.” Specifically, after the visible ease of the COVID-19 impact on business performance and the strong economic rebound across our entire region which lifted our Group performance on a record level, we are now awakening to a world where worldwide sanctions imposed on Russia have dramatically increased the markets' volatility, and all the while spill-over sector-specific effects are re-calculated over and over again. Uncertainty looms all over the civilised world.

When it comes to our business, we need a calm and focused mind, swift execution ability, and the determination to not stray away from our core business growth strategy, keeping the promises to all our stakeholders. We also need to relentlessly pursue the best brain available out there, so we can keep up with the fast-paced development to which we are committed.

Group foundations are strong and robust, and we on the Supervisory Board are of the opinion that the Group will only grow stronger. If we are to come out of these uncertain times feeling proud of ourselves and our decisions, strong foundations are an absolute must. At the time this letter was created, we have already acquired the Slovenian Sberbank banka d.d., which, albeit early days, I dare to say, has a potential to turn into a textbook case of how the Group can act rapidly, with logical consistency, and flawless delivery of its business strategy.

Still, while the past is behind us, with the memory fading quickly in light of the recent developments, we have to acknowledge the Group's remarkable business performance in 2021 which led to a record high profits. Such an excellent result proved that even in times of economic difficulties, knowledge, experience, and sound business decisions based on sustainable principles can generate success.

We believe the Group's business results prove that its objectives are set prudently and strategically, focusing on the innovative, higher recurring growth financial products, addressing digital innovation across our key markets. Moreover, the past year has once again reaffirmed the importance of banking members, which are key factor not only in the Group's business operations, but also in their respective markets, where the majority of them hold systemically important positions. We firmly believe that further intragroup consolidation will bring additional opportunities to leverage these synergies and further strengthen our position. This way we will do everything needed to actually spearhead the innovation trends in banking, and not merely defend our market positions in the future at times when some worldwide trends indicate that digitalization is set to disrupt the classical banking model in the segment of consumer revenue.

The acquisition of Komercijalna Banka, Beograd at the end of 2020 exemplifies that we are able to execute on the complex harmonisation process with NLB standards with regard to the alignment of services, financial products, and support systems. Having said that, we are looking forward to the final merger of our two banks in Serbia (Komercijalna Banka, Beograd and NLB Banka, Beograd) in April 2022, enabling us further push into the organic growth on that market.

We are aware the road ahead is filled with challenges. However, the Group will continue to pursue its strategic objectives, focusing mainly on intensive digitalisation and providing top quality user experience, as well as sustainable operations and development, whilst justifying the expectations of its shareholders through dividend payments.

Our focus on EPS and DPS value accretive business decisions remains intact, and we will never look in any other direction. Referring to the above, we on the Supervisory Board can only assure you the Group is transitioning towards the core of our strategy, to be the talent magnet for tech and consumer behaviour-savvy jobseekers, who are and will be able to grasp with the challenges defining the future of banking.

2021 Business Developments

Following a pandemic-induced contraction in 2020, the global economy recovered strongly in 2021. The rebound was particularly strong after the re-opening of economies, but then the momentum eased throughout the year due to rising headwinds in the form of supply chain bottlenecks, inflationary pressures, and new COVID-19 outbreaks. However, the impact of the pandemic on economic activity faded over the course of the year.

Similar to global economic trends, the Group's region rebounded sturdily from the pandemic-induced contraction. Private consumption was the main growth driver, and it was propelled by credit growth, remittances, and pent-up demand. Tourism-dependent countries benefitted in particular from lifting restrictions at home and abroad, which resulted in the rebound in the tourism sector over the summer. Nonetheless, the Group's region was not immune to the global surge in commodity prices, rising energy prices and supply-chain bottlenecks, which coupled with revival in domestic demand resulted in increasing inflationary pressures.

Nevertheless, the economic rebound in 2021 had a positive impact on banking systems in the Group's region with lending

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activity recording a notable revival in corporate, as well as household loans while strong inflow of deposits continued also in 2021. Positive developments reflected also in the profitability of the banking systems of the Group's region, which recorded a notable improvement.

2021 Business Performance

The remarkable performance of the Group in 2021 led to a record high profit of EUR 236.4 million – a substantial growth from the previous year when excluding the effects from the acquisition of Komercijalna Banka, Beograd, as unaudited 2021 data shows.

Top line growth continued throughout 2021, net interest income growing by 37% YoY based on strong loan growth also contributed by Komercijalna Banka group, adding EUR 98.5 million to that revenue line. With realised higher loan volumes, the Group recorded growth in net interest income in most of its markets in the region despite the still challenging margin environment. Impressive growth in net fee and commission income, up 39% YoY, further added to the Group's performance in 2021. Strong demand for investment products, such as asset management products and bancassurance, and at the same time strong income generation from increased business activities (such as payments), led to increase in fee and commission income. The Group managed to keep costs within the guidance, also considering an important part of Komercijalna Banka group integration costs. The Bank remains a highly desired employer in the region, while the staff cost is tightly managed by proactive approach to employment through sourcing employees from all over the region.

The Group recorded 9% loan growth in 2021, thus exceeding the full year guidance. Loans to individuals recorded double digit growth throughout the group (12% or 13% excluding impact of Komercijalna Banka, Banja Luka sale), driven by strong production of housing loans in Slovenia and the healthy demand for consumer loans in strategic foreign markets. Deposits increased by EUR 1,243.6 million in 2021 on the Group level. Deposits from individuals increased by a mere 5%, indicating that individuals migrated part of their savings to alternative investments (e.g., mutual funds). The strengthened liquidity and capital position, with a CET1 ratio at 15.5% and TCR at 17.8%, ensure a comfortable capacity for an ambitious shareholder pay-out and continued drive for growth opportunities. Despite substantial growth, the Group has managed to maintain RWA close to 2020 levels, helped by inclusion of BiH and Macedonia on EBA's third party equivalent list, and by conclusion of MIGA guarantees.

Net interest margin of 2.07% and operational business margin of 3.28% have stabilised with TLTRO recognition of interest income in Q4 having a marginal positive impact in the last quarter. The cost-to-income ratio increased by four percentage points YoY, to 62.3%, accounting for the costs of Komercijalna Banka group integration process. The extraordinary results from workout of the legacy NPL book and material contributions from Komercijalna Banka group on top, led to a EUR 35.8 million net release of impairments and provisions for credit risk – ending the year at -41 bps cost of risk. The Group established EUR 27.1 million of other impairments and provisions, of which EUR 14.8 million for HR restructuring charges in Serbia and the rest mostly from litigation charges in Serbia – although the recent dynamic in the latter is more favourable.

NLB Group maintains its corporate governance principles in line with the highest standards

The Supervisory Board performed its work in accordance with applicable laws (predominantly, but not exclusively with recently changed the Companies Act (ZGD-1) and the Banking Act (ZBan-3), as well as powers and procedures as set by the Articles of Association of NLB and the Rules of Procedure of the Supervisory Board of NLB. It carried out its function of assuring efficient and active supervision over the management of NLB and the Group in its duty of careful and scrupulous performance, while adhering to the internal acts of the Bank.

In performing its duties, the Supervisory Board followed the recommendations of the Corporate Governance Code for Listed Companies. The Corporate Governance Statement of NLB transparently reveals deviations from the mentioned code, as well as explains key aspects of the Bank's corporate governance, particularly the composition and work of the Bank's Management Board and Supervisory Board and its committees, internal control mechanisms, and internal control functions. It is published in the business part of this Annual report. The Management Board adopted mentioned statement on its session dated 1 February 2022 and the Supervisory Board on its session dated 24 February 2022 and had no comments to it (recommendation 5 of the aforementioned Code). Next year, the Supervisory Board will report on implementing new recommendations made with renewed version of the Corporate Governance Code for Listed Companies, that will be first used for preparation of the Corporate Governance Statement for the business year 2022.

At the end of 2021, the Supervisory Board was composed of 12 members, of which eight were representatives of shareholders (in addition to Primož Karpe and Andreas Klingen, members were also Gregor Rok Kastelic, Mark William Lane Richards, Shrenik Dhirajlal Davda, David Eric Simon, Verica Trstenjak, and Islam Osama Zekry) and four were representatives of employees (Sergeja Kočar, Bojana Šteblaj, Janja Žabjek Dolinšek, and Tadeja Žbontar Rems).

In 2021, the Supervisory Board held seven regular and 12 correspondence sessions. In its work, the Supervisory Board of NLB received professional assistance from five operational committees, namely: The Audit Committee, the Risk Committee, the Nomination Committee, the Remuneration Committee, and the Operations and Information Technology Committee. These committees function as consulting bodies of the Supervisory Board and in great detail discuss the materials and proposals of the Management Board related to a particular area. Based on their findings the Supervisory Board passed appropriate resolutions. Each of the five committees is composed of at least three members of the Supervisory Board.

Through the year, the Supervisory Board monitored the implementation and effectiveness of the NLB Group's strategy. The Supervisory Board issued approvals to the Management Board related to the Bank's business policy, the Financial Plan, and the Budget of the NLB Group, adopted the NLB Group Annual Report, the NLB Group Sustainability Report, the NLB Group Sustainability Framework, Pillar 3 disclosures for the NLB Group, periodic business reports, adopted decisions related to management of risk, reported on cost optimisation activities, published the annual (and periodic) Internal Audit Plan and Plan of Compliance & Integrity, adopted yearly comprehensive opinion of the Internal Audit, adopted performance assessments and appointments of directors of Compliance & Integrity, and the Internal Audit.

The Supervisory Board adopted decisions with regards to the convocation of the two General Meetings of shareholders, gave consent to termination of office of the Management Board (Petr Brunclík, COO with the termination of office with effect on 30 June 2021) and gave consent to nomination of a candidate for a member of a Supervisory Board. The Supervisory Board gave consent to renovation of internal policy on Internal Controls System; Rules and Procedures for the Sustainability Committee; Review of the Diversity Policy; New Remuneration Policy for Employees for the NLB and the NLB Group; The Remuneration Policy of the Members of Supervisory Board of NLB; and the Members of the Management Board of NLB. It also gave consent to annual

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self-assessment of employees performing special work and approved achievements of the Management Board and proposed new goals for the Management Board.

The Supervisory Board was active in adopting decisions on establishment of new companies (in Serbia and North Macedonia), cross-border financing and international syndicated financing, transactions with MIGA, large exposures, sale of receivables, claim write-offs, the divestment of the Group companies, legal proceedings involving NLB and the Group members, transactions with persons in special relations with the Bank, Worker's Council 2021 report, etc.

On the session of the Supervisory Board dated 20 January 2022, following the best practice selection and evaluation process, the Supervisory Board appointed three additional new members of the Management Board, namely: Hedvika Usenik, Antonio Argir, and Andrej Lasič, thus expanding it to six members in total. They all come from NLB or NLB Group, have extensive experience and proven value creating a positive track record. We believe that the Bank's Management Board, supplemented with three new members, is properly equipped for challenge that await us and offers the best combination of various knowledge, experience, and competencies. A five-year term of office for the new members will start after they have obtained consent from regulator. Until then, they will continue to perform the functions of executive assistants to the Management Board.

Through the year, we acknowledged regular reports on documents received from the regulator(s), namely the BoS and the ECB, and on the implementation of the requirements of mentioned regulators and adopted other amendments to the internal policies.

With the aim of ensuring sustainable development, the Group strives to actively contribute to a more balanced and inclusive economic and social system through three lines of actions: sustainable operations, sustainable finance, and Corporate Social Responsibility. In 2021, the Group moved from the awareness-raising phase, to the phase of actively implementing sustainability elements into the business model. Therefore, in 2021, the Bank adopted the NLB Group Sustainability Framework and put in place the 4-level NLB Group Sustainability Governance Structure, which is as follows: (i) the Supervisory Board; (ii) the Sustainability Committee (consultative body and a decision-making body of the Management Board), (iii) the Sustainability Team, and (iv) the NLB Group Working Groups. The Supervisory Board adopts decisions related to sustainability issues in almost every session.

While members of the Supervisory Board have the proper and complementary knowledge, experience, and skills to perform their duties, they all have different professional, national, and educational backgrounds. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, which was confirmed by the positive Fit & Proper assessment. This provides the assurance that we can carry out our supervisory roles in a responsible manner and make decisions that benefit NLB and add value to the Group. The delivery of critical and assertive opinions has been and will always remain at the core of our decision-making principles through the expected engaged participation of all the members. I can assure you we also regularly upgrade the skills and the knowledge required for the fulfilment of our duties.

The Supervisory Board continued to act in accordance with the highest ethical standards of management, considering the prevention of conflict of interest. The Supervisory Board members took precautionary measures to avoid any conflicts of interest that might have influenced their decisions. Throughout the year, there were 10 potential conflicts of interest identified at sessions of the Supervisory Board, and they were all handled with utmost professional due care.

Throughout the year, the Supervisory Board has maintained a well-balanced professional relationship with the Management Board and enjoyed timely, comprehensive, and data-supported inputs from the latter, enabling the Supervisory Board to adopt all its decisions in line with the professional interests of the Bank, whilst always adhering to banking regulations and its statutory powers.

Despite extremely demanding times during second year of COVID-19 pandemic, the Supervisory Board members assess that the Management Board managed to successfully implement the NLB Group Strategy. The very solid financial results of NLB Group in 2021 enabled the Bank to pay out a total of EUR 92.2 million in dividends to the shareholders, thereby reaffirming NLB Group's stable and successful business operations and strong capital position. The Supervisory Board assesses that the NLB Group has successfully utilised the opportunities offered to it by the supportive economic environment of strong GDP growth in the region, and that performance and results of the NLB Management Board proved again we can have full trust in our executive team.

Pursuant to Article 272 of the Companies Act (ZGD-1) and the above report the Supervisory Board of NLB established and ensured that it regularly and thoroughly monitored the Bank's and the Group's operations in 2021 within its powers and efficiently supervised the Bank's and NLB Group's management and operations.

Review of the NLB Group Annual Report 2021

Pursuant to Article 282 of the Companies Act (ZGD-1), Article 50 of the Banking Act (ZBan-3), it is the obligation of the Supervisory Board to examine the Annual Report together with the auditor's report and the proposal for the allocation of distributable profit presented by the Management Board. The NLB Group Annual Report 2021 and unaudited financial statements of NLB Group were examined by the Audit Committee and the Supervisory Board at its meetings on 23 February and 24 February 2022.

Within the legal deadline, the Management Board of NLB submitted to the Supervisory Board the NLB Group Annual Report 2021, including the Business Report and the Financial Report, with the audited separate financial statements of NLB and the consolidated financial statements of the NLB and its subsidiaries, and the auditor's opinion. According to the auditor's opinion, in all material respects, the separate and consolidated financial statements enclosed give a true and fair view of the financial position of NLB and the NLB Group as of 31 December 2021, the separate and consolidated income statement, the separate and consolidated statement of other comprehensive income, the separate and the consolidated statement of changes in equity and the separate and the consolidated statement of cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union. It was also established based on the review of the business report that the information contained in the business section of the Annual Report is consistent with the audited financial statements of the Bank and the NLB Group.

Yours truly,

Supervisory Board of NLB

Primož Karpe
Chairman

Strategic Members Overview

Table 1: Strategic members overview

		Slovenia			Serbia			North Macedonia	Bosnia and Herzegovina		Kosovo	Montenegro
	NLB Group	NLB, Ljubljana	NLB Lease&Go, Ljubljana	NLB Skladi, Ljubljana	Komercijalna Banka, Beograd	NLB Banka, Beograd	KomBank Invest, Beograd	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica(vii)
Market position in 2021												
Branches	479(i)	75	-	-	190	28	-	48	47	36	33	22
Active clients	1,891,064(ii)	675,310	-	-	975,033	142,964	-	415,368	213,112	129,954	230,014	84,342
Total assets (in EUR million)	21,577	12,700	120	2,128(iii)	4,165	715	2	1,771	927	728	931	751
Net loans to customers (in EUR million)	10,587	5,153	100	-	1,796	512	-	1,084	471	453	635	492
Deposits from customers (in EUR million)	17,641	9,660	-	-	3,425	449	-	1,400	760	593	799	610
Result after tax (in EUR million)	236.4	208.4	-0.9	9.0	34.8	4.3	0.0	39.0	18.2	10.0	24.4	10.1
Market share by total assets	-	26.3%	-	37.3%(iv)	9.7%	1.6%(vi)	-	16.9%	19.1%(viii)	5.4%(v)	16.3%	14.1%
Macroeconomic indicators for 2021												
GDP (real growth in %)	7.6		8.1			7.4		4.0	5.9		10.4	12.0
Average inflation (in %)	2.9		2.0			4.1		3.2	2.0		3.3	2.4
Unemployment rate (in %)	10.7		4.8			11.1		15.7	15.5		24.0	16.6
Current account of the balance of payments (as a % of GDP)	-1.4		4.8			-4.4		-3.5	-2.8		-6.8	-16.4
Budget deficit/surplus (as a % of GDP)	-4.8		-6.5			-4.1		-5.4	-2.7		-3.6	-4.7

(i) Including Komercijalna Banka, Beograd.
(ii) Number of active clients of Komercijalna Banka, Beograd not included in total number of NLB Group active clients due to different definitions.
(iii) Assets under management.
(iv) Market share of assets under management in mutual funds.
(v) Market share in the Federation of BiH as at 30 September 2021.
(vi) Market share as at 30 September 2021.
(vii) Merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica on 12 November 2021.
(viii) Market share in the Republic of Srpska.

Key Highlights

Financial Performance

Strong business performance marked by continuous loan growth, increased fee and commission income, one-off effects and negative cost of risk

- **Profit a.t.** amounted to EUR 236.4 million.
- Strong **loan growth** of 12% YoY to individuals, with the high production of new loans (especially housing loans) and 8% YoY to corporates, compensated reduction in interest rates, and supported net interest income.
- The economic rebound led to the optimisation of the investment portfolios of households, and the growth of housing loans, mutual funds, and bancassurance, hence increasing **net fee and commission income** (39% YoY; 14% YoY without the Komercijalna Banka group contribution).
- Continuous **cost discipline**.
- **Non-recurring valuation income** in the amount of EUR 14.8 million from repayment of exposure, classified as non-performing, EUR 9.0 million of other operational income from the settlement of legal dispute, and EUR 8.1 million loss from the sale of Komercijalna Banka, Banja Luka.
- Positive impact of the release of **impairments and provisions for credit risk** (EUR 35.8 million), mostly due to successful repayment of on- and off-balance exposures and changed parameters related to **more favourable macroeconomic forecasts.** EUR 27.1 million net established **other impairments and provisions**, due to restructuring provisions and provisions for legal risk, mostly related to Komercijalna Banka, Beograd.

Business Overview

Leading player in SEE

- A robust and **sustainable universal business model** with increased focus on digitalisation and ESG.
- Striving to become a **regional champion**.
- Higher **availability and use of digital channels** – a wider range of 24/7 digital solutions offered to clients.
- **The integration process of the Komercijalna Banka banks** with the NLB banks in Serbia and Montenegro is progressing as planned. In Podgorica, the merger was successfully completed in November 2021, while in Serbia the merger is on schedule to be completed in the Q2 2022. Komercijalna Banka in BiH was successfully sold in December 2021.

Asset Quality

Good asset quality trends with well diversified portfolio, prudent credit standards and decisive workout approach

- **Positive trends in asset quality** continued, resulting in a further decline of the NPL ratio, and the negative cost of risk.
- Well-diversified, stable, and robust **credit portfolio quality**.
- Proactive approach to workouts and more favourable macroeconomic predictions than expected contributed to the negative **cost of risk** (-41 bps).
- The stable and low level of **NPE** (EBA def.) of 1.7% with a comfortable NPL coverage ratio of 57.9%.
- No asset quality deterioration was observed in **loans with expired moratoriums.**

Capital & Liquidity

Strengthened capital and liquidity position ensuring capital return and continued growth opportunities

- **The capital position** was comfortably above regulatory requirements (TCR of 17.8%, 1.2 p.p. higher YoY). Inclusion of the negative goodwill recognised at the acquisition of Komercijalna Banka, Beograd as of 30 June 2021, and partial inclusion of the 2021 result on one side and successful RWA optimisation measures undertaken on the other, had a positive impact on the capital position.
- In 2021, the Bank paid out a cumulative **dividend** of EUR 92.2 million.
- **The liquidity position** of the Group remained very strong, with a high level of unencumbered liquid assets in total assets (38.3%). The **strong deposit** base demonstrated client confidence in the Group.
- The Bank participated in the **ECB TLTRO III operation**. The positive lending performance will partially compensate the negative outcome from holding liquidity reserves.

Strategy

Committed to pursue the strategic objectives

- The Bank continues to **execute its strategic initiatives** as well as **explore new business opportunities** on both domestic and other regional markets where the Group is not yet present.
- **The digital leadership position** in Slovenia is being applied to other markets in which the Group operates. The vision is to become one of the best data science companies in the region to productively use customer data and **to evolve a local flexible digital ecosystem** offering products and services for clients.
- Continue to serve the community aiming to **improve the quality of life** in the Group's region. Driving **business value through sustainability** and commitment to enhance the management of environmental and social risks of its operations, and meeting stakeholders' needs and expectations.

Contents

Key Performance Indicators

Table 2: Key financial indicators for NLB Group and NLB

	2021		2020		2019	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Income statement data (in EUR million)						
Net interest income	409	139	300	139	318	158
Net non-interest income[i]	258	222	205	173	199	197
Net non-interest income (BoS)[i]	294	232	360	180	219	204
Total costs[i]	-415	-184	-294	-180	-305	-191
Operating costs (BoS)[i]	-451	-193	-311	-188	-321	-198
Result before impairments and provisions[ii]	252	178	211	131	212	164
Impairments and provisions	9	34	-71	-17	-1	14
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	1	-	1	-	4	-
Result before tax	261	211	278	114	215	178
Result of non-controlling interests	11	-	3	-	8	-
Result after tax	236	208	270	114	194	176
Financial position statement data (in EUR million)						
Total assets	21,577	12,700	19,566	11,027	14,174	9,802
Gross loans to customers	10,903	5,250	10,033	4,753	7,938	4,718
Impairments and deviations from FV	-316	-97	-388	-158	-334	-129
Net loans to customers	10,587	5,153	9,645	4,595	7,605	4,589
Financial assets	5,208	3,034	5,120	3,017	3,830	3,169
Deposits from customers	17,641	9,660	16,397	8,851	11,612	7,761
Equity	2,079	1,552	1,953	1,451	1,686	1,333
Non-controlling interests	137	-	170	-	45	-
Total off-balance sheet items	4,655	3,489	4,671	3,684	4,222	3,644
Key financial indicators						
a) Capital adequacy						
Total capital ratio	17.8%	24.6%	16.6%	27.1%	16.3%	22.6%
Tier 1 ratio	15.5%	20.3%	14.2%	22.3%	15.8%	21.8%
CET 1 ratio	15.5%	20.3%	14.1%	22.3%	15.8%	21.8%
Total RWA (in EUR million)	12,667	6,709	12,421	6,029	9,186	5,225
RWA / Total assets	58.7%	52.8%	63.5%	54.7%	64.8%	53.3%
b) Asset quality						
NPL coverage ratio 1 (coverage of gross non-performing loans with impairments for all loans)	86.1%	75.1%	81.8%	76.0%	89.2%	76.2%
NPL coverage ratio 2 (coverage of gross non-performing loans with impairments for non-performing loans)	57.9%	60.6%	57.3%	57.9%	65.0%	56.7%
NPL coverage ratio (EBA definition)[iii]	58.4%	60.8%	56.9%	55.3%	64.5%	55.5%
NPL coverage ratio (EBA definition) (BoS)[iv]	58.4%	60.8%	56.9%	55.3%	64.5%	55.5%
NPL volume (in EUR million)	367	130	475	208	375	169
NPL ratio (internal def.; NPL / Total loans)	2.4%	1.5%	3.5%	3.0%	3.8%	2.8%
Net NPL ratio (internal def.; net NPL / Total net loans)	1.0%	0.6%	1.5%	1.3%	1.4%	1.3%
NPL ratio (EBA definition)[iii]	3.4%	2.4%	4.5%	4.0%	4.6%	3.3%
NPL ratio (EBA definition) (BoS)[iv]	2.4%	1.5%	3.4%	2.8%	3.8%	2.7%
NPE ratio (EBA definition)	1.7%	1.1%	2.3%	1.9%	2.7%	2.0%
NPE ratio (EBA definition) (BoS)[iv]	1.7%	1.1%	2.3%	1.9%	2.7%	2.0%
Received collaterals / NPL	61.7%	60.0%	60.7%	65.8%	66.6%	72.0%
NPL collateral received / NPL (EBA definition)	58.8%	63.1%	42.4%	43.5%	35.4%	33.6%
Credit impairments and provisions / RWA	-0.3%	-0.4%	0.5%	0.1%	-0.1%	-0.3%

Further details on the definition of certain indicators in this table are available in the chapter Alternative Performance Indicators.
[i] Data for 2019 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses).
[ii] Result before impairments and provisions of NLB Group for the year 2020 does not include negative goodwill.
[iii] Loans and advances without loans and advances classified as held for sale, cash balances at CBs and other demand deposits.
[iv] Loans and advances including cash balances at CBs and other demand deposits.
[v] The carrying amount of debt instruments measured at fair value through other comprehensive income (FVOCI) is increased by value adjustments due to impairments.
[vi] Calculated on the basis of average total assets.
[vii] Calculated as Net income from operational business (NII - Tier 2 bonds expenses + Net fee and commission income + Recurring net income from financial operations) / Average total assets.
[viii] As per share register of KDD. The shares are listed on Ljubljana Stock Exchange. The Bank of New York Mellon (the 'GDR Depositary') represented in the share register of KDD as one holder is not the beneficial owner of shares, it holds shares in its capacity as the depositary for the GDR holders. The GDRs representing shares are issued against the deposit of shares and are listed on London Stock Exchange. Therefore, the number in the share register of KDD does not represent all final beneficial owners of the Bank shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the general meeting of bank's shareholders or to exercise any voting rights under the deposited shares.
[ix] Including Komercijalna Banka, Beograd.
[x] Including Komercijalna Banka, Beograd, Komercijalna Banka, Banja Luka and Komercijalna Banka, Podgorica.
[xi] Unsolicited rating.

	2021		2020		2019	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
c) Profitability						
Net interest margin (BoS)[vi]	2.0%	1.2%	2.0%	1.3%	2.4%	1.7%
Financial intermediation margin (BoS)[i]	3.4%	3.1%	4.4%	3.1%	4.0%	3.9%
Operational business margin[vii]	3.3%	2.3%	3.2%	2.5%	3.8%	2.9%
ROE b.t.	11.8%	14.0%	15.4%	8.2%	12.7%	13.4%
ROA b.t.	1.3%	1.8%	1.8%	1.1%	1.6%	1.9%
ROE a.t.	11.4%	13.8%	15.4%	8.2%	11.7%	13.3%
ROA a.t.	1.1%	1.8%	1.8%	1.1%	1.5%	1.9%
d) Business costs						
Operating costs / Average total assets (BoS)[i]	2.2%	1.6%	2.1%	1.8%	2.4%	2.2%
CIR[i]	62.3%	50.8%	58.3%	57.9%	59.0%	53.9%
Total costs / RWA[i]	3.3%	2.7%	2.4%	3.0%	3.3%	3.7%
Total costs / Total assets[i]	1.9%	1.4%	1.5%	1.6%	2.2%	2.0%
e) Liquidity						
Liquidity assets / Short-term financial liabilities to non-banking sector	48.9%	59.4%	56.1%	65.8%	54.7%	63.8%
Liquidity assets / Average total assets	40.2%	47.4%	51.8%	54.9%	44.7%	52.1%
Liquidity Coverage Ratio (LCR)	252.6%	314.5%	257.5%	336.3%	324.9%	362.1%
Net stable funding ratio (NSFR)	185.2%	171.4%	165.7%	162.1%	159.5%	158.9%
f) Leverage ratio						
Leverage ratio	10.2%	13.6%	7.8%	10.3%	8.7%	9.7%
g) Other						
Market share in terms of total assets	-	26.3%	-	24.7%	-	23.8%
LTD	60.0%	53.3%	58.8%	51.9%	65.5%	59.1%
Total revenues / RWA[i]	5.3%	5.4%	4.1%	5.2%	5.6%	6.8%
Key indicators per share						
Shareholders[viii]	-	2,571	-	2,455	-	2,100
Shares	-	20,000,000	-	20,000,000	-	20,000,000
The corresponding value of one share (in EUR)	-	10	-	10	-	10
Book value (in EUR)	103.9	77.6	97.6	72.5	84.3	66.7
Branches						
Number of branches	479[ix]	75	530[x]	80	318	93
Employees						
Number of employees	8,185	2,510	8,792	2,591	5,878	2,659

International credit ratings	Rating	Outlook	Rating	Outlook	Rating	Outlook
S&P	BBB-	Stable	BBB-	Negative	BBB-	Stable
Fitch	-	-	BB+	Negative	BB+	Stable
Moody's[xi]	Baa1	Stable	Baa1	Stable	Baa2	Positive

Further details on the definition of certain indicators in this table are available in the chapter Alternative Performance Indicators.
[i] Data for 2019 are adjusted to the changed schemes as prescribed by the BoS (relocation of some items from net other income to other general and administrative expenses).
[ii] Result before impairments and provisions of NLB Group for the year 2020 does not include negative goodwill.
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[ix] Including Komercijalna Banka, Beograd.
[x] Including Komercijalna Banka, Beograd, Komercijalna Banka, Banja Luka and Komercijalna Banka, Podgorica.
[xi] Unsolicited rating.

Outlook

Table 3: Market performance and outlook for the period 2022-2023

	2021 Guidance	Performance in 2021	2022[iv]	2023
Regular income	Exceeding EUR 600 million	EUR 640.9 million	~ EUR 670 million	> EUR 700 million
Costs	Initial increase in cost base in the year 2021, costs projected around EUR 430 million including integration costs	EUR 421.4 million[i]	Costs at 2021 level	~ EUR 400 million
Cost of risk	Around -20 bps	-41 bps	20-30 bps	30-50 bps
Loan growth	Mid-single digit loan growth	9%	High single digit loan growth	High single-digit loan growth
Dividend	EUR 92.2 million	EUR 92.2 million[ii]	EUR 100 million	EUR 110 million
ROE a.t.	> 10%	11.4%	~ 10%, (ROE normalized[iii]: 12%)	> 10% (ROE normalized[iii]: > 12%)

[i] Including integration costs: EUR 7.8 million G&A costs and EUR 5.9 million HR provisions.
[ii] Further information is available in the chapter Outlook 2022.
[iii] ROE normalized = Result a.t. w/o minority shareholder profit divided by consumed capital. Consumed capital computed as 13.06% of average RWA reduced for minority shareholder capital contribution.
[iv] 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.

Shareholder structure of NLB

The Bank's shares are listed on the Prime Market sub-segment of the Ljubljana Stock Exchange (ISIN SI0021117344, Ljubljana Stock Exchange trading symbol: NLBR) and the GDRs, representing shares, are listed on the Main Market of the London Stock Exchange (ISIN: US66980N2036 and US66980N1046, London Stock Exchange GDR trading symbol: NLB and 55VX). Five GDRs represent one share of NLB.

Table 4: NLB's main shareholders as at 31 December 2021[i]

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders[ii]	11,357,368	56.79
of which Brandes Investment Partners, L.P.[iii]	/	*>5 and <10*
of which EBRD[iii]	/	*>5 and <10*
of which Schroders plc[iii], [iv]	/	*>5 and <10*
Republic of Slovenia (RoS)	5,000,001	25.00
Other shareholders	3,642,631	18.21
Total	**20,000,000**	**100.00**

[i] Information is sourced from NLB's shareholders book accessible at the web services of CSD (Central Security Depository, Slovenian: KDD - Centralna klirinško depotna družba) and available to CSD members. The information on major holdings is based on the self-declarations by individual holders pursuant to the applicable provisions of Slovenian legislation which requires that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings pass the set thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, or 75%. The table lists all self-declared major holders whose notifications have been received. In reliance of this obligation vested with the holders of major holdings, the Bank postulates that no other entities nor any natural person holds directly and/or indirectly 10 or more percent of the Bank's shares.
[ii] The Bank of New York Mellon holds shares in its capacity as the depositary (the GDR Depositary) for the GDR holders, and is not the beneficial owner of such shares. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the shareholder's meeting or to exercise any voting rights under the deposited shares.
[iii] The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.
[iv] Further information is available in chapter Events after the end of the 2021 financial year.

Contents

Key Events

January February March April May June July August September October November December

January

New member of the Supervisory Board: Tadeja Žbontar Rems was elected as the member of the Supervisory Board of the Bank – representative of workers.
'Top Employer' certificate: The Top Employers Institute awarded the Bank the prestigious 'Top Employer' certificate for the 6th consecutive year.

February

Quick loans: Increased accessibility of quick loans for individuals via video call.

April

Fee for customers balances: The Bank introduced a monthly fee for average monthly balances of individuals' assets over a certain threshold (currently EUR 100,000).
Increased shareholding in KB, Beograd: After the Bank acquired additional shares, its shareholding in Komercijalna Banka, Beograd increased to 88.28%.
Change in Management Board: Petr Brunclík, member of the Management Board and COO, agreed with the Supervisory Board on the termination of his office taking effect on 30 June.

May

New payment methods: NLB, as the first bank in Slovenia, introduced the Flik P2M payment method and is offering a new debit Mastercard for individuals and legal persons.

June

New member of the Supervisory Board: Islam Osama Zekry was confirmed as a new member of the Supervisory Board.
Dividend payment: The Bank paid the first instalment of dividends in the amount of EUR 12.0 million.
Bankarium: The first banking museum in Slovenia was opened for the public.

July

ECB stress tests: The results of stress tests carried out for important banks by the ECB to assess the resilience of financial institutions were disclosed. The result ranks the Group among banks with solid resilience.[3]

Avgust

Advertiser of the Year: Slovenian Chamber of Advertising has awarded NLB the title Advertiser of the Year for 2020. NLB was the only bank in history to receive such award in Slovenia.

September

New products in offering: The Bank began offering an extraordinary overdraft with a gradual decrease and automatic renewal for individuals, as well as a new health insurance option.

October

Dividend payment: The Bank paid the second instalment of dividends in the amount of EUR 12.8 million.
Marketing award: The Marketing Association of Slovenia awarded the Bank with the main award in the category 'Determination of Marketing Strategies' for the project 'Strategic Initiative of Customer Focus.'

3 For more information see the chapter Risk Management.

November

Consolidation of operations in Montenegro: The merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica was completed.[4]

December

Sale of KB, Banja Luka: The Bank successfully sold 100% of its ordinary shares of Komercijalna Banka, Banja Luka to Banka Poštanska štedionica, Beograd.
Expanding leasing activities: The Group initiated activities for expanding leasing operations in Serbia and North Macedonia.
M-bank Klikpro: M-bank Klikpro was upgraded with a new digital signing solution.
NLB share awarded: NLB shares (NLBR) received the Ljubljana Stock Exchange Award, 'Prime Market Share of the Year.'
Supervisory and Management board transactions with NLBR shares: Primož Karpe, Chairman of the Supervisory board, bought 200 ordinary shares of NLB. Blaž Brodnjak, CEO & CMO and Archibald Kremser, CFO both bought 100 ordinary shares of NLB.
Dividend payment: The Bank paid an additional incremental dividend in the amount of EUR 67.4 million, contributing to the 2021 cumulative payout of EUR 92.2 million.

4 For more information see the chapter Strategic Foreign Markets.

Contents

Market Performance of NLB's Shares and GDRs

NLB Shares and GDRs

In 2021, European banking sector stocks continued their recovery that was initiated towards the end of 2020. In general, European banking sector stocks managed to gradually recover all of the pandemic-induced drop from March 2020 over the course of the year, with some of the banks being among the better performers of the stock market rally since the end of 2020. European banking sector stocks recorded an increase in value of around 34% in 2021. However, European banking sector stocks finished the year below the 2021 peak reached in November and even slightly below the 2020 pre-pandemic peak reached in February 2020.

The Bank's stocks more than recovered the pandemic-induced drop in the Bank's stock price from March 2020. The Bank's stock price recorded an increase of around 66% in 2021, contrasting the approximately 40% growth in the Slovenian Blue Chip Index SBI Top, and the 34% growth in European banking sector stocks in the year. In fact, the Bank's stock entirely recovered the pandemic-induced drop from 2020 by the beginning of the summer 2021, and then continued to gradually move higher over the remaining part of the year. As such, the Bank's stock price ended the year approximately 17% higher in comparison to the peak of 2020, and 123% higher in comparison to the bottom of 2020. Since peaking in November 2021, the Bank's stock moved slightly lower over the remaining part of the year.

In 2021, the Ljubljana Stock Exchange modified its methodology for calculation of key indices with which a share of NLBR increased from 8.71% on 21 December 2020 to 18.05% on 20 December 2021. The increased weight in local indices and the strong capital market activity with NLBR in 2021 led to NLB winning the 'Prime Market Share of the year' award for the first time. In October, the Bank signed an agreement with InterCapital to provide the service of market making in NLBR shares with the intention of narrowing the bid-ask spread and increasing liquidity of shares.

NLB Shares (NLBR) received
the Ljubljana Stock Exchange Award:

Prime Market Share of the Year.

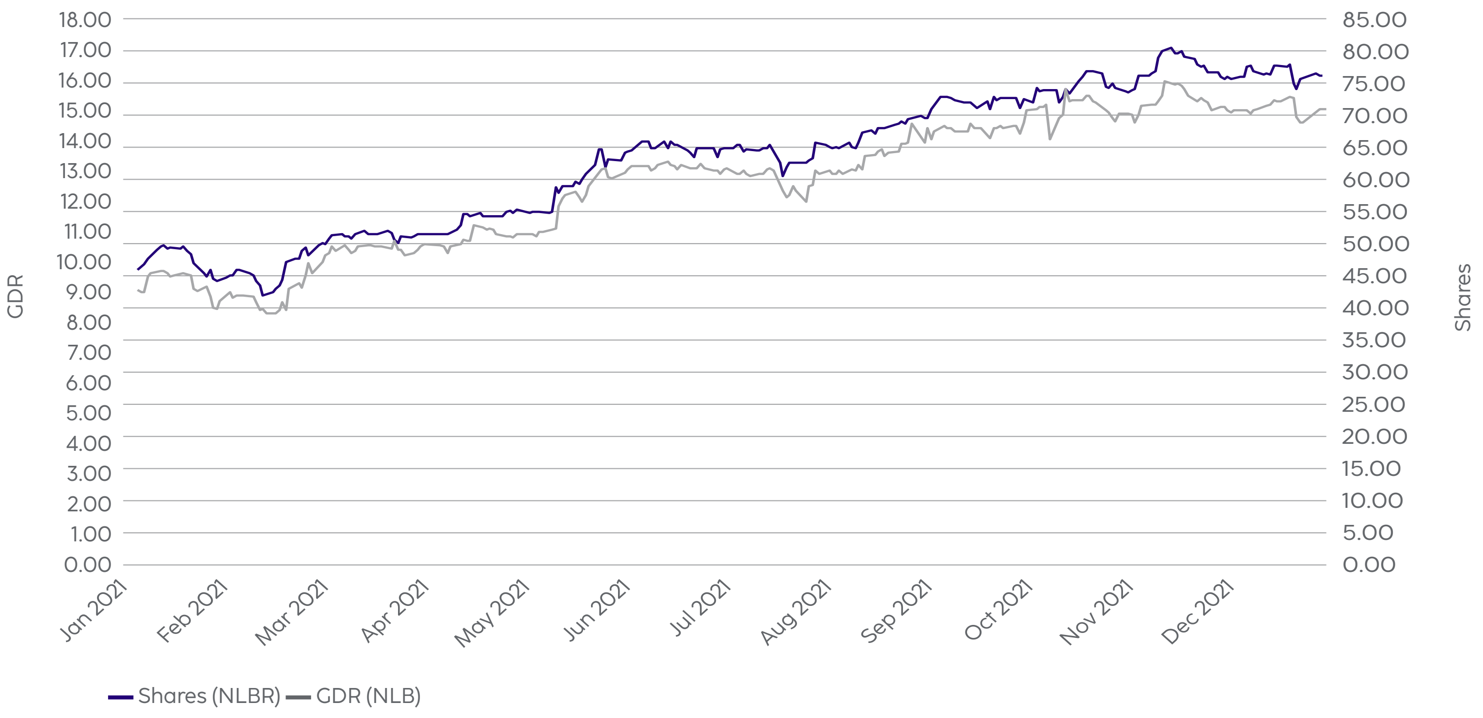
Table 5: NLB share information

Share information	31 Dec 2021
Total number of shares issued	20,000,000
Highest closing price (in 2021)	EUR 80.6
Lowest closing price (in 2021)	EUR 42.0
Closing price as at 30 December 2021[i]	EUR 76.2
NLB Group book value per share	EUR 103.9
NLB Group earnings per share (EPS)	EUR 11.8
Price/NLB Group book value (P/B)	0.73
Dividend per share (for the previous business year)	EUR 4.61
Market capitalisation[i]	EUR 1,524,000,000

[i] No market on 31 December 2021.

Contents

Figure 1: NLB shares' price movement on the Ljubljana Stock Exchange and NLB GDR's price movement on the London Stock Exchange (in EUR)



Source: Ljubljana Stock Exchange, Bloomberg.

Indices

The Bank's shares are included in several indices: the SBITOP index, SBITOP TR index, and ADRIA prime index of the Ljubljana Stock Exchange; the FTSE Frontier Index, MSCI Frontier, and MSCI Slovenia; the S&P Eastern Europe BMI, S&P Emerging Frontier Super Composite BMI, S&P Extended Frontier 150, S&P Frontier BMI, S&P Frontier Ex-GCC BMI, S&P Slovenia BMI; as well as the STOXX All Europe Total Market, STOXX Balkan Total Market, STOXX Balkan Total Market ex-Greece & Turkey, STOXX EU Enlarged Total Market, STOXX Eastern Europe 300, STOXX Eastern Europe 300 Banks, STOXX Eastern Europe Large 100, STOXX Eastern Europe Total Market, STOXX Eastern Europe Total Market Small, STOXX Global Total Market, and STOXX Slovenia Total Market.

Investor Relations' function

The Bank participates in varied forms of engagement, such as investor meetings, calls, conferences, and roadshows, reflecting the diverse nature of the Bank's ownership structure. Transparent communication with investors and analysts allowed for dialogue promotion on strategic developments, as well as on the recent financial performance of the Group. The Bank promoted greater awareness and understanding of operating businesses, developments, and events which have an influence on the performance of the Bank's share price. Since the listing, six analysts released research reports about the Group. Performance of the Bank is covered by analysts from JP Morgan, Deutsche Bank, Wood & Company, Citi, InterCapital, and Raiffeisen Bank International.

IR presentations, financial reports, and important information are available on the Bank's website in line with IR's Financial Calendar.

We are your loyal partners.

Great-grandfathers built bridges.
Grandfathers built factories.
Fathers built the internet.
Your goal is to build the future.

New builders of the future are driven by the same pioneer spirit that has accompanied this region for decades. You also are not going to sit and wait for better times to come along, instead you want to create them yourself. We are right here by your side, following the trends and always developing new solutions which will inspire and encourage you to create change. The same way we helped others before you.

Macroeconomic Environment

In 2021, following a pandemic-induced contraction in 2020, the global economy recorded a strong although imbalanced recovery. In general, global economic activity has managed to surpass pre-pandemic levels, but the recovery has remained incomplete and uneven across countries as well as sectors.

5.3%
economic growth in the Euro-area in 2021.

8.1%
economic growth in Slovenia in 2021.

7.6%
economic growth in the Group's region in 2021.

Global and European economy

Since the strong rebound resulting from the re-opening, the momentum has eased throughout the year because the global rebound has faced several headwinds that have influenced the momentum. The surge in demand for goods has faced production chain bottlenecks, and has resulted in supply-demand imbalances. As a consequence, inflation pressures have emerged in all economies with disruptions in energy, food, and commodity markets that have been reflected in increased prices. Inflationary pressures have been passed on to consumers and lasted longer than initially expected. The labour market is still yet to recover completely, but labour shortages have been evident in several economic sectors. The pandemic continued its grasp on economic activity also in 2021, but to a much lesser extent than in the previous year. New outbreaks weighed on economic activity by extending existing and originating new supply constraints. As such, business survey measures of output and new orders moved below their peaks recorded in Q2, while consumer confidence deteriorated in many countries in the last months of the year. Nevertheless, global industrial production and retail sales remained above pre-pandemic levels, although they have also recorded easing momentum over the course of the year.

In the Euro area, economic activity rebounded sharply in H1 in line with the improvement in the health situation. The main driver of the rebound has been private consumption that was fuelled by the pent-up demand and a reduction in the household saving ratio. These have been driven by diminishing forced savings when the restrictions started to be gradually lifted in spring. This propelled the recovery in services which followed the recovery in manufacturing. Nevertheless, a sharp resumption in economic activity has resulted in supply-demand imbalances and has created vast supply disruptions and bottlenecks. The latter has influenced momentum slowing down the rebound and causing economic activity to ease after peaking in the summer. Global supply chain bottlenecks have been a significant constraint on industrial production and goods trade throughout the year. Supply bottlenecks, increasing producer prices, coupled with a surge in energy prices, and stronger demand as a result of the reopening of the economy have caused a strong increase in inflationary pressures. The latter has resulted in a surge in headline, as well as core inflation rates as inflationary pressures have become more and more broad-based and have been mainly passed on to consumers over the course of the year. The strength of the labour market in 2021 was reflected in the decreasing unemployment rate throughout the year, while pockets of labour shortages have emerged and have become a sector-specific issue.

Monetary policy authorities kept the notion of transitory inflation for the large majority of the year, but rapid resumption in economic activity, rising inflation rates, and labour market conditions improvement forced them to reconsider monetary policy stances. In the Euro area, the ECB has maintained very favourable financing conditions in 2021 with TLTRO-III and the Pandemic emergency purchase programme (PEPP) playing their parts in supporting the Euro area recovery. Nevertheless, the pace of purchases under the PEPP have decreased throughout the year, and at the December meeting, the ECB outlined the discontinuation plan for the programme. The net purchases under the programme discontinued in March 2022, which was in accordance with its design. However, the ECB has also decided to temporarily increase purchases under the regular asset purchases programme in order to provide some sort of a transitional period, but subsequently implemented a quicker slowdown of the programme. In the US, asset purchases tapering was announced and outlined in November, but sustained price pressures prompted the Fed to drop the notion of transitory inflation and to double the tapering pace, which also resulted in moving forward the timeline of rate hikes. At the March meeting, the Fed actually raised the rate by 25 bps, with additional rate hikes set to follow.

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, resulting in a restoration of demand patterns and an easing of supply disruptions and inflationary pressures. However, the recovery may quite possibly remain unbalanced across countries and sectors. In the Euro area, the strong output recovery that is underway is expected to continue in 2022. GDP growth is expected to moderate to 3.6% in 2022, with forces of the re-opening set to fade out. Growth in the Euro area will be primarily driven by strong private consumption in light of households reducing the saving rate to normal levels on the back

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of further diminishing forced and precautionary savings. Another driver is business investment, which is expected to recover substantially, and which will be 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. Strong labour demand and likely further improvement in the labour market is expected to drive the unemployment lower. 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 turn out higher than expected. If inflation expectations become entrenched at higher levels, more broad-based price increases could not be excluded. Moreover, with costs pressures being passed-through to consumers, inflationary pressures could become even more widespread. The latter could undermine households‘ purchasing power and impact the main growth driver. 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.

The economy in the Group's region

The Group's region rebounded strongly from the pandemic-induced economic crisis, in line with global economic trends. Private consumption has been the main driver of the growth in the Group's region. Private consumption has been spurred by credit growth, remittances, a strong tourism season, and pent-up demand despite the fact that labour markets in some countries have still not escaped the impact of the pandemic-induced crisis. Private investment has solidified although there have been some differences in dynamics between countries. Strong export demand from the EU market and industrial production supported growth in BiH, North Macedonia, and Serbia, while Montenegro and Kosovo benefited in particular from the rebound in the tourism sector over the summer. Nevertheless, the Group's region was not able to circumvent the global surge in commodity prices, rising energy prices and supply-chain bottlenecks. Coupled with firming domestic demand, this resulted in inflation increasing over the course of the year. Fiscal policy remained accommodative and monetary policy rates were kept at historical lows.

Table 6: Movement of key macroeconomic indicators in the Euro area and NLB Group region

	GDP (real growth in %)					Average inflation (in %)					Unemployment rate (in %)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Euro area	1.6	-6.5	5.3	3.6	2.7	1.2	0.3	2.6	5.3	2.2	7.6	8.0	7.7	7.2	7.2
Slovenia	3.3	-4.2	8.1	3.5	3.4	1.7	-0.3	2.0	5.7	2.4	4.5	5.0	4.8	4.4	4.4
Serbia	4.3	-0.9	7.4	3.9	4.1	1.8	1.6	4.1	7.8	4.1	11.2	9.7	11.1	10.0	9.4
N. Macedonia	3.9	-6.1	4.0	3.4	3.7	0.8	1.2	3.2	6.1	2.5	17.3	16.4	15.7	15.1	14.7
BiH	2.8	-3.2	5.9	3.2	3.2	0.6	-1.1	2.0	6.0	2.5	15.7	15.9	15.5	15.1	14.7
Kosovo	4.8	-5.3	10.4	3.9	4.2	2.7	0.2	3.3	6.3	2.6	25.7	25.9	24.0	23.0	22.2
Montenegro	4.1	-15.3	12.0	4.8	3.9	0.6	-0.3	2.4	5.0	2.0	15.1	17.9	16.6	15.8	15.2

Source: Statistical offices, Focus Economics.
Note: NLB Forecasts are highlighted in grey.

A macroeconomic snapshot for the NLB Group's region

In **Slovenia**, economic activity surpassed its pre-pandemic level in 2021 on the back of a revival in private consumption, investment, and strong international demand. The economy expanded rapidly in H1. Since then, import growth has outpaced export growth and external trade made a negative contribution to the economic growth. Nevertheless, this negative contribution was more than offset by continued growth in private consumption and investment, while the fiscal policy stance also played its part in supporting the economic activity. Similarly, to other the Euro area economies, the economy has not been immune to supply chain bottlenecks and inflationary pressures. Inflation accelerated in Q3, and continued with acceleration in Q4, with energy prices being the main driver.

In **Serbia**, after experiencing a mild contraction in 2020, the economy exceeded the pre-pandemic output level and rebounded strongly in 2021 on the back of a strong increase in private consumption and investment, both more than offsetting the negative contribution of net exports and lower government consumption. Robust wage growth in the year propelled household spending, while a sharp rebound in oil prices and increase in food prices resulted in an acceleration of inflation over the course of the year.

In **North Macedonia**, after contraction in Q1, a marked increase in private consumption propelled a buoyant Q2. Remittance inflow also played its part in boosting private consumption resumption by bolstering households' disposable incomes. Strengthened foreign demand turned out beneficial for the external sector of the economy. Inflation increased over the course of the year with pressures arising mainly due to rising global energy and goods prices, as well as supply chain disruptions.

In **BiH**, a recovery in external markets and the expansion of domestic private consumption propelled the growth in 2021. Private consumption was supported by credit growth, wages growth, and remittances. However, in H2 the rebound in private consumption lost some momentum, but high public and capital spending bolstered the domestic economy somewhat. Inflation increased throughout the year due to rekindled domestic demand and global trends in price pressures.

In **Kosovo**, the economy recovered due to strong growth in domestic and external demand. Lifted restrictions on travel across Europe boosted tourism inflows. The rebound in the hospitality sector, while strong remittances inflow upheld private consumption. Surging exports of goods and services buoyed the economy when private and public consumption lost momentum in H2. Higher prices for food and energy have driven up price pressures over the course of the year.

Table 7: Movement of the balance of payment and fiscal indicators in the Euro area and NLB Group region

	Current account balance (% GDP)					Fiscal balance (% GDP)					Public debt (% GDP)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Euro area	2.3	1.9	2.7	2.5	2.6	-0.6	-7.2	-6.8	-4.0	-2.7	83.6	97.3	99.0	97.5	96.5
Slovenia	6.0	7.4	4.8	4.9	4.7	0.4	-7.7	-6.5	-4.5	-3.2	65.6	79.8	78.7	77.3	76.0
Serbia	-6.9	-4.1	-4.4	-4.3	-4.4	-0.2	-8.0	-4.1	-2.9	-1.7	51.9	57.0	55.6	55.5	53.4
N. Macedonia	-3.3	-3.4	-3.5	-2.8	-2.7	-2.0	-8.2	-5.4	-4.6	-3.9	40.7	51.2	53.8	55.4	56.3
BiH	-2.7	-3.6	-2.8	-2.9	-2.9	1.9	-5.3	-2.7	-1.9	-1.4	32.5	36.7	37.3	37.2	36.9
Kosovo	-5.7	-7.0	-6.8	-6.8	-6.3	-2.6	-7.1	-3.6	-2.2	-2.1	17.6	22.4	23.8	25.5	26.3
Montenegro	-14.3	-26.0	-16.4	-14.4	-13.5	-2.9	-10.2	-4.7	-3.7	-2.9	76.5	105.1	92.3	85.7	81.5

Source: Statistical offices, Focus Economics.
Note: Consensus Forecasts are highlighted in grey.

In **Montenegro**, the economy rebounded strongly with the improvement of the epidemiological situation and the opening of borders which propelled a resumption of tourism. After a sluggish start, tourism picked-up strongly in the summer months. The rebound in the tourism sector boosted a surge of private consumption which was the main driver of the recovery. Inflation accelerated over the course of the year with higher commodity prices and firming demand driving price pressures.

Macroeconomic outlook for NLB Group's region

In **Slovenia**, economic activity is expected to continue growing, with domestic demand envisioned as being the main driver. Private consumption and investment, propelled by EU funds, should be key drivers of GDP growth. The labour market will drive the unemployment rate lower. After the 2021 pick-up in inflation, the acceleration of inflation is expected to continue in 2022 with high energy prices continuing to drive the headline inflation for most of the upcoming year. Buoyant imports growth should outpace exports, resulting in a negative contribution to the GDP growth of net exports. Pandemic-related uncertainties, although waning, continue to weigh on the outlook. Economic implications of the war in Ukraine represent an even greater risk to the outlook.

In **Serbia**, growth is projected to return towards the pre-pandemic path. Growth should be mainly driven by private consumption and investment, as well as by more positive net exports contribution. However, downside risks are in the form of the pandemic uncertainties, sturdier and prolonged elevated inflation, and the long-term impact of supply-side bottlenecks. Economic implications of the war in Ukraine add yet another layer of uncertainty.

In **North Macedonia**, the growth in 2022 should be mainly driven by private consumption, being the key part of the firming domestic demand. Coupled with strengthening foreign demand, it should lead to solid expansion. Nevertheless, pandemic-related uncertainty, high energy prices, and prolonged disruption of supply chains represent the main downside risks to the outlook. Economic implications of the war in Ukraine represent an additional risk to the outlook.

In **BiH**, economic growth should remain solid, being supported by higher capital and public spending. That said, the pandemic-related uncertainty, slower recovery in export markets, and political stalemate represent the downside risks to the outlook. Higher inflation and economic implications of the war in Ukraine represent an additional risk to the outlook.

In **Kosovo**, the economy should see robust, but cooled-down economic growth in 2022 due to the lower base effect. Firming capital expenditure growth and a tighter labour market are seen as supporting factors for activity with the additional beneficial effect of a healthier external backdrop. Pandemic-related uncertainty and lingering political uncertainty are downside risks to the outlook. Additional downside risk arises due to the overall economic implications of the war in Ukraine.

In **Montenegro**, further growth in the tourism sector should propel the economy to recover the pre-pandemic level, but the labour market is seen as requiring some more time to leave the memory of the crisis completely behind. Downside risk to the outlook relates to the pandemic-related uncertainty and possible implications on the tourism sector, although its effect is fading. Downside risk arises due to the overall economic implications of the war in Ukraine.

The economic growth in the **Group's region** could be around 3.7% in 2022. The recovery is expected to lose some momentum as the external boost gradually fades and the base effects wanes. Nevertheless, growth should be mainly driven by firming private consumption and investment. The tighter labour market could propel household spending and wage growth. Further improvement in the tourism sector should be beneficial, especially for tourism-dependent countries of the Group's region. In the mid-term, countries of the Group's region should also benefit from the Economic and Investment Plan adopted by the EU, which aims to boost more sustainable, green, digital, and people-focused growth. However, supply disruptions, and rising commodity and energy prices, which are set to be additionally affected by the war in Ukraine, represent downside risks to the economic outlook of the Group's region. Persistently higher inflation levels could undermine households' purchasing power and by that private consumption. This would hinder the main growth driver thus impacting growth. 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, in the Group's region as well as abroad, despite pandemic's waning effect on economic activity in general.

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Table 8: Movement of key banking systems indicators in the NLB Group region, 2021

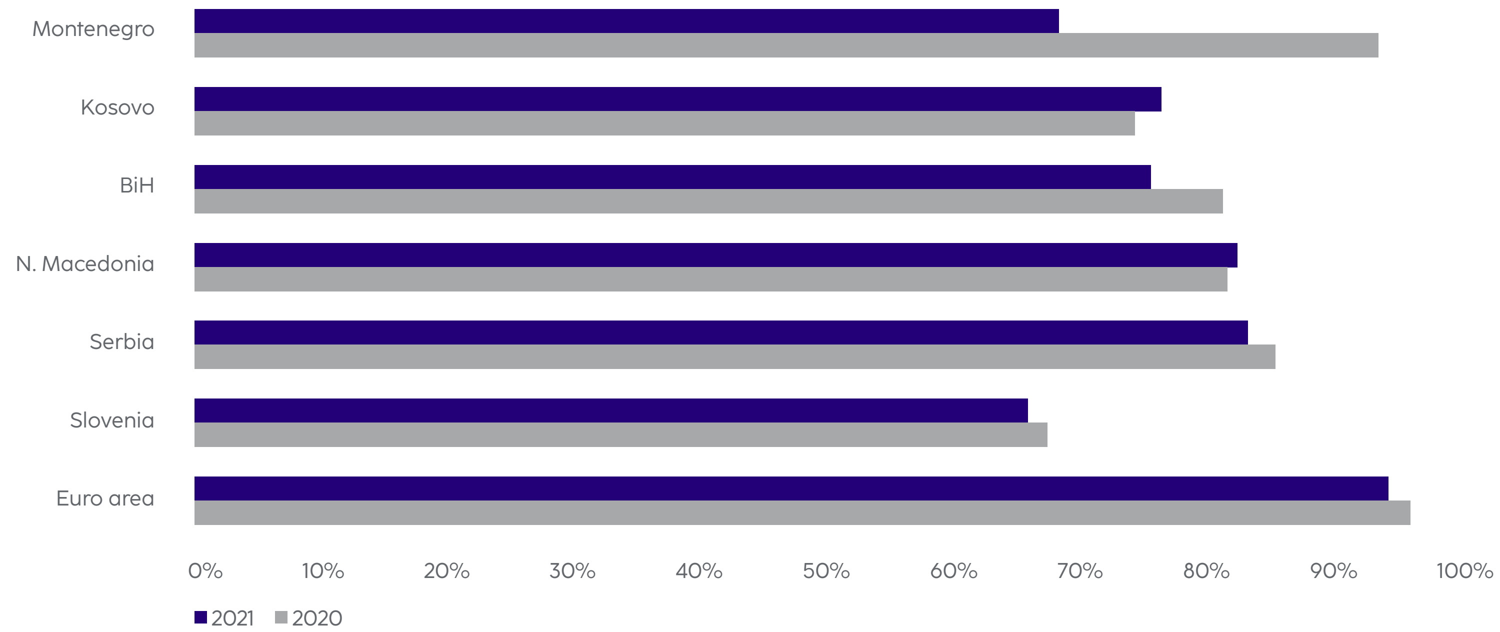
	Corporate loans		Household loans		Corporate deposits		Household deposits		Net interest margin		NPL		CAR	
	in EUR million	Δ % YoY	in EUR million	Δ % YoY	in EUR million	Δ % YoY	in EUR million	Δ % YoY	2020, in %	2021, in %	in %	Δ pp YoY	in %	Δ pp YoY
Slovenia	9,302	▲ 6.3	11,263	▲ 5.1	8,998	▲ 12.0	23,953	▲ 6.8	1.8	1.4	1.6	▼ -1.0	18.2	▼ -0.1
Serbia	16,166	▲ 8.8	10,606	▲ 11.1	10,845	▲ 13.0	16,919	▲ 13.6	3.0	2.7	3.5	▼ -0.2	21.7	▼ -0.7
N. Macedonia	3,003	▲ 8.7	3,256	▲ 7.8	2,237	▲ 11.6	4,966	▲ 7.1	3.3	3.2(i)	3.6(i)	▲ 0.2	17.3(i)	▲ 0.4
BiH	4,486	▲ 2.2	5,336	▲ 5.5	2,830	▲ 17.6	7,513	▲ 6.8	2.4	2.4(i)	5.5(i)	▼ -1.1	19.2(i)	▲ 0.9
Kosovo	2,335	▲ 13.7	1,399	▲ 18.6	1,129	▲ 19.7	3,237	▲ 13.8	4.5	4.5	2.3	▼ -0.4	15.2	▼ -1.2
Montenegro	1,277	▲ 7.3	1,456	▲ 3.2	1,616	▲ 26.6	2,193	▲ 25.3	3.7	4.0	6.2	▲ 0.7	18.5	0.0

Source: Statistical offices, CBs, NLB.
Note: Net interest margin calculated on interest-bearing assets; (i) Q3 2021 data.

The banking system in the Group's region

The economic rebound in 2021 also had a positive impact on the banking system in the Group's region. Lending activity recorded a notable revival in both, corporate and household loans. The majority of countries of the Group's region recorded a notable improvement in corporate loans growth, with Slovenia and BiH bouncing into the positive territory after recording negative growth in 2020. In Serbia, growth in corporate loans slightly moderated, but remained firm, while in Kosovo further improvement in corporate loans growth was recorded. Montenegro and North Macedonia recorded robust corporate loans growth, representing a remarkable improvement in comparison to the last year. Considering household loans, the dynamics were similar to the corporate loans. BiH and Slovenia recorded a significant rebound in household loans. Montenegro also recorded an improvement, while Serbia and North Macedonia retained robust growth rates from the previous year. Kosovo recorded a marked improvement in the household loans growth.

Figure 2: LTD ratio in the Euro area and NLB Group region



Source: ECB, National CBs, NLB.

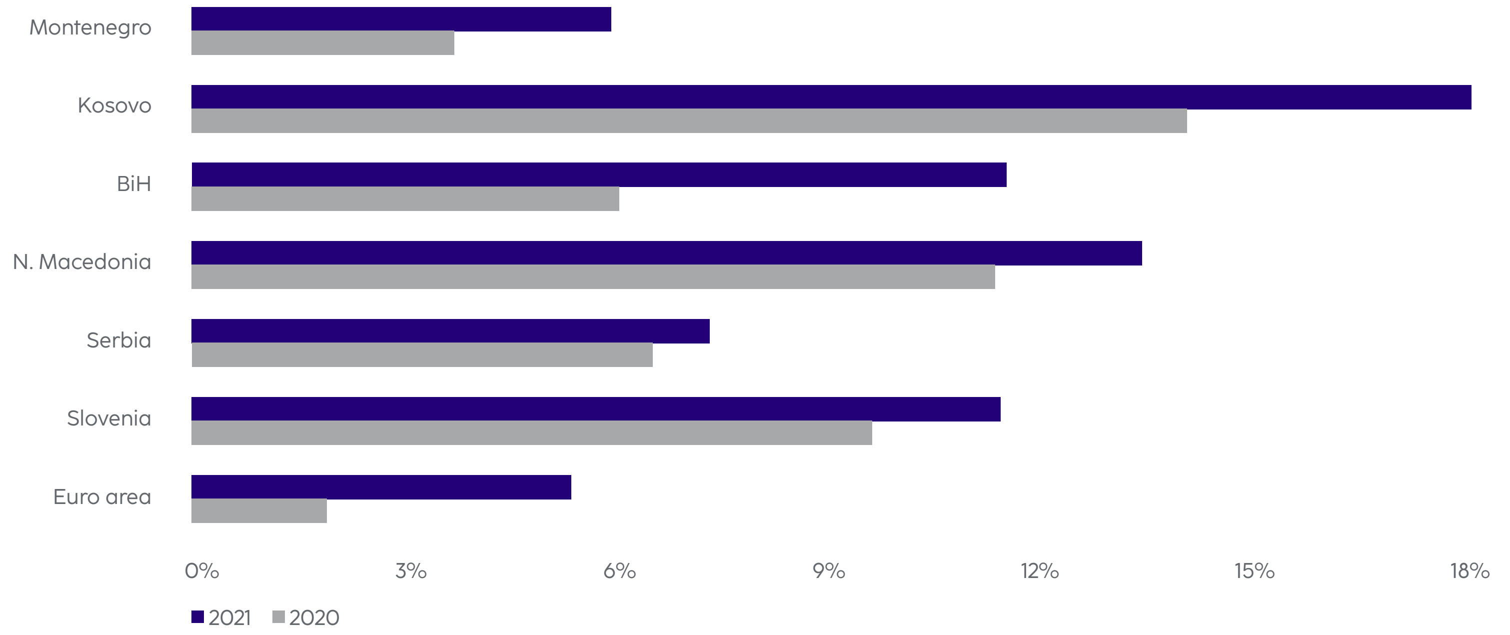
However, despite a notable improvement in the credit activity, a strong inflow of deposits continued in 2021. Despite remaining robust, corporate and household deposits growth moderated to some extent in Slovenia and partially in Serbia. In Montenegro, growth in corporate and household deposits surged after last year's outflow of deposits. In Kosovo, already high growth in household and corporate deposits increased further, while North Macedonia and BiH recorded a somewhat less significant increase in the growth rate of corporate and household deposits.

The net interest margin of the Group's region banking systems exhibit some differences. In general, net interest income was driven by the increase in growth of lending contributing to positive quantity effects on the movement of net interest, and by the negative impact of price effects. The net interest margin of the banking systems in the Group's region is largely a reflection of the two factors.

The capital adequacy of the banking systems remains solid, well-capitalised, and the general improvement of the NPL ratio suggest some improvement in the quality of banks' portfolios.

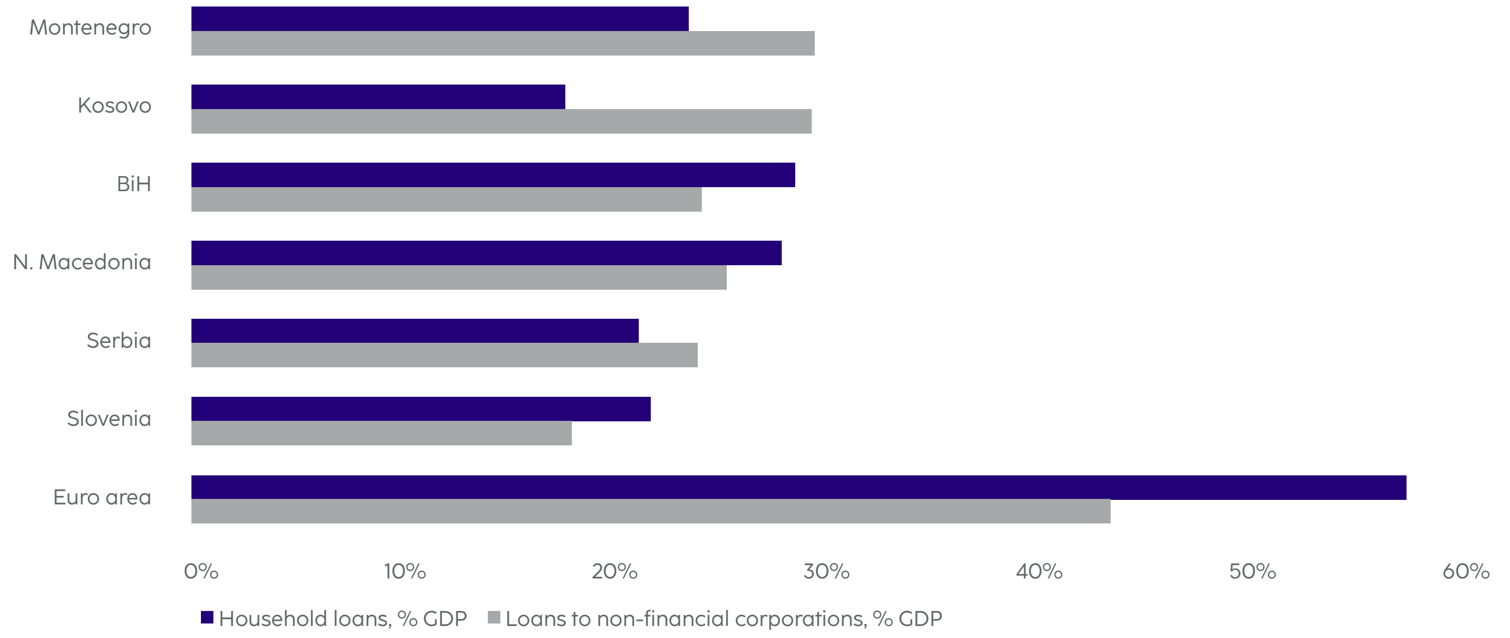
The LTD ratio decreased in some of the Group's region banking systems since the inflow of deposits remained strong. In general, the growth in deposits outpaced the growth in

Figure 3: ROE ratio in the Euro area and NLB Group region



Source: ECB, National CBs.
Note: Return on average equity (ROAE) used for BiH; Q3 2021 data for BiH, N. Macedonia and Euro area.

Figure 4: Loans to non-financial corporations and household loans in the Euro area and NLB Group region in 2021



Source: National CBs, National Statistical Offices.
Note: Q3 2021 annualised data for BiH and Kosovo.

loans, hence offsetting the effect of the revival in the credit activity. The profitability of the banking systems of the Group's region improved, with ROE increasing in all countries of the Group's region. Profitability improvement was to the great extent driven by the net release of impairments and provisions.

Loans potential outlook for the Group's region

Loans to non-financial corporations and household loans as a percentage of GDP levels of the Group's region suggest that the whole Group has the potential for further growth when compared to the levels of the same categories in the Euro area. The continued solid economic growth in the Group's region bodes well for loans' potential. The growth in the Group's region should be predominantly driven by private consumption and fixed investments, both important components of loans' potential, and both expected to exhibit robust growth in 2022. Private consumption, as the most important component of GDP, is expected to range from around 3.0% in BiH to 5.9% in Montenegro. Fixed investment is expected to be somewhere between 3.4% in Montenegro and 8.6% in North Macedonia, with the growth rate in the Group's region in the upper half of that range. In general, stabilising private consumption and fixed investment should have a positive impact on lending activity in the Group's region.

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Regulatory Environment

During 2021, more than 100 changes in the EU and Slovenian regulatory environments were adopted with material effects on the Bank and the Group. The Group strives to be fully compliant with the existing and new requirements. Disclosure of the most relevant changes of legislation and regulation which have an effect on the Group is presented herein.

The regulatory environment in Slovenia

The Bank is subject to capital adequacy and liquidity rules imposed by the EU (CRR/CRD), which govern the activities in which banks may engage in, and are designed to maintain the safety and soundness of banks, as well as limit their exposure to risk. The CRD V was further transposed into the new Banking Act (ZBan-3), which also regulates the participation of employees in the management of the Bank, something the Bank already encourages.

As a financial institution offering benchmark-based products, the Bank meets its obligations under the Regulation 2016/1011 (BMR) and regularly monitors developments in this area by adapting its operations to the requirements of regulators and industry.

Due to the constant care for the interests of its customers, especially the protection of their data, the legislation in the field of personal data protection is also important for the Bank. The Bank strictly adheres to its obligations imposed on it by GDPR in both Slovenia and the Group. As the Slovenian law, which would further supplement the regulation, was not adopted either in 2021, further obligations for the Bank may arise when the law will be adopted.

In the field of financial markets there were no significant changes in regulatory environment in 2021. Limited implications of latest upgrades of the Shareholders' Rights Directive (SRD II) that was transposed into the amended Companies Act, have been duly implemented in the Bank's processes. The Bank complies with the provisions of MIFIR/MIFID II and EMIR regarding financial markets transactions, enhanced investor protection, transparency, and reporting obligations.

The Group also takes into account and complies with the regulations in the field of preventing money laundering and terrorist financing. At the end of 2021, an amendment to the Prevention of Money Laundering and Terrorist Financing Act was proposed that will further remove certain inconsistencies and ambiguities, relax certain requirements, and introduce additional tools or options for the implementation of measures by obliged persons.

Compliance with the Payments Act (PSD2) and regulatory technical standards, which brought open banking into the financial environment, required major changes to the Bank's information systems. The Bank is constantly monitoring new regulatory requirements imposed by the regulator, is adapting to them, and taking into account the best user experience.

Due to the COVID-19 epidemic in 2021, the RoS adopted several intervention laws and measures which mainly affected the Bank in the area of credit moratoriums and daily operations.

An ongoing activity from 2019 included the amendment of policies and contracts due to EBA Guidelines on outsourcing arrangements, that provide a clear definition of outsourcing and specify the criteria to assess whether or not an outsourced activity, service, process, or function (or part of it) is critical or important.

In the EU's policy context under the European Green Deal, 'sustainable finance' is understood as finance to support economic growth while reducing pressures on the environment, and taking into account social and governance aspects. The Bank is approaching the development of a comprehensive policy on sustainable finance, comprising the action plan on financing transition to low-carbon economy.

Regarding the upcoming legislation in the corporate governance area, an amendment to the Companies Act (ZGD-1) is in the process of adoption which will have an impact on the Bank mainly in the area of relations with shareholders and the exercise of shareholders' rights, as well as information on corporate actions (following SRD2).

Regulatory environment in the Group's region

The regulatory environment in the rest of the region where the Group operates was dominated by legislative and regulatory changes related to the COVID-19 pandemic and minimising its consequences in the financial sector and economies. There were also local regulatory (prudential and macroeconomic) measures adopted to ensure stable functioning of the financial systems.

Serbia continued harmonizing the business environment with the EU framework through the adoption/amendments of the new Law on Capital Market, the Law on Electronic Invoicing, and the Law on Companies (all these to be enforced successively). The National Bank of Serbia put more scrutiny on the clients' complaints and the process of refinancing loans in the banks. Regulatory activities on COVID-19 continued with the aim of mitigating the consequences of the pandemic both for the economy and citizens.

In **North Macedonia**, COVID-19 pandemic-related laws focused mostly on social support for vulnerable social groups, and financial help for the affected companies. The AML law was amended to transpose the EU legislation in the relevant area so that Banks could use electronic identification in its day-to-day activities. The National Bank of the Republic of North Macedonia adopted the decisions, mostly in order to harmonize with EU legislation and standards in the area of required reserves, the methodology for identifying systemically significant banks, and submitting and publishing data on the performed activities in the payment operations.

In the **Federation of BiH** the most important decision of the regulator in 2021 was the Decision on Internal Governance System in the Bank, which represents an alignment of local regulations with EBA Guidelines on Internal Governance. A new 'Law on Accounting and Auditing in the Federation of BiH' must also be emphasized as it brings new accounting frame in Federation of BiH. In the area of legal entity legislation, there are new regulations related to the possibility of using digitally signed documents in the registration of a legal entity, but in this very moment technical and legal support on the level of the state is not yet provided.

In the **Republic of Srpska**, a new Decision on the Bank's management system was published by the Banking Agency of the Republic of Srpska, which has replaced five previous by-laws and therefore required thorough changes of the Bank's internal acts. Also, the Law on the Protection from harassment at work was published in October 2021. Next to these, the local regulator published several by-laws related to liquidity, reporting, credit risk management, etc.

In **Kosovo**, the local CB adopted the Instructions for using the form on the origin of funds and determining the holder of the property right and the Guideline on loan restructuring due to COVID-19. The government of the Republic of Kosovo, and the Ministry of Finance Labour and Transfers adopted the product 'Diaspora Bonds'; the Deposit Insurance Fund of Kosovo (DIFK) adopted the Rules on reporting, calculation, and collection of premiums, testing the depositor compensation system, and on administrative sanctions for members of the DIFK. The Assembly of the Republic of Kosovo adopted the Law on Electronic identification and trust services in electronic transactions.

In **Montenegro**, the main activities in 2021 were dedicated to the implementation of Law on Credit Institutions, Bank Recovery and Resolution Law, together with a number of by-laws for both legal acts. Also important is that some of the by-laws have been changed before the start of its application. No less important were the activities on implementation of by-laws for Deposit Protection Act, as well as the Central Bank of Montenegro Decision on the Central Register of Transaction Accounts.

BUSINESS REPORT

Strategy

Despite the challenging and uncertain economic environment, the Group has continued to duly execute its medium-term strategy. This includes focus on protecting and strengthening its market position in its home region, and actively participating in the growth and consolidation of the market. Digitalization, client centricity, and cost efficiency remain some of key strategic orientations to ensure delivery of the Group's vision.

Become a regional champion

The Group aims to further strengthen its role as a systemically important financial institution in the SEE region, and strives to become a market leader in all of its core markets and to have a prominent role in the region's development. With the completion of the acquisition of Komercijalna Banka, Beograd in 2020, the Group made an important step in this direction. The Group believes there is significant potential from the deal for the whole region given the complementary product offerings of Komercijalna Banka, Beograd that enable the Group to extend a number of products and services in the Serbian market and increase its cross-border activity. In addition, cost- and capability-related business synergies will be derived from its integration within the Group and which will be finished in 2022. It is estimated that the combined synergy effects could result in over EUR 20 million annually from 2023 onwards. Further business synergies are expected from the integration of Sberbank banka d.d. in the Group.

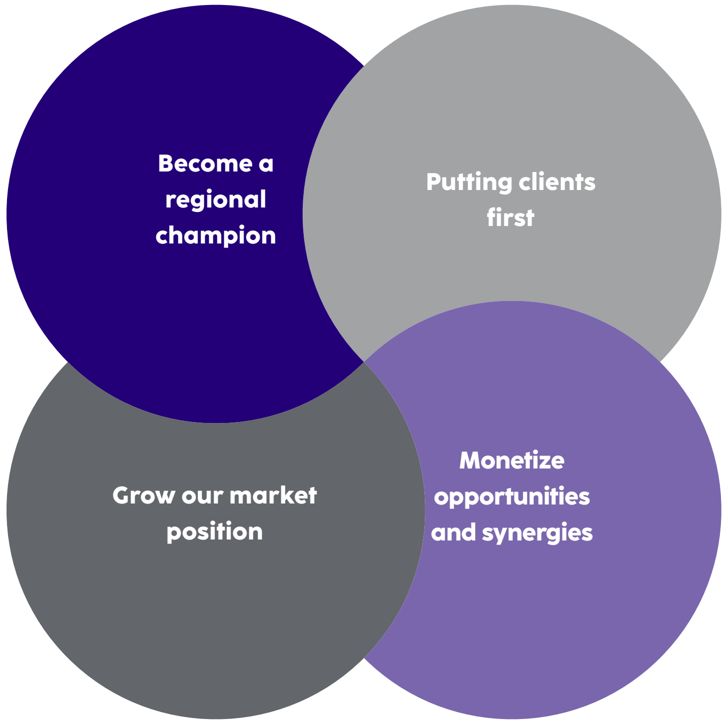
Putting clients first

In retail banking, the Group continues to strive to become closer to its clients by offering anchor products and the most accessible and personalised digital services (e.g., omnichannel, marketplace) that suit their lifestyles. In corporate banking, the Bank is looking to provide more complex, cross-border products and services, and to find new entry points in order to suit all its clients' financial needs. One of the key efforts is improved availability for all clients. The Group has made itself available anywhere and anytime by building a strong customer call centre and upgrading its portfolio of digital sales channels. These now offer a growing set of banking products and services, both for retail and corporate clients.

Finishing integration of Komercijalna banka, Beograd

Promoting the ESG agenda

Creating new business expansion opportunities



Digitizing distribution channels

Supporting clients' expansion

Adding new financial products

Building strong customer support

Monitoring and increasing stakeholder value

Becoming a great place to work

Continuing strategic transformation initiatives

Establishing diversified horizontal businesses

Digitalization

The Group continues to implement comprehensive and substantial strategic efforts toward digital distribution and operating models that have been accelerated by the COVID-19 pandemic. The new circumstances related to the pandemic and the economic uncertainty continue to affect the growth and acceptance of digital channels by our customers. The Group was prepared for such a market trend, since it was already the leading provider and innovator in its core markets before the outbreak.

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

The Group will continue to invest substantially in IT infrastructure and its capabilities. The focus will be on improving the speed IT can deliver results by adopting agile methodology principles, the provision and implementation of the best online experience for customers in the SEE, and enhancing capabilities for processing data, modelling, and the relevance of services to clients. One such example is the already established technological hub in Belgrade that develops solutions for the whole Group.

Due to the positive effects of working remotely during the pandemic, the Group has developed a hybrid working model (combination of work-from-home and work from the office) initiative, thus offering more flexibility to its workforce and achieving cost benefits at the same time.

Grow our market position

The Group is working to protect and strengthen its market position as a systemic player in its home region. In order to do this, the Group is monitoring how well it is adding value to three types of its main stakeholders: shareholders, customers, and employees. With respect to shareholders, the Group views its decisions through a lens of maximising its return on equity. With respect to customers, a net promoter score (NPS) is monitored and tracked. With respect to employees, an employee engagement metric is measured and analysed. In addition to the mentioned key performance indicators, other supporting indicators and benchmarks are tracked in order to continually revaluate current projects and utilise those insights for future decisions.

The Group regularly engages with all of its stakeholders in defining what is material to both them and the Group. A variety of communication channels are used for an open and transparent dialogue on sustainability related issues. Some of the most important channels for communications with the stakeholders (in addition to the regular publicly available periodic reports, presentations, and webcasts on the Group performance) are the NLB Group Sustainability Report, the CSR and Sustainability e-mail box, the corporate website, and social media channels.

The Group's employees represent its key resource: human capital and are one of its main drivers for creating value. Through the focus on recruitment, management, and the continual development of employees, they are given the opportunity to thrive by making the most of their talent and experiences and adapt to a fast-changing world. They are encouraged to act in a responsive, respectful, and result-driven manner within and outside their work efforts. The ambition is to truly involve the whole organisation in realising the Group's sustainability ambitions.

Monetize opportunities and synergies

Significant strategic business efforts are undertaken to achieve business synergies across the Group, both in costs and operational efficiency. The Group believes these can help offset significant negative economic effects of the COVID-19 pandemic on the Group's future business results. The Group is fully engaged in re-establishing some of the key financial services (leasing, factoring, etc.), thus diversifying its services on a horizontal level.

The Bank is simultaneously monitoring additional M&A opportunities (within consolidation processes in banking sectors in the SEE) that could add value to the Bank's shareholders. It makes sense to actively participate in the expected growth and consolidation of the market.

Continuing transformation

To facilitate the aforementioned strategic focus and support continuous transformation in an everchanging environment, the Group is following an elaborated, comprehensive, and detailed program plan to deliver its mission and financial targets. The Group has identified a series of projects and initiatives, and has also dedicated considerable investment funds for their implementation. With the projects, all major running change efforts are channelled into one overall strategic transformation program.

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

The transformation program also focuses efforts into increased operational efficiency, cost management, and the improved utilisation of the Group's capital. Simultaneously, overall operational capabilities are being enhanced by improving human capital, optimising IT infrastructure, digitalizing internal processes, and leveraging information capital. To drive the transformation, a new change management platform was set up.

Brexit's impact on the Group's performance

Due to the limited focus of the Group's operations beyond the SEE region, Brexit did not have any significant impact on the Group's business performance.

Risk Factors and Outlook

Risk factors

Risk factors affecting the business outlook are (among others):

- The economies' sensitivity to a potential slowdown in the Euro area or globally
- Widening credit spreads
- Potential liquidity outflows
- Worsened interest rate outlook
- Potential cyber-attacks
- Regulatory, other legislative and tax measures impacting the banks
- Geopolitical uncertainties

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

The indicated outlook constitutes forward-looking statements which are subject to a number of risk factors and are not a guarantee of future financial performance.

The Group is pursuing a range of strategic activities to enhance its business performance. Interest rate outlook is uncertain given the adaptive monetary policy of the ECB to the general economic sentiment. The Bank is committed to delivering sound financial performance.

The measures and potentials outlined in the above strategy are reflected in the Group's outlook for the 2022 to 2023 period (Table 9). Potential effects of acquisition of Sberbank banka d.d. are not included in the outlook.

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.

Table 9: Outlook for the period 2022-2023

	2022[ii]	2023
Regular income	~ EUR 670 million	> EUR 700 million
Costs	Costs at 2021 level	~ EUR 400 million
Cost of risk	20-30 bps	30-50 bps
Loan growth	High single digit loan growth	High single-digit loan growth
Dividend	EUR 100 million	EUR 110 million
ROE a.t.	~ 10%, (ROE normalized[i]: 12%)	> 10% (ROE normalized[i]: > 12%)

[i] ROE normalized = Result a.t. w/o minority shareholder profit divided by consumed capital. Consumed capital computed as 13.06% of average RWA reduced for minority shareholder capital contribution.
[ii] 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.

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.

Impact of COVID-19 on Operations

Following a very demanding year due to the worldwide impact of the COVID-19 outbreak having unprecedented effects around the globe, the year 2021 was in general a return to new normal and growth. Nevertheless, the disease is still present and will continue to affect the economies to various degrees despite increased medical capabilities and an improved toolbox against the struggle with the pandemic.

Though the COVID-19 pandemic, coupled with its implications on all aspects of life and in particular on the business environment, was still the region's and world's buzzword, the Group managed to stay well capitalised, very liquid, and as the business results show, also highly profitable.

Impact on credit portfolio quality

COVID-19 did not have a meaningful impact on the quality of the credit portfolio. The support schemes introduced by the governments in the Group countries providing moratoriums to eligible clients as part of the COVID-19 pandemic measures phased out during 2021. As at 31 December 2021, the exposures where COVID-19 moratoria were granted amounted to EUR 1,681.5 million and represented 10.8% of the Group's credit portfolio. The exposure with the remaining COVID-19 moratoria was negligible and amounted to EUR 24.8 million, while 98.5% of those moratoria already expired by 2021 YE. A total of 86.4% of exposure with the expired moratoria have no delays, while 2.1% had delays exceeding 90 days. The Bank is very prudent in identifying any increase in credit risk.

Measures

The Group continued to take necessary measures to protect its customers and employees by ensuring safety conditions and making sure services offered by the Group were provided without disruption. The vast majority of the products and services offered by the Group banks are available to clients in digital form without the need to visit a branch – and 24/7 client support by enhancing the availability of digital channels was ensured.

The 'Work from Home' initiative

In parallel, the plans to introduce a 'work from home' initiative which pre-dates the COVID-19 pandemic was somehow accelerated by the overall circumstances in the last two years, and was well received by the employees. In this respect, the pandemic provided a further push in the direction of digitalisation of the Group's business model.

Resilience of strategic initiatives

The resilience of the Group's strategic initiatives was well demonstrated throughout the outbreak of the COVID-19 pandemic. The new ways of working enabled the avoidance of any significant delays in the envisaged execution timelines, which should positively impact the Group's future financial and operational performance.

Impact on sustainability

The COVID-19 pandemic has had a substantial influence on three of the most significant aspects of sustainability: the society, economy, and environment. Its heavy economic burden on societies is likely to leave persistent social scars, such as greater inequality and poverty, as well as challenges regarding affordability and access to basic needs. By understanding that the pandemic has had direct effect on the economy, we have decided to further support vulnerable groups and exempt humanitarian organisations from paying commissions.[5]

Although COVID-19 restrictions of movement and changes of commuting patterns have altered in the past two years, with the economy recovery in 2021 global emissions are rising back to the pre-COVID level, which makes the fight against climate change even more urgent.[6] This also resulted in important and decisive steps in development of the sustainability regulatory framework. In this regard, the Group strengthened the role of sustainability within the Group and amplified its activities: enhanced environmental and climate risk management, performed impact and materiality analysis, began measuring carbon footprint of own operations, and strengthened corporate governance by establishing NLB Group Sustainability Committee. For more information, please refer to the NLB Group Sustainability Report 2021.

The year 2021 has proved that the Group adapted to 'new normal' with distinction. Digitalization, inclusion, and environmental protection have been some of the most important drivers for us. We have used them to continue developing progressive and digitalized services, and products that support energy efficiency and thus a transition to a low-carbon society.[7]

5 For more information, please refer to chapter Sustainability and subchapter Corporate Social Responsibility.
6 IEA, 2021: https://www.iea.org/reports/global-energy-review-2021/co2-emissions.
7 For more information, please refer to chapter Corporate and Investment Banking in Slovenia.

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Sustainability

Sustainability, with a focus on climate issues and covering other aspects of the environment as well as broader ESG aspects, is an opportunity for the Group to meet societal expectations, adapt to a changing environment, and mitigate certain risks. This has been demonstrated already in the widespread actions taken by the Group.

Implementation of sustainability into the Group business model

With less than a decade left to the 2030 deadline for achieving globally set commitments towards ESG, several key pieces of the EU sustainable finance legislation entered into force, and the EU Fit for 55 (EU plan to reduce greenhouse gas emissions by 55% by 2030) unleashed wide-reaching industrial changes that need to be implemented. The Group has shaped a number of important developments, with results such as:

Sustainability Framework

The NLB Group Sustainability Framework was published as a strategic document that highlights the ambitions and commitments to the integration of sustainability in the Group's business model. Besides providing an alignment of the Group's sustainability approach with the UN's Sustainable Development Goals (UN SDG), it offers stakeholders a list of sustainable economic activities promoted by the Group and therefore sets out the basis for classifying financing as sustainable. Moreover, the document addresses in detail ESG risk management, the principles of responsible banking and business ethics, and the Group's corporate sustainability governance structure.

Alignment of the Group's sustainability approach with the UN SDG:

SDG 3:
Ensure healthy lives and promote well-being for all at all ages

SDG 7:
Ensure access to affordable, reliable, sustainable, and modern energy for all

SDG 8:
Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all

SDG 12:
Ensure sustainable consumption and production

SDG 13:
Take urgent action to combat climate change and its impacts

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Impact analysis & target-setting

In 2020, the Bank signed the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking (UNEP FI PRB) which aims to align bank's strategy and practice with the UN SDG and the Paris Climate Agreement.

Principles for Responsible Banking are as follows:

Principle 1:
Alignment

Principle 2:
Impact & Target Setting

Principle 3:
Clients & Customers

Principle 4:
Stakeholders

Principle 5:
Governance & Culture

Principle 6:
Transparency & Accountability

The Bank will fully implement all six principles and therefore the required steps regarding impact analysis, target-setting & implementation, and accountability by the end of 2024.

In 2021, the Group conducted an impact analysis which resulted in target-setting, which represents the implementation of the second principle for responsible banking. The impact analysis identifies the most relevant and significant positive and negative impacts of a bank's portfolio on the societies, economies, and environments that the bank operates in. It is also the essential groundwork needed for meaningful target-setting.

Materiality analysis

With the aim to keep the 'double materiality' concept in the focus for the year 2021, the Group also decided for a traditional (GRI) materiality analysis as a complement to the impact analysis, since GRI materiality and stakeholder identification can be used to further corroborate impact analysis findings and so help with the setting of priorities.

Carbon footprint

In H2 2021, 'The NLB Group Carbon Footprint Measurement and Reporting Policy' was adopted as an internal policy on the calculation of the carbon footprint of the Group's own operations, and so provides the key methodological approach for why and how the carbon footprint reporting for the Group will be carried out. With reference thereto, the Group considers the Green House Gas Protocol (GHG Protocol), which represents the world's most widely used GHG accounting standard.

Sustainable financing

In 2021, over EUR 60 million of EU Taxonomy eligible long-term loans were approved by the Bank (large corporates segment): the Bank financed investments in energy infrastructure, a telecommunications network, water supply network, construction of cultural and school facilities, and energy efficiency. Within the SME segment, sustainable financing was at modest levels. At the end of 2021, the Bank and the Group banking members set ambitious sustainable financing goals for the years 2022–2025. Based on the analysis, the focus will be on renewable energy sources, solutions for the carbon footprint reductions, improving energy efficiency, and supporting a circular economy.

EU Taxonomy

The unfolding of the EU Taxonomy regulation was closely monitored by the Group representative in the European Banking Federation's Sustainable Finance working group, which covered among other tasks the UNEP FI and EBA project 'The Application of the EU Taxonomy to Bank Lending.' In 2022, the EU Taxonomy regulation will be fully implemented in the Group financing process.

ESG Risk management

In 2021, substantial effort was made in implementing climate, environmental, and social risk management requirements in line with ECB and EBA guidelines. In recent years, the Bank signed Framework Agreements with the EBRD and the Contract of Guarantees with MIGA. It was therefore required to develop a mechanism for environmental and social screening of current and potential financing applications against MIGA and EBRD Exclusion List and applicable environmental and social laws. Consequently, the Group's existing risk management framework is constantly upgraded with environmental and social elements. As a systemically important institution, the Group is included into 2022 ECB Climate Stress test exercise. More information is available in Risk Management chapter of this report.

Sustainability training

The Group's 'Sustainability on-line training program' was carefully prepared on the model of similar training programs of the International Finance Corporation (IFC) and is implemented throughout the Group. In the future, the Group will conduct Sustainability training on a yearly basis.

NLB Group Sustainability Governance Structure

The NLB Group Sustainability Governance Structure is anchored at different levels within the Bank and the Group thus guaranteeing that it receives attention from the highest decision-making bodies while also being broadly integrated in our operations.

In the Q3 2021, the NLB Group 'Sustainability Committee' was established as part of corporate sustainability governance developments and the first meeting was held in December 2021. It is chaired by the CEO and oversees the integration of the ESG factors to the Group business model in a focused and coordinated way across the Group and issues opinions, recommendations, initiatives, and takes relevant decisions when needed. The committee has the authority to discuss, develop, and approve sustainability strategies, policies, initiatives, methodologies, KPIs, targets, and other relevant procedures of the NLB Group, and has influence over sustainability-related strategic objectives.

Apart from anchoring sustainability at different levels within the Bank in its daily operations (on the Management Board level, Executive Management level, Group level, and Business & Country level), NLB has put in place a 4-level NLB Group Sustainability Governance Structure, namely:

Supervisory Board of the NLB

The Bank has established a comprehensive framework for sustainable management, starting by sponsoring the matter at the level of the NLB SB, which, significantly contributes to the implementation of sustainability. The SB regularly monitors the implementation of ESG factors and discusses the topic on regular basis.

Sustainability Committee

It is composed of the highest-level officers and provides the overall vision and sustainability strategy, it defines key policies, reviews progress on major initiatives, decides on specific external partnerships and agreements, and ensures cohesion of the overall program with the Bank's mission.

Sustainability Team

The Sustainability Team within Strategy and Business Development Division of the NLB oversees Group-wide sustainability agenda and is tasked with driving the culture, monitoring implementation of the strategy, coordinating initiatives, measuring the impact, and reporting on the progress to the Sustainability Committee, the MB, and the SB.

Sustainability working groups

Ad hoc working groups are being set up in the bank to introduce various elements of sustainability. Their composition varies according to the area of sustainability considered. ESMS Officers have been appointed in our banking members who regularly report to the local boards. They are representatives of risk management line who ensure the ESMS is properly implemented organisation wide.

Other sustainability-related topics

Many of these outcomes reflect ongoing, long-term challenges, but at the same time they reflect the Group's ability to reach tangible results in this area. It should be mentioned that in 2021 several other sustainability-related topics were addressed, such as:

- digitalization and paperless operations
- remuneration policy
- CSR projects corresponding to UN SDG
- inclusion & diversity at the level of employees and clients
- building partnerships & capacities by being involved with relevant representatives from academia, NGOs, and the real economy sector
- talent development and care for employees

Roadmap for 2022

The Group sustainability roadmap for the year 2022 is full of new challenges. As a UN PRB signatory, the Bank will consider joining the UNEP FI's Net Zero Banking Alliance, since it is an accelerator that provides a dedicated forum to shape the net zero journey of the banking industry. The Group is responsive to the desire of investors, supervisors, and its peers and other stakeholders to align its business model with net zero objectives. The progress in achieving targets for 2030 and 2050, at the latest, in line with credible 1.5°C scenarios, is however, not only dependent on the willingness and capacity of a bank, but to a large extent on a complex sum of factors, such as the availability of sustainable investments and activities, transition projects, transformation capacities of the industry, as well as public and industrial policies supporting transition.

The Group's sustainability ambition is anchored in its mission. This is seen as an opportunity to help businesses not only survive, but also to take initiative and position themselves for future growth. Sustainability is at the centre of our business model and a pillar for the transformation of the Group.

For more information, please refer to:

- the chapter Risk Management, subchapter Incorporating ESG Risks
- Note 6 of the Financial part of the report
- the chapter Statement of Management of Risk
- the Pillar 3 Disclosures
- the NLB Group Sustainability Report 2021

Corporate Social Responsibility

The Group contributes towards wider socio-economic development through its CSR activities and is responsible to its clients, employees, and the social environment. The Group pays special attention to knowledge and lifelong learning. The key pillars of the socially responsible operations of the Group are care for its employees and protection of lawfulness and integrity, as well as the promotion of entrepreneurship, increasing financial literacy, support to professional and youth sports, humanitarian activities, the protection of cultural heritage, and care for the environment.

Every year, the Group strives to increase the share of CSR activities that pursue UN SDG. The target for 2021 – at least 30% of all CSR activities in every bank member should be aligned with UN SDG – was achieved, even more, some member banks even exceeded it. At the same time, the Group plans, not only to align key CSR topics within Group members, but also to carry out more joint Group wide CSR projects. In 2021, the main two projects were #HelpFrame and Heartful opportunities.

Understanding small entrepreneurs' challenges - #HelpFrame project continued in 2021

The Group's socially responsible actions have been continuously upgraded with projects that follow the UN SDG. The Group's first such regional project was launched in spring 2020. The COVID-19 crisis closed the door to many dreams in previous years. That is why the decision was made to give a glimmer of hope with the #HelpFrame project for another

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year in 2021. The project is our way of giving a helping hand to local small entrepreneurs who have been most affected by the situation in recent years. As part of the campaign, advertising space was donated to 73 selected entrepreneurs in Slovenia and 258 across the whole NLB Group. The participants from 2020 were invited to become ambassadors of last year's project and to share their positive experiences in the #HelpFrame.

A world full of heart is a world full of opportunities

The world is much more beautiful and colourful when we stand by each other and with full hearts create new opportunities – opportunities such as those that also arise with our support. In all markets where the Group operates, organisations that promote inclusion whether for children, the elderly, or both with a charitable donation are supported.

In Slovenia, **NLB** donated to two humanitarian organisations, Botrstvo and Humanitarček. The NLB donation to Botrstvo will enable 200 disadvantaged children the opportunity to develop their talent. In contrast, as many as 97,000 elderly people live below the poverty line in Slovenia. With the help of a donation, the Humanitarček association will be able to provide them with 21,000 hot meals.

NLB Banka, Beograd and **Komercijalna Banka, Beograd** donated to the centre for youth integration 'SOS dečija sela,' a non-governmental, humanitarian, and non-profit organisation that has been working to improve the quality of life of children and youth without parental care, empowering families at risk, supporting the economic independence of young people from vulnerable groups, and providing emergency assistance to local populations and refugees.

NLB Banka, Skopje also decided to support both children and the elderly by donating to a healthcare centre for the elderly in Skopje and the Foundation for Educational and Cultural Initiatives 'Step by Step,' and the Project 'Be IN, Be Inclusive, Be Included,' that strive to improve the educational opportunities for children with disabilities and contributes to the development of an inclusive, non-segregated primary education subsystem.

NLB Banka, Banja Luka focused on both youth and the elderly by providing 500 children with disabilities and socially endangered families with New Year's presents, and 500 elderly visitors from elderly centres with Christmas lunch and bedding.

Following its tradition of the past years, **NLB Banka, Sarajevo** supported an orphanage in Tuzla to help children without parents and families. The public institution, 'Home for Children without Parental Care Tuzla' deals with the care and upbringing of children without parental care, children from dysfunctional families, and children found begging and wandering the streets. They provide all of them with a home, healthcare, regular education, clothes, and food. They currently have 56 children of all ages – from babies to high school students.

NLB Banka, Prishtina also decided on a double donation. The first went to the National Autism Association in Kosovo (ANAK) which deals with the identification and support of children with autism and their families. This time, the organisation is promoting the talents of children with autism through paintings. The second donation was donated to the Ideas Partnership, an organisation that works mainly with Roma, Ashkali, and Egyptian communities in the field of education, health, social work, and the environment.

NLB Banka, Podgorica's donation supported the Rights Centre for Children, a non-governmental organisation that is, among others, helping children towards stronger participation in the decision-making process and ensuring their voices are heard, but also working with sensitive groups, such as children from foster families and socially vulnerable groups.

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We are your neighbours.

Great-grandmothers saved up for hard times.
For grandmothers, education was the best investment.
Mothers invested in their own companies.
As modern women, you invest in dreams.

We support you through all life periods, help you successfully tackle challenges they bring, offer you useful solutions and a reliable path towards realising the biggest and the most daring of goals. And even though your priorities change throughout the years, ours remain the same: we help you with the best advice and provide you with new opportunities at every step.

Overview of Financial Performance

The Group achieved a profit after tax in the amount of EUR 236.4 million, 67.3% or EUR 95.1 million more than the year before (2020: EUR 141.3 million), if the positive impact of the acquisition of Komercijalna Banka, Beograd in 2020 is excluded.

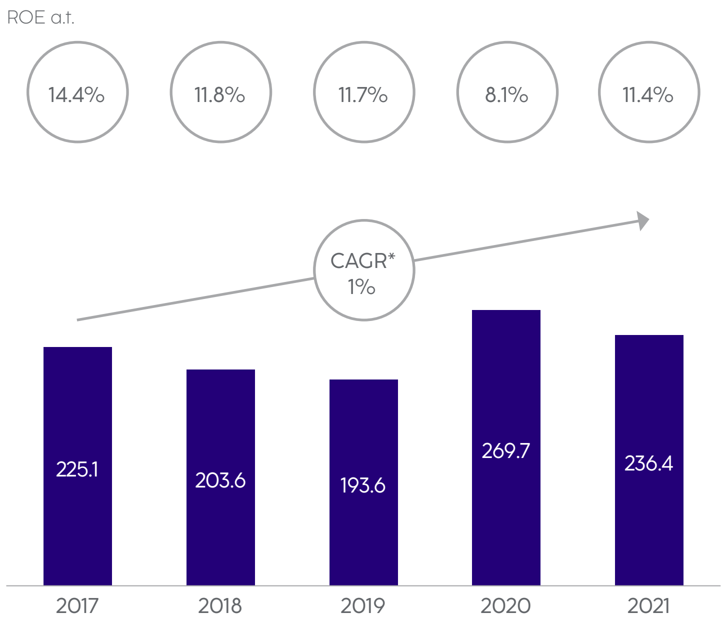
EUR 236.4 million

of net profit.

The Group's result is based on the following key drivers:

- Integration of Komercijalna Banka, Beograd, acquired at the end of 2020, merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica in November 2021, and the sale of Komercijalna Banka, Banja Luka in December 2021;
- Strong 12% loan growth to individuals and solid 8% to corporate, above 10% growth even without Komercijalna Banka, Banja Luka;
- Net interest income increased EUR 109.8 million on the back of the Komercijalna Banka group contribution (EUR 98.5 million). Net interest income without the Komercijalna Banka group contribution also increased, based on higher volumes and increased market shares in the loan book compensating for the reduction in interest rates. In general, net interest income was impacted by excess liquidity, which determined a consequently higher volume of cash and balances with CBs, with low or negative interest rates; however, additional interest income was recognised based on lower interest rates for TLTRO in the Bank in December;
- The economic rebound led to the optimisation of investment portfolio of households, growth of housing loans, mutual funds, and bancassurance, which increased net fee and commission income (high balance deposit fees and net fees from asset management and bancassurance);
- Lower non-recurring income, which in 2021 included valuation income in the amount of EUR 14.8 million from the repayment of exposure, classified as non-performing, EUR 9.0 million of other operation income from the settlement of a legal dispute, and EUR 8.1 million loss from the sale of Komercijalna Banka, Banja Luka; in 2020, the sale of NLB Vita and debt securities had a positive effect on the result in the amount of EUR 28.1 million;
- Continuous cost discipline; costs higher due to integration costs and employee costs;
- Net impairments and provisions for credit risk were released in the amount of EUR 35.8 million, mostly due to the successful repayment of on-and off-balance exposures and changed parameters related to more favourable macroeconomic forecasts. Other impairments and provisions were established in the amount of EUR 27.1 million, mostly due to restructuring provisions and provisions for legal risk, mostly related to Komercijalna Banka, Beograd;
- NLB Skladi achieved 79.8% YoY growth of gross inflows in mutual funds (EUR 252.4 million) and the assets under management from NLB clients is approaching EUR 1.3 billion;
- A strong TCR of 17.8%;
- The negative CoR of -41 bps, given good asset quality trends and a decisive workout approach;
- The multi-year declining trend of the non-performing credit portfolio stock continued, mostly due to repayments, collection, the sale of claims, and cured clients. The combination of successful resolution of NPL and credit growth of a high-quality portfolio resulted in the decrease of gross NPL ratio (EBA def.) from 4.5% to 3.4% YoY, and the NPE ratio (EBA def.) by 0.6 p.p. YoY to 1.7%;
- Unencumbered liquidity reserves portfolio amounted to EUR 8,280.6 million (38.3% of total assets).

Figure 5: Profit after tax of NLB Group (in EUR million) / ROE after tax (in %)[i]



*Compounded Annual Growth Rate.
[i] Komercijalna Banka group included from 2021 on.

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Income statement

Table 10: Income statement of NLB Group and NLB

NLB Group

in EUR million

	2021	**2020**	**Change YoY**	**o/w KB contribution**		**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Change QoQ**	
Net interest income	409.4	299.6	109.8	98.5	▲37%	107.0	103.7	101.1	97.5	75.1	3.4	▲3%
Net fee and commission income	237.2	170.3	66.9	42.5	▲39%	64.6	58.6	59.9	54.1	45.1	6.0	▲10%
Dividend income	0.2	0.1	0.1	0.2	▲101%	0.0	0.1	0.0	0.0	0.0	-0.1	▼-65%
Net income from financial transactions	38.4	32.0	6.5	8.1	▲20%	5.0	7.4	20.8	5.3	2.0	-2.4	▼-32%
Net other income	-18.3	2.6	-20.8	-17.9	-	-9.6	-3.8	-2.0	-2.8	-1.0	-5.8	▼-154%
Net non-interest income	257.6	204.9	52.6	32.8	▲26%	60.0	62.3	78.7	56.5	46.1	-2.3	▼-4%
Total net operating income	**666.9**	**504.5**	**162.4**	**131.3**	**▲32%**	**167.0**	**166.0**	**179.9**	**154.0**	**121.2**	**1.1**	**▲1%**
Employee costs	-231.3	-165.0	-66.4	-54.9	▼-40%	-63.1	-56.5	-56.5	-55.1	-42.0	-6.6	▼-12%
Other general and administrative expenses	-137.5	-97.3	-40.3	-38.3	▼-41%	-43.4	-31.7	-32.6	-29.8	-27.6	-11.7	▼-37%
Depreciation and amortisation	-46.5	-31.7	-14.8	-13.4	▼-47%	-11.7	-11.6	-11.6	-11.6	-8.0	-0.1	▼-1%
Total costs	-415.4	-293.9	-121.4	-106.6	▼-41%	-118.2	-99.9	-100.7	-96.6	-77.7	-18.4	▼-18%
Result before impairments and provisions	**251.5**	**210.5**	**41.0**	**24.7**	**▲19%**	**48.8**	**66.1**	**79.1**	**57.5**	**43.5**	**-17.3**	**▼-26%**
Impairments and provisions for credit risk	35.8	-62.3	98.1	3.4	-	1.8	3.3	14.8	16.0	-13.2	-1.6	▼-47%
Other impairments and provisions	-27.1	-9.1	-18.0	-24.0	▼-198%	-18.3	2.9	-11.3	-0.5	-7.9	-21.2	-
Impairments and provisions	8.8	-71.4	80.1	-20.6	-	-16.5	6.3	3.5	15.5	-21.1	-22.8	-
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	1.1	0.9	0.2	0.0	▲27%	0.2	0.5	0.3	0.1	0.0	-0.4	▼-68%
Negative goodwill	0.0	137.9	-137.9	0.0	-	0.0	0.0	0.0	0.0	137.9	0.0	-
Result before tax	**261.4**	**277.9**	**-16.5**	**4.2**	**▼-6%**	**32.5**	**72.9**	**82.9**	**73.1**	**160.2**	**-40.4**	**▼-55%**
Income tax	-13.5	-5.2	-8.4	2.5	▼-162%	-0.6	-3.3	-4.8	-4.7	3.8	2.7	▲81%
Result of non-controlling interests	11.5	3.0	8.4	1.5	-	1.0	3.9	2.9	3.8	-1.1	-2.9	▼-75%
Result after tax	**236.4**	**269.7**	**-33.3**	**5.2**	**▼-12%**	**30.9**	**65.7**	**75.2**	**64.6**	**165.1**	**-34.8**	**▼-53%**

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NLB

in EUR million

	2021	2020	Change YoY		Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Change QoQ	
Net interest income	139.1	138.9	0.3	▲ 0%	37.4	34.2	33.8	33.7	34.5	3.2	▲ 9%
Net fee and commission income	119.6	104.5	15.1	▲ 14%	31.2	30.0	30.8	27.6	27.3	1.2	▲ 4%
Dividend income	79.6	6.3	73.4	-	74.7	0.4	0.0	4.5	5.5	74.2	-
Net income from financial transactions	19.0	28.1	-9.2	▼ -33%	0.8	1.8	14.7	1.6	3.0	-1.0	▼ -55%
Net other income	4.2	33.9	-29.8	▼ -88%	0.9	0.3	0.8	2.2	1.5	0.5	▲ 160%
Net non-interest income	222.4	172.8	49.6	▲ 29%	107.5	32.6	46.3	35.9	37.4	74.9	-
Total net operating income	**361.5**	**311.7**	**49.8**	**▲ 16%**	**144.9**	**66.8**	**80.1**	**69.6**	**72.0**	**78.2**	**▲ 117%**
Employee costs	-107.0	-102.6	-4.4	▼ -4%	-28.4	-26.8	-26.0	-25.8	-25.4	-1.6	▼ -6%
Other general and administrative expenses	-59.1	-60.0	0.9	▲ 2%	-19.2	-13.0	-13.8	-13.1	-17.0	-6.2	▼ -48%
Depreciation and amortisation	-17.5	-17.8	0.3	▲ 2%	-4.3	-4.4	-4.4	-4.4	-4.3	0.0	▲ 1%
Total costs	-183.6	-180.5	-3.1	▼ -2%	-52.0	-44.1	-44.3	-43.2	-46.8	-7.8	▼ -18%
Result before impairments and provisions	**177.9**	**131.2**	**46.7**	**▲ 36%**	**93.0**	**22.6**	**35.9**	**26.4**	**25.2**	**70.4**	**-**
Impairments and provisions for credit risk	26.1	-9.0	35.1	-	4.9	6.3	3.3	11.7	8.5	-1.4	▼ -22%
Other impairments and provisions	7.5	-8.3	15.8	-	5.7	0.1	-0.1	1.8	-7.9	5.5	-
Impairments and provisions	33.6	-17.4	50.9	-	10.6	6.4	3.2	13.5	0.6	4.2	▲ 66%
Result before tax	**211.5**	**113.9**	**97.6**	**▲ 86%**	**103.6**	**29.0**	**39.0**	**39.9**	**25.8**	**74.5**	**-**
Income tax	-3.0	0.1	-3.1	-	-1.1	-0.2	-1.2	-0.6	2.6	-0.9	-
Result after tax	**208.4**	**114.0**	**94.5**	**▲ 83%**	**102.5**	**28.8**	**37.9**	**39.3**	**28.4**	**73.7**	**-**

Result reflects great performance and important milestones achieved

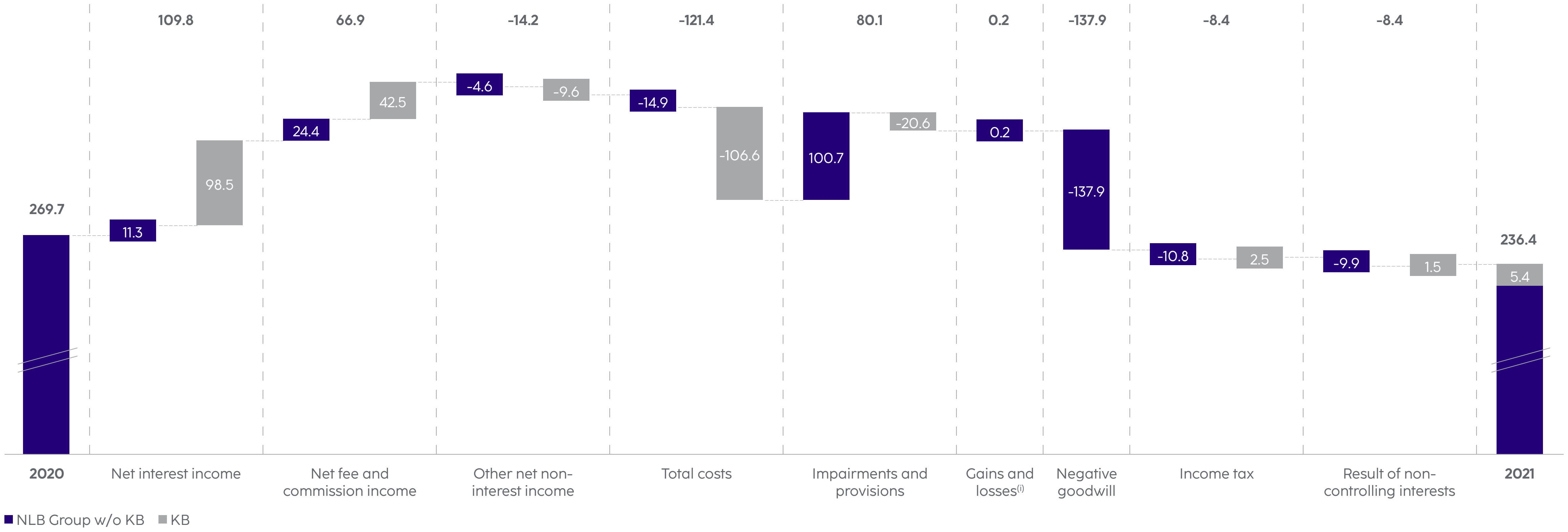
The Group generated EUR 236.4 million of profit after tax, EUR 33.3 million or 12% less YoY, and was based on the following key drivers and YoY evolution:

- Net interest income increased EUR 109.8 million, backed by the Komercijalna Banka group contribution (EUR 98.5 million). Increasing net interest income without the Komercijalna Banka group contribution was impacted by excess liquidity which determined a consequently higher volume of cash and balances with CBs, with low or negative interest rates. Interest income without the Komercijalna Banka group contribution was higher YoY, based on higher volumes and increased market shares in the loan book, compensating for the reduction in interest rates;
- Net fee and commission income increased in all banks, in the Bank mostly due to repricing of packages, fees for high balances, higher net fees from asset management and bancassurance, and arrangement fees for the organisation of syndicated loans;
- Non-recurring valuation income in the amount of EUR 14.8 million from repayment of exposure, classified as non-performing, EUR 9.0 million of other operation income from the settlement of a legal dispute, and EUR 8.1 million loss from the sale of Komercijalna Banka, Banja Luka; YoY lower, with the sale of NLB Vita and debt securities impacting the 2020 result in the total amount of EUR 28.1 million;
- Continuous cost discipline; costs higher due to integration and employee costs;
- Net impairments and provisions for credit risk were released in the amount of EUR 35.8 million, mostly due to successful repayment of on-and off-balance exposures and changed parameters related to more favourable macroeconomic forecasts;
- Other impairments and provisions were established in the amount of EUR 27.1 million, mostly due to restructuring provisions and provisions for legal risk, mostly related to Komercijalna Banka, Beograd.

EUR 666.9 million

of total net operating income.

Figure 6: Profit after tax of NLB Group (in EUR million) – evolution YoY



(1) Gains less losses from capital investments in subsidiaries, associates, and joint ventures.

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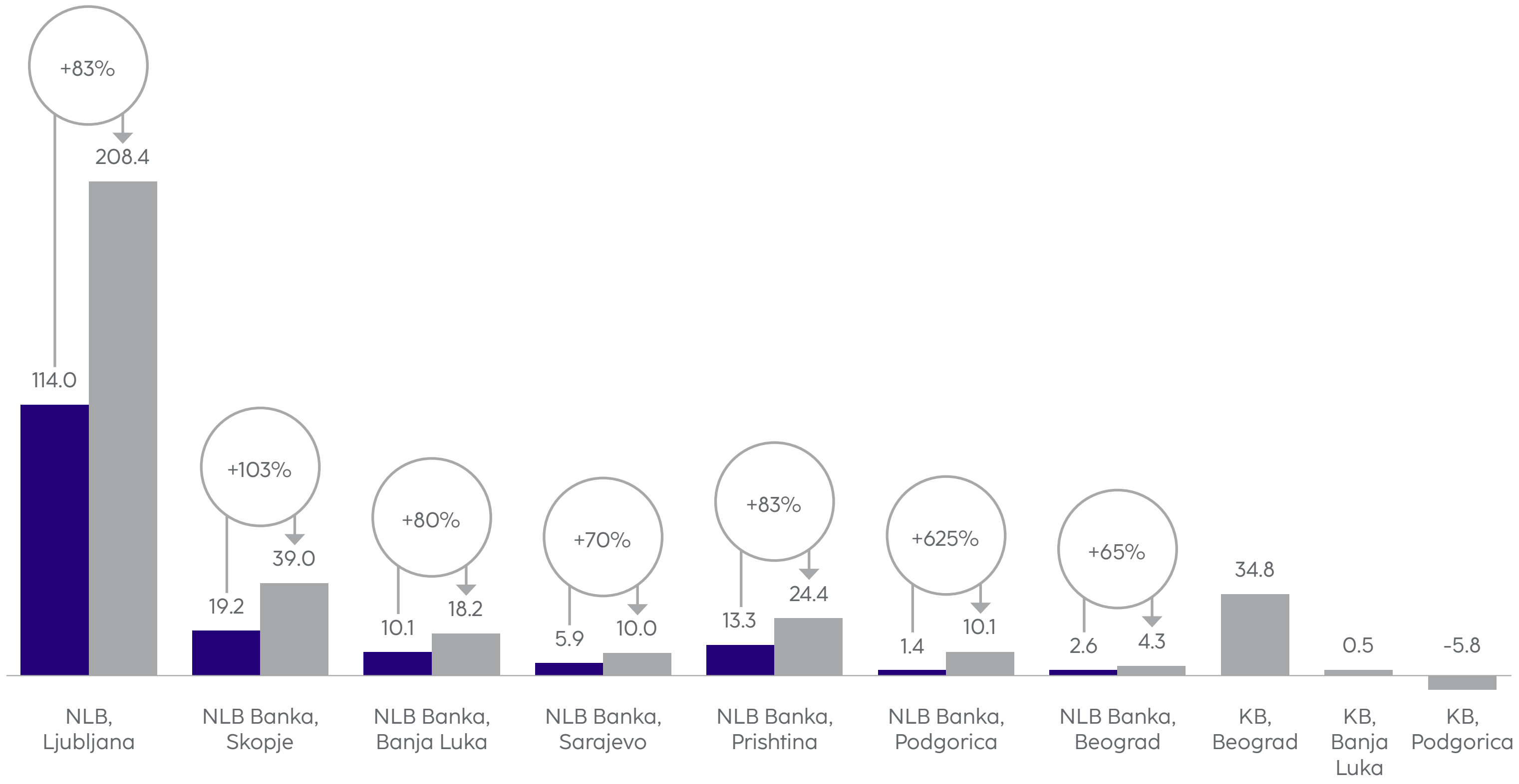
Despite the unstable environment due to COVID-19 pandemic, all banks (active at the end of the year) reported a profit. Higher profit YoY was recorded in all the banks, mainly due to the establishment of credit impairments and provisions related to COVID-19 outbreak in 2020 and successful operations in the reporting year.

The result of the Bank increased by 83% YoY to EUR 208.4 million from EUR 114.0 million achieved in 2020, mostly due to higher dividend pay-out, since banking subsidiaries were refrained from paying out dividends due to COVID-19 restrictions in 2020, and the net release of impairments and provisions for credit risk (establishment in 2020 due to COVID-19 outbreak which materially lowered the final result). Non-recurring valuation income from repayment of exposure, classified as non-performing in the amount of EUR 12.9 million and from the settlement of legal dispute in the amount of EUR 8.6 million influenced 2021 result, while the sale of NLB Vita in the amount of EUR 35.5 million and the sale of debt securities in the amount of EUR 17.1 million had a positive impact on the 2020 result.

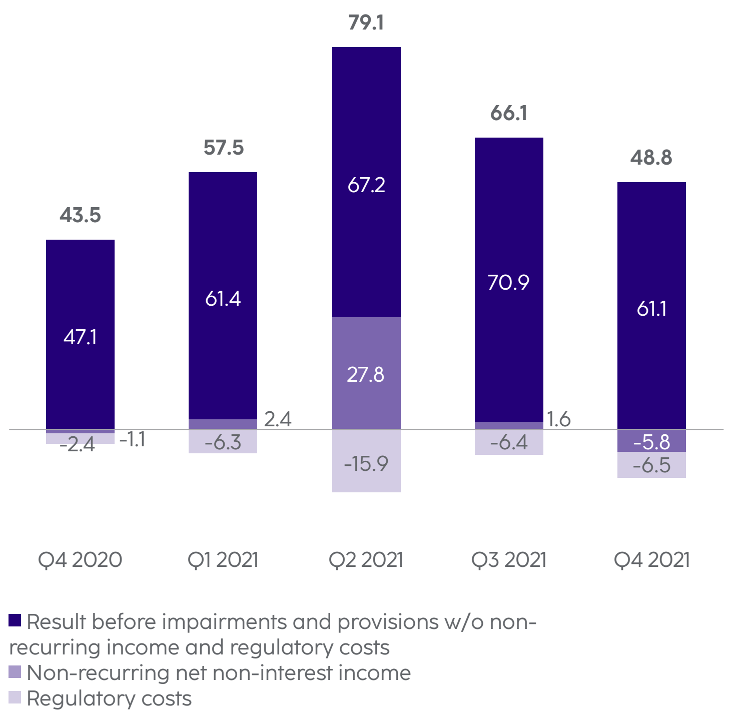
Figure 7: Profit after tax of NLB Group banks[i] (on a stand-alone basis, in EUR million)



[i] NLB Banka, Podgorica and Komercijalna Banka, Podgorica merged in November 2021; Komercijalna Banka, Banja Luka was sold on 9 December 2021.

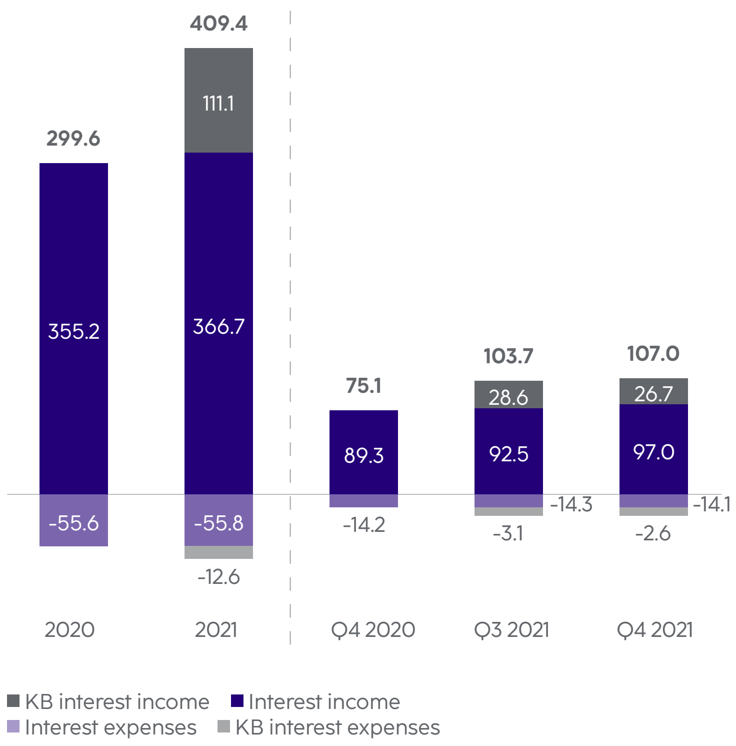
Recurring profit before impairments and provisions of the Group totalled EUR 225.5 million, EUR 48.7 million or 28% higher YoY. In Q2 2021, the result before impairments and provisions was higher due to non-recurring net non-interest income (EUR 14.8 million valuation income from the repayment of exposure classified as non-performing, and EUR 9.0 million of other operation income from the settlement of a legal dispute), but partially offset by regulatory costs in the Bank (EUR 2.0 million for SRF and EUR 7.5 million for DGS).

Figure 8: Result before impairments and provisions of NLB Group (in EUR million)



Net interest income

Figure 9: Net interest income of NLB Group (in EUR million)



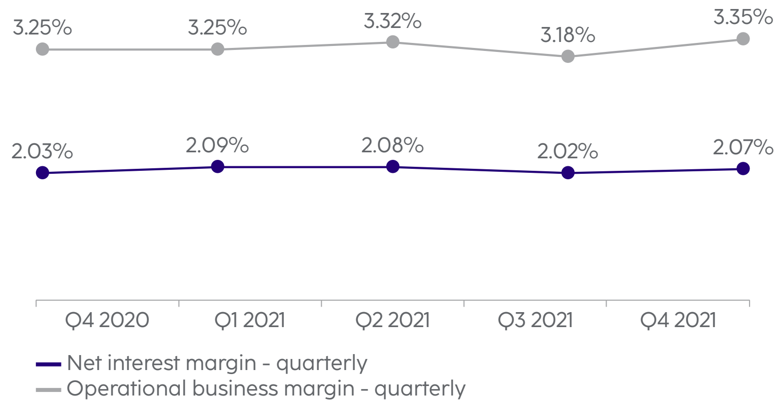
Net interest income of the Group accounted for 61% of the Group's total net revenues (2020: 59%), and totalled to EUR 409.4 million. Out of the EUR 109.8 million increase, EUR 98.5 million was contributed by Komercijalna Banka group.

Without Komercijalna Banka group contribution, higher level of net interest income was achieved YoY, due to higher volume of securities and loans, despite lower yields, but partially offset by higher cash volumes and balances with the CB (bearing negative interest in line with the expansionary monetary policy).

The net interest income was also affected by higher liquidity position streaming from TLTRO-III secured borrowing and additional interest income, based on lower interest rates, was recognised at the end of the year in the Bank.

Interest expenses in most member banks were decreasing due to lower interest rates for customer deposits. The pressure on the net interest margins in the Bank and member banks in SEE continues.

Figure 10: Net interest margin and Operational business margin of NLB Group[1] (quarterly data, in %)



[1] Calculated on the basis of average interest-bearing assets. Komercijalna Banka group included from 2021 on.

The quarterly net interest margin of 2.07%, as well as the operational business margin (OBM) of 3.35% in Q4 for the Group was 0.1 p.p. and 0.04 p.p. higher YoY. Despite the declining trend of interest rates on loans, the interest rate on corporate and state loans in the Bank slightly increased, due to the syndicated loan with an attractive interest rate, repayment of some exposures with low interest rates, and the higher volume of Cross-border corporate loans bearing higher interest rates. Interest rate on loans to individuals is in the declining trend mainly due to changed portfolio mix in favour of housing loans bearing lower interest rate. On the QoQ basis, the margins were higher due to TLTRO repricing.

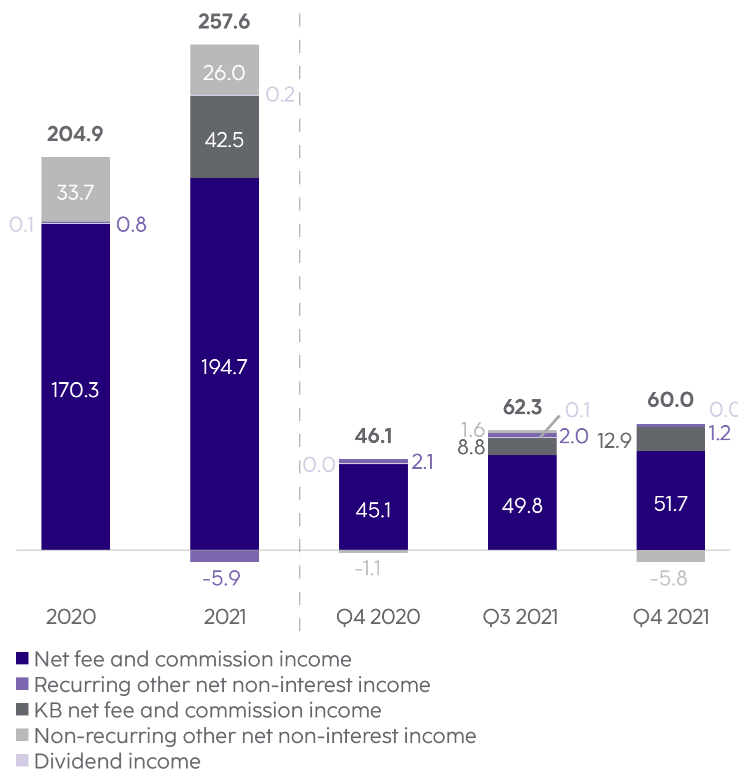
One-off positive effects in the total amount of

EUR 23.8 million

due to positive valuation effect from the repayment of exposure, classified as non-performing and other operation income from the settlement of a legal dispute.

Net non-interest income

Figure 11: Net non-interest income of NLB Group (in EUR million)



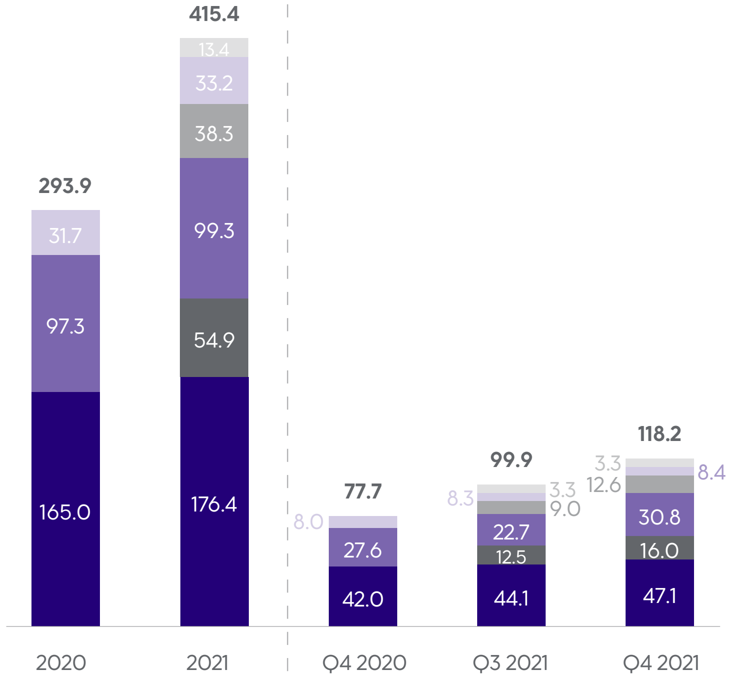
Net non-interest income reached EUR 257.6 million of which EUR 32.8 million were contributed by Komercijalna Banka group. A major part of the net non-interest income has been derived from the net fee and commission income, which grew YoY, mostly in the Bank due to the repricing of the packages, fee for high balances in the amount of EUR 8.1 million (from April on also for individuals[8]), higher net fees from asset management (79.8% YoY growth of gross inflows in mutual funds, total of EUR 252.4 million in 2021) and bancassurance (higher YoY inflows with new distribution terms), and arrangement fees for organisation of syndicated loans.

The net non-interest income was strongly affected by non-recurring valuation income in the amount of EUR 14.8 million from the repayment of exposure classified as non-performing, EUR 9.0 million of other operation income from the settlement of a legal dispute, and EUR 8.1 million loss from the sale of Komercijalna Banka, Banja Luka. The non-recurring items were higher in 2020 with the sale of NLB Vita and debt securities in total amount of EUR 28.1 million.

8 Further information is available under the chapter Key Events.

Total costs

Figure 12: Total costs of NLB Group (in EUR million)

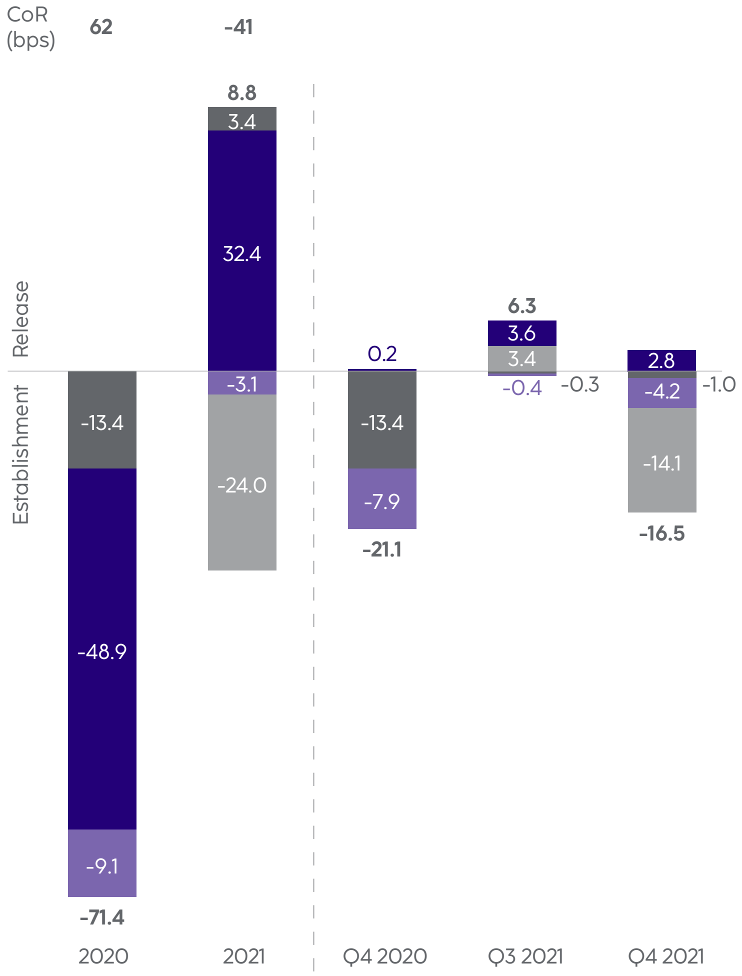


Total costs amounted to EUR 415.4 million of which EUR 106.6 million from Komercijalna Banka group. Without Komercijalna Banka group contribution the costs increased YoY for EUR 14.9 million due to integration costs and employee costs.

CIR stood at 62.3%, a 4.0 p.p. increase YoY.

Impairments and provisions

Figure 13: NLB Group impairments and provisions (in EUR million)



The Group released net impairments and provisions for credit risk (EUR 35.8 million in 2021) mostly due to successful repayment of on-and off-balance exposures and changed parameters related to more favourable macroeconomic forecasts.

Other impairments and provisions were established in the amount of EUR 27.1 million, of which there were provisions for legal risk (EUR 16.6 million, to a large extent attributable to processing fees in Serbia) and restructuring provisions (EUR 14.8 million).[9]

The Group's cost of risk was negative (-41 bps), as it was in most Group bank members.

EUR 35.8 million

released impairments and provisions for credit risk.

9 More details are available in Note 5.16. of the Financial part of the report.

Statement of financial position

Table 11: Statement of financial position of NLB Group and NLB

NLB Group

in EUR million

	31 Dec 2021	31 Dec 2020	Change YoY		31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020	Change QoQ	
ASSETS											
Cash, cash balances at central banks, and other demand deposits at banks	5,005.1	3,961.8	1,043.2	▲ 26%	5,005.1	4,947.0	4,739.4	3,918.2	3,961.8	58.1	▲ 1%
Loans to banks	140.7	197.0	-56.3	▼ -29%	140.7	211.7	243.4	205.0	197.0	-71.0	▼ -34%
Net loans to customers	10,587.1	9,644.9	942.2	▲ 10%	10,587.1	10,267.0	10,071.4	9,824.5	9,644.9	320.2	▲ 3%
Gross loans to customers	10,903.5	10,033.3	870.1	▲ 9%	10,903.5	10,593.7	10,421.8	10,208.2	10,033.3	309.8	▲ 3%
- Corporate	4,996.0	4,631.7	364.3	▲ 8%	4,996.0	4,783.9	4,772.7	4,720.8	4,631.7	212.1	▲ 4%
- Individuals	5,621.1	5,027.6	593.5	▲ 12%	5,621.1	5,487.4	5,304.8	5,126.6	5,027.6	133.7	▲ 2%
- State	286.3	374.0	-87.7	▼ -23%	286.3	322.3	344.4	360.8	374.0	-36.0	▼ -11%
Impairments and valuation of loans to customers	-316.3	-388.4	72.1	▲ 19%	-316.3	-326.7	-350.4	-383.7	-388.4	10.4	▲ 3%
Financial assets	5,208.3	5,119.5	88.8	▲ 2%	5,208.3	5,264.7	5,490.9	5,376.4	5,119.5	-56.4	▼ -1%
- Trading book	7.7	84.9	-77.2	▼ -91%	7.7	10.5	13.5	75.1	84.9	-2.8	▼ -27%
- Non-trading book	5,200.6	5,034.7	166.0	▲ 3%	5,200.6	5,254.2	5,477.4	5,301.3	5,034.7	-53.6	▼ -1%
Investments in subsidiaries, associates, and joint ventures	11.5	8.0	3.5	▲ 44%	11.5	8.5	8.4	8.1	8.0	3.0	▲ 36%
Property and equipment	247.0	249.1	-2.1	▼ -1%	247.0	242.1	243.8	247.3	249.1	4.9	▲ 2%
Investment property	47.6	54.8	-7.2	▼ -13%	47.6	54.1	53.3	54.4	54.8	-6.5	▼ -12%
Intangible assets	59.1	61.7	-2.6	▼ -4%	59.1	53.0	55.7	58.2	61.7	6.1	▲ 12%
Other assets	271.1	268.9	2.1	▲ 1%	271.1	249.0	281.1	266.9	268.9	22.1	▲ 9%
TOTAL ASSETS	**21,577.5**	**19,565.9**	**2,011.6**	**▲ 10%**	**21,577.5**	**21,296.9**	**21,187.3**	**19,959.0**	**19,565.9**	**280.6**	**▲ 1%**
LIABILITIES											
Deposits from customers	17,640.8	16,397.2	1,243.6	▲ 8%	17,640.8	17,248.6	17,143.0	16,732.1	16,397.2	392.2	▲ 2%
- Corporate	4,463.7	3,949.1	514.5	▲ 13%	4,463.7	4,276.6	4,130.2	4,011.0	3,949.1	187.1	▲ 4%
- Individuals	12,680.8	12,023.5	657.2	▲ 5%	12,680.8	12,495.2	12,477.8	12,254.4	12,023.5	185.5	▲ 1%
- State	496.4	424.5	71.8	▲ 17%	496.4	476.8	535.0	466.7	424.5	19.6	▲ 4%
Deposits form banks and central banks	71.8	72.6	-0.8	▼ -1%	71.8	82.0	78.0	71.9	72.6	-10.1	▼ -12%
Borrowings	932.6	249.8	682.8	-	932.6	975.6	976.6	251.1	249.8	-43.0	▼ -4%
Other liabilities	427.6	434.9	-7.3	▼ -2%	427.6	412.5	466.8	428.5	434.9	15.1	▲ 4%
Subordinated liabilities	288.5	288.3	0.2	▲ 0%	288.5	290.2	287.6	286.8	288.3	-1.7	▼ -1%
Equity	2,078.7	1,952.8	125.9	▲ 6%	2,078.7	2,140.5	2,091.4	2,014.1	1,952.8	-61.8	▼ -3%
Non-controlling interests	137.4	170.3	-32.9	▼ -19%	137.4	147.6	143.8	174.5	170.3	-10.2	▼ -7%
TOTAL LIABILITIES AND EQUITY	**21,577.5**	**19,565.9**	**2,011.6**	**▲ 10%**	**21,577.5**	**21,296.9**	**21,187.3**	**19,959.0**	**19,565.9**	**280.6**	**▲ 1%**

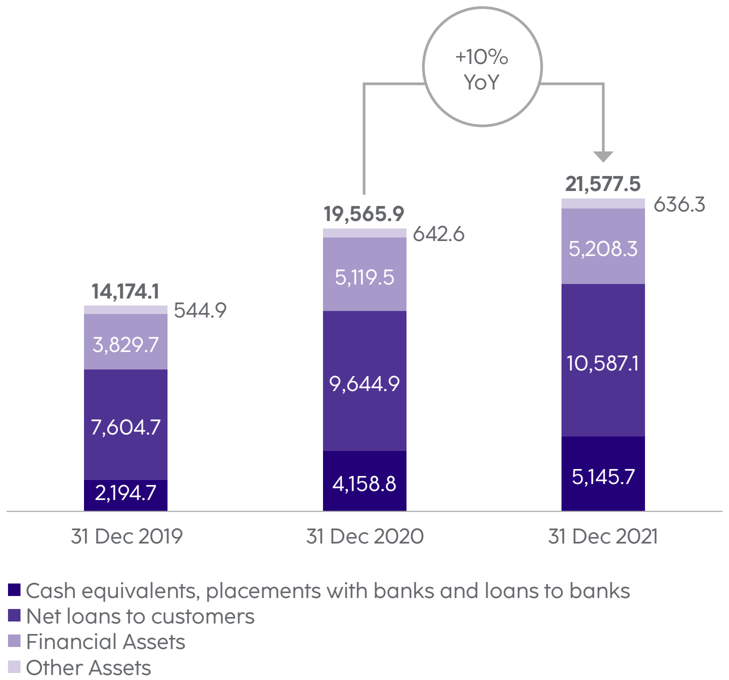
NLB

in EUR million

	31 Dec 2021	31 Dec 2020	Change YoY		31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020	Change QoQ	
ASSETS											
Cash, cash balances at central banks, and other demand deposits at banks	3,250.4	2,261.5	988.9	▲ 44%	3,250.4	3,049.8	2,961.4	2,127.3	2,261.5	200.6	▲ 7%
Loans to banks	199.3	158.3	41.0	▲ 26%	199.3	176.5	162.8	164.3	158.3	22.7	▲ 13%
Net loans to customers	5,153.0	4,595.1	557.9	▲ 12%	5,153.0	4,903.5	4,787.8	4,677.5	4,595.1	249.5	▲ 5%
Gross loans to customers	5,250.4	4,753.1	497.3	▲ 10%	5,250.4	5,001.0	4,916.3	4,828.4	4,753.1	249.3	▲ 5%
- Corporate	2,411.1	2,168.5	242.6	▲ 11%	2,411.1	2,244.9	2,245.4	2,213.4	2,168.5	166.2	▲ 7%
- Individuals	2,694.4	2,411.9	282.4	▲ 12%	2,694.4	2,609.8	2,514.4	2,452.3	2,411.9	84.6	▲ 3%
- State	144.9	172.6	-27.7	▼ -16%	144.9	146.3	156.5	162.7	172.6	-1.4	▼ -1%
Impairments and valuation of loans to customers	-97.4	-158.0	60.6	▲ 38%	-97.4	-97.5	-128.5	-150.9	-158.0	0.2	▲ 0%
Financial assets	3,034.3	3,017.2	17.1	▲ 1%	3,034.3	3,160.2	3,398.6	3,365.2	3,017.2	-125.9	▼ -4%
- Trading book	7.7	18.8	-11.1	▼ -59%	7.7	10.4	13.6	23.8	18.8	-2.8	▼ -26%
- Non-trading book	3,026.6	2,998.4	28.2	▲ 1%	3,026.6	3,149.8	3,385.0	3,341.4	2,998.4	-123.2	▼ -4%
Investments in subsidiaries, associates, and joint ventures	786.0	750.7	35.3	▲ 5%	786.0	775.5	775.5	750.7	750.7	10.6	▲ 1%
Property and equipment	86.1	91.7	-5.6	▼ -6%	86.1	88.1	89.3	89.7	91.7	-2.0	▼ -2%
Investment property	9.2	8.3	0.9	▲ 11%	9.2	9.1	8.3	8.3	8.3	0.1	▲ 1%
Intangible assets	29.5	28.1	1.3	▲ 5%	29.5	25.3	26.1	26.8	28.1	4.1	▲ 16%
Other assets	151.7	115.6	36.1	▲ 31%	151.7	125.4	121.2	128.6	115.6	26.2	▲ 21%
TOTAL ASSETS	**12,699.5**	**11,026.6**	**1,672.9**	**▲ 15%**	**12,699.5**	**12,313.5**	**12,330.9**	**11,338.4**	**11,026.6**	**386.0**	**▲ 3%**
LIABILITIES											
Deposits from customers	9,659.6	8,850.8	808.9	▲ 9%	9,659.6	9,243.3	9,272.2	9,056.6	8,850.8	416.3	▲ 5%
- Corporate	2,436.7	1,916.6	520.1	▲ 27%	2,436.7	2,158.4	2,070.0	1,996.8	1,916.6	278.3	▲ 13%
- Individuals	7,078.9	6,812.4	266.5	▲ 4%	7,078.9	6,994.2	7,060.3	6,924.9	6,812.4	84.6	▲ 1%
- State	144.0	121.8	22.2	▲ 18%	144.0	90.7	142.0	134.9	121.8	53.4	▲ 59%
Deposits form banks and central banks	109.3	41.6	67.7	▲ 163%	109.3	158.3	142.0	124.0	41.6	-49.0	▼ -31%
Borrowings	873.9	143.5	730.4	-	873.9	863.6	866.3	143.4	143.5	10.3	▲ 1%
Other liabilities	216.3	251.4	-35.2	▼ -14%	216.3	233.5	252.5	242.0	251.4	-17.2	▼ -7%
Subordinated liabilities	288.5	288.3	0.2	▲ 0%	288.5	290.2	287.6	286.8	288.3	-1.7	▼ -1%
Equity	1,551.9	1,451.0	100.9	▲ 7%	1,551.9	1,524.6	1,510.3	1,485.5	1,451.0	27.4	▲ 2%
TOTAL LIABILITIES AND EQUITY	**12,699.5**	**11,026.6**	**1,672.9**	**▲ 15%**	**12,699.5**	**12,313.5**	**12,330.9**	**11,338.4**	**11,026.6**	**386.0**	**▲ 3%**

Balance sheet volume of the Group increased by EUR 2,011.6 million YoY totalling to EUR 21,577.5 million, mainly due to the continued inflow of deposits from individuals (EUR 657.2 million YoY), corporate (EUR 514.5 million YoY), and participation in a liquidity-providing operation by the ECB in the amount of EUR 750 million (TLTRO-III). Excess liquidity was in large extent placed on the account at the CB (EUR 1,043.2 million YoY increase) and in gross loans to customers (EUR 364.3 million to corporate and EUR 593.5 million to individual clients). However, despite the deposit growth, the trend of redistribution of deposits to alternative investments (e.g., mutual funds and bancassurance) is visible. The share of customers' deposits accounted for 82% of the total funding, 2.0 p.p. less as at the end of 2020.

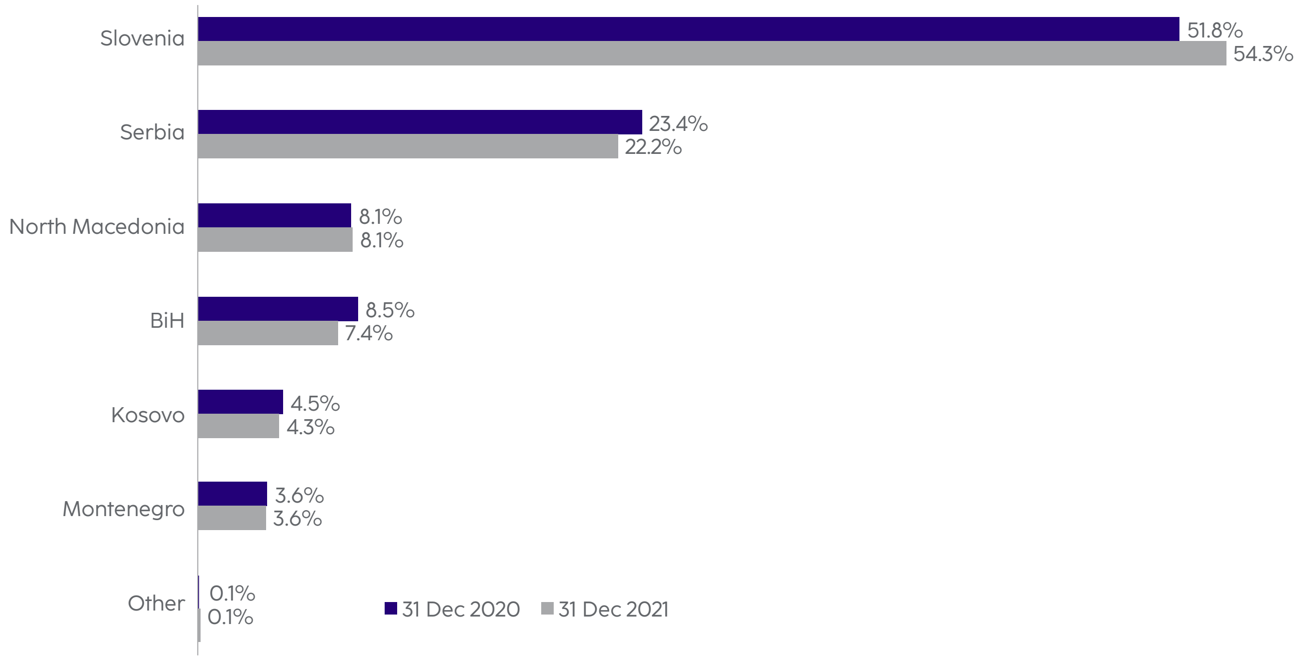
Figure 14: Total assets of NLB Group (in EUR million) – structure



Assets

54.3% of the total assets were related to Group members located in Slovenia (2020: 51.8%) and 22.2% in Serbia (2020: 23.4%).

Figure 15: NLB Group total assets by location of NLB Group entities (in %)[i]



[i] The geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group members are located. Komercijalna Banka group is divided between the countries based on each entity location from 30 September 2021 on, with YE data adjusted to the new methodology.

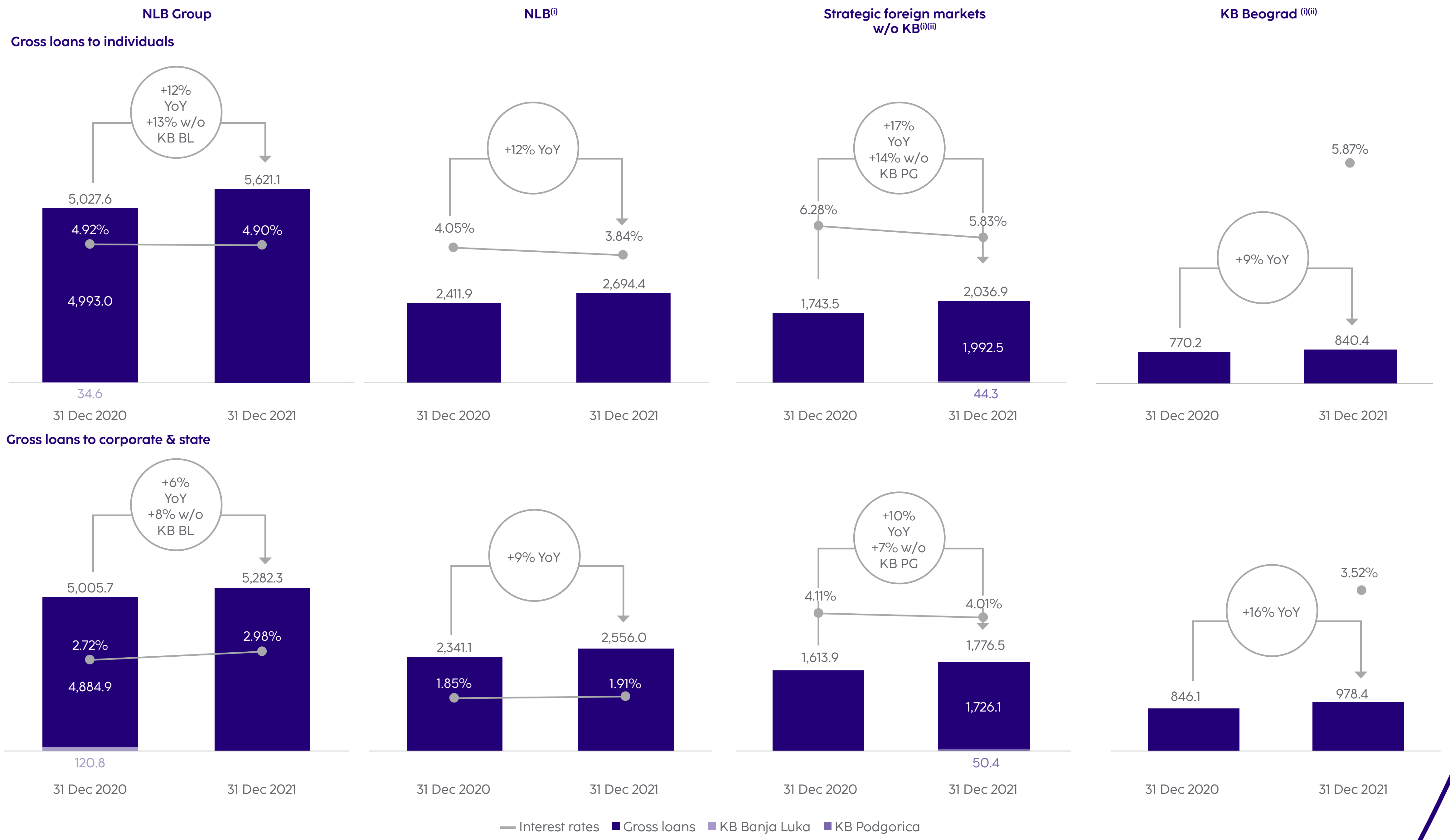
The lending activity spiked and recorded a significant growth in all the banks in 2021. Gross loans to individuals recorded the highest, 17% YoY increase in Strategic foreign markets (without Komercijalna Banka group banks, but included Komercijalna Banka, Podgorica on 31 December 2021 due to the merger with NLB Banka, Podgorica), while the highest increase of gross loans to the corporate and state was recorded in Komercijalna Banka, Beograd, i.e., 16% YoY.

Gross loans to individuals in the Bank grew by EUR 282.4 million YoY, mostly due to an increasing volume of housing loans (EUR 280.9 million YoY, with enviable high new production of EUR 557.6 million in 2021, compared to EUR 303.1 million in the previous year) related to more attractive offers for clients and intensive marketing campaigns. The volume of consumer loans was slightly lower YoY (EUR 16.1 million); however, the new production in 2021 amounted to EUR 229.1 million and was higher compared to 2020 (EUR 196.7 million). Gross loans to corporate and state recorded a EUR 214.9 million growth YoY, where growth derived from the corporate segment (EUR 242.6 million), while the state segment exposures shrank by EUR 27.7 million. Corporate loan growth was distributed across all sub-segments.

The volume of gross loans to customers in Strategic foreign markets increased, with a remarkable new production in lending to individuals, with all the Group member banks recording a double-digit YoY growth in outstanding loan balances.

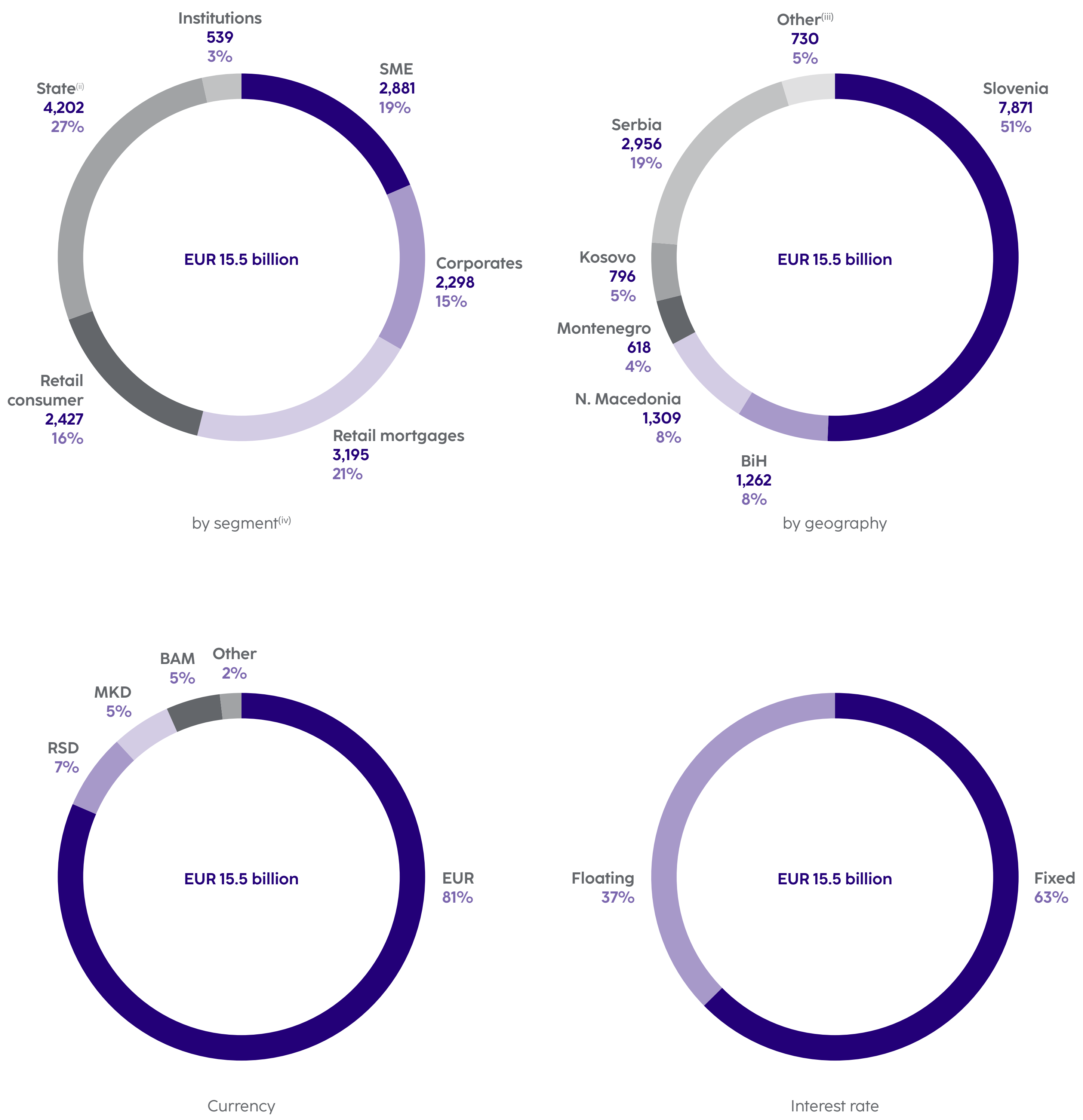
Despite the declining trend of interest rates on loans, the average interest rate on corporate and state loan book portfolio in the Bank slightly increased due to changed portfolio structure (conclusion of new syndicated loan with an attractive interest rate, repayment of some exposures with low interest rates and higher volume of Cross-border corporate loans), bearing higher interest rates. The interest rate on loans to individuals is in a declining trend mainly due to the changed portfolio mix in favour of housing loans bearing lower interest rates.

Figure 16: NLB Group gross loans to customers dynamics (in EUR million)



(i) On stand alone basis; (ii) NLB Banka, Podgorica and Komercijalna Banka, Podgorica merged in November 2021; Komercijalna Banka, Banja Luka sold on 9 December 2021; the growth in Strategic foreign market is impacted by the merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica (the latter was not included in this segment as at 31 December 2020).

Figure 17: Loan portfolio[i] by segment, geography, currency, and rate type (in EUR million)

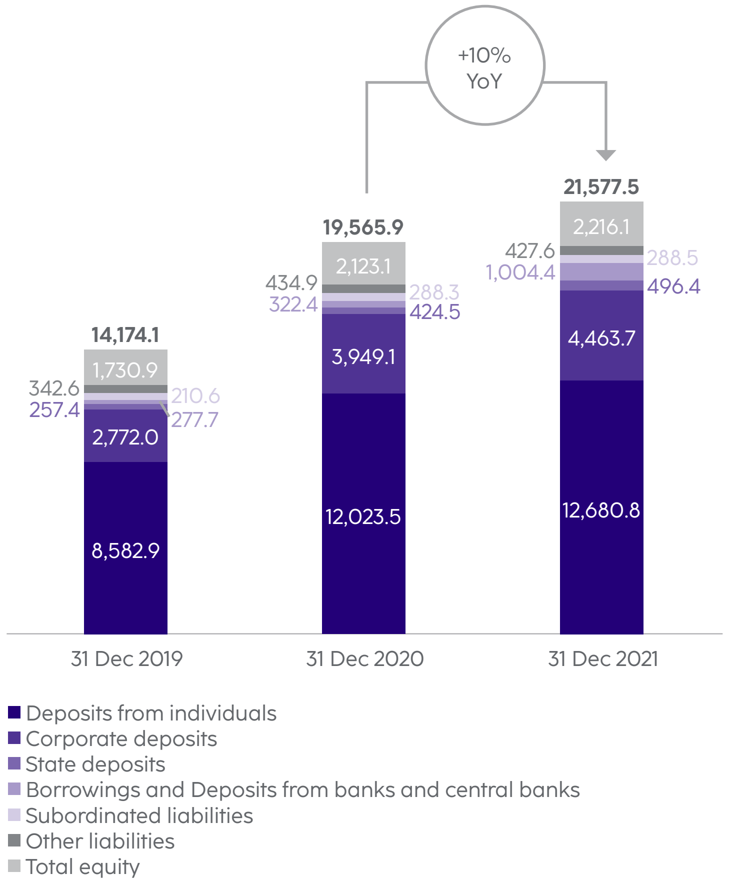


[i] Loan portfolio also includes reserves at CBs and demand deposits at banks.
[ii] State includes exposures to CBs.
[iii] The largest part represents EU members.
[iv] Segmentation in accordance with the company size defined in the Companies Act of an individual country in the region.

Despite significant portfolio growth in all NLB Group banks in 2021, there were no major changes in the corporate and retail credit portfolio structure. The credit portfolio remains well-diversified, and there is no large concentration in any specific industry or client segment. The share of retail portfolio in the whole credit portfolio is quite substantial, with the segment of mortgage loans still prevailing. The majority of the loan portfolio refers to euro currency, while the rest originates from local currencies of the Group banking members. From interest rate type, more than 63% of the loan portfolio is linked to a fixed interest rate, and the rest to a floating rate (mostly to the Euribor reference rate). Lending growth in the corporate segment remained relatively moderate, while the retail segment, namely mortgage lending, experienced considerable growth in 2021.

Liabilities

Figure 18: Total liabilities of NLB Group – structure (in EUR million)



Total liabilities of the Group increased and amounted to EUR 19,361.4 million. The Group's funding base is dominated by customer deposits accounting for 82% in which sight deposits prevail (87%, compared to 85% as at 2020 YE and 81% as at 2019 YE). The majority of customer deposits (72%) were from individuals. 55% of deposits were collected in Slovenia (54% at 2020 YE), 22% in Serbia (24% at 2020 YE), and the rest in other Group banking members in SEE.

Figure 19: NLB Group deposits from customers dynamics (in EUR million)

(i) On stand alone basis; (ii) NLB Banka, Podgorica and Komercijalna Banka, Podgorica merged in November 2021; Komercijalna Banka, Banja Luka sold on 9 December 2021; the growth in Strategic foreign market is impacted by the merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica (the latter was not included in this segment as at 31 December 2020).

Deposits from customers increased by 8% YoY. The largest increase of EUR 542.3 million was recorded in the corporate and state deposits in the Bank, due to various reasons, i.e., the increase of balances in investment and pension funds, inflows from takeovers on the market, and incentives due to COVID-19 pandemic. Deposits from individuals increased the most in the Komercijalna Banka, Beograd, EUR 236.0 million.

The interest rate for deposits has been decreasing due to repricing at lower interest rate and shorter maturity (due term deposits are mostly placed on the accounts). Growth of deposit base was reflected in higher costs of liquidity surplus, which was successfully mitigated with a high balance deposit fee, charged by the Bank to corporate and from April on also to individual clients. Consequently, the trend of redistribution of deposits to alternative investments (e.g., mutual funds and bancassurance) was visible.

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Figure 20: Deposits from customers by type as at 31 December 2021

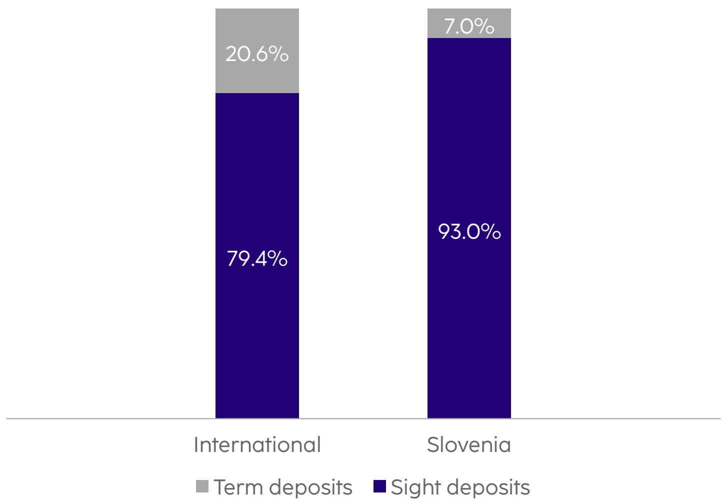
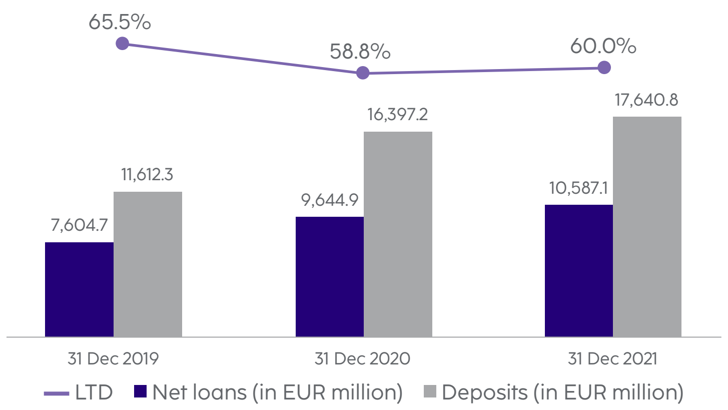
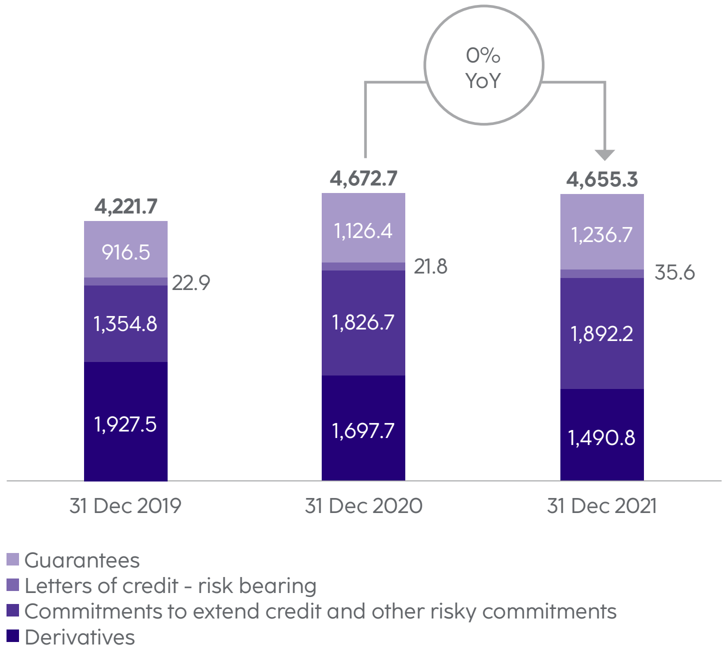


Figure 21: LTD ratio movement



The LTD ratio (net) was 60.0% at the Group level; a 1.2 p.p. YoY increase, due to favourable higher growth of loans compared to deposits.

Figure 22: NLB Group off-balance sheet items (in EUR million)



Off-balance sheet items of the Group amounted to EUR 4,655.3 million and were comprised of guarantees (27%), letters of credit (1%), commitments to extend credit and other risky commitments (41%), and derivatives (32%).

Commitments to extend credit and other risky commitments were divided between loans (99% corporate), overdrafts (59% retail and 41% corporate), and cards (89% retail). A majority of the Group's derivatives were concluded by the Bank either for the hedging of the banking book or trading with customers.

Capital and capital adequacy

Capital

Figure 23: NLB Group capital (in EUR million)

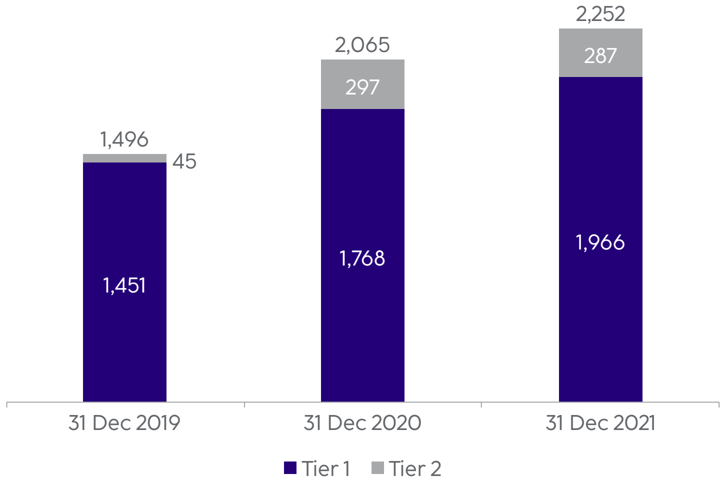
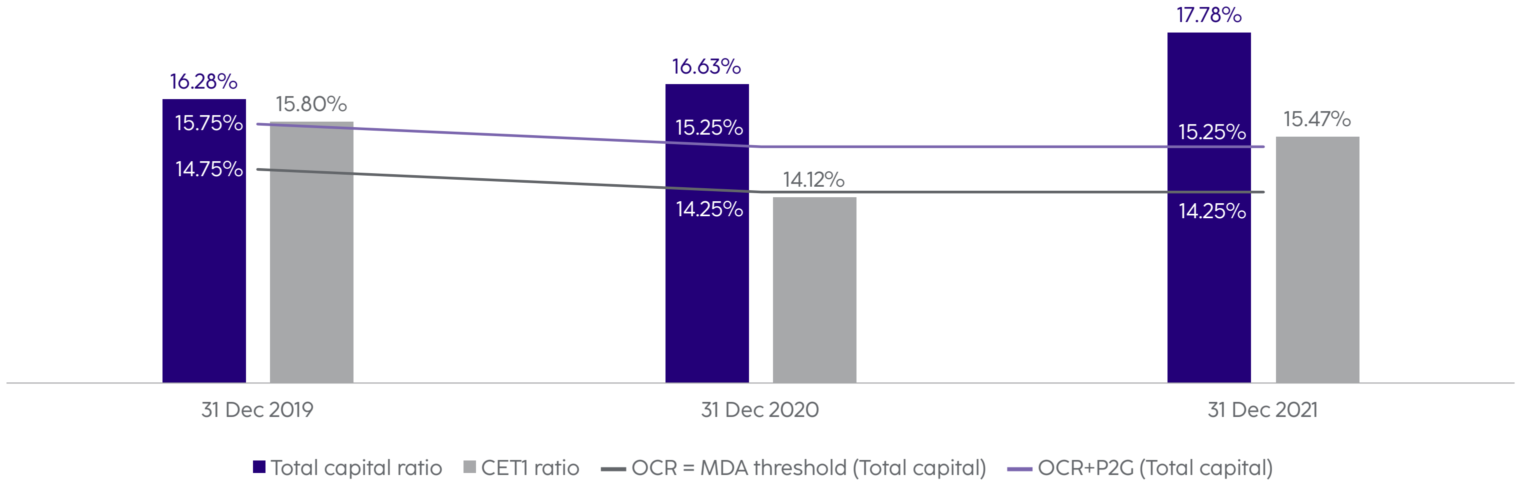


Figure 24: NLB Group capital ratios and regulatory thresholds (in %)



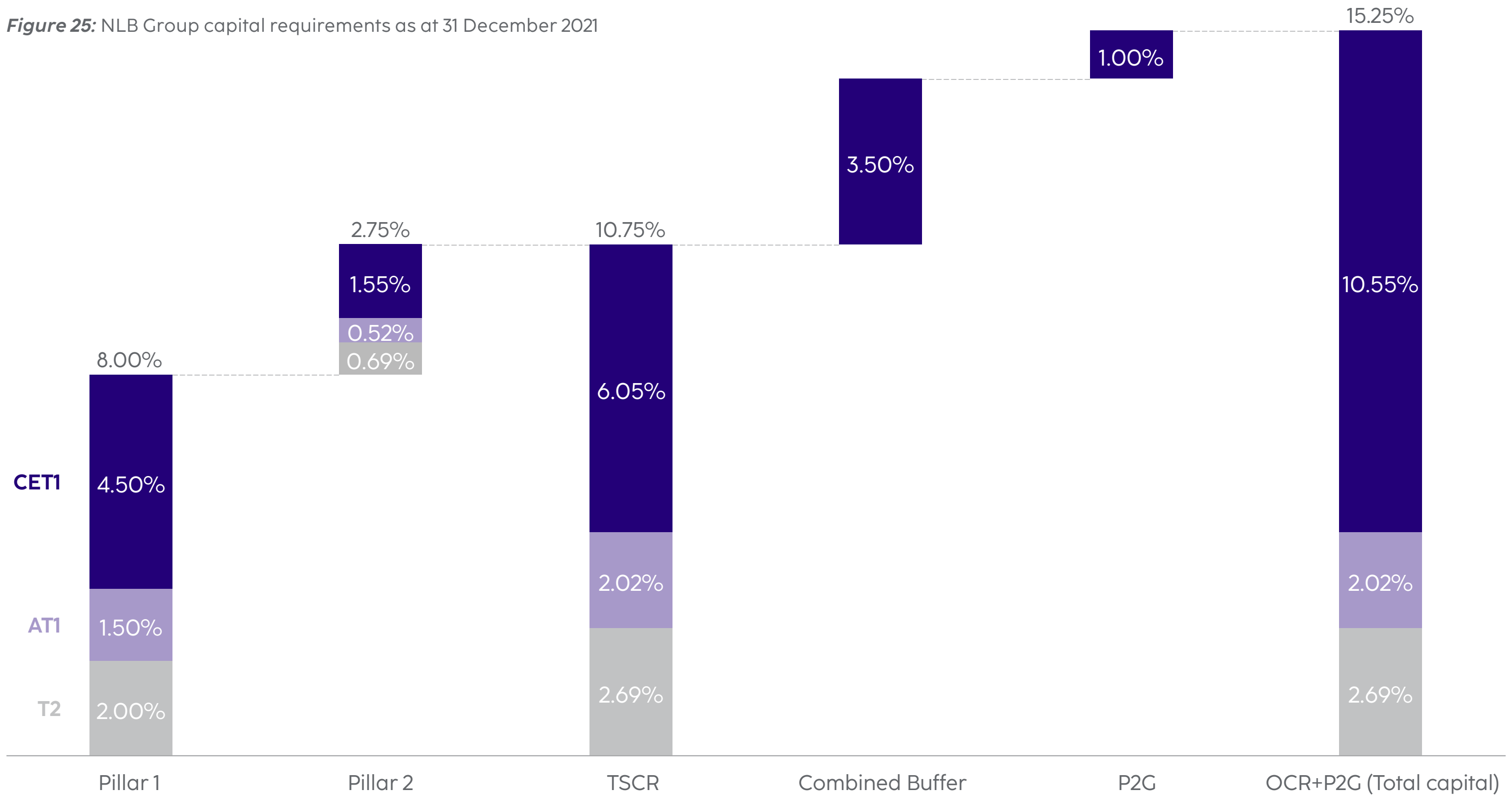
In 2021, NLB was required to maintain the OCR at the level of 14.25% on a consolidated basis, consisting of[10]:

- 10.75% TSCR (8% P1R and 2.75% P2R); and
- 3.5% CBR (2.5% Capital Conservation Buffer, 1% O-SII buffer[11] and 0% Countercyclical buffer).

P2G amounts to 1.0% of CET1.

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.

Figure 25: NLB Group capital requirements as at 31 December 2021



10 Further information on developments in 2022 are available in chapter Events after the end of the 2021 financial year.
11 The O-SII Buffer will as of 1 January 2023 amount to 1.25%.

Table 12: NLB Group Capital Requirements and buffers[i]

		2021	from 12 March 2020 onwards	as at 1 January till 11 March 2020	2019
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%	2.0%
Pillar 2 (SREP req. - P2R)	CET1	1.55%	1.55%	2.75%	3.25%
	Tier 1	2.06%	2.06%	2.75%	3.25%
	Total Capital	2.75%	2.75%	2.75%	3.25%
Total SREP Capital Requirement (TSCR)	CET1	6.05%	6.05%	7.25%	7.75%
	Tier 1	8.06%	8.06%	8.75%	9.25%
	Total Capital	10.75%	10.75%	10.75%	11.25%
Combined Buffer requirement (CBR)					
Conservation buffer	CET1	2.5%	2.5%	2.5%	2.5%
O-SII buffer	CET1	1.0%	1.0%	1.0%	1.0%
Countercyclical buffer	CET1	0.0%	0.0%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.55%	9.55%	10.75%	11.25%
	Tier 1	11.56%	11.56%	12.25%	12.75%
	Total Capital	14.25%	14.25%	14.25%	14.75%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.55%	10.55%	11.75%	12.25%

[i] Further information on developments in 2022 are available in the chapter Events After the End of the 2021 Financial Year.

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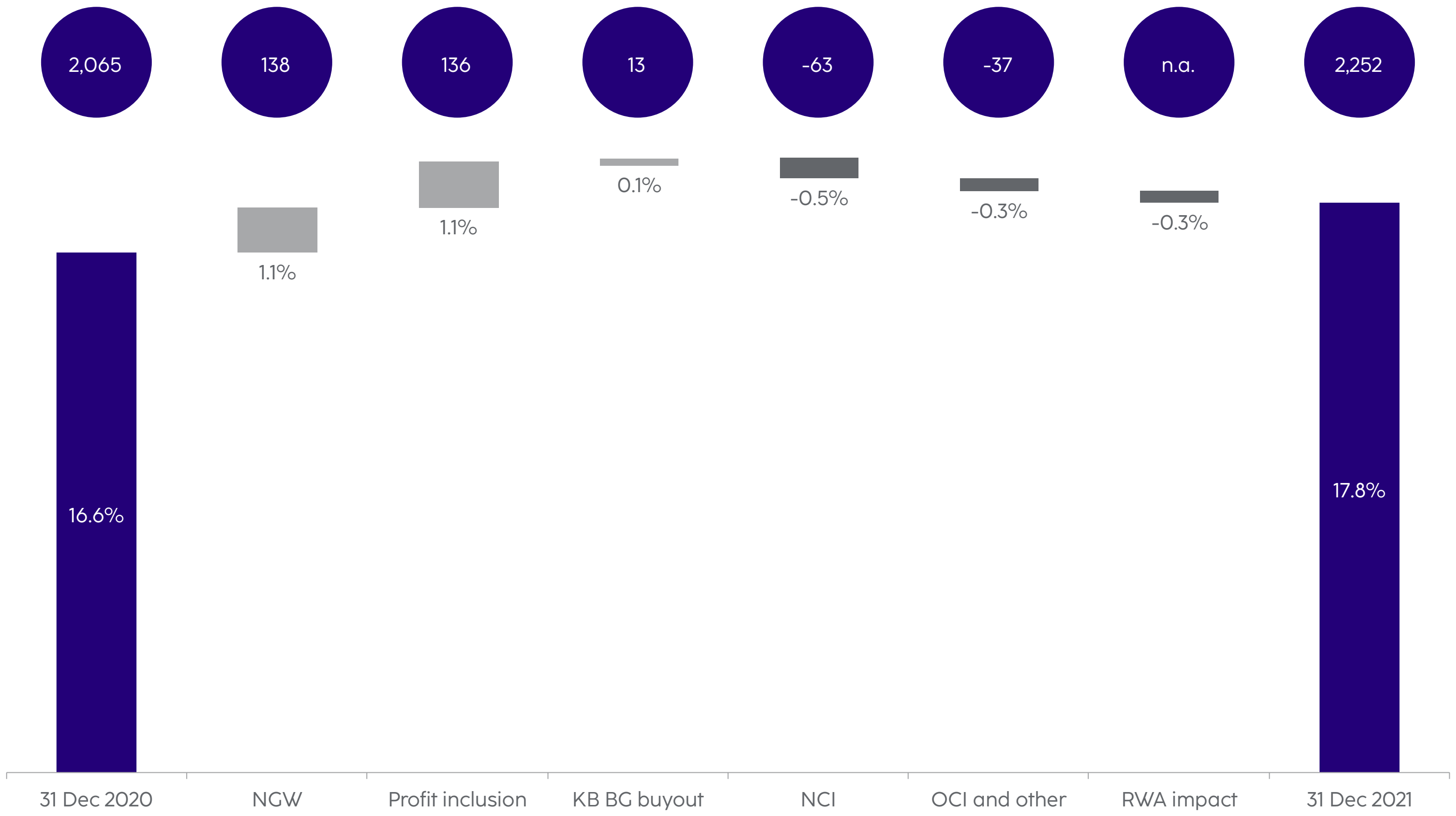
As at 31 December 2021 the TCR for the Group stood at 17.8% (or 1.2 p.p. higher than as at 31 December 2020), and for NLB at 24.6% (or 2.5 p.p. lower than as at 31 December 2020). As at 31 December 2021, the CET1 ratio stood at 15.5% (1.4 p.p. YoY increase). The higher Group total capital adequacy compared 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).

Figure 26: Capital of NLB Group (in EUR million) – evolution YoY



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Dividend pay-out

Pursuant 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 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.

Total risk exposure dynamic

Table 13: Total risk exposure for NLB Group

in EUR million

	31 Dec 2021	30 Sep 2021	31 Dec 2020	Change YoY	Change QoQ
Total risk exposure amount (RWA)	**12,667.4**	**12,824.4**	**12,421.0**	**246.4**	**-157.0**
RWA for credit risk	**10,205.2**	**10,648.0**	**10,222.9**	**-17.8**	**-442.8**
Central governments or central banks	1,158.5	1,842.8	1,892.2	-733.7	-684.3
Regional governments or local authorities	99.8	126.0	135.5	-35.6	-26.2
Public sector entities	47.0	212.7	248.8	-201.8	-165.8
Institutions	310.2	355.1	311.7	-1.4	-44.8
Corporates	2,748.7	2,312.4	2,224.2	524.5	436.3
Retail	4,171.0	4,190.7	3,891.8	279.2	-19.7
Secured by mortages on immovable property	453.0	397.1	355.7	97.4	56.0
Exposures in default	179.4	191.8	231.5	-52.0	-12.4
Items associated with particulary high risk	442.5	444.1	344.2	98.3	-1.5
Covered bonds	41.1	40.3	40.9	0.2	0.8
Claims in the form of CU	19.4	17.6	18.7	0.8	1.8
Equity exposures	88.5	79.7	47.1	41.4	8.8
Other items	446.0	437.7	480.9	-34.9	8.2
RWA for market risk + CVA	**1,218.2**	**1,229.0**	**1,250.8**	**-32.6**	**-10.8**
RWA for operational risk	**1,244.0**	**947.3**	**947.3**	**296.7**	**296.7**

Contents

The RWA for credit risk decreased by EUR 17.8 million. 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 inclusion of BiH and Macedonia on EBA's third party equivalent list, legislation criteria changes for the CRR collateral adequacy, signing of guarantee agreements with MIGA as well as changed investment policy such as shift of some liquid assets from the central governments to lower risk-weighted counterparties (NLB Banka, Prishtina, NLB Banka, Podgorica) or optimization 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 on the other hand 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 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, of which EUR 10.6 million as a result 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 effect for increased relevant income was acquisition of Komercijalna Banka, Beograd in 2020.

Further information on capital and capital adequacy is available in the Note 5.22 to the Audited Annual Financial Statements and in Pillar 3 Disclosures.

MREL

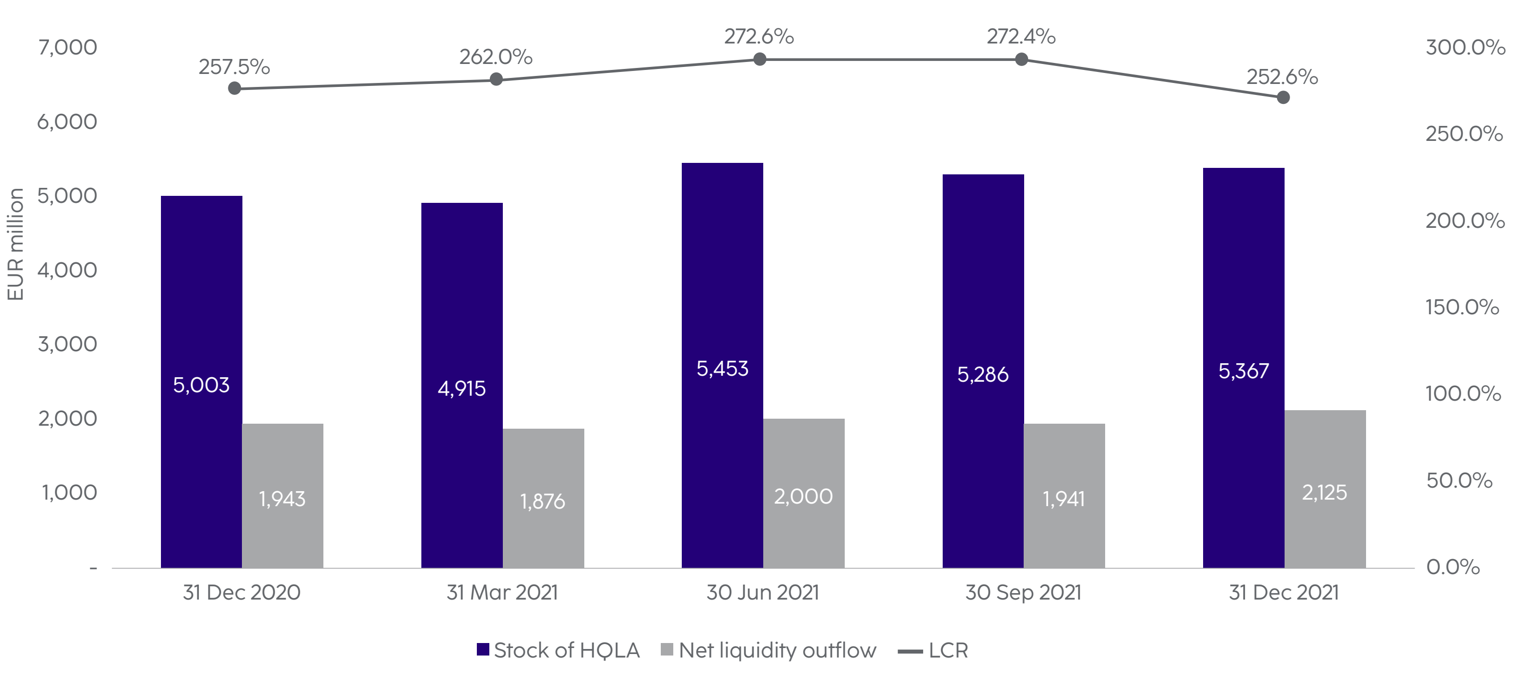
The MREL requirement for the Group is based on the Multiple Point of Entry (MPE) approach. As of 1 January 2024, NLB must comply with MREL requirement on a consolidated basis at resolution group level (i.e., NLB Resolution Group, consisting of NLB and other members of the Group excluding banks) which amounts to 31.38% of Total Risk Exposure Amount (TREA) (excluding CBR) and 9.97% of the Leverage Ratio Exposure (LRE). NLB has to ensure a linear build-up of own funds and eligible liabilities towards MREL requirement and its compliance with 25.19% of the TREA (excluding CBR) and 8.03% of the LRE on 1 January 2022.

MREL requirement forms part of Group's risk appetite and MREL requirement is regularly analysed and monitored by the Group.

Liquidity position

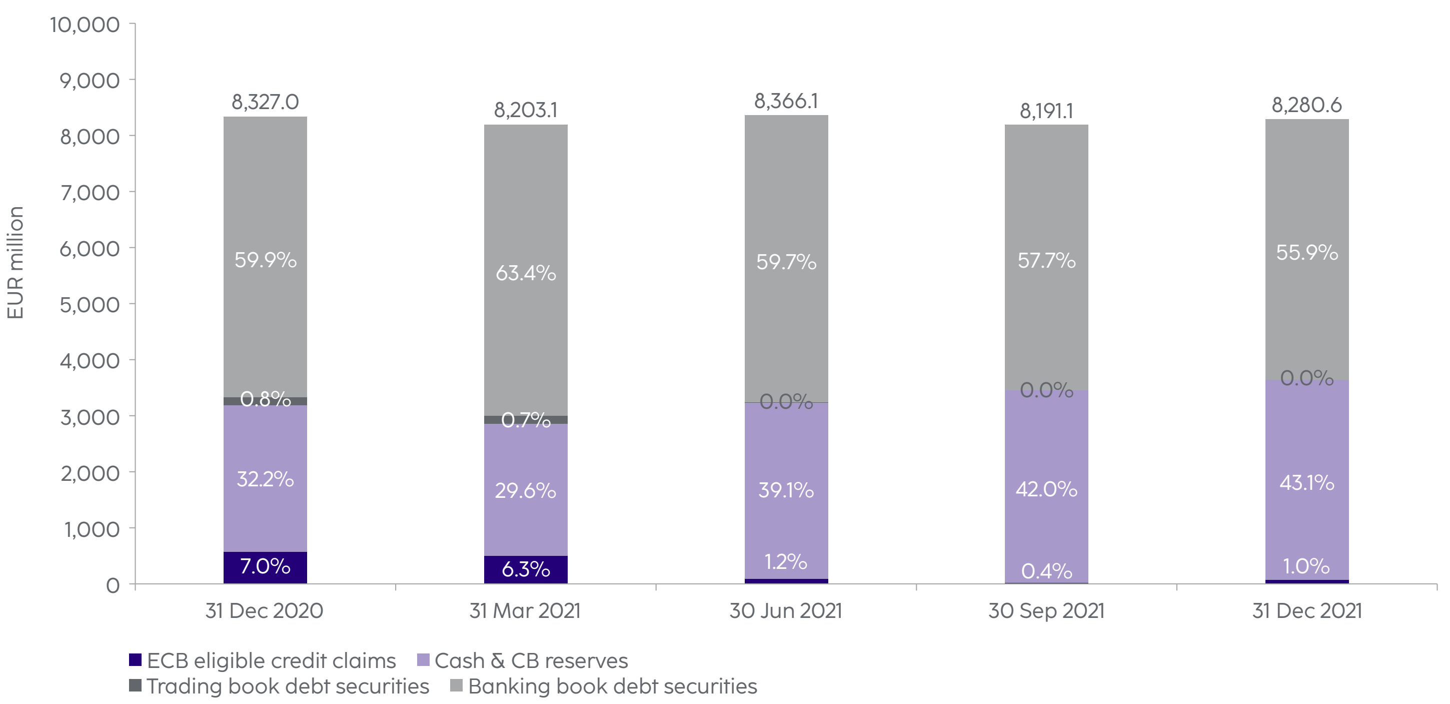
The Group's liquidity remains strong, with a high level of unencumbered liquidity reserves in total assets (38.3%) that is reflected in the LCR ratio standing at 252.6% (31 December 2020: 257.5%). The Group holds a comfortable liquidity position, with liquidity ratios standing well above the risk appetite limit at the Group and individual banking member level.

Figure 27: LCR quarterly dynamic of NLB Group



As at 31 December 2021 the Group's unencumbered liquidity reserves corresponded to EUR 8,280.6 million (2020: EUR 8,327.0 million) comprised of cash, balances with CB without minimum reserve requirement, debt securities portfolio, and credit claims eligible for CB-secured funding operations. Among other these liquidity reserves provide the basis for future strategic growth. Encumbered liquidity reserves (EUR 877.6 million; excluding obligatory reserves), used for operational and regulatory purposes, are excluded from the liquidity reserves portfolio.

Figure 28: Evolution of NLB Group unencumbered liquidity reserves (in EUR million)



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Segment Analysis

Table 14: Core and Non-Core Segments of NLB Group

		Core Segments					Non-Core Segment
		Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Other	Non-Core Members
		includes banking with individuals and micro companies, asset management (NLB Skladi), and one part of the subsidiary NLB Lease&Go that deals with retail clients, as well as the contribution to the result from the associated company Bankart.	includes banking with Key corporate clients and SMEs, Cross-border corporate financing, Investment Banking and Custody, Restructuring and Workout, and one part of the subsidiary NLB Lease&Go that renders services to corporate clients.	includes the operations of strategic Group banks in the strategic markets (Serbia, North Macedonia, BiH, Kosovo and Montenegro).	covers treasury activities and trading in financial instruments, while it also presents the results of asset and liabilities management (ALM).	accounts for the Bank's categories of which the operating results cannot be allocated to specific segments as well as the subsidiary NLB Cultural Heritage Management Institute.	includes the operations of non-core Group members, namely REAM and leasing entities (except NLB Lease&Go), NLB Srbija, and NLB Crna Gora.
(in EUR million)	NLB Group						
Profit b.t.	261.4	49.0	86.8	113.2	15.8	-4.7	1.3
Contribution to Group's profit b.t.	100%	19%	33%	43%	6%	-2%	0%
Total assets	21,577	2,823	2,334	9,798	6,190	337	96
% of total assets	100%	13%	11%	45%	29%	2%	0%
CIR	62.3%	68.1%	44.4%	63.0%	35.8%	177.5%	157.4%
Cost of risk (bps)	-41	26	-141	-11	/	/	/

NLB Group's main indicator of a segment's efficiency is net profit before tax. No revenues were generated from transactions with a single external customer that would amount to 10% or more of Group's revenues.

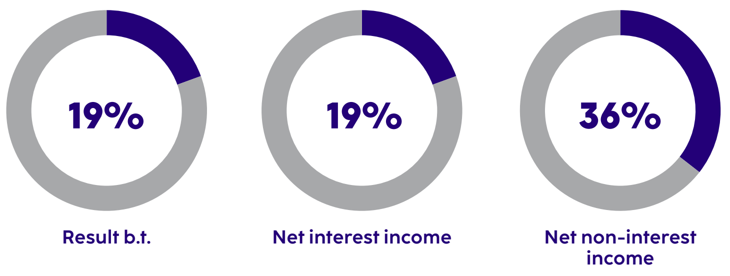
Contents

Retail Banking in Slovenia

The Bank continues to be the market leader in retail banking by knowing customers' needs. Through anchor loan products and best-suited offers to different segments, the Bank again proved its efficiency and gained new clients. The banking environment is changing considerably and new approaches and sales channels are emerging. The Bank continues to be available through its traditional branch offices, but also through its mobile branch. Technology enables the availability of the Bank's services to clients 24/7 via the Contact Centre and digital banking.

Contribution to NLB Group

Figure 29: Contribution to NLB Group



Financial performance

Table 15: Performance of the Retail Banking in Slovenia segment

in EUR million consolidated

	2021	2020	Change YoY	
Net interest income	79.5	81.4	-1.9	▼ -2%
Net interest income from Assets[(i)]	82.7	78.4	4.3	▲ 5%
Net interest income from Liabilities[(i)]	-3.1	3.0	-6.1	-
Net non-interest income	91.5	89.0	2.5	▲ 3%
o/w Net fee and commmission income	96.6	82.7	13.8	▲ 17%
Total net operating income	**171.0**	**170.4**	**0.7**	**▲ 0%**
Total costs	-116.5	-114.1	-2.4	▼ -2%
Result before impairments and provisions	**54.5**	**56.2**	**-1.7**	**▼ -3%**
Impairments and provisions	-6.7	-15.1	8.4	▲ 56%
Net gains from investments in subsidiaries, associates, and JVs'	1.1	0.9	0.2	▲ 27%
Result before tax	**49.0**	**42.0**	**6.9**	**▲ 17%**

	31 Dec 2021	31 Dec 2020	Change YoY	
Net loans to customers	2,731.6	2,415.4	316.2	▲ 13%
Gross loans to customers	2,769.7	2,450.7	319.0	▲ 13%
Housing loans	1,815.5	1,534.7	280.9	▲ 18%
Interest rate on housing Loans	*2.34%*	*2.51%*	*-0.17 p.p.*	
Consumer loans	635.6	651.7	-16.1	▼ -2%
Interest rate on consumer Loans	*6.70%*	*6.43%*	*0.27 p.p.*	
Other	318.6	264.3	54.3	▲ 21%
Deposits from customers	7,703.6	7,356.8	346.8	▲ 5%
Interest rate on deposits	*0.03%*	*0.04%*	*-0.01 p.p.*	
Non-performing loans (gross)	58.1	52.4	5.7	▲ 11%

	2021	2020	Change YoY
Cost of risk (in bps)	26	63	-38
CIR	68.1%	67.0%	1.1 p.p.
Interest margin	1.55%	1.75%	-0.20 p.p.

[(i)] Net interest income from assets and liabilities with the use of FTP.

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Net interest income

The net interest income from loans to individuals was EUR 4.3 million higher YoY; the higher volume of housing loans and higher interest margins on consumer loans was due to higher volumes of new production and a higher share of loans with a risk premium and quick loans in the portfolio; lower volumes on overdrafts had a negative impact on the interest income. There was also a reduction of the retail deposits margin after transfer price (FTP) in the amount of EUR 6.1 million YoY.

Net non-interest income

Higher net non-interest income in the amount of EUR 2.5 million YoY was due to EUR 13.8 million or 17% higher net fee and commission income related mostly to package repricing and higher net fees from asset management (high net inflows in mutual funds of NLB Skladi, EUR 192.8 million) and bancassurance. In April, the Bank started charging a fee for high balances for individuals to restrain the deposit inflow which diverted extra liquidity to other financial products (mutual funds, investments) and compensated for the negative interest rates charged for the balances at the CB.

Net impairments and provisions

Net impairments and provisions were established in the amount of EUR 6.7 million, due to changes in risk parameters.

Loans to customers

The production of new housing loans was record high, EUR 557.6 million in 2021 (2020: EUR 303.1 million).

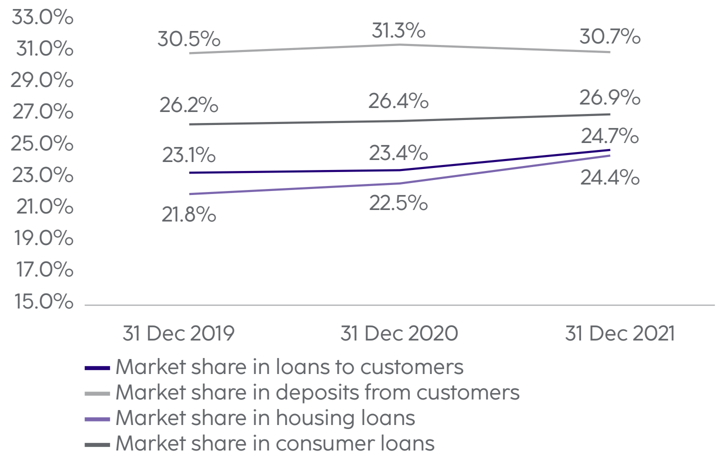
Deposits from customers

The deposits base increased by EUR 346.8 million (5%) YoY, with sight deposits prevailing (95% in 2021, compared to 93% in 2020).

The Bank strengthened its position in

Lending and Asset Management.

Figure 30: NLB's market share in Retail Banking in Slovenia



Business performance

The market leader in retail banking in Slovenia

Leader in Slovenia

Bank remains the leader in the Slovenian market in retail lending and deposit-taking. An encouraging increase of the market share is noticed in the category of housing loans, namely to 24.4% (31 December 2020: 22.5%), which is the result of a very impressive production of new housing loans in 2021 (market share of 32.2%; 2020: 28.3%).

The Bank remains the leader because of their very well-established branch and ATM network, the 24/7 Contact centre, and continuous digitalization improvements.

The Bank retains its role as a market leader in payments by being a reliable and trustworthy provider of payments services with a focus on providing a positive user experience.

The private banking arm of the Bank has been positioned as a leader in this segment in Slovenia for over 20 years.

NLB Skladi is a market-leading asset management company, whose market share and annual net inflows are increasing every year.

Distribution channels

Branch office and ATMs network

The Bank's main sales channel remains its branch network in Slovenia with 75 branches, and is supported with the ATM network (538 or a 37.6% market share in Slovenia) of which 89% are contactless.

A higher daily limit of cash withdrawals on ATMs was enabled to encourage clients to increase use of ATMs, and consequently to strengthen the advisory role of branch offices.

Mobile bank: NLB Bank&Go

The mobile branch NLB Bank&Go, engaged in promoting the Bank in various cities in Slovenia, is being increasingly recognised.

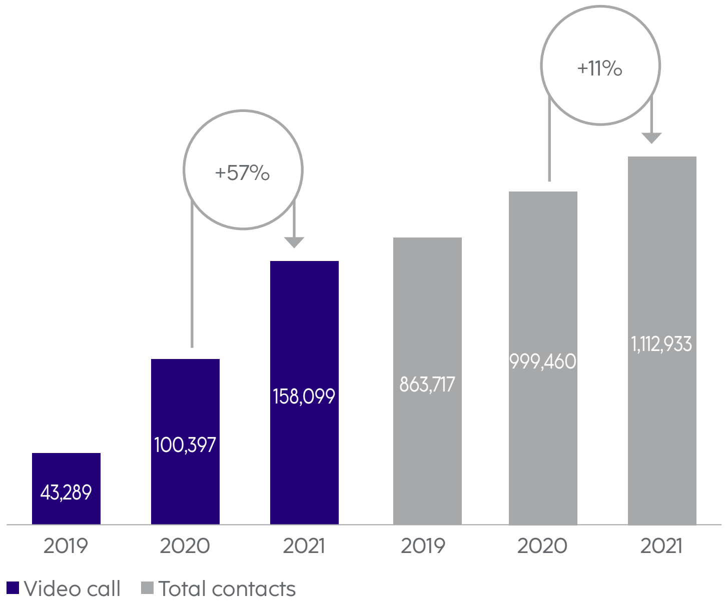
Unique 24/7 banking service in Slovenia

Extending the use of video calling for sales and contract conclusions for almost all of the Bank's products (consumer and housing loans with straightforward collateral, Vita and Generali insurance products, deposits, savings and cards, onboarding of e- and m-bank) was an important step towards strengthening the role of the Contact Centre as a 24/7 sales channel.

The Contact Centre experienced a YoY increases of 11% in total contacts, mainly due to the 57% increase in video calls.

Despite the broader scope of work, the client experience remained at a very high level, with an average 2021 NPS for video call and chat of 71.

Figure 31: NLB Contact Centre no. of contacts



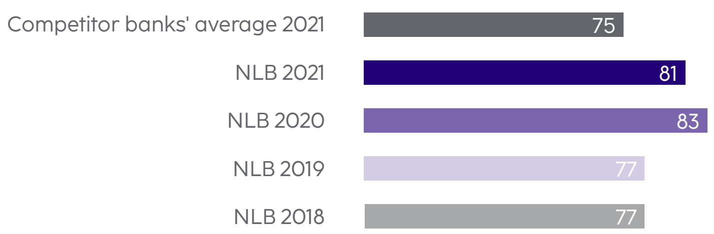
Digitalisation and improved client experience

High level of client satisfaction

The Bank maintained a high level of client satisfaction, as measured through the Customer Satisfaction Index (CSI). The CSI remains stable and well above competition. Furthermore, clients also express a high level of trust and loyalty.

The Bank also managed to change price perception in segment of young people, where satisfaction improved (from 74 to 77; 2021 Valicon Client Satisfaction Survey).

Figure 32: Satisfaction with the attitude towards customers



Source: 2021 Valicon Client Satisfaction Survey.

Sustainability

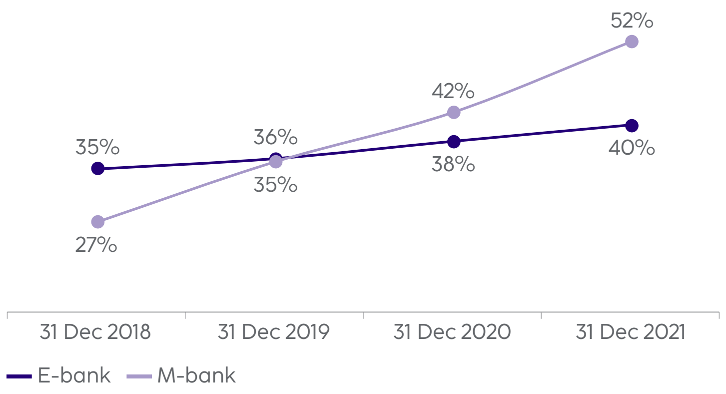
Following the ESG orientation of the Group, special financing for the purchase of solar panels, power storage and heat pumps was agreed to be offered to clients by one of the Slovenian retailers, selling technical products.

Digital banking

The number of digital users continued to increase (13% YoY), with the number of active users surpassing 300,000. The number of m-bank Klikin and e-bank NLB Klik users increased by 23% (72,076 new users) and 6% (22,771 new users) YoY respectively, which is well demonstrated by the digital penetration (see the figure below).

The total volume and number of payments processed in the e-bank and m-bank increased by 32% and 14% YoY, respectively.

Figure 33: Online and mobile banking penetration



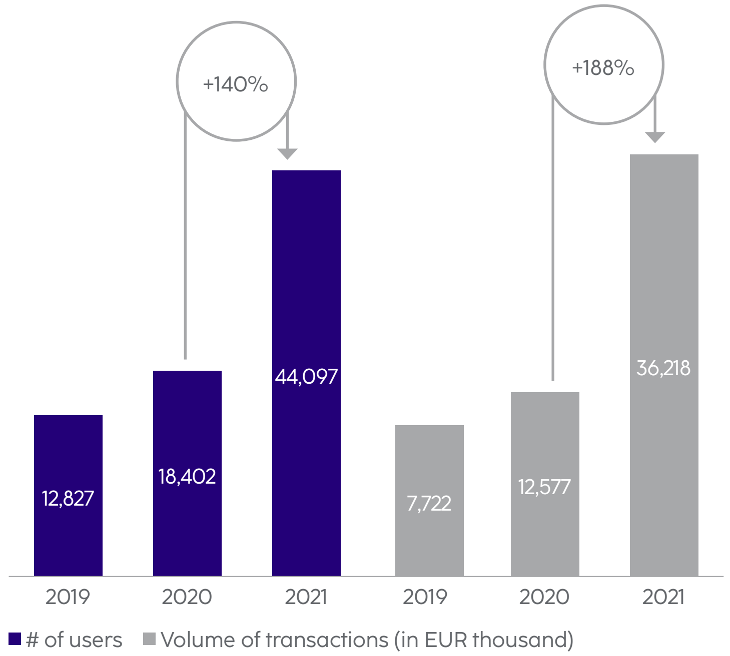
24.4%

market share in housing loans.

Mobile wallet - NLB Pay

M-wallet NLB Pay usage is increasing at a significant pace and the application is constantly being upgraded. The most recent updates have been made in line with regulatory requirements for Strong Customer Authentication and include Flik Instant Payments for person to person (P2P), person to merchant (P2M), and person to e-merchant (P2eM) payments. The application has become a must-have, especially as it is an easy way to confirm e-commerce purchases.

Figure 34: NLB Pay in numbers



Digital banks

NLB Klik's and Klikin's penetration and share of active users substantially increased.

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Stable card market share

The Bank's card market share remained stable with 26.1% (2020: 26.5%) in the Slovenian market.

New debit Mastercards (NLB Debit Mastercard, NLB Debit Mastercard World, and NLB Mastercard World Elite) were introduced to replace the Maestro card, and are part of the client's wallet and mobile wallet NLB Pay. The debit Mastercard offers added value to clients at a time when most purchases are made online.

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

Flik Instant payments

The introduction of a new payment method within the local Slovenian instant payment scheme Flik P2M promotes further migration from cash to digital payments. Flik P2M is integrated in the m-wallet NLB Pay and also provides support for iOS users.

Private banking

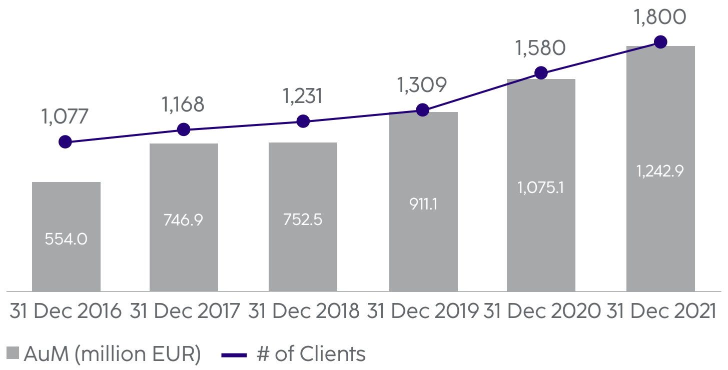
Leading private banking provider in Slovenia

Private banking has positioned itself among the leading private banking providers in Slovenia for over 20 years. In 2021, its leading position was further strengthened with assets under management reaching EUR 1.2 billion (16% YoY), and the number of clients increased by 14% YoY.

Throughout the year, private bankers managed to maintain sales activities on a high level. Results were solid in all areas, but the best were in mutual fund sales. This can be attributed to our dedicated team, the positive economic and capital market environment, and introduction of the fee for high balances for individual clients.

By offering carefully selected and tailored products and services, the Bank demonstrates that it is able to take good care of their clients' wealth.

Figure 35: Assets under management and the number of private banking clients



Ancillary businesses complementing banking products

NLB Skladi – Slovenia's largest asset management company

The market share of NLB Skladi increased to 37.3% (31 December 2020: 34.9%). With EUR 232.8 million of net inflows in 2021, which is the company's highest annual amount of inflows ever recorded, the company ranked first among its peers in Slovenia, accounting for 50.4% of all net inflows in the market. Fees for high balances of clients' assets introduced in April 2021 also triggered a partial reallocation of client assets from deposits and contributed to an additional increase of interest occurred on asset management products.

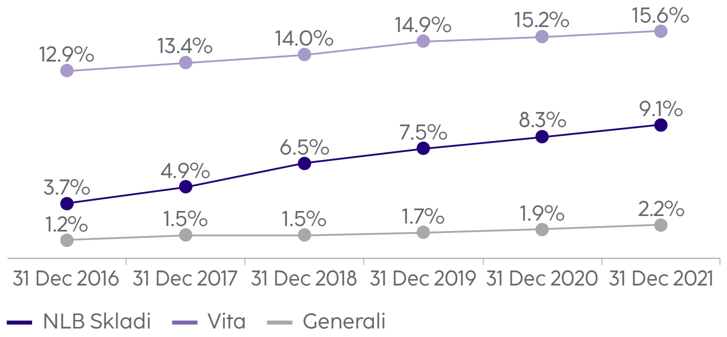
The total assets under management amounted to EUR 2,128.0 million (31 December 2020: EUR 1,625.6 million) of which EUR 1,610.4 million consisted of mutual funds (31 December 2020: EUR 1,125.5 million) and EUR 517.6 million of the discretionary portfolio (31 December 2020: EUR 500.1 million).

Vita - insurance company

The insurance company Vita remains the Bank's strategic partner. Its products are sold through the Bank's distribution network, such as savings and investment insurance products, risk, and health insurance products.

Vita introduced a new health insurances product – NLB Vita Specialist, which among others covers the costs of medical specialists and more complex diagnostic examinations.

Figure 36: Customers' penetration of ancillary business



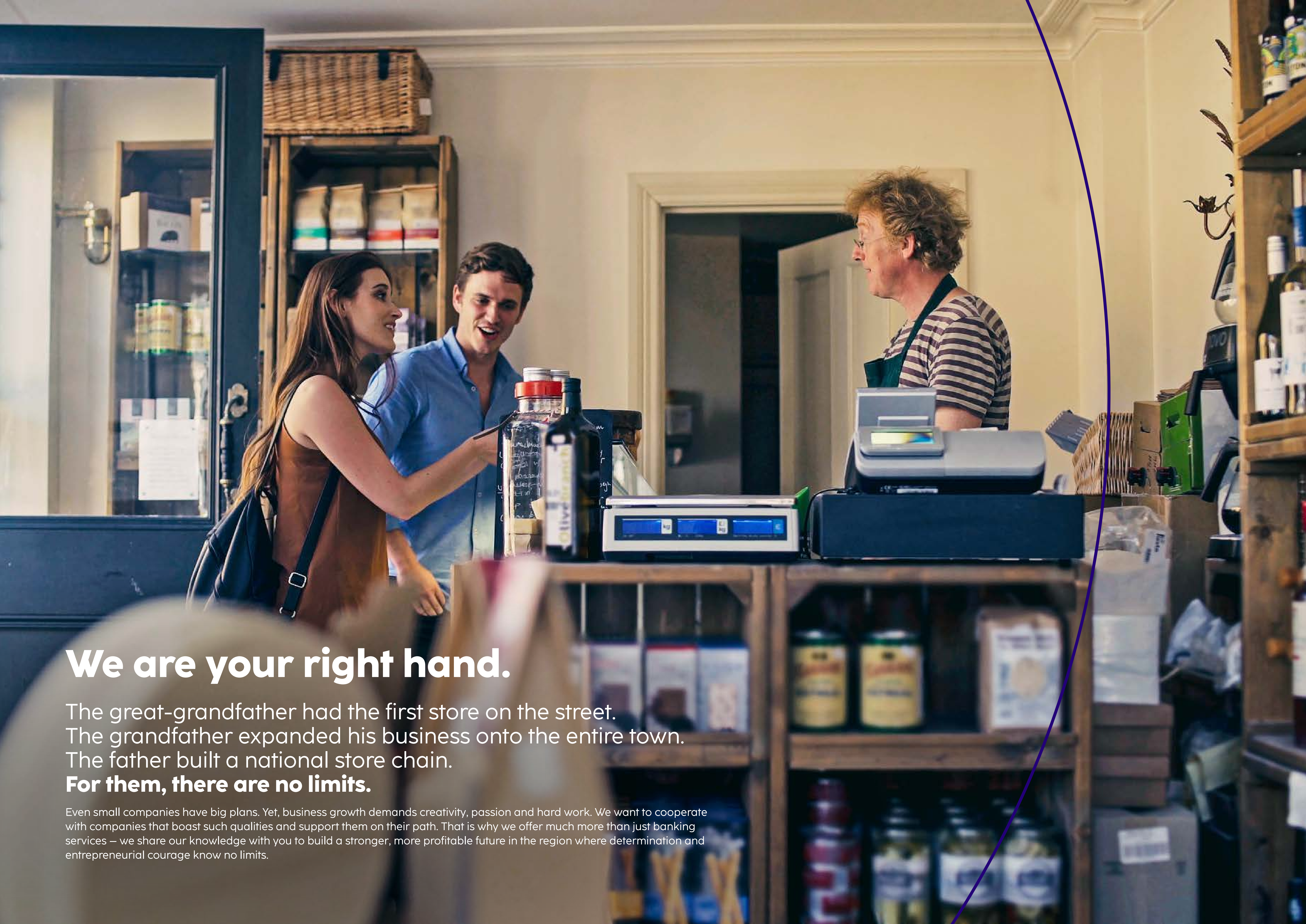
GENERALI Zavarovalnica - Non-life insurance products

Non-life insurance products, including car and home insurance, are provided to clients in cooperation with the GENERALI Zavarovalnica.

Despite challenging circumstances, excellent results were achieved, namely gross written premiums increased YoY by 19%, and the number of car insurance and home insurance policies by 19% and 23%.

A new Debit Mastercard

was introduced to replace the Maestro card.



We are your right hand.

The great-grandfather had the first store on the street.
The grandfather expanded his business onto the entire town.
The father built a national store chain.
For them, there are no limits.

Even small companies have big plans. Yet, business growth demands creativity, passion and hard work. We want to cooperate with companies that boast such qualities and support them on their path. That is why we offer much more than just banking services – we share our knowledge with you to build a stronger, more profitable future in the region where determination and entrepreneurial courage know no limits.

Corporate and Investment Banking in Slovenia

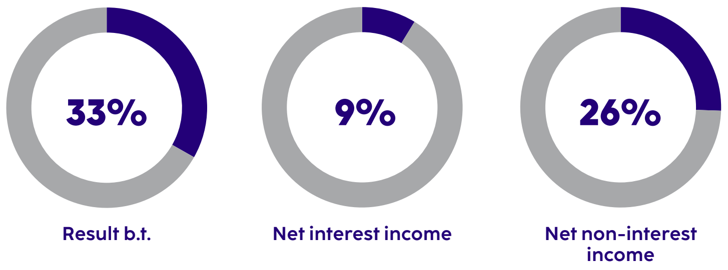
The Bank is strengthening its market position as a systemic player in its home region, and actively participates in the growth of markets by supporting sustainable projects. As a leading player, the Bank also supports the more complex, cross-border needs of its clients and diversifies services for them. Clients' trust and satisfaction are solid foundations for future sustainable growth.

31.5%

market share in guarantees and letters of credit.

Contribution to NLB Group

Figure 37: Contribution to NLB Group



Financial performance

Table 16: Performance of the Corporate and Investment Banking in Slovenia segment

			in EUR million consolidated	
	2021	**2020**	**Change YoY**	
Net interest income	35.7	34.0	1.7	▲ 5%
Net interest income from Assets[i]	41.1	36.8	4.3	▲ 12%
Net interest income from Liabilities[i]	-5.4	-2.8	-2.6	▼ -93%
Net non-interest income	65.8	41.2	24.6	▲ 60%
o/w Net fee and commmission income	38.9	33.2	5.7	▲ 17%
Total net operating income	**101.5**	**75.2**	**26.3**	**▲ 35%**
Total costs	-45.1	-41.8	-3.3	▼ -8%
Result before impairments and provisions	**56.4**	**33.4**	**23.0**	**▲ 69%**
Impairments and provisions	30.5	9.0	21.5	-
Result before tax	**86.8**	**42.4**	**44.5**	**▲ 105%**
	31 Dec 2021	**31 Dec 2020**	**Change YoY**	
Net loans to customers	2,332.4	2,047.1	285.2	▲ 14%
Gross loans to customers	2,390.7	2,167.5	223.1	▲ 10%
Corporate	2,258.5	2,006.4	252.1	▲ 13%
Key/SME/Cross Border Corporates	2,110.6	1,827.6	283.1	▲ 15%
Interest rate on Key/SME/Cross Border Corporates loans	*1.79%*	*1.79%*	*0.00 p.p.*	
Investment banking	0.1	0.2	-0.1	▼ -38%
Restructuring and Workout	88.2	160.8	-72.6	▼ -45%
NLB Lease&Go	59.6	17.8	41.7	-
State	131.9	160.7	-28.8	▼ -18%
Interest rate on State loans	*2.07%*	*2.20%*	*-0.13 p.p.*	
Deposits from customers	1,938.2	1,487.4	450.7	▲ 30%
Interest rate on deposits	*0.03%*	*0.06%*	*-0.03 p.p.*	
Non-performing loans (gross)	72.5	156.0	-83.5	▼ -53%
	2021	**2020**	**Change YoY**	
Cost of risk (in bps)	-141	-44	-97	
CIR	44.4%	55.6%	-11.1 p.p.	
Interest margin	1.76%	1.90%	-0.15 p.p.	

(i) Net interest income from assets and liabilities with the use of FTP.

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Net interest income

The interest income from loans to corporate and state was EUR 4.3 million higher YoY, due to higher volumes, mostly in Key and Cross-Border Corporates. There was also a reduction of the deposits margin after transfer price (FTP) in the amount of EUR 2.6 million YoY.

Non-recurring net non-interest income

Non-recurring net non-interest valuation income in the amount of EUR 13.0 million from repayment of exposure, classified as non-performing, and EUR 8.6 million other operation income from the settlement of a legal dispute.

Net fee and commission income

Higher net fee and commission income YoY, mostly due to a higher fee for high balances on customers assets (EUR 6.6 million in 2021, EUR 3.3 million higher YoY) and arrangement fees for organisation of syndicated loans.

Net impairments and provisions

Net impairments and provisions were released in the amount of EUR 30.5 million due to the repayment of several exposures, changes in credit ratings, and changed parameters for collective impairments and provisions related to more favourable macroeconomic forecasts.

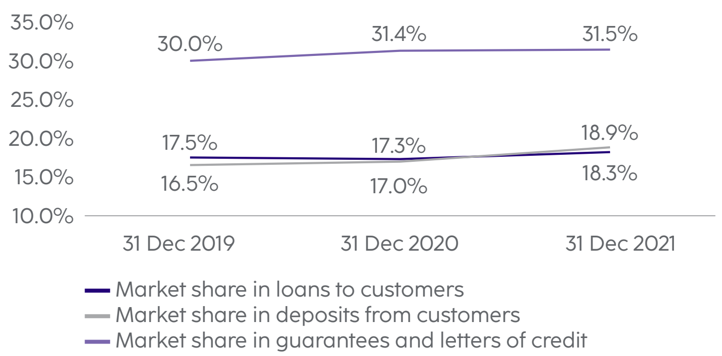
Loans to customers

The volume of loans to corporate increased by EUR 252.1 million YoY, mostly due to newly approved syndicated loans and increased volumes in the Cross-border Corporates and NLB Lease&Go.

The Investment Banking and Custody

The Investment Banking and Custody recorded non-interest income in the amount of EUR 10.8 million and increased by EUR 1.4 million YoY, mostly due to arrangement fees for organisation of syndicated loans. The total value of assets under custody decreased YoY and amounted to EUR 15.9 billion (31 December 2020: EUR 16.2 billion).

Figure 38: NLB's market share in Corporate Banking in Slovenia



Client base expanded

with additional stable and well performing groups of companies.

Business performance

Market leader focusing on customers' needs

Leading bank servicing corporate clients in Slovenia

NLB is the leading bank in servicing corporate clients in Slovenia with a growing client base, and it has an 18.3% market share in corporate loans (31 December 2020: 17.3%).

The Bank also remains a reliable partner to Slovenian companies when they want to expand their activities abroad.

Despite substantial loan repayments, the entire portfolio grew as several new high-quality transactions were concluded in financing exports and manufacturing, the state, project finance, acquisitions, factoring, and international finance. In 2021, EUR 1,281.5 million of loans were approved to corporate and state clients presenting a 23% YoY increase. Market presence and a proactive approach are also reflected in the YoY growth of the loan portfolio in all corporate segments, namely in Key by 7%, SME by 9%, and Cross-border even by 79%. Growth is recorded across all products and services.

As the leading bank in the Slovenian market for the organisation of syndicated loans, the Bank continues to successfully support and finance the expansion of Slovenian companies in the region.

The Bank is also a leading Slovenian bank in the field of trade finance with products that support the export economy. Group clients are supported with letters of guarantees, letters of credit, and purchases of receivables through digital channels in a safe and fast way, with a market share of 31.5% (31 December 2020: 31.4%) in guarantees and letters of credit (including guarantee lines).

Diversified product mix

Bank's offer

The Bank's offer of financial services, including lending, cash management, payment services, as well as capital markets' advisory services supports various clients' needs.

Clients can get short-term or long-term financing facilities and advisory services to find a best-suited financing structure. In this way, the Bank supports key projects that are important for the development of the country, as well as the Group's home region.

Contents

Trade finance solutions

The Bank is a leading Slovenian bank in the field of trade finance with products that also support the export economy, and represent an important part of the Slovenian economy. The trade finance product range and tailor-made solutions are comprehensive and range from traditional trade finance products, to other modern structures which provide safe financing throughout the supply chains.

As a member of the Factor Chain International, the Bank aims to offer exporters and importers international purchase of receivables, thus providing them with a modern, fast, and easy way of financing, which is an additional incentive for international business. Special attention is given to letter of guarantees by which the Bank supports major infrastructure projects in Slovenia and the wider home region. The stronger market position reflects the Group's active advisory approach towards its customers.

Sustainability

In the process of actively integrating the ESG factors, the Bank is devoting increasing efforts to identifying new business opportunities arising from its transition to support circular and carbon neutral economy.

#HelpFrame, a social environment project with a clearly defined sustainability component, continued in 2021. In addition to know-how, advice, and services, advertising space was also made available to the selected entrepreneurs, farmers and small and micro companies, thus helping them present their products and services to potential buyers and customers.

Project financing

Recent developments in the real estate market have opened up new opportunities for project financing. With comprehensive financial solutions, supported by a strong team of experts, the Bank is able to meet even the most demanding challenges in this area.

Each project is reviewed from different perspectives – feasibility, costs, and sale, thus trying to minimise risk for both, the Bank and the client. Clients are also supported in the trade finance area, as successful completion of the transaction also requires guarantees to eliminate hidden defects to end users.

Favourable financing conditions are offered to the buyer of the property, and a team of mobile bankers is involved to ensure a successful implementation.

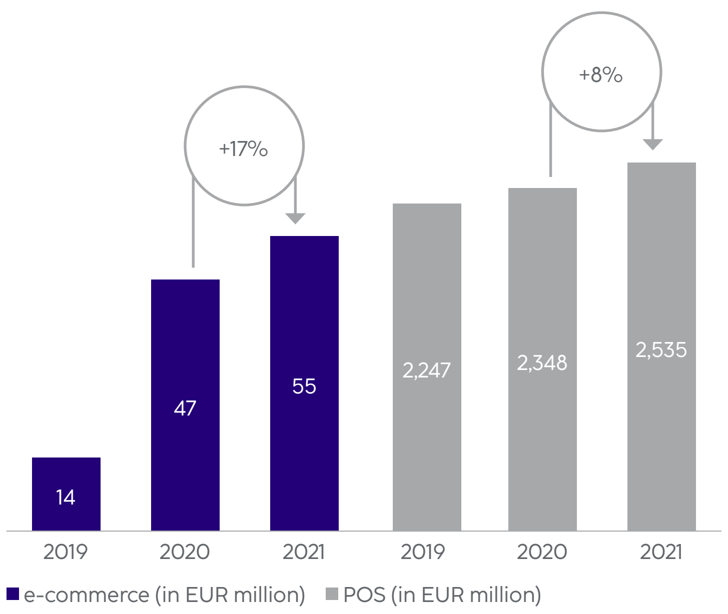
Basic products & Cards business

New debit Mastercard products (NLB Debit Mastercard Business and NLB Debit Mastercard World Business) are now also available to business account holders, replacing the Maestro business card.

New debit cards are included in the renewed package offer for legal entities, namely NLB Business Package Basic, Advanced, and Comprehensive, with a special offer for the target group of newly established and non-profit clients.

SMS Instalments for business pay-later payment cards were introduced, the only condition being the activation of an SMS Alarm service. This new service complements the instalment purchase for all possible card transactions (POS and e-commerce purchases, ATM withdrawals).

Figure 39: Transaction volume in acquiring (in EUR million)



A leader in merchant-acquiring

The Bank is a leader in merchant-acquiring by accepting all major payment cards, the local Flik instant payment scheme and a modern contactless POS network, with a 36.7% market share in merchant acquiring.

Users of e-commerce expect secure and simple online purchases, which is why the Bank offers NLB E-commerce, a modern payment platform, to its providers and their clients. The platform provides security and simplicity, a competitive edge to providers, and good user experience.

Instant payments

Since 2020, the Bank gradually introduced instant payments, including instant internal transfers and Flik payments in the NLB Pay. Instant outgoing payments are now also available to clients (free of charge) in the m-banking solutions Klikin and Klikpro.

Flik payments

With the main goal of decreasing the use of cash, the Flik P2M payment method is being gradually implemented in all shops with NLB POS terminals. NLB was the first bank in Slovenia to enable clients such a service.

Global Payments Innovation (GPI) full on-boarding

The Group, as a first banking group in the region, fully onboarded the GPI (Global Payment Initiative), i.e., service from SWIFT, which enables more efficient processing and easier tracking of international payment orders, thus enabling considerable improvement and smoother international payments experience for customers involved in international business.

Cross border financing

is becoming increasingly important.

International corporate business

Collaboration within the Group

Excess liquidity, a rather limited Slovenian market, and the wish to expand operations with existing and new clients are the main reasons why cross-border financing is becoming increasingly important. In the Western Balkans, the Bank is among others currently supporting selected projects mainly in the telecommunications and food industry, as well as renewable energy sources.

At YE, the portfolio, including participating shares of Group subsidiaries lending in such a transaction, already well exceeds EUR 150 million. The notable potential in the region can be observed especially in corporate financing focusing on renewable energy, infrastructure, and residential project finance.

Corporate lending in EEA

The Bank also entered into different EU markets and diversified its cross-border portfolio across the EEA. Most notable transactions were concluded in Germany, France, Austria, and the Netherlands.

Deals are primary made through participation in syndicated international facilities or through participation in Schuldschein loans, which includes also some of world-renowned brands and leaders in their industries. The EEA lending portfolio exceeds EUR 150 million at YE, and is also expected to grow further due to very well-established relationships with some of the European partnership banks.

Arranging

EUR 652.1 million

of syndicated loans.

Digitalisation of product offering

M-bank Klikpro

The number of m-bank Klikpro users is constantly increasing (YoY by 17%), which proves that clients are adopting the process of digital banking.

The latest upgrade also included digital signing of documents for a defined list of products, which will be further extended in the following periods.

Mobile wallet NLB Pay

The Bank's mobile wallet NLB Pay application enables clients to make contactless, simple, fast, and secure payments on the contactless POS (in Slovenia and abroad) with the NLB Business Mastercard and NLB Business Maestro cards, and also enables instalment payments.

Investment banking and securities services

Arranger of several transactions

In 2021, the Bank organised six syndicated facilities in the total amount of EUR 652.1 million, where it also acted as the mandated lead arranger, as an agent, and also as the leading bank with EUR 275.7 million participation.

The Bank helped many companies broaden funding base and arranged the issuance of both long-term and short-term instruments in the total of EUR 44.3 million on debt capital markets.

The Bank was active in M&A and other financial advisory engagements. As the sole financial advisor, it successfully organised the sales process of a leading Slovenian company in the production of paints. The Bank successfully organised two takeover bids as well.

Brokerage services and Financial Instruments

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

Good economic conditions in 2021 resulted in more activities in foreign, non-Euro markets, by the clients. At the same time, due to higher inflation expectations, more demand for interest rate hedging was noticed.

Custodian services

The Bank remains one of the top Slovenian players in custodian services for Slovenian and international customers. The total value of assets under custody on 31 December 2021 was, together with the fund administration services, EUR 15.9 billion (31 December 2020: EUR 16.2 billion).

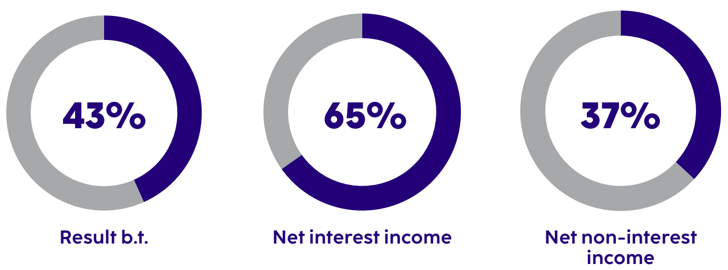
Strategic Foreign Markets

With the merger of two banks in Montenegro and the finalised sale of one bank in the Republic of Srpska in 2021, the core part of the Group in foreign markets now consists of seven banks and one investment fund company. They are locally even stronger embedded as important financial institutions and market leaders in various business segments. All Group subsidiary banks have a stable market position and strong reputation. The market shares by total assets of subsidiary banks exceed 10% in five out of six markets.

The banks in the Group strategic foreign markets offer a full range of financial services to retail and corporate clients. In 2021, the Group banks marked remarkable double-digit growth of gross loans to customers, especially in housing loans segments with raised demand for housing loans, reaching up to 41% YoY (NLB Banka, Sarajevo) to 55% YoY growth rates (NLB Banka, Beograd). In 2021 the Group banks accelerated their digital transformation by offering e-identification (NLB Banka, Skopje), pay mobile card solution, end-to-end automated loan processing (Komercijalna Banka, Beograd) to robotics solutions in several internal processes (NLB Banka, Sarajevo), and implemented SWIFT GPI services to enable faster, more transparent, and reliable international transactions to its clients.

Contribution to NLB Group

Figure 40: Contribution to NLB Group



Financial performance

Table 17: Results of the Strategic Foreign Markets segment

					in EUR million consolidated
	2021	2020	Change YoY		
				o/w KB contribution	
Net interest income	266.8	159.3	107.5	98.8	▲ 68%
Interest income	299.6	182.6	117.0	111.5	▲ 64%
Interest expense	-32.8	-23.3	-9.5	-12.8	▼ -41%
Net non-interest income	95.1	49.8	45.3	33.2	▲ 91%
o/w Net fee and commmission income	101.6	54.1	47.5	42.3	▲ 88%
Total net operating income	**361.9**	**209.1**	**152.9**	**132.0**	**▲ 73%**
Total costs	-227.9	-109.0	-118.9	-107.3	▼ -109%
Result before impairments and provisions	**134.0**	**100.1**	**34.0**	**24.7**	**▲ 34%**
Impairments and provisions	-20.8	-59.1	38.3	-20.6	▲ 65%
Negative goodwill (KB)		137.9	-137.9		-
Result before tax	**113.2**	**178.8**	**-65.6**	**4.2**	**▼ -37%**
o/w Result of minority shareholders	11.5	3.0	8.4	1.5	-

	31 Dec 2021	31 Dec 2020[i]	Change YoY		
Net loans to customers	5,441.9	5,052.4	389.5		▲ 8%
Gross loans to customers	5,632.2	5,234.8	397.4		▲ 8%
Individuals	2,877.3	2,592.9	284.4		▲ 11%
Interest rate on retail loans	*5.83%*	-		*-0.45 p.p.*	
Corporate	2,613.5	2,443.7	169.8		▲ 7%
Interest rate on corporate loans	*3.96%*	-		*-0.20 p.p.*	
State	141.4	198.1	-56.7		▼ -29%
Interest rate on state loans	*3.35%*	-		*-0.18 p.p.*	
Deposits from customers	7,998.8	7,552.2	446.6		▲ 6%
Interest rate on deposits	*0.29%*	-		*-0.14 p.p.*	
Non-performing loans (gross)	191.7	195.0	-3.3		▼ -2%

	2021	2020	Change YoY
Cost of risk (in bps)[ii]	-11	140	-151
CIR	63.0%	52.1%	10.8 p.p.
Interest margin[ii]	2.86%	3.33%	-0.47 p.p.

[i] Interest rates for 2020 are calculated without Komercijalna Banka group.
[ii] Komercijalna Banka, Beograd is excluded from the calculation.

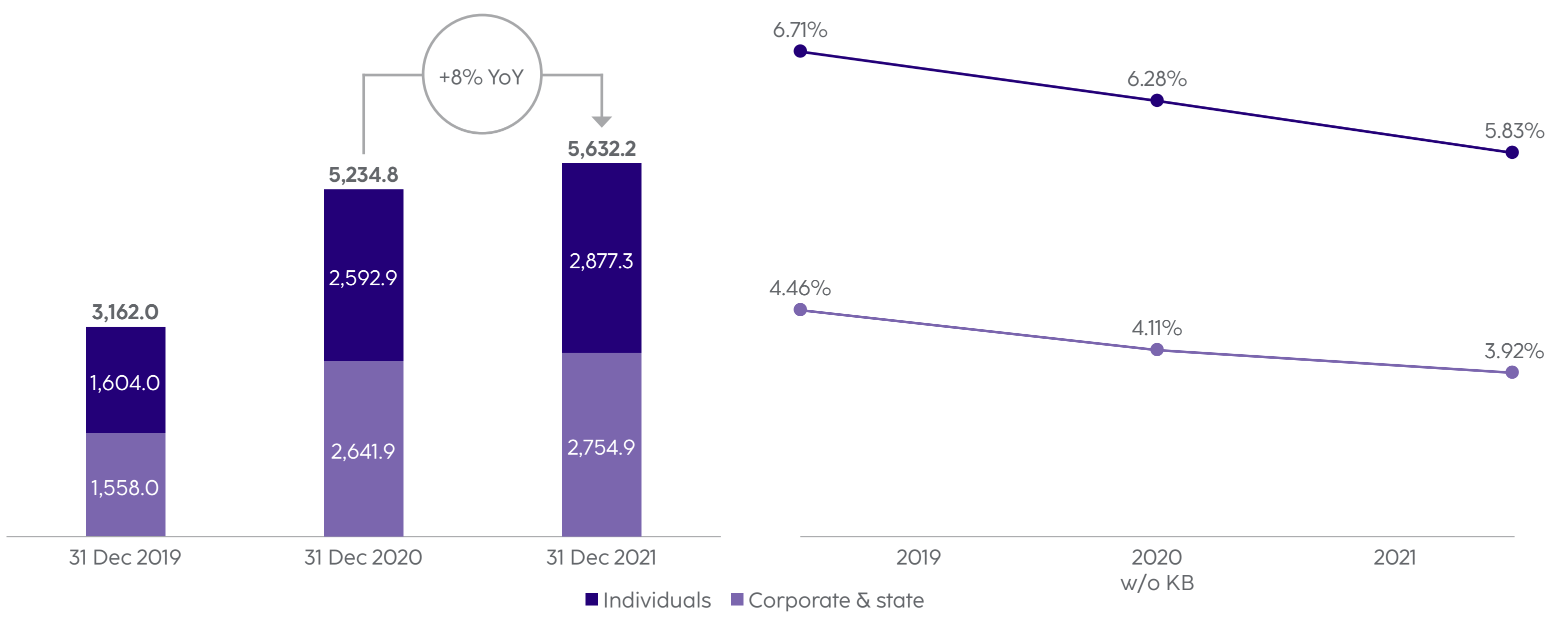
Net interest income
Net interest income increased by EUR 8.8 million (6%) YoY without the Komercijalna Banka group contribution, due to higher volumes despite a lower interest margin.

Net non-interest income
Net non-interest income increased EUR 12.1 million YoY without the Komercijalna Banka group contribution, of which EUR 5.1 million in net fee and commission income due to normalisation of business after COVID-19 outbreak in 2020. Net non-interest income in 2021 was negatively affected with the sale of Komercijalna Banka, Banja Luka (EUR 8.1 million), while in 2020 with modification losses caused by changes of contractual cash flows for loans subject to COVID-19 moratoria in 2020.

Total costs
Total costs increased YoY (EUR 11.6 million or 11%) due to a higher volume of business in all banks and additionally due to integration costs on the Serbian and Montenegrin markets.

Net impairments and provisions
Net impairments and provisions were established in the amount of EUR 20.8 million, mostly related to legal and restructuring provisions, while impairments and provisions for credit risk of the segment were net released.

Figure 41: Gross loans volume and interest rates in Strategic Foreign Markets



Gross loans to customers
Gross loans to customers increased by EUR 397.4 million (8%) YoY, despite EUR 155.4 million decrease attributable to the sale of Komercijalna Banka, Banja Luka. The most material increase was in housing loans. The increase of the loan portfolio was visible in all of the member banks; the largest increases were recorded in Komercijalna Banka, Beograd (EUR 202.5 million) and NLB Banka, Skopje (EUR 123.1 million).

Seven

subsidiary banks and

one

investment fund company.

Profit before tax

EUR 113.2 million

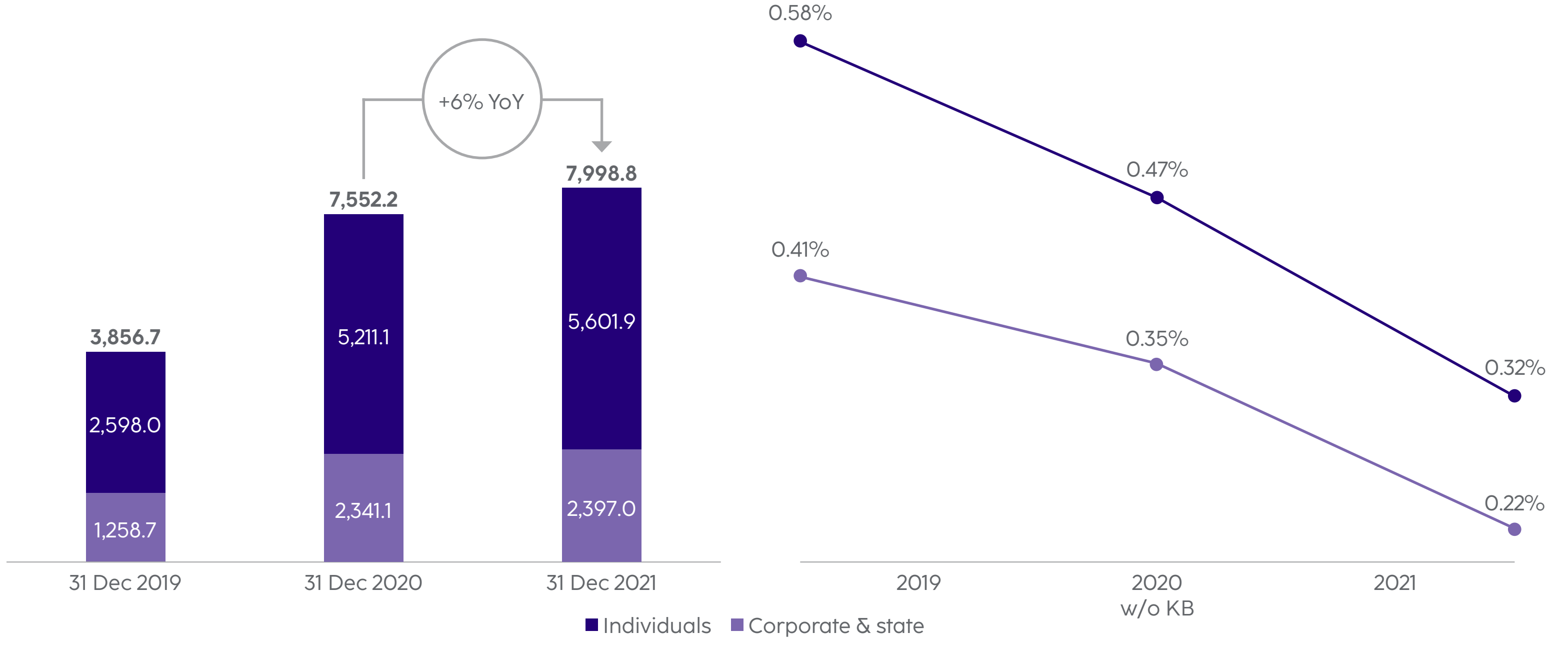
only 37% lower compared to last year, when the result was higher due to acquisition of Komercijalna Banka, Beograd.

Contents

Deposits from customers

Deposits from customers increased by EUR 446.6 million YoY, despite EUR 154.7 million decrease due to the sale of Komercijalna Banka, Banja Luka. The growth was recorded in all member banks, except NLB Banka, Beograd.

Figure 42: Deposit volume and interest rates in Strategic Foreign Markets



The market shares (by total assets) of subsidiary banks exceed

10%

in five out of six markets.

Contents

Komercijalna Banka, Beograd

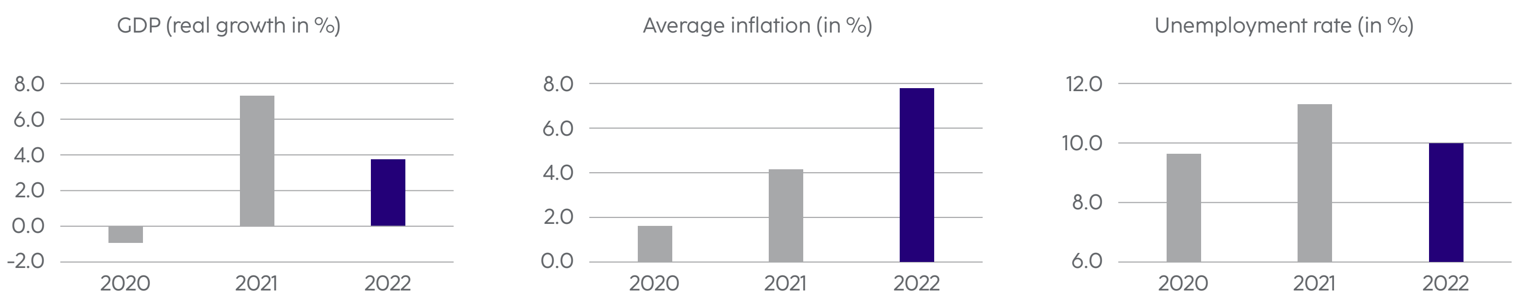
The acquisition of Komercijalna Banka, Beograd further strengthened the Group's strategic position in Serbia and has placed NLB as one of the leading (and systemic) banks on the market. The bank is strongly positioned as a leader on retail market with more than 1.1 million clients, and a high market share both in lending (consumer and housing) and deposits. In corporate segment, the bank was mainly building relationships with public and large domestic companies. Nevertheless, the Group recognises that Komercijalna Banka, Beograd has still important growth potential in all the segments, which is expected to be realised in the following period.

NLB finalised harmonisation of Komercijalna Banka, Beograd with NLB Group standards within six months from acquisition, while the merger of Komercijalna Banka, Beograd with NLB Banka, Beograd is planned for the end of April 2022. It is expected that the merger of the two banks could bring important synergy effects on cost and on revenue side. After finalisation of the merger, the Bank will focus on digitalization and modernisation of services to establish the bank as one of the leaders in service quality. Despite ongoing harmonisation activities and merger process with the NLB Banka, Beograd, the bank achieved in 2021 record sales growth in both retail and corporate banking segment and already introduced some modern digital solutions (Kombank pay mobile card solution, end-to-end automated loan processing, etc.).

Macroeconomic Snapshot

In Serbia, the economy lost some steam in Q4 due to rising price pressures while softer merchandise import growth suggesting a slight cooldown in domestic demand. Nevertheless, the economy rebounded from a mild contraction in 2020 with investment and private consumption propelling economic activity in 2021.

Figure 43: GDP growth, Inflation, Unemployment

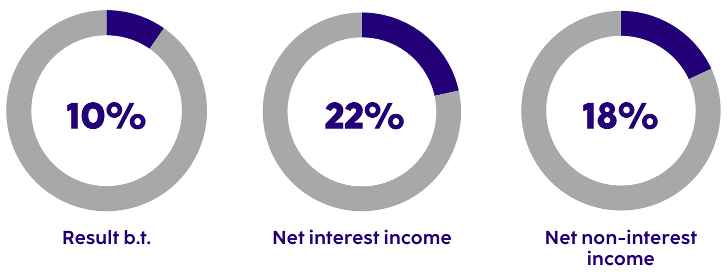


Outlook

Economic growth is expected to return towards the pre-pandemic path, and so, growth is expected at a slower pace in 2022. The economy should grow on the back of private consumption and investment, while government investment and EU funds should further aid the growth. Downside risks are in the form of pandemic-related uncertainty, sturdier and prolonged elevated inflation, the long-term impact of supply-side bottlenecks and economic implications of the war in Ukraine.

Contribution to NLB Group

Figure 44: Contribution to NLB Group



Banking services provided through:

190 branches
281 ATMs

4th

largest bank in the country.

Contents

Financial performance

Table 18: Key performance indicators of Komercijalna Banka, Beograd(I)

	in EUR thousand
	2021
Key performance indicators	
Net interest income	88,570
Net non-interest income	40,110
Total costs	-87,979
Impairments and provisions	-7,637
Result before tax	33,064
Result after tax	34,818
Financial position statement indicators	
Total assets	4,165,249
Net loans to customers	1,795,882
Gross loans to customers	1,818,793
Deposits from customers	3,424,633
Equity	634,643
Key financial indicators	
Total capital ratio	28.6%
Net interest margin	2.4%
ROE a.t.	5.5%
ROA a.t.	0.9%
CIR	68.4%
NPL volume	36,329
NPL ratio (internal def.: NPL/Total loans)	1.4%
Market share by total assets	9.7%
LTD	52.4%

(I) Data on a stand-alone basis as included in the consolidated financial statements of the Group. For year 2020, comparable data are not available.

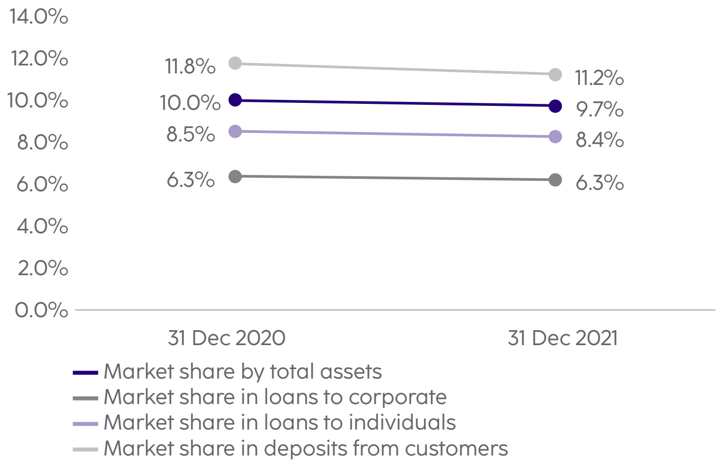
The bank realised a profit after tax in the amount of EUR 34.8 million, ROE a.t. 5.5% and CIR 68.4%. TCR was stable at 28.6%. The result was driven by the high loan production growth in retail and corporate. Net interest income reached EUR 88.6 million, while net non-interest income was EUR 40.1 million. The total assets amounted to EUR 4,165.2 million. The NPL ratio was 1.4%.

Business performance

Retail banking

The retail segment, with the largest client base on the local market, represents the predominant strength of Komercijalna Banka, Beograd. Since the acquisition, the bank focuses strongly on boosting activity in retail area through series of structural initiatives. These initiatives resulted in significant growth in gross loans (9% YoY). The Bank recorded the historically highest loan production growth (cash loans

Figure 45: 2-year market share evolution



62% YoY growth, retail housing loans 34% YoY growth) and growth in total income (9% higher YoY) and growth in net fees (18% higher YoY). The bank finally managed to defend the retail loan market share despite the ongoing integration process. Conversely, deposits growth was 10% YoY of which foreign currency savings grew EUR 169 million. The bank also developed 'KomBank Pay,' a mobile wallet for contactless payments.

Corporate banking

Corporate banking in the bank was historically concentrated on servicing public and domestic companies and was holding a less dominant market position compared to the retail segment. In the corporate segment, the bank improved its management structure and processes. This generated 18% YoY growth in gross loans. In addition, 2021 was a record year in the bank in terms of new loan production which amounted to EUR 524.7 million, representing 39% growth YoY, and mainly coming from large segment clients, noticeably outperforming the market growth. Additionally, corporate deposits noted a growth of 8%. The key drivers of income growth were large corporate and SME loans. Net non-interest income increased by 3% YoY and net fees recorded growth by 11% YoY.

Additionally, the bank redesigned offer of existing loans for liquidity and working capital (18 and 36 months), and introduced reverse factoring (production of EUR 7.4 million).

EUR 33.1 million

result b.t.

9.7%

market share in total assets.

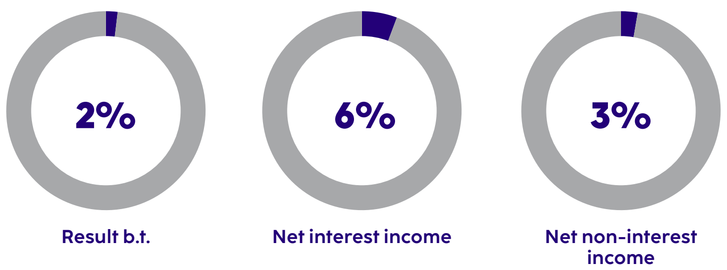
NLB Banka, Beograd

In 2021, one of the crucial activities for NLB Banka, Beograd was participation and full support for the ongoing integration project with Komercijalna Banka, Beograd where the merger is planned in Q2 2022. After the merger, NLB Banka, Beograd will cease to exist. The bank was fully engaged in all initiatives of the integration process. In spite of demanding integration process, the Bank managed to maintain dynamic sales activity, where the retail and agro segments produced outstanding results. The bank increased market shares in housing and consumer loans, and in the agro segment the bank managed to strengthen its market position to 14.1% (2020: 13.6%).

Macroeconomic Snapshot and Outlook for Serbia see under Komercijalna Banka, Beograd.

Contribution to NLB Group

Figure 46: Contribution to NLB Group



Financial performance

Table 19: Key performance indicators of NLB Banka, Beograd[i]

in EUR thousand	2021	2020	Change YoY
Key performance indicators			
Net interest income	23,359	21,822	▲ 7.0%
Net non-interest income	6,954	4,812	▲ 44.5%
Total costs	-22,170	-20,351	▼ -8.9%
Impairments and provisions	-3,202	-3,591	▲ 10.8%
Result before tax	4,941	2,692	▲ 83.5%
Result after tax	4,293	2,598	▲ 65.2%
Financial position statement indicators			
Total assets	715,375	686,693	▲ 4.2%
Net loans to customers	511,693	472,170	▲ 8.4%
Gross loans to customers	520,518	482,552	▲ 7.9%
Deposits from customers	449,476	496,288	▼ -9.4%
Equity	77,918	74,205	▲ 5.0%
Key financial indicators			
Total capital ratio	19.2%	19.1%	▲ 0.2 p.p.
Net interest margin	3.4%	3.4%	▲ 0.1 p.p.
ROE a.t.	5.5%	3.5%	▲ 2.0 p.p.
ROA a.t.	0.6%	0.4%	▲ 0.2 p.p.
CIR	73.1%	76.4%	▼ -3.3 p.p.
NPL volume	9,489	8,718	▲ 8.8%
NPL ratio (internal def.: NPL/Total loans)	1.5%	1.4%	▲ 0.1 p.p.
Market share by total assets[ii]	1.6%	1.9%	▼ -0.2 p.p.
LTD	113.8%	95.1%	▲ 18.7 p.p.

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group.
[ii] Data for 2021 as at 30 September 2021.

The bank realised a profit after tax in the amount of EUR 4.3 million (2020: EUR 2.6 million) and profit before impairments and provisions in the amount of EUR 8.1 million (2020: EUR 6.3 million). ROE a.t. was 5.5% (2020: 3.5%), while CIR decreased to 73.1% (2020: 76.4%). The result was mainly driven by the increase in business volume. The total assets of the bank rose by 4%, the main factor being new loan production. NPL ratio increased to 1.5% (2020: 1.4%).

16th

largest bank in the country.

Banking services provided through:

28 branches
63 ATMs

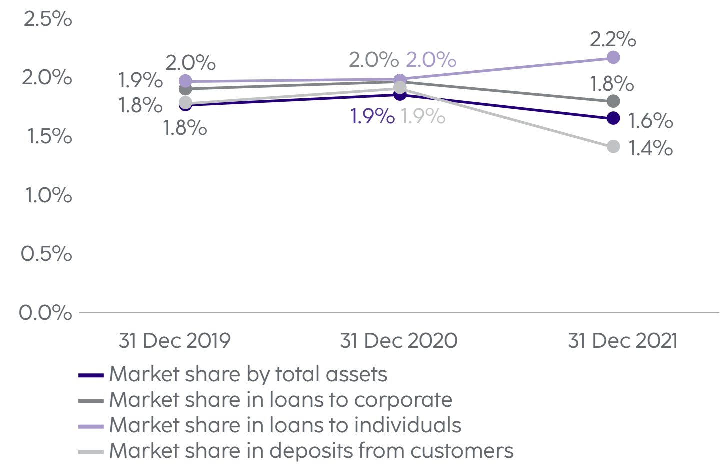
Business performance

Retail banking

Retail banking recorded double-digit growth in gross loans (22.3%), while deposits declined by 13.8% compared to 2020. Retail deposits were mainly in EUR.

In 2021, the retail loan portfolio was dominated by consumer loans (62.4% of gross retail loans), while housing loans occupied 36.1% of gross retail loans. The retail loan portfolio is driven by cash loans (RSD) with still attractive interest rates (below 7.6%). The interest margin on cash loans was high, but under significant pressure coming from competition and falling interest rates in RSD and increasing dinarisation[12] in general. In 2021, the bank put more efforts on housing loans and achieved a significant 55% YoY growth in this segment, where the market is very active and competitive with banks were offering interesting products at attractive prices.

Figure 47: 3-year market share evolution[i]



[i] Market share data for 2021 as at 30 September 2021.

Corporate banking

As a part of the integration strategy for Serbia, large company production has been moved from NLB Banka, Beograd to Komercijalna Banka, Beograd, to benefit from the larger capital base and lower cost of funding, which finally resulted in the decline in overall gross loans (-1.4%) in NLB Banka, Beograd. Thus, the corporate portfolio was driven mainly by production in SME segment, which was on a satisfactory level. In addition, in the integration process it has been decided to move corporate sales force and production completely to Komercijalna Banka, Beograd at the beginning of 2022 (including the micro and agro segments in retail), which was one of the major organisational initiatives impacting the corporate team at the end of 2021.

Deposit volumes also declined during the year (-3.1%), driven on one side by the transfer of large corporates to Komercijalna Banka, Beograd, while on the other side there was one additional major impact coming from a synergy initiative between both banks enabling NLB Banka, Beograd to offer loans at higher pricing compared to the cost of deposits NLB Banka, Beograd paid on the market. Due to this, NLB Banka, Beograd was in the position to gradually release expensive deposits, which resulted in a decline of deposit volumes.

EUR 4.9 million

result b.t.

1.6%

market share in total assets.

12 Dinarisation – Strategy of Dinarisation of the Serbian Financial System as per Memorandum, signed between National Bank of Serbia (NBS) and the Government of the Republic of Serbia, expected to be implemented in 2022.

Contents

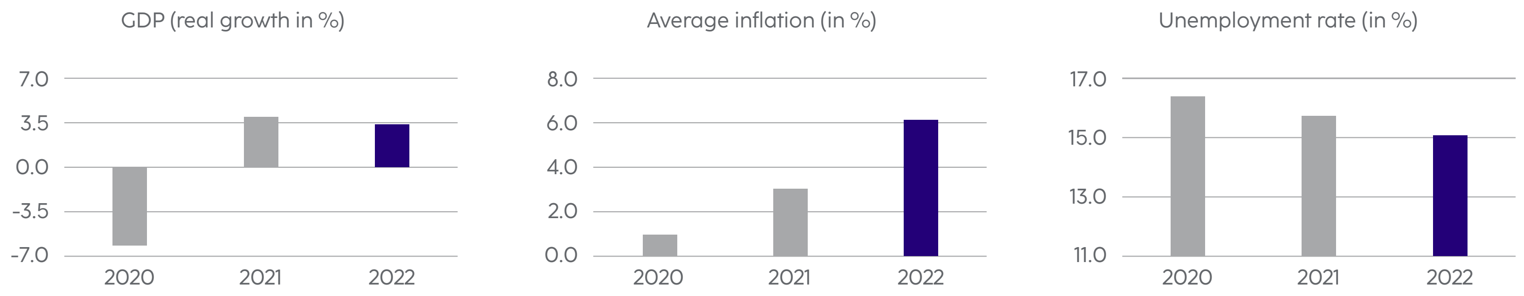
NLB Banka, Skopje

On its local market, the bank is in the group of systemically important banks. The predominant strength of the bank is the retail segment. However, the bank provides a full range of financial services to retail and corporate clients. Having a continuous progress in digitalization, the bank achieved in 2021 great success in this field, being the first bank in the country by introducing e-identification, upgrading, and adjusting the mKlik application for visually impaired clients and by opening a new, completely digital branch, offering cashless services. The position of a market leader in bancassurance was once again confirmed by expanding the offer, introducing voluntary private health insurance and a new unique life insurance product in cooperation with partner insurance company. Besides this, the bank introduced assets management products for clients, the sale and trading of shares and funds for individuals and legal entities in cooperation with an asset management and investment services company.

Macroeconomic Snapshot

In North Macedonia, economic growth slowed considerably in Q3 as the base effect faded. Growth in private consumption and investment decelerated, while the external sector supported economic activity. In Q4 2021, growth in retail sales eased as inflation further increased, at the same time as industrial production figures imply stronger private sector dynamics.

Figure 48: GDP growth, Inflation, Unemployment

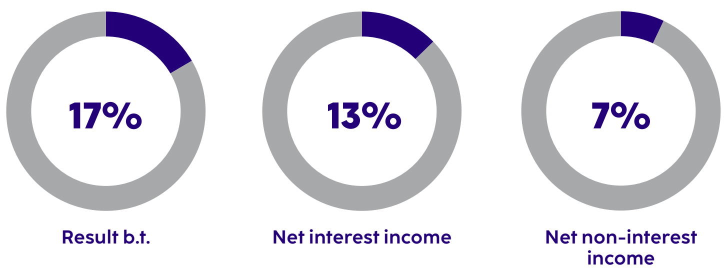


Outlook

GDP should record a solid expansion in 2022 on the back of private consumption. This should be the main growth driver of the firming domestic demand, while foreign demand should also be supportive of the activity. Pandemic-related uncertainty, high energy prices, and prolonged disruption of supply chains represent the main downside risks to the outlook. Economic implications of the war in Ukraine represent an additional downside risk to the outlook.

Contribution to NLB Group

Figure 49: Contribution to NLB Group



Banking services provided through:

48 branches
170 ATMs

3rd

largest bank in the country.

MB Statement
SB Statement
Key Highlights
Strategy
Risk Factors & Outlook
Sustainability
Performance Overview
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Events After 2021
Financial Report
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Financial performance

Table 20: Key performance indicators of NLB Banka. Skopje[i]

			in EUR thousand
	2021	2020	Change YoY
Key performance indicators			
Net interest income	50,386	48,140	▲ 4.7%
Net non-interest income	18,043	14,518	▲ 24.3%
Total costs	-28,619	-26,497	▼ -8.0%
Impairments and provisions	3,244	-15,373	-
Result before tax	43,054	20,788	▲ 107.1%
Result after tax	39,000	19,222	▲ 102.9%
Financial position statement indicators			
Total assets	1,770,587	1,585,652	▲ 11.7%
Net loans to customers	1,084,075	956,931	▲ 13.3%
Gross loans to customers	1,144,420	1,021,276	▲ 12.1%
Deposits from customers	1,399,501	1,288,824	▲ 8.6%
Equity	243,267	229,777	▲ 5.9%
Key financial indicators			
Total capital ratio	18.0%	15.7%	▲ 2.3 p.p.
Net interest margin	3.1%	3.3%	▼ -0.2 p.p.
ROE a.t.	15.9%	8.8%	▲ 7.1 p.p.
ROA a.t.	2.4%	1.3%	▲ 1.1 p.p.
CIR	41.8%	42.3%	▼ -0.5 p.p.
NPL volume	59,728	63,177	▼ -5.5%
NPL ratio (internal def.: NPL/Total loans)	4.3%	5.1%	▼ -0.8 p.p.
Market share by total assets	16.9%	16.5%	▲ 0.4 p.p.
LTD	77.5%	74.2%	▲ 3.2 p.p.

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group.

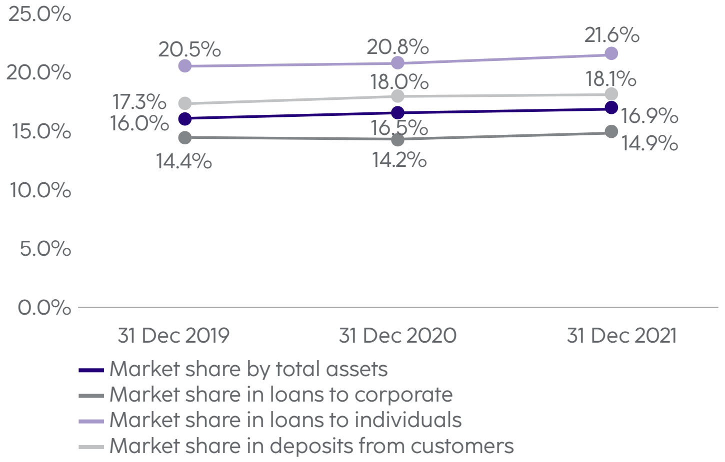
The bank realised a profit after tax in the amount of EUR 39.0 million (2020: EUR 19.2 million), and profit before impairments and provisions in the amount of EUR 39.8 million (2020: EUR 36.2 million). This very good result in the first post COVID-19 year reflected in ROE a.t., which increased to 15.9% (2020: 8.8%), and CIR, which decreased to 41.8% (2020: 42.3%). TCR increased to 18.0% (2020: 15.7%). The result was driven mostly by retail lending, payment services, and additionally by lower impairments and provisions and higher collected written-off receivables. The total assets of the bank rose by 12%, with a 12% growth in gross loans to customers, and a 9% growth in deposits from customers. The NPL ratio amounted to 4.3% (2020: 5.1%).

Business performance

Retail banking

Retail banking recorded a significant growth in gross loans (12%) substantially over the market average growth, driven by the growth in housing loans (17.5%) and in the deposit base (9%). The retail loan portfolio was dominated by consumer loans (54.4% of gross retail loans), while housing loans occupied 37.5% of gross retail loans. The interest margin in the retail segment is still high, but under strong pressure from competition and expansive monetary policy. The key drivers of income growth were domestic and foreign payment operations, account management, and card operations.

Figure 50: 3-year market share evolution



Corporate banking

The upward trend in the corporate segment which started in May, resulted in a 12% growth in gross loans at the 2021 YE. Corporate deposits noted a growth of 8%. The key drivers of income growth were long-term loans, investment, loans for working capital and the liquidity needs of the companies, as well as domestic and foreign payment operations and account management.

As at 31 December 2021, the bank had a market share of 14.9% in corporate gross loans. The bank increased the portfolio, especially in the segment of long-term financing to high-rated clients, who secured the long-term stability of the portfolio and stable revenue generation. The bank approved total of EUR 55 million in project financing, out of which almost EUR 20 million was approved solely for green energy investments, while also providing syndicated financing for several large clients. The bank has successfully concluded the internationally financed syndicated facility for the shopping mall in Skopje, opened and operational since October 2021, as one of the most important projects for the bank and the Group. The project totalling EUR 72 million, was supported with participation of five banks – three local banks and two international banks.

16.9%

market share in total assets.

EUR 43.1 million

result b.t.

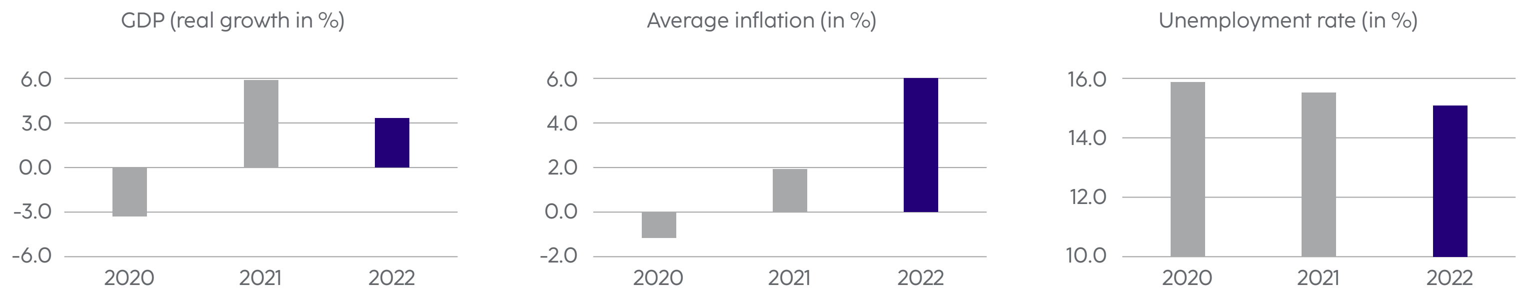
NLB Banka, Banja Luka

The bank in 2021 celebrated its 25th anniversary. The predominant strength of the bank is its market position in the corporate and retail segments, and a very strong deposit base. The bank introduced new banking solutions and products for clients largely contributing to a high share of net non-interest income (37.7% of fee and commissions income in net income).

Macroeconomic Snapshot

In BiH, the economy expanded at a softer pace in Q3, partly due to a less favourable base effect. Private consumption recorded the largest slowdown in growth rate amid rising inflation. Higher growth in public and capital spending propelled the domestic economy. In Q4, a further rise in consumer prices and pandemic-related restrictions further weighed on private consumption.

Figure 51: GDP growth, Inflation, Unemployment



Outlook

The economy is expected to record a solid growth in 2022, supported by higher capital and public spending while the relaxation of restrictive pandemic-related measures at home and abroad should further bolster economic activity. Pandemic-related uncertainty, slower recovery in export markets, and political tensions represent the downside risks to the outlook. Additional downside risk to the outlook has arisen due to the war in Ukraine.

Banking services provided through:

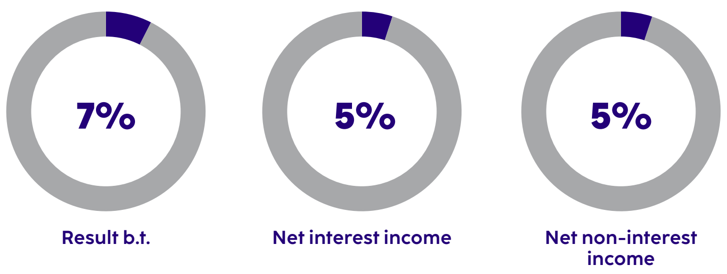
47 branches
71 ATMs

2nd

largest bank in the Republic of Srpska.

Contribution to NLB Group

Figure 52: Contribution to NLB Group



Financial performance

Table 21: Key performance indicators of NLB Banka, Banja Luka[i]

	2021	2020	Change YoY
			in EUR thousand
Key performance indicators			
Net interest income	20,087	18,589	▲ 8.1%
Net non-interest income	13,128	11,477	▲ 14.4%
Total costs	-15,182	-13,874	▼ -9.4%
Impairments and provisions	1,379	-5,009	-
Result before tax	19,412	11,183	▲ 73.6%
Result after tax	18,180	10,122	▲ 79.6%
Financial position statement indicators			
Total assets	927,152	796,486	▲ 16.4%
Net loans to customers	471,144	430,713	▲ 9.4%
Gross loans to customers	488,672	450,708	▲ 8.4%
Deposits from customers	759,915	633,507	▲ 20.0%
Equity	97,149	99,872	▼ -2.7%
Key financial indicators			
Total capital ratio	16.9%	17.3%	▼ -0.5 p.p.
Net interest margin	2.4%	2.5%	▼ -0.1 p.p.
ROE a.t.	17.0%	10.8%	▲ 6.2 p.p.
ROA a.t.	2.1%	1.3%	▲ 0.8 p.p.
CIR	45.7%	46.1%	▼ -0.4 p.p.
NPL volume	9,371	13,703	▼ -31.6%
NPL ratio (internal def.: NPL/Total loans)	1.3%	2.3%	▼ -1.0 p.p.
Market share by total assets	19.1%	18.6%	▲ 0.4 p.p.
LTD	62.0%	68.0%	▼ -6.0 p.p.

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group.

The bank realised a profit after tax in the amount of EUR 18.2 million (2020: EUR 10.1 million), and profit before impairments and provisions in the amount of EUR 18.0 million (2020: EUR 16.2 million). ROE a.t. was 17.0% (2020: 10.8%) and CIR dropped to 45.7% (2020: 46.1%). TCR also dropped to 16.9% (2020: 17.3%). The main drivers of the result were higher income and released impairments and provisions as a result of successful NPL management. Net non-interest income represents 39.5% of total income, the highest among NLB Group banking subsidiaries. The total assets of the bank rose by 16%, with a 9% growth in net loans to customers, predominantly to individuals, and a 20% growth in deposits from customers, respectively. The NPL ratio decreased to 1.3% (2020: 2.3%).

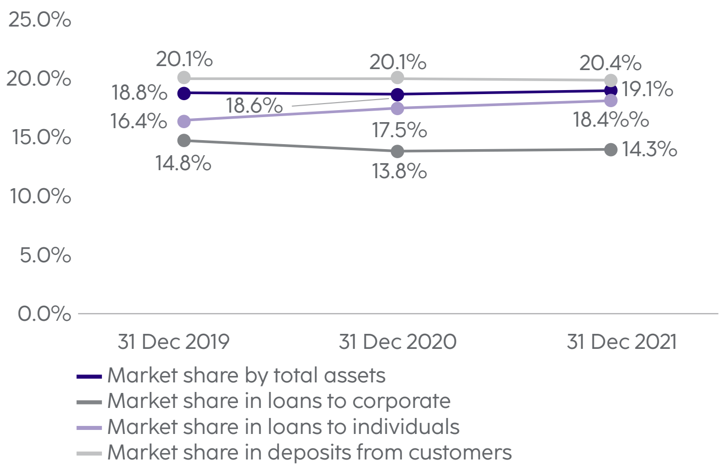
Business performance

Retail banking

Retail banking recorded double digit growth in gross loans (14%) and deposits (10%). The retail loan portfolio was dominated by housing loans (51.9% of gross retail loans), while consumer loans participated with 43.5% of gross retail loans. Growth in gross retail loans was recorded, mainly due to growth in consumer loans (8%) and housing loans (13%). The key drivers of income growth were new loan production and card operations.

The focus remains in further growth of retail portfolio, with special emphasis on introducing additional services for customers, especially in the field of digitalisation.

Figure 53: 3-year market share evolution



Corporate banking

Corporate banking recorded a growth in deposits (22%), as well as in gross loans to corporate (3%). The pandemic situation had a huge influence in reducing the demand for investments and new projects for the second year in the row, which also effected the loan portfolio in this segment. The Banking Agency of Republic of Srpska (BARS) maintains reliefs, moratoriums, and grace periods for clients directly and indirectly affected by the negative effects from the pandemic.

19.1%

market share in total assets.

EUR 19.4 million

result b.t.

Komercijalna Banka, Banja Luka

The sale process of Komercijalna Banka, Banja Luka was concluded on 9 December 2021, therefore after that date the bank was no longer part of NLB Group. Until 9 December 2021 Komercijalna Banka, Banja Luka was part of the core segment, one of the stand-alone member banks of the Group, therefore the key performance indicators of the bank for 2021 are represented in the table below.

Table 22: Key performance indicators of Komercijalna Banka, Banja Luka[i]

	in EUR thousand
	2021
Key performance indicators	
Net interest income	4,885
Net non-interest income	1,655
Total costs	-5,393
Impairments and provisions	-607
Result before tax	540
Result after tax	495

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group. For year 2020 comparable data are not available.

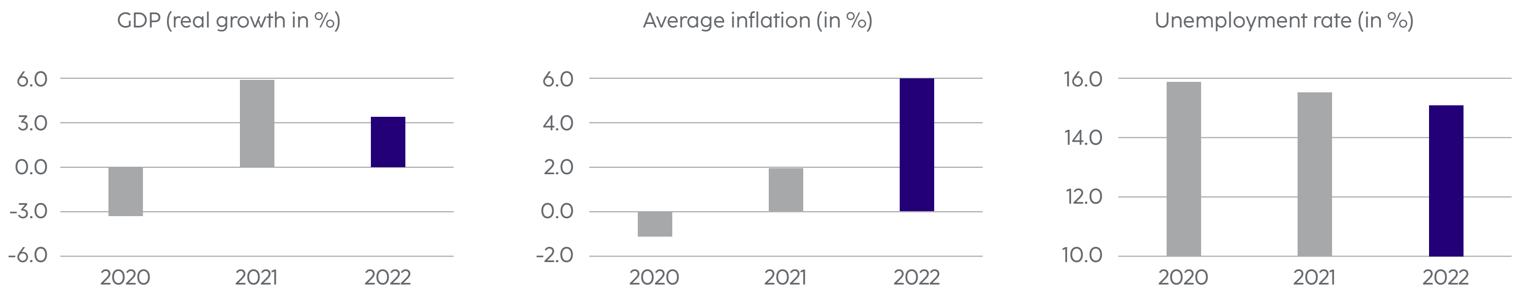
NLB Banka, Sarajevo

The predominant strength of the bank is in consumer lending and the development of innovative retail products largely contributing to a high share of net non-interest income (33% of fee and commission income in net income). Improving customer experience was achieved with the introduction of new digital products and robotic process automation (RPA) solutions.

Macroeconomic Snapshot

In BiH, the economy expanded at a softer pace in Q3, partly due to a less favourable base effect. Private consumption recorded the largest slowdown in growth rate amid rising inflation. Higher growth in public and capital spending propelled the domestic economy. In Q4, a further rise in consumer prices and pandemic-related restrictions further weighed on private consumption.

Figure 54: GDP growth, Inflation, Unemployment



Outlook

The economy is expected to record a solid growth in 2022, supported by higher capital and public spending while relaxation of restrictive pandemic-related measures at home and abroad should further bolster economic activity. Pandemic-related uncertainty, slower recovery in export markets, and political tensions represent the downside risks to the outlook. Additional downside risk to the outlook has arisen due to the war in Ukraine.

Banking services provided through:

36 branches
84 ATMs

7th

largest bank in the Federation of BiH.

Contribution to NLB Group

Figure 55: Contribution to NLB Group

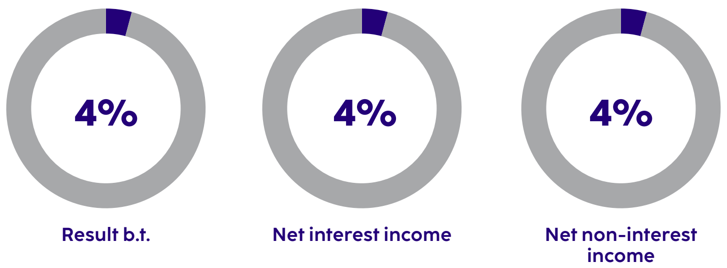


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Table 23: Key performance indicators of NLB Banka. Sarajevo[i]

			in EUR thousand
	2021	2020	Change YoY
Key performance indicators			
Net interest income	17,795	17,826	▼ -0.2%
Net non-interest income	10,256	8,902	▲ 15.2%
Total costs	-16,183	-15,113	▼ -7.1%
Impairments and provisions	-920	-5,063	▲ 81.8%
Result before tax	10,948	6,552	▲ 67.1%
Result after tax	10,012	5,895	▲ 69.8%
Financial position statement indicators			
Total assets	727,860	647,150	▲ 12.5%
Net loans to customers	452,977	399,146	▲ 13.5%
Gross loans to customers	473,118	420,274	▲ 12.6%
Deposits from customers	593,026	521,639	▲ 13.7%
Equity	87,838	89,808	▼ -2.2%
Key financial indicators			
Total capital ratio	16.9%	17.9%	▼ -1.1 p.p.
Net interest margin	2.8%	2.9%	▼ -0.2 p.p.
ROE a.t.	10.7%	7.0%	▲ 3.7 p.p.
ROA a.t.	1.5%	0.9%	▲ 0.6 p.p.
CIR	57.7%	56.5%	▲ 1.1 p.p.
NPL volume	19,046	24,691	▼ -22.9%
NPL ratio (internal def.: NPL/Total loans)	3.1%	4.5%	▼ -1.4 p.p.
Market share by total assets[ii]	5.4%	5.2%	▲ 0.2 p.p.
LTD	76.4%	76.5%	▼ -0.1 p.p.

(i) Data on a stand-alone basis as included in the consolidated financial statements of the Group.
(ii) Data for 2021 as at 30 September 2021.

The bank realised a profit after tax in the amount of EUR 10.0 million (2020: EUR 5.9 million), and profit before impairments and provisions in the amount of EUR 11.9 million (2020: EUR 11.6 million). The higher profit was the result of higher net non-interest income and release of impairments and provisions.

ROE a.t. increased to 10.7% (2020: 7.0%), and CIR increased to 57.7% (2020: 56.5%). Net interest income was at the same level as in 2020, while net interest margin dropped to 2.8% (2020: 2.9%). Net non-interest income was higher than previous year, mainly due to higher net income from financial operations. The bank intensified activities on less risky products such as trade finance and with good results compensated missing interest income. TCR stood at 16.9% and was above the regulatory required minimum. Total assets of the bank rose by 12%, with 13% growth in net loans and 14% growth in deposits. The NPL ratio decreased to 3.1% (2020: 4.5%).

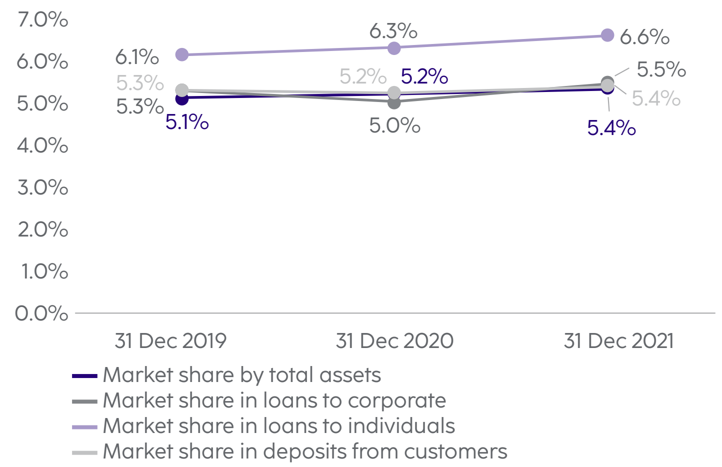
Business performance

Retail banking

Retail banking recorded growth in gross loans (12%) and deposits (8%). Growth in gross retail loans was driven by growth of housing and consumer loans. Significant growth of housing loans of 41% was the result of increased demand, many campaigns and increased engagement of employees. The share of housing loans in total retail loans increased by 4 p.p., to 20.5%. The average interest rate in the retail segment is decreasing (2021: 5.73%; 2020: 6.26%).

The bank continued with activities aimed to increase the active number of e- and m-banking users; the number of active users for e- and m-Bank in 2021 increased by 60%, and the number of transactions by 72%.

Figure 56: 3-year market share evolution[i]



(i) Market share data for 2021 as at 30 September 2021.

Corporate banking

The corporate banking segment recorded a growth in gross loans (14%) and deposits (9%). Focus was on increasing the client loan portfolio with acquisition of new creditworthy clients. Also, a positive trend was in the volume of guarantees portfolio, mainly due to the introduction of a new product 'Guarantee Line.'

Deposits from corporates increased. In December, the bank introduced a fee for vista deposits above EUR 0.3 million for legal entities, with the exception of the government and public enterprises. The aim was to reduce the concentration of a vista corporate deposits.

5.4%[13]

market share in total assets.

13 Data for 2021 as at 30 September 2021.

EUR 10.9 million

result b.t.

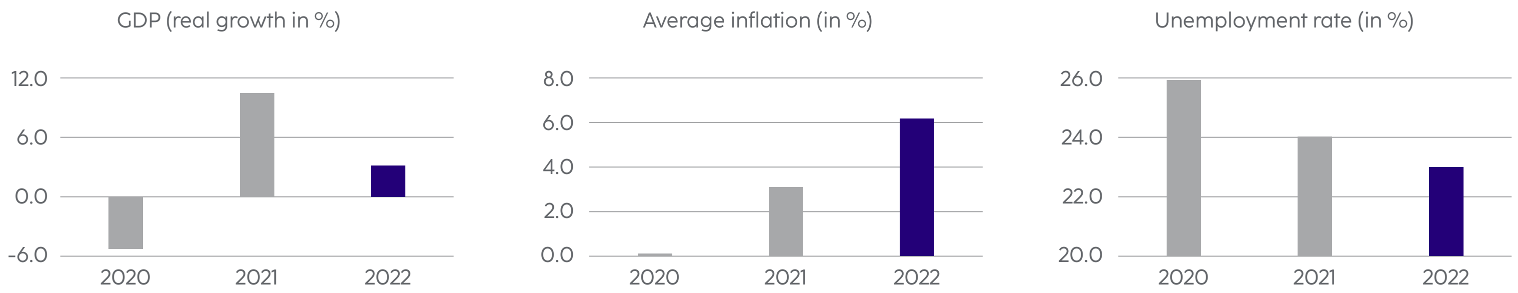
NLB Banka, Prishtina

On its market, the bank is the market leader and had above average growth in 2021. The predominant strength of the bank is in providing a full spectrum of financial services to retail and corporate clients, and being a market leader in innovations on the local banking sector. A noticeable boost has been observed in e-banking usage resulting in an increased number of e-banking users by 17.8%.

Macroeconomic Snapshot

In Kosovo, the pace of economic expansion softened in Q3, although it remained strong. The deceleration reflected softer domestic demand with private and public consumption increasing at a slower pace. Exports of goods and services propelled the economy in Q3. In Q4, domestic demand seems to have cooled amid rising inflation and falling remittances inflows. Nevertheless, in 2021 remittances inflows largely surpassed pre-pandemic levels, thus representing a considerable domestic demand aid. Diaspora inflows were in general a significant driver of the economic growth, especially when pandemic-related restrictive measures were eased.

Figure 57: GDP growth, Inflation, Unemployment

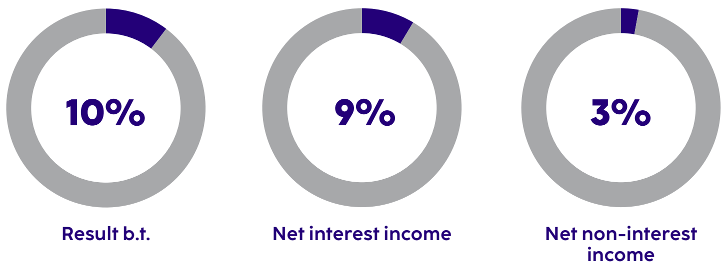


Outlook

The economy should record a robust although cooled-down economic growth in 2022 due to the lower base effect. Firming capital expenditure growth and a tighter labour market are seen supporting activity, assisted by the beneficial effect of healthier external backdrop. Pandemic-related uncertainty and lingering political uncertainty are downside risks to the outlook. The war in Ukraine and its overall economic implication represents additional downside risks to the outlook.

Contribution to NLB Group

Figure 58: Contribution to NLB Group



Banking services provided through:

33 branches
99 ATMs

2nd

largest bank in the country.

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Financial performance

Table 24: Key performance indicators of NLB Banka, Prishtina[i]

			in EUR thousand
	2021	2020	Change YoY
Key performance indicators			
Net interest income	34,459	32,286	▲ 6.7%
Net non-interest income	7,374	6,392	▲ 15.4%
Total costs	-13,546	-12,289	▼ -10.2%
Impairments and provisions	-1,064	-11,345	▲ 90.6%
Result before tax	27,223	15,044	▲ 81.0%
Result after tax	24,436	13,334	▲ 83.3%
Financial position statement indicators			
Total assets	930,545	879,064	▲ 5.9%
Net loans to customers	634,529	559,223	▲ 13.5%
Gross loans to customers	672,376	596,076	▲ 12.8%
Deposits from customers	798,790	748,315	▲ 6.7%
Equity	98,856	98,335	▲ 0.5%
Key financial indicators			
Total capital ratio	17.3%	17.8%	▼ -0.5 p.p.
Net interest margin	3.8%	3.9%	▼ -0.1 p.p.
ROE a.t.	22.4%	14.5%	▲ 8.0 p.p.
ROA a.t.	2.7%	1.6%	▲ 1.1 p.p.
CIR	32.4%	31.8%	▲ 0.6 p.p.
NPL volume	15,614	17,519	▼ -10.9%
NPL ratio (internal def.: NPL/Total loans)	1.9%	2.3%	▼ -0.3 p.p.
Market share by total assets	16.3%	17.2%	▼ -0.9 p.p.
LTD	79.4%	74.7%	▲ 4.7 p.p.

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group.

The financial result of the bank remained solid, although influenced by COVID-19. The net profit amounted to EUR 24.4 million (2020: EUR 13.3 million), while the profit before impairments and provisions increased to EUR 28.3 million (2020: EUR 26.4 million). ROE a.t. was 22.4% (2020: 14.5%), while CIR minimally increased to 32.4% (2020: 31.8%). TCR decreased to 17.3% (2020: 17.8%) due to dividend payout. The result was mainly driven by the increase of the business volumes. The total assets of the bank rose by 6%, the main factors were the amount of net loans to customers and deposits from customers. The NPL ratio decreased to 1.9% (2020: 2.3%).

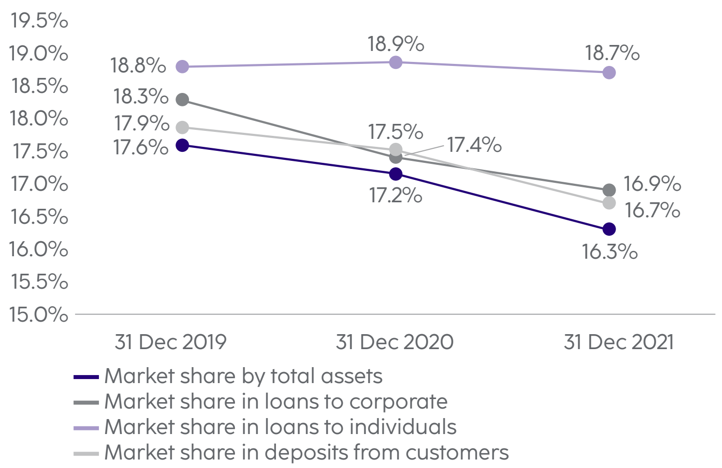
Business performance

Retail banking

In 2021, the bank recorded growth in gross loans (17%) and deposits (12%). The retail loan portfolio was dominated by housing loans (70.7% of gross retail loans), while consumer loans occupied 26.3% of gross retail loans. Growth in gross retail loans was recorded, mainly due to the increased volume of housing loans (21% growth). The key drivers of income growth were housing loans.

The growth in retail was mainly driven by several partnership agreements with construction and trade companies to finance its products. New m-Klik features were also introduced.

Figure 59: 3-year market share evolution



Corporate banking

Corporate banking recorded growth in gross loans (10%), which was mainly due to the cross-selling of products through existing corporate clients targeting new retail and SME clients as well. A discouraging approach on deposits was reflected in a 7% decrease compared to 2020 YE. The key drivers of income growth were loans for fixed assets and overdrafts.

The bank offered fast, safe, and reliable execution of payments, and competitive pricing led to an increased number of payments contributing to the non-interest income growth. Cooperation on the Group level resulted in the financing of the construction of a major locally recognised project contributing largely to clean energy production from renewable sources.

16.3%

market share in total assets.

EUR 27.2 million

result b.t.

NLB Banka, Podgorica

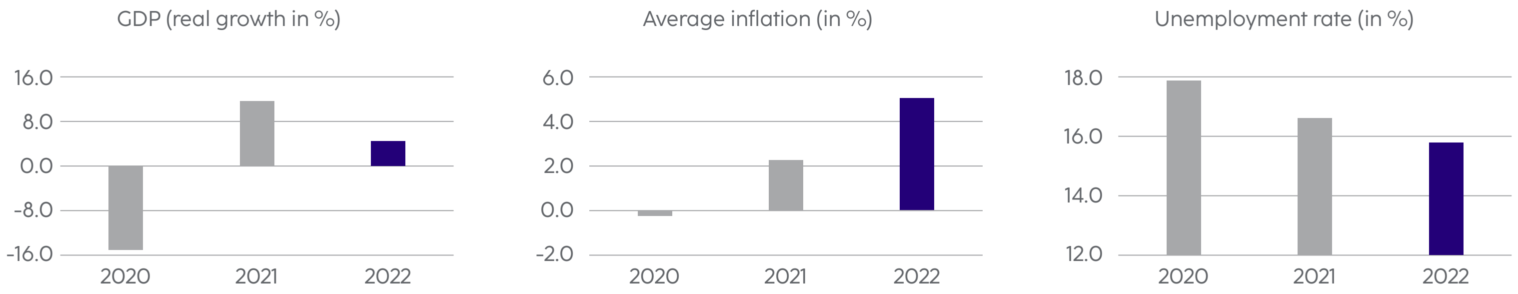
On 12 November 2021, the merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica was completed and the bank continues to operate under the franchise of NLB Banka, Podgorica. On its local market, the bank is categorised as one of the systemically important banks. The merged bank (NLB Banka, Podgorica) is the second largest financial institution in Montenegro. As the first positive effect of the merger, NLB Klik, web and e-banking app are offering new and upgraded functionalities to the clients.

The predominant strength of the bank is seen in the segment of retail housing and consumer loans, where the bank is an important player on the local market. It achieved the highest housing loans growth in 2021 amongst all banking members. The year was marked by several campaigns promoting digital channels, with a focus on cards, packages, and NLB Pay. Also, expanding the number of partners, the 'NLB Loan on the spot' campaign continued. After implementing the new payment service SWIFT GPI, the bank became the only bank in Montenegro connected to the SWIFT GPI platform with the aim of improving SWIFT payments for both banks and clients, providing faster implementation, transparency of transaction costs, and real-time transaction status information.

Macroeconomic Snapshot

In Montenegro, the economy accelerated in Q3 due to robust public consumption and surging export growth as the tourism sector fared well. In Q4, industrial output growth gained some steam, while the tourism sector continued to record strong increases in arrivals. Rising inflation resulted in eased retail sales.

Figure 60: GDP growth, Inflation, Unemployment



Outlook

The economic growth is expected to ease in 2022 due to a fading base effect. Further growth in the tourism sector should propel the economy to recover towards the pre-pandemic level with the easing of pandemic-related restrictions also supporting domestic and foreign demand. The key downside risk to the outlook is related to the pandemic-uncertainty and its effect on the tourism sector due to Montenegrin economy's considerable dependence on this sector of the economy. The war in Ukraine has emerged as an additional negative risk to the outlook.

Banking services provided through:

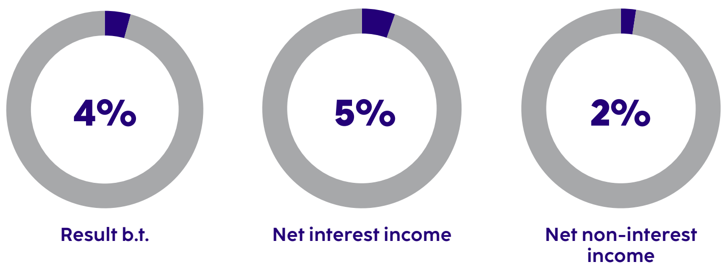
22 branches
65 ATMs

2nd

largest bank in the country.

Contribution to NLB Group

Figure 61: Contribution to NLB Group



Financial performance

Table 25: Key performance indicators of NLB Banka, Podgorica[i]

			in EUR thousand
	2021	**2020**	**Change YoY**
Key performance indicators			
Net interest income	21,953	20,598	▲ 6.6%
Net non-interest income	6,161	3,741	▲ 64.7%
Total costs	-17,351	-13,622	▼ -27.4%
Impairments and provisions	613	-8,887	-
Result before tax	11,376	1,830	-
Result after tax	10,050	1,387	-
Financial position statement indicators			
Total assets	751,351	537,629	▲ 39.8%
Net loans to customers	491,579	367,168	▲ 33.9%
Gross loans to customers	514,308	386,525	▲ 33.1%
Deposits from customers	609,792	431,657	▲ 41.3%
Equity	92,643	68,556	▲ 35.1%
Key financial indicators			
Total capital ratio	16.3%	16.2%	▲ 0.1 p.p.
Net interest margin	4.0%	4.1%	▼ -0.1 p.p.
ROE a.t.	13.1%	2.0%	▲ 11.1 p.p.
ROA a.t.	1.7%	0.3%	▲ 1.4 p.p.
CIR	61.7%	56.0%	▲ 5.7 p.p.
NPL volume	42,166	27,280	▲ 54.6%
NPL ratio (internal def.: NPL/Total loans)	7.0%	5.8%	▲ 1.2 p.p.
Market share by total assets	14.1%	11.7%	▲ 2.4 p.p.
LTD	80.6%	85.1%	▼ -4.4 p.p.

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group.

The bank realised profit after tax in the amount of EUR 10.1 million (2020: EUR 1.4 million) and profit before impairments and provisions in the amount of EUR 10.8 million (2020: EUR 10.7 million). Compared to previous year, positive development is visible in the segment of net impairments and provisions cost. ROE a.t. increased to 13.1% (2020: 2.0%), while CIR increased to 61.7% (2020: 56.0%). TCR was slightly higher compared to last year and reached 16.3% (2020: 16.2%).

The result was driven by the double-digit growth of the loan portfolio to individuals being the main net interest income driver. The total assets increased by 40%, mainly due to merger. In 2021, mainly due to the merger, the bank increased the volume of new NPL. The NPL ratio increased to 7.0% (2020: 5.8%).

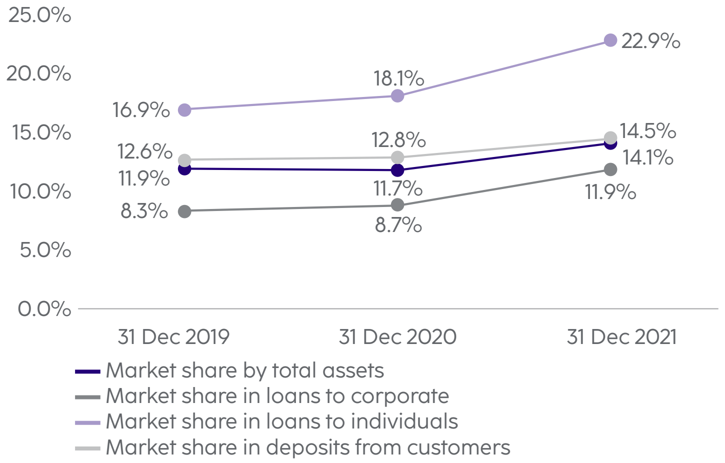
Business performance

Retail banking

Retail banking recorded growth in gross loans (30%) and deposits (41%) mainly due to merger effect, and the positive effect of the tourist season in July and August. A major part of the retail loan portfolio was dominated by housing loans (60% of gross retail loans), while consumer loans occupied 40% of gross retail loans. Growth in gross retail loans was recorded mainly by increase in housing loans volume by 36%, whereas consumer loans grew by 23%, boosted by the merger and Q4 campaign period.

The bank expanded its offer to citizens by launching the bancassurance product, thus enabling the clients to buy online quickly, easily, cheaply, and completely safely, accident and property insurance policies. The bank offered a cash loan to individuals in the maximum amount of EUR 25,000 for up to 10 years and in this way offered the market a cash loan with the largest amount and the longest repayment period. In a joint project, the bank and Mastercard provided the first self-service payment terminal in Montenegro.

Figure 62: 3-year market share evolution



Corporate banking

Corporate banking segment recorded growth in gross loans (42%) and deposits (36%) due to merger effect. The loan portfolio predominantly consisted of large corporates portfolio, which increased by 40% YoY. The growth in gross loans was recorded mainly due to merger effect and an increase of SME loans and used overdrafts by 47%. The increase in overall interest income in corporate segment comes from increase in volumes.

During 2021, a credit line from the EBRD was launched for the purpose of implementing the project 'Women in Business' (WiB), which aims to support women in business and their business.

14.1%

market share in total assets.

EUR 11.4 million

result b.t.

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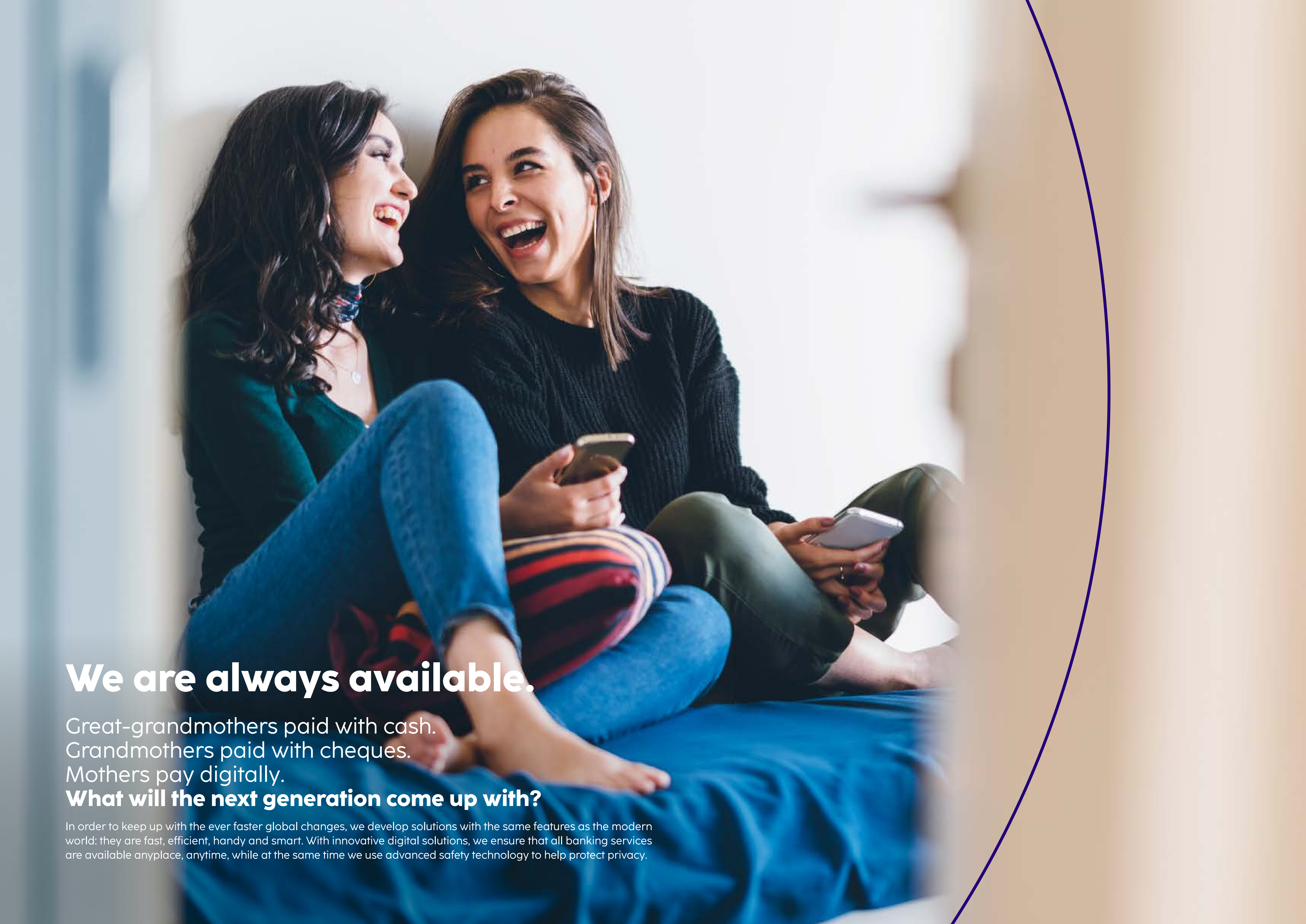
Komercijalna Banka, Podgorica

On 12 November 2021, the merger of Komercijalna Banka, Podgorica with NLB Banka, Podgorica was completed. Until 12 November 2021 Komercijalna Banka, Podgorica was part of the core segment, one of the standalone member banks of the Group, so, the key performance indicators of the bank for 2021 are represented in the below table.

Table 26: Key performance indicators of Komercijalna Banka, Podgorica[i]

	in EUR thousand
	2021
Key performance indicators	
Net interest income	5,306
Net non-interest income	537
Total costs	-6,049
Impairments and provisions	-5,658
Result before tax	-5,864
Result after tax	-5,761

[i] Data on a stand-alone basis as included in the consolidated financial statements of the Group. For year 2020 comparable data are not available.



We are always available.

Great-grandmothers paid with cash.
Grandmothers paid with cheques.
Mothers pay digitally.
What will the next generation come up with?

In order to keep up with the ever faster global changes, we develop solutions with the same features as the modern world: they are fast, efficient, handy and smart. With innovative digital solutions, we ensure that all banking services are available anyplace, anytime, while at the same time we use advanced safety technology to help protect privacy.

Financial Markets in Slovenia

The segment is focused on the Group's activities on international financial markets, including treasury operations. In the challenging environment of low interest rates on financial markets, continuous focus was on prudent liquidity reserves management.

Financial performance

Table 27: Performance of the Financial Markets in Slovenia segment

			in EUR million consolidated	
	2021	**2020**	**Change YoY**	
Net interest income	26.4	23.5	2.9	▲ 12%
o/w ALM[i]	17.1	16.5	0.6	▲ 4%
Net non-interest income	-2.3	16.2	-18.4	-
Total net operating income	**24.1**	**39.6**	**-15.5**	**▼ -39%**
Total costs	-8.6	-7.6	-1.0	▼ -14%
Result before impairments and provisions	**15.5**	**32.0**	**-16.6**	**▼ -52%**
Impairrrents and provisions	0.3	-1.3	1.6	-
Result before tax	**15.8**	**30.8**	**-15.0**	**▼ -49%**
	31 Dec 2021	**31 Dec 2020**	**Change YoY**	
Balances with Central banks	2,982.2	1,998.1	984.2	▲ 49%
Banking book securities	2,977.5	2,945.8	31.7	▲ 1%
Interest rate on banking book securities	*0.68%*	*0.77%*	*-0.09 p.p.*	
Wholesale funding	873.5	143.5	730.0	-
Interest rate on wholesale funding	*-0.46%*	*0.54%*	*-1.00 p.p.*	
Subordinated liabilities	288.5	288.3	0.2	▲ 0%
Interest rate on subordinated liabilities	*3.70%*	*3.64%*	*0.06 p.p.*	

[i] Net interest income from assets and liabilities with the use of FTP.

Net interest income

Net interest income was EUR 2.9 million (12%) higher YoY, mostly due to the changed FTP policy which partially transferred the costs of placing the excess liquidity from treasury to the retail and corporate segments to de-stimulate the deposit collection. Otherwise, the revenues from treasury activities were YoY lower due to significantly lower reinvestment yields of banking book securities and excess liquidity, additionally reflected in the negative effect from higher placements with the CB at negative interest rates.

Net non-interest income

Lower net non-interest income, EUR 18.4 million YoY, due to the one-off effect from the sale of debt securities, which positively impacted performance in 2020.

Assets increase mostly offset by wholesale funding

Increase in balances with CBs (EUR 984.2 million YoY) mostly due to increase in wholesale funding by EUR 730.0 million derived from participation in the ECB's liquidity providing operation TLTRO-III (EUR 750 million). Banking book securities registered a minor increase by EUR 31.7 million or 1%.

Contribution to NLB Group

Figure 63: Contribution to NLB Group

Result b.t.   Net interest income

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The Group's ALM

Focus

The purpose of the Group ALM process is to strategically manage the Group's balance sheet with respect to the interest rate, currency, and liquidity risk considering the macroeconomic environment and financial markets development.

Organisation

Monitoring and management of the Group's exposure to market risk is decentralised. Uniform guidelines and limits for each type of risk are set for individual Group member. The exposure of an individual Group member is regularly monitored and reported to the Group ALCO.

Balance sheet management

From the interest rate risk perspective, the surplus liquidity position of the Group contributed to further growth of fixed interest rate loans, mostly housing loans, and investments in high quality debt securities. In terms of funding, the non-banking sector deposits continued to increase in the form of sight deposits and savings accounts, partly as a result of the increased propensity to save due to the COVID-19 pandemic. The Group manages its positions and stabilises its interest margin by actively adjusting pricing policy and by charging maintenance fees, whereas for managing interest rate risk exposure the Group keeps outstanding plain vanilla derivatives. Active profitability management has been supported by a highly disciplined deposit pricing policy, enabling the response to a very competitive loan market all over the Group's strategic markets.

The Group's FX risk is measured and managed with the use of a combination of a sensitivity analysis, VaR, and stress test scenarios. In terms of the liquidity risk management, each Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification, and for managing liquid assets and fulfilling the requirements of regulations governing liquidity.

Liquidity management

Focus

The Group's liquidity management focuses on ensuring a sufficient level of liquidity reserves to settle all due liabilities, minimising the cost of maintaining liquidity and optimising the structure of liquidity reserves. To ensure an appropriate level of liquidity for different situations, emergencies and crisis conditions are anticipated and therefore described in the liquidity contingency plan.

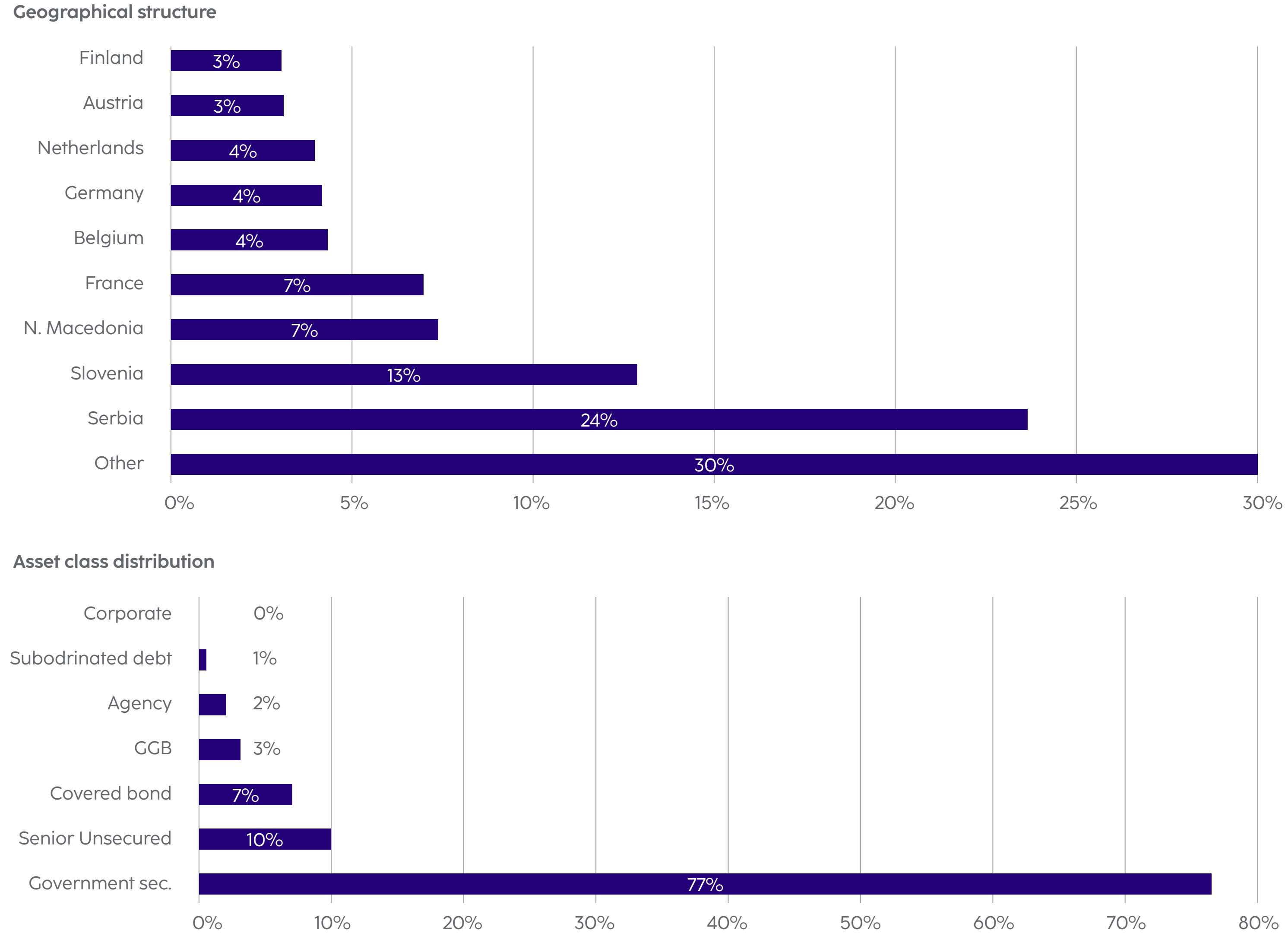
Organisation

Liquidity management in the Group is decentralised. Each Group member manages its own liquidity on operational and strategic levels, while Financial Markets in Slovenia manage liquidity of the Bank.

77%

government securities in the Group's banking book portfolio.

Figure 64: Banking book securities portfolio of NLB Group by asset class and geographical structure as at 31 December 2021



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Liquid assets

For settling due liabilities, the Group uses its liquid assets, which are comprised of liquidity reserves (see the subchapter Liquidity Position in the chapter Overview of Financial Performance) and other liquid assets. The latter includes funds held on accounts with other banks and money market placements which are according to LCR calculation treated as inflows. Likewise, liquid assets are managed by each Group member on its own.

Banking book securities portfolio

At year-end, the banking book debt securities portfolio constituted 23.7% of the Group's total assets. The purpose of the banking book securities is to provide liquidity, along with stabilisation of the interest margin, and interest rate risk management. The portfolio is well diversified from the geographical, asset class and maturity profile perspective. From 2020, the Group turned its attention to the new and fast-developing market of ESG bonds. Currently, these bonds have a small share in the whole portfolio (EUR 106.2 million), but it is expected to grow in the future.

Characteristics of banking book securities portfolio

The average maturity of banking book securities is approximately 3.5 years as at year-end.

The average yield achieved in 2021 on the Group's banking book securities portfolio was 0.68% (2020: 0.77%).

Wholesale funding

Purpose

Wholesale funding activities in the Group are conducted with the aim of achieving diversification, improving structural liquidity and capital position, and fulfilling regulatory requirements, especially ensuring compliance with the MREL requirement.

The Bank was not active on the wholesale market in 2021, but has instead optimized its long-term funding structure with the repayment of certain credit lines.

Table 28: Maturity profile of NLB Group's banking book securities as at 31 December 2021

					in EUR million
	2022	**2023-2024**	**2025-2026**	**2027+**	**Total**
Domestic securities (the Group strategic markets)	489.3	774.4	741.9	498.2	2,503.8
- Slovenia	53.3	100.7	172.4	329.4	655.9
- Other SEE	435.9	673.7	569.5	168.8	1,847.9
International securities	498.8	706.3	541.4	810.1	2,556.5
Total	**988.0**	**1,480.7**	**1,283.3**	**1,308.3**	**5,060.3**

3.5 years

average maturity of the Group's banking book securities portfolio.

Non-Core Members

The Non-Core Members segment includes the operations of non-core Group members. The main objective in the Non-Core segment remains a rigorous wind-down of all non-core portfolios and the consequent reduction of costs. The implementation of the wind-down has been pursued with a variety of measures, including the sales of portfolios, sales of non-core entities, sales of individual assets, the collection or restructuring of individual assets, and active management of real-estate assets.

EUR 41.1 million

reduction of gross loans to customers in 2021.

Financial performance

Table 29: Results of the Non-Core Members segment

			in EUR million consolidated	
	2021	**2020**	**Change YoY**	
Net interest income	1.3	1.2	0.1	▲ 11%
Net non-interest income	5.9	4.2	1.6	▲ 39%
Total net operating income	**7.2**	**5.4**	**1.8**	**▲ 33%**
Total costs	-11.4	-12.9	1.5	▲ 12%
Result before impairments and provisions	**-4.1**	**-7.4**	**3.3**	**▲ 44%**
Impairrrents and provisions	5.4	2.9	2.5	▲ 89%
Result before tax	**1.3**	**-4.6**	**5.8**	**-**
	31 Dec 2021	**31 Dec 2020**	**Change YoY**	
Segment assets	**95.9**	**131.2**	**-35.3**	**▼ -27%**
Net loans to customers	24.3	45.0	-20.7	▼ -46%
Gross loans to customers	53.9	95.0	-41.1	▼ -43%
Investment property and property & equipment received for repayment of loans	65.6	70.2	-4.6	▼ -7%
Other assets	6.0	16.0	-10.0	▼ -63%
Non-performing loans (gross)	45.0	71.3	-26.3	▼ -37%

Result before tax

The segment recorded EUR 1.3 million profit before tax. The higher net non-interest income was achieved also due to the positive effect attributable to the segment from the settlement of a legal dispute (EUR 0.4 million).

Total assets decreased

A decrease of the total assets of the segment YoY (EUR 35.3 million) was in line with the divestment strategy of the non-core segment.

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Business performance

The wind-down of the Non-Core segment in 2021 included:

- Divestment of non-core Group members
- Sale of the Bank's equity participations
- Active management of real-estate assets

Divestment of non-core Group members

Liquidation process

A liquidation process was initiated in all non-core leasing and trade finance subsidiaries and some real estate subsidiaries. In 2021, the liquidation processes of BH-RE d.o.o. Sarajevo and Prvi faktor d.o.o. Sarajevo were completed, and the companies were deleted from the court register. The divestment process has been running with thoughtful cost management and well-established collection procedures.

Decrease of non-core portfolio

New business has been suspended in all non-core Group members which are in the process of being wound-down. The decrease of the cumulative non-core subsidiaries' portfolio remains ongoing through regular repayments and collection measures.

Sale of NLB's equity participations

Numbers

At the 2021 YE, the overall asset volume of equity participations is at EUR 0.20 million (2020: EUR 0.28 million).

Active management of real estate assets

Divestment process

The divestment process of still remaining NPL exposures at the Bank or at the non-core subsidiaries' level is being facilitated through a specialised team for repossessing, managing, and divesting collateral real estate. Real estate expertise and services are offered to the Group members assisting them in implementation of the most efficient divestment manner of the remaining non-performing portfolio or the repossession of the collateral real-estates.

Value-preserving strategies

The main task is to ensure value-preserving strategies for the real estate management, respectively the collateral value of NPL claims by either temporarily repossessing real-estate or ensuring a value-preserving divestment process of the real-estate or a claim. From 2015 to 2021, real-estate transactions with a total sales value of EUR 193.8 million were executed or supported, and directly or indirectly contributed to a EUR 622.6 million of NPL reduction, of which EUR 122.5 million in 2021 alone.

EUR 25.1 million

the total sales value of real-estate transactions executed or supported by the real-estate team in 2021.

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Risk Management

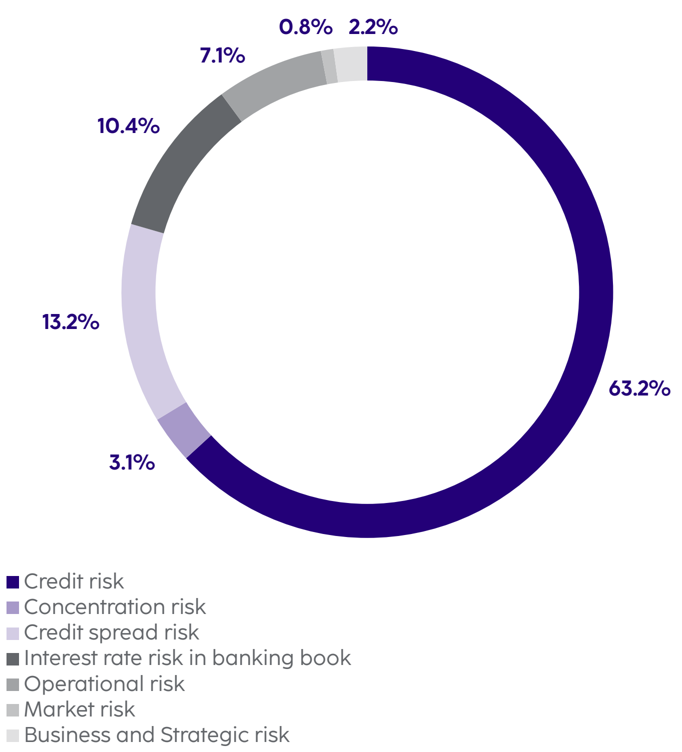
The self-funded model, strong liquidity, and a solid capital position continued in 2021, demonstrating the Group's financial resilience. Efficient management of risks and capital is crucial for the Group to sustain long-term profitable operations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group, with the aim of proactively supporting its business operations. The Group is engaged in contributing to sustainable finance by incorporating environmental, social, and governance risks into its business strategies, risk management framework, and internal governance arrangements.

-41 bps

negative Cost of risk on Group level.

The Group has a well-diversified business model. In accordance with its strategic orientations, it 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. Efficient managing of risks and capital is crucial for the Group to sustain long-term profitable operations. Risk Management in the Group is in charge of managing, assessing, and monitoring risks within the Bank as the main entity in Slovenia, and the competence centre for seven banking subsidiaries.

Figure 65: Risk profile of NLB Group as at 31 December 2021



Based on the Group's business strategy, credit risk is the dominant risk category, followed by credit spread and interest rate risk in the banking book and operational risk. Management of credit risk focuses on moderate risk-taking, striving to assure a diversified credit portfolio, adequate credit portfolio quality, the sustainable cost of risk, and optimal return considering the risks assumed. The Group has limited exposure to other aforementioned risks, while market risk and other non-financial risks are less important from materiality perspective. The Group integrates and manages ESG risks within the aforementioned types of risks, namely credit and operational risk, as part of its risk management framework. Liquidity risk tolerance is low. The Group must maintain an appropriate level of liquidity at all times, and also pursue an appropriate structure of the sources of financing.

Table 30: NLB Group's Key Risk Appetite indicators (KRIs)

KRIs	31 Dec 2021
TCR	17.8%
CET1 ratio	15.5%
LCR	252.6%
NSFR	185.2%
Cost of Risk	-41 bps
NPL (EBA def.)	3.4%
NPE (EBA def.)	1.7%
Interest rate risk (EVE)	-6.4%

COVID-19 did not have a meaningful impact on the quality of the credit portfolio. Its impacts caused moderate credit quality deterioration, which resulted in an increase of Stage 2 and Stage 3 exposures. 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. Lending growth in the corporate segment remained relatively moderate, while the retail segment, namely mortgage lending, experienced a considerable growth in 2021.

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 were phasing out during the 2021. Apart from the 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.

The cost of risk was negative (-41 bps) due to very strong development in NPL resolution and more favourable macroeconomic situation compared to the 2020 YE. The

Group faced favourable NPL movement due to repayments in the segment of large corporate clients, and other successfully resolved smaller exposures in the region. During the year, 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 on the level of ECL calculation.

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 safe heaven and therefore faced growing excess liquidity, and impacts of the pandemic did not cause any material liquidity outflows. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while keeping in mind the potential adverse negative market movements. Excess liquidity and market demand for fixed interest rate products resulted in moderate interest rate and credit spread risk exposure, which stayed within the risk appetite tolerance toward this risk. The Group's liquidity and capital position remained strong in both the Group and banking member levels.

In 2021, the Group was included into 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 have been disclosed. Under the adverse scenario, CET1 ratio (fully loaded) would fall by 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 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.[14]

14 Further information is available in chapter Events After the End of 2021 Financial Year.

The Bank is, as a systemic bank, involved in the Single Supervisory Mechanism.

Supervision is under the jurisdiction of the Joint Supervisory Team of:

ECB | BoS

ECB regulations are followed by the Group, where the Group subsidiaries operating outside Slovenia are compliant with the rules set by the local regulators. Third party equvivalent are approved in Serbia, BiH and North Macedonia, resulting in alignment of local regulation with CRR rules.

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.

Risk Management and control 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.

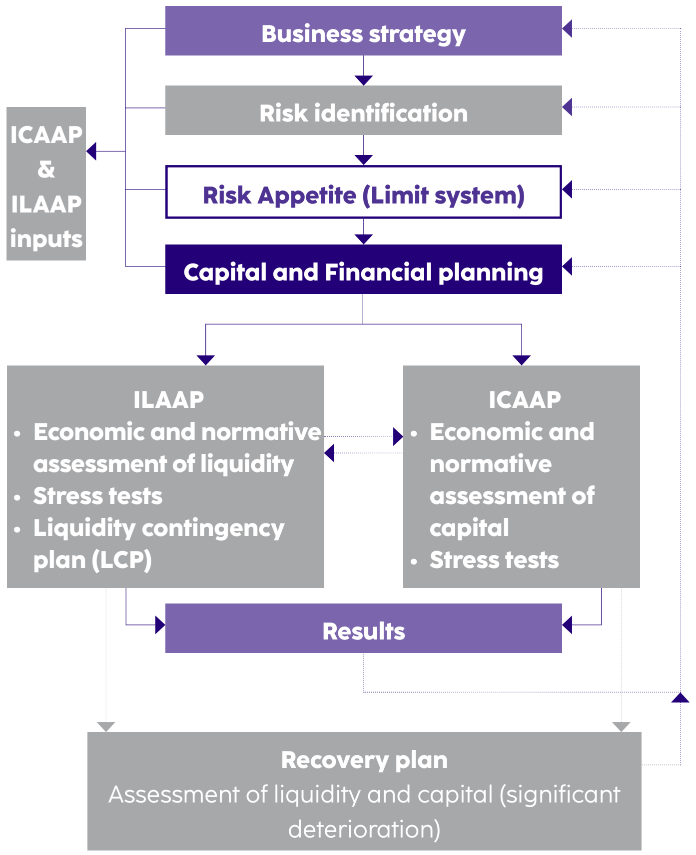
Business line Risk Management in NLB is, by encompassing several professional areas, in charge of:

- 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 Group puts great emphasis on the risk culture and awareness across the entire Group. The Group's Risk Management framework is forward-looking and tailored to its business model and corresponding risk profile. The main risk principles and limits are set forth by the Group's Risk Appetite and Risk Strategy, and designed in accordance with business strategy. The Group performs risk identification process on regular basis, as part of the ICAAP and ILAAP frameworks. In this process all topical risks, including ESG related ones, are comprehensively assessed, monitored and mitigated where necessary. Special focus is placed on the inclusion of risk analysis into the decision-making process at strategic and operating levels, diversification to avoid large concentration, optimal capital usage and allocation, appropriate risk-adjusted pricing, and overall compliance with internal rules and regulations.

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. In addition, the Group is constantly enhancing its Risk Management system, where consistent incorporation of ICAAP, ILAAP, Recovery plan, and other internal stress-testing capabilities into the Risk Management system is essential. Moreover, the Group puts great emphasis on their integration into the overall Risk Management system in order to assure proactive support for informed decision-making.

Figure 66: NLB Group's Risk Management framework



The uniform stress-testing programme, which includes internally developed models, stress scenarios, and sensitivity analysis, was further complemented. In 2021, the Group

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established its own ESG stress testing concept to identify the 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.

The business and operating environment, relevant for the Group operations is changing, with trends such as changing customer behaviour, emerging new technologies and competitors, actively contributing to a more balanced and inclusive economic and social system, and increasing new regulatory requirements. It should be noted that Risk Management is continuously adapting with the aim of detecting and managing new potential emerging risks.

Proactive Risk Management in 2021

Prudent capital level position and achieved interim MREL targets

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital position. The Group monitors its capital position at the Group and individual subsidiary bank level in accordance with the Risk Appetite, also incorporating normative and economic perspectives as part of the established ICAAP process. As at 31 December 2021, the Group had a very solid capital position and TCR of 17.8% (1.2 p.p. higher than at the 2020 YE). The CET1 ratio, representing the capital of highest quality, stood at 15.5% (1.4 p.p. YoY increase).

The higher Group total capital adequacy compared to the previous year derives from higher capital (increase of EUR 186.8 million YoY, mainly due to inclusion of negative goodwill in retained earnings) which compensated the RWA increase of EUR 58.2 million YoY for the Group. Loan growth to the corporates and retail and new investments in bonds contributed to an increase of RWA for credit risk. On the other hand, the increase was compensated by collateral adequacy due to third party equivalent, agreements with MIGA, changed investment policy and successful recovery of NPLs. Additionally, the closing trading position of Komercijalna Banka, Beograd resulted in a decrease in RWA for market risks. RWA for operational risk increased due to higher income of the Group arising from the acquisition of Komercijalna Banka, Beograd.

As at 31 December 2021, the Group meets all fully loaded regulatory requirements. Moreover, enhanced overall corporate governance in the recent years led to a lower P2R, which decreased from 3.5% in 2018 to 2.75% applicable in 2021 and 2.60% applicable as of 1 March 2022, while Pillar 2 Guidance remains at low level of 1%.

Figure 68: NLB Group's LCR

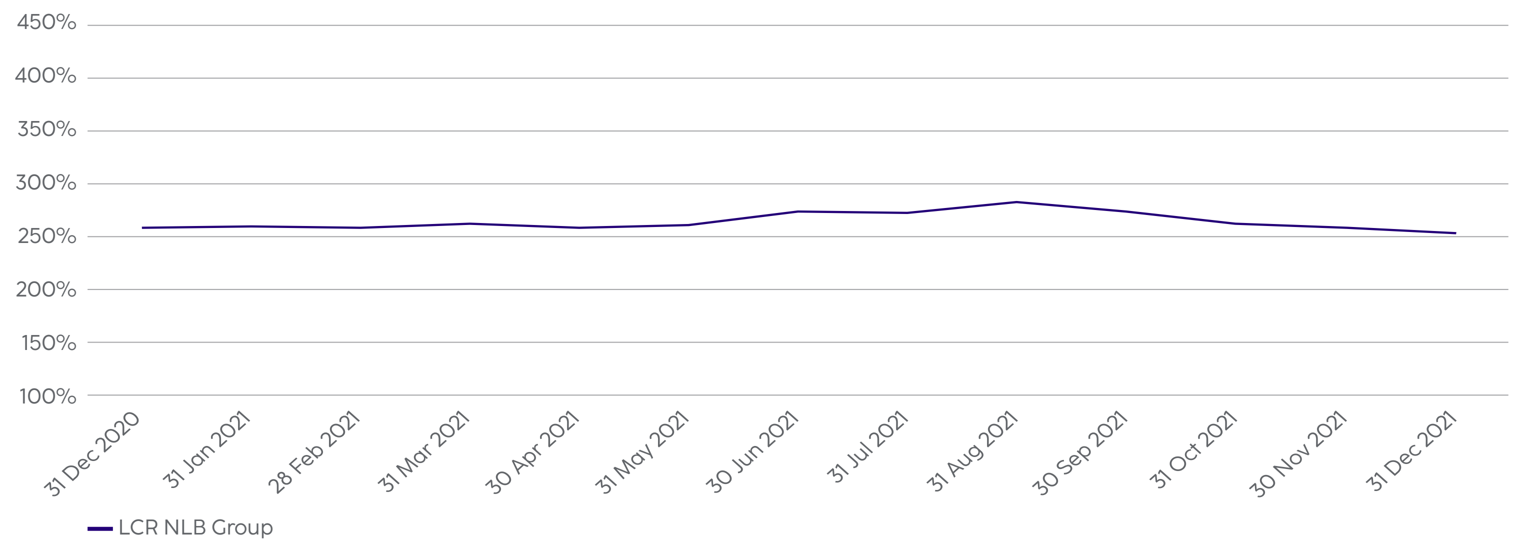
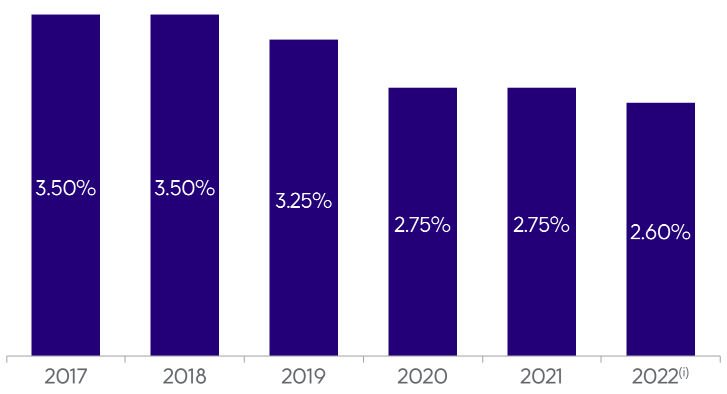


Figure 67: NLB Group's Pillar 2 Requirement evolution



(1) Applicable as of 1 March 2022.

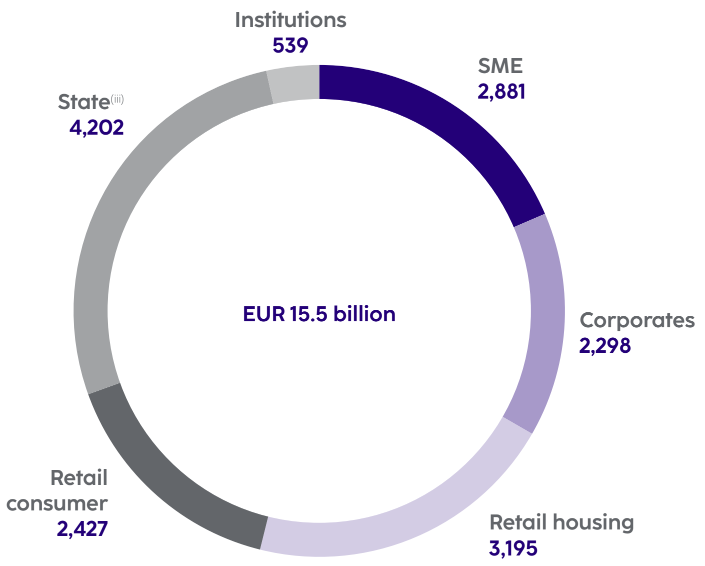
MREL requirement forms part of Group's risk appetite, whereby its fulfilment is regularly analysed and monitored. NLB complies all interim targets. More information on MREL is available in the chapter Capital and Capital Adequacy.

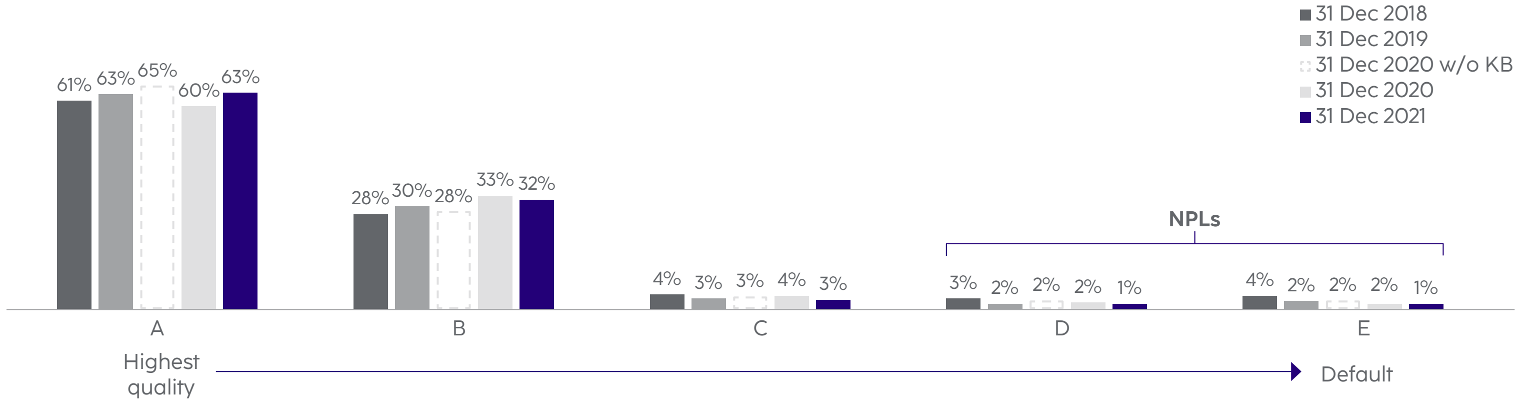
Maintaining a solid level and structure of liquidity

Maintaining a solid level and structure of liquidity represents the next very important risk target. The liquidity position of the Group remained stable, and the impacts of the pandemic did not cause any material liquidity outflows. Strong liquidity position is held at the Group and individual subsidiary bank levels. Group LCR slightly decreased to 252.6% (by 4.9 p.p. YoY), but remained well above the risk appetite limit (130%). The level of the unencumbered eligible liquid reserves remained at a high level, representing 38.3% of total assets. The Group has sufficient liquidity reserves in the form of placements with the ECB, prime debt securities, and money market placements. Even in the event of the combined adverse stress scenario, the Group would survive at least three months under such stress conditions. The core funding base of the Group predominately represents retail customer deposits with very stable and constantly growing base. LTD increased to 60.0% (31 December 2020: 58.8%), remaining at very comfortable level.

In June, the Bank participated in the 8. ECB operation, namely TLTRO III and had drawn a credit tranche of EUR 750 million maturing in three years. With TLTRO, the ECB continues to support lending to enterprises and households. The Bank was successful in achieving the lending performance threshold in the special reference period, the positive effect from this transaction will partially compensate the negative outcome from holding liquidity reserves.

Figure 69: NLB Group structure of the credit portfolio[i] (gross loans) by segment (in EUR million) and rating[ii]





[i] Loan portfolio also includes reserves at CBs and demand deposits at banks.
[ii] Rating A, B and C are performing exposures. Rating A: investment grade clients with high financial stability; Rating B: clients with high ability to repay their obligations, a significant aggravation of the economic environment would cause problems to them; Rating C: performing clients with increased level of risk who may encounter problems with settlement of liabilities in the future; Ratings D and E are NPLs: Default clients (article 178 of CRR), including clients in delay >90days and other clients considered 'unlikely to pay' with delays below 90 days. The numbers may not add up to 100% due to rounding.
[iii] State includes exposures to CBs.

Maintaining the adequate credit portfolio quality

Maintaining the adequate credit portfolio quality is the most important goal, with the focus on cautious risk-taking and quality of new loans leading to a diversified portfolio of customers. The Group is constantly developing a wide range of advanced approaches in the segment of credit risk assessment in line with best banking practices to further enhance the existing risk management tools, while at the same time enabling greater customer responsiveness. The restructuring approach in the Group is focused on the early detection of clients with potential financial difficulties and their proactive treatment.

The Group is actively present on SEE markets by financing the existing and new creditworthy clients. 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.

Lending growth in the corporate segment remained relatively moderate, while the SME and retail segment experienced a considerable growth in 2021 after a temporary slowdown in 2020 due to COVID-19 circumstances. The current structure of credit portfolio (gross loans) consists of 36.2% retail clients, 14.8% large corporate clients, and 18.5% SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. The credit portfolio remains well diversified, and there is no large concentration in any specific industry or client segment. The share of retail portfolio in the whole credit portfolio is quite substantial with still prevailing segment of mortgage loans.

The majority of the Group's loan portfolio is classified as Stage 1 (94.2%), the remaining portfolio as Stage 2 (3.4%), and Stage 3 and FVTPL (2.4%). The portfolio quality remains very stable with increasing Stage 1 exposures and a relatively low percentage of NPLs. The percentage of Stage 1 loan portfolio

Proactive risk management

in 2021.

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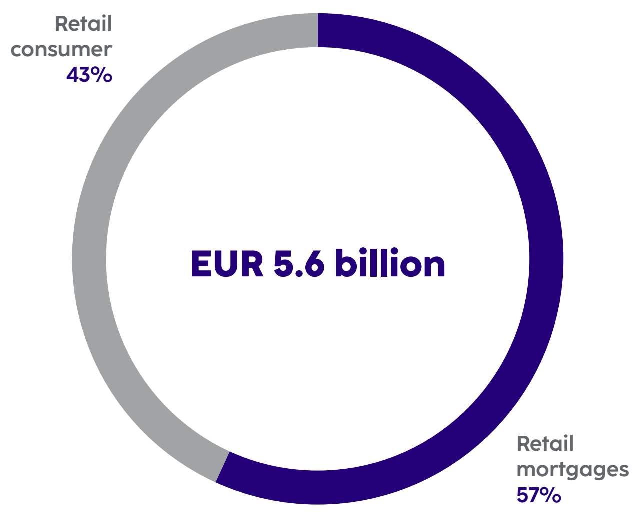
Table 31: Overview of NLB Group loan portfolio by industry as at 31 December 2021

Corporate sector

Corporate sector by industry	NLB Group	%	Δ 2021
			in EUR million
Accommodation and food service activities	156.3	3.0%	15.1
Administrative and support service activities	108.1	2.1%	-13.6
Agriculture, forestry and fishing	310.7	6.0%	22.0
Arts, entertainment and recreation	22.7	0.4%	1.7
Construction industry	434.6	8.4%	60.9
Education	13.3	0.3%	-0.8
Electricity, gas, steam and air conditioning	318.2	6.1%	60.1
Finance	120.2	2.3%	-47.5
Human health and social work activities	37.9	0.7%	-12.1
Information and communication	244.1	4.7%	10.2
Manufacturing	1,091.1	21.1%	105.0
Mining and quarrying	50.4	1.0%	-29.6
Professional, scientific and techn. act.	175.4	3.4%	3.7
Public admin., defence, compulsory social.	172.4	3.3%	-47.0
Real estate activities	251.3	4.9%	29.7
Services	12.0	0.2%	-1.9
Transport and storage	573.3	11.1%	-18.8
Water supply	43.9	0.8%	2.8
Wholesale and retail trade	1,043.1	20.1%	120.0
Other	0.5	0.0%	-1.3
Total Corporate sector	**5,179.5**	**100.0%**	**258.4**

Retail sector



remains almost at the same level as at 2020 YE, i.e., at 95.6% in the Retail segment, while in the Corporate segment, despite the adverse economic conditions, improved to the level of 87.4%, which is a result of cautious lending policy and successful closure of NPL.

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.

As at 31 December 2021, the exposures where COVID-19 moratoria have been granted amounted to EUR 1,681.5 million, representing 10.8% of the Group's credit portfolio. The exposure with remaining COVID-19 moratoria is negligible and amounts to EUR 24.8 million, while 98.5% of those moratoria have already expired by 2021 YE. A total of 86.4% of exposure

Figure 70: NLB Group loan portfolio (measured at amortised cost) by stages as at 31 December 2021

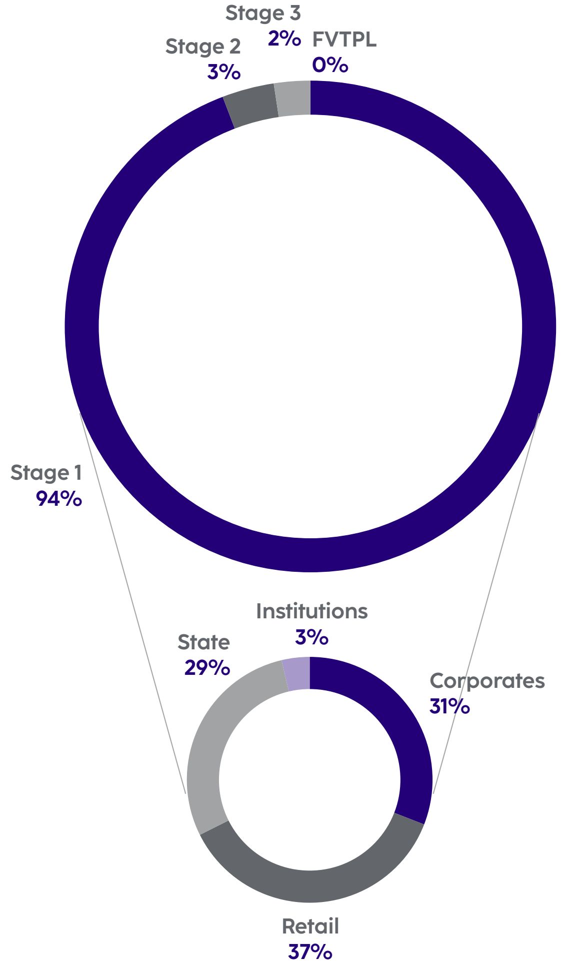


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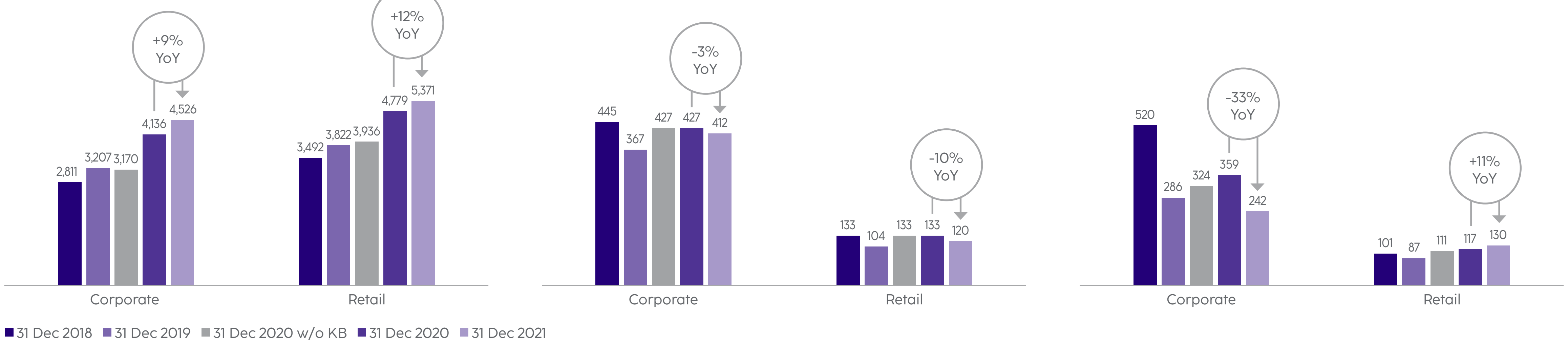
Table 32: NLB Group loan portfolio by stages as at 31 December 2021

in EUR million

	Credit portfolio									Provisions and FV changes for credit portfolio					
	Stage1			Stage2			Stage3 & FVTPL			Stage1		Stage2		Stage3 & FVTPL	
	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
Total NLB Group	**14,638.0**	**94.2%**	**1,987.2**	**532.4**	**3.4%**	**-27.6**	**371.4**	**2.4%**	**-104.3**	**70.4**	**0.5%**	**34.0**	**6.4%**	**212.1**	**57.1%**
o/w Corporate	4,525.5	87.4%	389.9	412.2	8.0%	-14.6	241.7	4.7%	-116.8	50.6	1.1%	26.6	6.5%	136.0	56.3%
o/w Retail	5,371.1	95.6%	591.9	120.2	2.1%	-13.1	129.7	2.3%	12.6	18.3	0.3%	7.4	6.2%	76.0	58.6%
o/w State	4,202.4	100.0%	912.3	-	-	-	-	-	-	1.3	0.0%	-	-	-	-
o/w Institutions	538.9	100.0%	93.2	-	-	-	-	-	-	0.2	0.0%	-	-	-	-

Figure 71: NLB Group Corporate and Retail loan portfolio (valued at amortised cost) by stages

Stage 1 by segment (in EUR million) **Stage 2 by segment** (in EUR million) **Stage 3 by segment** (in EUR million)



with expired moratoria have no delays, while 2.1% had delays exceeding 90 days. The Bank is very prudent in identifying any increase in credit risk.

In addition to moratoria, the governments in Serbia and Slovenia provided public guarantee schemes for new financing of clients whose business has been materially impacted due to the COVID-19 pandemic. As at 31 December 2021, these loans amounted to EUR 177.2 million; none of the guarantees have been exercised.

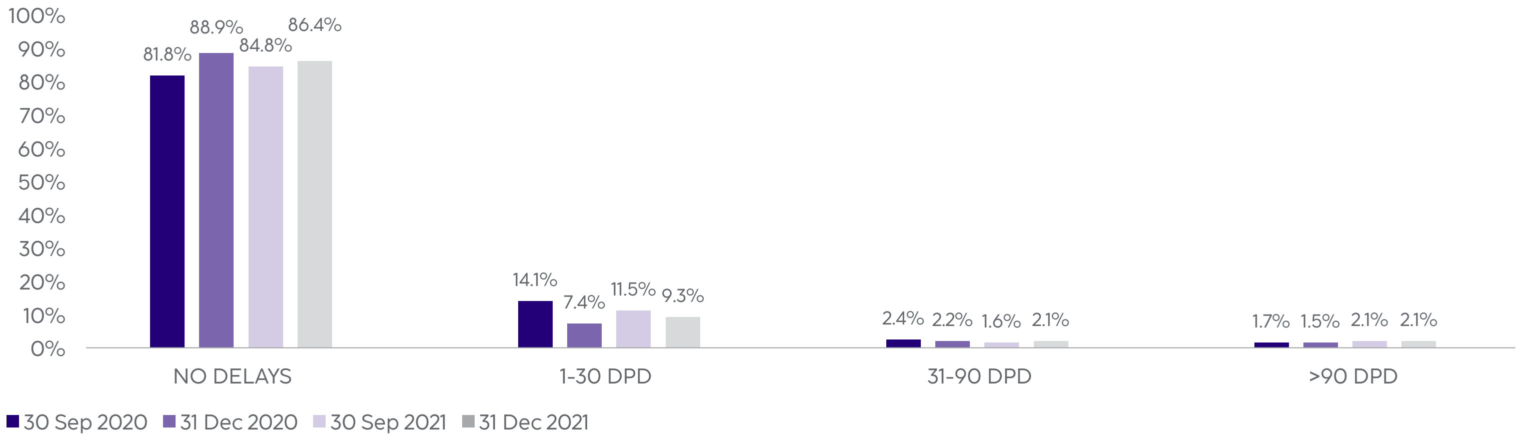
New NPLs formation and NPL management

At the end of 2020, Komercijalna Banka group was acquired and their NPL were included as an additional NPL formation in net value (based on consolidation rules), which, along with the COVID-19 related circumstances, resulted in the NPL formation of EUR 148 million or 1.1% of the total portfolio. In 2021, NPL formation amounted to EUR 143 million or 0.9%

1.7%

NPE (EBA def.)

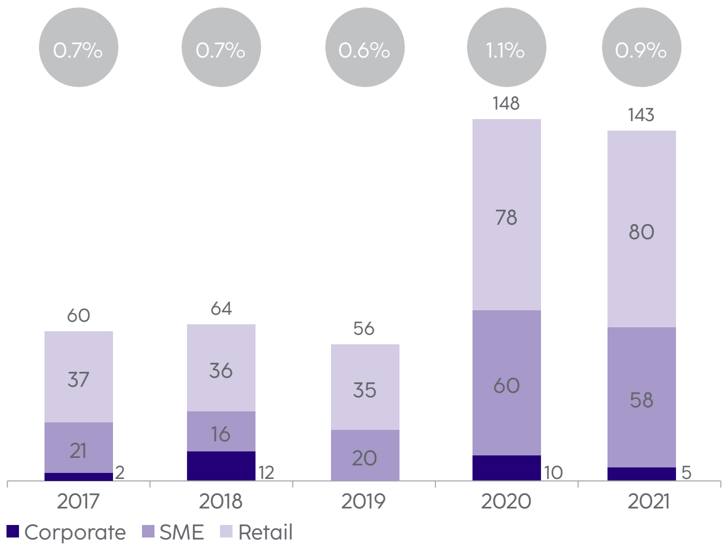
Figure 72: % of Days past due for expired COVID-19 moratoria in NLB Group



of the total portfolio and was influenced by harmonisation process in Komercijalna Banka group. Nevertheless, the total amount of NPL decreased during 2021. Proactive non-performing management, including successful repayment of on- and off-balance sheet exposures, and more favourable macroeconomic situation across the region than initially expected, resulted in a negative cost of risk.

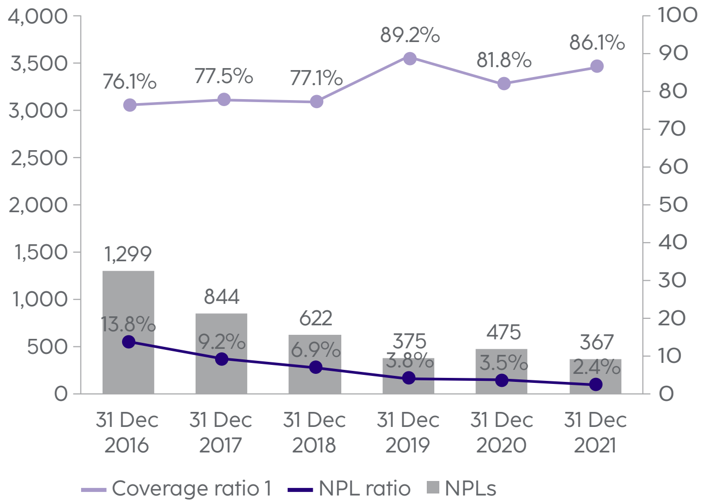
Figure 73: NLB Group gross NPL formation (in EUR million)

Formation / gross loans (stock)



Precisely set targets in the Group's NPL Strategy and various proactive workout approaches facilitated the management of the non-performing portfolio. The Group's approach to NPL management puts a strong emphasis on restructuring and use of other active NPL management tools, such as foreclosure of collateral, the sale of claims, and pledged assets. In 2021, the multi-year declining trend of the non-performing credit portfolio stock continued, mostly due to repayments, collection, sale of claims, and cured clients. The non-performing credit portfolio stock in the Group decreased at 2021 YE in comparison with 2020 YE to EUR 367.4 million (2020 YE: EUR 474.7 million). The combined result of contraction in non-performing credit portfolio stock and credit growth of a higher quality portfolio led to 2.4% of NPLs, while the internationally more comparable NPE ratio, based on the EBA methodology, stood at 1.7%. The Group's indicator gross NPL ratio, defined by the EBA, is equal to 3.4% and is below the regulatory defined threshold for establishment of NPL strategy framework.

Figure 74: NLB Group NPL, NPL ratio and Coverage ratio 1[i] (in EUR million)



[i] By internal definition.

Due to extensive experience gained in the last few years in dealing with clients with financial difficulties, resulting primarily from legacy portfolios, the Group has developed an extensive knowledge base both in the prevention of financial difficulties for clients, to restructure viable clients in case of need, and to efficiently work out exposures with no realistic recovery prospects. This extensive knowledge base is available throughout the Group, and risk units, as well as restructuring and workout teams are properly staffed and have the capacity to deal, if needed, with considerably increased volumes in a professional and efficient manner.

An important Group strength is the NPL coverage ratio 1 (coverage of gross NPLs with impairments for all loans), which remains high at 86.1%. Furthermore, the Group's NPL coverage ratio 2 (coverage of gross NPLs with impairments for NPL) stands at 57.9%, which is well above the EU average as published by the EBA (45.1% for Q3 2021). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years. The decrease in coverage indicators at the end of 2020 was influenced by the special treatment of NPLs from the acquired entities. NPLs of Komercijalna Banka group are initially recognised at fair value, without any additional credit loss allowances. The latter is also reflected in the lower coverage ratio CR2 than the NLB Group banks average at the end of 2021 in Komercijalna Banka, Beograd and NLB Banka, Podgorica, which merged with Komercijalna Banka, Podgorica in November 2021.

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

The Group is following the ECB guidelines to banks on NPLs with regards to the evaluation of collateral. The establishment of market values for collateral for NPLs is by means of individual evaluation when NPL status is established. The value of collateral is then regularly monitored on a yearly level and updated by either independent evaluation (over prescribed threshold) or with the use of statistical re-evaluation for smaller values of NPL. For statistical re-evaluation the indexes from the government agency or other relevant official data sources are used. The value of collateral is with statistical approach always updated only downwards, never upwards. Only if the individual appraisal shows a higher value of collateral, the upwards re-evaluation would be performed. If the data from statistics would show significant decline in the real estate market, individual evaluations for such types of real estate would be performed and values corrected accordingly.

Table 33: NPL, NPL ratio[1] and Coverage ratio by NLB Group members

				in EUR thousands
NLB Group member	**NPL 31 Dec 2021**	**% NPL 31 Dec 2021**	**NPL CR 1 31 Dec 2021**	**NPL CR 2 31 Dec 2021**
NLB, Ljubljana	130,392.1	1.5%	75.1%	60.6%
NLB Banka, Skopje	59,728.3	4.3%	101.2%	64.7%
NLB Banka, Podgorica	42,165.7	7.0%	54.0%	39.1%
NLB Banka, Sarajevo	19,045.5	3.1%	106.3%	87.6%
NLB Banka, Prishtina	15,613.7	1.9%	243.2%	91.6%
NLB Banka, Banja Luka	9,371.2	1.3%	189.3%	61.0%
NLB Banka, Beograd	9,489.0	1.5%	93.4%	57.6%
Komercijalna Banka, Beograd	36,342.9	1.4%	63.5%	21.7%
Total NLB Group banks	**322,148.4**	**2.0%**	**89.7%**	**57.2%**
Total NLB Group	**367,409.1**	**2.4%**	**86.1%**	**57.9%**

[1] By internal definition.

Low market risk in the trading book

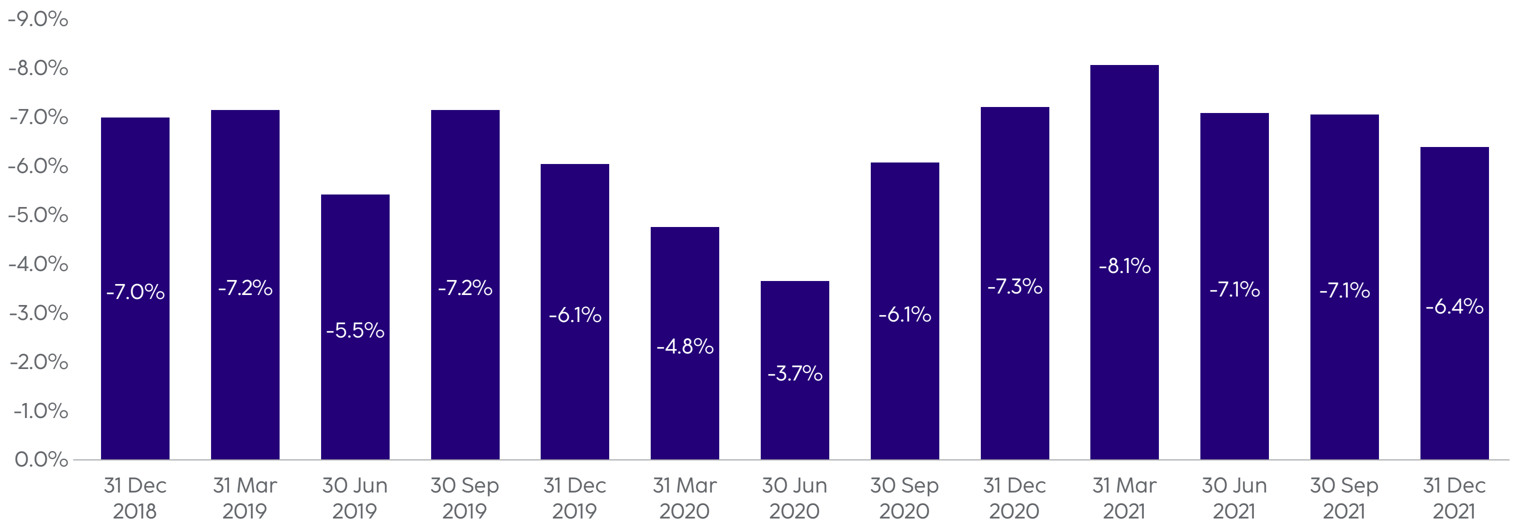
Regarding market risks in the trading book, the Group pursues a low-risk appetite for market risk in the trading book. The exposure to trading (according to the CRR) is only allowed to be carried by the parent Bank as the main entity of the Group and is very limited. During the year 2021, the position of trading book of Komercijalna Banka, Beograd decreased to the minimum extent. The Bank intends to further maintain a small trading portfolio, mainly to monitor market signals in the global markets. 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.

The Group carries its main business activities in euros, and the subsidiary banks, in addition to their domestic currencies, also operate in euros, which is the reporting currency of the Group. The Group's net open FX position from transactional risk is low, and at less than 1.10% of capital. Regarding structural FX positions on a consolidated level, assets and liabilities held in foreign operations are converted into 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 and CET1 capital.

Proactive management of interest rate risk in the banking book

The Group's exposure to interest rate risk is moderate and arises mainly from banking book positions. In the recent years, the Group recorded the growth of fixed interest rate loans and the long-term banking book securities on the assets side, and the transformation of deposits from term to sight as a result of the low interest rate environment and excessive liquidity.

Figure 75: NLB Group's EVE evolution



The Group's interest rate positions were slightly affected by moratoriums during the year 2021, which were mostly short-term, from 3 to 6 months, and consequently not very material. The Group places excess liquidity mainly into banking book securities with fixed IR, while in current negative interest rate environment there is also higher demand for products with fixed IR. The interest rate exposure to interest rate risk remains modest, within the risk appetite limits. If market interest rates would increase, the net interest income of the Group would be positively affected, whereas if they decreased, negative effects would be lower due to zero floor clauses included in a number of loan contracts. When assessing EVE sensitivity, the Group members apply different scenarios. For most members, the worst-case regulatory scenario is in the case of increase of IR by 200 bps. From the EVE perspective, the estimated capital sensitivity of 200 bps equals -6.4% of the Group's capital.

Robust operational risk management

In the area of operational risk management, where the Group has established robust operational risk culture, the main qualitative activities refer to the reporting of loss events and identification, assessment, and management of operational risks. On this basis, constant improvements of control activities, processes, and/or organisation are performed. Besides that, the Group also focuses on proactive mitigation, prevention, and minimisation of potential damage. Special attention is dedicated to the stress-testing system, based on

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a scenario analysis referring to the potential high severity, low frequency events, and modelling data on loss events. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks (such as HR, processes, systems, and external conditions) are regularly monitored, analysed, and reported, with the aim to improve the existing internal controls and enabling reacting on time.

During the COVID-19 pandemic in Slovenia and the SEE, 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, telebanking), which the Group continues to develop at an accelerated pace. A crisis management team is established in the Bank and other banking members with full engagement of the Management Board members. Special attention was paid to continuous provision of services to clients, their monitoring, health protection measures, and the prevention of cyber fraud.

In addition, the Group was also diligently managing other, non-financial risks, referring to the Group's business model or arising from other external circumstances, within the established ICAAP process.

Incorporating ESG risks

The Group is engaged in contributing to sustainable finance by incorporating ESG risks into its business strategies, risk management framework, and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, the Group implemented sustainability elements into its business model. NLB Group Sustainability Committee oversees the integration of the ESG factors into the NLB Group business model. Thus, sustainable finance integrates ESG criteria into Group's business and investment decisions for the lasting benefit of Group's clients and society.

ESG risks do not represent a new risk category, but rather an aggravating factor for the existing types of risks. The Group integrates and manages them within the established risk management framework, namely in the area of credit and operational risk. The management of ESG risks 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 and corresponding proactive management of ESG risks.

In recent years, the Bank signed Framework Agreements with the EBRD, the Contract of Guarantees with MIGA and committed to the UN Principles of Responsible Banking. Consequently, the Group established mechanism for environmental and social screening of current or potential financing applications against the MIGA and EBRD Exclusion List and applicable environmental and social laws. The management of ESG risks addresses the Group's overall credit approval process and related credit portfolio management. Sustainable financing is implemented in accordance with the Group's ESMS. Beside addressing ESG risks in all relevant stages of the credit-granting process relevant ESG criteria were also considered in the collateral evaluation process. On portfolio level the Group does not face any large concentration towards specific NACE industrial sectors exposed to climate risk, whereby the role of transitional risk is more prevailing.

The Group carefully considers potential reputation and liability risks which could arise from sustainable financing of its clients. Special attention is given to the approval of new products and monitoring of fulfilment of relevant criteria by the clients. Additional key risk indicators have been addressed, servicing as an early warning system in the area of ESG risks. Besides, physical risks, as part of ESG risks in the area of operational risk, are addressed in the Group's business continuity management (BCM). BCM is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and the undesired effects of the environment to mitigate their consequences.

As systemically important institution, the Group is included into 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 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.

Further information on risk management is available in the Note 6 of the Financial part of the report, Pillar 3 Disclosures and NLB Group Sustainability Report 2021.

IT and Cyber Security

The Group continues to provide its clients sustainable and efficient services supported through highly reliable and secure technology platforms. The Bank continues to actively pursue its technology transformation programme. In line with the refreshed IT strategy introduced in 2020, the IT team began delivering on outlined roadmaps and also successfully delivered a proof of concept for a consolidated core banking system. The Group is aiming to centralise and unify governance, applications, and infrastructure. The Bank also continued to rollout an effective online collaboration solution throughout the Group and enabled a majority of employees to work from home without interruption to operations. Due to the general cyber security risks increase, special focus, extra resources, and investments were made to raise the overall level of cyber security resilience.

99.98%
the availability in NLB.

IT infrastructure and reliability

High performance confirmed with numbers

IT performance is monitored through a set of relevant indicators that are linked to the Balanced Scorecard (BSC) system. The indicators show a high performance of IT operations and successful risk management in this area. The availability of the information system in the Bank is at very high level of 99.98% (2020: 99.92%), and the share of unplanned interruptions is very low, 0.02% (2020: 0.08%). In 2021, the number of days without system/service interruptions were at 83.6% (2020: 78.5%). Harmonised Service Level Agreements (SLA) are in place with users of the information system, which the Bank managed to fulfil in a very high proportion. High IT operational performance was also recorded in the Group members (between 99.90% and 99.99%).

Main IT initiatives

Transformation

The main focus was the transformation of IT in terms of organisation, a group perspective, processes, people, and technology. IT supported a more agile way of delivery, to better partnering with business, and as a result be more efficient and effective. It also hired new leaders and experts especially in the areas of IT security and digital banking.

Change of delivery approach

The team managed to reach important achievements in following new strategic directions in terms of solution delivery. Managed to migrate first applications from mainframe to distributed systems, selected multiple new cloud solutions instead of on-premise, and strengthened resources in digital and front-end delivery.

Core systems consolidation

IT followed the core banking system strategy and successfully delivered the proof of concept for consolidated core banking system. Based on the success of the proof of concept, the core system consolidation project in Slovenia business entity was initiated.

Application architecture

Application architecture is focused on the Group solution and majority of new solution selections are done as a Group standard with related Group roadmaps. The IT team has made significant progress in simplifying applications with the key achievement being the retirement of the KRAT core system for syndicated loans.

Group-wide capabilities extended

Group-wide capabilities were significantly extended (mainly in the Group competence centre in Belgrade, Serbia) for the new digital banking platform, enterprise integration platform, the business process management platform development within the region, and the cyber security and infrastructure group. The competence centre has 46 employees.

Data management

The Bank achieved several new milestones in the implementation of a Group-wide data management platform which encompasses an enterprise data warehouse, advanced analytics, risk management analytics, profitability, data governance, and consolidated Group regulatory reporting. In October 2021, the NLB initiative Leveraging information capital: Fin-tech architecture at the heart of the traditional

1,366,984
digital users in the Group.

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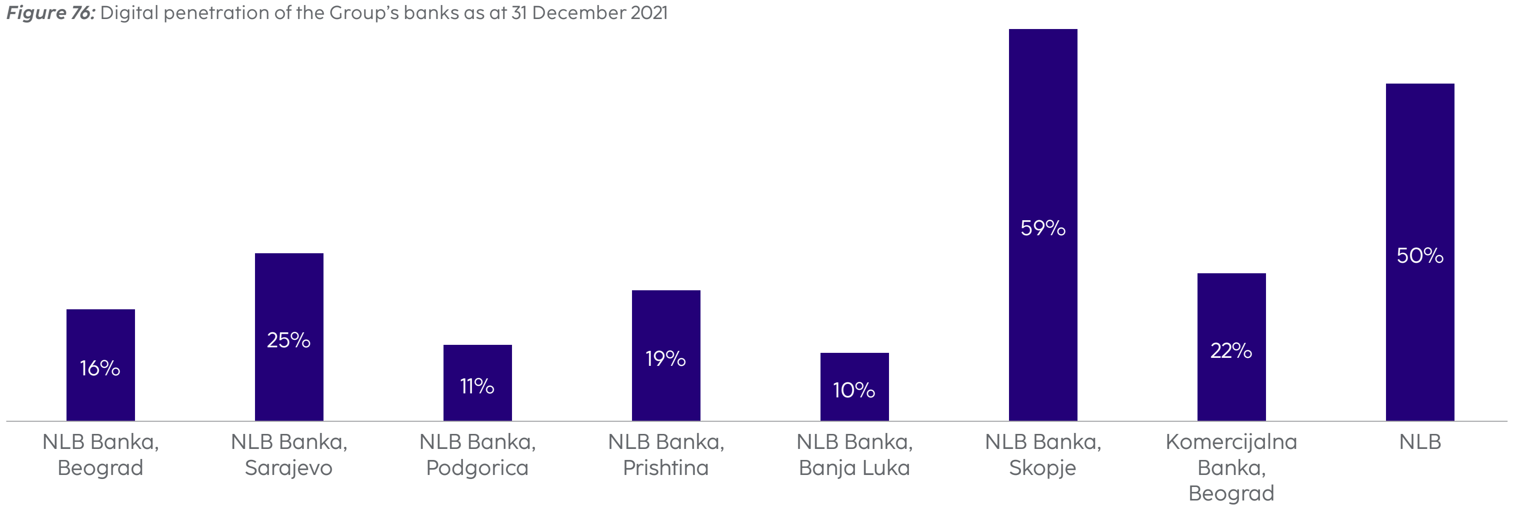
Figure 76: Digital penetration of the Group's banks as at 31 December 2021



bank, developed as part of the Data Management Project of the Group, was selected as one of the top 6 finalists in Gartner's Eye on Innovation Awards competition.

Outlook

In the coming years, the Bank is expected to continue to invest in newly adopted technologies to support the business strategy, especially in the areas of digital, data, and customer relationship management (CRM), consolidating the Group's infrastructure, simplifying core systems and to achieving superior client experience in terms of quality, innovation, reliability, and security.

Cyber security

Strengthening team and implementing new solutions

The Group is giving special focus to cyber security, and consequently assuring the confidentiality, integrity, and the availability of data, information, and IT systems that support banking services and products for clients. Cyber security in the Group is constantly tested and upgraded by security assessments, independent reviews, and penetration testing. Cyber security is regularly discussed at the Bank's

Strengthening
the team and extra investments in

cyber security.

Information Security Steering Committee, Operational Risk Committee, and Management Board meetings. During 2021, the Group increased its capacity in terms of human resources by hiring specialists in different domains. The Group now has a group team on two locations, in Ljubljana and Belgrade. Beside increasing capacity in human resources, improvement was made in detection capabilities by fine tuning detection systems, as well as by performing hardening on network devices across the Group. The threat intelligence process was established and new IT Security strategy was adopted focusing on unification of IT security systems and centralisation of processes. A new Group vulnerability management platform was selected. A technical measures guideline, as the Group standard for tools and processes, was also adopted and rolled out to the Group.

All employees educated, continuous information exchange

All employees in the Group are continuously educated about the importance of information/cyber security, as well as social engineering techniques. The Group banks are providing employees and customers with security notifications, especially for the occurrence of threats in the (global) environment with potential impact on the banks' IT systems, services, products, and clients. The Bank is also testing the awareness of its employees with social engineering attack simulations. Threat intelligence data is shared by the Group team to all Group members with information on the latest threats and recommendations on mitigation measures.

IT Strategy 2020-2024

At the end of the 2020, a refreshed IT Strategy was adopted that also incorporates the Group dimension.

Vision

Build the best digital banking IT team in the SEE region.

Mission

Enable the best client and employee experiences through reliable, effective, secure, accessible, and scalable IT solutions.

Main principles

- increase client satisfaction in all segments with new digital omnichannel platform, digitize client journeys and interactions (CRM), and achieve operational excellence;
- have an effective IT architecture using cloud solutions and open-source software where possible;
- introduce a new way of agile development and DevOps transformation leading to shorter releases cycles, automated testing, and less manual tasks;
- ensure the necessary development capacity - hire right talents with the digital skills and looking forward to execute change;
- introduce modern collaboration tools and digitize internal processes;
- leverage the investment made in the data platform;
- assure quality, security, and availability of the IT systems and applications;
- have a highly motivated, effective, and satisfied IT team working closely with the business side.

We are on your team.

The first generation opened clubs.
The next generation won all the national championships.
The third generation raised regional champions.
We will help this generation reach for the stars.

Nothing connects, strengthens the bonds of cooperation or teaches how to win and lose with dignity as well as sport does. Especially in a region with such diversely rich sporting history. Since we believe that sport boasts an immense power for connecting, enhancing physical and spiritual well-being and inclusion, we are proud to support top athletes and young sports prodigies on a regional level, among those are girls from U13 football team NK Radomlje. This way, we are becoming one of the largest sponsors of sport in the region.

Human Resources

As a market leader, the Group realises that investing in employees is crucial. Engaged employees contribute significantly to business goals and results. That's why the Group continued with its long-lasting tradition of investing in employee development, along with searching for new approaches and introducing new practices to improve organisational culture, leadership, and employee experience. COVID-19 pandemic impacts were felt throughout the year and so the health and safety environment was of the highest priority. The Group continuously enabled the majority of non-branch employees to work from home, and on average 32% of employees did so. Due to the COVID-19 situation, the development activities took place in an online environment and remained focused on the challenges of remote work and leadership.

Employee Headcount

Number of employees reduced

The Group continued with optimisation of processes and right sizing its staffing level. Due to the acquisition of Komercijalna Banka, Beograd and its subsidiaries in December 2020, the number of employees at the 2020 YE rose to 8,792 but has downsized throughout the year to reach 8,185 at the 2021 YE.

Work from home

During the year, the COVID-19 pandemic still influenced business operations and work was organised in a way to minimise the risk of infections. The Group continuously enabled employees, whose presence in the Group's premises was not essential to business process, to work from home (remotely) (the Group: 32%, NLB: 47%). All decisions related to health and safety were made on time and following the epidemiological circumstances.

Strive to Be 'Top Employer'

The Group is continuing to strengthen its HR practises based on feedback from reputable institutions and benchmarks

'Top Employer'

for the 7th consecutive year.

Table 34: NLB Group headcount by countries as at 31 December 2021 and 2020

Country	31 Dec 2021	31 Dec 2020	Changes YoY
Slovenia	**2,619 (NLB: 2,510, other: 109)**	**2,691 (NLB: 2,591, other: 100)**	**-72 (NLB: -81, other: 9)**
Serbia	2,901	3,198	-297
North Macedonia	877	877	0
BiH[i]	942	1,086	-144
Kosovo	463	463	0
Montenegro[ii]	374	467	-93
Germany	1	1	0
Switzerland	2	2	0
Croatia	6	7	-1
Group Total	**8,185**	**8,792**	**-607**

[i] The sale process of Komercijalna Banka, Banja Luka was concluded in December 2021.
[ii] The merger of NLB Banka, Podgorica and Komercijalna Banka, Podgorica was completed in November 2021.

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with best-in-class HR practises. The Bank was once again recognised as a 'Top Employer' by the Dutch Top Employer Institute for the 7th consecutive year, demonstrating a high level of expertise and contribution in the areas from people strategy, leadership, digitalization, talent acquisition and development, performance management, sustainability, and a lot more. The Bank will continue ensuring an even more stimulating work environment in the future.

Continuing a longstanding tradition of investing in employees

Organisational culture

Organisational culture is an important driving force of company development and success, that's why the Group has decided to take an active and comprehensive approach to develop it. Measurement of the organisational culture gave a roadmap on how to grow and further enhance constructive organisational styles. This includes involving employees from all backgrounds, areas, and levels in focus groups, and provides in-depth insights on the actions that need to be taken to ensure even higher engagement and success in the areas of leadership, employee empowerment, and interpersonal cooperation.

Leadership development

Significant influence on employee satisfaction derives from their working environment, and leaders on all levels have a significant role in creating a productive atmosphere. The Group is actively developing leadership competencies of senior management to align with the activities of changing organisational culture. Ensuring the succession for managerial positions is also of key importance throughout the Group and one of the strategic activities.

Developing talent

Among its employees, the Group identified talents in the fields of leadership, professional, and young talents. They are provided additional opportunities, knowledge, and skills needed to manage and lead in challenges of the future, as well as individual development activities.

Developing NLB Employer Brand

To attract top talent throughout the region, the Group has identified the need to develop the Employer Brand actively. The Group has done internal and external surveys, interviews, and multiple focus groups to identify the relevant employer value proposition.

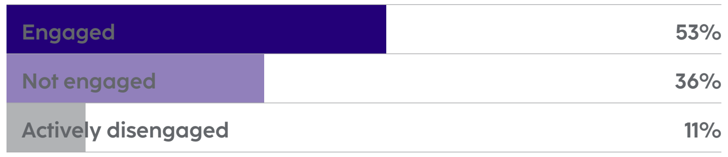
Employment – Hackathon

The strategic direction of the Bank defines employment of new profiles needed on a Group level. As a trendsetter, the Bank organised two NLB Hackathons (one for Data Science, and second one for Open Finance) to recognise talents in its home region and promote the Bank as a desirable employer.

Engagement of employees

A crucial part of success is the motivation and engagement of employees. In 2021, a total of 72% of employees participated in the survey.[15] Compared to the year 2020, the percentage of engaged employees (loyal and psychologically committed to the organisation) rose by 10% to 53%.

Figure 77: NLB Group Employee Engagement 2021



Prepared to Tackle Future Challenges

Various training activities to embrace changes

The Group strives for high quality and standards of a modern learning organisation. Due to the rapidly changing environment, the Group expanded its offer of trainings with access to future skills topics, made training more accessible and on demand, while also still offering classical channels of training and workshops.

Trainings, e-learning

Due to COVID-19, most of the trainings were conducted online. The emphasis of online programmes was focused on various topics from the Banking & Financial area, Leadership & Management, Sales, IT, to Personal Development, Compliance and the Work Environment, and ESG & Social Responsibility. Along with these areas, the Group also made substantial investment in training employees in Data Analytics & Science across the Group.

Online learning with access to 7,000+ courses

On 1 March, the Group enabled employees' access to the online learning platform Udemy for Business. The aim was to empower employees over their own development and give them opportunities to upskill or reskill, and be better prepared for upcoming challenges.

15 NLB Banka, Beograd and Podgorica were exempt from the survey due to the integration activities with Komercijalna Banka.

In first 10 months, the most often enrolled courses were from areas of IT Development, Data Analytics & Science, Office Productivity and Personal Development.

Well-being & Health

Creating a work environment

The Group is always committed to offering knowledge on good health, creating a work environment that enables quality interpersonal relationships, and promoting activities that enhance the good health and satisfaction of employees.

Promoting healthy habits and new health and safety measures

During the pandemic, emphasis was placed on developing healthy habits. Health trainings were organised to help employees cope with mental side of new reality and emphasise benefits of regular physical activity.

The Group continued to make sure that prescribed protective measures are followed and equipment (masks, gloves, and disinfectants) was available to employees and clients. It also encouraged working from home.

On average

32%

of the Group's employees worked from home in the period of pandemic.

Remuneration system as a motivation for engaged and committed employees

For an employee working in the companies within the Group, salary is composed of:	
Fixed part	Determined according to the complexity of the work for which the employee has concluded a contract of employment.
Variable part	Depends on the employee's performance for reaching set goals.
	Empoyees are awarded: 1. quarterly or half-yearly compensation and 2. annual rewards related to the business performance of the bank in which they work.
	Performance assessment is done by the head of the employee's organisational unit using a top-down approach to evaluate the employee's achievements in relation to goals set for a particular assessment period (quarter or half-year). The goals are set according to the 'SMART' method, meaning that they have to be specific, measurable, achievable, relevant, and time-bound.

Diversity Policy

Framework

The policy sets the framework in the area of diversity and representation of both genders in the Supervisory Board and Management Board and the senior management. With the policy, the Bank also sets the framework for diversity with regards to education, range of knowledge, skills and experience, age, gender, and international experience.

Objectives

- 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.
- International experience of its members in different areas.
- Diversity as regards gender representation.
- Diversity as regards the age structure, which should reflect the age structure in the Bank to the largest extent possible.

The goals of the Policy shall also be reasonably applied to the provision of diversity of the wider management.

Table 35: Diversity - review of management bodies and senior management in 2021 and plan for 2022

	Supervisory Board of NLB		Management Board of NLB		Senior Management of NLB	
	2021	Plan for 2022	2021	Plan for 2022	2021	Plan for 2022
Wide range of knowledge, skills and professional experience	High	High	High	High	High	High
International experience of the members in different areas	High	High	High	High	Medium High	Medium High
Age structure	20-30 = 0	0	20-30 = 0	0	20-30 = 1	1
	30-40 = 0	0	30-40 = 0	0	30-40 = 5	5
	40-50 = 1	1	40-50 = 3	5	40-50 = 19	19
	50-60 = 8	6	50-60 = 0	1	50-60 = 13	13
	60+ = 3	5	60+ = 0	0	60+ = 0	0
Share of women	**42%**	**42%**	**0%**	**16.7%**	**45%**	**45%**

Remuneration policy for members of the Supervisory Board and Management Board of NLB

Members of the Supervisory Board may receive remuneration that is compliant with the relevant resolutions of the Bank's General Meeting.

Members of the Management Board receive remuneration consisting of a fixed part of the salary and a variable part of the salary. The variable part of remuneration is allocated and paid in the form of cash and/or instruments.

Remuneration policy for employees in NLB and in the Group

In 2021, a refreshed Remuneration Policy for employees in NLB and in the Group was adopted where the basic principles represent the framework for rewarding employees in NLB and the Group. The remuneration policy defines fixed and variable remuneration, the goal-setting system and performance criteria (KPIs), and sets out the conditions for the allocation and payment of the variable part of remuneration.

8,185

employees in the Group family.

Contents

Corporate Governance

Corporate governance of the Bank is based on legislation of the RoS, particularly (but not exclusively) the provisions of the changed Companies Act (ZGD-1) and the Banking Act (ZBan-3), the Decision of the BoS on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks, the relevant EBA Guidelines on internal governance, the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, the EBA Guidelines on remuneration practices, and the EU regulations regarding ESG.

Rules and Procedures

Corporate governance of the Bank includes the processes through which Bank objectives are set and pursued (directed and controlled), and lately it is becoming an efficient way to channel investor-driven initiatives related to sustainability. Corporate governance with its principles identifies the distribution of rights and responsibilities among different stakeholders in the Bank (Management and Supervisory Board, shareholders, creditors, auditors, regulators, and other stakeholders), and include the rules and procedures for making decisions in corporate affairs. The most important rules and procedures are:

Articles of Association of NLB

In accordance with the applicable Banking Act (ZBan-3) and Companies Act (ZGD-1), the Articles of Association of NLB the Bank has a two-tier governance system, according to which the Bank is managed by the Management Board and its operations are supervised by the Supervisory Board (https://www.nlb.si/corporate-governance), while shareholders exercise their rights on meetings of shareholders.

Corporate Governance Statement of NLB

Apart from the binding legal framework, the Bank also follows the Corporate Governance Code for Listed Companies (valid since 1 January 2017). The Code defines the governance, management, and leadership principles based on the 'comply or explain' principle of companies listed on the Slovenian regulated market (https://www.ljse.si). Deviations from the recommendations of the mentioned code are published in the Corporate Governance Statement of NLB, which is adopted by the NLB Supervisory Board. The mentioned statement is prepared according to Article 70 (paragraph 5) of the Companies Act (ZGD-1) and is part of the Business Report in the NLB Group Annual Report. The mentioned statement is also published on the Bank's webpage (https://www.nlb.si/corporate-governance), as well as on the webpage of the Ljubljana Stock Exchange – SEOnet (https://seonet.ljse.si).

Corporate Governance Policy of the NLB and NLB Group Corporate Governance Policy

The corporate governance framework of the Bank, being the Corporate Governance Policy of NLB (November 2020), is designed jointly by the Management Board and the Supervisory Board of the Bank. Therein are publicly disclosed commitments to shareholders, clients, creditors, employees, and other stakeholders as a whole, how the Bank will be supervised and managed, as well as decision which corporate governance code the Bank should follow (https://www.nlb.si/corporate-governance). The Corporate Governance Policy of NLB should be read together with the NLB Group Corporate Governance Policy in which the corporate governance principles and mechanisms of the Group members (NLB excluded) are defined and governed.

NLB Group Code of Conduct

In the NLB Group Code of Conduct (Code), values, mission, and core principles of conduct are defined together with set guidelines to which the Group is committed. The Code describes the values and the basic principles of ethical business conduct that the Group respects, promotes, and expects to be followed in the whole Group (https://www.nlb.si/code-of-conduct). Operating with integrity and responsibility is a key element of the Group's corporate culture. It is important to achieve business goals as well as the way to achieve them. The Group demands that every employee, regardless of their job or location of work and every other stakeholder of the Group, complies with the highest standards of integrity. The key for achieving these standards is strong culture of compliance practiced by the Group.

Remuneration Policy for the members of the Supervisory Board and Management Board of NLB

In accordance with the fifth paragraph of Article 294a of the Companies Act, the Bank publicly posted on its website the Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB (version 1), which was adopted by the Supervisory Board of NLB on 15 October 2021 and approved by the General Meeting of Shareholders of NLB on its session on 16 December 2021 (https://www.nlb.si/corporate-governance). The resolution was legitimately passed with the necessary majority of the votes cast.

Policy on the Provision of Diversity of the Management Body and Senior Management

Policy on the Provision of Diversity of the Management Body and Senior Management regarding selection of members of the Supervisory Board, the Management Board and B-1 level was confirmed on General Meeting of Shareholders on 10 June 2019. With mentioned policy the Bank follows high standards of adequate representation of both sexes in the managing bodies.

In 2020 and January 2021, the Workers' Council of NLB elected and appointed employee representatives as members of the Supervisory Board of NLB, thus four employee representatives were appointed. 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 Supervisory Board yearly follows the implementation of the goals set by mentioned policy.

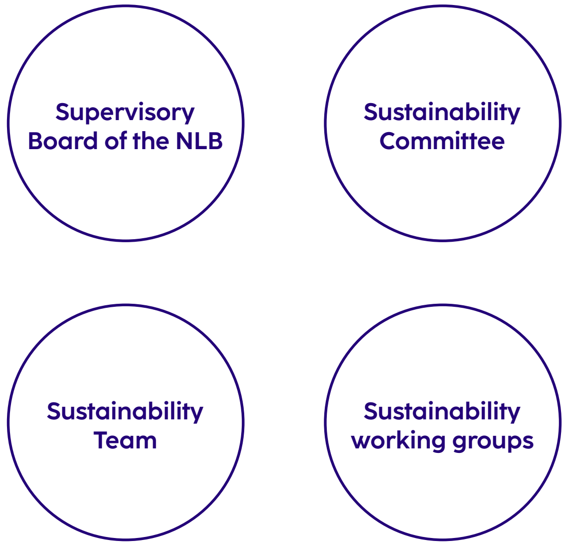
NLB Group Sustainability Governance Structure

NLB became the first bank in Slovenia to commit to the UN Principles for Responsible Banking (September 2020). These principles represent a single framework for a sustainable banking industry and are aligned with the 2015 Paris Climate Agreement and with the objectives of the UN Sustainable Development Goals (UN SDGs) that cover three dimensions of sustainability: economic, social, and environmental. In that respect, the Bank upgraded the Corporate Social Responsibility (CSR) activities with more consistent adherence to the 2030 Agenda of the UN SDGs.

In 2021, however, the Group moved from raising awareness to actively implementing sustainability elements into the business model and established sustainable operations in the Framework for Sustainable Operations of the NLB Group (https://www.nlb.si/sustainability). The framework defines the Bank's corporate sustainability strategy, vision and mission, commitment to the UN SDG, sustainable economic activities, ESG risk management, sustainability governance structure, responsible banking, and business ethics.

During the year, the Bank also gradually built mechanisms to assure very important and comprehensive steps in integrating sustainability into banking operations, the so-called ESMS. The ESMS is a set of policies, procedures, tools, and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees. Significant changes in the lending process of the Group are one of the most important consequences of the introduction of the ESMS. The risk policies were upgraded to follow ECB and EBA guidelines.

The Bank anchored ESMS at different levels within the Bank and the Group thus guaranteeing that it receives attention from the highest decision-making bodies in the Bank and in the Group members. With the establishment of the Sustainability Committee in the fall of 2021, which is a new advisory Body to the Management Board, the Bank built a 4-level NLB Group Sustainability Governance Structure, as follows:



More information is available on https://www.nlb.si/nlb-sustainability-framework.pdf and in this report, in Sustainability chapter.

ESG factors and indirect economic factors are comprehensively recognised and managed according to GRI (Global Reporting Initiative – Global Standards (GRI GS)) standards. Key ESG information is published in the following chapters of this report or other related webpages:

Environment (E):
- In Sustainability chapter
- In separately published NLB Group Sustainability Report 2021 published on the Bank's webpage
- the chapter Risk Management, subchapter Incorporating ESG Risks
- the chapter Statement of Management of Risk in Note 6 of the Financial part of the report

Social (S):
- In Human Resources chapter
- In the diversity and remuneration chapters in a separate report on Pillar 3 Disclosures according to Basel Standards

Governance (G):
- In this chapter of report
- In the Corporate Governance Statement of NLB of this report and on the Bank's webpage https://www.nlb.si/corporate-governance and on the webpage of the Ljubljana Stock Exchange https://seonet.ljse.si

Bank's Governing Bodies

The Bank's corporate governance is based on a two-tier system in which the Management Board manages the Bank, while its daily operations are supervised by the Supervisory Board.

General Meeting of Shareholders

Supervisory Board

Management Board

General Meeting of Shareholders

The shareholders exercise their rights related to the Bank's operations at General Meetings. The Bank's General Meeting passes decisions in accordance with the legislation and the Bank's Articles of Association. Decisions adopted by the General Meeting include, among others: adopt and amend the Articles of Association, use of distributable profit, grant a discharge from liability to the Management and Supervisory Board, changes to the Bank's share capital, appoint and discharge members of the Supervisory Board, remuneration of members of the Supervisory and Management Board and authorisation regarding the characteristics of issues of securities.

There were two General Meetings of Shareholders in 2021. The shareholders of the Bank gathered on 36th General Meeting on 14 June. Due to COVID-19 pandemic, for the first time the General Meeting was hybrid, as it was held live and online. The shareholders took note of the approved NLB Group Annual Report 2020, the Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2020, and Information on the income of members of the Management Board and Supervisory Board of the Bank for the previous business year.

The shareholders decided on the allocation of distributable profit for 2020. The distributable profit of the Bank as at 31 December 2020 was EUR 341,992,219.43.

The General Meeting of NLB granted discharge to the members of the management and supervisory bodies for the 2020 financial year, adopted amendments and supplements to the Articles of Association, and appointed Islam Osama Zekry as a new member of the Supervisory Board.

At the 37th General Meeting of Shareholders that was summoned for 16 December 2021, the shareholders decided on additional allocation of distributable profit for 2020. The Bank paid out in three instalments a total of EUR 92.2 million of dividends to the shareholders in 2021.

At the General Meeting, the shareholders also voted on the Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB.

More information on the work of the General Meeting of the Shareholders activities is available in Corporate Governance Statement of NLB.

The Supervisory Board

The Supervisory Board supervises the management of the Bank and its duty of diligent and prudent conduct in line with powers defined in Companies Act (ZGD-1) and according to provisions of the Banking act (ZBan-3), other regulations, and internal rules of the Bank (the Articles of Association of NLB and Rules of Procedures of the Supervisory Board of NLB). In accordance with Articles of Association the Supervisory Board consists of 12 members, of which eight members represent the interests of shareholders, and four members represent the interests of employees. Members of the Supervisory Board of the Bank representing the interests of shareholders are elected and recalled by the Bank's General Meeting from persons proposed by shareholders or the Supervisory Board of the Bank. Members of the Supervisory Board of the Bank representing the interests of employees are elected and recalled by the Workers' Council of the Bank. All Supervisory Board members must be independent experts.

Number of members:	Diversity:
12 (8 are representatives of capital, while 4 are representatives of workers)	In SB 5 out of 12 members are female (41.67%)

There were two changes in the composition of the Supervisory Board in 2021. The Workers Council of the Bank elected Tadeja Žbontar Rems as a member of the Supervisory Board (representative of workers). Her term of office runs from 22 January 2021. Islam Osama Zekry was elected as a new member of the Supervisory Board on the General Meeting of Shareholders on 14 June 2021.

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At 31 December 2021, the Supervisory Board had the following members:

Representatives of capital

Primož Karpe, M.Sc.
Chairman
Term of office: 2016-2020, renewed term 2020-2024
Link to CV
Membership in NLB Supervisory Board committees:
- Nomination Committee (Chairman)
- Audit Committee (Member)
- Operations and IT Committee (Member)

Membership in management bodies of related or unrelated companies:
- Angler d.o.o. - Director

Andreas Klingen
Deputy Chairman
Term of office: 2015-2019, renewed term 2019-2023
Link to CV
Membership in NLB Supervisory Board committees:
- Nomination Committee (Deputy Chairman)
- Risk Committee (Chairman)
- Operations and IT Committee (Member)

Membership in management bodies of related or unrelated companies:
- Credit Bank of Moscow - Member of the Supervisory Board(i)
- Kyrgyz Investment and Credit Bank CISC - Member of the Board of Directors
- Nepi Rockcastle plc - Member of the Board of Directors

(i) Till 14 March 2022.

Shrenik Dhirajlal Davda, M.Sc.
Member
Term of office: 2019-2023
Link to CV
Membership in NLB Supervisory Board committees:
- Risk Committee (Deputy Chairman)
- Remuneration Committee (Member)
- Audit Committee (Deputy Chairman)

Membership in management bodies of related or unrelated companies(i):
- PJSC Ukrgasbank - Independent Member of the Supervisory Board

(i) Since 8 March 2022 also: IPSO, UK - Lay Member of the Board.

Mark William Lane Richards, M.Sc.
Member
Term of office: 2019-2023
Link to CV
Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Chairman)
- Remuneration Committee (Deputy Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- Vencap International plc Ukraine (UK) - Director
- BPL Global (Lloyds of London insurance Broker) - Non-Executive Director
- Sheffield Haworth Ltd - Non-Executive Director

David Eric Simon
Member
Term of office: 2016-2020, **renewed term** 2020-2024
Link to CV
Membership in NLB Supervisory Board committees:
- Audit Committee (Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- Jihlavan a.s. - Chairman of the Supervisory Board
- Czech Aerospace industries sro - Legal representative
- Central Europe Industry Partners a.s. - Sole Member of the Supervisory Board

Islam Osama Zekry, Ph.D.
Member
Term of office: 2021-2025
Link to CV
Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Deputy Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- CIB Housing association, Egypt - President of the Supervisory Board
- Egyptian AI Council (Ministry of Communication and Information Technology) – Member of the Supervisory Board

Gregor Rok Kastelic
Member
Term of office: 2019-2023
Link to CV
Membership in NLB Supervisory Board committees:
- Remuneration Committee (Chairman)
- Audit Committee (Member)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Verica Trstenjak, Ph.D.
Member
Term of office: 2020–2024
Link to CV
Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)

Membership in management bodies of related or unrelated companies:
- European Union Agency for fundamental rights – Member of the Management Board

Representative of employees

Bojana Šteblaj, M.Sc.
Member
Term of office: 2020–2024
Link to CV
Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Sergeja Kočar, M.Sc.
Member
Term of office: 2020–2024
Link to CV
Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Janja Žabjek Dolinšek, M.Sc.
Member
Term of office: 2020–2024
Link to CV
Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Tadeja Žbontar Rems, M.Sc.
Member
Term of office: 2020–2024
Link to CV
Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Member)

Membership in management bodies of related or unrelated companies:
- None

Further information about the work and composition of the Supervisory Board is available in the chapter Corporate Governance Statement of NLB.

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Committees of the Supervisory Board

The Supervisory Board appoints committees that prepare proposals for resolutions passed by the Supervisory Board, ensures their implementation, and performs other expert tasks. The Bank's Supervisory Board has five collective decision-making and advisory committees, namely:

Audit Committee	Risk Committee	Nomination Committee	Remuneration Committee	Operations and Information Technology (IT) Committee
David Eric Simon, Chairman	**Andreas Klingen**, Chairman	**Primož Karpe**, Chairman	**Gregor Rok Kastelic**, Chairman	**Mark William Lane Richards**, Chairman
Shrenik Dhirajlal Davda, Deputy Chairman	**Shrenik Dhirajlal Davda**, Deputy Chairman	**Andreas Klingen**, Deputy Chairman	**Mark William Lane Richards**, Deputy Chairman	**Islam Osama Zekry**, Deputy Chairman
Primož Karpe, Member	**Islam Osama Zekry**, Member	**Verica Trstenjak**, Member	**Shrenik Dhirajlal Davda**, Member	**Andreas Klingen**, Member
Gregor Rok Kastelic, Member	**Mark William Lane Richards**, Member	**Bojana Šteblaj**, Member	**Bojana Šteblaj**, Member	**Primož Karpe**, Member
	David Eric Simon, Member	**Sergeja Kočar**, Member	**Sergeja Kočar**, Member	**Janja Žabjek Dolinšek**, Member
	Gregor Rok Kastelic, Member			**Tadeja Žbontar Rems**, Member

Further information about the work and composition of the Committees of the Supervisory Board is available in the chapter Corporate Governance Statement of NLB.

The Management Board

The Management Board represents the Bank and manages its daily operations, independently and at its own discretion, as provided for by the applicable laws and the Articles of Association of NLB. In accordance with the Articles of Association, the Management Board has three to seven members (the president and up to six members) which are appointed and dismissed by the Supervisory Board. The president and members of the Management Board are appointed for a five-year term of office and may be reappointed or dismissed early in accordance with the law and Articles of Association.

Number of members:	Mandate:
three members	**five-year term of office**

The Supervisory Board of NLB and, member of the Management Board and Chief Operating Officer (COO) Petr Brunclík, agreed on the termination of office with effect on 30 June 2021. The decision was brought about by personal reasons. As of 22 April 2021, his tasks were taken over by other members of the NLB's Management Board.

Further information about the work and composition of the Management Board is available in the chapter Corporate Governance Statement of NLB.

At the end of 2021, the composition of the Management Board was as follows[16]:

Blaž Brodnjak
CEO & CMO
Term of office: 2016-2021, renewed term 2021-2026

Link to CV

Other important functions and achievements:
- More than 21 years of experience at managerial positions on all levels of international banking groups.
- Was a chairman or member of the supervisory boards of 13 commercial banks in six countries, three insurance companies in three countries, leading asset management company in Slovenia and multinational production group.

Direct responsibility:
- Strategy and Business Development
- Legal and Secretariat
- Communication
- HR and Organisation Development
- Investment Banking and Custody
- Retail and Private Banking, Corporate Banking
- Payment Processing
- Cash Processing

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Supervisory Board: NLB Banka, Skopje
- Chairman of the Board of Directors: NLB Banka, Prishtina
- Member of the Board of Directors: Komercijalna Banka, Beograd
- President of the Association of Banks in Slovenia
- President of the Board of Governors: AmCham Slovenia
- Member of Executive Committee of the Handball Federation of Slovenia
- Member of the Board of Directors: Cedevita Olimpija (from 1 February 2022)

Andreas Burkhardt
CRO
Term of office: 2016-2021, renewed term 2021-2026

Link to CV

Other important functions and achievements:
- 20 years of experience in the area of banking, especially in the area of Central Europe.

Direct responsibility:
- Internal Audit
- Compliance and Integrity
- Global Risk and Credit Risk – Corporate and Retail
- Workout and Legal Support
- Restructuring
- Evaluation and Control
- Financial Instruments Processing
- Corporate Customer Delivery
- Retail Banking Processing

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Board of Directors: NLB Lease&Go
  NLB Bank, Banja Luka
  NLB Bank, Sarajevo

Archibald Kremser
CFO
Term of office: 2016-2021, renewed term 2021-2026

Link to CV

Other important functions and achievements:
- More than 21 years of experience in the financial services industry in Austria, CEE, and SEE focusing on finance and asset management, strategy, and corporate development, as well as performance improvement assignments.

Direct responsibility:
- Financial Accounting
- Controlling
- Financial Markets
- Group Real Estate Management
- Group Steering
- IT Architecture
- IT Delivery
- Data Management
- IT Shared Service Centre
- NLB Group IT Security Governance
- IT Infrastructure
- Procurement

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Board of Directors:
  NLB Banka, Podgorica
  Komercijalna Banka, Beograd

16 Further information is available in the chapter Events After the End of the 2021 Financial Year.

Contents

Collective decision-making bodies

Different committees, commissions, boards, and working bodies may be appointed by the Management Board for execution of individual tasks within powers of the Management Board.

Corporate Credit Committee	Assets and Liabilities Management Committee of the NLB Group	NLB Operational Risk Committee	The Change the Bank Committee	The Group Real Estate Management Committee	The Sales Committee	Private Individual Credit Committee
Chairman: CRO	Chairman: CFO	Chairman: CRO	Chairman: CEO	Chairman: CFO	Chairman: Executive Assistant to MB for CIB area	Chairman: Director of Credit Risk – Retail
Number of members: 8	Number of members: equal to the number of the appointed members of the Management Board	Number of members: 16	Number of members: equal to the number of the appointed members of the Management Board	Number of members: 3	Number of members: 13	Number of members: 5
The Committee determines credit ratings and makes decisions on the reclassification of clients and approves commercial banking investment transactions and limits that are beyond the competencies of the directors. The Committee adopts decisions on investment transactions in commercial banking within the statutory powers in the areas of corporate banking in the Bank (all companies, banks, and financial institutions), operations with clients in intensive care, and NPL. As a rule, committee meetings are convened once a week.	The Committee monitors conditions in the macroeconomic environment and analyses the balance, changes to and trends in the assets and liabilities of the Bank and the Group companies, drafts resolutions and issues guidelines for achieving the structure of the Bank's and the Group's balance sheet. Committee meetings are generally convened once a month.	The Committee is responsible for monitoring, guiding, and supervising operational risk management in the Bank, and for transferring this methodology to the Group members. As a rule, the Committee meets once every two months.	The Committee is responsible for adopting decisions related to the development portfolio with the aim of transforming the Bank and decisions related to adopting the development guidelines. As a rule, the Committee meetings are convened once a month.	The Committee is in charge of giving opinions on acquisition/purchase price of real property and additional investments in real property provided as collateral for NPL, the selling price of own real property, and the acquisition/purchase price for the real property mortgaged in the sale of receivables. As a rule, Committee meetings are convened once a week.	The Sales Committee adopts decisions on the management of the range of products and services and the relations with the clients in the area of sales. As a rule, Committee meetings are convened once a week.	The Committee decides on the approval of loans and other investment proposals, the conditions of which deviate from standard banking products and services, and which represent additional risks for the Bank. As a rule, meetings are convened when necessary.

The Management Board also appointed working bodies that operate at a lower level:

Committee for New and Existing Products

Group Real Estate Management Sub Committee

Committee for Business IT Architecture

Data Management Committee

Anti - Money Laundering Commission

Corporate Customer Acceptability Committee

Advisory bodies of the Bank's Management Board

The Watch List Committee	The Risk Committee	NLB Group Non-Performing Assets Divestment Committee	NLB Group Sustainability Committee
Chairman: CRO	Chairman: CRO	Chairman: Director of Workout and Legal Support	Chairman: CEO
Number of members: 7	Number of members: 12	Number of members: 7	Number of members: 17
The Watch List Committee is a body which monitors the progress of activities for clients on the Watch list. As a rule, committee meetings are convened quarterly.	The Risk Committee monitors and periodically reviews matters related to risk and commercial risk and prepares materials for the Management Board to obtain decisions. As a rule, committee meetings are convened quarterly.	The NLB Group Non-Performing Assets Divestment Committee monitors operations of Non-Core Group Members and issues opinions, recommendations, and initiatives. The Committee shall discuss the strategies regarding optimal management of the Group members and shall monitor realisation of their strategic objectives. As a rule, committee meetings are convened quarterly.	Committee oversees the integration of the ESG factors to the NLB Group business model in a focused and coordinated way across the company and issues opinions, recommendations, initiatives and takes relevant decisions when needed. As a rule, committee meetings are convened quarterly.

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NLB Group's Corporate Governance

As the parent bank, NLB implements the corporate governance of the Group members in compliance with EU and BoS legislation, the local legislation, and regulatory requirements applicable to respective Group members, while also considering internal rules, ECB Guidelines, and other applicable regulations.

The roles, authorisations, and responsibilities of individual bodies and organisational units, as well as the manner to coordinate their operations to achieve the set business goals, are stipulated comprehensively in the NLB Group Corporate Governance Policy. In the Bank, the Group Steering Department is the principal partner of the Bank's Management Board in the governance of strategic and non-strategic Group companies, and is responsible for appropriate corporate governance, the alignment of strategies, and the objectives achieved by subsidiaries.

The Group is governed:

In accordance with fundamental corporate rules through various bodies of the Group members:

- By voting at general meetings of the Group members
- By exercising supervision through the supervisory bodies of the Group members
- With proposals for appointing the management of the Group members
- With proposals for appointing representatives of the Bank to supervisory bodies
- Through participation of Bank's representatives in various committees and commissions of the Group members

Through mechanisms that ensure efficient business monitoring and governance, such as:

- Harmonisation of operations in accordance with the so-called 'competence line principle'
- NLB Group Management Board Meetings, NLB Group Leadership meetings, NLB Group ALCO meetings, etc.
- Development activities carried out via cross-functional working groups, group projects, competence centres, centres of excellence, etc.
- Through additional supervision of NLB Group members carried out by control functions (risk management, internal audit, compliance, AML, information, and physical security) and external supervising authorities (ECB, local regulators, external auditors).

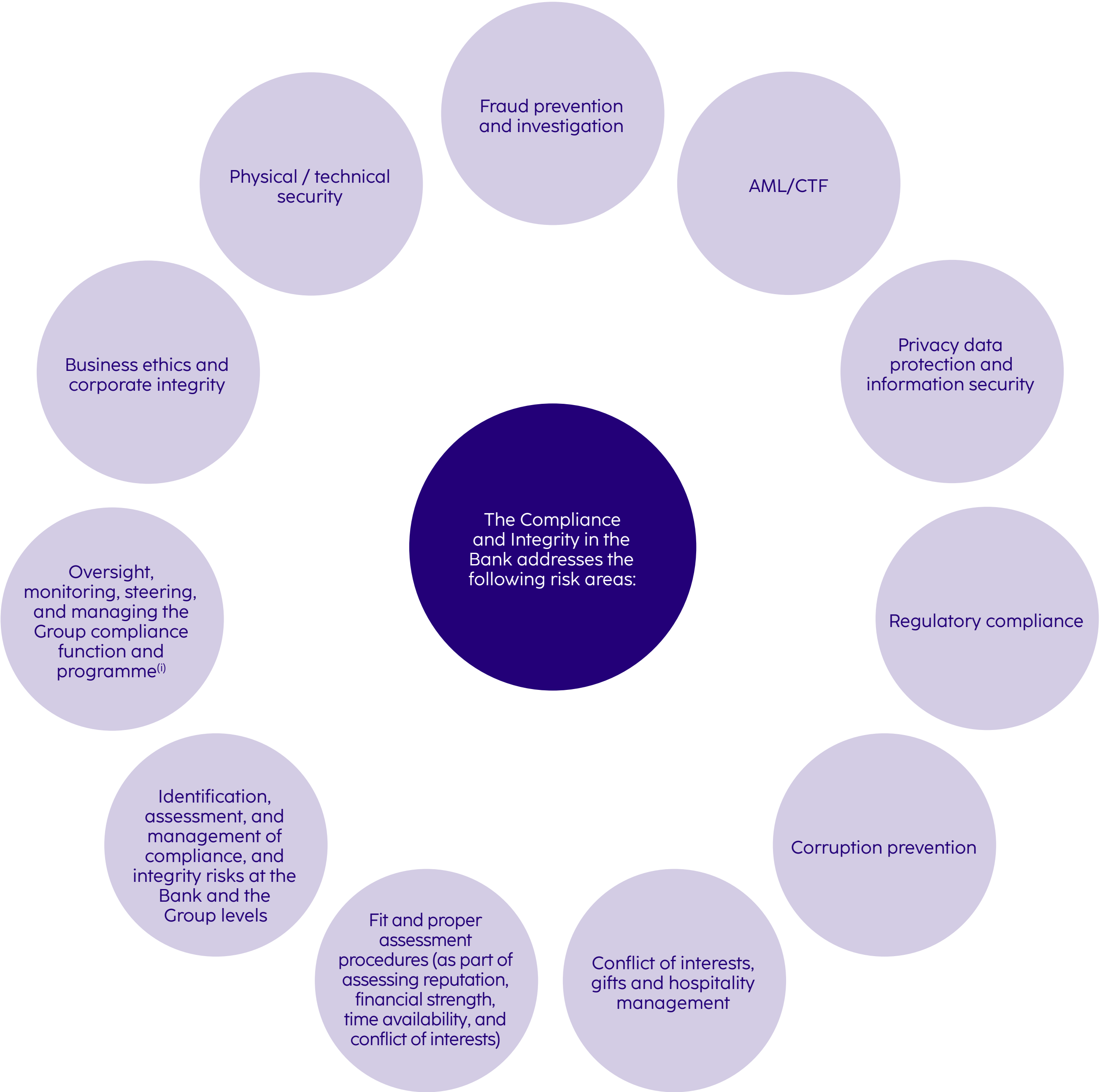
In recent years, the concept of corporate governance of the Group has been upgraded, and the role of members of the Management Board of the Bank in management of other Group members strengthened. The target composition of supervisory bodies in the Group members was established, the functioning of the supervisory bodies optimised, and the reporting and standards related to the harmonisation of operations simplified.

In line with strategic aspirations, the concept of 'country managers' was fully introduced with the main goal to support and steer the Group members, as well as to be a strong link between Group members and the Bank. They also facilitate best practice sharing on different levels. Stream coordinators were introduced to address the facilitation of more in-depth knowledge of competence lines and greater integration between streams and the Group members, the increasing transmission of current information, needs, and other requirements from the Group members, and exploitation of synergies at the Group level and coordination of regional projects.

Legal and organisational structure of the banking group, including a description of the internal governance arrangements, the arrangements with regard to close links and the arrangements regarding the governance of subsidiaries are available on the Bank's webpage (http://www.nlbgroup.si/profile).

Compliance and Integrity

The Group addresses the challenges of high regulation and strict regulatory requirements with a systematic approach to mitigating compliance risks. It is important to ensure that employees and decision-makers know and understand the purpose and objectives of the regulations. The Group is continuously strengthening the compliance function and diligence of its operations.



A culture of compliance is integrated into the day-to day business of the Bank to support its operations, to contribute to its strong internal control environment, and to ensure that compliance risks are mitigated.

Group-wide ethics and integrity standards

Within the framework of the programme of ensuring business compliance, the Group also deals with the ethics and integrity of the organisation. For that reason, all of the employees are included in yearly training and awareness-raising activities in the areas of general ethics, anticorruption, anti-money laundering, information security, etc. The values of the Group, embedded in the Group Code of Conduct, provide guidance and principles of expected behaviour regarding ethical conduct and require appropriate conduct from all employees at any level of the organisation, including its contractors.

The regime on inside information (MAR)

In line with the Market Abuse Regulation (MAR), and other relevant regulations, the Bank has a system in place on the level of the Bank and its entire Group for managing and publicly disclosing inside information in a manner that enables it to comply with the obligations related to inside information identification and disclosure in accordance with the rules and regulations applicable at any time. Also, the Bank has a system in place implementing the market abuse prevention regime in accordance with MAR to prevent insider trading, market manipulation, and illegal disclosure of inside information.

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new laws, draft laws, regulations, and other information regarding regulatory environment of the Bank reviewed.

(i) Established by standards for compliance and integrity for the Group and implementation of monitoring by off-site data analysis and onsite visits.

Prevention of Money Laundering and Terrorism Financing and Financial Sanctions Compliance

The Bank complies with national regulations on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), including the European Banking Authority (EBA), BoS and other competent authorities' guidelines and standards. The RoS is a member of the EU, and thus subject to the European AML/CFT Directives, the means by which the EU transposes the Financial Action Task Force (FATF) recommendations throughout the EU. For the Bank, it is of paramount importance to effectively mitigate the risk of money laundering, financing of terrorism and breaches of financial sanctions. For these reasons, the rules, procedures, and technology in AML/CFT area are subject to strict and unified policies and standards. The same principles are also applied for setting out the Bank's framework on financial sanctions. In the previous year, the Bank upgraded and introduced further enhancements of AML governance in line with directions set by the BoS. Through the system of regular reporting and constant onsite and off-site control, the headquarters effectively monitors the implementation and execution of standards throughout the Group.

The Bank regularly performs customer due diligence, following the risk-based approach and, in the case of enhanced risk, performs additional measures both in the segment of 'Know your customer,' as well as ongoing monitoring of the transactional activities. In the case of detected deviations, also considering the AML/CTF indicators, the AML unit of the Bank ensures the review and, if required by AML/CFT legislation, reports the customers and transactions to the competent Financial Intelligence Unit. In its Acceptance Policy, the Bank has also adopted additional measures to prevent onboarding of customers that do not correspond to its risk appetite. The Bank also ensures a high level of awareness on the AML/CFT area and the area of financial sanctions with regular training of all employees of the Bank.

Information security and personal data protection

The information security area, inter alia, focused on implementation of measures for increasing the level of information/cyber security, as well testing the cyber security resilience of information systems (pen-tests).

Furthermore, in line with the plan, several internal assessments/compliance checks according to ISO/IEC 27001 standard were carried out in 2021, including assessment of information security at outsourcing providers. Special obligatory e-trainings for all employees in the area of information security and social engineering were prepared and executed all as part of prevention measures in this area.

The Bank runs its operations in line with GDPR requirements, including the retention and processing of personal data, dedicated Data Privacy Officer, education, and training of employees. The new Slovenian Personal Data Protection Act (ZVOP-2) was not adopted in 2021 as expected. If necessary, further alignments will be made when the national legislation is in place.

Prevention

Based on the assessment of compliance risks (so-called ECRA – Enterprise Compliance Risk Assessment) the management of the Bank and in particular Compliance and Integrity can plan its activities; all with the aim to reduce or mitigate the compliance and integrity risks. As part of compliance programme, Compliance and Integrity is also involved, inter alia, in risk assessments regarding new and changed products, fit and proper assessments for key function holders, outsourcing, and other changes materially affecting the Bank's business.

As a standard Compliance function, several workshops and compulsory e-education on ethics, the prevention of corruption, conflicts of interest, protection of personal data, AML/CTF, Information Security, Physical Security, and other relevant topics related to everyday work were prepared. For all employees, yearly e-trainings are mandatory on subjects such as prevention of insider trading and market manipulation, ethics, anti-corruption, mitigation of conflict of interests, personal data protection, information security, and similar themes. The Group seeks to promote a corporate culture that facilitates compliance, and by continuously raising awareness, for example through communication via its monthly compliance newsletter, detailing not only important regulatory changes, but also current information and case studies on different compliance and ethics topics.

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compliance processes and other reviews.

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cases investigated.

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Internal Audit

Internal Audit reviews key risks in the Group's operations, advises management at all levels, and deepens understanding of the Bank's operations. It provides independent and impartial assurance regarding the management of key risks, management of the Bank, operation of internal controls, and thereby strengthens and protects the value of the Bank.

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planned and extraordinary audits conducted in the Bank.

Internal Audit is the independent, objective, and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness, and functionality of internal control systems, and the management of the Group operations on an ongoing basis. The Internal Audit provided impartial assurance to the Management Board and Supervisory Board on the management of risks in key areas, i.e., cyber security, Linux and Windows server platforms, restructuring – retail, ICAAP process, personal accounts, outsourcing process, liquidity and credit risk management, lending processes (loans to retail – overdraft facilities, credit cards facilities, non-performing loans, leveraged transactions), corporate real estate management, cash management in branches, and others.

Performed audits

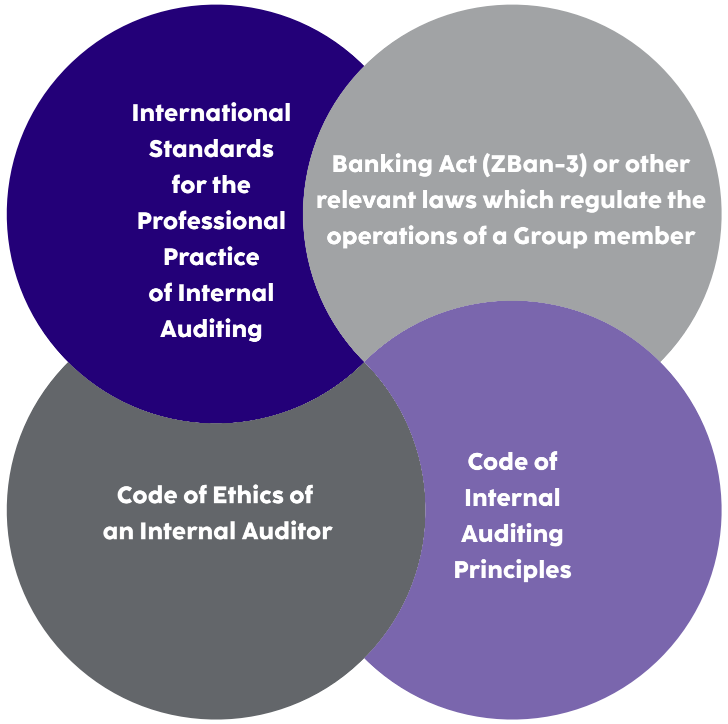
The Internal Audit performs its tasks and responsibilities on its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Based on its internal methodology and comprehensive risk analysis for 2021, the Internal Audit of NLB conducted 43 audit assignments (of that, three audits on a Group level), seven were postponed due to objective reasons. Furthermore, auditors conducted 27 branch inspections, one joint audit with the local auditors, and two internal audit quality reviews, both in the Group. Auditors were also involved in several strategic projects as advisor. The majority of the recommendations given in 2021 were implemented within the agreed deadlines.

Implementation of uniform rules

Internal Audit increases efficiency. It focuses on monitoring the implementation of audit recommendations, training and education, updating the internal audit charter and manual, advising management, and ensuring high quality and professional operations of the internal audit function within the Group. The Internal Audit also introduces uniform rules of operation of the internal audit function and regularly monitors the compliance with these rules within the Group.

The highest standards were followed

Internal Audit and other internal audit services in the Group operate in accordance with the:



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Internal Audit experts.

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Corporate Governance Statements

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Statement of Management's Responsibility

In accordance with the provisions of Article 134 (2nd paragraph) of the Market and Financial Instruments Act[17], the Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as at 31 December 2021, and represent the actual and fair financial standing of the Bank and the NLB Group as well as their operating results in the year that ended 31 December 2021.

The Management Board confirms that the business report gives a fair view of developments and operating results of the Bank and the Group and their financial standings, including a description of the key types of risks and Group companies included in the consolidation are exposed as a whole.

Ljubljana, 11 April 2022

Management Board of NLB

Archibald Kremser	**Andreas Burkhardt**	**Blaž Brodnjak**
CFO	CRO	CEO & CMO

17 (ZTFI-1, Official Gazzete of the RoS, No. 77/18, 17/19 – corr., 66/19 in 123/21).

Authorisation to Perform Banking Services

In accordance with the provisions of Article 14 (1st paragraph) of the Regulation on Books of Accounts and Annual Reports of Banks and Savings Banks (*Official Gazette of the RoS*, No. 184/21) adopted by the BoS on the basis of the authorisation from Article 109 of the Banking Act,[18] (ZBan-3), NLB hereby lists all types of financial services which, in accordance with the authorisation of the BoS, took place during the period for which the business report was prepared.

NLB has the authorisation to perform banking services pursuant to Article 5 of the ZBan-3. Banking services are the acceptance of deposits and other repayable funds from the public and the granting of credits for its own account.

The bank has an authorisation to perform mutually recognised and additional financial services.
It may perform the following mutually recognised financial services, pursuant to Article 5 of the ZBan-3, namely:

1. Accepting deposits and other repayable funds from the public
2. Granting of loans, including:
   - consumer loans
   - mortgage loans
   - purchase of receivables with or without recourse (factoring)
   - financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting)
4. Payment services
5. Issuing and managing other payment instruments (e.g. travellers' cheques and bank bills of exchange), insofar as such services are not included in the services referred to in the previous point
6. Issuing of guarantees and other commitments
7. Trading for own account or for the account of clients:
   - in money-market instruments
   - in foreign legal tender, including currency exchange transactions
   - in standardized futures and options
   - in currency and interest-rate instruments
   - in transferable securities
8. Participation in securities issues and the provision of associated services
9. Corporate consultancy regarding capital structure, operational strategy and related matters, and consultancy and services in connection with corporate mergers and acquisitions
10. Monetary intermediation on interbank markets
11. Advice on portfolio management
12. Safekeeping of securities and other related services
13. Credit rating services: collecting, analysing and disseminating information regarding creditworthiness
14. Leasing of safe deposit boxes
15. Investment services and transactions, and ancillary investment services in accordance with the Market and Financial Instruments Act (ZTFI)

It may perform the following additional financial services, pursuant to Article 6 of the ZBan-3:

1. insurance agency service pursuant to the law governing the insurance industry
4. custodian services according to the law governing investment funds and management companies
5. credit brokerage for consumer and other types of loans

Authorisation to perform banking services is published on the official web page of the BoS (https://www.bsi.si/en/financial-stability/institutions-under-supervision/banks-in-slovenia/8/nova-ljubljanska-banka-dd-ljubljana).

18 Official Gazette of the RoS, No. 92/21 and 123/21.

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Corporate Governance Statement of NLB

Pursuant to Article 70, paragraph 5, of the Companies Act (ZGD-1)[19] NLB hereby gives the following Corporate Governance Statement of NLB as a part of the Business Report of the NLB Group Annual Report 2021. The main function of this statement is the prompt informing of investors on the coherence of the Bank's corporate governance system.

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

NLB, as a public company whose shares are listed on Prime Market of the Ljubljana Stock Exchange, hereby discloses the compliance with the Slovenian Corporate Governance Code for Listed Companies, adopted by the Ljubljana Stock Exchange and Slovene Directors' Association, on 27 October 2016 (valid from 1 January 2017) as the code that applies for the bank. Information contained in this point represents a 'Statement of Compliance with the Corporate Governance Code' as defined in Article 24 of the Ljubljana Stock Exchange Rules, dated 27 May 2020 (https://ljse.si/en/rules-and-regulations/252).

1.1. References to the Code on Corporate Governance

The recommended best corporate governance practices contribute to a transparent and understandable corporate governance system, which promotes both domestic and foreign investor confidence, as well as the confidence of employees, other stakeholders (regulators, suppliers, etc.), and the general public. A decision on which code the Bank will follow was made jointly by the Management Board and the Supervisory Board of the Bank by adopting the Corporate Governance Policy of NLB (November 2020). In 2022, the Group will actively analyse the changes made with a renewed version of the Slovenian Corporate Governance Code for Listed Companies, that will be the first used for preparation of the Corporate Governance Statement of NLB for the business year 2022.

NLB also has its own corporate governance code. The NLB Group Code of Conduct is a standardised document for all members of the Group that defines values, lays down the standards of ethical business conduct, and serves as the guideline for all our relationships regardless of whether it involves clients, competitors, business partners, state authorities, regulators, shareholders, or internal relationships between employees. At the same time, it is the basis of the Group values and basic principles of conduct which provide specific conduct guidelines to its employees. The aim of this approach is to ensure compliance with all applicable laws, regulations, and standards. It is published on the Bank's web page (https://www.nlb.si/compliance-and-integrity).

Compliance with the aforementioned Code is explained in the Corporate Governance Statement of NLB on 'comply or explain basis,' in which the Bank provides explanation regarding deviations, reasoning for non-compliance with a certain recommendation, or alternative practices performed mostly due to stricter banking regulation. The statement refers to the Bank's system of corporate governance from the beginning to the end of financial year, which also corresponds to the beginning and the end of the calendar year (from 1 January until 31 December).

Corporate Governance Statement of NLB is included in the Business Report of the NLB Group Annual Report (published on https://www.nlb.si/financial-reports), and is also published as a separate report on the Bank's website under chapter on Corporate Governance (https://www.nlb.si/corporate-governance), as well as on the website of the Ljubljana Stock Exchange (https://seonet.ljse.si).

NLB strives to increase the level of its business transparency and informs the shareholders and other expert community in line with Guidelines on Disclosure for Listed Companies (Ljubljana Stock Exchange, 18 December 2020) on electronic communications system of the Ljubljana Stock Exchange (https://ljse.si/en/rules-and-regulations/252) and in line with Rules and Regulation of the Luxembourg Stock Exchange, as well as in line with Rules of the London Stock Exchange through Regulatory News Services (RNS) of the London Stock Exchange.

The Corporate Governance system of the Bank and all relevant information on Bank's management that exceeds the requirements of article 70 of the Companies Act (ZGD-1) are published in the chapter of Risk Management of this annual report, where ESG Risk Management for the year 2021 is described, as well as in the Sustainability chapter of this annual report, and the NLB Group Sustainability Report 2021 (https://www.nlb.si/sustainability). Some other aspects about the functioning of the Bank's managing bodies are described in the chapter of Corporate Governance of this annual report, as well as in the Corporate Governance Policy of NLB (November 2020) published on the NLB's website (https://www.nlb.si/corporate-governance). Information on the Diversity Policy and Remuneration Policy is also described in the Pillar 3 Disclosures according to Basel standards (https://www.nlb.si/financial-reports).

2. COMPLIANCE WITH THE SLOVENIAN CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

The Bank does not follow or partially implements or adhere to different, in most cases stricter, banking regulations with regard to the following recommendations:

Recommendation no. 8.5: In the reasoning of the proposals for the General Meeting, NLB does not cite eventual conflicts of interest because they are already included into the Fit & Proper procedure.

Recommendation no. 10.1: In assessing candidate's eligibility for a Supervisory Board member, statutory criteria are applied, however candidates don't have a certificate evidencing their specialised professional competence for membership on a Supervisory Board, such as the Certificate of the Slovenian Directors' Association, or any other relevant certificate. However, all strict conditions must be fulfilled according to banking legislature.

Recommendation no. 12.2: The Rules of Procedure of the Supervisory Board of NLB do not include the list of all types of transactions for which the Management Board needs prior approval of the Supervisory Board, but refer to Article 24 of the Articles of Association. The mentioned rules also do not include the Supervisory Board evaluation, education, and training of the members of the Supervisory Board. The mentioned provisions are part of other internal documents or decisions of the managing bodies.

Recommendation no. 12.3: The Rules of Procedure of the Supervisory Board of NLB do not include the scope of topics and timeframe to be respected by the Management Board in its periodic reporting of the Supervisory Board. However, the scope of topics and time frames of periodic reporting to the Supervisory Board are included in annual Action Plan of the Supervisory Board and Articles of Association. Professional

19 The Companies Law (ZGD- 1; Official Gazette of the RoS, No. 65/09 and consecutive changes).

services of the Bank take care that timely information is provided to the Supervisory Board.

Recommendation no. 15.3: NLB does not follow this recommendation because the President of the Supervisory Board is at the same time President of the Nominations Committee.

Recommendation no. 17.1: In 2021, the Supervisory Board members (representatives of capital and representatives of workers) did not receive attendance fees, but received payments for performing their function based on the decisions of the General Meeting of shareholders dated 21 October 2019 and 15 June 2020. Remuneration of the members of the Supervisory Board is regulated by the Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB adopted by the Supervisory Board on 15 October 2021 and by the General Meeting of shareholders on 16 December 2021. The voting on mentioned policy by the General Meeting of shareholders was consultative.

Recommendations no. 21.4 to 21.6: In 2021, NLB did not pay variable remuneration in the form of NLB's shares to any member of the NLB Management Board, nor do stock option plans and comparable financial instruments make up most of the variable remuneration of any member of the NLB Management Board. In relation to the payment of variable remuneration in ordinary or preference shares of NLB, or share linked instruments, or equivalent non-cash instruments NLB complies with the recent changes introduced by the Banking Act (ZBan-3)[20] that came into force on 23 June 2021. In accordance with point 3 of the second paragraph of Article 190 of the ZBan-3, at least 50% of the variable remuneration of (among other) each member of the NLB Management Board shall comprise ordinary or preference shares of NLB, or share linked instruments, or equivalent non-cash instruments (hereinafter collectively: Instruments). This requirement applies to both the non-deferred and the deferred part of variable remuneration (which are different from recommendations 21.4 and 21.6, which provide that variable remuneration given as shares, as well as the execution of stock options and any other rights to acquire shares or be remunerated based on share price movements, must not be made possible for at least three years after such rights were awarded). When the variable remuneration of an individual Identified Staff for a particular year does not exceed EUR 50,000 and does not exceed one third of his/her total remuneration for such year, ZBan-3 allows for an exception from the requirement that a part of variable remuneration must be paid in Instruments. On 15 October 2021, the Supervisory Board of the bank adopted a new Remuneration Policy of Members of the Management Board of NLB and the Members of the Supervisory Board of NLB, which was also adopted by the General Meeting of shareholders of the Bank on 16 December 2021. The voting on mentioned policy by the General Meeting of shareholders was consultative.

20 Banking Act (ZBan-3; Official Gazette of the RS, No 92/21).

Recommendation no. 25.3: The Bank does not follow the recommendation on rotation of audit companies (at least once every seven years); however, the Bank complies with the Banking Law (ZBan-3) that allows longer period. However, the audit firm did replace the audit partner responsible for the audit of NLB and the Group financial statements for year 2020 and 2021.

Recommendation no. 27.4: NLB draws up its financial calendar which is published on Banks' website (https://www.nlb.si/financial-calendar) and includes the date of the Annual General Meeting, however, it doesn't provide information on the dividend payment date. The dividend payment date is announced in the publication of the Agenda and Proposed Resolutions to be passed at the Annual General Meeting (https://www.nlb.si/general-meetings). The dividend payment date is determined based on KDD Operations Rules (Central Securities Clearing Corporation).

Recommendation no. 29.2: The Bank performs the corporate sustainability reporting according to Global Reporting Initiative Standards (GRI). Another institution suitable for independent external assessment of corporate sustainability reporting will verify the correctness of information in the corporate sustainability report presumably for business year 2022 (this also includes GRI standards). However, the bank already adopted a decision that in 2022 an independent external verification of the work of calculating the carbon footprint will be performed by renowned natural science and technology research institute in Slovenia.

Recommendation no. 29.9: NLB does not publish the rules of procedure of its bodies (Management Board and Supervisory Board and its committees) on its website. However, each year the Bank discloses the composition, competences, and work of its managing bodies in the Corporate Governance Statement of NLB and publishes it in the NLB Group Annual Report, on Bank's website (https://www.nlb.si/corporate-governance), as well as on the web page of the Ljubljana Stock Exchange (https://seonet.ljse.si).

3. MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING

NLB is governed by the provisions of the Capital Requirements Regulation (CRR), with amendment, together with all applicable delegated acts, Banking Act (ZBan-3) and the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks regulating, and relevant EBA Guidelines, among other, the Bank's obligation to set up, maintain appropriate internal control, and risk management systems. Due to the above, the NLB has developed a steady and reliable internal governance system encompassing the following:

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

3.1. Internal control mechanisms

Suitability of the internal control mechanisms are determined by the independence, quality and validity of:

- the rules for and controls of the implementation of the Bank's organisational procedures, business procedures, and work procedures (internal controls) and
- the internal control functions and departments (internal control functions).

3.1.1. Internal Controls

In August 2021, the Bank upgraded a system of internal controls by adopting a revised Policy Internal Control System that is harmonized with international regulatory requirements and standards (CRR, Banking Act, BIS, COSO, regulation of the BoS, EBA et al). A system of internal controls means a set of rules, procedures, and organisational structures aimed at:

- ensuring efficient and consistent implementation of NLB's strategies and operations,
- ensuring efficient and consistent processes and procedures in the NLB,
- protection of the value of NLB's assets,
- ensuring the reliability and integrity of accounting and management data and information,
- ensuring the operation and operation of the NLB in accordance with all applicable rules and regulations.

The system of internal controls in NLB is designed to ensure that for each key risk there is a process or other measure to reduce or manage that risk and that process or measure is effective for that purpose.

The aforementioned policy introduces a new description of the three lines of defence, namely:

1. First–level (or line) controls are implemented into business and non–business organisational units (OU): controls are designed to ensure the proper implementation of business activities, i.e., the Bank's operations. Supervision in each individual business area is carried out by the competent organisational unit (OU), which is responsible for the implementation of procedures;

2. Second–level controls are divided between Risk Management and Compliance control functions (including AML/CTF and Information security management) that carry out independent controls and supervision over the operation of the first line of defence. The business compliance function sees to the supervision of the correct implementation and ensuring compliance (line controls) with the regulatory framework, its consistent interpretation at the Group level, as well as to identifying, assessing, preventing, and monitoring overall risks to compliance and integrity in the NLB. The risk management function directs risk management and control by defining policies and methodologies for risk assessment and management;

3. The third level of controls is performed by the internal audit function, which assesses and regularly checks the completeness, functionality, and adequacy of the internal control system. Internal audit is completely independent of both the first line and the second–level control functions.

In the event of deficiencies, irregularities of breaches identified in the process of implementation of internal controls the breaches are discussed at the Operational Risk Committee (which is collective decision-making body appointed by the Management Board of the Bank that is established for execution of individual tasks within powers of the Management Board of the Bank). The mentioned committee adopts decisions so that appropriate actions are taken and informs the Management Board of the Bank about deficiencies and actions taken on that behalf.

3.1.2. Internal Control Functions

The internal control functions are part of the system of the internal governance in the Bank. Internal control functions include:

a) The Internal Audit Function

The Internal Audit function is organised according to the Charter on the Internal Audit of NLB adopted by the Management Board on 13 November 2018 (and supplemented on 13 August 2019), to which the Supervisory Board of NLB gave its approval (30 November 2018 and 6 September 2019).

The Charter of the Internal Audit of NLB is the umbrella document about the understanding and role of the Internal Audit in NLB, which defines the purpose, powers, responsibilities, and tasks of the Internal Audit in line with the International Standards for the Professional Practice of Internal Auditing. The Charter lays down the position of the Internal Audit in the organisation, including the nature of the relationship between the functional responsibility of the Head of the Internal Audit to the supervisory body, grants authorisations to internal auditors for accessing records, employees, premises, and equipment relevant for performing their tasks, and defines the area and activities of the Internal Audit.

The Management Board has set up an independent internal audit function which gives assurances and advice about risk management, internal controls system, and management of the NLB. The mission and the principal task of the Internal Audit is to consolidate and secure the value of the Bank by issuing objective assurances based on risk assessment, with consultancy and deep understanding of the Bank's operations. In addition to that, the Internal Audit carries out regular control of the quality of operation of the other internal audit departments in the Group and takes care of constant development of the internal auditing function.

Pursuant to the provisions of the law, the Bank has organised the internal audit as an independent organisational unit, primary responsible to the Supervisory Board of the NLB and secondary to the Management Board of the Bank.

The Supervisory Board of NLB must issue its approval of the appointment, remuneration, and dismissal to the Head of the Internal Audit, which ensures their independence and so, the independence of the work of the Internal Audit.

b) The Risk Management Function

The Risk Management Function is organised according to the Charter of the Risk Management Function of NLB adopted by the Management Board, in agreement with the Supervisory Board of NLB. The Charter on Functioning of the Risk Management Function of NLB is the framework document on understanding and role of the risk management function; it defines the purpose, validity, and method of operation, as well as the authorisations and responsibilities of the risk management function according to the requirements of the Banking Act (ZBan-3) and the Regulation on Internal Management Arrangements, Management Body, and Internal Capital Adequacy Assessment Process for Banks and Savings Banks.

The risk management function represents an important part of overall management and governance system in the Group. This function in NLB is organised within the Risk stream, covered by the member of the Management Board in charge of risk (Chief risk officer - CRO). The risk stream covers the following organisational units:

- Global Risk
- Credit Risk – Corporate
- Credit Risk - Retail
- Evaluation and Control
- Restructuring
- Work-out and Legal support

The risk management function is performed by the Global Risk. In accordance with the competences, authorisations, and responsibilities Global Risk is represented by its General Manager. The Global Risk is in functional and organisational terms separate from other functions where business decisions are adopted and where potential 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 the NLB and at the same time unhindered and independent access to the Supervisory Board of NLB and the Risk Committee of the Supervisory Board of the NLB.

In members of the Group, the risk management function is organised according to the local legislation, considering the bases for set-up, organisation, and activities in risk management in the members, as defined in the document 'Risk Management Standards in the NLB Group.' The described standards on risk management provide the members of the Group the bases with which they have to align their organisation, strategic risk-taking guidelines, internal policies, methodologies, and reporting system.

Risk management and control 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. The competence line Risk Management in NLB, encompassing several professional areas, is in charge for 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 Group puts great emphasis on the risk culture and awareness across the entire Group. Group's Risk Management framework is forward-looking and tailored to its business model and corresponding risk profile.

c) The Compliance Function, Information Security Function, and AML/CTF Function

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

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

Compliance and Integrity is an organisational unit of the Bank, placed directly under the Bank's Management Board in the organisational structure. The Bank adopted Integrity and Compliance Policy of the NLB and the NLB Group (Version 1, December 2016), which regulates the method and scope of the activities of the compliance function in the Bank. Separate policies regulate different areas which are organised within the Compliance and Integrity in NLB. Supervision over compliance of operations is within the competence of the Compliance and Integrity. This enables the Compliance and Integrity to operate independently from other Bank's departments.

The director of Compliance and Integrity does not perform any other function at the Bank that could possibly lead to conflict of interests. To ensure his independence, the director reports to the Management Board and to a specific member of the Bank's Management Board responsible for compliance area (including information security, personal data protection, and AML/CTF functions), which additionally ensures independence of operation of the Compliance and Integrity.

As information security, AML/CTF, and Group AML functions are organised within Compliance and Integrity, CISO for NLB, Group CISO, DPO (Data Protection Officer), head of AML/CTF area for NLB and head of Group AML are ensured full independence through equal reporting lines as the director of Compliance and Integrity and have direct access and separate reporting line to the Bank's Supervisory Board. Following NLB's model, the compliance function has been established in the core members of the Group, as well based on the Group standards for the compliance and integrity area. Through specific binding standards in the area of compliance and integrity, there is a harmonised system of standards and practices in the area of compliance and integrity in place in the entire NLB Group, in core and non-core members.

3.2. Financial reporting

With the aim of ensuring appropriate financial reporting procedures, NLB pursues the adopted Policy on Accounting Controls. The accounting controls are provided through the operation of the complete accounting function with the purpose of ensuring quality and reliable accounting information, and thereby accurate and timely financial reporting. The principal identified risks in this area are managed with an appropriate system of authorisations, a segregation of duties, compliance with accounting rules, documenting of all business events, a custody system, posting on the day of a business event, in-built control mechanisms in source applications, and archiving pursuant to the laws and internal regulations. Furthermore, the policy precisely defines primary accounting controls, performed in the scope of analytical bookkeeping, and secondary accounting controls, i.e., checking the efficiency of implementation of primary accounting controls. With an efficient mechanism of controls in accounting reporting, NLB ensures:

- A reliable decision-making and operation support system
- Accurate, complete, and timely accounting data, the resulting accounting, and other reports of the Bank
- Compliance with legal and other requirements.

Financial statements of NLB and consolidated financial statements of the NLB Group are audited by the auditing company Ernst & Young d.o.o., Ljubljana. The mentioned auditing company was appointed as the auditor of NLB by the General Meeting of shareholders of the Bank for the financial years 2018 to 2022 (27 June 2018). The auditing company verifies the business report in accordance with the provisions of the Companies Act (ZGD-1).

4. INFORMATION ON POINT 4, PARAGRAPH 5, OF THE ARTICLE 70 OF THE ZGD-1 regarding points 3, 4, 6, 8, and 9 of paragraph 6 of the same article

Explanation regarding significant direct and indirect ownership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions
(Point 3 of the sixth paragraph of Article 70 of the ZGD-1)

Significant direct and indirect ownership of the company's securities in terms of achieving a qualifying holding as defined in the Takeovers Act (as of 31 December 2021).

Shareholder	Number of shares	Percentage of shares	Nature of ownership
RoS	5,000,001	25.00	shares
Brandes Investment Partners, L.P.[i]	/	>5 and <10	GDRs
EBRD[i]	/	>5 and <10	GDRs
Schroders plc[i], [ii]	/	>5 and <10	GDRs

[i] In the form of GDRs.
[ii] Further information is available in chapter Events after the end of the 2021 financial year.

More information on the Bank's Share Capital is available on the website: https://www.nlb.si/shares.

Explanation regarding the holders of securities that carry special control rights
(Point 4 of the sixth paragraph of Article 70 of the ZGD-1)

The Bank did not issue any securities carrying special controlling rights.

Explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, based on the company's cooperation, the financial rights arising from securities are separated from the rights of ownership of such securities
(Point 6 of the sixth paragraph of Article 70 of the ZGD-1)

The shares of the Bank are freely transferable, subject to the provisions of the Articles of Association of the Bank which require the approval of the Supervisory Board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such an acquisition and the shares held by third parties for the account of the acquirer, exceeds the share of 25% of the Bank's voting shares. Approval for the transfer of shares is issued by the Supervisory Board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceeded the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them for the account of third parties, so that it is not entitled to exercise voting rights from these shares at its sole discretion, while at the same time committing to the Bank, it will not exercise voting rights on the basis of the instructions of an individual third party for whose account it has acquired the shares if, together with the instructions for voting, it does not receive a written guarantee from that person that this person has shares for his own account, and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights.

The acquirer who exceeds the share of 25% of the Bank's shares with voting rights and does not require the issuance of approval for the transfer of shares, or does not receive the approval of the Bank, may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

Explanation on the (i) company's rules on appointment or replacement of members of the management or supervisory bodies, and (ii) changes to company's Articles of Association (Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

The appointment or replacement of members of the management or supervisory bodies

The Management Board
The Management Board of the Bank is comprised of three to seven members, one of whom is appointed President of the Management Board of the Bank. The number of Management Board members is determined by a resolution of the Bank's Supervisory Board. The President and other members of the Management Board are appointed and recalled by the Supervisory Board of the Bank; the President of the Management Board may propose to the Chair of the Supervisory Board of the Bank to appoint or recall an individual member or the remaining members of the Management Board of the Bank.

The President and members of the Management Board shall be appointed for a period of five years and may be re-appointed for another term of office. The President and members of the Management Board may be recalled prior to the expiry of their term of office in accordance with applicable laws and Articles of Association. Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months. A written notice shall be delivered to the Chair of the Supervisory Board of the Bank. The notice term may be shorter than three months if requested by the resigning member of the Management Board of the Bank in his/her notice and is subject to the approval of the Supervisory Board of the Bank.

A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a management board member under the law on banking and who obtained a licence from the BoS or the ECB, if executing the competences and tasks from Item (e) of paragraph 1 of Article 4 of Regulation (EU) no. 1024/2013 for the performance of the function of a bank's management board member under the law regulating banking. The Bank assesses every candidate following the Bank's Policy governing the Fit & Proper assessment prior to the appointment.

The Supervisory Board
The Supervisory Board of the Bank consists of a total of 12 members, of which eight members represent the interests of shareholders and four members represent the interests of employees. Members representing the interests of shareholders shall be elected and recalled by the Bank's General Meeting from persons proposed by shareholders or the Supervisory Board of the Bank and members representing the interests of employees shall be elected and recalled by the Workers' Council of the Bank. Members of the Supervisory Board representing the interests of shareholders are elected by an ordinary majority of votes cast by shareholders.

The term of office of the Supervisory Board members commences on the day their appointment enters into force (start of term of office) and lasts up until the end of the Bank's Annual General Meeting of shareholders which decides on the use of accumulated profit for the fourth business year since the start of their term of office, unless otherwise stipulated at the time of appointment of individual members. In this context, the first year is deemed the business year in which the members of the Supervisory Board of the Bank started their term of office.

The general meeting of the Bank may dismiss an individual or all members of the Supervisory Board (representatives of shareholders) even before the expiration of their term of office.

A resolution on a dismissal shall be valid if adopted with at least a three-quarter majority of all votes cast.

The Supervisory Board of the Bank shall at its first meeting after an appointment elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank. A member representing the interests of employees cannot be elected Chair or Deputy Chair of the Supervisory Board of the Bank. All the supervisory board members shall be independent professionals as defined by the Articles of Association.

A member of the Bank's Supervisory Board may only be a person who fulfils the legally prescribed conditions for a supervisory board member under the law on banking and who obtained a licence from the BoS or the ECB, if executing the competences and tasks from Item (e) of paragraph 1 of Article 4 of Regulation (EU) no. 1024/2013 for the performance of the function of a bank's supervisory board member under the law regulating banking. The Bank assesses every candidate following the Bank's Policy governing Fit & Proper assessment prior to the appointment.

Amendments to Articles of Association
A qualified majority of at least 75% (seventy-five per cent) of the votes cast by shareholders at the general meeting of the Bank's shareholders is required for the adoption of any amendments of the Articles of Association.

Explanation regarding the authorisation of the members of the management, particularly authorisations to issue or purchase own shares
(Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

With the aim of ensuring NLB treasury shares for the payment of variable part of the remuneration to the employees of NLB in the form of NLB shares, the General Meeting of shareholders of NLB on 10 June 2019, authorised the Management Board for redeeming treasury shares in the period of 36 months from the adoption of the resolution at the General Meeting. The authorisation is valid for acquiring up to 36,542 NLB treasury shares, while the total percentage of shares acquired based on this authorisation, together with the treasury shares already in possession of NLB, may not exceed 10% of NLB share capital (2,000,000 shares). When disposing its treasury shares which NLB acquired based on this authorisation, the pre-emptive right of the existing shareholders to acquire shares is excluded in full in case treasury shares are disposed of for the purpose of paying the variable part of remuneration to the employees of NLB in the form of NLB's shares. In 2021, however, NLB did not purchase treasury shares.

5. INFORMATION ON THE WORK AND KEY POWERS OF THE SHAREHOLDERS' MEETING AND OF ITS KEY POWERS, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING

Competences of the Bank's General Meeting are stipulated in the Companies Act (ZGD-1), the Banking Act (ZBan-3), and the Articles of Association of the Bank. The General Meeting is a body of the Bank through which shareholders exercise their rights, which include among others: decisions on corporate changes (amendments of the Articles of Association, increase or decrease of share capital) and legal restructuring (mergers, acquisitions), adopting decisions on all statutory issues in respect of appointing and discharging members of the Supervisory Board (representatives of shareholders), and appointment of an auditor, distribution decisions (appropriation of distributable profit), and the granting of discharge from liability to the Management and Supervisory Board.

The General Meeting is convened by the Management Board. The General Meeting may be convened by the Supervisory Board in cases where the Management Board fails to convene the General Meeting or where a convocation is necessary to ensure unhindered operations of the Bank. The Supervisory Board may amend the agenda of the General Meeting convened in line with the bylaws.

As a rule, the General Meeting of the Bank shall be convened at the registered office of the Bank, yet it may also be convened at another venue specified by the convenor. The Management Board may stipulate that shareholders may attend or vote before or at the General Meeting by electronic means without physical presence. The General Meeting of shareholders shall adopt resolutions by simple majority of the votes cast, unless the applicable laws or the Bank's Articles of Association stipulate a larger majority or other conditions (adoption and amendments of the Articles of Association, issue of convertible bonds or other equity securities, exclusion of pre-emptive right of existing shareholders, decrease in share capital, the status restructuring of the Bank, or liquidation of the Bank and discharge of Supervisory Board members).

The shareholders have the right to participate at the general meeting of the Bank, the voting right, pre-emptive right to subscribe for new shares in case of share capital increase, the right to profit participation (dividends), and the right to a share in surplus in the event of liquidation or bankruptcy of the Bank and the right to be informed.

According to Article 296 of the Companies Act, NLB informs shareholders on their rights as shareholders in an Information on the Rights of Shareholders that is published among the documents for convocation of each General Meeting (i.e., on expansion of the agenda, proposals by shareholders, voting proposals by shareholders, and the shareholders right to be informed).

There were two General Meetings of shareholders in 2021. The shareholders of NLB gathered on 36th General Meeting on 14 June 2021. Due to COVID-19 pandemic, for the first time the General Meeting was hybrid, as it was held live and online. The shareholders took note of the approved NLB Group Annual Report 2020, the Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2020, and Information on the income of members of the Management Board and Supervisory Board of NLB for the previous business year.

The shareholders decided on the allocation of distributable profit for 2020. The distributable profit of NLB as of 31 December 2020 was EUR 341,992,219.43. Distributable profit in the amount of EUR 24,800,000.00 was about to be paid to the shareholders as dividends in two instalments. In accordance with the recommendation of the ECB, the Regulation of the BoS and adopted resolution of the General Meeting the first instalment of dividends in the total amount of EUR 12 million was paid on 22 June 2021 (EUR 0.60 per share), while the second instalment of dividends in the total amount of EUR 12.8 million (EUR 0.64 per share) was paid on 18 October 2021.

The General Meeting of NLB granted discharge to the members of the Management Board and Supervisory

Board for the 2020 financial year and adopted amendments and supplements to the Articles of Association of NLB and appointed Islam Osama Zekry as a new member of the Supervisory Board.

At the 37th General Meeting of shareholders on 16 December 2021, the shareholders decided on additional allocation of distributable profit for 2020, as the BoS's decision restricting the payment of dividends expired at the end of September 2021. Therefore, an additional EUR 67.4 million of distributable profit (EUR 3.37 per share) was paid to the shareholders on 24 December 2021.

NLB paid out a total of EUR 92.2 million as dividends (or 4.61 EUR per share) to shareholders in 2021 (EUR 12 million on 22 June, EUR 12.8 million on 18 October and EUR 67.4 million on 24 December), thereby reaffirming NLB Group's stable and successful business operations and strong capital position.

At the General Meeting, the shareholders also voted on the Remuneration Policy for the Members of the Supervisory Board of NLB and the Members of the Management Board of NLB required by the latest amendments to the Companies Act, applicable to all the companies whose securities are traded on an organised market. In the future, NLB will put it forward to vote at the General Meeting upon any material amendment or at least every four years.

6. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODY AND ITS COMMITTEES

6.1. The Management Board

Composition of the Management Board

The Management Board is the decision-making and representation body of the Bank. It manages the company, makes business decisions autonomously and independently, adopts the development strategy, ensures sound and effective risk management, acts with the highest professional integrity, protects business secrets, and is held accountable for the legality of the Bank's operations within the limits set by the relevant regulations.

At the beginning of 2021, the Management Board of the Bank consisted of Blaž Brodnjak, CEO, Archibald Kremser, CFO, Andreas Burkhardt, CRO, and Petr Brunclík, COO, since the Supervisory Board reappointed the president and members of the Supervisory Board (Blaž Brodnjak as the CEO, Archibald Kremser as the CFO, and Andreas Burkhardt as the CRO of NLB) on its session on 12 November 2020.

On 21 April 2021, the Supervisory Board of NLB and Petr Brunclík agreed on the termination of office that went into effect on 30 June 2021. As at 22 April 2021, his tasks were taken over by other members of the NLB Management Board.

Material changes that occurred in the Management Board after the end of the business year 2021 are described in special statement at the end of this Corporate Governance Statement of NLB.

Work of the Management Board

In 2021, the Management Board continued to work on the implementation of the NLB Group Strategy. The very solid financial results of NLB Group in 2021 enabled the Bank to pay out a total of EUR 92.2 million as dividends to the shareholders in 2021 (EUR 12 million on 22 June, EUR 12.8 million on 18 October, and EUR 67.4 million on 24 December), thereby reaffirming NLB Group's stable and successful business operations and strong capital position. Combining these dividend pay-outs, privatisation proceeds, and the residual value of the RoS, NLB has fully repaid the amount it received for the 2013 recapitalisation. After successful acquisition of Komercijalna Banka, Beograd in December 2020, the Management Board immediately started working on its harmonisation with NLB Group's standards. The Management Board worked on intensive digitalisation and emphasis on top quality user experience, as well as a commitment to sustainable operations and development. The Management Board worked on a commitment to sustainable operations and development and implementation of the ESG factors and their inclusion in the NLB Group business model. All year long, the Management Board took all necessary actions in order to lower the impact and consequences of COVID-19 epidemic in the Group.

A detailed information on composition and the amount of remuneration of the Management Board can be found in Appendices C.1 and C.3 of this statement.

6.2. The Supervisory Board

In accordance with the two-tier governance system, the Bank's Supervisory Board issues approvals to the Management Board related to the Banks' business policy and financial plan, approves the strategy of the Bank and the Group, the internal control system organisation, and gives consent to the Annual Plan of the Internal Audit and to financial transactions defined in Articles of Association. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest. The Supervisory Board performs its tasks in accordance with the provisions of the applicable legislation governing the operations of banks and companies, the Bank's Articles of Association, and its Rules of Procedure of the Supervisory Board of NLB. The Supervisory Board may engage legal and other consultants and institutions required by itself or its committees to perform their tasks.

Composition of the Supervisory Board

In accordance with changes made to the Articles of Association of NLB (June 2020) that enabled workers' participation in the Bank's management bodies, the Supervisory Board consists of 12 members, out of which eight are representatives of the capital, and four are employee representatives (elected and appointed by the Workers Council of NLB).

At the beginning of 2021, the Supervisory Board of NLB consisted of 11 members, of which eight were representatives of shareholders (in addition to Primož Karpe, President and Andreas Klingen, Deputy members were also Mark William Lane Richards, Shrenik Dhirajlal Davda, Peter Groznik, David Eric Simon, Gregor Rok Kastelic, and Verica Trstenjak), and three were representatives of employees (Sergeja Kočar, Bojana Šteblaj, and Janja Žabjek Dolinšek). In January 2021, however, the Workers Council of NLB elected Tadeja Žbontar Rems as a member of the Supervisory Board of the NLB – the representative of the workers. With the mentioned election, the composition of the Supervisory Board was complete. Because the term of office of member of the Supervisory Board Peter Groznik expired in the middle of the year, the General Meeting of shareholders on 14 June 2021 elected Islam Osama Zekry as a new member of the Supervisory Board.

Statement of Independence of the Members of the Supervisory Board

In accordance with the Article 20 of the Articles of Association of the NLB all Supervisory Board, members must be independent experts. Persons representing the interests of employees in the Supervisory Board of the Bank are considered independent despite the existence of an employment relationship with the Bank upon fulfilling certain terms and conditions.

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A statement of independence, in which they declare themselves on their meeting of the criteria of conflict of interest, is provided by a candidate for a function of a member of the Supervisory Board, upon each change that would mean change of his/her independence status once yearly. It is published on the Bank's webpage (https://www.nlb.si/corporate-governance).

Work of the Supervisory Board

In 2021, the Supervisory Board met at seven regular and 12 correspondence sessions. Upon receiving reports from its committees, the Supervisory Board acquainted itself or adopted the following most important decisions:

- NLB Group Strategy Implementation Progress Report;
- Annual NLB Group Report for 2020; Report of the Supervisory Board of NLB on the Results of Examining the Annual NLB Group Report for 2020; Corporate Governance Statement of NLB; Risk Management Statement of NLB; Annual Report of Internal Audit for 2020; Comprehensive Opinion of the Internal Audit for 2020;
- The Corporate Social Responsibility Report for 2020; The NLB Group Sustainability Programme; ESC Internal Documentary Framework (Lending Policies); NLB Group Sustainability Framework; Confirmation of Pillar III disclosures of the NLB Group for 2020;
- Proposals to convene the regular General Meeting of shareholders for 14 June 2021 and extraordinary meeting for 16 December 2021;
- Information on the Supervisory Board election; Membership in the committees of the Supervisory Board; Conflict of interest Management; Information of departure of the member of the Management Board; Self-assessment of the collective suitability of the members of the Supervisory Board; Supervisory Board self-assessment and Action Plan; Achievements of the goals of the Management Board in 2020; Annual self-assessment of employees performing special work; Information on award of variable part of salary of the members of the Management Board and employees performing special work; Future setup of the Governing Body; Fit & Proper assessment for candidates for membership of the Supervisory Board – representatives of employees;
- Appointments of the Director of Global Risk and the Director of Compliance & Integrity and their performance;
- NLB Group Financial Plan 2021 and financial projections 2022-2025; Interim Reports on the NLB Group Operations; Benchmark analysis of the NLB Group; NLB Group Budget 2022 and Financial Projections 2023 – 2025; Information on cost optimisation;
- NLB Group Risk Appetite; NLB Group Risk Strategy; Regular risk reports for NLB and NLB Group; Outcome of the Pragmatic SREP 2020; NLB Group Recovery Plan for 2021; Report on the Top 50 groups of clients by exposure in the NLB Group, Restructuring TOP 20; Revised ILAAP – Internal liquidity adequacy process; Revised ICAAP – Internal Capital Adequacy Process; Reputation Risk Management; Foreclosed Strategy for 2021 – 2025;
- Internal Audit's Annual Report for 2020; Internal Audit Plan (2022 & long - term plan, Action Plan for Compliance &Integrity for 2022; Regular periodic reports on Internal Audit; Compliance and Security, and on Information Security Assurance in NLB;
- Reports on the Documents received from the BoS and the ECB; Reports on the implementation of the requirements of the BoS and ECB and on the implementation of the requirements;
- Renovation of Internal Act on Internal Controls System; Rules and Procedures for the Sustainability Committee; Review of the Diversity Policy; New Remuneration Policy for employees for the NLB and the NLB Group; The Remuneration Policy of the Members of Supervisory Board of NLB and the Management Board of NLB;
- Investment Relations periodic Reports; NLB Workers' Council Report;
- Implementation of IT Strategy; Data Centres in the NLB Group; Strategy update; IT Security KPI's update; Status of IT – periodic Reports; Cor Banking System Consolidation;
- Consent to legal transactions with MIGA, Washington, Serbia Merger Scenarios; Information on Project Matthew; Expected sale of a subsidiary bank; large exposures, sale of receivables, write-offs of claims, approvals of transactions with persons in special relations with the Bank; establishment of new companies in Serbia and Macedonia, etc.

Composition and the amount of remuneration of the Supervisory Board members is described in the Appendices C.2 and C.4 of this statement.

6.3. The Supervisory Board Committees

All five Committees for the Supervisory Board function as consulting bodies of the Supervisory Board of NLB and discuss the material and proposals of Management Board of NLB for the Supervisory Board meetings related to a particular area. The Supervisory Board has the following committees:

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

Committees are composed of at least three members of the Supervisory Board. The Worker's Council can nominate one Supervisory Board member – a representative of the workers into each committee. The member of the Committee may only be appointed from among the members of the Supervisory Board. The term of office of Chair, the Deputy Chair, and members of the Committee should not exceed their term of office as Supervisory Board members. The responsibilities of committees are defined in Rules of Procedure of the particular Committee of the Supervisory Board of NLB.

Composition of the aforementioned Committees in 2021 is described in detail in the Appendix C.2 of this statement.

6.3.1. The Audit Committee of the Supervisory Board of NLB

The Audit Committee monitors and prepares draft resolutions for the Supervisory Board on accounting reporting, internal control and risk management, internal audit, compliance, and external audit, and as well monitors the implementation of regulatory measures.

At the end of 2021, the composition of the committee was as follows: David Eric Simon (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Primož Karpe, Gregor Rok Kastelic (members). Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C4 below).

The Audit Committee's tasks are defined by relevant law, the Bank's Articles of Association, Rules of Procedure of the Audit Committee of the Supervisory Board of NLB, resolutions of the Supervisory Board and other regulations, from which the Committee especially monitors and prepares proposals of resolutions for the Supervisory Board for the area:

- Accounting and financial reporting
- Internal control and risk management
- Internal audit
- Compliance of operations
- External audit

There were seven regular sessions and three correspondence sessions of the Audit Committee in 2021. The following is a summary of key topics considered by the Audit Committee:

- NLB Group 2020 Annual Report, Overall Opinion of Internal Audit for 2020; Corporate Governance Statement of NLB; Statement on Management of Risk of the NLB, NLB Group on Sustainable Operations in 2020;
- Regular interim reports on the operations of the NLB Group, Business Performance Indicatory for NLB and NLB Group, quarterly Internal Audit Reports, Compliance and Integrity Reports, Reports on Information security assurance in NLB;
- Audit Plan 2021, Internal Audit Plan (2022 & long-term), Action Plan for Compliance and Integrity for 2022;
- Regular reports on overdue material recommendations of the Internal Audit; Reports on the documents received from the BoS and ECB and on the implementation of the requirements of the BoS and ECB; Policy of the Internal Controls System; Rules of Procedure of the NLB Group Sustainable Committee;
- Performance assessment of the Director of the Compliance and Integrity and the Director of the Internal Audit;
- Self-assessment of the Audit Committee.

6.3.2. The Risk Committee of the Supervisory Board of NLB

The Risk Committee monitors and drafts resolutions for the Supervisory Board in all risk areas relevant to the Bank's operations. It is consulted on the Group's current and future risk appetite, the corresponding risk profile and risk management strategy, and helps carry out control over senior management concerning implementation of the risk management strategy.

At the end of 2021, the composition of the committee was as follows: Andreas Klingen (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), Islam Osama Zekry, Mark William Lane Richards, Gregor Rok Kastelic, David Eric Simon (members). Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C4 below).

There were five regular sessions of the Risk Committee in 2021. Following is a summary of key topics considered by the Risk Committee:

- Statement of Management of Risk of the NLB
- NLB Group Risk Appetite
- Regular quarterly risk reports of NLB and the NLB Group
- NLB Group Risk Strategy;
- Internal liquidity adequacy process (ILAAP), The Internal Capital Adequacy Assessment Process (ICAAP) in NLB Group
- NLB Group Recovery plan for 2021
- NLB Group Non-performing Exposure and Foreclosed Assets Strategy for 2020 -2024 and semi-annual implementation reports
- Reputation risk management – management mechanisms
- Information on Pillar III Disclosures of the NLB Group for 2020; and Acknowledgement of quarterly Pillar III Disclosures
- Quarterly Information on status of information security in NLB and NLB Group
- Report on Top 50 groups of clients by exposure in the NLB Group; Report on Top 20 largest restructuring cases
- Initiation of procurement process for selection of statutory auditor for financial years from 2023 onwards; Auditing of the electronic (ESEF) format of financial statements
- Issuing subordinated Tier 2 bonds
- Proposals for the issuance of prior consent of the Supervisory Board of NLB for a legal transaction based on which the Bank's total exposure to individual client or a group of related clients would reach or exceed 10% of the Bank's eligible capital; consents to early repayments; approval of overdraft on business account of a client and final write-offs of receivables
- Report on the material court proceedings for NLB and NLB Group members

6.3.3. The Nomination Committee of the Supervisory Board of NLB

The Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of the Management Board members; recommends candidates for Supervisory Board members; recommends to the Supervisory Board the dismissal of members of the Management Board and the Supervisory Board (representatives of capital); prepares the content of executive employment contracts for the President and members of the Management Board; 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 and Supervisory Board and the bodies as a whole.

At the end of 2021, the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Verica Trstenjak, Sergeja Kočar, Bojana Šteblaj (members). Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C4 below).

There were seven regular sessions and one correspondent session of the Nomination Committee in 2021. The following is a summary of key topics considered by the Nomination Committee:

- The Supervisory Board election process and candidate selection; Bases for the Fit & Proper assessments of candidates; The suitability matrix – the self-assessment of the collective suitability of the Members of the Supervisory Board;
- The Management Board expansion process; New organisational structure;
- Review of the Diversity Policy; Rules and Procedures for the selection of candidates.

6.3.4. The Remuneration Committee of the Supervisory Board of NLB

The Remuneration Committee carries out expert and independent assessments of the remuneration policies and practices and formulates initiatives for measures related to improving the management of the Bank's risks, capital, and liquidity; prepares proposals for remuneration-related decisions of the Supervisory Board; and supervises the remuneration of senior management performing the risk management and compliance functions.

At the end of 2021, the composition of the committee was as follows: Gregor Rok Kastelic (Chairman), Mark William Lane Richards (Deputy Chairman), Shrenik Dhirajlal Davda, Sergeja Kočar, and Bojana Šteblaj (members). Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C3 below).

There were four regular and five correspondence sessions of the Remuneration Committee in 2021. The following is a summary of key topics considered by the Remuneration Committee:

- Annual self-assessment of employees performing special work in accordance with the Remuneration Policy;
- Realisation of goals of Management Board of NLB for 2020 and proposal for goals for 2021;
- Information on the award of variable part of salary to members of the Management Board and employees performing special work in control function for the year 2020;
- Proposal for the payment of the non-deferred part of the variable pay for 2019 and payment of the deferred variable part of salary for 2016 and 2017 for the Bank's Management Board;

- Proposal of new Remuneration Policy of members of the Supervisory Board of NLB and members of the Management Board of NLB.

6.3.5. The Operations and IT Committee of the Supervisory Board of NLB

The Committee shall monitor and prepare draft resolutions for the Supervisory Board, whereby the main tasks that it performs are the following: monitors the implementation of the IT Strategy, Information Security Strategy, and Operations Strategy; monitors key operations and IT KPI's and service quality indicators; monitors key operations and IT projects and initiatives; monitors operating risks in the area of Operations, IT and Security; monitors the recommendations for ensuring and increasing the level of information/cyber security issued by CISO, addresses the report on potential violations, events, and incidents in the area of IT security; and monitors the Target Operating Model implementation in the areas of IT, the Security Operating System, Competence Centre, and Operations.

At the end of 2021, the composition of the committee was as follows: Mark William Lane Richards (Chairman), Islam Osama Zekry (Deputy Chairman), Andreas Klingen, Primož Karpe, Tadeja Žbontar Rems, Janja Žabjek Dolinšek (members).

There were five sessions of the Operations and IT Committee 2021. The Operations and IT Committee acknowledged itself with:

- IT Strategy progress update; IT Strategy implementation activities
- Cash Processing Optimisation update; Cost optimisation update
- Report on further progress of the Leveraging Information Capital project
- New digital platform DEMO; Information on projects
- KB IT Security update; GCC Belgrade – status of activities and plan
- Date centres in Belgrade; Proof on concept on Core Banking System; Consolidation of the Core Banking System
- Budgeting Group activities

6.4. Remuneration Policy for the Members of the Supervisory Board of NLB and Members of the Management Board of NLB

The General Meeting of shareholders on 16 December 2021 adopted the Remuneration Policy of the members of the Supervisory Board of NLB and members of the Management Board of NLB (for the Supervisory Board members the policy is based on previously adopted resolutions of the General Meeting) that was changed due to recent amendments to the Companies Act (ZGD-1), and is to be followed by all the companies whose securities are traded on the regulated market.

In accordance with the Companies Act (ZGD-1) mentioned policy is published on the NLB website (https://www.nlb.si/corporate-governance), together with the date and voting results. Remuneration of the members of the Management Board and the members of the Supervisory Board for 2021 can be found in Appendices C3 and C.4 of this statement and in the chapter on the Related Party Transactions of this annual report (Financial report).

7. DESCRIPTION POLICY ON THE PROVISION OF DIVERSITY OF THE MANAGEMENT BODY AND SENIOR MANAGEMENT

Policy on the Provision of Diversity of the Management Body and Senior Management was adopted by the General Meeting of shareholders on 10 June 2019. With mentioned Policy, NLB defines target diversity pursued with respect to adequate representation of members of the Management Board and the Supervisory Board and Senior Management from the perspective of education, range of knowledge, skills and experience, age, gender, and international experience, as appropriate for the NLB with regard to its characteristics.

The Bank implements the principles of this policy through other policies and procedures, namely Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board, as well as procedures of the Nomination Committee of the Supervisory Board. Key criteria for the selection of candidates were supplemented by criteria that include experience, reputation, management of potential conflict of interests, independence, time availability, and conditions for achieving collective suitability of the Supervisory Board.

Mentioned diversity policy is periodically reviewed by the Nomination Committee of the Supervisory Board.

Implementation and the results achieved by the diversity policy during the reporting period:

a) The Supervisory Board

We estimate that the goals for 2021 were achieved, as the members of the Supervisory Board as a whole met at a high level the requirements related to the set of knowledge, skills, professional experience, and requirements related to relevant international experience in various fields; which is maintained in 2022. It is also estimated that the representation of women is 42% of the share, and it is planned in this amount for 2022.

Regarding the age structure, it is also considered appropriate, as the members of the Supervisory Board are represented in the age groups from 40 to 60+, which is also planned for 2022, with a slight increase in the share of members in the age group above 60 years (from 3 members to 5).

b) The Management Board

We estimate that the goals for 2021 have been achieved as the members of the Management Board as a whole meet at a high level the requirements related to the set of knowledge, skills, professional experience, and requirements related to relevant international experience in various fields; this is also planned for 2022.

There were no women represented in the Management Board in 2021, however, the plan for 2022 was that the share of women would increase to 16.7% or one woman was expected to be represented among the members of the Management Board. As stated below this goal was realised already in January 2022.

Regarding the age structure, in 2021 all members of the Management Board were in the age group of 40 to 50, however, in 2022 with additional members elected to the Management Board caused that the representation of this class increased (from 3 to 5), and one member of the Management Board will move to the age group from 50 to 60 years.

c) Senior Management

For 2021, we estimate that the goals were achieved, as senior management at a high level met the requirements relating to the range of knowledge, skills, and professional experience. Regarding the requirements related to international experience in various fields, it is estimated that senior management has largely relevant international experience, which is planned to the same extent in 2022. It is also estimated that 45% of women in senior management appropriate and will be maintained as such in 2022.

Regarding the age structure, it is also considered appropriate, as senior management in the age structure is very dispersed and is thus represented in all age groups from 20 to 60 years, which is maintained in the same ratio in 2022.

Additional information on the framework, objectives, and chart with set goals of the Diversity Policy can be found in the chapter Human Resources of this annual report.

Statement on changes that occurred between the end of accounting period up to the publication of this statement

In accordance with Guidelines on Disclosure for Listed Companies, Point 6.3.2 (Ljubljana Stock Exchange, 18 December 2020) NLB hereby states that the following changes occurred between the end of accounting period up to the publication of this statement.

On 20 January 2022, the Supervisory Board appointed three new members to the Management Board, namely Hedvika Usenik, Antonio Argir, and Andrej Lasič. They all come from NLB or the Group, have extensive experience and proven value creating a track record. All three of them are currently executive assistants to the NLB Management Board: Hedvika Usenik for Retail and Private Banking, Antonio Argir for the NLB Group, and Andrej Lasič for Corporate and Investment Banking.

The reasons that the Supervisory Board adopted a decision to enlarge the Management Board from three to six members are the fact that NLB has successfully acquired the Komercijalna Banka, Beograd, that the Group's strategy also focuses on intensive digitalisation and emphasis on top quality user experience. Also, the fact that the bank is implementing its commitment to sustainable operations and development, which all require and will require also in the future even more comprehensive, coordinated, and efficient management, both of individual business areas and the Group as a whole, as well as exploitation of all the synergies within the Group.

The Bank's Management Board, supplemented with three new members, is properly equipped for this challenge and offers the best combination of various knowledge, experience, and competencies. A five-year term of office for the new members will start after they have obtained a licence of the banking regulator, so until then they will continue to perform the functions of executive assistants to the Management Board.

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

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Table 36: Composition of Management in financial year 2021 (C.1)

Name and Surname	Position held (President, Member)	Area of work covered within the Management Board	First appointment to the position	Conclusion of the position/term of office	Citizenship	Year of birth	Qualification	Professional profile	Membership in supervisory bodies in companies not related to the company
Blaž Brodnjak	President	CEO	6 July 2016	6 July 2026	Slovene	1974	MBA	Banking/Finance	Banks' Association of Slovenia, AMCham Slovenia, Handball Federation of Slovenia
Andreas Burkhardt	Member	CRO	18 September 2013	6 July 2026	German	1971	MBA	Banking/Finance	
Archibald Kremser	Member	CFO	31 July 2013	6 July 2026	Austrian	1971	MBA	Banking/Finance	
Petr Brunclík	Member	COO	18 May 2020	30 June 2021	Czech	1979	MSc	Information technologies and applied informatics	

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Table 37: Composition of Supervisory Board and Committees in financial year 2021 (C.2)

Name and Surname	Position held (Chairman, Deputy Chairman, Member)	First appointment to the position	Conclusion of the position / term of office	Representative of the company's capital structure / employees	Attendance at SB session in regard to the total number of SB session (for example 5/7) applicable on his/her mandate	Gender	Citizenship	Year of birth	Qualification	Professional profile	Independence under Article 23 of the Code (YES/NO)	Existence of conflict of interest, in the business year (YES/NO)	Membership in supervisory bodies in other companies or institutions
Primož Karpe	Chairman	10 February 2016	2024	Representative of the company's capital structure	7/7	male	Slovene	1970	MSc	Banking/ Finance	YES	YES	Angler d.o.o.
Andreas Klingen	Deputy Chairman	22 June 2015	2023	Representative of the company's capital structure	7/7	male	German	1964	University Degree	Banking/ Finance	YES	NO	Kyrgyz Investment and Credit Bank CISC, Credit Bank of Moscow[i], Nepi Rockcastle plc
David Eric Simon	Member	4 August 2016	2024	Representative of the company's capital structure	7/7	male	British	1948	Higher National Diploma in Business Studies	Banking/ Finance	YES	NO	Jihlavan a.s., Czech Aerospace industries sro, Central Europe Industry Partners a.s.
Peter Groznik	Member	8 September 2017	14 June 2021	Representative of the company's capital structure	3/3	male	Slovene	1971	PhD	Finance, industry, investment banking	YES	NO	MSIN d.o.o., Ljubljana, CETIS d.d., Ljubljana
Mark William Lane Richards	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	British	1966	MSc	Banking/ Finance	YES	NO	BPL Global (Lloyds of London insurance Broker), Sheffield Haworth Ltd, Vencap International plc Ukraine (UK)
Shrenik Dhirajlal Davda	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	British	1960	MSc	Finance	YES	NO	PJSC Ukrgasbank[ii]
Gregor Rok Kastelic	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	Slovene	1968	MSc	Banking/ Finance	YES	NO	
Verica Trstenjak	Member	15 June 2020	2024	Representative of the company's capital structure	7/7	female	Slovene	1962	PhD	Law	YES	NO	EU Agency for Fundamental Rights, Vienna
Sergeja Kočar	Member	17 June 2020	2024	Representative of the company's employees	7/7	female	Slovene	1968	MSc	Management	YES	NO	
Bojana Šteblaj	Member	17 June 2020	2024	Representative of the company's employees	7/7	female	Slovene	1962	MSc	Management	YES	NO	
Janja Žabjek Dolinšek	Member	20 November 2020	2024	Representative of the company's employees	7/7	female	Slovene	1957	MSc	IT	YES	NO	
Tadeja Žbontar Rems	Member	22 January 2021	2025	Representative of the company's employees	7/7	female	Slovene	1957	MSc	IT	YES	NO	
Islam Osama Zekry	Member	14 June 2021	2025	Representative of the company's capital structure	4/4	male	Egyptian	1977	PhD	IT	YES	NO	CIB Housing association, Egypt, Egyptian AI Council (Ministry of Communication and Information Technology)

(i) Till 14 March 2022.
(ii) Since 8 March also: IPSO, UK.

Name and Surname	Membership in committees (audit, nominal, income committee, etc.)	First appointment to the position	Conclusion of the position/term of office	Chairman/Deputy Chairman/ Member	Attendance at sessions of SB's Committees in regard to the total number of SB's session (applicable on his/her mandate)
Shrenik Dhirajlal Davda	Remuneration Committee	28 June 2019	2023	Member	4/4
Gregor Rok Kastelic	Remuneration Committee	28 June 2019	2023	Member/Chairman	4/4
Mark William Lane Richards	Remuneration Committee	26 June 2020	2024	Deputy Chairman	4/4
Peter Groznik	Remuneration Committee	26 June 2020	14 June 2021	Member	4/4
Bojana Šteblaj	Remuneration Committee	8 April 2021	2024	Member	2/2
Sergeja Kočar	Remuneration Committee	26 June 2020	2024	Member	3/3
Primož Karpe	Nomination Committee	15 April 2016	2024	Chairman	7/7
Andreas Klingen	Nomination Committee	19 February 2016	2023	Deputy Chairman	7/7
Peter Groznik	Nomination Committee	6 October 2017	14 June 2021	Member	3/7
Verica Trstenjak	Nomination Committee	26 June 2020	2024	Member	7/7
Sergeja Kočar	Nomination Committee	26 June 2020	2024	Member	7/7
Bojana Šteblaj	Nomination Committee	8 April 2021	2024	Member	2/2
David Eric Simon	Audit Committee	7 April 2016	2024	Chairman	7/7
Primož Karpe	Audit Committee	15 April 2016	2024	Member	7/7
Shrenik Dhirajlal Davda	Audit Committee	28 June 2019	2023	Member/Deputy Chairman	7/7
Gregor Rok Kastelic	Audit Committee	28 June 2019	2023	Member	7/7
Janja Žabjek Dolinšek	Audit Committee	28 January 2021	12 August 2021	Member	4/4
Andreas Klingen	Risk Committee	19 February 2016	2023	Chairman	6/6
Peter Groznik	Risk Committee	6 October 2017	14 June 2021	Member/Deputy Chairman	3/3
Shrenik Dhirajlal Davda	Risk Committee	8 July 2021	2025	Deputy Chairman	2/2
David Eric Simon	Risk Committee	7 April 2016	2024	Member	6/6
Mark William Lane Richards	Risk Committee	28 June 2019	2023	Member	6/6
Gregor Rok Kastelic	Risk Committee	26 June 2020	2023	Member	6/6
Islam Osama Zekry	Risk Committee	8 July 2021	2025	Member	2/2
Tadeja Žbontar Rems	Risk Committee	28 January 2021	12 August 2021	Member	2/2
Mark William Lane Richards	Operational and IT Committee	28 June 2019	2023	Chairman	5/5
Shrenik Dhirajlal Davda	Operational and IT Committee	28 June 2019	8 July 2021	Deputy Chairman	5/5
Andreas Klingen	Operational and IT Committee	28 June 2019	2023	Member	4/5
Primož Karpe	Operational and IT Committee	15 April 2016	2024	Member	5/5
Bojana Šteblaj	Operational and IT Committee	26 June 2020	12 April 2021	Member	2/2
Tadeja Žbontar Rems	Operational and IT Committee	8 April 2021	2024	Member	3/3
Janja Žabjek Dolinšek	Operational and IT Committee	8 April 2021	2025	Member	3/3
Islam Osama Zekry	Operational and IT Committee	8 July 2021	2025	Deputy Chairman	2/2

External member in committees (audit, nominal, income committee, etc.) - The Banking Act (ZBan-2) that came into effect on 13 May 2015 contains provision stipulating that, irrespective of provision of Companies Act (ZGD-1) only members of the Supervisory Board can be appointed to Supervisory committees.

Name and Surname	Attendance at sessions of SB's Committees in regard to the total number of SB's session (for example 5/7)	Gender	Qualification	Year of birth	Professional profile	Membership in supervisory bodies in companies not related to the company
none						

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Table 38: Composition and amount of remuneration of the Management Board members in the financial year 2021 (C.3)

Name and Surname	Position held (President, Member)	Fixed income - gross (1)	Variable income - gross			Deferred income (3)	Severance pay (4)	Bonuses (5)	'Draw- back' (6)	Total gross (1+2+3+4+5-6)	Total net[i]
			on the basis of quantity criteria	on the basis of quality criteria	Total (2)						
Blaž Brodnjak	President	441,770.20	43,750.00	43,750.00	87,500.00	42,710.85	0.00	2,310.19	0.00	574,291.24	241,568.49
Archibald Kremser	Member	420,808.88	41,666.67	41,666.67	83,333.34	42,710.85	0.00	34,116.83	0.00	580,969.90	244,905.39
Andreas Burkhardt	Member	405,091.54	40,104.17	40,104.17	80,208.34	42,710.85	0.00	32,671.82	0.00	560,682.55	237,273.57
Petr Brunclík	Member	221,963.09	7,316.72	7,316.72	14,633.44	0.00	385,000.00	30,091.68	0.00	651,688.21	327,310.24

[i] This chart does not include other benefits and cost refunds.

Table 39: Composition and amount of remuneration of members of the Supervisory Board and committee members in the financial year 2021 (in EUR) (C.4)

Name and Surname	Position held (Chairman, deputy Chairman, member, external member of Committee)	Payment for the performance of services - gross per year (1)	Attendance fees for SB and committees - gross per year (2)	Total gross (1+2)	Total net[i]	Travel expenses	Benefits
Primož Karpe	Chairman	96,000.00	-	96,000.00	74,400.00	4,629.06	447.47
Andreas Klingen	Deputy Chairman	90,000.00	-	90,000.00	90,000.00	4,946.99	447.47
Islam Osama Zekry	Member	38,607.52	-	38,607.52	25,432.70	5,704.85	447.47
David Eric Simon	Member	81,000.00	-	81,000.00	62,775.00	5,251.42	447.47
Peter Groznik	Member	32,800.00	-	32,800.00	23,855.44	0.00	0.00
Mark William Lane Richards	Member	81,000.00	-	81,000.00	53,358.72	2,642.98	447.47
Shrenik Dhirajlal Davda	Member	72,000.00	-	72,000.00	47,430.00	2,367.17	447.47
Gregor Rok Kastelic	Member	81,000.00	-	81,000.00	53,358.72	758.31	447.47
Verica Trstenjak	Member	65,790.32	-	65,790.32	43,339.32	0.00	447.47
Sergeja Kočar	Member	11,855.76	-	11,855.76	8,622.69	0.00	447.47
Bojana Šteblaj	Member	15,655.26	-	15,655.26	11,386.05	0.00	447.47
Janja Žabjek Dolinšek	Member	6,839.40	-	6,839.40	4,974.27	0.00	447.47
Tadeja Žbontar Rems	Member	26,656.31	-	26,656.31	19,387.12	0.00	447.47

[i] After the prepayment of income taxes which is not taken into account in potential subsequent balancing payments of personal income taxes.

Statement of Management of Risk

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 decision-making 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 non-financial 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 self-funded, 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

Statement on Non-financial Operation

In line with Article 70.c of the Companies Act (ZGD-1),[21] the Bank reports on non-financial operation separately from the NLB Group Annual Report 2021. The Bank's disclosures of non-financial operation are prepared in NLB Group Sustainability Report 2021 (https://www.nlb.si/sustainability), by applying the GRI Sustainability Reporting Standards (GRI) and thus ensuring compliance with the requirements of the regulations regarding the disclosure of non-financial information.

As part of the NLB Group Sustainability Report 2021, the Bank publishes UNEP FI PRB Self-Assessment Report on how the Bank is implementing the UN Principles for Responsible Banking (UN PRB). The UN PRB set out the banking industry's role and responsibility in shaping a sustainable future and in aligning the banking sector with the objectives of the UN SDGs and the 2015 Paris Climate Agreement.

Ljubljana, 11 April 2022

Management Board of NLB

Archibald Kremser
CFO

Andreas Burkhardt
CRO

Blaž Brodnjak
CEO & CMO

21 Official Gazette of the RoS, No. 65/09, 33/11, 91/11, 32/12, 57/12, 44/13 – Resolution of the Constitutional Court 82/13, 55/15, 15/17, 22/19 – Business Secret Act, 158/20 – Integrity and Corruption Prevention Act-C and 18/21).

We are attentive to what you cherish the most.

52 years ago, we celebrated Earth Day for the first time.
40 years ago, we introduced recycling.
2 years ago, we committed to low-carbon economy.
What will the next generations commit to?

The rising importance of environmental and social issues plays an important role in the quality of life in our local region. By incorporating sustainability in our banking services, we not only strengthen relations with our clients, employees, suppliers, investors and broader communities, but also take care of present and future generations. We do not perceive sustainability as merely a letter on a piece of paper, but as a string of decisions, measures and actions that will provide new opportunities for the generations to follow.

Disclosure on Shares and Shareholders of NLB

1. Information pursuant to the Companies Act (ZGD-1), Article 70, paragraph 6

1.1 Structure of the Bank's share capital

The Bank has issued only ordinary registered no-par value shares, the holders of which have a voting right and the right to participate at the General Meeting of the Bank's shareholders, the pre-emptive right to subscribe for new shares in case of a share capital increase, the right to profit participation (dividends), the right to a share in the surplus in the event of liquidation or bankruptcy of the Bank, and the right to be informed. All shares belong to a single class and are issued in book-entry form.

Information regarding the shareholder structure of NLB (as at 31 December 2021) is available in the subchapter Shareholder Structure of NLB in the chapter Key Highlights.

1.2 All restrictions relating to the transfer of shares and the restrictions on voting rights

The shares of the Bank are freely transferable, subject to the provisions of the Articles of Association of the Bank which require the approval of the Supervisory Board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such an acquisition and the shares held by third parties for the account of the acquirer, exceeds the share of 25% of the Bank's voting shares. Approval for the transfer of shares is issued by the Supervisory Board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceeded the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them on the account of third parties, so that it is not entitled to exercise voting rights from these shares at its sole discretion, while at the same time committing to the Bank, it will not exercise voting rights on the basis of the instructions of an individual third party for whose account it has acquired the shares if, together with the instructions for voting, it does not receive a written guarantee from that person that this person has shares on his own account and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights.
The acquirer who exceeds the share of 25% of the Bank's shares with voting rights, and does not require the issuance of approval for the transfer of shares, or does not receive the approval of the Bank, may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

1.3 Qualifying holdings

This information is included in the chapter Corporate Governance Statement of NLB.

1.4 Securities carrying special controlling rights

This information is included in the chapter Corporate Governance Statement of NLB.

1.5 The employee share scheme, if used by the company, for shares to which the scheme relates and about the method of exercising control over this scheme, if the controlling rights are not exercised directly by employees

The Remuneration policy for employees performing special work defines the payments with financial instruments according to the applicable banking law, however, there was no payout in instruments in 2021.

1.6 Explanation regarding restrictions related to voting rights

This information is included in the chapter Corporate Governance Statement of NLB.

1.7 All agreements among shareholders which are known to the company and could result in restrictions relating to the transfer of securities or voting rights

The Bank is not aware of such agreements.

1.8 The company's rules on the appointment or replacement of management and supervisory board members and changes of the articles of association

This information is included in the chapter Corporate Governance Statement of NLB.

1.9 Authorisations given to management, particularly authorisations to issue or purchase own shares

This information is included in the chapter Corporate Governance Statement of NLB.

1.10 All major agreements to which the company is a party and which take effect, are changed or cancelled following a change in control over the company resulting from a bid, as laid down by the Act governing M&A, and the effects of such agreements

There are no major agreements to which the Bank is a party, and which would take effect, be changed, or cancelled following a change in control over the Bank resulting from a bid.

1.11 All agreements between the Bank and its management or supervision bodies or its employees which envisage compensation if, due to a bid as laid down by the Act governing M&A, these persons resign, are dismissed without a well-founded reason, or their employment is terminated

In line with the employment contracts of the members of the Management Board, in case the Supervisory Board recalls a member of the Management Board 'for other business and economic reasons,' such a member of the Management Board of NLB is entitled to compensation for early termination of his term of office. The member of the Management Board shall not be entitled to compensation for early termination of the term of office if he is employed in the Bank or in the Group after the termination of the term of office. In the event of resignation, the member of the Management Board shall

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not be entitled to any compensation for early discontinuation of the term of office, unless otherwise decided by the Supervisory Board.

2. Number of shares held by members of the Supervisory Board and Management Board

Table 40: Number of shares held by members of the Supervisory Board and Management Board

	Shares held as at 31 December 2021	
Name of member of Supervisory Board	**Number**	**%**
Primož Karpe	1,136	0.006%
Andreas Klingen	1,198	0.006%
David Eric Simon[(i)]	582	0.003%
Islam Osama Zekry	—	—
Gregor Rok Kastelic	—	—
Shrenik Dhirajlal Davda	—	—
Mark William Lane Richards	—	—
Verica Trstenjak	—	—
Sergeja Kočar	61	0.000%
Bojana Šteblaj	—	—
Janja Žabjek Dolinšek	—	—
Tadeja Žbontar Rems	—	—
Name of member of Management Board	**Number**	**%**
Blaž Brodnjak	1,500	0.008%
Archibald Kremser	791	0.004%
Andreas Burkhardt	451	0.002%
Petr Brunclík	278	0.001%

[(i)] David Eric Simon holds 2,910 GDRs, which is equal to 582 shares (as 1 share represents 5 GDRs).

3. Stock option agreements

The Bank has no stock option agreements in relation with listed shares.

4. Dividend taxation

Withholding tax

In 2021 a Slovenian payer was required to deduct and withhold the amount of Slovenian corporate or personal income tax from dividend payments made to the certain categories of payees:

- Individuals: 27.5%
- Intermediaries: 27.5%
- Legal entities (other than Intermediaries): 15%

In 2022, the tax rate for individuals and intermediaries has changed from 27.5% to 25%.

There are some exemptions if dividends are paid to intermediaries and legal entities

For the purposes of Slovenian tax legislation, the GDR depositary will qualify as an intermediary. Therefore, the dividends paid by the custodian to the GDR depositary will be subject to the deduction and withholding of Slovenian tax at the rate of 25% (in 2021 27.5%). A holder, an owner of a GDR or a beneficial owner will be entitled, if and to the extent applicable, to claim a refund of the withholding tax.

In the case of legal entities, the exemptions are related to the characteristics of the legal entities.

Application of Double Tax Treaties

If the payee is not an intermediary, Slovenian tax authorities may approve the application of a lower tax rate specified in the double tax treaty between the RoS and the country of residence of the payee if the Slovenian payer provides certain information on the payee and a confirmation that the payee is a resident for taxation purposes in such a country, issued by the tax authorities of such a country.

Refund of Withholding Tax

If the Slovenian tax was deducted and withheld at a higher tax rate than it would be paid if a Slovenian payer would make the dividend payment directly to such person as a payee or higher tax rate, than the one specified in the double tax treaty, the payee of the dividend is entitled to the refund of the overpaid tax. The tax refund is enforced by filing a claim to the Financial Administration of the RoS.

Legal persons

Dividends with respect to the shares received by a legal person who is a Slovenian resident are exempt from Slovenian corporate income tax (*davek od dohodkov pravnih oseb*).

Individuals

The amount of tax withheld from a dividend payment received by an individual constitutes the final amount of Slovenian Personal Income Tax (*dohodnina*) with respect to such a dividend payment.

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Events After the End of the 2021 Financial Year

Management Board change

On 20 January, 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.

Swiss Francs Law adopted

On 2 February, the Slovenian National Assembly adopted the Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs (CHF Law). The CHF Law affects all loan agreements denominated in Swiss francs (regardless of whether the agreements are still in force) concluded between banks operating in Slovenia (including NLB) as lenders and individuals as borrowers in the period from 28 June 2004 to 31 December 2010, and provides for a cap on the exchange rate between Swiss francs and the Euro to be set at 10% volatility and shall be applied from the conclusion of any of the affected loan agreements. NLB intends to use all legal remedies against the CHF Law before the Constitutional Court and, if necessary, in front of relevant European forums. In this respect, the banks (including NLB) on 28 February filed an initiative with the Constitutional Court of the RoS 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 RoS adopted a decision on 10 March to suspend in whole the implementation of the CHF Law. 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 the 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 and if outlined legal remedies 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. The Bank considers this as a non-adjusting event after the reporting period.

New SREP Decision

On 2 February, 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 applies as of 1 March. Consequently, the Bank is as of 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.

Geopolitical tensions in Ukraine

In February, Russian Federation began a military invasion of Ukraine. Group has limited exposure to Russian Federation and Ukraine which mainly derives from NLB's investment in Russian sovereign bonds in the approximate amount of EUR 20 million. The manner and timing of their settlement in the given circumstances is not determined yet. Since the beginning of the tensions, the credit spreads widening was observed, which is currently impacting the Bank's FVOCI positions. Further information is available in Note 9 of the Financial part of this report.

Sberbank banka d.d. acquisition

On 1 March, the Single Resolution Board (SRB) in coordination with local regulator BoS decided to adopt a resolution scheme in respect of Slovenian Sberbank banka d.d. (Sberbank). Resolution scheme envisaged the application of the sale of business tool for Sberbank and BoS issued a decision for the sale of 100% shares issued by Sberbank. Under the resolution scheme, and following a marketing procedure, the SRB has decided to transfer all the shares issued by the Sberbank to NLB. Therefore as of 1 March NLB became a 100% owner of Sberbank. In the following months activities for integration of Sberbank within NLB Group will be carried out.

Key information of the acquired bank

		in EUR million
	2020	**2021 Unaudited**
Income Statement		
Net interest income	30	26
Net fee and commission income	12	14
Other income	-1	2
Total income	**43**	**43**
Expenses	-29	-30
Pre-provision income	13	13
Provisions and impairments	-11	1
Profit before tax	1	13
Profit after tax	**1**	**10**
Balance Sheet		
Total assets	1,839	1,721
Loans and advances to customers	1,200	1,153
Deposits from non-bank customers	1,340	1,274
Shareholders' equity	184	195
Ratios[(i)]		**in %**
Net interest margin[(ii)]	1.61	1.49
Business operating margin[(ii)]	2.29	2.49
ROE a.t.	0.52	5.4
NPL ratio[(iii)]	5.5	4.4
CET1 ratio	18.8	18.7

Source:
Sberbank banka d.d. reports: for 2020 Annual report, for 2021 data from Sberbank banka d.d.
Notes:
(i) Ratios as calculated by Sberbank banka d.d.
(ii) Based on total assets.
(iii) Non-performing loans and other financial assets / classified loans and other financial assets (excluding balances with central bank accounts and sight deposits with banks).

Further information about the acquisition of Sberbank banka d.d. is available on the Bank's website under Investor News.

Supervisory and Management board transactions with NLBR shares

Between 25 February and 23 March, Primož Karpe, President of the Supervisory Board, Sergeja Kočar, Member of the Supervisory Board, Blaž Brodnjak, CEO and CMO, and Andreas Burkhardt, CRO together acquired 468 ordinary shares of NLB ISIN: SI0021117344, LJSE ticker NLBR.

Notification of major holdings

On 7 March the shareholding of Schroders in the Bank changed from 5.061% to 4.95%.

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Reconciliation of Financial Statements in Business and Financial Part of the Report

Table 41: Income Statement of NLB Group for the annual period ended 31 December 2021

Business report	in EUR million	Financial report	in EUR thousands	Notes
Net interest income	409.4	Interest and similar income	477,829	4.1.
		Interest and similar expenses	(68,469)	4.1.
Net fee and commission income	237.2	Fee and commission income	332,589	4.3.
		Fee and commission expenses	(95,413)	4.3.
Dividend income	0.2	Dividend income	223	4.2.
Net income from financial transactions	38.4	Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	167	4.4.
		Gains less losses from financial assets and liabilities held for trading	21,194	4.5.
		Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	16,838	4.6.
		Fair value adjustments in hedge accounting	167	5.5.a)
		Foreign exchange translation gains less losses	345	4.7.
		Gains less losses from modification of financial assets	(263)	4.12.
Net other income	(18.3)	Gains less losses on derecognition of non-financial assets	2,681	
		Other net operating income	23,221	4.8.
		Cash contributions to resolution funds and deposit guarantee schemes	(35,140)	4.10.
		Gains less losses from non-current assets held for sale	248	4.15.
		Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	(9,298)	5.12.b)
Net non-interest income	257.6		257,559	
Total net operating income	**666.9**		**666,919**	
Employee costs	(231.3)	Administrative expenses	(368,851)	4.9.
Other general and administrative expenses	(137.5)			
Depreciation and amortisation	(46.5)	Depreciation and amortisation	(46,528)	4.11.
Total costs	**(415.4)**		**(415,379)**	
Result before impairments and provisions	**251.5**		**251,540**	
Impairments and provisions for credit risk	35.8	Provisions for credit losses	8,504	4.13.
		Impairment of financial assets	27,331	4.14.
Other impairments and provisions	(27.1)	Provisions for other liabilities and charges	(22,670)	4.13.
		Impairment of non-financial assets	(4,407)	4.14.
Impairments and provisions	8.8		8,758	
Gains less losses from capital investment in subsidiaries, associates, and joint ventures	1.1	Share of profit from investments in associates and joint ventures (accounted for using the equity method)	1,108	5.12.d)
Result before tax	**261.4**	**Profit before income tax**	**261,406**	
Income tax	(13.5)	Income tax	(13,538)	4.16.
Result of non-controlling interests	11.5	Attributable to non-controlling interests	11,464	
Result after tax	**236.4**	**Attributable to owners of the parent**	**236,404**	

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Table 42: Statement of Financial Position of NLB Group as at 31 December 2021

Business report	in EUR million	Financial report	in EUR thousands	Notes
ASSETS				
Cash, cash balances at central banks, and other demand deposits at banks	5,005.1	Cash, cash balances at central banks and other demand deposits at banks	5,005,052	5.1.
Loans to banks	140.7	Financial assets measured at amortised cost - loans and advances to banks	140,683	5.6.b)
Net loans to customers	10,587.1	Financial assets measured at amortised cost - loans and advances to customers	10,587,121	5.6.c)
		Non-trading financial assets mandatorily at fair value through profit or loss - part (only loans)	-	5.3.a)
Financial assets	5,208.3		5,208,325	
- Trading book	7.7	Financial assets held for trading	7,678	5.2.a)
- Non-trading book	5,200.6	Non-trading financial assets mandatorily at fair value through profit or loss - part (without loans)	21,161	5.3.a)
		Financial assets measured at fair value through other comprehensive income	3,461,860	5.4.
		Financial assets measured at amortised cost - debt securities	1,717,626	5.6.a)
Investments in subsidiaries, associates, and joint ventures	11.5	Investments in associates and joint ventures	11,525	5.12.d)
Property and equipment, investment property	294.6	Property and equipment	247,014	5.8.
		Investment property	47,624	5.9.
Intangible assets	59.1	Intangible assets	59,076	5.10.
Other assets	271.1	Financial assets measured at amortised cost - other financial assets	122,229	5.6.d)
		Derivatives - hedge accounting	568	5.5.b)
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	7,082	5.5.c)
		Current income tax assets	3,948	
		Deferred income tax assets	38,977	5.17.
		Other assets	91,221	5.13.
		Non-current assets held for sale	7,051	5.7.
TOTAL ASSETS	**21,577.5**	**Total assets**	**21,577,496**	
LIABILITIES				
Deposits from customers	17,640.8	Financial liabilities measured at amortised cost - due to customers	17,640,809	5.15.a)
Deposits from banks and central banks	71.8	Financial liabilities measured at amortised cost - deposits from banks and central banks	71,828	5.15.a)
Borrowings	932.6	Financial liabilities measured at amortised cost - borrowings from banks and central banks	858,531	5.15.b)
		Financial liabilities measured at amortised cost - borrowings from other customers	74,051	5.15.b)
Other liabilities	427.6	Financial liabilities held for trading	7,585	5.2.b)
		Financial liabilities measured at amortised cost - other financial liabilities	206,878	5.15.d)
		Derivatives - hedge accounting	35,377	5.5.b)
		Provisions	119,404	5.16.
		Current income tax liabilities	5,878	
		Deferred income tax liabilities	3,045	5.17.
		Other liabilities	49,468	5.19.
Subordinated liabilities	288.5	Financial liabilities measured at amortised cost - subordinated liabilities	288,519	5.15.c)
Equity	2,078.7	Equity and reserves attributable to owners of the parent	2,078,733	
Non-controlling interests	137.4	Non-controlling interests	137,390	
TOTAL LIABILITIES AND EQUITY	**21,577.5**	**Total liabilities and equity**	**21,577,496**	

Alternative Performance Indicators

The Bank has chosen to present these APIs, either because they are in common use within the industry or because they are commonly used by investors and as such are useful for disclosure. The APIs are used internally to monitor and manage operations of the Bank and the Group, and are not considered to be directly comparable with similar KPIs presented by other companies. The Bank's APIs are described below together with definitions.

Cost of risk – Calculated as the ratio between credit impairments and provisions annualized from the income statement and average net loans to customers.

Table 43: NLB Group cost of risk calculation[iii]

		in EUR million
	NLB Group	
	2021	2020
Numerator		
Credit impairments and provisions[i]	-40.8	47.6
Denominator		
Average net loans to customers[ii]	10,080.9	7,696.1
Cost of risk (bps)	**-41**	**62**

[i] NLB internal information. Credit impairments and provisions are annualized, calculated as all established and released impairments on loans and provisions for off balance (from the income statement) in the period divided by the number of months for reporting period and multiplied by 12. The net established Credit impairments and provisions are shown with a positive sign, and the net released Credit impairments and provisions are shown with a negative sign.
[ii] NLB internal information. Average net loans to customers are calculated as sum of the balance of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).
[iii] Komercijalna Banka group included from 2021 on.

Cost-to-income ratio (CIR) – Indicator of cost efficiency, calculated as the ratio between the total costs and total net operating income.

Table 44a: NLB Group and NLB CIR calculation

						in EUR million
	NLB Group			NLB		
	2021	2020	2019	2021	2020	2019
Numerator						
Total costs	415.4	293.9	305.0	183.6	180.5	191.1
Denominator						
Total net operating income	666.9	504.5	517.2	361.5	311.7	354.7
Cost to income ratio (CIR)	**62.3%**	**58.3%**	**59.0%**	**50.8 %**	**57.9%**	**53.9%**

CIR is adjusted for 2019 to changed schemes prescribed by the BoS.

Table 44b: NLB Group's banking subsidiaries CIR calculation

													in EUR million
	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Numerator													
Total cost	28.6	26.5	15.2	13.9	16.2	15.1	13.5	12.3	17.4	13.6	22.2	20.4	88.0
Denominator													
Total net operating income	68.4	62.7	33.2	30.1	28.1	26.7	41.8	38.7	28.1	24.3	30.3	26.6	128.7
Cost to income ratio (CIR)	**41.8%**	**42.3%**	**45.7%**	**46.1%**	**57.7%**	**56.5%**	**32.4%**	**31.8%**	**61.7%**	**56.0%**	**73.1%**	**76.4%**	**68.4%**

FVTPL – Financial assets measured mandatorily at fair value through profit or loss (FVTPL) represent the minor part (0.002% December 2021; 0.30% December 2020) of the loan portfolio (before the deduction of fair value for credit risk; loans with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding). Classification into stages is calculated in the internal data source, by which the NLB Group measures the loan portfolio quality, and which is also published in the Business Report of Annual and Interim Reports.

IFRS 9 classification into stages for loan portfolio:

IFRS 9 requires an expected loss model, where an allowance for the expected credit losses (ECL) are formed. Loans measured at amortised costs (AC) are classified into the following stages (before deduction of loan loss allowances):

- **Stage 1** – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period;
- **Stage 2** – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period;
- **Stage 3** – An impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. The definition of default is harmonised with the EBA guidelines.

A significant increase in credit risk is assumed: when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition; when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment); if NLB Group expects to grant the client forbearance or if the client is placed on the watch list.

Table 45a: NLB Group Stage 1 calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 1	14,638.0
Denominator	
Total gross loans and advances	15,541.8
IFRS 9 classification into Stage 1	**94.2%**

Table 45b: NLB Group Stage 2 calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 2	532.4
Denominator	
Total gross loans and advances	15,541.8
IFRS 9 classification into Stage 2	**3.4%**

Table 45c: NLB Group Stage 3 calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 3	371.1
Denominator	
Total gross loans and advances	15,541.8
IFRS 9 classification into Stage 3	**2.4%**

Table 45d: NLB Group Stage 1 in the Corporate segment calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 1 to Corporates	4,525.5
Denominator	
Total gross loans to Corporates	5,179.5
Corporates - IFRS 9 classification into Stage 1	**87.4%**

Table 45e: NLB Group Stage 2 in the Corporate segment calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 2 to Corporates	412.2
Denominator	
Total gross loans to Corporates	5,179.5
Corporates - IFRS 9 classification into Stage 2	**8.0%**

Table 45f: NLB Group Stage 3 in the Corporate segment calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 3 to Corporates	241.4
Denominator	
Total gross loans to Corporates	5,179.5
Corporates - IFRS 9 classification into Stage 3	**4.7%**

Table 45g: NLB Group Stage 1 in the Retail segment calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 1 to Retail	5,371.1
Denominator	
Total gross loans to Retail	5,621.1
Retail - IFRS 9 classification into Stage 1	**95.6%**

Table 45h: NLB Group Stage 2 in the Retail segment calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 2 to Retail	120.2
Denominator	
Total gross loans to Retail	5,621.1
Retail - IFRS 9 classification into Stage 2	**2.1%**

Table 45i: NLB Group Stage 3 in the Retail segment calculation

	in EUR million
	NLB Group
	2021
Numerator	
Total (AC) loans in Stage 3 to Retail	129.7
Denominator	
Total gross loans to Retail	5,621.1
Retail - IFRS 9 classification into Stage 3	**2.3%**

Leverage ratio – its calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. The leverage ratio is a non-risk based supplementary measure to the risk-based capital requirements. A minimum leverage ratio requirement is 3%. The purpose of the leverage ratio is to limit the size of the Bank balance sheets, and with a special emphasis on exposures which are not weighted within the framework of the existing capital requirement calculations.

Table 46: NLB and NLB Group leverage ratio

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Tier I	1,362.7	1,347.0	1,137.6	1,965.6	1,768.1	1,451.2
Denominator						
Total Leverage Ratio exposure measure	10,041.1	13,058.8	11,705.2	19,229.5	22,603.9	16,671.3
Leverage ratio	**13.6%**	**10.3%**	**9.7%**	**10.2%**	**7.8%**	**8.7%**

Liquidity coverage ratio – LCR refers to high liquid assets held by the financial institution to cover its net liquidity outflows over a 30-calendar day stress period.

The LCR requires financial institutions to maintain a sufficient reserve of high-quality liquid assets (HQLA) to withstand a crisis that puts their cash flows under pressure. The assets to hold must equal to or greater than their net cash outflow over a 30-calendar-day stress period (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III guidelines. The calculations presented below are based on internal data sources.

Table 47: NLB Group LCR calculation

																	in EUR million
	NLB Group														NLB		
	31 Dec 2021	30 Nov 2021	31 Oct 2021	30 Sep 2021	31 Aug 2021	31 Jul 2021	30 Jun 2021	31 May 2021	30 Apr 2021	31 Mar 2021	29 Feb 2021	31 Jan 2021	31 Dec 2020	31 Dec 2019	31 Dec 2021	31 Dec 2020	31 Dec 2019
Numerator																	
Stock of HQLA	5,367.1	5,333.4	5,222.9	5,285.7	5,346.8	5,350.7	5,452.8	4,976.0	4,941.4	4,915.3	4,871.5	5,027.8	5,003.0	3,985.0	4,698.7	4,323.4	3,701.3
Denominator																	
Net liquidity outflow	2,125.0	2,064.7	1,993.4	1,940.5	1,899.7	1,966.5	2,000.2	1,915.8	1,918.6	1,876.4	1,889.0	1,945.5	1,943.1	1,226.4	1,493.9	1,285.4	1,022.1
LCR	**252.6%**	**258.3%**	**262.0%**	**272.4%**	**281.4%**	**272.1%**	**272.6%**	**259.7%**	**257.6%**	**262.0%**	**257.9%**	**258.4%**	**257.5%**	**324.9%**	**314.5%**	**336.3%**	**362.1%**

Based on the European Commission's Delegated Act on LCR.

Net loan-to-deposit ratio (LTD) – Calculated as the ratio between net loans to customers and deposits from customers. There is no regulatory defined limitation on the LTD, however, the aim of this measure is to restrict extensive growth of the loan portfolio.

Table 48a: NLB Group and NLB LTD calculation

in EUR million

	NLB Group			NLB		
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2021	31 Dec 2020	31 Dec 2019
Numerator						
Net loans to customers	10,587.1	9,644.9	7,604.7	5,153.0	4,595.1	4,589.2
Denominator						
Deposits from customers	17,640.8	16,397.2	11,612.3	9,659.6	8,850.8	7,760.7
Net loan to deposit ratio (LTD)	**60.0%**	**58.8%**	**65.5%**	**53.3%**	**51.9%**	**59.1%**

Table 48b: NLB Group's banking subsidiaries LTD calculation

in EUR million

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021
Numerator													
Net loans to customers	1,084.1	956.9	471.1	430.7	453.0	399.2	634.5	559.2	491.6	367.3	511.7	472.2	1,795.9
Denominator													
Deposits from customers	1,399.5	1,288.8	759.9	633.5	593.0	521.6	798.8	748.3	609.8	431.7	449.5	496.3	3,424.6
Net loan to deposit ratio (LTD)	**77.5%**	**74.2%**	**62.0%**	**68.0%**	**76.4%**	**76.5%**	**79.4%**	**74.7%**	**80.6%**	**85.1%**	**113.8%**	**95.1%**	**52.4%**

Net interest margin on the basis of interest-bearing assets – Calculated as the ratio between net interest income annualized and average interest-bearing assets.

Table 49: NLB Group's banking subsidiaries net interest margin on the basis of interest bearing assets calculation

in EUR million

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Numerator													
Net interest income(i)	50.4	48.1	20.1	18.6	17.8	17.8	34.5	32.3	22.0	20.6	23.4	21.8	88.6
Denominator													
Average interest bearing assets(ii)	1,605.3	1,453.0	844.3	756.7	645.0	611.9	900.6	817.7	550.2	499.9	678.3	643.1	3,742.6
Net interest margin on interest bearing assets	**3.1%**	**3.3%**	**2.4%**	**2.5%**	**2.8%**	**2.9%**	**3.8%**	**3.9%**	**4.0%**	**4.1%**	**3.4%**	**3.4%**	**2.4%**

(i) Net interest income is annualized, and calculated as the sum of interest income and interest expenses in the period divided by the number of days in the period and multiplied by the number of days in the year.
(ii) NLB internal information. Average interest-bearing assets for individual bank members are calculated as the sum of balance of previous year end (31 December) and monthly balances of the last day of each month from January to reporting month t divided by (t+1).

Net interest margin on the basis of interest-bearing assets (quarterly) – Calculated as the ratio between the net interest income annualized and average interest-bearing assets.

Table 50: NLB Group net interest margin on the basis of interest bearing assets calculation (quarterly)(iii)

in EUR million

	NLB Group				
	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Numerator					
Net interest income(i)	424.6	411.3	405.7	395.4	298.7
Denominator					
Average interest bearing assets(ii)	20,526.7	20,314.4	19,459.1	18,902.8	14,739.7
Net interest margin on interest bearing assets (quarterly)	**2.07%**	**2.02%**	**2.08%**	**2.09%**	**2.03%**

(i) Net interest income (quarterly) is annualized, calculated as the sum of interest income and interest expenses in the period divided by the number of days in the quarter and multiplied by the number of days in the year.
(ii) NLB internal information. Average interest-bearing assets (quarterly) for the NLB Group are calculated as the sum of monthly balances (t) for the corresponding quarter and monthly balance at the end of the previous quarter divided by (t+1).
(iii) Komercijalna Banka group included from 2021 on.

Net interest margin on total assets – Calculated as the ratio between net interest income annualized, and average total assets.

Table 51: NLB Group and NLB net interest margin on total assets calculation

in EUR million

	NLB Group			NLB		
	2021	2020	2019	2021	2020	2019
Numerator						
Net interest income(i)	409.4	299.6	318.5	139.1	138.9	158.1
Denominator						
Average total assets(ii)	20,659.0	15,086.2	13,311.7	11,853.9	10,336.2	9,206.3
Net interest margin on total assets	**2.0%**	**2.0%**	**2.4%**	**1.2 %**	**1.3 %**	**1.7 %**

(i) Net interest income is annualized, and calculated as sum of interest income and interest expenses in the period divided by the number of days in the period and multiplied by the number of days in the year.
(ii) NLB internal information. Average total assets for the NLB Group are calculated as sum of balance of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1). Average total assets for NLB are calculated as the sum of total assets of the previous year end (31 December) and daily balances in the period (from 1 January to day d – the last day in reporting month) divided by (d+1).

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NPE – NPE includes risk exposure to D- and E-rated clients (includes loans and advances, debt securities, and off-balance exposures, which are included in report Finrep 18; before the deduction of allowances for the ECL). Non-performing exposures measured by fair value loans through P&L (FVTPL) are taken into account at fair value increased by the amount of negative fair changes for credit risk.

NPE per cent. (on-balance and off-balance)/Classified on-balance and off-balance exposures – NPE per cent. in accordance with EBA methodology: NPE as a percentage of all exposures to clients in Finrep18, before deduction of allowances for the ECL; the ratio is in gross terms.

Where Non-Performing Exposure includes risk exposure to D- and E-rated clients (includes loans and advances, debt securities, and off-balance exposures, which are included in report Finrep 18; before the deduction of allowances for the ECL). The share of NPEs is calculated on the basis of an internal data source, with which the NLB Group monitors the portfolio quality. The calculations presented below are based on internal data sources.

Table 52: NLB and NLB Group NPE (Eba def.) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	159.5	235.1	221.0	415.5	513.0	432.7
Denominator						
Total on-balance and off-balance exposures in Finrep18	13,869.9	12,223.1	11,087.8	24,328.0	22,042.3	16,228.5
NPE per cent.	**1.1%**	**1.9%**	**2.0%**	**1.7%**	**2.3%**	**2.7%**

NPE – NPE indicator according to the BoS calculation differs from the EBA methodology in the treatment of debt instruments measured at FVOCI. The carrying amount of debt instruments measured at FVOCI is increased by value adjustments due to impairments.

Table 53: NLB and NLB Group NPE (Eba def.) (Bos) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	159.5	235.1	221.0	415.5	513.0	432.7
Denominator						
Total on-balance and off-balance exposures in Finrep18, where carrying amount of FVOCI is increased by value adjustments due to impairments	13,872.1	12,225.5	11,089.5	24,339.2	22,051.0	16,233.3
NPE per cent.	**1.1%**	**1.9%**	**2.0%**	**1.7%**	**2.3%**	**2.7%**

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

NPL per cent. – The share of non-performing loans in total loans: non-performing loans as a percentage of total loans to clients before deduction of loan loss allowances; ratio in gross terms. Where non-performing loans are defined as loans to D- and E-rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances). The share of non-performing loans is calculated on the basis of an internal data source, with which the NLB Group monitors the loan portfolio quality.

Table 54a: NLB NPL calculation

			in EUR million
		NLB	
	2021	2020	2019
Numerator			
Total Non-Performing Loans	130.4	208.4	169.5
Denominator			
Total gross loans	8,522.5	6,980.8	5,989.9
NPL per cent.	**1.5%**	**3.0%**	**2.8%**

Table 54b: NLB Group NPL calculation

						in EUR million
			NLB Group			
	2021	2020	2019	2018	2017	2016
Numerator						
Total Non-Performing Loans	367.4	474.7	374.7	622.3	844.5	1,299.2
Denominator						
Total gross loans	15,541.8	13,686.6	9,793.5	9,017.2	9,130.4	9,443.7
NPL per cent.	**2.4%**	**3.5%**	**3.8%**	**6.9%**	**9.2%**	**13.8%**

Table 54c: NLB Group's banking subsidiaries NPL calculation

														in EUR million
	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd	NLB Group's banking subsidiaries
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2021
Numerator														
Total Non-Performing Loans	59.7	63.2	9.4	13.7	19.0	24.7	15.6	17.5	42.2	27.3	9.5	8.7	36.3	322.1
Denominator														
Total gross loans	1,383.8	1,239.1	734.7	590.2	621.0	553.4	802.0	768.2	602.0	470.0	618.1	605.5	2,610.1	15,894.4
NPL per cent.	**4.3%**	**5.1%**	**1.3%**	**2.3%**	**3.1%**	**4.5%**	**1.9%**	**2.3%**	**7.0%**	**5.8%**	**1.5%**	**1.4%**	**1.4%**	**2.0%**

Contents

NPL coverage ratio 1 – The coverage of the gross non-performing loans portfolio with loan loss allowances on the entire loan portfolio - loan impairment in respect of non-performing loans. It shows the level of credit provisions that the entity has already absorbed into its profit and loss accounts with respect to the total of impaired loans. The NPL coverage ratio 1 is calculated on the basis of an internal data source, with which the NLB Group monitors the quality of loan portfolio.

Table 55a: NLB NPL coverage ratio 1 calculation

			in EUR million
		NLB	
	2021	2020	2019
Numerator			
Loan loss allowances entire loan portfolio	97.9	158.4	129.2
Denominator			
Total Non-Performing Loans	130.4	208.4	169.5
NPL coverage ratio 1 (NPL CR 1)	**75.1%**	**76.0%**	**76.2%**

Table 55b: NLB Group NPL coverage ratio 1 calculation

						in EUR million
			NLB Group			
	2021	2020	2019	2018	2017	2016
Numerator						
Loan loss allowances entire loan portfolio	316.5	388.4	334.2	479.6	654.8	988.7
Denominator						
Total Non-Performing Loans	367.4	474.7	374.7	622.3	844.5	1,299.2
NPL coverage ratio 1 (NPL CR 1)	**86.1%**	**81.8%**	**89.2%**	**77.1%**	**77.5%**	**76.1%**

Table 55c: NLB Group's banking subsidiaries NPL coverage ratio 1 calculation

								in EUR million
	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica	NLB Banka, Beograd	Komercijalna Banka, Beograd	NLB Group's banking subsidiaries
					2021			
Numerator								
Loan loss allowances entire loan portfolio	60.5	17.7	20.3	38.0	22.8	8.9	23.1	289.0
Denominator								
Total Non-Performing Loans	59.7	9.4	19.0	15.6	42.2	9.5	36.3	322.1
NPL coverage ratio 1 (NPL CR 1)	**101.2%**	**189.3%**	**106.3%**	**243.2%**	**54.0%**	**93.4%**	**63.5%**	**89.7%**

NPL coverage ratio 2 – The coverage of the gross non-performing loans portfolio with loan loss allowances on the non-performing loans portfolio. The NPL coverage ratio 2 is calculated on the basis of an internal data source, with which the NLB Group monitors the loan portfolio quality.

Table 56a: NLB and NLB Group NPL coverage ratio 2 calculation

						in EUR million
	NLB			NLB Group		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Numerator						
Loan loss allowances non-performing loan portfolio	79.0	120.7	96.2	212.9	272.1	243.7
Denominator						
Total Non-Performing Loans	130.4	208.4	169.5	367.4	474.7	374.7
NPL coverage ratio 2 (NPL CR 2)	**60.6%**	**57.9%**	**56.7%**	**57.9%**	**57.3%**	**65.0%**

Table 56b: NLB Group's banking subsidiaries NPL coverage ratio 2 calculation

								in EUR million
	NLB Banka, Skopje	**NLB Banka, Banja Luka**	**NLB Banka, Sarajevo**	**NLB Banka, Prishtina**	**NLB Banka, Podgorica**	**NLB Banka, Beograd**	**Komercijalna Banka, Beograd**	**NLB Group's banking subsidiaries**
	2021							
Numerator								
Loan loss allowances non-performing loan portfolio	38.7	5.7	16.7	14.3	16.5	5.5	7.9	184.2
Denominator								
Total Non-Performing Loans	59.7	9.4	19.0	15.6	42.2	9.5	36.3	322.1
NPL coverage ratio 2 (NPL CR 2)	**64.7%**	**61.0%**	**87.6%**	**91.6%**	**39.1%**	**57.6%**	**21.7%**	**57.2%**

Net NPL Ratio – The share of net non-performing loans in total net loans: non-performing loans after deduction of loss allowances on the non-performing loans portfolio as a percentage of total loans to clients after the deduction of loan loss allowances; the ratio is in net terms. The calculations presented below are based on internal data sources.

Table 57: NLB and NLB Group Net NPL Ratio calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Net volume of non-performing loans	51.4	87.8	73.3	154.5	202.7	131.0
Denominator						
Total Net Loans	8,424.7	6,822.4	5,860.7	15,225.4	13,298.2	9,459.2
Net NPL ratio per cent. (%Net NPL)	**0.6%**	**1.3%**	**1.3%**	**1.0%**	**1.5%**	**1.4%**

Received collaterals for NPLs/NPL – The coverage of the gross non-performing loans portfolio with collateral for non-performing loans. The collateral market value is used for this calculation. The calculations presented below are based on internal data sources.

Table 58: NLB and NLB Group Received collaterals for NPLs/NPL calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Gross volume of Non-Performing Loans covered by collaterals	78.2	137.2	122.1	226.6	288.1	249.7
Denominator						
Total Non-Performing Loans	130.4	208.4	169.5	367.4	474.7	374.7
Received collaterals for NPLs / NPL	**60.0%**	**65.8%**	**72.0%**	**61.7%**	**60.7%**	**66.6%**

Non-performing loans and advances (EBA def.) – Non-performing loans include loans and advances in accordance with EBA Methodology that are classified as to D and E, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

Gross NPL ratio (EBA def.) – The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). For the purpose of this calculation, loans and advances classified as held for sale, cash balances at CBs, and other demand deposits are excluded from both the denominator and the numerator. The calculations presented below are based on internal data sources.

Table 59: NLB and NLB Group Gross NPL ratio (EBA def.) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits	131.2	199.1	164.3	375.1	466.0	372.9
Denominator						
Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits	5,498.9	4,958.8	4,923.3	11,128.8	10,340.6	8,127.5
Gross NPL ratio per cent. (% NPL)	**2.4%**	**4.0%**	**3.3%**	**3.4%**	**4.5%**	**4.6%**

Gross NPL ratio (EBA def.) (BoS) – The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). Cash balances at CBs and other demand deposits are included in the calculation. The indicator for the banking sector in the EU is published quarterly by the EBA in the Risk dashboard. The calculations presented below are based on internal data sources.

Table 60: NLB and NLB Group Gross NPL ratio (EBA def.) (BoS) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Gross volume of Non-Performing Loans and advances	131.2	199.1	164.3	375.1	466.0	372.9
Denominator						
Gross volume of Loans and advances in Finrep18	8,615.3	7,028.2	6,050.9	15,668.8	13,795.3	9,888.1
Gross NPL ratio per cent. (% NPL)	**1.5%**	**2.8%**	**2.7%**	**2.4%**	**3.4%**	**3.8%**

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NPL coverage ratio (EBA def.) – The NPL coverage ratio is the ratio of the amount of accumulated impairment, negative changes in fair value due to credit risk to the non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). Loans and advances classified as held for sale, cash balances at CBs and other demand deposits are excluded both from the denominator and from the numerator.

Table 61: NLB and NLB Group NPL coverage ratio (EBA def.) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances[i]	79.8	110.1	91.2	219.1	265.3	240.4
Denominator						
Gross volume of Non-Performing loans and advances[i]	131.2	199.1	164.3	375.1	466.0	372.9
NPL coverage ratio per cent. (% CR)	**60.8%**	**55.3%**	**55.5%**	**58.4%**	**56.9%**	**64.5%**

[i] Without loans and advances classified as held for sale, cash balances at CBs, and other demand deposits.

NPL coverage ratio (EBA def.) (BoS) – The NPL coverage ratio is the ratio of the amount of accumulated impairment, negative changes in fair value due to credit risk to the non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). Cash balances at CBs and other demand deposits are included in the calculation.

Table 62: NLB and NLB Group NPL coverage ratio (EBA def.) (BoS) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances	79.8	110.1	91.2	219.1	265.3	240.4
Denominator						
Gross volume of Non-Performing loans and advances	131.2	199.1	164.3	375.1	466.0	372.9
NPL coverage ratio per cent. (% CR)	**60.8%**	**55.3%**	**55.5%**	**58.4%**	**56.9%**	**64.5%**

Collateral received/NPL (EBA def.) – The NPL collateral ratio is the ratio of the collateral received for non-performing loans and advances to the gross carrying amount of collateralized non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). The calculation is provided on single loan basis. The NPLs where the amount of collateral received exceeds the net non-performing of each loan exposure are the subject of calculation.

Table 63: NLB and NLB Group NPL coverage ratio (EBA def.) calculation

						in EUR million
	NLB			NLB Group		
	2021	2020	2019	2021	2020	2019
Numerator						
Volume of collateral received up to the carrying amount of each loan or advance	12.2	38.6	12.9	36.7	61.3	23.9
Denominator						
Gross volume of collateralized Non-Performing loans and advances	19.4	88.8	38.2	62.5	144.6	67.4
NPL coverage ratio per cent. (% CR)	**63.1%**	**43.5%**	**33.6%**	**58.8%**	**42.4%**	**35.4%**

Net stable funding ratio (NSFR) – The net stable funding ratio is a liquidity risk standard requiring financial institutions to hold enough stable funding to cover the duration of their long-term assets.

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding, and is based on the current Basel Committee guidelines. This ratio should be equal to at least 100% on an on-going basis.

'Available stable funding' is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution, as well as those of its off-balance-sheet (OBS) exposures. The calculations presented below are based on internal data sources.

Table 64: NLB Group NSFR calculation

						in EUR million
	NLB			NLB Group		
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2021	31 Dec 2020	31 Dec 2019
Numerator						
Amount of available stable funding	10,815.8	9,455.7	8,251.6	18,446.7	16,514.6	11,957.9
Denominator						
Amount of required stable funding	6,309.5	5,833.7	5,193.9	9,960.8	9,966.8	7,495.5
NSFR	**171.4%**	**162.1%**	**158.9%**	**185.2%**	**165.7%**	**159.5%**

EVE (Economic Value of Equity) method – EVE method is a measure of sensitivity of changes in market interest rates on the economic value of financial instruments. EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates at least under the six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations take into account behavioural and automatic options, as well as the allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 bps on the economic value of the banking book position:

Table 65: NLB Group EVE calculation

in EUR thousand

	NLB Group												
	31 Dec 2021	**30 Sep 2021**	**30 Jun 2021**	**31 Mar 2021**	**31 Dec 2020**	**30 Sep 2020**	**30 Jun 2020**	**31 Mar 2020**	**31 Dec 2019**	**30 Sep 2019**	**30 Jun 2019**	**31 Mar 2019**	**31 Dec 2018**
Numerator													
Interest risk in banking book – EVE	-126,651	-135,133	-134,173	-140,567	-128,370	-98,185	-59,547	-68,129	-88,355	-102,319	-77,841	-105,256	-102,397
Denominator													
Equity (Tier I)	1,972,485	1,903,800	1,879,365	1,734,545	1,765,000	1,622,945	1,616,921	1,426,936	1,451,176	1,424,020	1,425,298	1,460,078	1,458,318
EVE as % of Equity	**-6.4%**	**-7.1%**	**-7.1%**	**-8.1%**	**-7.3%**	**-6.1%**	**-3.7%**	**-4.8%**	**-6.1%**	**-7.2%**	**-5.5%**	**-7.2%**	**-7.0%**

Operational business margin (OBM) – Calculated as the ratio between operational business net income annualized and average assets.

Table 66: NLB Group and NLB OBM calculation

in EUR million

	NLB Group			NLB		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
Numerator						
Operational business net income[i]	678.1	490.3	502.1	274.3	257.7	268.6
Denominator						
Average total assets[ii]	20,659.0	15,086.2	13,311.7	11,876.0	10,336.3	9,215.3
OBM (cumulative)	**3.3%**	**3.2%**	**3.8%**	**2.3%**	**2.5%**	**2.9%**

[i] Operational business net income is annualized, and calculated as operational business income in the period divided by the number of days in the period and multiplied by the number of days in the year. Operational business income consists of net interest income (excluding interest expenses from subordinated securities), net fees and commissions and net gains and losses from financial assets and liabilities held for trading that derive from foreign exchange trading.
[ii] NLB internal information. Average total assets is calculated as a sum of balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Operational business margin (OBM) (quarterly) – Calculated as the ratio between operational business net income annualized and average assets.

Table 67: NLB Group OBM (quarterly) calculation[iii]

					in EUR million
			NLB Group		
	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Numerator					
Operational business net income[i]	718.0	675.1	676.3	642.1	499.8
Denominator					
Average total assets[ii]	21,414.5	21,232.1	20,357.0	19,749.0	15,378.5
OBM (quarterly)	**3.35%**	**3.18%**	**3.32%**	**3.25%**	**3.25%**

[i] Operational business net income (quarterly) is annualized, and calculated as operational business income in the period divided by the number of days in the quarter and multiplied by the number of days in the year. Operational business income consists of net interest income (excluding interest expenses from subordinated securities), net fees and commissions and net gains and losses from financial assets and liabilities held for trading that derive from foreign exchange trading.
[ii] NLB internal information. Average total assets is calculated as a sum of balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).
[iii] Komercijalna Banka group included from 2021 on.

Return on equity before tax (ROE b.t.) – Calculated as the ratio between result before tax annualized and average total equity (including non-controlling interests).

Table 68: NLB Group and NLB ROE b.t. calculation

						in EUR million
		NLB Group			NLB	
	2021	2020	2019	2021	2020	2019
Numerator						
Result before tax[i]	261.4	277.9	215.4	211.5	113.9	177.7
Denominator						
Average total equity[ii]	2,222.8	1,808.1	1,700.7	1,507.2	1,384.6	1,328.7
ROE b.t.	**11.8%**	**15.4%**	**12.7%**	**14.0%**	**8.2%**	**13.4%**

[i] The result before tax is annualized, and calculated as the result before tax in the period divided by the number of months for the reporting period and multiplied by 12.
[ii] NLB internal information. Average total equity (including non-controlling interests) is calculated as the sum of the balance as at end of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Return on equity after tax (ROE a.t.) – Calculated as the ratio between result after tax annualized and average equity.

Table 69a: NLB Group and NLB ROE a.t. calculation

in EUR million	NLB Group					NLB		
	2021	2020	2019	2018	2017	2021	2020	2019
Numerator								
Result after tax[i]	236.4	269.7	193.6	203.6	225.1	208.4	114.0	176.1
Denominator								
Average equity[ii]	2,069.9	1,751.2	1,658.0	1,729.9	1,566.7	1,507.2	1,384.6	1,328.7
ROE a.t.	**11.4%**	**15.4%**	**11.7%**	**11.8%**	**14.4%**	**13.8%**	**8.2%**	**13.3%**

[i] The result after tax is annualized, and calculated as the result after tax in the period divided by the number of months for the reporting period and multiplied by 12.
[ii] NLB internal information. Average equity is calculated as the sum of the balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Table 69b: NLB Group (w/o Komercijalna Banka group) ROE a.t. calculation

in EUR million	NLB Group (w/o Komercijalna Banka group)
	2020
Numerator	
Result after tax[i]	141.3
Denominator	
Average equity[ii]	1,741.1
ROE a.t.	**8.1%**

[i][ii] Please refer to the notes under Table 69a.

Table 69c: NLB Group's banking subsidiaries ROE a.t. calculation

in EUR million	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Numerator													
Result after tax[i]	39.0	19.2	18.2	10.1	10.0	5.9	24.4	13.3	10.1	1.4	4.3	2.6	34.8
Denominator													
Average equity[ii]	245.4	219.4	106.7	93.3	93.5	84.3	108.9	92.1	76.5	68.2	77.4	74.2	630.2
ROE a.t.	**15.9%**	**8.8%**	**17.0%**	**10.8%**	**10.7%**	**7.0%**	**22.4%**	**14.5%**	**13.1%**	**2.0%**	**5.5%**	**3.5%**	**5.5%**

[i][ii] Please refer to the notes under Table 69a.

Contents

Return on assets (ROA b.t.) – Calculated as the ratio between result before tax annualized and average total assets.

Table 70: NLB Group and NLB ROA b.t. calculation

in EUR million

	NLB Group			NLB		
	2021	2020	2019	2021	2020	2019
Numerator						
Result before tax[i]	261.4	277.9	215.4	211.5	113.9	177.7
Denominator						
Average total assets[ii]	20,659.0	15,086.2	13,311.7	11,876.0	10,336.3	9,215.3
ROA b.t.	**1.3%**	**1.8%**	**1.6%**	**1.8%**	**1.1%**	**1.9%**

[i] The result before tax is annualized, and calculated as the result before tax in the period divided by the number of months for the reporting period and multiplied by 12.
[ii] NLB internal information. Average total assets is calculated as the sum of the balance as at the end of the previous year end (31 December) and the monthly balances of the last day of each month from January to month t divided by (t+1).

Return on assets (ROA a.t.) – Calculated as the ratio between result after tax annualized and average total assets.

Table 71a: NLB Group and NLB ROA a.t. calculation

in EUR million

	NLB Group			NLB		
	2021	2020	2019	2021	2020	2019
Numerator						
Result after tax[i]	236.4	269.7	193.6	208.4	114.0	176.1
Denominator						
Average total assets[ii]	20,659.0	15,086.2	13,311.7	11,876.0	10,336.3	9,215.3
ROA a.t.	**1.1%**	**1.8%**	**1.5%**	**1.8%**	**1.1%**	**1.9%**

[i] The result after tax is annualized, and calculated as the result after tax in the period divided by the number of months for the reporting period and multiplied by 12.
[ii] NLB internal information. Average total assets is calculated as the sum of balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month t divided by (t+1).

Table 71b: NLB Group's banking subsidiaries ROA a.t. calculation

in EUR million

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Numerator													
Result after tax[i]	39.0	19.2	18.2	10.1	10.0	5.9	24.4	13.3	10.1	1.4	4.3	2.6	34.8
Denominator													
Average total assets[ii]	1,658.6	1,507.2	874.5	784.9	673.5	639.3	906.0	824.9	593.5	541.0	696.3	662.8	4,029.4
ROA a.t.	**2.4%**	**1.3%**	**2.1%**	**1.3%**	**1.5%**	**0.9%**	**2.7%**	**1.6%**	**1.7%**	**0.3%**	**0.6%**	**0.4%**	**0.9%**

[i][ii] Please refer to the notes under Table 71a.

Contents

Total capital ratio (TCR) – TCR is the own funds of the institution expressed as a percentage of the total risk exposure amount.

Table 72a: NLB Group and NLB TCR calculation

in EUR million

	NLB Group			NLB		
	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2021	31 Dec 2020	31 Dec 2019
Numerator						
Total capital (Own funds)	2,252.5	2,065.5	1,495.8	1,647.3	1,631.6	1,182.2
Denominator						
Total risk exposure Amount (Total RWA)	12,667.4	12,421.0	9,185.5	6,708.5	6,028.8	5,225.1
Total capital ratio	**17.8%**	**16.6%**	**16.3%**	**24.6%**	**27.1%**	**22.6%**

Table 72b: NLB Group's banking subsidiaries TCR calculation

in EUR million

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd		Komercijalna Banka, Beograd
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021
Numerator													
Total capital	243.6	190.6	77.1	78.4	75.0	74.6	112.3	103.2	70.0	52.1	87.7	84.5	555.8
Denominator													
Total risk exposure Amount (Total RWA)	1,354.4	1,212.5	456.7	452.3	445.0	416.4	647.9	579.7	429.3	321.5	456.3	443.1	1,946.7
Total capital ratio	**18.0%**	**15.7%**	**16.9%**	**17.3%**	**16.9%**	**17.9%**	**17.3%**	**17.8%**	**16.3%**	**16.2%**	**19.2%**	**19.1%**	**28.6%**

NLB Group Chart

Nova Ljubljanska banka d.d., Ljubljana

CORE MEMBERS

Banks

Foreign countries

- **NLB Banka, Beograd** — 100% / 100%
- **NLB Banka, Sarajevo** — 97.35% / 97.35%
- **NLB Banka, Podgorica** [iii] — 75.90% / 99.87%
- **NLB Banka, Prishtina** — 82.377% / 82.377%
- **NLB Banka, Banja Luka** — 99.85% / 99.85%
- **NLB Banka, Skopje** — 86.97% / 86.97%
- **Komercijalna Banka, Beograd** — 88.28% / 88.28%
  - **KomBank Invest, Beograd** — 100% / 100%

Financial institutions

Slovenia

- **NLB Skladi, Ljubljana** — 100% / 100%
- **NLB Lease&Go, Ljubljana** — 100% / 100%

Companies

Slovenia

- **Bankart, Ljubljana** [ii] — 45.64% / 45.64%
- **NLB Cultural Heritage Management Institute** — 100% / 100%

NON-CORE MEMBERS

Financial institutions

Slovenia

- **NLB Leasing Ljubljana-in liquidation** [iv] — 100% / 100%
  - **Optima Leasing, Zagreb in liquidation** — 100% / 100%
- **Prvi faktor, Ljubljana in liquidation** — 50% / 50%
  - **Prvi faktor, Beograd in liquidation** [i] — 90% / 95%
  - **Prvi faktor, Zagreb in liquidation** — 100% / 100%

Foreign countries

- **NLB InterFinanz, Zürich in liquidation** — 100% / 100%
  - **NLB InterFinanz, Beograd in liquidation** — 100% / 100%
- **NLB Leasing, Beograd in liquidation** — 100% / 100%
- **LHB AG, Frankfurt** — 100% / 100%
- **NLB Crna Gora, Podgorica** — 100% / 100%

Companies

Slovenia

- **PRO-REM, Ljubljana in liquidation** — 100% / 100%
  - **OL Nekretnine, Zagreb in liquidation** — 100% / 100%
- **S-REAM, Ljubljana** — 100% / 100%
  - **REAM, Zagreb** — 100% / 100%
- **ARG-Nepremičnine, Horjul** — 75% / 75%

Foreign countries

- **REAM, Beograd** — 100% / 100%
- **REAM, Podgorica** — 100% / 100%
- **Tara Hotel, Budva** — 12.71% / 100%
- **SPV 2, Beograd** — 100% / 100%
- **NLB Srbija, Beograd** — 100% / 100%

Legend:
The chart shows voting rights shares.The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).

Subsidiary — % direct share / % indirect share at the group level

Associate — % direct share / % indirect share at the group level

Joint venture — % direct share / % indirect share at the group level

Notes:
(i) 90% direct ownership Prvi Faktor, Ljubljana in liquidation, 5% NLB, 5% SID banka d.d.
(ii) Abanka merged into Nova KBM, which currently has a 29.22% share in Bankart. This is over the 25% threshhold set in the Founding agreement - no shareholder other than NLB can have more than 25% capital share in Bankart.
(iii) 75.90% direct ownership NLB; 23.97% Komercijalna Banka, Beograd.
(iv) 100% direct ownership NLB Lease&Go d.o.o., Ljubljana

Organisational Structure of NLB

- SUPERVISORY BOARD
  - Internal Audit
- MANAGEMENT BOARD
  - Worker´s Council[1]
  - Strategy and Business Development
  - Legal and Secretariat
  - Communication
  - Human Resources and Organization Development
  - Compliance and Integrity
  - Group Steering

CRO

- Global Risk
- Credit Risk - Corporate
- Credit Risk - Retail
- Evaluation and Control
- Restructuring
- Workout and Legal support

CFO

- Group Real Estate Management
- Controlling
- Financial Accounting and Administration
- Financial Markets

CMO

- Sales Development and Management
- CSA & Cross-border Financing
- Large Corporates
- Small and Mid Corporates
- Trade Finance Services
- Investment Banking and Custody
- Private Banking
- KC 24/7
- Distribution Network
  - Area Branch Ljubljana
  - Area Branch Northwest and Central Slovenia
  - Area Branch Northeast Slovenia
  - Area Branch Southeast Slovenia
  - Area Branch Southwest Slovenia
  - Micro Enterprises
  - Mobile Banking

COO

- IT Architecture
- IT Delivery
- Data Management
- IT Shared Service Centre
- NLB Group IT Security Governance
- IT Infrastructure
- Procurement
- Payments Processing
- Cash Processing
- Financial Instruments Processing
- Corporate Customer Delivery
- Retail Banking Processing

Understanding of the tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit is taken into account in accordance to the definitions of the (currently valid) Banking Act (ZBan-3).
[1] Worker´s Council is independent organisational unit with no subordinate or superior organisational units and it operates in accordance with ZSDU.

Contents

We believe you deserve every opportunity.

First, we liked your résumé.
Then, you fascinated us with your enthusiasm.
After that, we saw great potential in you.
Now, we will make sure you utilise it to the fullest.

We believe that a satisfied and efficient employee is one who successfully aligns their private and professional life, while at the same time preserves the feeling that their potential is recognised and respected. With intensive investments into the upgrading of the potential of our employees, we have raised a company of enthusiastic experts from across the region who firmly believe in their work and mission. Just like Nino, Ljubica and Matej from our Ljubljana IT office.

FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nova Ljubljanska Banka, d.d.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of the Nova Ljubljanska Banka, d.d. and its subsidiaries ("the Group"), which comprise the separate and consolidated statement of financial position as at December 31 2021, the separate and the consolidated income statement, the separate and the consolidated statement of other comprehensive income, the separate and the consolidated statement of changes in equity and the separate and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the Auditor's responsibilities for the audit of the separate and the consolidated financial statements section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and the consolidated financial statements.

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EY
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Credit risk and impairment of loans and advances to customers including impact of COVID-19 related pandemic

The carrying amount of loans and advances to customers at amortized cost amounts to EUR 5.1 billion (or 41% of total assets) of the Bank and EUR 10.6 billion (or 49% of total assets) of the Group as of 31 December 2021. As of 31 December 2021, total credit impairment allowances of the Bank amounted to EUR 96 million and of the Group to EUR 316 million. The impairment of loans and advances to customers is a highly subjective area which requires a significant amount of judgment to be applied by management specifically around expected credit losses (ECL), loss given default (LGD) and probability of default (PD) in the case of Stage 1 and Stage 2 (i.e. for those loans and advances that are not yet credit impaired). Also, the assessment of individual credit provisions for loans and advances to customers in Stage 3 (i.e. those that are credit impaired), which are determined based on scenarios and their likelihood of occurrence requires management judgement. Scenarios are based on 'going' and 'gone' assumptions of debt repayment. Management judgements include assumptions and estimates related to identification of significant changes in credit risk, impairment triggers, probabilities of scenarios for cash flow forecasts and collateral realization, all containing high level of complexity and subjectivity. The Bank's Stage 3 gross balance of loans and advances to customers was EUR 126 million as of 31 December 2021 (Group: EUR 335 million) and total provisions were EUR 78 million (Group: EUR 212 million).

Provisions for loans and advances to customers in Stage 1 and Stage 2 are determined based on complex models and the parameters used in those models, such as lifetime PDs, LGDs, identification of significant changes in credit risk, inclusion of forward-looking elements and segmentation of exposures, all involve significant management assumptions and estimates. The Bank's Stage 1 and Stage 2 combined gross balance of loans and advances to customers was EUR 5.1 billion (Group: EUR 10.5 billion) as of 31 December 2021 and total credit impairment allowances were EUR 18 million (Group: EUR 103 million).

As provisions for loans and advances to customers are significant to understanding the financial statements as a whole and bear significant judgements, we consider this to be a significant item for our audit and a key auditing matter. For further information, refer to Note 6.1. Credit risk management of the separate and consolidated financial statements.

We understood and evaluated the processes and control environment for identifying default events (i.e. credit impairment events) within the loan portfolios, as well as the processes and controls for assessment of impairment losses related to loans and advances to customers.

On a sample of performing loans (i.e. those that are not credit impaired) with characteristics that might imply a default event had occurred we assessed whether the criteria for determining whether a default event had occurred are fulfilled and therefore whether there was a requirement to calculate an impairment provision using the Stage 3 methodology or not.

For a sample of Stage 3 individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested the key inputs of the impairment calculation, including the expected future cash flows and valuation of collateral held, and inquired with the management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

In respect of statistical models that are used for the estimation of credit risk related impairment losses of Stage 1 and Stage 2 exposures, we involved credit risk specialists in an evaluation of the model documentation and other related evidence such as model governance, segmentation policy, expected credit loss estimation process. We also reviewed changes in risk models implemented in the current period. We evaluated the application of the models through the recalculation for mathematical accuracy of credit risk related impairment losses, allowances and provisions defined by IFRS 9. We have tested the days past due calculation and the effect on the staging classification of the exposures.

We evaluated, with the involvement of credit risk specialists, the impact of the COVID-19 pandemic on the credit portfolio of the Bank and the Group and the related disclosures included in the separate and consolidated financial statements.

We have assessed the adequacy of the Bank's and the Group's disclosures included in Note 6.1. Credit risk management, 5.14. Movements in allowance for the impairment of financial assets and 2.13. Allowances for financial assets of the separate and consolidated financial statements.

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Information technology (IT) systems and controls over revenue recognition

A significant part of the Bank's and the Group's interest and fee revenue recognition process is reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring that appropriate user access and change management protocols exist and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to interest and fee revenue recognition, a high proportion of the overall audit effort was in this area. Furthermore, the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We therefore consider this to be a key audit matter.

We focused our audit on those IT systems and controls that are significant for the Bank's and the Group's interest and fee revenue recognition processes. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists in our audit procedures. This includes among other procedures, testing of IT dependant and application controls specific to interest and fee revenue recognition in the Bank's and Group's IT systems. We have tested algorithms used to calculate interest and fee income using banks pricing tables for different products.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures, we tested the operating effectiveness of controls over appropriate access rights to assess whether only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

We assessed the adequacy of the disclosures related to interest and fee revenue included in Notes 2.9. Interest income and expenses, 2.10. Fee and commission income, 4.1. Interest income and expenses and 4.3. Fee and commission income and expenses of the separate and the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the Annual Report other than the separate and the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context

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Building a better working world

of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and the consolidated financial statements is, in all material respects, consistent with the separate and the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, audit committee and the supervisory board for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate and the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and the consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and the supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process. The supervisory board is responsible to approve the annual report.

Auditor's responsibilities for the audit of the separate and the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and the consolidated financial statements or, if such disclosures are

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inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate and the consolidated financial statements, including the disclosures, and whether the separate and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and the consolidated financial statements of the current period and are therefore the key audit matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OTHER REQUIREMENTS ON CONTENT OF AUDITOR'S REPORT IN COMPLIANCE WITH REGULATION (EU) No. 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Appointment and Approval of Auditor

We were appointed as auditors of the Bank and the Group at the general meeting of shareholders on 27 June 2018, the president of the supervisory board has signed the audit agreement on 7 September 2018. The agreement was signed for the period of 5 years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 9 years. Sanja Košir Nikašinović and Simon Podvinski are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate and the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the 6 April 2022.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and its controlled undertakings and we remain independent from the Bank and its controlled undertakings/the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services which were provided by us to the Bank and its controlled undertakings.

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AUDITOR'S REPORT ON THE COMPLIANCE OF FINANCIAL STATEMENTS IN ELECTRONIC FORMAT WITH THE REQUIREMENTS OF DELEGATED REGULATION NO. 2019/815 ON A SINGLE ELECTRONIC REPORTING FORMAT

We have conducted a reasonable assurance engagement whether the audited the separate and the consolidated financial statements of the Bank and the Group for the financial year ended 31 December 2021 which are included in annual report (hereinafter: the audited separate and the consolidated financial statements), are prepared in accordance with the requirements of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 as well as adjusted Commission Delegated Regulation (EU) 2020/815 of 11 November 2020 supplementing Directive 2004/109 / EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format applicable for 2020 (hereinafter referred to as the "Delegated Regulation").

Responsibility of the management and those responsible for governance

Management is responsible for the preparation and accurate presentation of the audited separate and the consolidated financial statements in electronic format in accordance with the requirements of the Delegated Regulation, and for such internal control as the management determines is necessary to enable the preparation of the audited separate and consolidated financial statements in electronic format that are free from material misstatement, whether due to fraud or error.

The audit committee and the supervisory board are responsible for overseeing the preparation of the audited separate and the consolidated financial statements in electronic format in accordance with the requirements of the Delegated Regulation.

Auditor's Responsibility

Our responsibility is to perform a reasonable assurance engagement and to express a conclusion on whether the audited consolidated financial statements have been prepared in accordance with the requirements of the Delegated Regulation. We conducted our reasonable assurance engagement in accordance with the revised International Standard on Assurance Engagements 3000 (revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform the engagement to obtain reasonable assurance for reaching the conclusion.

We have acted in accordance with the independence and ethical requirements of the Regulation EU no. 537/2014, and the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (including International Independence Standards) (IESBA Code), which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We apply International Standards on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements of applicable law and regulation.

Summary of Work Performed

Within the scope of work, we have performed primarily the following procedures:

- identified and assessed the risk of material non-compliance of the audited separate and the separate consolidated financial statements with the requirements of the Delegated Regulation due to fraud or error;
- obtained an understanding of internal control relevant to the reasonable assurance engagement in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- assessed whether the audited separate and the consolidated financial statements meet the requirements of the Delegated Regulation applicable at the reporting date;

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- obtained reasonable assurance that the audited separate and the consolidated financial statements, which are included in the annual report of the issuer are accurately presented in electronic XHTML format;
- obtained reasonable assurance that the values and disclosures in the XHTML format of the audited consolidated financial statements are marked-up correctly using the Inline XBRL technology (iXBRL), and that machine reading of these documents ensures complete and true information contained in the audited consolidated financial statements.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on the procedures performed and the evidence obtained, in our opinion the audited separate and the consolidated financial statements of the Group for the financial year ended 31 December 2021, which are included in the annual report, have been prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

Ljubljana, 11 April 2022

Sanja Košir Nikašinović
Partner, Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Simon Podvinski
Certified auditor

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

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Statement of management's responsibility

The Management Board hereby confirms its responsibility for preparing the consolidated financial statements of NLB Group and the financial statements of NLB for the year ending on 31 December 2021, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and the Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31 December 2021, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board is also responsible for appropriate accounting practices, the adoption of appropriate measures for safeguarding assets, and the prevention and identification of fraud and other irregularities or illegal acts.

Management Board of NLB

Archibald Kremser	**Andreas Burkhardt**	**Blaž Brodnjak**
CFO	CRO	CEO & CMO

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Income statement for the annual period ended 31 December

					in EUR thousands
		NLB Group		NLB	
	Notes	2021	2020	2021	2020
Interest income calculated using the effective interest method		467,500	347,636	170,002	167,611
Other interest and similar income		10,329	7,552	9,183	7,493
Interest and similar income	4.1.	477,829	355,188	179,185	175,104
Interest expenses calculated using the effective interest method		(53,171)	(41,208)	(25,142)	(21,883)
Other interest and similar expenses		(15,298)	(14,407)	(14,904)	(14,334)
Interest and similar expenses	4.1.	(68,469)	(55,615)	(40,046)	(36,217)
Net interest income		**409,360**	**299,573**	**139,139**	**138,887**
Dividend income	4.2.	223	111	79,616	6,259
Fee and commission income	4.3.	332,589	232,432	155,217	136,691
Fee and commission expenses	4.3.	(95,413)	(62,152)	(35,623)	(32,234)
Net fee and commission income		**237,176**	**170,280**	**119,594**	**104,457**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	4.4.	167	17,689	24	16,970
Gains less losses from financial assets and liabilities held for trading	4.5.	21,194	9,794	4,596	4,741
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	16,838	6,598	13,492	6,815
Fair value adjustments in hedge accounting	5.5.a)	167	720	167	720
Foreign exchange translation gains less losses	4.7.	345	739	700	(1,108)
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	5.12.b)	(9,298)	(471)	-	-
Gains less losses on derecognition of non-financial assets		2,681	1,300	53	12
Other net operating income	4.8.	23,221	7,549	13,747	5,794
Administrative expenses	4.9.	(368,851)	(262,226)	(166,079)	(162,613)
Cash contributions to resolution funds and deposit guarantee schemes	4.10.	(35,140)	(16,674)	(9,535)	(7,103)
Depreciation and amortisation	4.11.	(46,528)	(31,715)	(17,522)	(17,848)
Gains less losses from modification of financial assets	4.12.	(263)	(3,577)	-	-
Provisions for credit losses	4.13.	8,504	(482)	8,028	599
Provisions for other liabilities and charges	4.13.	(22,670)	(8,077)	(72)	(7,645)
Impairment of financial assets	4.14.	27,331	(61,799)	18,067	(9,633)
Impairment of non-financial assets	4.14.	(4,407)	(996)	7,547	(685)
Negative goodwill	5.12.c)	-	137,858	-	-
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	5.12.d)	1,108	874	-	-
Gains less losses from non-current assets held for sale	4.15.	248	10,853	(94)	35,234
Profit before income tax		**261,406**	**277,921**	**211,468**	**113,853**
Income tax	4.16.	(13,538)	(5,165)	(3,047)	99
Profit for the year		**247,868**	**272,756**	**208,421**	**113,952**
Attributable to owners of the parent		236,404	269,707	208,421	113,952
Attributable to non-controlling interests		11,464	3,049	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.17.	11.8	13.5	10.4	5.7

The notes are an integral part of these financial statements.

Statement of comprehensive income for the annual period ended 31 December

					in EUR thousands
		NLB Group		NLB	
	Notes	2021	2020	2021	2020
Net profit for the year after tax		**247,868**	**272,756**	**208,421**	**113,952**
Other comprehensive income after tax		**(30,168)**	**(2,147)**	**(15,281)**	**3,817**
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans	5.16.c)	**(1,377)**	**878**	**(115)**	**700**
Fair value changes of equity instruments measured at fair value through other comprehensive income	5.4.c)	**3,072**	**3,809**	**(383)**	**202**
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**(30)**	**(41)**	**-**	**-**
Income tax relating to components of other comprehensive income	5.18.	**(1)**	**(534)**	**94**	**(171)**
Items that have been or may be reclassified subsequently to income statement					
Foreign currency translation		**611**	**(703)**	**-**	**-**
Translation gains/(losses) taken to equity		611	(703)	-	-
Debt instruments measured at fair value through other comprehensive income		**(37,394)**	**6,555**	**(17,359)**	**3,810**
Valuation gains/(losses) taken to equity	5.4.c)	(40,081)	7,733	(17,187)	7,522
Transferred to income statement	4.4., 4.14.	2,687	(1,178)	(172)	(3,712)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		**-**	**(11,026)**	**-**	**-**
Income tax relating to components of other comprehensive income	5.18.	**4,951**	**(1,085)**	**2,482**	**(724)**
Total comprehensive income for the year after tax		**217,700**	**270,609**	**193,140**	**117,769**
Attributable to owners of the parent		207,854	266,907	193,140	117,769
Attributable to non-controlling interests		9,846	3,702	-	-

The notes are an integral part of these financial statements.

Statement of financial position as at 31 December

					in EUR thousands
		NLB Group		NLB	
	Notes	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	5,005,052	3,961,812	3,250,437	2,261,533
Financial assets held for trading	5.2.a)	7,678	84,855	7,682	18,831
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	21,161	42,393	12,360	35,106
Financial assets measured at fair value through other comprehensive income	5.4.	3,461,860	3,514,290	1,585,751	1,716,351
Financial assets measured at amortised cost					
- debt securities	5.6.a)	1,717,626	1,503,087	1,436,424	1,277,880
- loans and advances to banks	5.6.b)	140,683	197,005	199,287	158,320
- loans and advances to customers	5.6.c)	10,587,121	9,619,860	5,145,153	4,564,178
- other financial assets	5.6.d)	122,229	113,138	92,404	54,503
Derivatives - hedge accounting	5.5.b)	568	-	568	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5.5.c)	7,082	13,844	7,082	13,844
Investments in subsidiaries	5.12.a)	-	-	781,540	749,060
Investments in associates and joint ventures	5.12.d)	11,525	7,988	4,483	1,662
Tangible assets					
Property and equipment	5.8.	247,014	249,117	86,122	91,675
Investment property	5.9.	47,624	54,842	9,181	8,300
Intangible assets	5.10.	59,076	61,668	29,453	28,105
Current income tax assets		3,948	4,369	3,761	1,923
Deferred income tax assets	5.17.	38,977	31,789	31,902	29,214
Other assets	5.13.	91,221	97,140	11,853	11,664
Non-current assets held for sale	5.7.	7,051	8,658	4,089	4,454
Total assets		**21,577,496**	**19,565,855**	**12,699,532**	**11,026,603**
Financial liabilities held for trading	5.2.b)	7,585	15,485	7,602	15,500
Financial liabilities measured at fair value through profit or loss	5.3.b)	-	-	352	-
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.15.a)	71,828	72,633	109,329	41,635
- borrowings from banks and central banks	5.15.b)	858,531	158,225	873,479	143,464
- due to customers	5.15.a)	17,640,809	16,397,167	9,659,605	8,850,755
- borrowings from other customers	5.15.b)	74,051	91,560	406	13
- subordinated liabilities	5.15.c)	288,519	288,321	288,519	288,321
- other financial liabilities	5.15.d)	206,878	182,095	102,527	88,969
Derivatives - hedge accounting	5.5.b)	35,377	61,161	35,377	61,161
Provisions	5.16.	119,404	125,059	49,363	63,790
Current income tax liabilities		5,878	1,002	-	-
Deferred income tax liabilities	5.17.	3,045	4,475	-	-
Other liabilities	5.19.	49,468	45,632	21,039	22,001
Total liabilities		**19,361,373**	**17,442,815**	**11,147,598**	**9,575,609**
Equity and reserves attributable to owners of the parent					
Share capital	5.20.	200,000	200,000	200,000	200,000
Share premium	5.21.a)	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.21.b)	(10,552)	21,127	8,768	24,102
Profit reserves	5.21.a)	13,522	13,522	13,522	13,522
Retained earnings		1,004,385	846,762	458,266	341,992
		2,078,733	**1,952,789**	**1,551,934**	**1,450,994**
Non-controlling interests		137,390	170,251	-	-
Total equity		**2,216,123**	**2,123,040**	**1,551,934**	**1,450,994**
Total liabilities and equity		**21,577,496**	**19,565,855**	**12,699,532**	**11,026,603**

The notes are an integral part of these financial statements.

The Management Board has authorised for issue the financial statements and the accompanying notes.

Archibald Kremser	**Andreas Burkhardt**	**Blaž Brodnjak**
CFO	CRO	CEO & CMO

Ljubljana, 11 April 2022

Statement of changes in equity for the annual period ended 31 December

in EUR thousands

			Accumulated other comprehensive income							
NLB Group	**Share capital**	**Share premium**	**Fair value reserve of financial assets measured at FVOCI**	**Foreign currency translation reserve**	**Other**	**Profit reserves**	**Retained earnings**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total equity**
Notes	**5.20.**	**5.21.a)**	**5.21.b)**	**5.21.b)**	**5.21.b)**	**5.21.a)**				
Balance as at 1 January 2021	200,000	871,378	42,496	(17,724)	(3,645)	13,522	846,762	1,952,789	170,251	2,123,040
- Net profit for the year	-	-	-	-	-	-	236,404	236,404	11,464	247,868
- Other comprehensive income	-	-	(28,005)	540	(1,085)	-	-	(28,550)	(1,618)	(30,168)
Total comprehensive income after tax	-	-	(28,005)	540	(1,085)	-	236,404	207,854	9,846	217,700
Dividends paid	-	-	-	-	-	-	(92,200)	(92,200)	(7,710)	(99,910)
Transactions with non-controlling interests (note 3.)	-	-	149	-	-	-	10,168	10,317	(34,997)	(24,680)
Transfer of fair values reserve	-	-	(3,274)	-	(4)	-	3,278	-	-	-
Other	-	-	-	-	-	-	(27)	(27)	-	(27)
Balance as at 31 December 2021	**200,000**	**871,378**	**11,366**	**(17,184)**	**(4,734)**	**13,522**	**1,004,385**	**2,078,733**	**137,390**	**2,216,123**

in EUR thousands

			Accumulated other comprehensive income							
NLB Group	**Share capital**	**Share premium**	**Fair value reserve of financial assets measured at FVOCI**	**Foreign currency translation reserve**	**Other**	**Profit reserves**	**Retained earnings**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total equity**
Notes	**5.20.**	**5.21.a)**	**5.21.b)**	**5.21.b)**	**5.21.b)**	**5.21.a)**				
Balance as at 1 January 2020	200,000	871,378	47,880	(17,055)	(4,332)	13,522	574,489	1,685,882	45,015	1,730,897
- Net profit for the year	-	-	-	-	-	-	269,707	269,707	3,049	272,756
- Other comprehensive income	-	-	(2,833)	(669)	702	-	-	(2,800)	653	(2,147)
Total comprehensive income after tax	-	-	(2,833)	(669)	702	-	269,707	266,907	3,702	270,609
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	121,534	121,534
Transfer of fair values reserve	-	-	(2,551)	-	(15)	-	2,566	-	-	-
Balance as at 31 December 2020	**200,000**	**871,378**	**42,496**	**(17,724)**	**(3,645)**	**13,522**	**846,762**	**1,952,789**	**170,251**	**2,123,040**

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
							in EUR thousands
Notes	**5.20.**	**5.21.a)**	**5.21.b)**	**5.21.b)**	**5.21.a)**	**5.20.**	
Balance as at 1 January 2021	200,000	871,378	27,694	(3,592)	13,522	341,992	1,450,994
- Net profit for the year	-	-	-	-	-	208,421	208,421
- Other comprehensive income	-	-	(15,177)	(104)	-	-	(15,281)
Total comprehensive income after tax	-	-	(15,177)	(104)	-	208,421	193,140
Dividends paid	-	-	-	-	-	(92,200)	(92,200)
Transfer of fair values reserve	-	-	(53)	-	-	53	-
Balance as at 31 December 2021	**200,000**	**871,378**	**12,464**	**(3,696)**	**13,522**	**458,266**	**1,551,934**

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
							in EUR thousands
Notes	**5.20.**	**5.21.a)**	**5.21.b)**	**5.21.b)**	**5.21.a)**	**5.20.**	
Balance as at 1 January 2020	200,000	871,378	24,444	(4,159)	13,522	228,040	1,333,225
- Net profit for the year	-	-	-	-	-	113,952	113,952
- Other comprehensive income	-	-	3,250	567	-	-	3,817
Total comprehensive income after tax	-	-	3,250	567	-	113,952	117,769
Balance as at 31 December 2020	**200,000**	**871,378**	**27,694**	**(3,592)**	**13,522**	**341,992**	**1,450,994**

The notes are an integral part of these financial statements.

Statement of cash flows for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group 2021	NLB Group 2020	NLB 2021	NLB 2020
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		541,219	372,903	214,866	207,188
Interest paid		(69,578)	(52,921)	(43,343)	(31,881)
Dividends received		635	787	56,606	6,261
Fee and commission receipts		332,575	232,607	152,288	133,743
Fee and commission payments		(92,102)	(65,728)	(33,927)	(32,972)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss		171	17,993	24	17,274
Net gains/(losses) from financial assets and liabilities held for trading		21,563	10,919	5,404	5,634
Payments to employees and suppliers		(382,529)	(260,259)	(170,986)	(164,558)
Other receipts		27,516	13,642	17,723	8,627
Other payments		(51,129)	(20,629)	(16,026)	(9,490)
Income tax (paid)/received		(8,617)	(6,645)	(1,603)	3,779
Cash flows from operating activities before changes in operating assets and liabilities		**319,724**	**242,669**	**181,026**	**143,605**
(Increases)/decreases in operating assets		**(964,998)**	**(366,831)**	**(469,788)**	**(105,859)**
Net (increase)/decrease in trading assets		68,965	1,838	2,471	1,838
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		36,500	(12,667)	35,792	(12,564)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		(57,015)	(150,006)	90,215	(77,098)
Net (increase)/decrease in loans and receivables measured at amortised cost		(1,020,944)	(207,260)	(598,138)	(18,357)
Net (increase)/decrease in other assets		7,496	1,264	(128)	322
Increases/(decreases) in operating liabilities		**2,108,374**	**1,338,778**	**1,589,861**	**1,043,991**
Net increase/(decrease) in deposits and borrowings measured at amortised cost		2,106,985	1,338,591	1,589,415	1,044,255
Net increase/(decrease) in other liabilities		1,389	187	446	(264)
Net cash flows from operating activities		**1,463,100**	**1,214,616**	**1,301,099**	**1,081,737**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**495,174**	**478,251**	**478,851**	**402,729**
Proceeds from sale of property, equipment, and investment property		5,077	5,341	12	2,258
Proceeds from sale of subsidiaries, net of cash and cash equivalents	5.12.b)	(47,832)	-	15,310	-
Proceeds from non-current assets held for sale		966	39,078	791	39,078
Proceeds from disposals of debt securities measured at amortised cost		536,963	433,832	462,738	361,393
Payments from investing activities		**(832,512)**	**108,232**	**(697,976)**	**(602,939)**
Purchase of property, equipment, and investment property		(23,013)	(27,626)	(9,093)	(15,089)
Purchase of intangible assets		(12,704)	(15,020)	(6,889)	(10,663)
Purchase of subsidiaries, net of cash acquired and increase in subsidiaries' equity	3., 5.12.c)	(24,437)	452,770	(40,046)	(397,729)
Increase in associates and joint ventures' equity		(2,900)	(326)	(2,900)	(326)
Purchase of debt securities measured at amortised cost		(769,458)	(301,566)	(639,048)	(179,132)
Net cash flows from investing activities		**(337,338)**	**586,483**	**(219,125)**	**(200,210)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financing activities		**-**	**119,222**	**-**	**119,222**
Issuance of subordinated debt	5.15.c)	-	119,222	-	119,222
Payments from financing activities		**(100,503)**	**(45,000)**	**(92,200)**	**(45,000)**
Dividends paid		(100,503)	-	(92,200)	-
Repayments of subordinated debt	5.15.c)	-	(45,000)	-	(45,000)
Net cash flows from financing activities		**(100,503)**	**74,222**	**(92,200)**	**74,222**
Effects of exchange rate changes on cash and cash equivalents		14,640	(2,176)	3,219	(2,080)
Net increase/(decrease) in cash and cash equivalents		**1,025,259**	**1,875,321**	**989,774**	**955,749**
Cash and cash equivalents at beginning of year		**4,136,412**	**2,263,267**	**2,261,791**	**1,308,122**
Cash and cash equivalents at end of year		**5,176,311**	**4,136,412**	**3,254,784**	**2,261,791**

The notes are an integral part of these financial statements.

					in EUR thousands
		NLB Group		NLB	
	Notes	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	5,005,946	3,962,686	3,250,784	2,261,791
Loans and advances to banks with original maturity up to three months		142,319	146,223	4,000	-
Debt securities measured at fair value through other comprehensive income with original maturity up to three months		28,046	27,503	-	-
Total		**5,176,311**	**4,136,412**	**3,254,784**	**2,261,791**

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Notes to the financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB' or 'the Bank') is a Slovenian joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in nine countries, mainly in Slovenia and the SEE market. Information on NLB Group's structure is disclosed in note 5.12. Information on other related party relationships of NLB Group is provided in note 8.

NLB is incorporated and domiciled in Slovenia. The address of its registered office is Trg Republike 2, 1000 Ljubljana. NLB's shares are listed on the Ljubljana Stock Exchange, and the global depositary receipts ('GDR'), representing ordinary shares of NLB, are listed on the London Stock Exchange. Five GDRs represent one share of NLB.

As at 31 December 2021 and as at 31 December 2020, the largest shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros unless otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies adopted for the preparation of the separate and consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, except for changes in accounting policies resulting from the application of new standards or changes to standards.

2.1. Statement of compliance

The principal accounting policies applied in the preparation of the separate and consolidated financial statements were prepared in accordance with the International Financial Accounting Standards (hereinafter: 'the IFRS') as adopted by the European Union (hereinafter: 'EU'). Additional requirements under the national legislation are included where appropriate.

The separate and consolidated financial statements are comprised of the income statement and statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, significant accounting policies, and the notes.

2.2. Basis for presenting the financial statements

The financial statements have been prepared on a going-concern basis, under the historical cost convention as modified by the revaluation of financial assets measured at fair value through other comprehensive income, financial assets, and financial liabilities at fair value through profit or loss, including all derivative contracts, hedged items in fair value hedge accounting relationships, non-current assets held for sale, and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

This document contains both the separate financial statements of NLB, and the consolidated financial statements of NLB Group. The presented accounting policies apply to both sets of financial statements, with the exception of policies described in notes 2.4. and 2.5., which only apply to the consolidated financial statements and policies described in note 2.6., where differences in the accounting treatment for investments in subsidiaries, and associated and joint ventures between separate and consolidated financial statements are described. Data relating to separate financial statements is marked 'NLB,' while data relating to consolidated financial statements is marked 'NLB Group.'

2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to the changes in presentation in the current year.

Compared to the presentation of the financial statements for the year ended 31 December 2020, the classification of certain line items in the Statement of Financial Position changed due to changes prescribed by the Bank of Slovenia. Additionally, there was a change in the line item 'Interest and similar expenses' in the Income statement, where two lines were added with more detailed presentation of interest expenses. Comparative amounts have been adjusted to reflect these changes in the presentation.

in EUR thousands

31 Dec 2020		NLB Group			NLB		
	Notes	Old presentation	Current presentation	Change	Old presentation	Current presentation	Change
Statement of financial position:							
Other financial liabilites	5.15.d)						
Accrued salaries		19,068	-	(19,068)	9,807	-	(9,807)
Unused annual leave		6,137	-	(6,137)	2,497	-	(2,497)
Other liabilities	5.19.						
Accrued salaries		-	19,068	19,068	-	9,807	9,807
Unused annual leave		-	6,137	6,137	-	2,497	2,497
Income statement:							
Interest expenses calculated using the effective interest method		-	(41,208)	(41,208)	-	(21,883)	(21,883)
Other interest and similar expenses		-	(14,407)	(14,407)	-	(14,334)	(14,334)
Interest and similar expenses	4.1.	(55,615)	(55,615)	-	(36,217)	(36,217)	-

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'Accrued salaries' and 'Unused annual leave' are included under the line item 'Other liabilities'; before changing the classification, these line items were included under the line item 'Other financial liabilities.'

'Interest expenses calculated using the effective interest method' and 'Other interest and similar expenses' were not disclosed separately before the change, they were shown under the line item 'Interest and similar expenses.'

2.4. Consolidation

In the consolidated financial statements (NLB Group), subsidiaries which are directly or indirectly controlled by NLB have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB Group.

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that the control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary, attributable to interests which NLB does not own, either directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or by the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances, and unrealised gains on transactions between NLB Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the line item 'Equity Attributable to Non-controlling Interest.'

2.5. Business combinations, goodwill, and bargain purchases

NLB Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs; and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements and fair value of any pre-existing equity interest in subsidiary. However, this excludes amounts related to the settlement of pre-existing relationships which are recognised in profit or loss. Acquisition-related costs such as advisory, legal, valuation, and similar professional services are recognised in profit or loss as well. Transaction costs incurred for issuing equity instruments are deducted from the equity, and all other transaction costs associated with the acquisition are expensed.

Identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

A contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. A contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value at each reporting date and changes in fair value are recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent considerations that are not within the scope of IFRS 9 are measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

For each business combination, NLB Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets at the date of acquisition. All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.

Goodwill is measured as the excess of the aggregate of the consideration transferred measured at fair value, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired, as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase (or 'negative goodwill'), is recognised in profit or loss after management reassesses whether it has identified all the assets acquired and all the liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill arising from a business combination is, from the acquisition date, allocated to the Group's cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

The goodwill of associates and joint ventures is included in the carrying value of investments.

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In a business combination achieved in stages, NLB Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss.

2.6. Investments in subsidiaries, associates and joint ventures

In the separate financial statements (NLB), investments in subsidiaries, associates and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend has been established.

In the consolidated financial statements, investments in associates, are accounted for using the equity method of accounting. These are generally undertakings in which NLB Group holds between 20% and 50% of the voting rights, and over which NLB Group exercises significant influence, but does not have control.

Joint ventures are entities over whose activities NLB Group has joint control, established by contractual agreement. In the consolidated financial statements, investments in joint ventures are accounted for using the equity method of accounting.

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.d).

NLB Group's subsidiaries, associates and joint ventures are presented in note 5.12.

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles, and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

Mergers of entities within NLB Group do not affect the consolidated financial statements.

2.8. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e., the functional currency). The financial statements are presented in euros, which is NLB Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency and classified as financial assets measured at fair value through other comprehensive income, are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equity instruments classified as financial assets, measured at fair value through other comprehensive income, are included together with valuation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in the equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

NLB Group entities

The financial statements of all NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and
- components of equity are translated at the historical rate.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

In the consolidated financial statements, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When control over a foreign operation is lost, the previously recognised exchange differences on translations to a different presentation currency are reclassified from other comprehensive income to profit and loss for the year. On the partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified as a non-controlling interest within the equity.

2.9. Interest income and expenses

Interest income and expenses for all financial instruments measured at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate. The effective interest method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, classified in Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, interest income is again calculated on a gross basis.

In the case of purchased or originated credit-impaired financial assets (POCI), the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the purchased or originated credit-impaired financial asset. At NLB Group level, most POCI exposures relate to initial recognition of non-performing exposures in case of business combination.

2.10. Fee and commission income

Fees and commissions mainly include fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fee and commission income are recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time. When the service is provided over time, the consideration is invoiced and due in line with contractual provisions.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement within the line item 'Dividend income' when NLB Group's right to receive payment has been established and an inflow of economic benefits is probable. In the consolidated financial statements, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification and measurement

Financial instruments are initially measured at fair value plus or minus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent measurement depends on the classification of the instrument.

Financial assets

All debt financial assets need to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. Measurement categories of financial assets are as follows:

- Financial assets, measured at amortised costs (AC);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets held for trading (FVTPL); and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, they are measured at the amortised cost using the effective interest method and are subject to impairment. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment are recognised in profit or loss. Each of them is presented as a separate line item in the income statement. Any gain or loss on derecognition is recognised in profit or loss in line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.'

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at the AC in the income statement. Interest income is calculated using the effective interest method, foreign exchange gains and losses, and impairments are recognised separately in the income statement. Other net gains and losses are recognised in other comprehensive income, until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement under the line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.'

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss. In NLB Group, the most material equity instrument irrevocably designated as FVOCI is investment in National Resolution Fund (note 5.4.a). NLB Group decided to use this presentation alternative because the fund was established based on the law and it has a highly regulated investment strategy in order to ensure safety, low risk, and the high liquidity of the fund.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

Financial liabilities

Financial liabilities are subsequently measured at the amortised cost or at fair value through profit or loss, when they are held for trading, derivative instruments, or the fair value designation is applied.

Upon initial recognition, financial liability may be irrevocably designated as measured at fair value through profit or loss if that eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or if the liabilities are part of a group of financial instruments which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Changes in the fair value of financial liabilities designated as measured at fair value through profit or loss are recognised in profit or loss, with the exception of movement in the fair value due to changes of NLB Group's own credit risk. Such changes are presented in other comprehensive income with no subsequent reclassification to the income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition of financial liability is recognised in profit or loss. In the event of derecognition of a financial liability measured at amortised cost, the gains and losses are recognised in the line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.' Gains and losses on disposals of financial liabilities designated as measured at fair value through profit or loss are also presented separately from those held for trading.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within NLB Group, and is based on observable factors for different portfolios that best reflect how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets or on collection of contractual cash flows); and
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into consideration. In general, the business model assessment of the Group can be summarised as follows:

- Loans and deposits given are included in a business model 'held to collect' since the primary objective of NLB Group for the loan portfolio is to collect the contractual cash flows;
- Debt securities are divided into three business models:
  - the first group of debt securities presents 'held for trading' category;
  - debt securities in the second group are held under a business model 'held to collect and sale' with the intention of collecting the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves;
  - the third part of debt securities is held within the business model for holding them with objective to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model, and:

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

A review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g., due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than *de minimis* exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily measured at fair value through profit or loss.

NLB Group reviews the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product and for non-standardised products on a single exposure level. The Group has established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of loan agreements.

Accounting policy for modified financial assets

When contractual cash flows of a financial asset are modified, NLB Group assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows (commercial or client's financial difficulties);
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification changes the result of the SPPI test.

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. In such cases, NLB Group recalculates the gross carrying amount of the financial asset and recognises modification gain or loss in the income statement. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

b) Reclassification

Financial assets can be reclassified when and only when NLB Group's business model for managing those assets changes. The reclassification takes place from the start of the reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the presented periods. Financial liabilities shall not be reclassified.

c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

d) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred, and the transfer qualifies for derecognition. A financial liability is derecognised only when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled, or expires.

e) Write-offs
NLB Group writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that there is no reasonable expectation of recovery include default period, quality of collateral, and different stages of enforcement procedures. NLB Group may write off financial assets that are still subject to enforcement activities, but this does not affect its rights in the enforcement procedures. NLB Group still seeks to recover all amounts it is legally entitled to in full. A write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expenses. Write-offs and recoveries are disclosed in note 5.14.a).

f) Fair value measurement principles
The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date.

g) Derivative financial instruments and hedge accounting
Derivative financial instruments – including forward and futures contracts, swaps, and options – are initially recognised in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favourable to NLB Group, and within liabilities when the derivative position is unfavourable to NLB Group.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NLB Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used when certain criteria are met. NLB Group and NLB have exercised the option to continue applying the existing IAS 39 hedge accounting requirements in accordance with the policy choice permitted under IFRS 9. However, disclosures that are required by the IFRS 9 related amendments to IFRS 7 'Financial Instruments: Disclosures' are implemented.

At the inception of the transaction, NLB Group documents the relationship between hedged items and hedging instruments, as well as its risk management objective, valuation methodology, and strategy for undertaking various hedge transactions. NLB Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The actual results of a hedge must always fall within a range of 80–125%.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in 'Fair Value Adjustments in Hedge Accounting' in the income statement. Any ineffectiveness from derivatives is recorded in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

If a hedge no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortised to profit or loss over the remaining period to maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon disposal of the equity security.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is immediately recognised in the income statement.

Amounts accumulated in equity are recycled as a reclassification from other comprehensive income to the income statement in the periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Hedge of a net investment in a foreign operation
Hedges of net investments in foreign operations are accounted for in consolidated financial statements similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.' Gains and losses accumulated in

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other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

2.13. Allowances for financial assets

a) Expected credit losses for collective allowances

IFRS 9 applies an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not measured at FVTPL, together with loan commitments and financial guarantee contracts.

In the general model, the allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, expert credit assessment, and incorporation of forward-looking information. In 2021, the NLB Group made improvements to the SICR (significant increase of credit risk) identification concept by including additional qualitative indicators as well as by development of numeric LPD (lifetime probability of default) concept for part of the portfolio where this was feasible

Classification into stages

NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, models for risk indicators calculation, forward-looking scenarios, and the validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on 12-month period;
- Stage 2 – underperforming portfolio: significant increase in credit risk (SICR) since initial recognition, NLB Group recognises an allowance for lifetime period; and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these defaulted financial assets.

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the new European Banking Authority (EBA) definition of non-performing loans (NPLs) as at 31 December 2020. The Bank uses a unified definition of past due and default exposures; defaulted clients are rated D, DF, or E based on the internal rating system and contains the clients with material delays over 90 days, as well as the clients that were assessed as unlikely to pay. All facilities of retail clients obtain a unified credit rating.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition (which is accompanied with the increase of Probability of default (PD) indicator),
- when threefold increase of LPD since initial recognition is detected,
- when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment),
- if NLB Group grants the forbearance to the borrower,
- if the facility is placed on the watch list or intensive care list,
- if a retail client obtained COVID-19 moratoria and is placed on the watch list.

As COVID-19 moratoria granted to the bank clients in the past years have mostly expired, these exposures no longer need specific treatment, and so SICR identification is carried out in the same manner as for any other exposures.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

The classification into stages is based on the facility level, nevertheless occurring delays on one facility may trigger the Stage deterioration of other facilities of the same client. When the SICR criteria no longer exist, the facility may be transferred to a more favourable stage subject to the prescribed cure period of three months.

The ECL for Stage 1 financial assets is calculated based on 12-month PDs or shorter period PDs, if the remaining maturity of the financial asset is shorter than 1 year. The 12-month PD already includes the macroeconomic impact effect. Allowances in Stage 1 are designed to reflect expected credit losses that had been incurred in the performing portfolio but have not been identified.

The ECL for Stage 2 financial assets is calculated based on lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that considers a number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using a PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of being credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in lifetime expected losses since the initial recognition are recognised as a loss allowance.

The calculation of collective allowances is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). The obtained result for each month is discounted to the present time using the original effective interest rate of the facility. For Stage 1 exposures, the ECL only takes a 12-month period into account, while for Stage 2 or 3 all potential losses until the maturity date are included. Risk parameters are calculated separately for each of the three possible scenarios. The final ECL for each facility is calculated as a weighted average ECL for each scenario.

The EAD represents the anticipated outstanding amount owed by the obligor, which is determined as the sum of on-balance exposure and expected future drawings of the off-balance exposure. The drawings are assessed by applying the CCF (credit conversion factor) based on the Bank's historic experience with similar types of facilities.

The PD is the estimation of likelihood of default over a given time horizon. The estimation is performed separately for each unique segment (corporate clients by size, institutions, central government) or by product group (mortgage, consumer loans and other retail products). Through the cycle, the PD is supplemented with the forward-looking aspect using three possible scenarios.

The LGD parameter reflects the expected loss the facility will incur in case of the event of default. The LGD value is assessed based on the Bank's historic data on repayments from different types of collateral (hair-cuts are calculated for homogenic groups of collateral), as well as other types of repayments such as regular/partial repayments, repayments from legal proceedings, the sale of receivables, and others. Through the cycle, the LGD is supplemented with the forward-looking aspect to reflect the expected changes in the macroeconomic parameters using three possible scenarios.

Risk parameter calculations are based on the data from each subsidiary, while the calculations and modelling are performed centrally. In the case where the data samples are not sufficiently large, hurdle rates are applied based on the regulatory or other benchmarks.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward-looking information

In 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.

NLB Group established and developed multiple scenarios (i.e., baseline, mild, and severe) on the level of ECL calculation. The baseline scenario presents our forecast macroeconomic view for all countries present in the NLB Group. This scenario is constructed to culminate various outlooks into a unified projection of macroeconomic and financial variables for the NLB Group. This approach is in line with the concept that the NLB Group has a consolidated view of the future of economic development in Southeast Europe (SEE). The IFRS 9 baseline scenario relies on the NLB monthly Economic Outlook created in April 2021.

The macroeconomic rationale behind the alternative scenarios is related to a range of plausible effects of the COVID-19 pandemic on economic development during the next three years (the so-called 'post-COVID-19 period'). The basis for the alternative scenarios is related to the ECB's view of economic development after the coronavirus outbreak in early 2020. Based on the ECB illustration of a mild and severe scenario resolution of the pandemic crisis through the lens of the 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 are included in the calculation of expected credit losses under IFRS 9. Apart from this important innovation, we had to keep track of the latest economic developments and changing official projections.

This 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, our 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.

Macroeconomic scenarios for explanatory variables, developed for each country in the NLB Group (in %):

	Mild scenario			Baseline scenario			Severe scenario		
Slovenia	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Real GDP	7.2	4.4	3.7	4.5	4	3.5	2.3	2.1	4.2
Unemployment rate	4.8	4.4	3.9	5	5	4.5	5.2	5.7	5.2

	Mild scenario			Baseline scenario			Severe scenario		
Bosnia and Herzegovina	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Real GDP	4.8	3.8	3.1	3	3.5	3	1.5	1.9	3.6
Unemployment rate	16.7	14.7	13.9	17.5	16.5	16	18.3	18.9	18.3

	Mild scenario			Baseline scenario			Severe scenario		
Montenegro	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Real GDP	10.4	5.5	3.7	6.5	5	3.5	3.3	2.7	4.2
Unemployment rate	15.7	14.2	13.5	16.5	16	15.5	17.3	18.4	17.7

	Mild scenario			Baseline scenario			Severe scenario		
North Macedonia	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Real GDP	6.4	4.4	3.7	4	4	3.5	2	2.1	4.2
Unemployment rate	16.2	14.7	13.9	17	16.5	16	17.8	18.9	18.3

	Mild scenario			Baseline scenario			Severe scenario		
Serbia	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Real GDP	8	4.9	4.2	5	4.5	4	2.5	2.4	4.8
Unemployment rate	9.1	8	7.4	9.5	9	8.5	9.9	10.3	9.7

	Mild scenario			Baseline scenario			Severe scenario		
Kosovo	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Real GDP	7.2	4.9	4.2	4.5	4.5	4	2.3	2.4	4.8
Unemployment rate	24.3	22.2	21.3	25.5	25	24.5	26.7	28.7	28

NLB Group formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of IFRS 9. The scenarios are weighted 20-60-20, where both alternative ones (i.e., mild and severe) receive a weight of 20%. The assigned weight for the baseline scenario is 60%.

Recalculation is performed annually of all risk parameters. IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of ECL impairment calculation. Both features may change when material changes in the future development of the economy are recognised and not embedded in previous forecasts. Then all the parameters are recalculated according to new weight and projections.

The favourable macroeconomic environment has the most significant impact on expected credit losses in 2021. This change in macroeconomic scenarios affects forward-looking values of risk parameters during the post-COVID-19 period.

Risk parameter overlays and mark-ups

NLB Group implemented overlays and mark-ups on forward-looking PD and LGD, respectively. PD overlay measures are implemented to address prediction errors from the back-testing exercise in particular segments and rating categories. In addition, mark-ups on the LGD risk parameter are applied by NLB Group members due to the particularities of the local market.

Effects of changed risk parameters

Effects of changed risk parameters on the amount of expected credit losses are disclosed in notes 5.14. and 5.16.b).

b) Individual assessment of allowances for impaired financial assets

NLB Group assesses impairments of financial assets separately for all individually significant assets classified in Stage 3. The materiality threshold is set at EUR 0.5 million exposure for legal entities and EUR 0.1 million for private persons on the level of NLB, while the Group members apply lower thresholds applicable to their portfolio size. All other financial assets obtain collective allowances.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the 'going concern' assumption, where the cash flow from operations is considered along with the sale of collateral that is not crucial for future business. In the case of the 'gone concern' principle, the repayments are based on expected cash flows from the sale of collateral. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount of financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement line item 'Impairment of financial assets.' If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g., repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account, and the gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in the line item 'Provisions' and in the income statement in the line item 'Provisions for credit losses.'

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets, or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract under which the contracting parties agree the partial or total repayment of the original debt. Loans with deferral of payment approved in line with the national legislation on intervention measures in response to SARS-CoV-2 (COVID-19) pandemic until 30 September 2020 are not forborne loans. Loans with deferrals of payment under COVID-19 measures approved after 30 September 2020 are subject of assignment of forbearance status, except in cases, where detailed review and analysis sufficiently justify that the client is not in financial difficulties. If to receivables due from the client the status of restructuring is introduced, the debtor must be classified in the rating group C or lower.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

The accounting treatment of forborne loans depends on the type of restructuring. When NLB Group embarks on a forborne loan via the modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed upon debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group considers the debtor's modified position, the economic expectations, and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (i.e., property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if exposure is no longer considered as impaired or defaulted, if determined amounts were repaid, if one year has passed from the latest of the events defined (introduction of forbearance, classification in the non-performing part, repayment of the last overdue amount, end of the grace period) and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- at least a 2-year probation period has passed since the latest of:
    - the moment of extending the restructuring measures or
    - the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period;
- no exposure, in the probation period, is more than 30 days in default of more than EUR 100;
- the client fulfils determined financial indicators.

In the case of a deferral of payment approved due to the COVID-19 crisis, the probation period is extended for the period of deferral.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as it is feasible in order to reduce exposure (note 6.1.l). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with an IAS 40 Investment property (note 2.20.), and other assets measured in accordance with IAS 2 Inventories.

Real estate obtained as collateral from the foreclosure of loans and receivables, classified as other assets are initially recognised at fair value less costs to sell (realisable value), wherein only the direct costs of sales can be considered. At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is recognised as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.17. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, and the counterparty liability is recognised in financial liabilities measured at an amortised cost. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Securities purchased under agreements to resell (reverse repos) are presented as loans to other banks or customers, as appropriate.

In financial statements, the difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

2.18. Property and equipment

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less any accumulated depreciation and any accumulated impairment loss.

Each year, NLB Group assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as an impairment loss in the income statement.

Items of a largely independent property and equipment which do not generate cash flows are included in the cash-generating unit and later tested for possible impairment.

Depreciation is calculated on a straight-line basis over the assets' estimated useful lives. The following annual depreciation rates were applied:

NLB Group and NLB			in %
Buildings	2	-	5
Leasehold improvements	5	-	25
Computers	14.3	-	50
Furniture and equipment	10	-	33.3
Motor vehicles	12.5	-	25

Depreciation does not begin until the assets are available for use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount and are recognised in the income statement.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future economic benefits are recognised in the carrying amount of an asset, and the replaced part, if any, is derecognised.

2.19. Intangible assets

Intangible assets include software licenses, goodwill (note 2.5.), and identifiable intangible assets acquired in a business combination. Intangible assets other than goodwill, have a finite useful life and are in the statement of financial position stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write-down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

The identifiable intangible assets acquired in a business combination and recognised separately from goodwill, are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. After initial recognition, intangible assets acquired in a business combination are measured in accordance with IAS 38 Intangible Assets. Additionally identified intangible assets acquired in a business combination in December 2020 (note 5.12.c) relate to core deposits and trade name. Their useful life is assessed to be 5 years. Amortisation of a trade name is calculated on a straight-line basis, while for core deposits accelerated amortisation is applied, since it better reflects the pattern of asset's consumption.

2.20. Investment properties

Investment properties include properties held to earn rentals, or to increase the value of a long-term investment, rather than to be used by NLB Group. Investment properties are carried at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in the fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

In the case of business combinations, NLB Group measures an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations at fair value less costs to sell.

During subsequent measurement, certain assets and liabilities of a disposal group that are outside the scope of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g., deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value, and contractual rights under insurance contracts). Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

2.22. Accounting for leases

A lease is a contract, or part of a contract, which creates enforceable rights and obligations and conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Thus, IFRS 16 requires determination whether a contract is, or contains, a lease.

NLB Group as a lessee

NLB Group recognises a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases, except for short-term leases and leases of low-value. Short-term leases are defined as those which at the commencement date have a lease term of 12 months or less without the option to purchase the underlying asset. Leases of underlying assets with a value, when new, lower or equal to EUR 5 thousand are defined as low value leases, and are thus recognised as expenses on a straight-line basis over the lease term.

Right-of-use assets

At the commencement date, NLB Group measures the right-of-use asset at cost, reduced by any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets consists of the amount of lease liabilities recognised, initial direct costs incurred, an estimate of costs to be incurred by the lessee in dismantling, and removing the underlying asset to the condition required by the terms and conditions of the lease and lease payments made at or before the commencement date less any lease incentives received. After the commencement date, NLB Group measures the right-of-use asset using a cost model and recognises depreciation of the right-of-use assets, on a straight-line basis over the lease term, and (separately) interest on the lease liabilities. In the statement of financial position, right-of-use assets are presented in the line item 'Property and equipment.'

Lease liabilities

At the commencement date, NLB Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments consist of fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, the exercise price of a purchase option if there exists a reasonable certainty for it to be exercised, and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Subsequently (after the commencement date), NLB Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

In the statement of financial position, lease liabilities are presented in line item 'Other financial liabilities.'

NLB Group as a lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest method. Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

Sale-and-leaseback transactions

NLB Group also enters into sale-and-leaseback transactions (in which NLB Group is primarily a lessor) under which the leased assets are purchased from, and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

Leases recognised in a business combination

In all leases acquired in a business combination, the acquiree is the lessee. For such leases, NLB Group applies the IFRS 16 initial measurement provisions (with exceptions for leases with remaining term of 12 months or less and low value leases) and recognises the acquired lease liability as if the lease contract was a new lease at the acquisition date. The right-of-use asset is measured at an amount equal to the recognised liability. There are no favourable or unfavourable terms of the leases relative to market terms, which would require the adjustment of the right-of-use assets.

2.23. Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks and other demand deposits at banks, debt securities held for trading, loans to banks, and debt securities not held for trading with an original maturity of up to three months. Cash and cash equivalents are disclosed under the cash flow statement.

2.24. Borrowings, deposits, and issued debt securities with characteristics of debt
Loans and deposits received and issued debt securities are initially recognised at fair value. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expenses, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction of liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity
Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the line item 'Other Equity Instruments.'

2.26. Provisions
Provisions are recognised when NLB Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. They are recognised in the amount that is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, NLB Group determines the level of provisions by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability.

2.27. Contingent liabilities and commitments
Financial and non-financial guarantees
Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts, and other banking facilities.

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.

Financial and non-financial guarantees are initially recognised at fair value, which is usually evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:
- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- ECL provisions as set out in note 2.13.

Documentary letters of credit
Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:
- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments
Other contingent liabilities and commitments represent undrawn loan commitments to extend credit, uncovered letters of credit, and other commitments.

The nominal contractual values of guarantees, letters of credit, and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recognised in the statement of financial position.

Contingent liabilities recognised in a business combination
A contingent liability recognised in a business combination is initially measured at its fair value. After initial recognition, it is measured at the higher of:
- the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; or
- the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers. This requirement does not apply to contracts accounted for in accordance with IFRS 9.

2.28. Taxes
Income tax expenses comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2021 in Slovenia was 19% (2020: 19%).

Current and deferred taxes are recognised in profit or loss, except to the extent that they relate to a business combination or taxes related to effects recognised directly in equity (deferred tax related to the fair value re-measurement of financial assets measured at fair value through other comprehensive income, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income).

Deferred income tax is calculated using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realised, or the liability is settled. At each reporting date, NLB Group reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilised.

Deferred tax assets for temporary differences arising from impairments of investments in subsidiaries, associates and joint ventures are recognised only to the extent that it is probable that:

- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

Slovenian tax law does not set deadlines by which uncovered tax losses must be utilised.

In the case of business combination deferred tax balances are recognised if related to temporary differences and carry-forwards of an acquiree that exist at the acquisition date or if they arise as a result of the acquisition. Income taxes are measured in accordance with IAS 12 Income Taxes.

A tax on financial services is a tax on fees, paid for prescribed financial services rendered (financial services, exempt from value added tax (with the exception of securities transactions) and the services of insurance brokers and agents), paid in Slovenia. The tax rate is 8.5% (2020: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income and expenses relating to fiduciary activities are generally recognised in the income statement when the service has been provided (see also note 2.10.). Fee and commission income charged for this type of service is broken down by items in note 4.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 5.24.

Based on the requirements of Slovenian legislation, NLB Group has, in note 5.24., additionally disclosed the assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e., information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

Employee benefits include:

- short-term employee benefits (such as salaries, compensations, annual holiday allowance, separation allowance, and non-monetary benefits);
- reimbursement of commuting costs, meal allowance, compensation for use of own resources);
- retirement indemnity bonuses (post-employment benefits);
- other employment benefits (jubilee long-service benefits, voluntary supplementary pension insurance);
- variable remuneration.

Short-term employee benefits are recognised in the period to which they relate and included in the income statement line item 'Administrative expenses.' Among others they include the payment of contributions for pension and disability insurance, which according to local legislation (for employer) amount to 8.85% of the gross salaries.

According to legislation, employees retire after they fulfil certain conditions according to Pension and Disability Insurance Act (ZPIZ), they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB.

These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on the benefit plan's terms and conditions.

Service costs are included in the income statement in the line item 'Administrative expenses' as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the line item 'Interest and similar expenses.' These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. For post-employment benefits, actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the line item 'Actuarial Gains/(Losses) on Defined Benefit Pensions Plans,' and will not be recycled to the income statement. Actuarial gains and losses that relate to other employment benefits are recognised in the income statement as defined benefit costs. In the statement of financial position, liabilities for short-term employee benefits are included in the line item 'Other liabilities,' while liabilities for post-employment benefits and other employment benefits (jubilee long-service benefits) are included in the line item 'Provisions.'

In the case of a business combination employee benefits are recognised and measured in accordance with IAS 19 Employee Benefits, i.e., not at fair value.

2.31. Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by NLB's shareholders.

Treasury shares

If NLB or another member of NLB Group purchases NLB's shares, the consideration paid is deducted from the total shareholders' equity as treasury shares. If such shares are subsequently sold, any consideration received is included in equity. If NLB's shares are purchased by NLB itself or other NLB Group entities, NLB creates reserves for treasury shares in equity.

Share issue costs

Costs directly attributable to the issue of new shares are recognised in equity as a reduction in the share premium account.

2.32. Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the Management Board, which is the executive body that makes decisions regarding the allocation of resources and assesses the performance of a specific segment.

Transactions between organisational units (OUs) are managed under normal operating conditions. Interest income among individual OUs in the parent bank (NLB) is allocated using a fund transfer pricing method and shown within the

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net interest income of each OU. Net non-interest income is allocated to the OU that actually provides the service that generates income. Direct costs are attributed to the segment that is directly related to the provided service and indirect costs (costs which service centres provide for profit centres) are attributed to the segment for which the service is provided, whereas overhead costs are allocated according to general keys. External net income is the net income of NLB Group from the consolidated income statement. Income tax is not allocated between segments. Analysis by segment for NLB Group is presented in note 7.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Retail Banking in Slovenia, Corporate and Investment Banking in Slovenia, Strategic Foreign Markets, Financial Markets in Slovenia, Non-core members, and Other Activities.

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Allowances for expected credit losses on loans and advances

NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary allowances for ECL. NLB Group creates individual allowances for individually significant financial assets attributed to Stage 3. Such an assignment is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor, and other important facts. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from collateral.

Allowances are assessed collectively for financial assets assigned to Stage 1 or 2, or for financial assets in Stage 3 with exposure below the materiality threshold. The ECL in this group of assets are estimated based on expected value of risk parameters combining the historic movements with the future macroeconomic predictions for three separate scenarios. The models used to estimate future risk parameters are validated and back-tested on a regular basis to make loss estimations as realistic as possible.

NLB Group performs regular stress-testing as part of the ICAAP process normative approach, where the 3-year budget is tested for adverse circumstances. The selected stress scenario predicts adverse economic circumstances as a result of the prolonged COVID-19 pandemic.

In terms of credit risk, the scenario has an unfavourable impact on default rates (transfer of assets from performing to default) and loss rates (expected losses after occurrence of default). Furthermore, a transfer of assets within the performing sub-portfolio to rating classes with worse default probabilities is envisaged. Based on the existing exposures (static balance sheet assumption), additional allowances for expected credit losses are assessed on existing default exposures and new default flows, as well as on the remaining performing portfolio.

The results of the stress scenario for NLB Group shows an increase of credit risk impairments in the first year of stress by EUR 139.6 million (2020: EUR 134.7 million), and an increase in the coverage of the credit portfolio by impairments by 0.98 percentage points (2020: 0.90 percentage points).

b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets) or offer prices (financial liabilities).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable entities, and other frequently used valuation models. These valuation models at their best estimate reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and the applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading, and financial assets measured at fair value through other comprehensive income.

In year 2020, the volatility of prices on various markets increased as a result of the spread of COVID-19. Therefore, NLB Group decided to sell some securities with increased credit spreads as part of its strategy to manage the credit risk. Most of these securities were classified as measured at fair value through other comprehensive income (EUR 250,297 thousand at NLB Group and EUR 222,586 thousand at NLB), while EUR 120,131 thousand of sold securities were measured at amortised cost. The total realised gains due to sales of securities amount to EUR 17,815 thousand at NLB Group and EUR 17,096 thousand at NLB (note 4.4.).

Due to increased frequency and values of sales of securities measured at amortised cost, NLB Group reassessed whether there has been a change in its business model for managing financial assets. Sales were made due to an increase in the assets' credit risk, and are therefore consistent with a held to collect business model because the credit quality of financial assets is relevant to NLB Group's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such a model.

Furthermore, the sales were made as a response to COVID-19 situation and the increased volume of sales is not expected to persist. It is expected, that future sales volumes will be lower in frequency and value. So, no change in our business model has been made.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with NLB Group's methodology for the valuation of financial instruments. The market exchange rates, interest rates, yield, and volatility curves used in valuations are based on the market snapshot principle. Market data are saved daily at 4 p.m., and later used for the calculation of the fair values (market value, NPV) of financial instruments. NLB Group applies market yield curves for valuation, and fair values are additionally adjusted for credit risk of the counterparty.

The fair value hierarchy of financial instruments is disclosed in note 6.5.

c) Impairment of investments in subsidiaries, associates and joint ventures

The process of identifying and assessing the impairment of investments in subsidiaries, associates and joint ventures is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. The review of impairment represents management's best estimate of the facts and assumptions such as:

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted business plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio;
- The growth rate in cash flows for the period following the adopted business plan is between 2.6 and 3.7%;
- The target capital adequacy ratio of an individual bank is between 14 and 17%;
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 9.66 and 15.88% (31 December 2020: between 9.66 and 15.88%).

For strategic NLB Group members in 2021 and 2020, there were no indications of impairment for equity investments.

In 2021, NLB impaired equity investments in non-core members in the amount of EUR 458 thousand (2020: EUR 582 thousand).

d) Employee benefits

Liabilities for certain employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

	NLB Group		NLB	
	2021	2020	2021	2020
Actuarial assumptions				
Discount factor	0.5% - 4.3%	0.3% - 4.0%	0.6%	0.3%
Wage growth based on inflation, promotions, and wage growth based on past years of service	1.8% - 4.8%	1.0% - 4.0%	2.5% - 3.0%	2.6% - 3.0%
Other assumptions				
Number of employees eligible for benefits	7,014	7,996	2,444	2,572

A sensitivity analysis of significant actuarial assumptions for post-employment benefit:

	NLB Group				NLB			
31 Dec 2021	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on provisions for employee benefits - post-employment benefits (in %)	(5.3)	5.7	5.5	(5.1)	(5.1)	5.5	5.5	(5.2)

	NLB Group				NLB			
31 Dec 2020	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on provisions for employee benefits - post-employment benefits (in %)	(4.9)	3.8	5.3	(4.8)	(5.2)	3.4	5.6	(5.3)

The minimum discount rate is considered to be 0%.

Individual analysis is done by changing one assumption for + / - 0.5 percentage points, while all other assumptions stay the same.

The breakdown of actuarial gains and losses for post-employment benefit by causes

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Actuarial gains and losses due to changed financial assumptions	251	606	292	473
Actuarial gains and losses due to changes in demographic assumptions	(1,211)	134	151	200
Actuarial gains and losses due to experience	(417)	138	(558)	27
Total actuarial gains and losses for the year	**(1,377)**	**878**	**(115)**	**700**

The weighted average duration of liabilities in years

	NLB Group		NLB	
	2021	2020	2021	2020
Post-employment benefit	9.4 - 19.0	10.5 - 18.7	11.0	11.1

e) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2021 are based on profit forecasts and take the expected manner of recovery of the assets into account. Changes in assumptions regarding the likely manner of recovering assets or changes in profit forecasts can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. If NLB profit projections used for estimation of the amount of deferred tax assets which are expected to be reversed in foreseeable future (i.e., within 5 years) would change by 10%, the estimated amount of deferred tax assets would change by approximately EUR 3.2 million (notes 4.16. and 5.17.).

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: 'the IASB') and the International Financial Reporting Interpretations Committee (hereinafter: 'the IFRIC'), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2021.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2021 that were endorsed by the EU and adopted by NLB Group

- IFRS 4 (amendment) – *Insurance Contracts – deferral of IFRS 9* is effective for annual periods beginning on or after 1 January 2021. Currently IFRS 4 requires insurance entities to apply IFRS 9 – *Financial Instruments* from 1 January 2021, and amendments allow them to defer the application of IFRS 9 until the annual period beginning on or after 1 January 2023. The amendment will not impact NLB Group's consolidated financial statements. There is no impact on NLB Group's and NLB's financial statements.

- IFRS 9 (amendment), IAS 39 (amendment), IFRS 7 (amendment), IFRS 4 (amendment) and IFRS 16 (amendment) – *Interest Rate Benchmark Reform – Phase 2* are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. Unlike Phase 1, which focused on issues of the impact of the reform on financial reporting in the period before the replacement of the existing interest rate benchmark with a risk-free interest rate, Phase 2 focuses on issues that affect financial reporting when an existing interest rate benchmark is replaced with a risk-free rate. The Phase 2 amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate equivalent to a movement in a market rate of interest. The practical expedient is also required for entities applying IFRS 4 – *Insurance Contracts* that are using the exemption from IFRS 9 – *Financial Instruments* (and therefore, apply IAS 39 – *Financial Instruments: Recognition and Measurement*) and for IFRS 16 – *Leases*, to lease modifications required by the IBOR reform. The amendments permit changes required by the IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. Under IFRS 7 – *Financial instrument: Disclosures* amendments an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates. The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships. Additional information about interest rate benchmark reform is provided in note 5.5.d).

Accounting standards and amendments to existing standards that were endorsed by the EU, but not adopted early by NLB Group

New and revised accounting standards and interpretations endorsed by the EU that are not mandatory for annual accounting periods beginning on 1 January 2021, were not adopted early by NLB Group. These standards and amendments are not expected to have a material impact on the consolidated financial statements of NLB Group in the future reporting periods and on foreseeable future transactions. NLB Group plans to adopt the accounting standards and amendments listed below for reporting periods commencing on or after the effective date.

- IFRS 3 (amendment) – *Business Combinations – Reference to the Conceptual Framework* is effective for annual periods beginning on or after 1 January 2022. The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Furthermore, the amendments add an exception to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies. The amendments also clarify existing guidance for contingent assets.

- IAS 16 (amendment) – *Property, Plant and Equipment: Proceeds before Intended Use* is effective for annual periods beginning on or after 1 January 2022. The amendment prohibits the deduction from the cost of an item of property, plant and equipment of any proceeds from the sale of produced items while the asset is being prepared for its intended use. The proceeds from selling such items, and the cost of producing those items, are recognised in profit or loss. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The amendment further requires separate disclosure of the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. It is also necessary to disclose the line item in the statement of comprehensive income where the proceeds are included. NLB Group and NLB do not expect an impact on their financial statements.

- IAS 37 (amendments) – *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract* is effective for annual periods beginning on or after 1 January 2022. The amendments modify the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract.' The costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. NLB Group and NLB do not expect an impact on their financial statements.

- Annual Improvements to IFRS Standards 2018-2020 (amendments) are effective for annual periods beginning on or after 1 January 2022. The amendments to IFRS 9 clarify which fees and costs should be included in the '10 per cent' test for derecognition of a financial liability. The amendment to IFRS 16 – *Leases* removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives. The amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* permits a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Standards. The amendments to IAS 41 – *Agriculture* remove the requirement to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. This will ensure consistency with the requirements in IFRS 13 – *Fair Value Measurement*. NLB Group and NLB do not expect an impact on their financial statements.

- IFRS 17 (new standard including amendments) – *Insurance Contracts* is effective for annual periods beginning on or after 1 January 2023. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfilment cash flows, and for revenue to be recognised – as the service is provided over the coverage period. The additionally issued amendments to IFRS 17 simplify some requirements and explanation of financial performance, and provide additional transition reliefs to reduce the complexity of applying standard for the first time. NLB Group and NLB do not expect an impact on their financial statements.

- IFRS 16 (amendment) – *Covid-19-Related Rent Concessions beyond 30 June 2021* is effective for annual periods beginning on or after 1 April 2021. The amendment extended the availability of the practical expedient by one year so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. There is no impact on NLB Group's and NLB's financial statements.

Accounting standards and amendments to existing standards, but not endorsed by the EU

- IAS 1 (amendment and deferral of effective date) – *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current* is effective for annual periods beginning on or after 1 January 2023. The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. NLB Group and NLB do not expect an impact on their financial statements.

- IAS 1 (amendment) – *Presentation of Financial Statements and IFRS Practice Statement 2 – Disclosure of Accounting policies* is effective for annual periods beginning on or after 1 January 2023. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. NLB Group and NLB do not expect an impact on their financial statements.

- IAS 8 (amendment) – *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* is effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. NLB Group and NLB do not expect an impact on their financial statements.

- IAS 12 (amendment) - *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction* is effective for annual periods beginning on or after 1 January 2023. IAS 12 specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions. NLB Group and NLB do not expect an impact on their financial statements.

- IFRS 17 (amendment) – *Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information* is effective for annual periods beginning on or after 1 January 2023. The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. NLB Group and NLB do not expect an impact on their financial statements.

3. Changes in the composition of the NLB Group

Changes in 2021

Capital changes:

- In April 2021, NLB increased the share of voting rights in the takeover bid for the remaining shares of Komercijalna banka a.d. Beograd from 83.23% to 87.999% and also acquired 15.328% of preference shares. This increased NLB's share in total shareholding of the bank from 81.42% to 86.42%. The increase in capital investment was recognised in the amount of EUR 23,098 thousand.
- In May 2021, NLB increased the share of voting rights in the public offering of ordinary shares of Komercijalna banka a.d. Beograd from 87.999% to 88.28%. This increased NLB's share in total shareholding of the bank from 86.42% to 86.70%. The increase in capital investment was recognised in the amount of EUR 1,337 thousand.
- In May 2021, NLB acquired the remaining shares of minority shareholders of NLB Banka a.d., Beograd and increased its ownership from 99.997% to 100%. The increase in capital investment was recognised in the amount of EUR 2 thousand.
- An increase in equity reserves in the form of a cash contribution in the amount of EUR 300 thousand in REAM d.o.o., Beograd to ensure regular business operations.
- In October 2021, NLB increased its business share in Bankart d.o.o., Ljubljana from 40.08% to 45.64%.
- In November 2021, Komercijalna banka a.d. Podgorica merged with NLB Banka a.d. Podgorica. After this merger, Komercijalna banka a.d. Beograd has 23.97% shareholding of NLB Banka a.d. Podgorica, while NLB d.d. has 75.90%.
- In December 2021, an increase in share capital in the form of a cash contribution in the amount of EUR 15,309 thousand in NLB Lease&Go, leasing, d.o.o., Ljubljana for the purpose of achieving NLB Group's leasing strategy.
- In December 2021, NLB increased its ownership in settlement agreement in relation to the put and call option of shares of NLB Banka sh.a., Prishtina from 81.21% to 82.38%. The increase in capital investment was recognised in the amount of EUR 223 thousand.

Other changes:

- In April 2021 company BH-RE d.o.o., Sarajevo – u likvidaciji was liquidated. In accordance with a court order, company was removed from the court register.
- In September 2021, NLB sold its 0.002% ownership interest in Komercijalna banka a.d. Banja Luka to Komercijalna banka a.d. Beograd.
- In November 2021, Prvi Faktor d.o.o., Sarajevo - u likvidaciji was liquidated. In accordance with a court order, the company was removed from the court register.
- In December 2021, Komercijalna banka a.d. Beograd sold its subsidiary Komercijalna banka a.d. Banja Luka.
- In December 2021, NLB sold its subsidiary NLB Leasing d.o.o., Ljubljana – v likvidaciji to NLB Lease&Go, leasing, d.o.o., Ljubljana.

Changes in 2020

Capital changes:

- In December 2020, NLB acquired an 83.23% ordinary shareholding in Komercijalna banka a.d. Beograd, which represents 81.42% of total shareholding in the bank.
- In December 2020, NLB acquired 1 ordinary share of Komercijalna banka a.d. Banja Luka which represents a 0.002% share of their capital.
- In December 2020, NLB acquired additional shares of Bankart d.o.o., Ljubljana and thereby increased its ownership from 39.44% to 40.08%.
- An increase in share capital in the form of a debt-to-equity conversion in the amount of EUR 1,800 thousand in NLB Leasing Podgorica d.o.o. – u likvidaciji.

Other changes:

- In April 2020, NLB established the non-financial cultural heritage institute named 'NLB Zavod za upravljanje kulturne dediščine, Ljubljana.'
- In May 2020, NLB established financial company named 'NLB Lease&Go, leasing, d.o.o., Ljubljana.'
- In May 2020, all the suspensive conditions under the joint NLB and KBC Insurance NV sale agreement signed in December 2019 were met, therefore the sale of NLB's 50% stake in the share capital of NLB Vita d.d., Ljubljana was completed (note 4.15.).
- In December 2020, BH-RE d.o.o., Sarajevo – beginning of the liquidation procedure entered in the court register.
- In December 2020, NLB sold its subsidiaries NLB Leasing d.o.o., Sarajevo - u likvidaciji and NLB Leasing Podgorica d.o.o., Podgorica - u likvidaciji.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Interest and similar income				
Interest income calculated using the effective interest method	467,500	347,636	170,002	167,611
Loans and advances to customers at amortised cost	412,449	312,695	144,081	140,203
Securities measured at amortised cost	14,049	16,165	10,150	12,736
Financial assets measured at fair value through other comprehensive income	40,347	18,180	11,733	10,704
Loans and advances to banks measured at amortised cost	416	383	3,937	3,882
Deposits with banks and central banks	239	213	101	86
Other interest and similar income	10,329	7,552	9,183	7,493
Financial assets held for trading	4,757	5,408	4,455	5,408
Negative interest (note 5.15.b)	3,980	3	3,981	5
Non-trading financial assets mandatorily at fair value through profit or loss	780	1,800	744	1,739
Other	812	341	3	341
Total	**477,829**	**355,188**	**179,185**	**175,104**
Interest and similar expenses				
Interest expenses calculated using the effective interest method	53,171	41,208	25,142	21,883
Due to customers	25,575	20,541	3,067	3,835
Borrowings from banks and central banks	1,797	880	1,647	774
Borrowings from other customers	1,205	941	-	-
Subordinated liabilities	10,548	10,040	10,548	10,040
Deposits from banks and central banks	865	78	6	27
Lease liabilities (note 5.11.a)	470	294	29	39
Other interest and similar expenses	15,298	14,407	14,904	14,334
Derivatives - hedge accounting	10,279	9,439	10,279	9,439
Negative interest	12,711	8,434	9,845	7,168
Financial liabilities held for trading	4,222	4,789	4,222	4,789
Interest expenses on defined employee benefits (note 2.30., 5.16.c)	202	100	48	30
Other	595	79	355	76
Total	**68,469**	**55,615**	**40,046**	**36,217**
Net interest income	**409,360**	**299,573**	**139,139**	**138,887**

The item 'Negative interest' classified under the line item 'Other interest and similar income' mainly includes the interest from targeted longer-term refinancing operations in the amount of EUR 3,979 thousand for NLB Group and NLB (note 5.15.b).

The item 'Negative interest' classified under the line item 'Other interest and similar expenses' includes the interest from deposits with banks and central banks in the amount of EUR 11,692 thousand for NLB Group (2020: EUR 7,178 thousand), and EUR 8,826 thousand for NLB (2020: EUR 5,912 thousand). It also includes interest from deposits with financial organisations in the amount of EUR 336 thousand for NLB Group and NLB (2020: EUR 411 thousand) and interest from securities with a negative yield due to the purchase with a premium in the amount of EUR 683 thousand for NLB Group and NLB (2020: EUR 845 thousand).

Other interest income in year 2021 for NLB Group in the amount of EUR 809 thousand relates to interests in relation to a refund of VAT from the Slovenian Tax Authority, while EUR 341 thousand in year 2020 for NLB Group and NLB relates to a refund of corporate income tax from the Italian Tax Authority (note 4.16.).

4.2. Dividend income

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Financial assets measured at fair value through other comprehensive income	184	83	-	-
- related to investments held at the end of reporting period	184	83	-	-
Investments in subsidiaries	-	-	79,136	5,561
Investments in associates and joint ventures	-	-	441	670
Non-trading financial assets mandatorily at fair value through profit or loss	39	28	39	28
Total	**223**	**111**	**79,616**	**6,259**

4.3. Fee and commission income and expenses

a) Fee and commission income and expenses relating to activities of NLB Group and NLB

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	93,644	63,940	38,389	35,634
Customer transaction accounts	90,212	66,311	57,147	49,566
Other fee and commission income				
Payments	77,248	50,325	22,751	21,109
Investment funds	27,095	19,286	8,694	5,931
Guarantees	13,918	11,781	7,831	7,282
Agency of insurance products	8,642	6,338	7,010	5,241
Other services	10,445	4,639	4,484	3,434
Total	**321,204**	**222,620**	**146,306**	**128,197**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	67,860	46,473	27,952	25,581
Other fee and commission expenses				
Payments	11,567	6,134	917	909
Insurance for holders of personal accounts and gold cards	3,650	1,034	1,015	760
Investment banking	3,468	2,272	664	524
Guarantees	1,026	778	957	712
Other services	4,535	2,528	808	817
Total	**92,106**	**59,219**	**32,313**	**29,303**
Net fee and commission income related to banking activities	**229,098**	**163,401**	**113,993**	**98,894**

b) Fee and commission income and expenses relating to fiduciary activities

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,942	1,583	1,655	1,435
Management of financial instruments portfolio	2,118	1,237	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	264	327	264	327
Custody and similar services	5,290	4,842	5,247	4,909
Management of clients' account of non-materialised securities	1,595	1,797	1,595	1,797
Safe-keeping of clients' financial instruments	26	-	-	-
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	150	26	150	26
Total	**11,385**	**9,812**	**8,911**	**8,494**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	3,188	2,876	3,191	2,874
Fee and commission related to stock exchange and similar organisations	119	57	119	57
Total	**3,307**	**2,933**	**3,310**	**2,931**
Net fee income related to fiduciary activities	**8,078**	**6,879**	**5,601**	**5,563**
Total fee and commission income	**332,589**	**232,432**	**155,217**	**136,691**
Total fee and commission expenses	**95,413**	**62,152**	**35,623**	**32,234**
Total a) and b)	**237,176**	**170,280**	**119,594**	**104,457**

4.4. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Debt instruments measured at fair value through other comprehensive income				
- gains	171	5,244	24	4,525
- losses	(4)	(178)	-	(178)
Debt instruments measured at amortised cost				
- gains	-	12,749	-	12,749
Financial liabilities measured at amortised cost				
- losses	-	(126)	-	(126)
Total	**167**	**17,689**	**24**	**16,970**

During 2020, NLB Group and NLB sold securities measured at amortised cost in the amount of EUR 120,131 thousand due to increased credit risk caused by COVID-19 (note 2.33.b).

4.5. Gains less losses from financial assets and liabilities held for trading

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Foreign exchange trading				
- gains	28,160	31,628	10,799	23,022
- losses	(7,114)	(21,139)	(5,795)	(18,623)
Debt instruments				
- gains	776	797	460	797
- losses	(616)	(392)	(571)	(392)
Derivatives				
- currency	(199)	(170)	(484)	867
- interest rate	749	(909)	749	(909)
- securities	(562)	(21)	(562)	(21)
Total	**21,194**	**9,794**	**4,596**	**4,741**

Interest income from financial assets held for trading is included in the income statement line item 'Interest and similar income' and interest expenses from financial liabilities held for trading in line item 'Interest and similar expenses' (note 4.1.).

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Equity securities				
- gains	2,208	4,003	1,157	3,043
- losses	(1,049)	(2,656)	(855)	(1,587)
Debt securities				
- gains	5	14	-	-
- losses	(63)	(49)	-	-
Loans and advances to customers				
- gains	15,737	5,286	13,190	5,359
Total	**16,838**	**6,598**	**13,492**	**6,815**

Material exposure that was restructured in 2014, and classified as non-performing, was repaid in April 2021. This resulted in positive valuation effect in the amount of EUR 14,837 thousand at NLB Group level and EUR 13,033 thousand at the NLB level.

Interest income from non-trading financial assets mandatorily at fair value through profit or loss is included in the income statement line item 'Interest and similar income' (note 4.1.).

4.7. Foreign exchange translation gains less losses

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Financial assets and liabilities not measured as at fair value through profit or loss	359	836	714	(1,011)
Financial assets measured at fair value through profit or loss	37	(131)	37	(131)
Other	(51)	34	(51)	34
Total	**345**	**739**	**700**	**(1,108)**

4.8. Other net operating income

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Other operating income				
Income from non-banking services	6,528	6,390	5,884	5,595
- cash transportation	3,241	2,994	3,250	2,994
- operating leases of movable property	1,074	1,003	471	470
- IT services	426	438	1,098	891
- other	1,787	1,955	1,065	1,240
Rental income from investment property	3,558	2,572	567	471
Revaluation of investment property to fair value (note 5.9.)	4,447	1,006	411	884
Sale of investment property	778	234	-	164
Other operating income	14,335	2,728	10,633	1,508
Total	**29,646**	**12,930**	**17,495**	**8,622**
Other operating expenses				
Expenses related to issued service guarantees	453	1,328	453	1,328
Revaluation of investment property to fair value (note 5.9.)	858	136	105	87
Other operating expenses	5,114	3,917	3,190	1,413
Total	**6,425**	**5,381**	**3,748**	**2,828**
Other net operating income	**23,221**	**7,549**	**13,747**	**5,794**

Other operating income in year 2021 includes settlement of legal dispute in the amount of EUR 8,978 thousand in the NLB Group and EUR 8,559 thousand in NLB.

Other operating expenses mainly include expenses associated with donations, penalties and damages, and licences.

4.9. Administrative expenses

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Employee costs				
Gross salaries, compensations, and other short-term benefits	205,821	145,878	94,433	90,063
Defined contribution scheme	15,065	10,297	6,891	6,689
Social security contributions	10,363	8,236	5,715	5,546
Defined benefit expenses (note 5.16.c)	73	545	(59)	304
Post-employment benefits	126	423	(27)	239
Other employee benefits	(53)	122	(32)	65
Total	**231,322**	**164,956**	**106,980**	**102,602**

Other general and administrative expenses				
Material	5,806	4,529	1,521	2,117
Services	40,193	28,136	17,896	18,484
Intellectual services	16,504	10,176	5,468	6,194
Costs of supervision	4,628	3,926	2,493	2,257
Costs of other services	19,061	14,034	9,935	10,033
Tax expenses	7,584	2,688	932	1,002
Membership fees and similar	823	852	307	337
Business travel	502	399	129	136
Marketing	11,407	8,131	5,641	5,086
Buildings and equipment	27,085	20,996	11,676	11,952
Electricity	5,960	4,045	2,357	2,277
Rents and leases	1,928	1,916	283	390
Maintainance costs	7,450	6,500	4,347	4,714
Costs of security	6,015	3,599	1,821	1,791
Insurance for tangible assets	851	930	166	167
Other costs related to buildings and equipment	4,881	4,006	2,702	2,613
Technology	30,599	21,979	15,107	14,655
Maintainance of software and hardware	12,949	10,184	6,053	7,164
Licences	9,895	7,961	6,332	5,054
Data assets and subscription costs	2,518	1,998	1,655	1,383
Other technology costs	5,237	1,836	1,067	1,054
Communications	11,377	8,259	4,770	5,509
Postal services	4,859	4,027	2,935	3,581
Telecommunication and internet	4,131	2,152	669	724
Other communication costs	2,387	2,080	1,166	1,204
Other general and administrative costs	2,153	1,301	1,120	733
Total	**137,529**	**97,270**	**59,099**	**60,011**
Total administrative expenses	**368,851**	**262,226**	**166,079**	**162,613**

Number of employees	8,185	8,792	2,510	2,591

Costs of other services include costs for cash transport and insurance, archiving services, personal insurance costs, legal costs and fees, and session fees to the members of the Supervisory Board.

In the presented years, NLB Group and NLB paid the following expenses related to the services of the statutory auditor:

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
External audit services				
Audit of annual report	679	542	232	211
Other audit services	161	55	119	55
Other non-audit services	34	42	34	42
Total	**874**	**639**	**385**	**308**

Additionally, to the services included in the table above, the statutory auditor in 2021 performed also some services related to the expected issuance of subordinated instrument in the amount of EUR 325 thousand (2020: EUR 75 thousand).

4.10. Cash contributions to resolution funds and deposit guarantee schemes

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Cash contributions to deposit guarantee schemes	33,148	15,022	7,543	5,451
Cash contributions to resolution funds	1,992	1,652	1,992	1,652
Total	**35,140**	**16,674**	**9,535**	**7,103**

4.11. Depreciation and amortisation

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Amortisation of intangible assets (note 5.10.)	16,211	10,112	6,022	6,908
Depreciation of property and equipment:				
- own property and equipment (note 5.8.b)	21,607	17,062	10,610	10,092
- right-of-use assets (note 5.11.a)	8,710	4,541	890	848
Total	**46,528**	**31,715**	**17,522**	**17,848**

4.12. Gains less losses from modification of financial assets

in EUR thousands

NLB Group	2021 12-month expected credit losses	2021 Lifetime ECL not credit - impaired	2021 Lifetime ECL credit-impaired	2021 Total	2020 12-month expected credit losses	2020 Lifetime ECL not credit - impaired	2020 Lifetime ECL credit-impaired	2020 Total
Financial assets modified during the period								
Amortised cost before modification	15,569	5,259	4,435	25,263	416,341	27,798	8,756	452,895
Net modification gains/(losses)	(48)	(12)	(203)	(263)	(3,094)	(357)	(126)	(3,577)

in EUR thousands

NLB Group	31 Dec 2021	31 Dec 2020
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which loss allowance has changed to 12-month measurement during the period	162	1,690

4.13. Provisions

in EUR thousands

	NLB Group 2021	NLB Group 2020	NLB 2021	NLB 2020
Guarantees and commitments (note 5.16.b)	(8,504)	482	(8,028)	(599)
Restructuring provisions (note 5.16.d)	14,797	3,500	-	3,500
Provisions for legal risks (note 5.16.e)	7,873	4,696	72	4,230
Other provisions (note 5.16.f)	-	(119)	-	(85)
Total	**14,166**	**8,559**	**(7,956)**	**7,046**

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4.14. Impairment charge

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	117	344	89	124
Loans and advances to banks measured at amortised cost (note 5.14.a)	57	47	27	14
Loans and advances to individuals measured at amortised cost (note 5.14.a)	13,414	29,007	6,830	13,219
Loans and advances to other customers measured at amortised cost (note 5.14.a)	(44,639)	25,972	(24,840)	(4,611)
Debt securities measured at fair value through other comprehensive income (note 5.14.b)	2,854	3,888	(148)	635
Debt securities measured at amortised cost (note 5.14.b)	(383)	547	(17)	224
Other financial assets measured at amortised cost (note 5.14.a)	1,249	1,994	(8)	28
Total impairment of financial assets	**(27,331)**	**61,799**	**(18,067)**	**9,633**
Impairment of investments in subsidiaries, associates and joint ventures				
Investments in subsidiaries	-	-	(7,522)	552
Investments in associates and joint ventures	-	-	79	30
Total	**-**	**-**	**(7,443)**	**582**
Impairment of other assets				
Property and equipment (note 5.8.)	216	204	-	-
Intangible assets (note 5.10.)	936	-	-	-
Other assets	3,255	792	(104)	103
Total	**4,407**	**996**	**(104)**	**103**
Total impairment of non-financial assets	**4,407**	**996**	**(7,547)**	**685**
Total impairment	**(22,924)**	**62,795**	**(25,614)**	**10,318**

In 2021, NLB impaired equity investments in non-core subsidiaries and an associate in total amount of EUR 458 thousand (2020: EUR 582 thousand). The release of impairments in amount of EUR 7,901 thousand relates to sale of non-core subsidiary (note 3.). In 2020, NLB did not release any impairments of equity investments.

Impairments of investments in subsidiaries and associates are included in the segment 'Non-core members.'

In 2020, impairment of financial assets includes EUR 13,447 thousand of 12-month expected credit losses for Stage 1 financial assets, acquired through a business combination (note 5.12.c). Of that, EUR 10,434 thousand relates to financial assets measured at amortised cost, EUR 2,932 thousand to financial assets measured at fair value through other comprehensive income, and EUR 81 thousand to cash balances at central banks and other demand deposits at banks.

4.15. Gains less losses from non-current assets held for sale

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Gains less losses on derecognition of subsidiaries, associates and joint ventures	-	11,006	-	35,454
Gains less losses from property and equipment	248	(153)	(94)	(220)
Total	**248**	**10,853**	**(94)**	**35,234**

In May 2020, all the suspensive conditions under the joint NLB and KBC Insurance NV sale agreement signed in December 2019 were met, therefore, the sale of NLB's 50% stake in the share capital of NLB Vita was completed. The effect of sale is included in the segment 'Retail Banking in Slovenia.'

4.16. Income tax

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Current income tax	16,961	11,972	3,159	4,010
Income tax related to previous period	-	(3,569)	-	(3,569)
Deferred income tax (note 5.17.)	(3,423)	(3,238)	(112)	(540)
Total	**13,538**	**5,165**	**3,047**	**(99)**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Profit before tax	261,406	277,921	211,468	113,853
Tax calculated at prescribed rate of 19%	49,667	52,805	40,179	21,632
Income not assessable for tax purposes	(12,685)	(26,300)	(14,900)	(4,359)
Expenses not deductible for tax purposes	6,510	3,838	1,160	1,662
Effect of unrecognised deferred tax assets on impairments of subsidiaries and associates	(32,036)	(9,016)	(36,446)	(8,652)
Tax reliefs	(463)	(1,902)	-	(1,649)
Effect of unrecognised deferred tax assets on tax losses	10,675	(4,351)	9,886	(4,985)
Effects of different tax rates in other countries	(11,345)	(6,273)	-	-
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	3,156	114	3,156	114
Adjustment to tax in respect of prior periods	50	(3,457)	3	(3,569)
Other	9	(293)	9	(293)
Total	**13,538**	**5,165**	**3,047**	**(99)**

Each member of NLB Group (disclosed in note 5.12.a) is taxable as required by local tax legislation. Income tax rates within NLB Group range from 9–32%.

A tax rate of 19% was applied in Slovenia in 2021 (2020: 19%).

For the year 2021, NLB realised tax loss due to the utilisation of previously tax non-deductible expenses for impairments in the subsidiary, which was divested in 2021. The effects of the sale of the subsidiary are included into the effect of unrecognised deferred tax assets on impairments of subsidiaries and associates, and the effects of new tax loss are included into effect of unrecognised deferred tax assets on tax losses.

Non-taxable income of NLB relates mostly to dividends. Non-taxable dividend income in 2021 amounts to EUR 75,635 thousand (2020: EUR 5,947 thousand).

Non-taxable income of NLB Group for 2020 mostly relates to the gain from a bargain purchase (negative goodwill) of Komercijalna banka Beograd.

In 2020, NLB received EUR 3,569 thousand corporate income tax refund and EUR 341 thousand interest from the Italian Tax Authority. The refund is related to the closing of Trieste Branch (officially closed in 2017) and is the consequence of tax non-deductible impairments of financial assets, recognised by the Trieste Branch in the year 2013. The refund procedure started in 2016 and was successfully concluded in 2020.

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e., within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), a lower range of expected outcomes was considered for the purposes of deferred tax assets calculation. The estimated amount of deferred tax assets, expected to be reversed in foreseeable future, was not changed in 2021 and stays the same as in 2020.

NLB did not recognise deferred tax assets arising from tax losses and tax reliefs. NLB recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments and valuation of financial instruments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets reaches the total amount of deferred tax assets, for which a reversal is expected within five years. The deferred tax assets with respect to which simultaneously deferred tax liabilities are recognised are excluded from this calculation (e.g., deferred tax assets for temporary non-deductible expenses for impairment of debt securities measured at fair value through other comprehensive income and deferred tax assets related to fair value hedge accounting).

NLB Group members did not recognise deferred tax assets for tax losses if there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised.

The tax authorities may audit operations of NLB Group entities. In general, tax inspection, which may result in the emergence of additional tax liability, default interest, and penalties, may be initiated at any time within four to six years from the date of tax statement or from the year in which tax should have been assessed. NLB is not aware of any circumstances that could give rise to a potential material tax liability in this respect.

In 2018, the Financial Administration of the Republic of Slovenia (FURS) granted NLB special tax status for a period of three years. This status was extended in March 2021 for another three years. The purpose of the status is to establish cooperation between FURS and the taxpayers, with the aim of encouraging voluntary compliance and reduce administrative burdens on financial supervision. FURS cooperates with NLB and responds quickly to resolve NLB's tax compliance issues, which reduces NLB's tax risks and uncertain tax positions.

The effective tax rate of NLB Group relating to operations in 2021, calculated as a ratio of the tax expenses and profit before tax is 5.2% (2020: 1.9%). NLB Group profit before tax for the year 2020 includes non-taxable gain from a bargain purchase (negative goodwill) of EUR 137,858 thousand. Without this one-off event, the effective tax rate of NLB Group in 2020 would be 3.7%. The effective tax rate for NLB is 1.4% (2020: -0.1%).

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4.17. Earnings per share

Earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue, less treasury shares.

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2021	2020	2021	2020
Net profit attributable to the owners of the parent (in EUR thousands)	236,404	269,707	208,421	113,952
Weighted average number of ordinary shares (in thousands)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	11.8	13.5	10.4	5.7
Diluted earnings per share (in EUR per share)	11.8	13.5	10.4	5.7

5. Notes to the statement of financial position

5.1. Cash, cash balances at central banks, and other demand deposits at banks

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Balances and obligatory reserves with central banks	4,133,104	3,149,775	2,982,576	1,998,297
Cash	509,596	507,970	178,045	192,405
Demand deposits at banks	363,246	304,941	90,163	71,089
	5,005,946	**3,962,686**	**3,250,784**	**2,261,791**
Allowance for impairment	(894)	(874)	(347)	(258)
Total	**5,005,052**	**3,961,812**	**3,250,437**	**2,261,533**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

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5.2. Financial instruments held for trading

a) Financial assets held for trading

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Derivatives. excluding hedging instruments				
Swap contracts	6,665	13,597	6,675	13,932
- currency swaps	438	400	448	735
- interest rate swaps	6,227	13,197	6,227	13,197
Options	54	786	54	786
- interest rate options	53	-	53	-
- securities options	1	786	1	786
Forward contracts	959	1,666	953	1,663
- currency forward	959	1,666	953	1,663
Total derivatives	**7,678**	**16,049**	**7,682**	**16,381**
Securities				
Bonds	-	68,806	-	2,450
- Republic of Serbia	-	66,356	-	-
- other non-EU members	-	2,450	-	2,450
Total securities	**-**	**68,806**	**-**	**2,450**
Total	**7,678**	**84,855**	**7,682**	**18,831**
- quoted securities	-	68,806	-	2,450
of these debt instruments	-	68,806	-	2,450

The notional amounts of derivative financial instruments are disclosed in note 5.23.b).

b) Financial liabilities held for trading

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Derivatives. excluding hedging instruments				
Swap contracts	6,609	13,932	6,626	13,947
- currency swaps	716	777	733	792
- interest rate swaps	5,893	13,155	5,893	13,155
Options	53	-	53	-
- interest rate options	53	-	53	-
Forward contracts	923	1,553	923	1,553
- currency forward	923	1,553	923	1,553
Total	**7,585**	**15,485**	**7,602**	**15,500**

The notional amounts of derivative financial instruments are disclosed in note 5.23.b).

5.3. Non-trading financial instruments measured at fair value through profit or loss

a) Financial assets mandatorily at fair value through profit or loss

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Assets				
Shares	4,472	4,171	4,472	4,171
Investment funds	12,428	10,989	-	-
Bonds	4,261	2,157	-	-
Loans and advances to companies	-	25,076	7,888	30,935
Total	**21,161**	**42,393**	**12,360**	**35,106**
- quoted securities	4,261	2,157	-	-
of these debt instruments	4,261	2,157	-	-
- unquoted securities	16,900	15,160	4,472	4,171
of these equity instruments	16,900	15,160	4,472	4,171

b) Financial liabilities measured at fair value through profit or loss

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Liabilities				
Loans and advances to companies	-	-	352	-

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5.4. Financial assets measured at fair value through other comprehensive income

a) Analysis by type of financial assets measured at fair value through other comprehensive income

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Bonds	3,251,826	3,260,940	1,526,237	1,598,760
- governments	2,477,285	2,527,240	766,688	879,856
- Republic of Slovenia	314,929	417,238	270,423	334,819
- other EU members	462,459	384,474	331,676	370,484
- Republic of Serbia	1,196,724	1,258,775	5,021	-
- other non-EU members	503,173	466,753	159,568	174,553
- banks	739,935	716,459	724,943	701,663
- other issuers	34,606	17,241	34,606	17,241
Shares	22,109	22,925	219	273
National Resolution Fund	44,490	44,874	44,490	44,874
Treasury bills	105,866	135,102	14,805	72,444
- Republic of Slovenia	6,475	57,531	-	45,007
- other EU members	69,836	24,015	14,805	7,011
- Republic of Serbia	-	8,483	-	-
- other non-EU members	29,555	45,073	-	20,426
Commercial bills	37,569	50,449	-	-
Total	**3,461,860**	**3,514,290**	**1,585,751**	**1,716,351**
of these debt securities	3,395,261	3,446,491	1,541,042	1,671,204
of these equity securities	66,599	67,799	44,709	45,147
Allowance for impairment (note 5.14.b)	(12,016)	(9,482)	(3,001)	(3,141)
- quoted securities	3,205,277	3,307,103	1,541,042	1,671,204
of these debt instruments	3,204,745	3,306,400	1,541,042	1,671,204
of these equity instruments	532	703	-	-
- unquoted securities	256,583	207,187	44,709	45,147
of these debt instruments	190,516	140,091	-	-
of these equity instruments	66,067	67,096	44,709	45,147

The credit quality analysis for financial assets and contingent liabilities is disclosed in note 6.1.j) and movements in allowance for the impairment of debt securities in note 5.14.b).

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b) Movements of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	2021		2020		2021		2020	
	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities
Balance as at 1 January	3,446,491	67,799	2,091,805	49,623	1,671,204	45,147	1,611,711	44,946
Effects of translation of foreign operations to presentation currency	1,194	31	(406)	94	-	-	-	-
Acquisition of subsidiaries (note 5.12.c)	-	-	1,267,281	17,614	-	-	-	-
Additions	1,455,823	-	1,856,445	-	219,733	-	1,045,700	-
Derecognition	(1,468,240)	(4,297)	(1,790,053)	(3,341)	(338,929)	(55)	(999,844)	-
Net interest income	40,310	-	17,370	-	11,696	-	9,894	-
Exchange differences on monetary assets	8,367	-	(10,895)	-	8,452	-	(11,007)	-
Changes in fair values	(52,085)	3,066	14,944	3,809	(31,114)	(383)	14,750	201
Disposal of subsidiary (note 5.12.b)	(36,599)	-	-	-	-	-	-	-
Balance as at 31 December	**3,395,261**	**66,599**	**3,446,491**	**67,799**	**1,541,042**	**44,709**	**1,671,204**	**45,147**

As at 31 December 2021 and as at 31 December 2020, NLB Group and NLB do not have any equity instruments measured at fair value through other comprehensive income obtained by taking possession of collateral in the statement of financial position (note 6.1.l).

By selling equity securities measured at fair value through other comprehensive income in 2021, NLB Group realised a net gain in the amount of EUR 3,362 thousand, and NLB a net gain in the amount of EUR 53 thousand (2020: NLB Group and NLB did not realise any gain or loss by selling equity securities measured at fair value through other comprehensive income). Realised gain in year 2021 was transferred to retained earnings (note 5.4.c).

Equity investment obtained by taking possession of collateral in amount of EUR 3,289 thousand was during year 2020 converted back to the line item 'Financial assets measured at amortised cost' because the conditions of the bankruptcy proceedings were not met. At the time of conversion, NLB Group transferred EUR 1,002 thousand from accumulated other comprehensive income into retained earnings (note 5.4.c).

c) Accumulated other comprehensive income related to financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	2021		2020		2021		2020	
	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities
Balance as at 1 January	39,924	3,726	45,480	2,836	27,242	452	24,156	288
Effects of translation of foreign operations to presentation currency	(7)	6	16	32	-	-	-	-
Disposal of subisidiaries (note 5.12.b)								
- valuation and impairment	(1,916)	-	-	-	-	-	-	-
- deferred income tax (note 5.17.)	193	-	-	-	-	-	-	-
Net gains/(losses) from changes in fair value	(38,158)	3,066	7,717	3,809	(17,187)	(383)	7,522	202
Gains/losses transferred to net profit on disposal (note 4.4.)	(167)	-	(5,066)	-	(24)	-	(4,347)	-
Impairment (note 4.14.)	2,854	-	3,888	-	(148)	-	635	-
Transfer of gains/losses to retained earnings (5.4.b)	-	(3,362)	-	(1,002)	-	(53)	-	-
Deferred income tax (note 5.17.)	4,758	(179)	(1,085)	(401)	2,482	83	(724)	(38)
Share of other comprehensive income of associates and joint ventures	-	-	(11,026)	(1,548)	-	-	-	-
Balance as at 31 December	**7,481**	**3,257**	**39,924**	**3,726**	**12,365**	**99**	**27,242**	**452**

5.5. Derivatives for hedging purposes

NLB Group entities measure exposure to interest rate risk using repricing gap analysis and by calculating the sensitivity of the statement of financial position and off-balance-sheet items in terms of the economic value of equity. The portfolio duration is used as a measure of risk in the management of securities in the banking book.

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e., the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also occasionally used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges are made on liability items, while fair value hedges are used on asset items.

Hedge accounting principles (fair value and cash flow hedging) were applied in the hedging of interest rate risk using interest rate swaps. These hedge relationships are designated in such a way that the characteristics of the hedging instrument and those of the hedged item match (i.e., the principal terms match), while the dollar-offset method is used to regularly measure hedge effectiveness retrospectively. Prospective testing of hedge effectiveness is carried out regularly for macro hedges where the characteristics of both items in the hedge relationship do not fully match by comparing the change in the fair value of both items to the shift in the yield curve.

Hedge accounting principles were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the line item 'Gains less losses from financial assets and liabilities held for trading.'

Sources of hedge ineffectiveness may arise, but are not limited to the discount rates used for valuation of derivatives at fair value, and notional and timing differences, as well differences in the amortisation plan between hedged items and the hedging instrument. Hedge effectiveness is assessed monthly, by comparing changes in the fair value of the hedged item that are attributable to a hedged risk with changes in the fair value of the hedging instrument.

a) Fair value adjustment in hedge accounting recognised in profit or loss

		in EUR thousands
NLB Group and NLB	**2021**	**2020**
Fair value hedge	**167**	**720**
Net effects from hedging instruments	26,406	(12,348)
- interest rate swap for micro hedge	19,547	(7,537)
- interest rate swap for macro hedge	6,859	(4,811)
Net effects from hedged items	(26,239)	13,068
- loans measured at amortised cost - micro hedge	(105)	(128)
- bonds measured at amortised cost - micro hedge	(5,443)	1,116
- bonds measured at fair value through OCI - micro hedge	(13,929)	7,227
- loans measured at amortised cost- macro hedge	(6,762)	4,853

In both years presented, all fair value hedges were effective, with actual results of the hedge ratio within a range of 80–125%, therefore, no discontinuation of the hedge accounting was required.

As at 31 December 2021 and 2020, NLB Group and NLB had no relationships designated for cash flow hedge accounting or for hedge of a net investment in a foreign operation.

NLB Group applied a hedge of a net investment in a foreign operation in years 2011 and 2012, and at that time recognised a EUR 754 thousand gain on the hedging instrument in other comprehensive income (note 5.21.b). This gain will be included in the consolidated income statement when the foreign operation is disposed of as a part of the gain or loss on the disposal.

b) Notional amounts of interest rate swaps

			in EUR thousands
NLB Group and NLB	**Notional amount**	**Fair value**	
		Asset	**Liability**
Fair value hedge			
31 Dec 2021	572,455	568	35,377
31 Dec 2020	573,753	-	61,161

c) Accumulated fair value adjustments arising from the corresponding continuing hedge relationships

The table below presents accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether there has been a change in the hedge designation during the year. The accumulated fair value adjustment is presented in the same line of statement of financial position as a hedged item, except for macro fair value hedges. In such relationships, hedged items are presented in the line item 'Financial assets measured at amortised cost,' while the accumulated fair value adjustment is presented in a separate line item 'Fair value changes of the hedged items in portfolio hedge of interest rate risk.'

				in EUR thousands
	2021		**2020**	
NLB Group and NLB	**Carrying amount of hedged items**	**Accumulated amount of FV adjustments on the hedged item**	**Carrying amount of hedged items**	**Accumulated amount of FV adjustments on the hedged item**
Micro fair value hedges	**479,574**	**23,783**	**498,397**	**43,571**
Fixed rate corporate loans measured at AC	1,662	60	2,667	165
Fixed rate bonds measured at AC	117,368	8,426	117,839	14,182
Fixed rate bonds measured at FVOCI	360,544	15,297	377,891	29,224
Macro fair value hedges	**145,638**	**7,082**	**154,050**	**13,844**
Fixed rate retail loans	145,638	7,082	154,050	13,844

d) IBOR reform

NLB Group closely monitors the development of Benchmark Interest Rate Reform and is actively preparing for the changes imposed by the regulation. In 2018, NLB formed a special working group which deals with the preparation for the discontinuation of some important reference interest rates and reports on this to NLB Group ALCO.

NLB Group no longer offers new products that would be tied to reference rates in termination. The exception are products related to EURIBOR, which is not scheduled for discontinuation. Therefore, NLB Group's attention was focused on the modification of new contractual relationships with customers in which EURIBOR occurs and the amendment of existing contractual relationships with customers in which other benchmarks in termination appear.

EURIBOR (likely) discontinuation

Due to timely transition to the new hybrid EURIBOR methodology which meet the BMR requirements, EURIBOR can continue to be used in new and legacy contracts for the foreseeable future.

EU supervised entities are bound to include robust fallback clauses into contractual documentation with the clients. In November 2019, the Euro risk-free rates (RFR) Working Group published high level recommendations for fallback provisions for products referencing EURIBOR. The inclusion of robust fallback language is a requirement in contracts subject to the EU Benchmark Regulation. The Bank already incorporated the generic fallback clause into all new EURIBOR (both retail and corporate) contracts.

In May 2021, the Euro RFR Working Group produced its recommendations on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates. Our mid-term activities are expected to undertake on the implementation of more precise fallback provisioning, based on these recommendations. NLB identified potential €STR-based fallbacks for EURIBOR, in line with the current market consensus on those fallbacks and intends to proceed with the activities for inclusion on EURIBOR fallbacks into all new EURIBOR-based contracts. In the next step, the Bank is expected to include fallback provisions also in legacy contracts. The exact timing depends on regulatory development and best market practice.

NLB as a supervised entity, is required to comply with the Benchmark regulation and, as a user of benchmarks, must produce and maintain a robust written plan setting out the actions NLB would take in the event that a benchmark materially changes or ceases to be provided. NLB has prepared a plan, which sets out an inexhaustive/summary action list, and will continue to closely follow market standards to identify alternative benchmarks that could be referenced in substitute of existing benchmarks.

LIBOR (imminent) discontinuation.

Since many LIBOR settings ceased to exist at the beginning of 2022, the Bank accelerated the process of winding-down the exposures in a most efficient way. Incremental LIBOR transactions were not allowed unconditionally.

NLB Group activities for implementation of LIBOR transition were as follows:

- review of outstanding LIBOR referencing loans,
- identification of alternative reference rate to be used for loan portfolio,
- analysis of how the alternative reference rate will be calculated and how to calculate any economic difference between LIBORs and the selected alternative reference rates,
- consideration of IT system accommodation with alternative reference rates,
- documentation of the transition of the loans.

In February 2021; the European Commission adopted an amendment to the existing EU BMR and in October 2021; the European Commission published the Implementing Regulation on the designation of a statutory replacement for certain settings of CHF LIBOR and for EONIA.

CHF LIBOR transition to SARON Compound Rate was successfully implemented in due time.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by the IBOR reform, analysed on an interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure NLB Group manages through hedging relationships.

NLB Group and NLB	2021		2020	
	Nominal amount (in EUR thousands)	Weighted average maturity (years)	Nominal amount (in EUR thousands)	Weighted average maturity (years)
Interest rate swaps				
EURIBOR (3 months)	186,472	4.23	186,471	5.18
EURIBOR (6 months)	371,866	7.00	374,254	7.83
USD LIBOR (6 months)	14,117	0.98	13,028	1.99

As can be seen from the table, the majority of long-term derivatives in hedging relationships are exposed to EURIBOR, therefore, the uncertainty arising from interest rate benchmark reform derives mainly from derivatives with longer maturities, when a change of EURIBOR could be expected. As at 31 December 2021, derivatives with remaining maturity of five or more years amount to EUR 272,730 thousand (31 December 2020: EUR 310,730 thousand).

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5.6. Financial assets measured at amortised cost

Analysis by type

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Debt securities	1,717,626	1,503,087	1,436,424	1,277,880
Loans and advances to banks	140,683	197,005	199,287	158,320
Loans and advances to customers	10,587,121	9,619,860	5,145,153	4,564,178
Other financial assets	122,229	113,138	92,404	54,503
Total	**12,567,659**	**11,433,090**	**6,873,268**	**6,054,881**

The credit quality analysis for financial assets and contingent liabilities is disclosed in note 6.1.j).

a) Debt securities

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Governments	1,317,248	1,173,718	1,041,787	953,881
Companies	79,852	86,946	72,632	79,732
Banks	295,653	220,988	295,653	220,988
Financial organisations	28,178	25,120	28,178	25,120
	1,720,931	**1,506,772**	**1,438,250**	**1,279,721**
Allowance for impairment (note 5.14.b)	(3,305)	(3,685)	(1,826)	(1,841)
Total	**1,717,626**	**1,503,087**	**1,436,424**	**1,277,880**

b) Loans and advances to banks

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Loans	10,200	9,809	117,490	95,070
Time deposits	130,602	128,074	81,900	63,405
Reverse sale and repurchase agreements	-	59,263	-	-
Purchased receivables	79	-	79	-
	140,881	**197,146**	**199,469**	**158,475**
Allowance for impairment (note 5.14.a)	(198)	(141)	(182)	(155)
Total	**140,683**	**197,005**	**199,287**	**158,320**

c) Loans and advances to customers

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Loans	10,310,300	9,490,734	5,006,871	4,501,991
Overdrafts	352,018	322,622	174,063	152,487
Finance lease receivables (note 5.11.b)	108,715	49,517	-	-
Credit card business	129,330	125,725	59,305	52,156
Called guarantees	2,731	3,542	1,333	916
	10,903,094	**9,992,140**	**5,241,572**	**4,707,550**
Allowance for impairment (note 5.14.a)	(315,973)	(372,280)	(96,419)	(143,372)
Total	**10,587,121**	**9,619,860**	**5,145,153**	**4,564,178**

Analysis of loans and advances to customers by sector

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Governments	281,010	368,400	143,864	170,742
Financial organisations	141,709	158,871	226,144	177,198
Companies	4,645,112	4,159,496	2,118,210	1,838,468
Individuals	5,519,290	4,933,093	2,656,935	2,377,770
Total	**10,587,121**	**9,619,860**	**5,145,153**	**4,564,178**

d) Other financial assets

Analysis by type of other financial assets

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Receivables in the course of settlement and other temporary accounts	40,436	32,484	23,945	15,906
Credit card receivables	22,670	20,260	15,270	11,383
Debtors	8,227	6,316	1,311	1,307
Fees and commissions	7,303	6,563	3,041	2,871
Receivables to brokerage firms and others for the sale of securities and custody services	613	611	610	610
Accrued income	1,715	1,327	1,690	1,296
Dividends	-	-	20,493	-
Prepayments	1,526	447	-	-
Other financial assets	45,965	50,683	27,197	22,460
	128,455	**118,691**	**93,557**	**55,833**
Allowance for impairment (note 5.14.a)	(6,226)	(5,553)	(1,153)	(1,330)
Total	**122,229**	**113,138**	**92,404**	**54,503**

Receivables in the course of settlement are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for early retirement payments, receivables from insurance companies, claims in enforcement procedures, claims from refunds, claims for subsidies from related transactions, paid duties, and court fees.

Analysis of other financial assets by sector

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Banks	33,325	35,431	34,131	8,069
Government	43,432	41,576	23,769	22,537
Financial organisations	15,979	14,488	12,818	7,257
Companies	5,994	3,912	647	580
Individuals	23,499	17,731	21,039	16,060
Total	**122,229**	**113,138**	**92,404**	**54,503**

e) Movement of called non-financial guarantees

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	1,838	1,859	440	365
Effects of translation of foreign operations to presentation currency	(1)	(2)	-	-
Called guarantees	1,541	2,376	1,207	2,261
Paid guarantees	(1,904)	(1,932)	(470)	(1,723)
Write-offs	(757)	(463)	(757)	(463)
Balance as at 31 December	**717**	**1,838**	**420**	**440**

5.7. Non-current assets held for sale

The line item 'Non-current assets held for sale' includes business premises and assets received as collateral that are in the process of being sold. As at 31 December 2021, the value of assets received by taking possession of collateral and included in non-current assets held for sale by NLB Group amounted to EUR 699 thousand (31 December 2020: EUR 699 thousand). As at 31 December 2021 and as at 31 December 2020, NLB did not have any non-current assets obtained by taking possession of collateral and included in non-current assets held for sale (note 6.1.l).

Analysis of movements of non-current assets held for sale

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	8,658	43,191	4,454	5,532
Effects of translation of foreign operations to presentation currency	3	(3)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	1,969	-	-
Additions	97	89	-	-
Transfer from/(to) property and equipment (note 5.8.)	605	2,779	518	2,626
Transfer from/(to) other assets	20	-	-	-
Transfer from/(to) investment property (note 5.9.)	(22)	(17)	-	-
Disposals	(1,952)	(39,089)	(547)	(3,484)
Valuation	(358)	(261)	(336)	(220)
Balance as at 31 December	**7,051**	**8,658**	**4,089**	**4,454**

In May 2020, all the suspensive conditions under the joint NLB and KBC Insurance NV sale agreement signed in December 2019 were met, therefore, the sale of NLB's 50% stake in the share capital of NLB Vita was completed. The effect of sale in year 2020 is included in the segment 'Retail Banking in Slovenia.'

5.8. Property and equipment

a) Analysis by type

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Own property and equipment	223,593	223,598	82,905	88,495
Right-of-use assets (note 5.11.)	23,421	25,519	3,217	3,180
Total	**247,014**	**249,117**	**86,122**	**91,675**

b) Movement of own property and equipment

in EUR thousands

	NLB Group					NLB				
	Land & Buildings	Computers	Other equipment		Total	Land & Buildings	Computers	Other equipment		Total
			for own use	in operating lease				for own use	in operating lease	
Cost										
Balance as at 1 January 2021	345,769	81,729	98,838	4,309	530,645	197,043	49,580	49,355	3,514	299,492
Effects of translation of foreign operations to presentation currency	62	17	30	-	109	-	-	-	-	-
Additions	3,987	7,296	4,871	1,948	18,102	3,321	1,513	1,510	9	6,353
Disposals	(1,385)	(8,710)	(8,393)	(648)	(19,136)	-	(7,194)	(4,722)	(4)	(11,920)
Impairment (note 4.14.)	(126)	-	-	-	(126)	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	4,377	-	-	-	4,377	(2,423)	-	-	-	(2,423)
Transfer to/from non-current assets held for sale (note 5.7.)	(5,707)	-	-	-	(5,707)	(2,089)	-	-	-	(2,089)
Disposal of subsidiary (note 5.12.b)	(119)	(201)	(617)	-	(937)	-	-	-	-	-
Balance as at 31 December 2021	**346,858**	**80,131**	**94,729**	**5,609**	**527,327**	**195,852**	**43,899**	**46,143**	**3,519**	**289,413**
Depreciation and impairment										
Balance as at 1 January 2021	173,404	53,822	76,897	2,924	307,047	135,343	32,905	39,944	2,805	210,997
Effects of translation of foreign operations to presentation currency	7	10	26	-	43	-	-	-	-	-
Disposals	(684)	(8,634)	(7,577)	(152)	(17,047)	-	(7,194)	(4,248)	(3)	(11,445)
Depreciation (note 4.11.)	7,124	8,733	5,196	554	21,607	3,825	4,376	2,086	323	10,610
Impairment (note 4.14.)	90	-	-	-	90	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(2,676)	-	-	-	(2,676)	(2,083)	-	-	-	(2,083)
Transfer to/from non-current assets held for sale (note 5.7.)	(5,102)	-	-	-	(5,102)	(1,571)	-	-	-	(1,571)
Disposal of subsidiary (note 5.12.b)	(3)	(98)	(127)	-	(228)	-	-	-	-	-
Balance as at 31 December 2021	**172,160**	**53,833**	**74,415**	**3,326**	**303,734**	**135,514**	**30,087**	**37,782**	**3,125**	**206,508**
Net carrying value										
Balance as at 31 December 2021	**174,698**	**26,298**	**20,314**	**2,283**	**223,593**	**60,338**	**13,812**	**8,361**	**394**	**82,905**
Balance as at 1 January 2021	**172,365**	**27,907**	**21,941**	**1,385**	**223,598**	**61,700**	**16,675**	**9,411**	**709**	**88,495**

in EUR thousands

	NLB Group					NLB				
	Land & Buildings	Computers	Other equipment		Total	Land & Buildings	Computers	Other equipment		Total
			for own use	in operating lease				for own use	in operating lease	
Cost										
Balance as at 1 January 2020	313,168	70,744	95,673	6,186	485,771	198,313	44,635	51,628	5,441	300,017
Effects of translation of foreign operations to presentation currency	(101)	(20)	(40)	-	(161)	-	-	-	-	-
Acquisition of subsidiaries (note 5.12.c)	40,173	1,773	3,249	-	45,195					
Additions	5,888	10,254	6,945	1,255	24,342	5,299	5,378	3,356	104	14,137
Disposals	(5,843)	(961)	(6,955)	(3,132)	(16,891)	(13)	(433)	(5,629)	(2,031)	(8,106)
Impairment (note 4.14.)	(43)	-	-	-	(43)	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(756)	-	-	-	(756)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(6,717)	-	-	-	(6,717)	(6,556)	-	-	-	(6,556)
Disposal of subsidiary (note 3.)	-	(61)	(34)	-	(95)	-	-	-	-	-
Balance as at 31 December 2020	**345,769**	**81,729**	**98,838**	**4,309**	**530,645**	**197,043**	**49,580**	**49,355**	**3,514**	**299,492**
Depreciation and impairment										
Balance as at 1 January 2020	173,763	48,808	79,515	4,625	306,711	135,328	29,440	43,762	4,367	212,897
Effects of translation of foreign operations to presentation currency	(25)	(17)	(40)	-	(82)	-	-	-	-	-
Disposals	(2,427)	(948)	(6,651)	(2,349)	(12,375)	-	(431)	(5,600)	(2,031)	(8,062)
Depreciation (note 4.11.)	6,271	6,040	4,103	648	17,062	3,945	3,896	1,782	469	10,092
Impairment (note 4.14.)	161	-	-	-	161	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(401)	-	-	-	(401)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(3,938)	-	-	-	(3,938)	(3,930)	-	-	-	(3,930)
Disposal of subsidiary (note 3.)	-	(61)	(30)	-	(91)	-	-	-	-	-
Balance as at 31 December 2020	**173,404**	**53,822**	**76,897**	**2,924**	**307,047**	**135,343**	**32,905**	**39,944**	**2,805**	**210,997**
Net carrying value										
Balance as at 31 December 2020	**172,365**	**27,907**	**21,941**	**1,385**	**223,598**	**61,700**	**16,675**	**9,411**	**709**	**88,495**
Balance as at 1 January 2020	**139,405**	**21,936**	**16,158**	**1,561**	**179,060**	**62,985**	**15,195**	**7,866**	**1,074**	**87,120**

As at 31 December 2021, the value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 13,559 thousand (31 December 2020: EUR 13,268 thousand), and in NLB to EUR 7 thousand (31 December 2020: EUR 7 thousand) (note 6.1.l).

5.9. Investment property

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	54,842	52,316	8,300	9,303
Effects of translation of foreign operations to presentation currency	19	(24)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	19,643	-	-
Additions	-	717	-	-
Disposals	(4,075)	(2,493)	-	(2,031)
Transfer from/(to) property and equipment (note 5.8.)	(7,053)	355	340	-
Transfer from/(to) non-current assets held for sale (note 5.7.)	22	17	-	-
Transfer from/(to) other assets	1,397	(16,559)	137	231
Net valuation to fair value (note 4.8.)	3,589	870	306	797
Disposals of subisidiaries (note 5.12.b)	(1,215)	-	-	-
Other	98	-	98	-
Balance as at 31 December	**47,624**	**54,842**	**9,181**	**8,300**

As at 31 December 2021, the value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 36,009 thousand (31 December 2020: EUR 36,130 thousand), and in NLB amounted to EUR 4,176 thousand (31 December 2020: EUR 4,079 thousand) (note 6.1.l).

Operating expenses arising from investment properties:

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Leased to others	1,103	1,157	291	383
Not leased to others	231	242	183	194
Total	**1,334**	**1,399**	**474**	**577**

5.10. Intangible assets

					in EUR thousands
	NLB Group				NLB
	Software licenses	Other intangible assets	Goodwill	Total	Software licenses
Cost					
Balance as at 1 January 2021	246,687	13,200	32,336	292,223	201,614
Effects of translation of foreign operations to presentation currency	13	11	-	24	-
Additions	14,866	-	-	14,866	7,370
Write-offs	(15,527)	-	-	(15,527)	(7,956)
Disposal of subsidiary (note 5.12.b)	(432)	-	-	(432)	-
Balance as at 31 December 2021	**245,607**	**13,211**	**32,336**	**291,154**	**201,028**
Amortisation and impairment					
Balance as at 1 January 2021	201,748	-	28,807	230,555	173,509
Effects of translation of foreign operations to presentation currency	8	7	-	15	-
Amortisation (note 4.11.)	11,944	4,267	-	16,211	6,022
Impairments (note 4.14.)	936	-	-	936	-
Write-offs	(15,435)	-	-	(15,435)	(7,956)
Disposal of subsidiary (note 5.12.b)	(204)	-	-	(204)	-
Balance as at 31 December 2021	**198,997**	**4,274**	**28,807**	**232,078**	**171,575**
Net carrying value					
Balance as at 31 December 2021	**46,610**	**8,937**	**3,529**	**59,076**	**29,453**
Balance as at 1 January 2021	**44,939**	**13,200**	**3,529**	**61,668**	**28,105**

					in EUR thousands
	NLB Group				NLB
	Software licenses	Other intangible assets	Goodwill	Total	Software licenses
Cost					
Balance as at 1 January 2020	228,692	-	32,336	261,028	192,581
Effects of translation of foreign operations to presentation currency	(34)	-	-	(34)	-
Acquisition of subsidiaries (note 5,12.c)	4,921	13,200	-	18,121	-
Additions	14,150	-	-	14,150	9,033
Write-offs	(844)	-	-	(844)	-
Disposal of subsidiary (note 3.)	(198)	-	-	(198)	-
Balance as at 31 December 2020	**246,687**	**13,200**	**32,336**	**292,223**	**201,614**
Amortisation and impairment					
Balance as at 1 January 2020	192,679	-	28,807	221,486	166,601
Effects of translation of foreign operations to presentation currency	(22)	-	-	(22)	-
Amortisation (note 4,11.)	10,112	-	-	10,112	6,908
Write-offs	(826)	-	-	(826)	-
Disposal of subsidiary (note 3.)	(195)	-	-	(195)	-
Balance as at 31 December 2020	**201,748**	**-**	**28,807**	**230,555**	**173,509**
Net carrying value					
Balance as at 31 December 2020	**44,939**	**13,200**	**3,529**	**61,668**	**28,105**
Balance as at 1 January 2020	**36,013**	**-**	**3,529**	**39,542**	**25,980**

Other intangible assets represent additionally identified intangible assets in a business combination, namely core deposits and trade name (note 5.12.c).

5.11. Leases

a) NLB Group as a lessee

	NLB Group		NLB	
				in EUR thousands
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Right-of-use assets				
Land and buildings	19,545	22,758	2,244	2,240
Vehicles	390	959	960	912
Furniture and equipment	3,486	1,802	13	28
Total	**23,421**	**25,519**	**3,217**	**3,180**
Lease liabilities	**24,324**	**26,359**	**3,256**	**3,212**

In the statement of financial position, right-of-use assets are included in the line item 'Property and equipment' and lease liabilities are included in the line item 'Other financial liabilities.'

Additions to the right-of-use assets during 2021 in NLB Group amounted to EUR 10,172 thousand (2020: EUR 4,736 thousand) and in NLB EUR 1,245 thousand (2020: EUR 1,808 thousand). Due to the acquisition of subsidiaries in 2020, the right-of-use assets in NLB Group increased by EUR 9,576 thousand.

The income statement shows the following amounts relating to leases:

	NLB Group		NLB	
				in EUR thousands
	2021	2020	2021	2020
Depreciation of right-of-use assets (note 4.11.)				
Land and buildings	7,159	3,299	465	441
Vehicles	444	571	410	391
Furniture and equipment	1,107	671	15	16
Total	**8,710**	**4,541**	**890**	**848**

	NLB Group		NLB	
				in EUR thousands
	2021	2020	2021	2020
Interest expenses on lease liabilities (note 4.1.)	(470)	(294)	(29)	(39)
Expenses relating to short-term leases (included in administrative expenses)	(606)	(719)	(179)	(266)
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	(1,050)	(771)	(157)	(151)
Income from sub-leasing right-of-use assets (included in other operating income)	108	92	-	-

The total cash outflow for leases in 2021 in NLB Group was EUR 9,397 thousand (2020: EUR 4,865 thousand) and in NLB EUR 933 thousand (2020: EUR 897 thousand).

Contents

NLB Group leases various offices, branches, vehicles, and other equipment used in its business. Rental contracts for offices and branches generally have lease terms between 5 to 20 years, while some contracts are made for indefinite periods. Contracts for indefinite periods are included in measurement of the liability in accordance with planning projections. Normally, a lease term of 5 years is assumed, with the exemption of business premises on strategic locations where management assesses a different (longer) lease term. Vehicles and other equipment generally have lease terms between 1 to 5 years. There are several lease contracts that include extension and termination options. These options are negotiated by management to align with the Group's business needs. Lease payments to be made under reasonably certain extension options are included in measurement of the liability.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NLB Group also has certain leases of other equipment with lease term of 12 months or less, and equipment with low value. For these leases, NLB Group applies the short-term lease and lease of low-value assets recognition exemptions. Lease payments on short-term leases and leases of low-value assets are recognised as an expenses on a straight-line basis over the lease term.

For calculation of the net present value of the future lease payments, NLB Group applies the internal transfer price for retail deposits as a discount rate.

NLB Group and NLB do not have expenses relating to variable payments and gains or losses arising from sale and leaseback transactions.

A maturity analysis of lease liabilities is disclosed in note 6.3.f).

b) NLB Group as a lessor

Finance and operating leases of motor vehicles and operating leases of business premises and POS terminals represent the majority of agreements in which NLB Group acts as a lessor.

Most of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements. Most of the finance lease agreements are concluded for a non-cancellable period of between 48 and 60 months. By paying the last instalment at the end of the contract, the leasing object becomes the lessee's property. The financial leasing receivables are secured by the object of financing. NLB Group does not have finance lease contracts with variable payments not included in the measurement of the net investment in the lease.

The investment properties are leased to lessee under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or rate. The investment properties generally have lease terms between 2 to 10 years. Some contracts are made for indefinite period.

As at 31 December 2021, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 436 thousand (as at 31 December 2020 EUR 884 thousand).

Finance leases

Loans and advances to customers in NLB Group include finance lease receivables.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

		in EUR thousands
NLB Group	**2021**	**2020**
Less than one year	36,465	23,287
One to two years	25,723	11,506
Two to three years	21,276	7,734
Three to four years	16,435	5,159
Four to five years	10,375	3,243
More than five years	8,604	2,719
Total undiscounted lease receivable	**118,878**	**53,648**
Unearned finance income	(10,163)	(4,131)
Net investment in the lease	**108,715**	**49,517**

During 2021, NLB Group recognised interest income on lease receivables in the amount of EUR 3,452 thousand (2020: EUR 1,957 thousand).

Contents

Operating lease
A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Less than one year	2,757	3,082	375	399
One to two years	1,396	1,863	348	364
Two to three years	817	1,497	346	341
Three to four years	597	1,411	342	333
Four to five years	430	1,308	301	331
More than five years	1,211	1,759	1,029	243
Total	**7,208**	**10,920**	**2,741**	**2,011**

NLB Group realised rental income arising from: investment properties in the amount of EUR 3,558 thousand (2020: EUR 2,572 thousand); and movable property in the amount of EUR 1,074 thousand (2020: EUR 1,003 thousand).

NLB realised rental income arising from: investment properties in the amount of EUR 567 thousand (2020: EUR 471 thousand); and movable property in the amount of EUR 471 thousand (2020: EUR 470 thousand) (note 4.8.).

5.12. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

		in EUR thousands
NLB	31 Dec 2021	31 Dec 2020
Banks	696,538	671,880
Other financial organisations	29,720	21,819
Enterprises	55,282	55,361
Total	**781,540**	**749,060**

Contents

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2021:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2021	Profit/(loss) for 2021	NLB's shareholding %	NLB's voting rights %	NLB Group's shareholding %	NLB Group's voting rights %
Core members								
NLB Banka a.d., Skopje	Banking	North Macedonia	243,267	39,000	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	92,643	10,050	75.90	75.90	99.87	99.87
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	97,149	18,180	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	98,856	24,436	82.38	82.38	82.38	82.38
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	87,838	10,012	97.34	97.35	97.34	97.35
NLB Banka a.d., Beograd	Banking	Serbia	77,918	4,293	100	100	100	100
Komercijalna banka a.d., Beograd	Banking	Serbia	634,643	34,818	86.70	88.28	86.70	88.28
KomBank Invest a.d., Beograd	Finance	Serbia	1,345	4	-	-	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	14,966	8,969	100	100	100	100
NLB Lease&Go, leasing, d.o.o., Ljubljana	Finance	Slovenia	16,342	(921)	100	100	100	100
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	814	436	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Serbia	5,985	40	100	100	100	100
NLB Leasing d.o.o., Ljubljana - v likvidaciji*	Finance	Slovenia	18,058	2,545	-	-	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	1,258	(94)	-	-	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	16,802	(223)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	19,966	154	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,319	(93)	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	1,696	44	100	100	100	100
REAM d.o.o., Beograd	Real estate	Serbia	1,844	(217)	100	100	100	100
SPV 2 d.o.o., Beograd	Real estate	Serbia	831	9	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	2,197	850	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	1,025	5	-	-	100	100
NLB Srbija d.o.o., Beograd	Real estate	Serbia	32,259	188	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Finance	Montenegro	3,130	2,375	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	12,395	1,725	100	100	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Serbia	3	-	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	2,221	489	100	100	100	100

*100% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana.

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2020:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2020	Profit/(loss) for 2020	NLB's shareholding %	NLB's voting rights %	NLB Group's shareholding %	NLB Group's voting rights %
Core members								
NLB Banka a.d., Skopje	Banking	North Macedonia	229,777	19,222	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	68,556	1,387	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	99,872	10,122	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	98,335	13,334	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	89,808	5,895	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Serbia	74,205	2,598	99.997	99.997	99.997	99.997
Komercijalna banka a.d., Belgrade	Banking	Serbia	609,943	(9,050)	81.42	83.23	81.42	83.23
Komercijalna banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	31,045	(1,309)	0.002	0.002	100	100
Komercijalna banka a.d., Podgorica	Banking	Montenegro	20,689	(1,224)	-	-	100	100
KomBank Invest a.d., Belgrade	Finance	Serbia	1,342	-	-	-	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	10,487	5,490	100	100	100	100
NLB Lease&Go, leasing, d.o.o., Ljubljana	Finance	Slovenia	1,938	(1,062)	100	100	100	100
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	378	368	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana - v likvidaciji	Finance	Slovenia	17,568	720	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	1,346	(996)	-	-	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Serbia	5,940	19	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	17,025	(204)	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	20,870	353	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,409	(127)	-	-	100	100
BH-RE d.o.o., Sarajevo - u likvidaciji	Real estate	Bosnia and Herzegovina	7	(14)	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	1,652	(166)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Serbia	1,762	(145)	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Serbia	820	8	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	1,349	(236)	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	2,108	92	-	-	100	100
NLB Srbija d.o.o., Belgrade	Real estate	Serbia	32,046	1,149	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Montenegro	755	139	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	10,783	986	100	100	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Serbia	3	(3)	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	1,732	(432)	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2021 and 2020 are presented in note 3.

Data of subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousands

	Komercijalna banka, Beograd		NLB Banka, Skopje		NLB Banka, Prishtina	
	2021	2020*	2021	2020	2021	2020
Non-controlling interest in equity in %	13.30	18.58	13.03	13.03	17.62	18.79
Non-controlling interest's voting rights in %	11.72	16.77	13.03	13.03	17.62	18.79
Income statement and statement of comprehensive income						
Revenues	156,710	-	87,864	81,673	51,509	47,699
Profit/(loss) for the year	**34,818**	**(9,050)**	**39,000**	**19,222**	**24,436**	**13,334**
Attributable to non-controlling interest	4,631	(1,681)	5,082	2,505	4,306	2,505
Other comprehensive income	(10,117)	2,145	(759)	898	(311)	74
Total comprehensive income	**24,701**	**(6,905)**	**38,241**	**20,120**	**24,125**	**13,408**
Attributable to non-controlling interest	3,285	(1,283)	4,983	2,622	4,252	2,519
Paid dividends to non-controlling interest	-	-	3,222	-	4,160	-
Statement of financial position						
Current assets	1,859,605	1,455,793	719,846	690,387	446,182	443,289
Non-current assets	2,305,644	2,441,294	1,050,742	895,265	484,363	435,775
Current liabilities	3,266,253	2,978,959	1,335,444	1,176,539	756,702	689,776
Non-current liabilities	264,353	308,185	191,877	179,336	74,987	90,953
Equity	**634,643**	**609,943**	**243,267**	**229,777**	**98,856**	**98,335**
Attributable to non-controlling interest	84,408	113,327	31,698	29,940	17,421	18,477

*Since the acquisition of Komercijalna banka, Beograd was concluded on 30 December 2020, only 12-month expected credit losses and attributable deferred taxes are included in NLB Group's income statement for 2020.

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b) Disposal of Komercijalna banka a.d. Banja Luka
In December 2021, Komercijalna banka a.d. Beograd sold its subsidiary Komercijalna banka a.d. Banja Luka. The assets and liabilities derecognised from NLB Group financial statements as a result of the disposal are as follows:

	in EUR thousands
Cash, cash balances at central banks, and other demand deposits at banks	75,699
Financial assets measured at fair value through other comprehensive income	36,599
Financial assets measured at amortised cost	
- loans and advances to customers	131,928
- other financial assets	381
Tangible assets	
Property and equipment	2,438
- own property and equipment (note 5.8.b)	709
- right-of-use assets	1,729
Investment property (note 5.9.)	1,215
Intangible assets (note 5.10.)	228
Current income tax assets	29
Other assets	1,026
Total assets	**249,543**
Financial liabilities measured at amortised cost	
- deposits from banks and central banks	15,514
- due to customers	172,900
- borrowings from other customers	25,120
- other financial liabilities	2,289
Provisions	361
Deferred income tax liabilities	61
Other liabilities	277
Total liabilities	**216,522**
Net assets of subsidiary	33,021
Total disposal consideration	**22,000**
Cash and cash equivalents in subisidiary sold	(69,832)
Cash outflow on disposal	**(47,832)**
Consideration for disposal of the subsidiary	22,000
Carrying amount of net assets disposed of	33,021
Transfer of FV OCI revaluation reserve to P&L	1,723
Loss from disposal of subsidiary in consolidated financial statements	(9,298)
- Non-controlling interest	(1,237)
- Attributable to owners of the parent	(8,061)

Effect of sale of Komercijalna banka a.d. Banja Luka is included in the segment 'Strategic Foreign Markets.'

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c) Acquisition of Komercijalna banka a.d. Beograd
On 30 December 2020, NLB acquired an 83.23% ordinary shareholding in Komercijalna banka a.d. Beograd, which represents 81.42% of total shareholding in Komercijalna banka a.d. Beograd. At the date of acquisition, the acquired bank had the following subsidiaries:

Subsidiaries	Komercijalna banka Beograd's ownership	NLB's direct ownership
Komercijalna banka a.d. Podgorica, Montenegro	100%	-
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.998%	0.002%
Investment Management Company KomBank Invest a.d. Beograd, Serbia	100%	-

Serbia has long been a strategically important market for NLB Group in the context of the strategy to be the leading international bank headquartered in and focused on the SEE region. Whilst in all countries of Group's operations NLB has a top three market position, in Serbia (the largest market by population) it was, until the execution of this transaction, sub-scale.

As a result of the transaction, NLB became the third largest banking group in Serbia with the acquisition of Komercijalna banka increasing NLB's market share from approximately 2% by total assets to over 12% as at 30 September 2020. The business operations of NLB Group in Serbia will be (besides the Slovenian market) the largest and most important one, adding more than 800,000 active retail customers and the largest distribution network in the country of 203 branches to NLB's existing operations.

Purchase consideration amounted to EUR 394,718 thousand and was fully paid in cash. There are no contingent consideration arrangements. At acquisition date, cash in acquired entities amounted to EUR 847,488 thousand, therefore the net inflow of cash amounted to EUR 452,770 thousand (included in statement of cash flows within payments from investing activities).

The assets and liabilities recognised as a result of the acquisition are as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	836,408
Financial assets held for trading	66,356
Non-trading financial assets mandatorily at fair value through profit or loss	5,628
Financial assets measured at fair value through other comprehensive income (note 5.4.b)	1,284,895
Financial assets measured at amortised cost	
- debt securities	7,214
- loans and advances to banks	46,981
- loans and advances to customers	1,877,349
- other financial assets	23,250
Tangible assets	
Property and equipment (notes 5.8.b and 5.11.a)	54,771
Investment property (note 5.9.)	19,643
Intangible assets (note 5.10.)	18,121
Current income tax assets	153
Deferred income tax assets	1,125
Other assets	17,604
Non-current assets held for sale (note 5.7.b)	1,969
Total assets	**4,261,467**
Financial liabilities measured at amortised cost	
- deposits from banks and central banks	35,895
- borrowings from banks and central banks	8,788
- due to customers	3,443,478
- borrowings from other customers	29,295
- other financial liabilities	49,072
Provisions (note 5.16.)	34,537
Current income tax liabilities	4
Deferred income tax liabilities	2,112
Other liabilities	4,176
Total liabilities	**3,607,357**
Net identifiable assets acquired (100%)	**654,110**
Less: non-controlling interests	(121,534)
Net assets acquired (NLB Group share)	**532,576**
Consideration given	394,718
Bargain purchase (negative goodwill)	**137,858**

NLB Group recognises non-controlling interests in Komercijalna banka Beograd at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition of Komercijalna banka Beograd resulted in a gain from a bargain purchase (negative goodwill) in the amount of EUR 137,858 thousand, which is recognised in income statement under line item 'Negative goodwill.' The main reasons for negative goodwill are current market conditions, when banks are generally valued below their net book values.

As a result of the acquisition, NLB Group's off-balance sheet liabilities increased by EUR 377,361 thousand:

	in EUR thousands
Short-term guarantees	19,431
- financial	15,437
- non-financial	3,994
Long-term guarantees	88,123
- financial	34,467
- non-financial	53,656
Commitments to extend credit	266,832
Letters of credit	1,440
Other	1,535
Total	**377,361**

In 2020, acquisition-related costs amounted to EUR 1,643 thousand and are included within administrative expenses.

NLB obtained all the necessary information for measuring fair values, therefore no amounts in 2020 financial statements were measured and recognised on a provisional basis.

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Assets acquired	Valuation technique
Performing loans	*Discounted cash flow approach:* Since these are performing loans, it was assumed that they would be repaid by future cash flows in accordance with amortisation schedules. Credit risk was considered for loans which are classified in Stage 2 in Komercijalna banka's local financial statements, by reducing future cash flows accordingly. Also prepayment risk was estimated for two retail products namely cash loans and housing loans which have the longest maturity. As a discount rate, average weighted interest rate for new transactions in the market for the same products, currency and clients (sector) were used. The source was Serbian central bank (NBS) statistical database, which provided a history of interest rates data by various products, currencies, maturities, type of interest rates, and size of customer for new loans.
Non-performing loans	*Discounted cash flow approach:* Since these are non-performing loans, it could generally not be assumed that they would be repaid with cash flows from client's regular business. Instead, gone concern principle was used, taking into account liquidation value of collateral as expected cash flows. Appropriate haircuts for age of valuations, type of collateral, type of location, and type of real estate were used to estimate the liquidation value of collateral, which was then discounted for a period of 4 years, with the required yield of 20%. Only exceptionally, also cash flows from regular business were considered, also discounted with the required yield of 20%.
Debt securities	For debt securities classified in Level 1 of fair value hierarchy, fair values were determined by an observable market price in an active market for an identical asset. For valuing debt securities in Level 2, income approach was used, based on the estimation of future cash flows discounted to the present value. The input parameters used in the income approach were the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).
Real estate	Three approaches were used for estimating the value of real estate - the income capitalisation approach, the sale comparison approach and the residual land value approach. Each views the valuation from different perspectives and considers data from different market sources. The most suitable approach depends on the characteristics and use of individual real estate. *The income capitalization approach:* Values property by the amount of income - cash flow that it can potentially generate. The value of the property is derived by converting the expected income generated from a property into a present value estimate using market capitalization rate. This method is commonly used for valuing income-generating properties. *The sale comparison approach:* Values property by comparing similar properties that have been sold recently. This approach is sometimes referred to as the 'direct sales comparison approach.' The reliability of an indication found by this method depends on the quality of comparable data found in the marketplace and application of adequate adjustments for individually appraised real estate. When sale transactions are not available, the direct sales comparison approach is not applicable. *Residual land value approach:* is a method for calculating the value of development land. It is performed by subtracting from the total value of a development project, all costs associated with the development project, including profit but excluding the cost of the land. It is applicable only for development/construction land.
Core deposits	Acquired core deposit accounts typically provide a low-cost source of funds to the buyer. To replace these established, low-cost deposit accounts in a timely manner, the buyer's alternative would be to utilise higher-cost funds at current market rates. Core deposits value is measured by the present value of the difference, or spread, between the core deposit's ongoing cost and the cost of a market alternative replacement.
Trade name	The trade name was valued by applying the relief-from-royalty method under the income approach. This method is based upon the application of an appropriate royalty rate on the respective revenues to estimate the Fair Value for the trade name. This method assumes that, by virtue of having ownership of the trade name rather than licensing one for use

Liabilities acquired	Valuation technique
Deposits	*Discounted cash flow approach:* Aggregated future cash flows were discounted by applying market interest rates for term deposits. Future cash flows were grouped into 11 groups according to the type of client and currency. As a discount rate, average weighted interest rate for new transactions in the market in 2020 was applied.

The fair value of acquired loans and advances to customers is EUR 1,877,349 thousand, of which EUR 1,836,970 thousand relates to performing portfolio and EUR 40,379 thousand to non-performing portfolio. The latter was recognised as purchased or originated credit-impaired financial assets (POCI). The gross contractual amount for performing loans and advances to customers is EUR 1,827,721 thousand and for this exposure 12-month expected credit losses in the amount of EUR 10,349 thousand were recognised through the income statement. The gross contractual amount for non-performing loans and advances to customers is EUR 149,654 thousand, and it is expected that approximately EUR 75 million of the contractual cash flows will not be collected.

Since the transaction was closed on 30 December 2020, only 12-month expected credit losses for Stage 1 financial assets in the amount of EUR 13,447 thousand and attributable deferred taxes in the amount of EUR 1,864 thousand are included in NLB Group income statement. If the acquisition has occurred on 1 January 2020, management estimates that consolidated revenue (excluding negative goodwill) would have been between EUR 750 and 760 million and consolidated profit for the year would have been between EUR 260 and 265 million. The exact result is difficult to assess due to some changed circumstances during the year, especially the COVID-19 pandemic.

d) Analysis by type of investment in associates and joint ventures

				in EUR thousands
	NLB Group		NLB	
Carrying amount of the NLB Group's interest	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Other financial organisations	11,525	7,988	4,282	1,382
Enterprises	-	-	201	280
Total	**11,525**	**7,988**	**4,483**	**1,662**

NLB Group's associates

			2021		2020	
	Nature of Business	Country of Incorporation	Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Slovenia	45.64	45.64	40.08	40.08
ARG - Nepremičnine d.o.o., Horjul	Real estate	Slovenia	75.00	75.00	75.00	75.00

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

The carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

		in EUR thousands
	2021	**2020**
Carrying amount of the NLB Group's interest	**11,525**	**7,988**
NLB Group's share of:		
- Profit for the year	1,108	874
- Other comprehensive income	(30)	(41)
- Total comprehensive income	**1,078**	**833**

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In 2021, NLB Group did not recognise a share of profit of an associate in the amount of EUR 65 thousand (2020: EUR 31 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2021 amounted to EUR 2,199 thousand (31 December 2020: EUR 2,264 thousand).

NLB Group's joint ventures

			2021	2020
	Nature of Business	Country of Incorporation	Voting rights%	Voting rights%
Prvi Faktor Group, Ljubljana	Finance	Slovenia	50	50

In 2021, NLB Group did not recognise a share of profit of a joint venture in the amount of EUR 435 thousand (2020: EUR 556 thousand). The cumulative unrecognised share of losses of a joint venture as at 31 December 2021 amounted to EUR 14,825 thousand (31 December 2020: EUR 15,259 thousand).

e) Movements of investments in associates

		in EUR thousands
NLB Group	**2021**	**2020**
Balance as at 1 January	7,988	7,499
Increase in capital share	2,900	326
Share of result before tax	1,339	1,036
Share of tax	(231)	(162)
Net gains/(losses) recognised in other comprehensive income	(30)	(41)
Dividends received	(441)	(670)
Balance as at 31 December	**11,525**	**7,988**

5.13. Other assets

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Assets. received as collateral (note 6.1.l)	75,450	76,017	4,827	4,926
Deferred expenses	10,046	9,157	6,202	5,976
Inventories	2,173	7,858	42	180
Claim for taxes and other dues	1,826	2,949	621	467
Prepayments	1,726	1,159	161	115
Total	**91,221**	**97,140**	**11,853**	**11,664**

Assets, received as collateral on NLB Group in the amount of EUR 74,717 thousand (31 December 2020: EUR 75,151 thousand), and on NLB in the amount of EUR 4,827 thousand (31 December 2020: EUR 4,926 thousand) consist of real estate (note 6.1.l).

5.14. Movements in allowance for the impairment of financial assets

a) Movements in allowance for the impairment of loans and receivables measured at amortised cost

in EUR thousands

NLB Group	Balance as at 1 Jan 2021	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Disposal of subsidiary	Balance as at 31 Dec 2021	Repayments of written-off receivables
Notes				**4.14.**		**4.14.**			**5.6.b), c), d)**	**4.14.**
12-month expected credit losses										
Loans and advances to banks	141	-	-	9	-	48	-	-	**198**	-
Loans and advances to individuals	25,044	5	14,152	(13,005)	(164)	(7,479)	(3)	(214)	**18,336**	-
Loans and advances to other customers	49,475	20	4,036	2,476	(8)	(4,292)	31	(777)	**50,961**	-
Other financial assets	276	(2)	202	115	(54)	(70)	10	(1)	**476**	-
Lifetime ECL not credit-impaired										
Loans and advances to individuals	8,151	1	(8,554)	6,975	(35)	898	(3)	(35)	**7,398**	-
Loans and advances to other customers	32,682	4	(3,515)	(240)	(231)	(1,960)	21	(137)	**26,624**	-
Other financial assets	30	-	-	7	(7)	9	(3)	-	**36**	-
Lifetime ECL credit-impaired										
Loans and advances to individuals	61,305	14	(5,598)	25,606	(15,160)	7,868	2,135	(123)	**76,047**	7,449
Loans and advances to other customers	195,623	587	(521)	8	(66,532)	1,641	6,226	(425)	**136,607**	42,272
Other financial assets	5,247	-	(202)	1,770	(847)	(112)	(142)	-	**5,714**	470
Of which: Purchased or originated credit-impaired										
Loans and advances to individuals	-	1	-	(1,157)	(702)	-	1,701	-	**(157)**	-
Loans and advances to other customers	1,319	-	-	(3,243)	(2,312)	-	4,849	-	**613**	-
Other financial assets	4	(1)	-	(602)	(9)	-	-	-	**(608)**	-

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in EUR thousands

NLB Group	Balance as at 1 Jan 2020	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Disposal of subsidiary	Balance as at 31 Dec 2020	Repayments of written-off receivables
Notes				**4.14.**		**4.14.**			**5.6.b), c), d)**	**4.14.**
12-month expected credit losses										
Loans and advances to banks	95	(1)	-	62	-	(15)	-	-	**141**	-
Loans and advances to individuals	21,613	(22)	12,806	(9,062)	(1)	(290)	-	-	**25,044**	-
Loans and advances to other customers	35,115	(9)	5,004	7,803	(6)	1,597	(18)	(11)	**49,475**	-
Other financial assets	177	(1)	63	80	(22)	(21)	-	-	**276**	-
Lifetime ECL not credit-impaired										
Loans and advances to individuals	6,103	(3)	(11,149)	7,250	(3)	5,925	28	-	**8,151**	-
Loans and advances to other customers	27,076	(2)	(8,675)	4,955	(4)	9,334	(2)	-	**32,682**	-
Other financial assets	27	1	(17)	(143)	(4)	166	-	-	**30**	-
Lifetime ECL credit-impaired										
Loans and advances to individuals	47,737	(22)	(1,610)	29,353	(20,159)	1,689	4,317	-	**61,305**	5,858
Loans and advances to other customers	184,800	67	3,624	11,750	(31,254)	98	27,584	(1,046)	**195,623**	9,565
Other financial assets	4,702	(9)	(46)	2,395	(2,258)	16	485	(38)	**5,247**	499
Of which: Purchased or originated credit-impaired										
Loans and advances to other customers	1,887	-	-	(568)	-	-	-	-	**1,319**	-
Other financial assets	3	-	-	1	-	-	-	-	**4**	-

Column Increases/(Decreases) for year 2020 also includes 12-month expected credit losses recognised at acquisition of Komercijalna banka in the amount of EUR 2,150 thousand for Loans and advances to individuals, in the amount of EUR 8,198 thousand for Loans and advances to other customers and in the amount of EUR 54 thousand for Other financial assets (notes 4.14. and 5.12.c).

NLB	Balance as at 1 Jan 2021	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2021	Repayments of written-off receivables
Notes			**4.14.**		**4.14.**		**5.6.b), c), d)**	**4.14.**
12-month expected credit losses								
Loans and advances to banks	155	-	27	-	-	-	**182**	-
Loans and advances to individuals	8,973	3,881	(4,914)	(156)	(4,281)	-	**3,503**	-
Loans and advances to other customers	16,664	4,740	(5,419)	(1)	(5,915)	32	**10,101**	-
Other financial assets	73	14	41	(12)	(57)	3	**62**	-
Lifetime ECL not credit-impaired								
Loans and advances to individuals	2,351	(2,181)	2,007	(27)	270	1	**2,421**	-
Loans and advances to other customers	8,936	(2,651)	(2,715)	(3)	(1,799)	19	**1,787**	-
Other financial assets	2	-	(1)	-	-	-	**1**	-
Lifetime ECL credit-impaired								
Loans and advances to individuals	22,855	(1,700)	8,779	(6,020)	7,566	17	**31,497**	2,597
Loans and advances to other customers	83,593	(2,089)	(659)	(33,269)	349	(815)	**47,110**	8,682
Other financial assets	1,255	(14)	129	(280)	-	-	**1,090**	120
Of which: Purchased or originated credit-impaired								
Loans and advances to other customers	1,319	-	1,339	-	-	(1,820)	**838**	-
Other financial assets	4	-	2	-	-	-	**6**	-

in EUR thousands

NLB	Balance as at 1 Jan 2020	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2020	Repayments of written-off receivables
								in EUR thousands
Notes			**4.14.**		**4.14.**		**5.6.b), c), d)**	**4.14.**
12-month expected credit losses								
Loans and advances to banks	141	-	32	-	(18)	-	**155**	-
Loans and advances to individuals	7,195	6,107	(6,509)	(1)	2,181	-	**8,973**	-
Loans and advances to other customers	13,529	3,254	(3,388)	(6)	3,303	(28)	**16,664**	-
Other financial assets	55	68	(22)	(2)	(25)	(1)	**73**	-
Lifetime ECL not credit-impaired								
Loans and advances to individuals	1,396	(4,953)	3,422	(3)	2,491	(2)	**2,351**	-
Loans and advances to other customers	9,792	(3,261)	(2,516)	(4)	4,925	-	**8,936**	-
Other financial assets	9	(1)	(7)	-	1	-	**2**	-
Lifetime ECL credit-impaired								
Loans and advances to individuals	15,576	(1,154)	14,318	(6,227)	(365)	707	**22,855**	2,319
Loans and advances to other customers	71,277	7	(2,677)	(7,159)	(119)	22,264	**83,593**	4,139
Other financial assets	1,777	(67)	411	(864)	(2)	-	**1,255**	328
Of which: Purchased or originated credit-impaired								
Loans and advances to other customers	1,856	-	(537)	-	-	-	**1,319**	-
Other financial assets	3	-	1	-	-	-	**4**	-

The contractual amount outstanding on financial assets that were written off during the year ending 31 December 2021 and that are still subject to enforcement activity for NLB Group amounted to EUR 76,252 thousand (31 December 2020: EUR 42,738 thousand), and for NLB amounted to EUR 8,136 thousand (31 December 2020: EUR 9,773 thousand), of which EUR 2,251 thousand in NLB Group (31 December 2020: EUR 4,162 thousand) and EUR 1,265 thousand in NLB (31 December 2020: EUR 2,537 thousand) represents interest receivables that have not been recognised in the income statement prior to the write-off.

Contents

b) Movements in allowance for the impairment of debt securities

in EUR thousands

NLB Group	Balance as at 1 Jan 2021	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Disposal of subsidiary	Balance as at 31 Dec 2021
Notes				**4.14.**	**4.14.**			**5.6.a), 5.4.a)**
12-month expected credit losses								
Debt securities measured at amortised cost	3,685	1	(32)	997	(1,400)	2	-	**3,253**
Debt securities measured at fair value through other comprehensive income	8,656	2	-	81	2,731	18	(340)	**11,148**
Lifetime ECL not credit-impaired								
Debt securities measured at amortised cost	-	-	32	16	4	-	-	**52**
Debt securities measured at fair value through other comprehensive income	28	-	-	24	18	-	-	**70**
Lifetime ECL credit-impaired								
Debt securities measured at fair value through other comprehensive income	798	-	-	-	-	-	-	**798**

in EUR thousands

NLB Group	Balance as at 1 Jan 2020	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2020
Notes				**4.14.**	**4.14.**		**5.6.a), 5.4.a)**
12-month expected credit losses							
Debt securities measured at amortised cost	3,140	(2)	-	343	204	-	**3,685**
Debt securities measured at fair value through other comprehensive income	4,757	2	-	4,156	(253)	(6)	**8,656**
Lifetime ECL not credit-impaired							
Debt securities measured at fair value through other comprehensive income	42	-	-	(6)	(9)	1	**28**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	-	-	-	-	-	**798**

Column Increases/(Decreases) for year 2020 includes also 12-month expected credit losses recognised at acquisition of Komercijalna banka in the amount of EUR 32 thousand for Debt securities measured at amortised cost and in the amount of EUR 2,932 thousand for Debt securities measured at fair value through other comprehensive income (notes 4.14. and 5.12.c).

NLB	Balance as at 1 Jan 2021	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2021
					in EUR thousands
Notes		**4.14.**	**4.14.**		**5.6.a), 5.4.a)**
12-month expected credit losses					
Debt securities measured at amortised cost	1,841	456	(473)	2	**1,826**
Debt securities measured at fair value through other comprehensive income	2,343	(22)	(126)	8	**2,203**
Lifetime ECL credit-impaired					
Debt securities measured at fair value through other comprehensive income	798	-	-	-	**798**

NLB	Balance as at 1 Jan 2020	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2020
					in EUR thousands
Notes		**4.14.**	**4.14.**		**5.6.a), 5.4.a)**
12-month expected credit losses					
Debt securities measured at amortised cost	1,617	16	208	-	**1,841**
Debt securities measured at fair value through other comprehensive income	1,714	626	9	(6)	**2,343**
Lifetime ECL credit-impaired					
Debt securities measured at fair value through other comprehensive income	798	-	-	-	**798**

c) Explanation of how significant changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance

Movement of gross carrying amount of loans to banks

				in EUR thousands
	NLB Group		NLB	
12-month expected credit losses	**2021**	**2020**	**2021**	**2020**
Balance as at 1 January	197,146	93,498	158,475	144,493
Effects of translation of foreign operations to presentation currency	(7)	(99)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	46,981	-	-
Decreases/Increases	(61,245)	56,616	41,094	13,829
Exchange differences on monetary assets	4,987	150	(100)	153
Balance as at 31 December	**140,881**	**197,146**	**199,469**	**158,475**

Movement of gross carrying amount of loans and advances to individuals

								in EUR thousands
	NLB Group				NLB			
Individuals	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at 1 January 2021	4,777,413	132,987	117,193	5,027,593	2,295,630	64,675	51,644	2,411,949
Effects of translation of foreign operations to presentation currency	1,268	(8)	26	1,286	-	-	-	-
Transfers	(39,411)	4,604	34,807	-	(17,729)	5,230	12,499	-
Increases/(Decreases)	666,437	(16,708)	(8,010)	641,719	291,509	(3,888)	(764)	286,857
Write-offs	(164)	(35)	(15,160)	(15,359)	(156)	(27)	(6,020)	(6,203)
Exchange differences on monetary assets	1,930	27	32	1,989	1,671	45	37	1,753
Modification losses (note 4.12.)	(31)	(6)	(2)	(39)	-	-	-	-
Disposal of subsidiary	(34,891)	(626)	(601)	(36,118)	-	-	-	-
Balance as at 31 December 2021	**5,372,551**	**120,235**	**128,285**	**5,621,071**	**2,570,925**	**66,035**	**57,396**	**2,694,356**

								in EUR thousands
	NLB Group				NLB			
Individuals	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at 1 January 2020	3,822,266	103,734	87,488	4,013,488	2,301,339	34,826	40,627	2,376,792
Effects of translation of foreign operations to presentation currency	(20)	(1)	-	(21)	-	-	-	-
Acquisition of subsidiaries (note 5.12.c)	843,675	-	5,753	849,428	-	-	-	-
Transfers	(88,975)	44,785	44,190	-	(50,790)	36,066	14,724	-
Increases/(Decreases)	203,520	(15,470)	(4,342)	183,708	44,914	(6,216)	1,812	40,510
Write-offs	(1)	(3)	(20,159)	(20,163)	(1)	(3)	(6,227)	(6,231)
Exchange differences on monetary assets	(1,983)	(88)	(54)	(2,125)	168	2	3	173
Excluded interest	-	30	4,317	4,347	-	-	705	705
Modification losses (note 4.12.)	(1,069)	-	-	(1,069)	-	-	-	-
Balance as at 31 December 2020	**4,777,413**	**132,987**	**117,193**	**5,027,593**	**2,295,630**	**64,675**	**51,644**	**2,411,949**

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In year 2021, the loss allowance for loans and advances to individuals increased by EUR 7,281 thousand at NLB Group level, while at NLB level it increased by EUR 3,242 thousand. Even though the gross carrying amount increased mainly in Stage 1 due to new exposures, the increase of loss allowance was observed mostly in Stage 3. The main reason for this were changes in risk parameters, which increased loss allowance for Stage 3 loans and advances to individuals in the amount of EUR 7,868 thousand at NLB Group level and EUR 7,566 thousand at NLB level.

In year 2020, the loss allowance for loans and advances to individuals increased by EUR 19,047 thousand at NLB Group level, while at NLB level it increased by EUR 10,012 thousand. The main reasons for the increase were changed risk parameters, which increased loss allowance by EUR 7,324 thousand at NLB Group level and by EUR 4,307 thousand at NLB level. At the NLB Group level, the gross carrying amount increased by EUR 1,014,105 thousand, mainly due to acquisition of subsidiaries, while at the NLB level it increased by EUR 35,157 thousand.

Acquisition of subsidiaries (note 5.12.c) contributed EUR 849,428 thousand to the gross carrying amount of loans and advances to individuals on NLB Group level. For the performing part of this portfolio, 12-month expected credit losses in the amount of EUR 2,150 thousand were recognised.

The gross carrying amount also increased due to changed presentation of excluded interest. NLB Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, classified in Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. Part of the contractually due interest for Stage 3 exposures that is not included in the income statement (so-called 'excluded interest') has been in previous periods presented as a decrease of gross carrying amount of financial assets. In year 2020, the Bank of Slovenia changed the instructions for reporting of monetary financial institutions and regards excluded interest as part of gross carrying amount, even if not recognised in the income statement. Therefore, NLB Group changed the presentation as at 31 December 2020 and increased gross carrying amount and impairments for EUR 4,347 thousand on the Group level and EUR 705 thousand on the NLB level.

Movement of gross carrying amount of loans and advances to other customers

in EUR thousands

	NLB Group				NLB			
Other customers	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at 1 January 2021	4,219,862	427,166	317,519	4,964,547	1,982,033	193,835	119,733	2,295,601
Effects of translation of foreign operations to presentation currency	1,220	82	852	2,154	-	-	-	-
Transfers	(110,801)	85,364	25,437	-	(13,004)	11,931	1,073	-
Increases/(Decreases)	608,913	(98,209)	(34,880)	475,824	379,138	(82,687)	(15,037)	281,414
Write-offs	(8)	(231)	(66,532)	(66,771)	(1)	(3)	(33,269)	(33,273)
Exchange differences on monetary assets	3,620	235	159	4,014	3,109	228	137	3,474
Modification losses (note 4.12.)	(17)	(6)	(201)	(224)	-	-	-	-
Disposal of subsidiary	(92,304)	(2,217)	(3,000)	(97,521)	-	-	-	-
Balance as at 31 December 2021	**4,630,485**	**412,184**	**239,354**	**5,282,023**	**2,351,275**	**123,304**	**72,637**	**2,547,216**

in EUR thousands

	NLB Group				NLB			
Other customers	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance as at 1 January 2020	3,270,058	367,283	261,339	3,898,680	2,049,210	154,600	106,762	2,310,572
Effects of translation of foreign operations to presentation currency	(2,407)	(197)	(126)	(2,730)	-	-	-	-
Acquisition of subsidiaries (note 5.12.c)	993,295	-	34,626	1,027,921	-	-	-	-
Transfers	(169,871)	108,995	60,876	-	(100,324)	77,761	22,563	-
Increases/(Decreases)	130,986	(48,552)	(35,202)	47,232	36,267	(38,342)	(24,596)	(26,671)
Write-offs	(6)	(4)	(31,254)	(31,264)	(6)	(4)	(7,159)	(7,169)
Exchange differences on monetary assets	(168)	(2)	(3)	(173)	(3,114)	(180)	(121)	(3,415)
Excluded interest	-	-	27,389	27,389	-	-	22,284	22,284
Modification losses (note 4.12.)	(2,025)	(357)	(126)	(2,508)	-	-	-	-
Balance as at 31 December 2020	**4,219,862**	**427,166**	**317,519**	**4,964,547**	**1,982,033**	**193,835**	**119,733**	**2,295,601**

In year 2021, the gross carrying amount of loans and advances to other customers increased by EUR 317,476 thousand at NLB Group level and EUR 251,615 thousand at NLB level, mostly in Stage 1 due to increased exposure. Regardless of that, loss allowance decreased (for EUR 63,588 thousand at NLB Group level and EUR 50,195 thousand), with main reasons being write-offs (EUR 66,771 thousand at NLB Group level and EUR 33,273 thousand at NLB level) and changes in risk parameters (decrease of loss allowance at NLB Group level for EUR 4,611 thousand and at NLB level for EUR 7,365 thousand).

In year 2020, the loss allowance for loans and advances to other customers increased by EUR 30,789 thousand at NLB Group level, while at NLB level it increased by EUR 14,595 thousand. The main reasons for the increase were changed risk parameters, which increased loss allowance by EUR 11,029 thousand at NLB Group level and by EUR 8,109 thousand at NLB level. At the NLB Group level, the gross carrying amount increased by EUR 1,065,867 thousand, mainly due to acquisition of subsidiaries, while at the NLB level it decreased by EUR 14,971 thousand.

Acquisition of subsidiaries (note 5.12.c) contributed EUR 1,027,921 thousand to the gross carrying amount of loans and advances to customers on NLB Group level. For the performing part of this portfolio, 12-month expected credit losses in the amount of EUR 8,183 thousand were recognised.

The gross carrying amount also increased for EUR 27,389 thousand at NLB Group level and for EUR 22,284 thousand at NLB level due to changed presentation of excluded interest.

Movement of gross carrying amount of other financial assets

The loss allowance for other financial assets in year 2021 on NLB Group level moved in line with gross carrying amount and increased by EUR 673 thousand. At NLB level, gross carrying amount increased by EUR 37,724 thousand, but most of this increase relates to receivables with very short maturity (of that EUR 20,492 thousand to receivables towards a subsidiary for dividends declared in 2021). Therefore, the loss allowance in 2021 slightly decreased (by EUR 177 thousand), with main reason being write-offs in the amount of EUR 292 thousand.

The loss allowance for other financial assets in year 2020 moved in line with gross carrying amount and increased by EUR 647 thousand at NLB Group level, while at the NLB level it decreased by EUR 511 thousand.

Movement of gross carrying amount of debt securities measured at amortised cost

					in EUR thousands
	NLB Group			NLB	
	2021		2020	2021	2020
	12-month expected credit losses	Lifetime ECL not credit - impaired	12-month expected credit losses	12-month expected credit losses	12-month expected credit losses
Balance as at 1 January	1,506,772	-	1,656,988	1,279,721	1,486,783
Effects of translation of foreign operations to presentation currency	74	11	(325)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	-	7,214	-	-
Additions	769,067	-	303,670	639,735	181,235
Derecognition	(564,041)	-	(477,592)	(486,630)	(401,685)
Net interest income	13,144	-	16,130	9,504	12,701
Exchange differences on monetary assets	1,348	-	(429)	1,364	(429)
Other	(5,444)	-	1,116	(5,444)	1,116
Transfers	(7,209)	7,209	-	-	-
Balance as at 31 December	**1,713,711**	**7,220**	**1,506,772**	**1,438,250**	**1,279,721**

Movement of gross carrying amount of debt securities measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2021	3,407,394	203	798	3,408,395	1,639,915	-	798	1,640,713
Effects of translation of foreign operations to presentation currency	1,204	-	-	1,204	-	-	-	-
Additions	1,455,823	-	-	1,455,823	219,733	-	-	219,733
Derecognition	(1,481,974)	(19)	-	(1,481,993)	(352,824)	-	-	(352,824)
Net interest income	40,310	-	-	40,310	11,696	-	-	11,696
Exchange differences on monetary assets	8,367	-	-	8,367	8,452	-	-	8,452
Disposal of subisidiary	(35,023)	-	-	(35,023)	-	-	-	-
Balance as at 31 December 2021	**3,396,101**	**184**	**798**	**3,397,083**	**1,526,972**	**-**	**798**	**1,527,770**

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2020	2,055,362	220	798	2,056,380	1,583,603	-	798	1,584,401
Effects of translation of foreign operations to presentation currency	(421)	-	-	(421)	-	-	-	-
Acquisition of subsidiaries (note 5.12.c)	1,267,281	-	-	1,267,281	-	-	-	-
Additions	1,856,445	-	-	1,856,445	1,045,700	-	-	1,045,700
Derecognition	(1,777,748)	(17)	-	(1,777,765)	(988,275)	-	-	(988,275)
Net interest income	17,370	-	-	17,370	9,894	-	-	9,894
Exchange differences on monetary assets	(10,895)	-	-	(10,895)	(11,007)	-	-	(11,007)
Balance as at 31 December 2020	**3,407,394**	**203**	**798**	**3,408,395**	**1,639,915**	**-**	**798**	**1,640,713**

5.15. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at the amortised cost

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Deposits from banks and central banks	71,828	72,633	109,329	41,635
Borrowings from banks and central banks	858,531	158,225	873,479	143,464
Due to customers	17,640,809	16,397,167	9,659,605	8,850,755
Borrowings from other customers	74,051	91,560	406	13
Subordinated liabilities	288,519	288,321	288,519	288,321
Other financial liabilities	206,878	182,095	102,527	88,969
Total	**19,140,616**	**17,190,001**	**11,033,865**	**9,413,157**

a) Deposits from banks and central banks and amounts due to customers

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Deposit on demand				
- banks and central banks	56,427	52,250	94,323	41,635
- other customers	15,319,112	13,633,889	8,982,546	8,128,950
- governments	401,295	307,082	109,228	86,276
- financial organisations	303,858	192,224	265,900	137,204
- companies	3,653,713	3,223,612	1,870,118	1,551,952
- individuals	10,960,246	9,910,971	6,737,300	6,353,518
Other deposits				
- banks and central banks	15,401	20,383	15,006	-
- other customers	2,321,697	2,763,278	677,059	721,805
- governments	95,062	117,428	34,801	35,515
- financial organisations	125,310	134,716	71,582	34,474
- companies	380,815	398,595	229,093	192,955
- individuals	1,720,510	2,112,539	341,583	458,861
Total	**17,712,637**	**16,469,800**	**9,768,934**	**8,892,390**

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b) Borrowings from banks and central banks and other customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Loans				
- banks and central banks	858,531	158,225	873,479	143,464
- other customers	74,051	91,560	406	13
- governments	20,607	20,183	-	-
- financial organisations	52,958	70,956	-	-
- companies	486	421	406	13
Total	**932,582**	**249,785**	**873,885**	**143,477**

As at 31 December 2021, NLB Group and NLB had EUR 94,115 thousand in undrawn borrowings (31 December 2020: EUR 140,713 thousand).

In June 2021, the Bank participated in the ECB TLTRO III.8 operation and had drawn a credit tranche of EUR 750,000 thousand for three years. With targeted longer-term refinancing operations, the ECB continues to support the access of enterprises and households to bank loans. The Bank was successful in achieving the lending performance threshold in the special reference period and will use the positive effect from this transaction to partially compensate for the negative carry of liquidity reserves. Based on currently available information, the Bank plans to opt for early repayment in June 2022.

NLB Group accounts for this loan according to the requirements of IFRS 9. Expected effective interest rate was estimated based on the expectations of early repayment in June 2022 and achieving the lending performance threshold. Since the threshold was achieved and early repayment in June 2022 is still expected, no changes in estimates of payments due to revised assessment were needed. By applying the effective interest rate of -1%, NLB Group recognised in 2021 interest income in the amount of EUR 3,979 thousand (note 4.1.). The carrying amount of the loan as at 31 December 2021 amounts to EUR 746,021 thousand.

c) Subordinated liabilities

in EUR thousands

				NLB Group and NLB			
				31 Dec 2021		31 Dec 2020	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated bonds							
	EUR	06.05.2029	4.2% to 06.05.2024, thereafter 5Y MS + 4.159% p.a.	45,903	45,000	45,867	45,000
	EUR	19.11.2029	3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a.	119,577	120,000	119,480	120,000
	EUR	05.02.2030	3.4% to 05.02.2025, thereafter 5Y MS + 3.658% p.a.	123,039	120,000	122,974	120,000
Total				**288,519**	**285,000**	**288,321**	**285,000**

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All issued subordinated bonds represent non-convertible Tier 2 instruments (note 5.22.). In the event of bankruptcy or liquidation of the issuer, obligations arising from Tier 2 instruments shall be repaid:
a) after repayment of all unsubordinated obligations of the Issuer, as well as at all subordinated obligations (if any) which are expressed to rank in priority to Tier 2 instruments;
b) with the same priority (*pari passu*) as, and proportionally with the obligations arising from other instruments which qualify as Tier 2 instruments or have the same priority of repayment as the Tier 2 instruments;
c) in priority to the obligations arising from shares or other instruments which qualify as Common Equity Tier 1 capital instruments or additional Tier 1 instruments or have the same priority of repayment as these instruments.

Movement of subordinated liabilities

		in EUR thousands
NLB Group and NLB	**2021**	**2020**
Balance as at 1 January	288,321	210,569
Cash flow items:	(10,350)	67,383
- new issued subordinated liabilities	-	119,222
- repayment of subordinated liabilities	-	(45,000)
- repayment of interest	(10,350)	(6,839)
Non-Cash flow items:	10,548	10,369
- accrued interest	10,548	10,243
- other	-	126
Balance as at 31 December	**288,519**	**288,321**

In September 2019, NLB entered into a loan agreement relating to a EUR 45 million of subordinated loan intended for the inclusion into additional capital to strengthen and optimise its capital structure. NLB may, according to valid legislation, only include the loan in calculation of additional capital after obtaining approval from the ECB. As such, approval had not been granted by 23 December 2019, and it was not reasonably expected to be granted in the near future, NLB announced the prepayment of the loan, which was exercised in January 2020.

d) Other financial liabilities

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Items in the course of settlement	57,934	46,395	5,940	4,412
Debit or credit card payables	27,325	22,883	24,638	20,135
Suppliers	17,514	20,993	12,049	15,768
Lease liabilities (note 5.11.a)	24,324	26,359	3,256	3,212
Accrued expenses	25,852	21,314	12,909	10,635
Fees and commissions	1,609	1,100	1,504	967
Liabilities to brokerage firms and others for securities purchase and custody services	297	2,459	202	2,443
Other financial liabilities	52,023	40,592	42,029	31,397
Total	**206,878**	**182,095**	**102,527**	**88,969**

Other financial liabilities mainly include liabilities to insurance companies, liabilities for received EIB financial initiatives, received warranties, and obligation for purchase of securities.

5.16. Provisions

a) Analysis by type of provisions

	NLB Group		NLB	
in EUR thousands	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Provisions for guarantees and commitments (note 5.23.a)	33,441	42,174	20,560	28,543
Stage 1	12,912	15,796	3,909	7,510
Stage 2	1,640	2,767	141	732
Stage 3	18,889	23,611	16,510	20,301
Employee benefit provisions	21,447	20,707	14,206	14,220
Restructuring provisions	19,217	15,565	11,131	15,354
Provisions for legal risks	45,288	46,602	3,466	5,673
Other provisions	11	11	-	-
Total	**119,404**	**125,059**	**49,363**	**63,790**

Provisions for guarantees and commitments represent expected credit losses in accordance with IFRS 9, employee benefits are recognised in accordance with IAS 19, while all other provisions are recognised according to IAS 37.

Legal risks

Provisions for legal risks are formed based on expectations regarding the probable outcome of legal disputes. As at 31 December 2021, NLB Group was involved in 38 (31 December 2020: 39) legal disputes with material claims against Group members in the total amount of EUR 404,001 thousand, excluding accrued interest (31 December 2020: EUR 292,098 thousand). As at 31 December 2021, NLB was involved in 16 (31 December 2020: 18) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 180,077 thousand (31 December 2020: EUR 179,996 thousand).

In connection with legal risks, the largest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 171 million (as per 31 December 2021). Due to the fact the proceedings had been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any such obligations.

Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay of all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in the Memorandum of Understanding to stay all of the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in six claims (as explained below in detail) in favour of the plaintiff. In four of those cases, NLB filed a constitutional suit after extraordinary legal measure of NLB with the Supreme Court of the Republic of Croatia was not successful, and in two NLB filed an extraordinary legal measure with the Supreme Court of the Republic of Croatia.

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Contrary to the decisions of the court described above in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. The extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by the Supreme Court on 16 June 2015.

In the other cases, with respect to which court procedures described above are pending, final court decisions have not yet been issued.

The table below summarises the amounts according to final court decisions (not including penalty interest).

Date of the ruling	Plaintiff	Principal amount	Costs of the proceedings	Measures taken by NLB
May 2015	PBZ	254.76 EUR	15,781.25 HRK	Constitutional suit against the final judgement, as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 21 May 2018.
April 2018	PBZ	222,426.39 EUR	253,283.37 HRK	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles, and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 5 October 2021.
September 2017	ZaBa	492,430.53 EUR	748,583.75 HRK	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles, and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 5 October 2021.
November 2017	PBZ	220,115.98 EUR	688,268.12 HRK	NLB challenged the judgments with the extraordinary legal measure (revision) on the Supreme Count of the Republic of Croatia and later, if necessary, will challenge the judgments with all other available remedies of the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of NLB.
December 2018	PBZ	3,855,173.35 SEK	679,926.08 HRK	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.
March 2019	PBZ	9,185,141.76 USD	3,198,760.00 HRK	NLB challenged the judgment with the extraordinary legal measure (revision) on the Supreme Count of the Republic of Croatia and later, if necessary, will challenge the judgment with all other available remedies of the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of NLB.

The NLB Shareholders' Meeting provided the Management Board of NLB with instructions how to act in the event of existing or potential new final decisions by Croatian courts against LB and NLB regarding the transferred foreign currency deposits, especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies and regarding the management of the property from that perspective.

On 19 July 2018, the National Assembly of the Republic of Slovenia passed the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: 'the ZVKNNLB') which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, hereinafter: 'the Fund'), shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, that is the principle amount, accrued interest, expenses of court, attorney's expenses and other expenses of the plaintiff, and expenses related to enforcement with the accrued interest, and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings. There shall be no compensation for any voluntarily made payments by NLB. In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB (which was concluded on 14 August 2018), NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits, and use against court decisions that are disadvantageous for NLB, all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement. In the aforementioned case from May 2015, the Succession Fund of the Republic of Slovenia has already compensated the sums recovered from NLB by enforcement.

All procedures relating to the receivables of PBZ and ZaBa, as well as NLB's view on this matter were also discussed with the ECB as the supervisor of both Croatian banks.

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Provisions for legal risks for claims filed by PBZ and ZaBa are not formed, since NLB believes that based on the factual and legal evaluation there are greater prospects for the court proceedings to end in favour of NLB than the opposite.

Regardless of the negative judgements, in the financial statements NLB Group did not recognise the negative impact due to protection provided by the ZVKNNLB. For final judgements, NLB Group recognised the liabilities and related assets which currently amount to approximately EUR 22 million. They are included within other financial assets (note 5.6.d) and other financial liabilities (note 5.15.d).

b) Provisions for guarantees and commitments

Movements in provisions for guarantees and commitments

in EUR thousands

NLB Group	Balance as at 1 Jan 2021	Effects of translation of foreign operations to presentation currency	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Disposal of subsidiary	Balance as at 31 Dec 2021
Notes				**4.13.**	**4.13.**			**5.16.a)**
12-month expected credit losses								
Guarantees and commitments	15,796	1	1,388	(1,337)	(2,810)	(4)	(122)	12,912
Lifetime ECL not credit-impaired								
Guarantees and commitments	2,767	-	(730)	(358)	(37)	4	(6)	1,640
Lifetime ECL credit-impaired								
Guarantees and commitments	23,611	1	(659)	(4,239)	277	48	(150)	18,889
Of which: Purchased or originated credit-impaired								
Guarantees and commitments	5,057	-	-	(755)	-	42	-	4,344

in EUR thousands

NLB Group	Balance as at 1 Jan 2020	Effects of translation of foreign operations to presentation currency	Acquisition of subsidiaries	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2020
Notes					**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses								
Guarantees and commitments	12,909	(4)	1,049	659	1,863	(676)	(4)	15,796
Lifetime ECL not credit-impaired								
Guarantees and commitments	2,444	(5)	-	(300)	(99)	727	-	2,767
Lifetime ECL credit-impaired								
Guarantees and commitments	24,068	1	1,249	(359)	(1,293)	(40)	(15)	23,611
Of which: Purchased or originated credit-impaired								
Guarantees and commitments	1,984	-	1,249	-	1,838	-	(14)	5,057

NLB	Balance as at 1 Jan 2021	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2021
						in EUR thousands
Notes			**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses						
Guarantees and commitments	7,510	530	(1,451)	(2,683)	3	**3,909**
Lifetime ECL not credit-impaired						
Guarantees and commitments	732	(123)	(340)	(129)	1	**141**
Lifetime ECL credit-impaired						
Guarantees and commitments	20,301	(407)	(3,698)	273	41	**16,510**
Of which: Purchased or originated credit-impaired						
Guarantees and commitments	3,808	-	186	-	47	**4,041**

NLB	Balance as at 1 Jan 2020	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2020
						in EUR thousands
Notes			**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses						
Guarantees and commitments	6,145	193	947	228	(3)	**7,510**
Lifetime ECL not credit-impaired						
Guarantees and commitments	653	136	(418)	363	(2)	**732**
Lifetime ECL credit-impaired						
Guarantees and commitments	22,365	(329)	(1,622)	(97)	(16)	**20,301**
Of which: Purchased or originated credit-impaired						
Guarantees and commitments	1,984	-	1,838	-	(14)	**3,808**

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Movement of contractual amounts of guarantees and commitments in off-balance sheet

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2021	2,824,750	103,950	46,270	2,974,970	1,896,418	73,255	34,907	2,004,580
Effects of translation of foreign operations to presentation currency	687	24	9	720	-	-	-	-
Increases/(Decreases)	219,688	(4,666)	(9,309)	205,713	4,769	(14,315)	(8,167)	(17,713)
Foreign exchange differences	2,733	101	51	2,885	2,570	92	48	2,710
Transfers	(685)	(1,752)	2,437	-	9,815	(9,930)	115	-
Disposal of subsidiary	(19,202)	(121)	(460)	(19,783)	-	-	-	-
Balance as at 31 December 2021	**3,027,971**	**97,536**	**38,998**	**3,164,505**	**1,913,572**	**49,102**	**26,903**	**1,989,577**

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2020	2,108,271	112,616	73,196	2,294,083	1,575,211	62,429	69,640	1,707,280
Effects of translation of foreign operations to presentation currency	(543)	(56)	(3)	(602)	-	-	-	-
Acquisition of subsidiaries (note 5.12.c)	369,847	-	7,514	377,361	-	-	-	-
Increases/(Decreases)	368,553	(16,936)	(43,564)	308,053	346,086	(6,940)	(37,834)	301,312
Foreign exchange differences	(3,615)	(147)	(163)	(3,925)	(3,702)	(147)	(163)	(4,012)
Transfers	(17,763)	8,473	9,290	-	(21,177)	17,913	3,264	-
Balance as at 31 December 2020	**2,824,750**	**103,950**	**46,270**	**2,974,970**	**1,896,418**	**73,255**	**34,907**	**2,004,580**

c) Movements in employee benefit provisions

Post-employment benefits

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	18,162	15,320	12,695	13,165
Effects of translation of foreign operations to presentation currency	-	(2)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	3,374	-	-
Disposal of subsidiaries	(83)	-	-	-
Additional provisions (note 4.9.)	1,957	983	723	672
Provisions released (note 4.9.)	(1,831)	(560)	(750)	(433)
Interest expenses (note 4.1.)	177	76	43	27
Utilised during year (payments)	(532)	(151)	(45)	(36)
Actuarial gains and losses	1,377	(878)	115	(700)
Balance as at 31 December	**19,227**	**18,162**	**12,781**	**12,695**

Other employee benefits

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	2,545	2,384	1,525	1,578
Effects of translation of foreign operations to presentation currency	-	(1)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	179	-	-
Additional provisions (note 4.9.)	222	234	100	103
Provisions released (note 4.9.)	(275)	(112)	(132)	(38)
Interest expenses (note 4.1.)	25	24	5	3
Utilised during year	(297)	(163)	(73)	(121)
Balance as at 31 December	**2,220**	**2,545**	**1,425**	**1,525**

Other employee benefits include NLB Group's obligations for jubilee long-service benefits.

d) Movements in restructuring provisions

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	15,565	14,500	15,354	14,182
Effects of translation of foreign operations to presentation currency	11	(1)	-	-
Disposal of subsidiaries	-	(50)	-	-
Additional provisions (note 4.13.)	14,797	3,500	-	3,500
Utilised during year	(11,156)	(2,384)	(4,223)	(2,328)
Balance as at 31 December	**19,217**	**15,565**	**11,131**	**15,354**

Following the acquisition of Komercijalna banka a.d. Beograd in December 2020, NLB Group prepared a plan for optimisation of operations, including anticipated merger of banks in Serbia and decreased number of employees. Therefore in 2021, Serbian banks recognised restructuring provisions in the amount of EUR 14,797 thousand, of which EUR 6,868 thousand were already utilised during the year. The rest is expected to be paid to employees leaving the bank within the next twelve months.

Significant amount of restructuring provisions relates also to NLB, which has in previous periods adopted a business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with a focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in decreased number of employees in the coming years.

e) Movements in provisions for legal risks

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	46,602	16,627	5,673	2,211
Effects of translation of foreign operations to presentation currency	40	(8)	-	-
Acquisition of subsidiaries (note 5.12.c)	-	28,686	-	-
Disposal of subsidiaries	-	(119)	-	-
Additional provisions (note 4.13.)	16,632	6,355	1,881	4,411
Provisions released (note 4.13.)	(8,759)	(1,659)	(1,809)	(181)
Utilised during year	(9,227)	(3,280)	(2,279)	(768)
Balance as at 31 December	**45,288**	**46,602**	**3,466**	**5,673**

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f) Movements in other provisions

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Balance as at 1 January	11	162	-	85
Additional provisions (note 4.13.)	-	34	-	-
Provisions released (note 4.13.)	-	(153)	-	(85)
Utilised during year	-	(32)	-	-
Balance as at 31 December	**11**	**11**	**-**	**-**

5.17. Deferred income tax

a) Analysis by type of deferred income taxes

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Deferred income tax assets				
Valuation of financial instruments and capital investments	33,002	37,729	31,696	37,650
Impairment of financial assets	5,879	3,190	917	947
Provisions for liabilities and charges	10,128	8,489	2,660	3,138
Depreciation and valuation of non-financial assets	3,505	4,063	112	140
Fair value adjustments of financial assets measured at amortised cost	320	938	-	-
Unpaid dividends	3,876	-	3,876	-
Tax losses	253	-	-	-
Tax reliefs	945	1,179	-	-
Other	62	111	-	-
Total deferred income tax assets	**57,970**	**55,699**	**39,261**	**41,875**
Deferred income tax liabilities				
Valuation of financial instruments	12,026	21,023	6,620	11,871
Depreciation and valuation of non-financial assets	1,374	1,515	169	193
Impairment of financial assets	3,960	3,271	570	597
Fair value adjustments of financial assets measured at amortised cost	3,338	592	-	-
Other	1,340	1,984	-	-
Total deferred income tax liabilities	**22,038**	**28,385**	**7,359**	**12,661**
Net deferred income tax assets	**38,977**	**31,789**	**31,902**	**29,214**
Net deferred income tax liabilities	**(3,045)**	**(4,475)**	**-**	**-**

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				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Included in the income statement	**3,423**	**3,238**	**112**	**540**
- valuation of financial instruments and capital investments	(1,024)	308	(3,241)	308
- impairment of financial assets	2,260	3,108	(30)	163
- provisions for liabilities and charges	1,453	54	(489)	75
- depreciation and valuation of non-financial assets	(338)	(336)	(4)	(6)
- tax losses	253	-	-	-
- unpaid dividends	3,876	-	3,876	-
- tax reliefs	(234)	-	-	-
- fair value adjustments of financial assets measured at amortised cost	(3,413)	-	-	-
- other	590	104	-	-
Included in other comprehensive income	**4,950**	**(1,619)**	**2,576**	**(895)**
- valuation and impairment of financial assets measured at fair value through other comprehensive income	4,772	(1,486)	2,565	(762)
- actuarial assumptions and experience	178	(133)	11	(133)
Included in equity - transfer of fair value reserve	**368**	**-**	**-**	**-**
- valuation of financial assets measured at fair value through other comprehensive income	368	-	-	-

Temporary differences on which NLB did not recognise deferred tax assets, as related deferred tax assets would exceed the amount of deferred tax assets expected to be reversed in five years are presented in the table below, together with non-recognised deferred tax assets.

				in EUR thousands
	31 Dec 2021		31 Dec 2020	
NLB	Temporary difference	Non-recognised deferred tax assets	Temporary difference	Non-recognised deferred tax assets
Tax loss	974,902	185,231	922,898	175,351
Tax reliefs	4,329	823	-	-
Impairments and valuation of capital investments and financial instruments	73,359	13,938	242,861	46,144

Tax loss on which NLB did not recognise deferred tax assets, as at 31 December 2021 amounts to EUR 974,902 thousand (31 December 2020: 922,898 thousand). Slovenian tax law does not set deadlines by which uncovered tax losses must be utilised, but the use of tax loss is limited to 50% of the actual tax base. Other banking members have no unrecognised deferred tax assets for tax losses.

NLB Group did not recognise deferred tax assets on temporary differences arising from the impairments of investments in subsidiaries and associates where it is not probable that the temporary difference will reverse in the foreseeable future. These temporary differences amount to EUR 315,531 thousand as at 31 December 2021 (31 December 2020: EUR 347,040 thousand).

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b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousands

NLB Group										
	Provisions for liabilities and charges	**Valuation of financial instruments and capital investments**	**Depreciation and valuation of non-financial assets**	**Impairment of financial assets**	**Unpaid dividends**	**Tax losses**	**Tax relief**	**Fair value adjustments of financial assets measured at amortised cost**	**Other**	**Total**
Balance as at 1 January 2020	4,109	36,286	1,087	910	-	-	-	-	-	42,392
Effects of translation of foreign operations to presentation currency	4	-	-	2	-	-	-	-	-	6
(Charged)/credited to profit and loss	54	188	(156)	2,247	-	-	-	-	104	2,437
(Charged)/credited to other comprehensive income	(133)	1,240	-	-	-	-	-	-	-	1,107
Acquisition of subsidiaries	4,455	15	3,132	31	-	-	1,179	938	7	9,757
Balance as at 31 December 2020	**8,489**	**37,729**	**4,063**	**3,190**	**-**	**-**	**1,179**	**938**	**111**	**55,699**
Effects of translation of foreign operations to presentation currency	8	-	1	4	-	-	-	-	2	15
(Charged)/credited to profit and loss	1,453	(3,368)	(480)	2,791	3,876	253	(234)	(618)	(51)	3,622
(Charged)/credited to other comprehensive income	178	(1,359)	-	-	-	-	-	-	-	(1,181)
Disposal of subisidiaries	-	-	(79)	(106)	-	-	-	-	-	(185)
Balance as at 31 December 2021	**10,128**	**33,002**	**3,505**	**5,879**	**3,876**	**253**	**945**	**320**	**62**	**57,970**

in EUR thousands

NLB						
	Provisions for liabilities and charges	**Valuation of financial instruments and capital investments**	**Depreciation and valuation of non-financial assets**	**Impairment of financial assets**	**Unpaid dividends**	**Total**
Balance as at 1 January 2020	3,196	36,244	154	784	-	40,378
(Charged)/credited to profit and loss	75	188	(14)	163	-	412
(Charged)/credited to other comprehensive income	(133)	1,218	-	-	-	1,085
Balance as at 31 December 2020	**3,138**	**37,650**	**140**	**947**	**-**	**41,875**
(Charged)/credited to profit and loss	(489)	(3,367)	(28)	(30)	3,876	(38)
(Charged)/credited to other comprehensive income	11	(2,587)	-	-	-	(2,576)
Balance as at 31 December 2021	**2,660**	**31,696**	**112**	**917**	**3,876**	**39,261**

Deferred income tax liabilities

						in EUR thousands
	NLB Group					
	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Fair value adjustments of financial assets measured at amortised cost	Total
Balance as at 1 January 2020	3,270	11,159	1,296	-	-	15,725
Effects of translation of foreign operations to presentation currency	(7)	-	(2)	-	-	(9)
Charged/(credited) to profit and loss	(861)	(120)	180	-	-	(801)
Charged/(credited) to other comprehensive income	696	2,030	-	-	-	2,726
Acquisition of subsidiaries	173	7,954	41	1,984	592	10,744
Balance as at 31 December 2020	**3,271**	**21,023**	**1,515**	**1,984**	**592**	**28,385**
Effects of translation of foreign operations to presentation currency	1	3	1	1	1	7
Charged/(credited) to profit and loss	531	(2,344)	(142)	(641)	2,795	199
Charged/(credited)to other comprehensive income	157	(6,656)	-	-	-	(6,499)
Disposal of subisidiaries	-	-	-	(4)	(50)	(54)
Balance as at 31 December 2021	**3,960**	**12,026**	**1,374**	**1,340**	**3,338**	**22,038**

				in EUR thousands
	NLB			
	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1 January 2020	477	10,131	201	10,809
Charged/(credited) to profit and loss	-	(120)	(8)	(128)
Charged/(credited) to other comprehensive income	120	1,860	-	1,980
Balance as at 31 December 2020	**597**	**11,871**	**193**	**12,661**
Charged/(credited) to profit and loss	-	(126)	(24)	(150)
Charged/(credited) to other comprehensive income	(27)	(5,125)	-	(5,152)
Balance as at 31 December 2021	**570**	**6,620**	**169**	**7,359**

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5.18. Income tax relating to components of other comprehensive income

in EUR thousands

2021	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	(1,377)	178	(1,199)	(115)	11	(104)
Financial assets measured at fair value through other comprehensive income	(34,322)	4,772	(29,550)	(17,742)	2,565	(15,177)
Share of associates and joint ventures	(30)	-	(30)	-	-	-
Total	**(35,729)**	**4,950**	**(30,779)**	**(17,857)**	**2,576**	**(15,281)**

in EUR thousands

2020	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	878	(133)	745	700	(133)	567
Financial assets measured at fair value through other comprehensive income	10,364	(1,486)	8,878	4,012	(762)	3,250
Share of associates and joint ventures	(11,067)	-	(11,067)	-	-	-
Total	**175**	**(1,619)**	**(1,444)**	**4,712**	**(895)**	**3,817**

5.19. Other liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Accrued salaries	18,615	19,068	9,050	9,807
Unused annual leave	6,032	6,137	2,425	2,497
Deferred income	11,374	12,364	5,257	5,391
Taxes payable	9,450	5,009	3,999	4,107
Payments received in advance	3,997	2,195	308	199
Other liabilities	-	859	-	-
Total	**49,468**	**45,632**	**21,039**	**22,001**

5.20. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change in 2021. It 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. As at 31 December 2021, the major shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share.

The book value of a NLB share on a consolidated level as at 31 December 2021 was EUR 103.9 (31 December 2020: EUR 97.6), and on solo level was EUR 77.6 (31 December 2020: EUR 72.5). It is calculated as the ratio of net assets' book value excluding other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2021 amounts to EUR 458,266 thousand (31 December 2020: EUR 341,992 thousand), consists of NLB net profit for 2021 in the amount of EUR 208,421 thousand (2020: EUR 113,952 thousand), the transfer of fair value reserve in the amount of EUR 53 thousand on the derecognition of equity financial instruments measured at fair value through OCI and retained earnings from previous years in the amount of EUR 249,792 thousand. Its allocation will be subject to a decision by the Bank's General Assembly.

The proposal for the General Assembly will be prepared by the Management and the Supervisory Board, considering restrictions imposed by the regulators, Group's risk appetite, target capital adequacy at Group's level and actual prevailing capital position at the time of the proposal.

The shares give to their holders the right to vote at the NLB's meeting of shareholders where, as a rule, each share entitles its holder to one vote. Nevertheless, a shareholder who acquires shares which, together with the shares already held by such shareholder or by a third person on behalf of such shareholder, represent more than 25% of the NLB's share capital, may only exercise its voting rights under such shares if NLB's Supervisory Board approves such an acquisition. The Supervisory Board's approval may only be rejected if, following such an acquisition, such a person would hold shares representing more than 25% of NLB's issued share capital plus one share. The approval shall be considered given if not expressly rejected in 20 days. No such approval is necessary in respect of the shares acquired by a person on behalf of third persons provided that such a person is not entitled to exercise the voting rights arising out of such shares at its own discretion and undertakes to NLB that it will not exercise the voting rights based on voting instructions unless such voting instructions are accompanied with a confirmation that the person giving such instructions is the beneficial owner of the shares in respect of which votes are to be exercised and does not hold in the aggregate, directly or indirectly 25% or more NLB shares with voting rights.

The shares also give their holders the right to be informed, as well as the pre-emptive right to subscribe for new shares on a pro rata basis in case of a share capital increase, the right to a pro-rata share of remaining assets in case of bankruptcy or liquidation or NLB and the right to receive a dividend. In 2021, NLB paid dividends for previous year in the amount of 4.61 EUR per share (2020: NLB did not pay out any dividends for previous year), which decreased retained earnings for EUR 92,200 thousand.

As at 31 December 2021 and 31 December 2020, NLB holds no own shares. In June 2019, the General Assembly of NLB authorised the Management Board that in the period of 36 months from the adoption of the shareholders' resolution, it can buy own shares of the Bank for the payment of variable remuneration to certain employees as required by the Banking Act and other relevant regulations. NLB did not buy any own shares based on this authorisation.

5.21. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2021 and 31 December 2020 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2021 and 31 December 2020, profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2021, NLB recorded a net profit in the amount of EUR 208,421 thousand (2020: net profit EUR 113,952 thousand) which is included in the retained earnings as at 31 December 2021.

b) Accumulated other comprehensive income

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Financial assets measured at fair value through other comprehensive income - debt securities	8,540	38,852	12,365	27,242
Financial assets measured at fair value through other comprehensive income - equity securities	2,826	3,644	99	452
Actuarial defined benefit pension plans	(5,488)	(4,399)	(3,696)	(3,592)
Foreign currency translation	(17,184)	(17,724)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Total	**(10,552)**	**21,127**	**8,768**	**24,102**

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5.22. Capital adequacy ratios

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	767,152	552,146	249,845	228,040
Profit eligible - from current year	135,968	63,635	39,613	21,658
Accumulated other comprehensive income	(10,091)	21,588	8,768	24,102
Other reserves	13,522	13,522	13,522	13,522
Minority interest	27,905	71,562	-	-
Prudential filters: Additional Valuation Adjustments (AVA)	(3,498)	(3,632)	(1,606)	(1,755)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(39,116)	(33,222)	(18,829)	(9,914)
(-) Insufficient coverage for non-performing exposures	(90)	-	(10)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,959,601**	**1,753,448**	**1,362,681**	**1,347,031**
Minority interest	5,950	14,614	-	-
Additional Tier 1 capital	5,950	14,614	-	-
TIER 1 CAPITAL	**1,965,551**	**1,768,062**	**1,362,681**	**1,347,031**
Capital instruments and subordinated loans eligible as Tier 2 capital	284,595	284,595	284,595	284,595
Minority interest	2,344	12,806	-	-
TIER 2 CAPITAL	**286,939**	**297,401**	**284,595**	**284,595**
TOTAL CAPITAL	**2,252,490**	**2,065,463**	**1,647,276**	**1,631,626**
RWA for credit risk	10,205,172	10,222,923	5,411,433	4,805,127
RWA for market risks	1,206,363	1,250,563	698,463	657,088
RWA for credit valuation adjustment risk	11,850	200	11,850	200
RWA for operational risk	1,244,023	947,342	586,781	566,385
TOTAL RISK EXPOSURE AMOUNT (RWA)	**12,667,408**	**12,421,028**	**6,708,527**	**6,028,800**
Common Equity Tier 1 Ratio	15.5%	14.1%	20.3%	22.3%
Tier 1 Ratio	15.5%	14.2%	20.3%	22.3%
Total Capital Ratio	17.8%	16.6%	24.6%	27.1%

European banking capital legislation – CRD IV, is based on the Basel III guidelines. The legislation 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%; and
- 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, NLB must meet other requirements and recommendations that are imposed by the supervisory institutions or by the legislation:

- The Pillar 2 Requirement (SREP requirement): bank-specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum total SREP capital requirement – TSCR);
- The applicable combined buffer requirement (CBR): a 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 the 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 is a recommendation, and 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).

NLB's overall capital requirement on the consolidated level

SREP requirement		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)				
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%

The Overall Capital Requirement (OCR) amounted to 14.25% for NLB on the consolidated basis, consisting of:

- 10.75% TSCR (8% Pillar 1 Requirement and 2.75% Pillar 2 Requirement); 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%.

The Pillar 2 Requirement for 2022 decreased by 0.15 p.p. to 2.60%, as a result of better overall SREP assessment.

The capital adequacy of NLB and NLB Group at the end of year 2021 remains strong in accordance with risk appetite orientations, at a level which covers all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the P2G.

As at 31 December 2021, NLB Group capital ratios on a consolidated basis stand at:

- 15.5% CET1 ratio,
- 15.5% Tier 1 ratio,
- 17.8% Total Capital ratio.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses a standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to a basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

As at 31 December 2021, the Total Capital Ratio for NLB Group stood at 17.8% (or 1.2 p.p. higher than at the end of 2020), and for NLB at 24.6% (or 2.5 p.p. lower than at the end of 2020). As at 31 December 2021, the CET1 ratio stood at 15.5% (1.4 p.p. higher than at the end of 2020). The higher NLB Group total capital adequacy compared to the end of 2020 derives from higher capital (increase of EUR 187.0 million compared to 31 December 2020) which compensated RWA increase of EUR 246.4 million compared to 31 December 2020 for the Group. Higher RWA derives mainly 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 capital calculation as at 31 December 2021 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.

The RWA for credit risk decreased by EUR 17.8 million compared to 31 December 2020. On one hand, the factors for 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 Macedonia on EBA's third party equivalent list, legislation criteria changes for the CRR collateral adequacy, signing of 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, the 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 compared to 31 December 2020 due to the lower fixed income position in the trading book. And yet, RWA for FX risk increased by EUR 35.3 million compared to 31 December 2020, and RWA for CVA increased by EUR 10.7 million – of which EUR 10.6 million as a result 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 operating risks (EUR 296.7 million compared to 31 December 2020) 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 the acquisition of Komercijalna banka Beograd in 2020.

The most important goal of internal capital adequacy assessment process (ICAAP) in NLB Group, set up in accordance with ECB Guidelines, is ensuring adequate capital and sustainability on an ongoing basis. The purpose of this process is to have in place sound, effective, and comprehensive strategies and processes to assess and maintain capital on an ongoing basis, as well the adequate distribution of internal capital for covering the nature and level of the risks to which NLB Group is or might be exposed. In addition, NLB Group gives strong emphasis on its integration into the overall risk management system in order to assure proactive support for informed decision-making.

From an economic perspective, NLB Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. A normative perspective is a multiyear forward-looking assessment of NLB Group which shows its ability to fulfil all of its capital-related regulatory and supervisory requirements and risk appetite of NLB Group. Within these capital constraints, NLB Group defines its management buffers in the Risk appetite above the regulatory and supervisory requirement and internal capital needs that allow it to sustainably follow its business strategy. A normative perspective includes several stress scenarios which are integrated into NLB Group's annual business plan review and budgeting process.

5.23. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Short-term guarantees	258,975	222,440	112,758	122,136
- financial	139,732	119,309	63,188	61,322
- non-financial	119,243	103,131	49,570	60,814
Long-term guarantees	977,759	904,002	614,343	567,532
- financial	393,901	359,787	226,747	196,681
- non-financial	583,858	544,215	387,596	370,851
Loan commitments	1,878,988	1,816,441	1,259,489	1,306,791
Letters of credit	35,615	21,794	1,950	2,256
Other	13,167	10,293	1,037	5,865
	3,164,504	**2,974,970**	**1,989,577**	**2,004,580**
Provisions (note 5.16.b)	(33,441)	(42,174)	(20,560)	(28,543)
Total	**3,131,063**	**2,932,796**	**1,969,017**	**1,976,037**

Fee income from issued non-financial guarantees amounted to EUR 7,578 thousand (2020: EUR 4,910 thousand) in NLB Group, and to EUR 4,547 thousand (2020: EUR 4,397 thousand) in NLB.

In addition to the instruments presented in the table above, NLB Group and NLB have also some low-risk off-balance sheet items, for which 0% credit conversion factor is applied in accordance with the Capital Requirements Regulation (credit and other lines which can be irrevocably cancelled by a bank). As at 31 December 2021 these items at the NLB Group level amount to EUR 372,403 thousand (31 December 2020: EUR 307,093 thousand), and at the NLB level EUR 302,063 thousand (31 December 2020: EUR 236,542 thousand).

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b) Analysis of derivative financial instruments by notional amounts

in EUR thousands

	NLB Group				NLB			
	31 Dec 2021		31 Dec 2020		31 Dec 2021		31 Dec 2020	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	99,349	1,284,832	99,420	1,425,765	109,137	1,284,832	78,413	1,425,765
- *currency swaps*	99,349	16,844	99,420	6,068	109,137	16,844	78,413	6,068
- *interest rate swaps*	-	1,267,988	-	1,419,697	-	1,267,988	-	1,419,697
Options	9,880	30,945	12,811	27,000	9,880	30,945	12,811	27,000
- *interest rate options*	-	30,945	-	27,000	-	30,945	-	27,000
- *securities options*	9,880	-	12,811	-	9,880	-	12,811	-
Forward contracts	38,825	26,921	91,309	41,423	37,511	26,921	93,846	41,423
- *currency forward*	38,825	26,921	91,309	41,423	37,511	26,921	93,846	41,423
Total	**148,054**	**1,342,698**	**203,540**	**1,494,188**	**156,528**	**1,342,698**	**185,070**	**1,494,188**
	1,490,752		**1,697,728**		**1,499,226**		**1,679,258**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 572,455 thousand (31 December 2020: EUR 573,753 thousand) (note 5.5.b). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2. and 5.5.

c) Capital commitments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Capital commitments for purchase of:				
- property and equipment	1,696	2,433	1,623	2,429
- intangible assets	4,243	9,566	4,094	9,403
Total	**5,939**	**11,999**	**5,717**	**11,832**

5.24. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Fiduciary activities	26,165,580	25,713,799	24,806,894	24,466,910
Settlement and other services	1,079,500	971,600	977,197	907,132
Total	**27,245,080**	**26,685,399**	**25,784,091**	**25,374,042**

Fiduciary activities

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Assets				
Clearing or transaction account claims for client assets	**26,071,589**	**25,633,706**	**24,741,052**	**24,396,203**
- from financial instruments	26,024,700	25,630,244	24,694,275	24,392,773
- receipt, processing, and execution of orders	10,085,409	9,194,539	9,346,002	8,502,331
- management of financial instruments portfolio	588,761	528,206	-	-
- custody services	15,350,530	15,907,499	15,348,273	15,890,442
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	180	49	68	17
- to other settlement systems and institutions for bought financial instrument (debtors)	46,709	3,413	46,709	3,413
Clients' money	**94,934**	**80,094**	**65,842**	**70,707**
- at settlement account for client assets	75,151	42,029	46,059	32,642
- at bank transaction accounts	19,783	38,065	19,783	38,065
Liabilities				
Clearing or transaction liabilities for client assets	**26,165,580**	**25,713,799**	**24,806,894**	**24,466,910**
- to client from cash and financial instruments	26,129,503	25,707,581	24,797,057	24,461,033
- receipt, processing, and execution of orders	10,110,124	9,230,406	9,371,707	8,538,198
- management of financial instruments portfolio	591,772	537,283	-	-
- custody services	15,427,607	15,939,892	15,425,350	15,922,835
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	3,865	72	134	72
- to other settlement systems and institutions for bought financial instrument (creditors)	31,825	5,755	9,316	5,414
- to bank or settlement bank account for fees and costs, etc.	387	391	387	391

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Fee income for funds managed on behalf of third parties

				in EUR thousands
	NLB Group		NLB	
	2021	2020	2021	2020
Fiduciary activities (note 4.3.b)	11,385	9,812	8,911	8,494
Settlement and other services	1,567	925	1,552	864
Total	**12,952**	**10,737**	**10,463**	**9,358**

6. Risk management

Risk management in NLB Group is implemented in accordance with the set strategic guidelines, established internal policies, and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and relevant good banking practices. In addition, the Group is constantly enhancing and complementing the existing approaches, methodologies, and processes in all risk management segments with the aim to proactively support decision-making.

Managing risks and capital efficiently is crucial for NLB Group sustained long-term profitable operations. Robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group. NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group.

NLB Group's Risk management framework supports business decision-making on strategic and operating levels, comprehensive steering, proactive risk management, and mitigation by incorporating:
- risk appetite statement and risk strategy orientations;
- yearly review of strategic business goals, budgeting, and capital planning process;
- internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP);
- recovery plan activities;
- other internal stress-testing capabilities, early warning systems, and regular risk analysis;
- regulatory and internal management reporting.

NLB 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. Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

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

Key strategic risk management principles of NLB Group are defined by its Risk Appetite and Risk Strategy, designed in accordance with the Group's business model, integrating forward-looking perspective. The Strategy of NLB Group, the Risk Appetite, Risk Strategy, and the key internal policies of NLB Group – which are approved by the Management and Supervisory Boards – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal strategic objectives and fulfil all external requirements. The main strategic risk guidelines are comprehensively integrated into decision-making, including the business plan review and budgeting process.

NLB Group plans a prudent risk profile and optimal capital usage, representing an important element of its business strategy and related mid-term financial targets. The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks – a diversified credit portfolio, adequate credit portfolio quality, the sustainable costs of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards ensuring an adequate liquidity position on an ongoing basis. The Group limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to moderate level. The fundamental orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such a risk must not significantly impact its operations. On this basis, changes of control activities, processes, and/or organisation are performed. Besides the Group also focuses on proactive mitigation, prevention, and minimisation of potential damage. The conclusion of transactions with derivative financial instruments at NLB is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, NLB Group pursues the goals of low to moderate exposure. The tolerance for other risk types is low and focuses on minimising their possible impacts on NLB Group's entire operations.

Environmental, social, and governance (ESG) risks do not represent a new risk category, but rather an aggravating factor for the types of risks, not least credit and operational risk. The Group integrates and manages them within the established risk management framework. The management of ESG risks follows ECB and EBA guidelines with the tendency to comprehensively integrate them 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 clients' data as prerequisite for adequate decision-making and the corresponding proactive management of ESG risks.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy. Within these frameworks, the Group monitors a range of risk metrics, including internal capital allocation, in order to assure Group's risk profile is in line with its risk appetite. The usage 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 banking subsidiaries within NLB Group adapted a corresponding approach to monitor and manage their target risk profiles.

NLB Group established a comprehensive stress-testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely response when necessary. Robust and uniform stress-testing programme includes all material types of risk and relevant stress scenario analysis, according to the vulnerability of the Group's business model. In 2021, the Group established own ESG stress testing concept to identify most relevant financial vulnerabilities stemming from climate risk. Stress-testing is integrated into the risk appetite, ICAAP, ILAAP, Recovery Plan, and budgeting process to support proactive management of the Group's risk profile, namely the capital and liquidity positions in a forward-looking perspective. In addition, the Group also performs reverse stress tests with the aim to test its maximum recovery capacity. Other partial risk assessments are covered by other risk analysis, based on relevant risk parameters, and integrated into the process of setting a risk management limit system.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, representing a secondary source of repayment with the aim of efficient credit risk management and optimal capital consumption. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in NLB Group are described in more relevant details in the section 'Credit risk management.' When hedging market risks, namely interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

b) Risk management structure and organisation

NLB Group's corporate governance framework is 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), 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 provide cohesive risk management governance in NLB Group.

NLB Group established three lines of a defence framework with the aim of managing risks effectively. The three lines of defence concept provides a clear division of activities and defines roles and responsibilities for risk management at different levels within the Group. Risk management in the Group acts as a second line of defence, accountable for appropriate managing, assessing, monitoring, and reporting of risks in the Bank as the main entity in Slovenia, and as the competence centre in charge of seven banking members and other non-core subsidiaries which are in a controlled wind-out.

Overall, the organisation and delineation of competencies in NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in NLB Group is managed within the Risk management competence line, which is a specialised competence line encompassing several professional areas for which the Global Risk Department, the Credit Risk – Corporate Department, the Credit Risk – Retail Department and the Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The risk management competence line is in charge of formulating and controlling the risk management policies of NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the NLB Group, monitoring NLB Group's risk exposures, and preparing external and internal reports.

All members of NLB Group that are included in the financial statements of NLB 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, which is where the Management Board and the Supervisory Board, adopt appropriate measures.

The credit ratings of clients that are materially important to NLB 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. 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. This same principle and process is set also for the issuing of credit exposures for the materially important clients of NLB Group.

Risk monitoring in NLB Group members is operating within an independent and/or separate organisational unit. This way, monitoring of risks is established based on standardised and systemic risk management approaches. This monitoring enables a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk appetite, risk management strategy and policies of NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function 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 (the Risk Committee of the Supervisory Board or Board of Directors).

c) 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 member complies with the ECB regulation, while NLB 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 alignment of local regulation with CRR rules. With regards to capital adequacy, based on the provisions of the Directive (CRD), Decision (CRR), NLB Group applies a 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, considering also the specifics of the markets in which individual NLB 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-

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financial risks, in addition to the prescribed regulations, NLB 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, NLB 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 NLB 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 exposure to risks, uniform database 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.

d) Data and IT system

Risk data are calculated and stored in NLB Group DWH, 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.

e) Main emphasis of risk management in 2021

Efficient managing of risks and capital remains crucial for NLB Group to sustain long-term profitable operations. The Group further enhanced the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively, and prudently. Risk identification in a very early stage, its efficient managing, and the corresponding mitigation processes represent essential steps in such a system. The business and operating environment relevant for NLB Group operations is changing with trends, such as: changing customer behaviours, emerging new technologies and competitors, sustainable financing, actively contributing to a more balanced and inclusive economic and social system, and increasing new regulatory requirements. Respectfully, the risk management framework is regularly adapted with the aim of detecting and managing new potential emerging risks.

The NLB Group gives special focus on the inclusion of risk analysis into the decision-making process on strategic and operating levels, diversification in order to avoid a large concentration, optimal usage of internal capital, appropriate risk-adjusted pricing, regular education/trainings at all levels of management, and the assurance of overall compliance with internal policies/rules and relevant regulations.

COVID-19 did not have a meaningful impact on the quality of the credit portfolio. NLB 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. Though COVID-19 coupled with its implications on the business environment the Group faced growing excess liquidity and managed to stay well capitalised. Besides, 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.

NLB Group is engaged in contributing to sustainable finance by incorporating environmental, social, and governance (ESG) risks into its business strategies, risk management framework, and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, NLB Group implemented sustainability elements into its business model. 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. The NLB Group Sustainability Committee oversees the integration of the ESG factors to the NLB Group business model. The management of ESG risks addresses the NLB Group's overall credit approval process and related credit portfolio management. It follows ECB and EBA guidelines with a tendency of their comprehensive integration into all relevant processes. The availability of ESG data in the region where NLB Group operates is still lacking, nevertheless, the NLB Group strives to obtain relevant clients' data as prerequisite for adequate decision-making. In addition, the NLB Group carefully considers potential reputation and liability risks which could arise from sustainable financing of its clients.

6.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to NLB 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 European Central Bank or Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities function in accordance with NLB Group's risk management standards to enable 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 assess a client's operation, 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's 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 NLB 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 IFRS 9), 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. 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 NLB 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. In addition, a single name concentration add-on is based on the Granularity adjustment methodology and an industry concentration add-on is estimated based on the HHI concentration indexes.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, and at the collective level for the rest of the portfolio.

An individual review is performed for material Stage 3 financial assets which have been rated as non-performing based on the information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised.

Collective ECL allowances are made for the remainder of the portfolio, which is not assessed on an individual basis. Based on IFRS 9 requirements, financial assets measured at amortised cost or at fair value through other comprehensive income are attributed to the appropriate stage based on the estimated increase of credit risk of a single exposure since initial recognition. The stage of financial assets determines whether a 12-month or lifetime ECL must be considered. The ECL calculation is based on the forward-looking probability of default (PD) and loss given default (LGD), which are calculated using historic data and statistical modelling, as well as predicted macroeconomic parameters for different scenarios. For off-balance financial assets, the probability of the redemption of guarantees is considered when creating collective provisions. The models used to estimate future risk parameters are validated and back-tested on a regular basis to make loss estimations as realistic as possible.

The management of ESG risks addresses the Group's overall credit approval process and related credit portfolio management. Sustainable financing is implemented through amended documentary framework:

- Lending Policy for Non-Financial Companies in NLB d.d. and NLB Group where in special Chapter Environmental and Social Framework three categories are defined (prohibited, restricted, normal activities)
- Policy Environmental and Social Transaction Framework in NLB d.d. and NLB Group applies to certain transactions with greatest potential for significant E&S impact (exclusion list, regulatory compliance check, category A list).
- Methodology Environmental and Social Transaction Categorisation Methodology Framework in NLB d.d. and NLB Group that provides a guide to the typical level of inherent environmental and social risk according to NACE codes.

Beside addressing ESG risks in all relevant stages of the credit-granting process relevant ESG criteria were considered also in the collateral evaluation process. On portfolio level the Group does not face any large concentration towards specific NACE industrial sectors exposed to climate risk, whereby the role of transitional risk is more prevailing. The availability of ESG data in the region where NLB Group operates is still lacking, nevertheless the Group strives to obtain relevant clients' data as prerequisite for adequate decision-making.

b) Main emphasis in 2021

In the process of constantly complementing and enhancing credit risk management, NLB Group focuses on taking moderate risks, and at the same time ensuring an optimal return considering the risks assumed. Preserving high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market in the region, financing existing and new creditworthy clients. To further enhance existing risk management tools, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in credit risk assessment in line with best banking practises, while at the same time enabling faster responsiveness towards clients.

Lending growth in the corporate segment remained relatively moderate, while the SME and retail segment experienced a considerable growth in 2021 after a temporary slowdown in 2020 due to COVID-19 circumstances. After the acquisition of Komercijalna banka as at 30 December 2020, the Bank worked actively on harmonisation of risk management methodologies with the NLB Group. Credit portfolio remains well-diversified, there is no large concentration in any specific industry or client segment. The share of retail portfolio in the whole credit portfolio is quite substantial with still prevailing segment of mortgage loans.

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.

In addition to moratoria, the governments in Serbia and Slovenia provided public guarantee schemes for new financing of clients whose business has been materially impacted due to the COVID-19 pandemic; none of the guarantees have been exercised.

In 2021, the Group's credit portfolio quality remained solid with a stable rating structure and diversified portfolio. Great emphasis was placed on intensive and proactive handling of problematic customers and early warning system for detecting increased credit risk at a very early stage. The stock of NPE volume decreased, as a result of active workout management. As at 31 December 2021, the share of non-performing exposure by EBA methodology in NLB Group was 1.7% (2.8% at the end of 2020). Moreover, the coverage ratio remains high at 57.9%, which is well above the EU average published by the EBA (45.1% in 3Q 2021).

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c) Maximum exposure to credit risk

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Cash. cash balances at central banks. and other demand deposits at banks	5,005,052	3,961,812	3,250,437	2,261,533
Financial assets held for trading	7,678	84,855	7,682	18,831
Non-trading financial assets mandatorily at fair value through profit or loss	4,261	27,233	7,888	30.935
Financial assets at fair value through other comprehensive income	3,395,261	3,446,491	1,541,042	1,671,204
Financial assets at amortised cost				
Debt securities	1,717,626	1,503,087	1,436,424	1,277,880
Loans to governments	281,010	368,400	143,864	170,742
Loans to banks	140,683	197,005	199,287	158,320
Loans to financial organisations	141,709	158,871	226,144	177,198
Loans to individuals	5,519,290	4,933,093	2,656,935	2,377,770
Loans to other customers	4,645,112	4,159,496	2,118,210	1,838,468
Other financial assets	122,229	113,138	92,404	54,503
Derivatives - hedge accounting	568	-	568	-
Total net financial assets	**20,980,479**	**18,953,481**	**11,680,885**	**10,037,384**
Guarantees	1,236,734	1,126,442	727,101	689,668
Financial guarantees	533,633	479,096	289,935	258,003
Non-financial guarantees	703,101	647,346	437,166	431,665
Loan commitments	1,878,988	1,816,441	1,259,489	1,306,791
Other potential liabilities	48,782	32,087	2,987	8,121
Total contingent liabilities	**3,164,504**	**2,974,970**	**1,989,577**	**2,004,580**
Total maximum exposure to credit risk	**24,144,983**	**21,928,451**	**13,670,462**	**12,041,964**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and contingent liabilities. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

d) Collateral from financial assets that are credit-impaired

in EUR thousands

31 Dec 2021	NLB Group			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
	Net value of financial assets	Fair value of collateral	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost				
Loans to individuals	32,372	122,205	18,718	7,645
Loans to other customers	79,120	446,308	23,364	23,694
Other financial assets	127	6,661	2,098	32
Total	**111,619**	**575,174**	**44,180**	**31,371**

in EUR thousands

31 Dec 2020	NLB Group			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
	Net value of financial assets	Fair value of collateral	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost				
Loans to individuals	33,375	132,532	20,822	5,922
Loans to other customers	78,426	532,990	45,161	55,545
Other financial assets	149	2,338	1,478	89
Total	**111,950**	**667,860**	**67,461**	**61,556**

in EUR thousands

31 Dec 2021	NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
	Net value of financial assets	Fair value of collateral	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost				
Loans to individuals	17,785	49,518	8,114	3,924
Loans to other customers	21,490	117,862	4,037	4,478
Other financial assets	6	408	22	5
Total	**39,281**	**167,788**	**12,173**	**8,407**

in EUR thousands

31 Dec 2020	NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
	Net value of financial assets	Fair value of collateral	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost				
Loans to individuals	17,359	45,756	11,431	2,672
Loans to other customers	30,058	116,073	6,081	20,757
Other financial assets	7	448	70	44
Total	**47,424**	**162,277**	**17,582**	**23,473**

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e) Collateral from loans mandatorily at fair value through profit or loss

				in EUR thousands
	NLB Group			
	Fully/over collateralised loans			
	31 Dec 2021		31 Dec 2020	
	Net value of loans	Fair value of collateral	Net value of loans	Fair value of collateral
Loans mandatorily at fair value through profit or loss	-	-	25,076	47,725

				in EUR thousands
31 Dec 2021	NLB			
	Fully/over collateralised loans		Loans not or not fully covered with collateral	
	Net value of loans	Fair value of collateral	Net value of loans	Fair value of collateral
Loans mandatorily at fair value through profit or loss	4,198	4,500	3,690	2,050

				in EUR thousands
31 Dec 2020	NLB			
	Fully/over collateralised loans		Loans not or not fully covered with collateral	
	Net value of loans	Fair value of collateral	Net value of loans	Fair value of collateral
Loans mandatorily at fair value through profit or loss	22,989	43,620	7,946	1,787

f) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by NLB Group members in accordance with regulatory requirements. The master document regulating loan collateral in the NLB Group is the Loan Collateral Policy in NLB d.d. and NLB Group. The Policy has been adopted by the Management Board of NLB Group. The Policy represents the basic principles that NLB Group's employees must take into account 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.

NLB 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 and central banks, bank debt securities, and real-estate mortgages (the real estate must be, beside other criteria, located in the European Economic Area or in country recognised in EBA's third party equivalent list 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 (e.g., 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, NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

g) The processes for valuing collateral

In compliance with relevant regulations, NLB 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 NLB 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 of 30 to 70%, depending on the type of real estate and location, and for movables they range between 50 and 100%, depending on the type of movable.

The market value of financial instruments held by NLB 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, and 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, the 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 NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all possessing the necessary licences. NLB 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, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB 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, NLB 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.

NLB 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).

h) 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 the case of a debtor (borrower) defaulting on their contractual obligations to sell a specific property to recover claims, keep specific non-cash property or cash, or reduce or offset the amount of exposure against the counterparty's debt to the Bank.

NLB 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 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) and are, according to the Bank's assessment, suitable for insurance of investments.

- A pledge of an equity stake: non-marketable capital shares with a credit rating of at least B are adequate;
- A 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 d.d. Ljubljana – a pledge of an investment life insurance policy and a life insurance policy with a guaranteed return that includes saving, in addition to insurance.

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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.

NLB 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, individuals, 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. Slovene 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 rating), 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.

NLB 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.

i) Risks, deriving from valuation of received collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral, loan maturity and the client rating. The ratios are based on experience and regulatory guidelines.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral from which payment can be realistically expected if it is liquidated, is considered.

NLB Group has the largest concentration of collaterals arising from mortgages on real estate, which is a relatively reliable and quality type of collateral. Due to the possible decrease of real estate market prices, the Bank closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value, which are expected to be achieved in a sale (expected payment from collateral). Priority is given to property where the pledge right of the Bank is entered in the first place and the 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 consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans based on pledged securities and equity shares in NLB. Deviations from the Rules are subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined regarding the securities' liquidity, maturity, correlation with changes in market indexes, i.e., by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price.

Collateral consisting of the sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Business Rules – Collateral for Retail and Corporate Loans regulate which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Credit quality analysis for financial assets and contingent liabilities

in EUR thousands

	NLB Group					NLB				
31 Dec 2021	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities at amortised cost										
A	1,218,597	-	-	-	1,218,597	1,183,578	-	-	-	1,183,578
B	495,114	-	-	-	495,114	254,672	-	-	-	254,672
C	-	7,220	-	-	7,220	-	-	-	-	-
Loss allowance	(3,253)	(52)	-	-	(3,305)	(1,826)	-	-	-	(1,826)
Carrying amount	1,710,458	7,168	-	-	1,717,626	1,436,424	-	-	-	1,436,424
Loans and advances to banks at amortised cost										
A	89,499	-	-	-	89,499	199,390	-	-	-	199,390
B	51,382	-	-	-	51,382	79	-	-	-	79
Loss allowance	(198)	-	-	-	(198)	(182)	-	-	-	(182)
Carrying amount	140,683	-	-	-	140,683	199,287	-	-	-	199,287
Loans and advances to individuals at amortised cost										
A	5,305,833	46,972	-	249	5,353,054	2,554,006	26,634	-	-	2,580,640
B	60,891	23,933	-	16	84,840	16,919	15,108	-	-	32,027
C	5,827	49,330	-	293	55,450	-	24,293	-	-	24,293
D and E	-	-	125,297	2,430	127,727	-	-	57,396	-	57,396
Loss allowance	(18,336)	(7,398)	(76,204)	157	(101,781)	(3,503)	(2,421)	(31,497)	-	(37,421)
Carrying amount	5,354,215	112,837	49,093	3,145	5,519,290	2,567,422	63,614	25,899	-	2,656,935
Loans and advances to other customers at amortised cost										
A	1,172,770	59	-	3	1,172,832	875,912	26	-	-	875,938
B	3,333,087	198,824	-	26	3,531,937	1,421,398	85,402	-	-	1,506,800
C	124,628	213,301	-	17	337,946	53,965	37,876	-	-	91,841
D and E	-	-	209,229	30,079	239,308	-	-	68,782	3,855	72,637
Loss allowance	(50,961)	(26,624)	(135,994)	(613)	(214,192)	(10,101)	(1,787)	(46,272)	(838)	(58,998)
Carrying amount	4,579,524	385,560	73,235	29,512	5,067,831	2,341,174	121,517	22,510	3,017	2,488,218
Other financial assets at amortised cost										
A	92,430	37	-	-	92,467	83,943	1	-	-	83,944
B	26,908	128	-	-	27,036	5,223	19	-	-	5,242
C	319	694	-	-	1,013	3,224	29	-	-	3,253
D and E	-	-	6,703	1,236	7,939	-	-	1,107	11	1,118
Loss allowance	(476)	(36)	(6,322)	608	(6,226)	(62)	(1)	(1,084)	(6)	(1,153)
Carrying amount	119,181	823	381	1,844	122,229	92,328	48	23	5	92,404
Debt instruments at fair value through other comprehensive income										
A	1,587,032	-	-	-	1,587,032	1,308,690	-	-	-	1,308,690
B	1,809,069	-	-	-	1,809,069	218,282	-	-	-	218,282
C	-	184	-	-	184	-	-	-	-	-
D and E	-	-	798	-	798	-	-	798	-	798
Loss allowance	(11,148)	(70)	(798)	-	(12,016)	(2,203)	-	(798)	-	(3,001)
Contingent liabilities										
A	1,405,533	6,451	-	38	1,412,022	1,041,295	5,657	-	-	1,046,952
B	1,574,401	67,514	-	11	1,641,926	844,526	34,180	-	-	878,706
C	48,037	23,571	-	18	71,626	27,751	9,265	-	-	37,016
D and E	-	-	24,565	14,366	38,931	-	-	19,252	7,651	26,903
Loss allowance	(12,912)	(1,640)	(14,545)	(4,344)	(33,441)	(3,909)	(141)	(12,469)	(4,041)	(20,560)
Carrying amount	3,015,059	95,896	10,020	10,089	3,131,064	1,909,663	48,961	6,783	3,610	1,969,017

in EUR thousands

	NLB Group					NLB				
31 Dec 2020	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Purchased credit-impaired financial assets**	**Total**	**12-month expected credit losses**	**Lifetime ECL not credit - impaired**	**Lifetime ECL credit-impaired**	**Purchased credit-impaired financial assets**	**Total**
Debt securities at amortised cost										
A	1,118,700	-	-	-	1,118,700	1,118,700	-	-	-	1,118,700
B	388,072	-	-	-	388,072	161,021	-	-	-	161,021
Loss allowance	(3,685)	-	-	-	(3,685)	(1,841)	-	-	-	(1,841)
Carrying amount	1,503,087	-	-	-	1,503,087	1,277,880	-	-	-	1,277,880
Loans and advances to banks at amortised cost										
A	67,862	-	-	-	67,862	158,475	-	-	-	158,475
B	128,784	-	-	-	128,784	-	-	-	-	-
C	500	-	-	-	500	-	-	-	-	-
Loss allowance	(141)	-	-	-	(141)	(155)	-	-	-	(155)
Carrying amount	197,005	-	-	-	197,005	158,320	-	-	-	158,320
Loans and advances to individuals at amortised cost										
A	4,739,470	76,080	-	-	4,815,550	2,290,498	42,642	-	-	2,333,140
B	34,415	9,471	-	-	43,886	5,132	460	-	-	5,592
C	3,528	47,436	-	-	50,964	-	21,573	-	-	21,573
D and E	-	-	111,118	6,075	117,193	-	-	51,644	-	51,644
Loss allowance	(25,044)	(8,151)	(61,305)	-	(94,500)	(8,973)	(2,351)	(22,855)	-	(34,179)
Carrying amount	4,752,369	124,836	49,813	6,075	4,933,093	2,286,657	62,324	28,789	-	2,377,770
Loans and advances to other customers at amortised cost										
A	1,070,367	373	-	-	1,070,740	820,241	120	-	-	820,361
B	2,930,393	188,641	-	-	3,119,034	1,127,454	111,223	-	-	1,238,677
C	219,102	238,152	-	-	457,254	34,338	82,492	-	-	116,830
D and E	-	-	279,803	37,716	317,519	-	-	117,392	2,341	119,733
Loss allowance	(49,475)	(32,682)	(194,298)	(1,325)	(277,780)	(16,664)	(8,936)	(82,274)	(1,319)	(109,193)
Carrying amount	4,170,387	394,484	85,505	36,391	4,686,767	1,965,369	184,899	35,118	1,022	2,186,408
Other financial assets at amortised cost										
A	64,691	28	-	-	64,719	48,994	1	-	-	48,995
B	46,382	55	-	-	46,437	5,386	28	-	-	5,414
C	223	438	-	-	661	56	36	-	-	92
D and E	-	-	5,655	1,219	6,874	-	-	1,324	8	1,332
Loss allowance	(276)	(30)	(5,243)	(4)	(5,553)	(73)	(2)	(1,251)	(4)	(1,330)
Carrying amount	111,020	491	412	1,215	113,138	54,363	63	73	4	54,503
Debt instruments at fair value through other comprehensive income										
A	1,568,201	-	-	-	1,568,201	1,422,777	-	-	-	1,422,777
B	1,839,167	229	-	-	1,839,396	217,138	-	-	-	217,138
D and E	-	-	798	-	798	-	-	798	-	798
Loss allowance	(8,656)	(28)	(798)	-	(9,482)	(2,343)	-	(798)	-	(3,141)
Contingent liabilities										
A	1,285,492	843	-	-	1,286,335	984,496	238	-	-	984,734
B	1,490,929	53,326	-	-	1,544,255	889,669	41,654	-	-	931,323
C	48,329	49,781	-	-	98,110	22,253	31,363	-	-	53,616
D and E	-	-	31,474	14,796	46,270	-	-	27,855	7,052	34,907
Loss allowance	(15,796)	(2,767)	(18,554)	(5,057)	(42,174)	(7,510)	(732)	(16,493)	(3,808)	(28,543)
Carrying amount	2,808,954	101,183	12,920	9,739	2,932,796	1,888,908	72,523	11,362	3,244	1,976,037

The NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices, as well as Bank of Slovenia regulations, and ECB and EBA guidelines and requirements. The aligned rating methodology is used across the entire NLB Group. It includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients.

Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high coverage of financial liabilities with free cash flow. The Rating Group A is considered as investment grade classification.

Rating Group B (BBB to B rating classes) includes clients with a low credit risk, starting one notch lower than 'A' rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements, and have sufficient cash flow to settle their obligations, but may be more sensitive to changes in the industry or the economy.

The Rating Group B classification is an investment grade for BBB, and an 'invest with care' for BB and B.

Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. CCC rated clients are financed by the Bank only in the case when such support brings more positive effects for the Bank; however, the Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

Rating Groups D (D and DF rating classes) and E represent non-performing clients that are treated as defaulted. D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

In 2020, NLB Group applied a new default definition based on the EBA guidelines, where the materiality threshold for delays is determined in absolute and relative terms (EUR 100 for retail and EUR 500 for non-retail segment and 1% of the total on-balance exposure on the client level). At the same time, the assessment of rating for private individuals was improved by establishing a common rating on the client level.

A standard corporate rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 7 million or EUR 15 million for NLB Group members with total assets greater than EUR 1 billion. Materially important clients are submitted to the NLB Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

k) Forborne loans

in EUR thousands

NLB Group							
31 Dec 2021	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
			Non - performing				
	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	
Loans and advances (including at amortised cost and fair value)	**239,208**	**57,058**	**182,094**	**182,150**	**(4,602)**	**(100,963)**	**109,177**
Governments	1,093	828	265	265	(11)	(265)	-
Other financial organisations	2,744	213	2,531	2,531	(8)	(2,531)	12
Non-financial organisations	180,754	35,422	145,276	145,332	(3,268)	(83,243)	79,260
Households	54,617	20,595	34,022	34,022	(1,315)	(14,924)	29,905
Debt instruments other than held for trading	**239,208**	**57,058**	**182,094**	**182,150**	**(4,602)**	**(100,963)**	**109,177**
Loan commitments given	**718**	**96**	**622**	**622**	**-**	**(374)**	**294**
Total exposures with forbearance measures	**239,926**	**57,154**	**182,716**	**182,772**	**(4,602)**	**(101,337)**	**109,471**

in EUR thousands

NLB Group							
31 Dec 2020	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
			Non - performing				
	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	
Loans and advances (including at amortised cost and fair value)	**303,802**	**55,354**	**223,376**	**248,448**	**(5,761)**	**(141,372)**	**142,714**
Governments	1,342	1,050	292	292	(5)	(292)	-
Other financial organisations	2,425	50	2,375	2,375	-	(2,375)	50
Non-financial organisations	254,947	33,882	195,993	221,065	(4,739)	(129,550)	114,395
Households	45,088	20,372	24,716	24,716	(1,017)	(9,155)	28,269
Debt instruments other than held for trading	**303,802**	**55,354**	**223,376**	**248,448**	**(5,761)**	**(141,372)**	**142,714**
Loan commitments given	**1,586**	**942**	**644**	**644**	**(4)**	**(37)**	**1,332**
Total exposures with forbearance measures	**305,388**	**56,296**	**224,020**	**249,092**	**(5,765)**	**(141,409)**	**144,046**

in EUR thousands

NLB							
31 Dec 2021	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
			Non - performing				
	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	
Loans and advances (including at amortised cost and fair value)	**109,674**	**25,485**	**84,133**	**84,189**	**(1,130)**	**(48,898)**	**51,837**
Other financial organisations	2,744	213	2,531	2,531	(8)	(2,531)	12
Non-financial organisations	69,299	13,100	56,143	56,199	(291)	(35,930)	31,564
Households	37,631	12,172	25,459	25,459	(831)	(10,437)	20,261
Debt instruments other than held for trading	**109,674**	**25,485**	**84,133**	**84,189**	**(1,130)**	**(48,898)**	**51,837**
Loan commitments given	**688**	**96**	**592**	**592**	**-**	**(344)**	**294**
Total exposures with forbearance measures	**110,362**	**25,581**	**84,725**	**84,781**	**(1,130)**	**(49,242)**	**52,131**

31 Dec 2020	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
			Non - performing				
	Gross carrying amount	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	
Loans and advances (including at amortised cost and fair value)	**148,251**	**21,976**	**103,287**	**126,275**	**(1,522)**	**(73,298)**	**76,210**
Other financial organisations	2,397	22	2,375	2,375	-	(2,375)	22
Non-financial organisations	117,671	9,522	85,161	108,149	(742)	(66,055)	58,447
Households	28,183	12,432	15,751	15,751	(780)	(4,868)	17,741
Debt instruments other than held for trading	**148,251**	**21,976**	**103,287**	**126,275**	**(1,522)**	**(73,298)**	**76,210**
Loan commitments given	**1,560**	**920**	**640**	**640**	**(2)**	**(35)**	**1,332**
Total exposures with forbearance measures	**149,811**	**22,896**	**103,927**	**126,915**	**(1,524)**	**(73,333)**	**77,542**

in EUR thousands

Forborne exposures of debt instruments by periods of forbearance

in EUR thousands

	NLB Group			
31 Dec 2021	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	7,411	5,055	9,860	30,130
Non-performing exposures	26,835	4,856	18,540	30,956
Total exposures with forbearance measures	**34,246**	**9,911**	**28,400**	**61,086**
31 Dec 2020				
Performing exposures	13,455	9,963	1,858	24,317
Non-performing exposures	32,950	1,786	7,140	65,200
Total exposures with forbearance measures	**46,405**	**11,749**	**8,998**	**89,517**

in EUR thousands

	NLB			
31 Dec 2021	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	2,819	3,898	7,008	10,630
Non-performing exposures	7,467	2,410	13,863	11,551
Total exposures with forbearance measures	**10,286**	**6,308**	**20,871**	**22,181**
31 Dec 2020				
Performing exposures	8,304	931	1,398	9,821
Non-performing exposures	3,969	942	5,513	42,553
Total exposures with forbearance measures	**12,273**	**1,873**	**6,911**	**52,374**

The main forbearance measurements used by NLB Group and NLB are: deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims, and others, either as a single forbearance measurement or as a combination of those.

l) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Nature of assets	Net value		Net value	
Investment property (note 5.9.)	36,009	36,130	4,176	4,079
Property and equipment (note 5.8.)	13,559	13,268	7	7
Investments in subsidiaries and associates	-	-	2,333	2,412
Real estates (note 5.13.)	74,717	75,151	4,827	4,926
Other assets (note 5.13.)	733	866	-	-
Non-current assets held for sale (note 5.7.)	699	699	-	-
Total	**125,717**	**126,114**	**11,343**	**11,424**

m) Analysis of loans and advances by industry sectors

								in EUR thousands
NLB Group	31 Dec 2021				31 Dec 2020			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	140,881	(198)	140,683	1.30	197,146	(141)	197,005	1.98
Finance	90,538	(2,851)	87,687	0.81	116,593	(3,126)	113,467	1.14
Electricity, gas, and water	361,520	(5,392)	356,128	3.28	298,612	(6,971)	291,641	2.93
Construction industry	420,173	(29,459)	390,714	3.60	361,494	(27,548)	333,946	3.35
Heavy industry	1,059,774	(30,352)	1,029,422	9.49	952,671	(44,446)	908,225	9.12
Education	12,888	(1,358)	11,530	0.11	13,883	(1,111)	12,772	0.13
Agriculture, forestry, and fishing	91,735	(3,530)	88,205	0.81	91,780	(7,023)	84,757	0.85
Public sector	231,488	(5,269)	226,219	2.08	301,205	(5,737)	295,468	2.97
Individuals	5,621,071	(101,781)	5,519,290	50.87	5,027,648	(94,555)	4,933,093	49.55
Mining	49,936	(1,604)	48,332	0.45	79,662	(1,230)	78,432	0.79
Entrepreneurs	341,670	(7,554)	334,116	3.08	314,276	(7,268)	307,008	3.08
Services	778,569	(34,587)	743,982	6.86	725,020	(71,133)	653,887	6.57
Transport and communications	798,822	(25,902)	772,920	7.12	811,517	(25,029)	786,488	7.90
Trade industry	1,008,369	(64,364)	944,005	8.70	874,235	(75,309)	798,926	8.03
Health care and social security	36,541	(1,970)	34,571	0.32	48,620	(1,794)	46,826	0.47
Other financial assets	128,455	(6,226)	122,229	1.13	118,691	(5,553)	113,138	1.14
Total	**11,172,430**	**(322,397)**	**10,850,033**	**100.00**	**10,333,053**	**(377,974)**	**9,955,079**	**100.00**

								in EUR thousands
NLB			31 Dec 2021				31 Dec 2020	
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	199,469	(182)	199,287	3.66	158,475	(155)	158,320	3.29
Finance	169,679	(3,109)	166,570	3.06	135,040	(4,405)	130,635	2.72
Electricity, gas, and water	228,423	(724)	227,699	4.18	157,515	(2,892)	154,623	3.22
Construction industry	71,989	(9,870)	62,119	1.14	63,025	(8,463)	54,562	1.13
Heavy industry	583,658	(6,747)	576,911	10.60	519,880	(14,445)	505,435	10.51
Education	4,045	(27)	4,018	0.07	5,197	(38)	5,159	0.11
Agriculture, forestry, and fishing	13,073	(100)	12,973	0.24	15,099	(865)	14,234	0.30
Public sector	94,176	(974)	93,202	1.71	95,930	(1,793)	94,137	1.96
Individuals	2,694,356	(37,421)	2,656,935	48.80	2,411,949	(34,179)	2,377,770	49.46
Mining	22,316	(514)	21,802	0.40	8,580	(74)	8,506	0.18
Entrepreneurs	54,600	(1,942)	52,658	0.97	52,216	(3,014)	49,202	1.02
Services	482,176	(11,421)	470,755	8.65	454,154	(44,827)	409,327	8.51
Transport and communications	556,786	(5,459)	551,327	10.13	589,269	(4,965)	584,304	12.15
Trade industry	248,823	(16,492)	232,331	4.27	204,343	(22,190)	182,153	3.79
Health care and social security	25,360	(1,619)	23,741	0.44	26,288	(1,222)	25,066	0.52
Other financial assets	93,557	(1,153)	92,404	1.70	55,833	(1,330)	54,503	1.13
Total	**5,542,486**	**(97,754)**	**5,444,732**	**100.00**	**4,952,793**	**(144,857)**	**4,807,936**	**100.00**

n) Analysis of net loans and advances by geographical sectors

				in EUR thousands
	NLB Group		NLB	
Country	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Slovenia	4,861,968	4,360,051	4,856,305	4,354,155
Other European Union members	249,772	157,557	156,425	73,252
Serbia	2,320,491	2,146,793	136,696	134,303
Other countries	3,417,802	3,290,678	295,306	246,226
Total	**10,850,033**	**9,955,079**	**5,444,732**	**4,807,936**

As at 31 December 2021, Other countries include direct exposure to Russia in the amount of EUR 94 thousand at NLB Group level and EUR 84 thousand at NLB level. Direct exposure to Ukraine amount to EUR 4 thousand at NLB Group level and EUR 2 thousand at NLB level.

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o) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousands

31 Dec 2021	NLB Group					NLB			
Country	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at FV through profit or loss	Derivative financial instruments	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Derivative financial instruments
Slovenia	324,705	-	331,155	-	6,835	324,705	-	280,174	6,835
Other members of European Union	1,076,225	-	1,180,521	2,428	1,388	1,041,207	-	970,192	1,388
- Austria	76,628	-	81,063	-	-	76,628	-	56,551	-
- Belgium	126,828	-	93,404	-	642	126,828	-	59,830	642
- Bulgaria	43,374	-	3,173	-	-	43,374	-	3,173	-
- Czech Republic	-	-	12,795	-	-	-	-	12,795	-
- Cyprus	12,447	-	1,755	-	-	12,447	-	1,755	-
- Denmark	-	-	20,234	-	-	-	-	20,234	-
- Finland	45,899	-	107,633	-	-	45,899	-	99,578	-
- France	170,425	-	193,668	-	528	160,423	-	162,625	528
- Germany	105,368	-	115,180	-	167	95,361	-	92,622	167
- Greece	-		14,805		-	-	-	14,805	-
- Hungary	21,719	-	6,547	-	-	21,719	-	6,547	-
- Ireland	51,906	-	100,689	-	-	51,906	-	32,639	-
- Italy	26,190	-	10,910	107	-	26,190	-	10,910	-
- Latvia	24,929	-	-	-	-	24,929	-	-	-
- Lithuania	15,321	-	27,226	-	-	15,321	-	27,226	-
- Luxembourg	78,097	-	30,087	-	-	78,097	-	30,087	-
- Netherlands	67,678	-	143,546	2,321	51	57,670	-	135,529	51
- Poland	17,829	-	18,989	-	-	17,829	-	18,989	-
- Portugal	47,842	-	18,704	-	-	47,842	-	18,704	-
- Romania	23,365	-	5,484	-	-	23,365	-	5,484	-
- Slovakia	21,603	-	34,627	-	-	21,603	-	34,627	-
- Spain	70,347	-	64,377	-	-	65,346	-	49,857	-
- Sweden	15,128	-	75,625	-	-	15,128	-	75,625	-
- Other	13,302	-	-	-	-	13,302	-	-	-
United States of America	5,061	-	75,498	1,833	-	5,061	-	8,667	-
Other countries	311,635	-	1,808,087	-	23	65,451	-	282,009	27
- Bosnia and Herzegovina	4,048	-	145,522	-	-	4,048	-	3,204	-
- Kosovo	-	-	76,533	-	1	-	-	-	1
- Montenegro	37,349	-	23,578	-	-	6,799	-	3,073	-
- North Macedonia	221,697	-	152,886	-	6	13,230	-	57,867	-
- Serbia	7,167	-	1,196,724	-	-	-	-	5,021	10
- Albania	-	-	29,823	-	-	-	-	29,823	-
- Canada	14,026	-	27,247	-	-	14,026	-	27,247	-
- Great Britain	-	-	81,218	-	16	-	-	81,218	16
- Iceland	5,768	-	8,857	-	-	5,768	-	8,857	-
- Israel	-	-	10,468	-	-	-	-	10,468	-
- Kazakhstan	-	-	14,254	-	-	-	-	14,254	-
- Norway	14,606	-	16,210	-	-	14,606	-	16,210	-
- Russia	-	-	20,105	-	-	-	-	20,105	-
- Other	6,974	-	4,662	-	-	6,974	-	4,662	-
Total	**1,717,626**	**-**	**3,395,261**	**4,261**	**8,246**	**1,436,424**	**-**	**1,541,042**	**8,250**

Other members of the European Union included in the line item 'Other' are Malta and Estonia.

Other members of the 'Other countries' in the line item 'Other' are Egypt, Uzbekistan, and Oman.

in EUR thousands

31 Dec 2020	NLB Group					NLB			
Country	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at FV through profit or loss	Derivative financial instruments	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Derivative financial instruments
Slovenia	305,697	-	484,875	-	14,498	305,697	-	389,932	14,498
Other members of European Union	930,258	-	978,504	111	672	930,258	-	932,714	672
- Austria	78,720	-	73,959	-	-	78,720	-	59,163	-
- Belgium	121,657	-	78,858	-	-	121,657	-	57,167	-
- Bulgaria	36,910	-	3,255	-	-	36,910	-	3,255	-
- Czech Republic	1,025	-	16,420	-	-	1,025	-	16,420	-
- Cyprus	12,662	-	1,826	-	-	12,662	-	1,826	-
- Denmark	-	-	15,976	-	-	-	-	15,976	-
- Finland	38,515	-	81,905	-	-	38,515	-	80,827	-
- France	151,981	-	155,580	-	80	151,981	-	149,673	80
- Germany	63,155	-	104,967	-	120	63,155	-	104,967	120
- Greece	-	-	7,001	-	-	-	-	7,001	-
- Hungary	20,907	-	9,924	-	-	20,907	-	9,924	-
- Ireland	45,576	-	36,464	-	-	45,576	-	34,146	-
- Italy	7,088	-	11,048	111	-	7,088	-	11,048	-
- Latvia	22,112	-	749	-	-	22,112	-	749	-
- Lithuania	11,626	-	18,385	-	-	11,626	-	18,385	-
- Luxembourg	71,821	-	37,853	-	-	71,821	-	37,853	-
- Netherlands	50,409	-	133,360	-	90	50,409	-	133,360	90
- Poland	26,432	-	17,023	-	-	26,432	-	17,023	-
- Portugal	45,937	-	19,377	-	-	45,937	-	19,377	-
- Romania	23,600	-	5,599	-	-	23,600	-	5,599	-
- Slovakia	21,662	-	36,350	-	-	21,662	-	36,350	-
- Spain	66,622	-	53,201	-	-	66,622	-	53,201	-
- Sweden	8,072	-	59,424	-	-	8,072	-	59,424	-
- Other	3,769	-	-	-	382	3,769	-	-	382
United States of America	9,786	2,450	79,543	2,046	-	9,786	2,450	56,742	-
Other countries	257,346	66,356	1,903,569	-	879	32,139	-	291,816	1,211
- Bosnia and Herzegovina	-	-	167,131	-	-	-	-	-	4
- Kosovo	-	-	75,223	-	786	-	-	-	786
- Montenegro	20,386	-	18,649	-	-	6,816	-	3,134	-
- North Macedonia	204,455	-	143,059	-	7	-	-	56,433	-
- Serbia	7,182	66,356	1,267,258	-	30	-	-	-	365
- Albania	-	-	30,548	-	-	-	-	30,548	-
- Canada	14,037	-	27,514	-	-	14,037	-	27,514	-
- Great Britain	-	-	104,493	-	56	-	-	104,493	56
- Iceland	4,993	-	8,988	-	-	4,993	-	8,988	-
- Israel	-	-	9,511	-	-	-	-	9,511	-
- Kazakhstan	-	-	12,261	-	-	-	-	12,261	-
- Norway	6,293	-	20,526	-	-	6,293	-	20,526	-
- Russia	-	-	18,408	-	-	-	-	18,408	-
Total	**1,503,087**	**68,806**	**3,446,491**	**2,157**	**16,049**	**1,277,880**	**2,450**	**1,671,204**	**16,381**

Other members of the European Union included in the line item 'Other' are Malta and Croatia.

p) Internal rating of derivatives counterparties

	NLB Group		NLB	
				in %
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
A	74.08	73.56	74.25	73.75
B	25.69	15.35	25.53	15.24
C	0.03	10.90	0.03	10.82
D and E	0.19	0.19	0.19	0.19
Total	**100.00**	**100.00**	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

r) Debt securities in NLB Group's and NLB's portfolio that represent subordinated liabilities for the issuer

31 Dec 2021	NLB Group					NLB				in EUR thousands
Internal rating	**A**	**B**	**C**	**D**	**Total**	**A**	**B**	**C**	**D**	**Total**
Financial assets measured at fair value through other comprehensive income	48,099	-	-	-	48,099	33,107	-	-	-	33,107
Financial assets measured at amortised cost										
- loans and advances to banks	-	-	-	-	-	84,399	-	-	-	84,399
- loans and advances to customers	-	-	-	-	-	-	-	6,522	-	6,522
Total	**48,099**	**-**	**-**	**-**	**48,099**	**117,506**	**-**	**6,522**	**-**	**124,028**

31 Dec 2020	NLB Group					NLB				in EUR thousands
Internal rating	**A**	**B**	**C**	**D**	**Total**	**A**	**B**	**C**	**D**	**Total**
Financial assets measured at fair value through other comprehensive income	-	14,796	-	-	14,796	-	-	-	-	-
Financial assets measured at amortised cost										
- loans and advances to banks	-	-	-	-	-	67,128	-	-	-	67,128
- loans and advances to customers	-	-	-	-	-	-	-	5,858	-	5,858
Total	**-**	**14,796**	**-**	**-**	**14,796**	**67,128**	**-**	**5,858**	**-**	**72,986**

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s) Presentation of net financial instruments by measurement category

in EUR thousands

NLB Group							
31 Dec 2021	Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Financial leases	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	5,005,052	-	-	5,005,052
Securities	-	21,161	3,461,860	1,717,626	-	-	5,200,647
- Bonds	-	4,261	3,251,826	1,707,960	-	-	4,964,047
- Shares	-	4,472	66,599	-	-	-	71,071
- Commercial bills	-	-	37,569	-	-	-	37,569
- Treasury bills	-	-	105,866	9,666	-	-	115,532
- Investment funds	-	12,428	-	-	-	-	12,428
Derivatives	7,678	-	-	-	-	568	8,246
Loans and receivables	-	-	-	10,619,525	108,279	-	10,727,804
- Loans to governments	-	-	-	280,961	49	-	281,010
- Loans to banks	-	-	-	140,683	-	-	140,683
- Loans to financial organisations	-	-	-	141,698	11	-	141,709
- Loans to individuals	-	-	-	5,473,278	46,012	-	5,519,290
- Loans to other customers	-	-	-	4,582,906	62,206	-	4,645,112
Other financial assets	-	-	-	122,229	-	-	122,229
Total financial assets	**7,678**	**21,161**	**3,461,860**	**17,464,432**	**108,279**	**568**	**21,063,978**

in EUR thousands

NLB Group						
31 Dec 2020	Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Financial leases	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	3,961,812	-	3,961,812
Securities	68,806	17,317	3,514,290	1,503,087	-	5,103,500
- Bonds	68,806	2,157	3,260,940	1,480,478	-	4,812,381
- Shares	-	4,171	67,799	-	-	71,970
- Commercial bills	-	-	50,449	-	-	50,449
- Treasury bills	-	-	135,102	22,609	-	157,711
- Investment funds	-	10,989	-	-	-	10,989
Derivatives	16,049	-	-	-	-	16,049
Loans and receivables	-	25,076	-	9,768,232	48,633	9,841,941
- Loans to governments	-	-	-	365,339	3,061	368,400
- Loans to banks	-	-	-	197,005	-	197,005
- Loans to financial organisations	-	-	-	158,845	26	158,871
- Loans to individuals	-	-	-	4,913,793	19,300	4,933,093
- Loans to other customers	-	25,076	-	4,133,250	26,246	4,184,572
Other financial assets	-	-	-	113,138	-	113,138
Total financial assets	**84,855**	**42,393**	**3,514,290**	**15,346,269**	**48,633**	**19,036,440**

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						in EUR thousands
				NLB		
31 Dec 2021	Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	3,250,437	-	3,250,437
Securities	-	4,472	1,585,751	1,436,424	-	3,026,647
- Bonds	-	-	1,526,237	1,436,424	-	2,962,661
- Shares	-	4,472	44,709	-	-	49,181
- Treasury bills	-	-	14,805	-	-	14,805
Derivatives	7,682	-	-	-	568	8,250
Loans and receivables	-	7,888	-	5,344,440	-	5,352,328
- Loans to governments	-	-		143,864	-	143,864
- Loans to banks	-	-		199,287	-	199,287
- Loans to financial organisations	-	-		226,144	-	226,144
- Loans to individuals	-	-	-	2,656,935	-	2,656,935
- Loans to other customers	-	7,888	-	2,118,210	-	2,126,098
Other financial assets	-	-	-	92,404	-	92,404
Total financial assets	**7,682**	**12,360**	**1,585,751**	**10,123,705**	**568**	**11,730,066**

					in EUR thousands
			NLB		
31 Dec 2020	Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	2,261,533	2,261,533
Securities	2,450	4,171	1,716,351	1,277,880	3,000,852
- Bonds	2,450	-	1,598,760	1,277,880	2,879,090
- Shares	-	4,171	45,147	-	49,318
- Treasury bills	-	-	72,444	-	72,444
Derivatives	16,381	-	-	-	16,381
Loans and receivables	-	30,935	-	4,722,498	4,753,433
- Loans to governments	-	-	-	170,742	170,742
- Loans to banks	-	-	-	158,320	158,320
- Loans to financial organisations	-	-	-	177,198	177,198
- Loans to individuals	-	-	-	2,377,770	2,377,770
- Loans to other customers	-	30,935	-	1,838,468	1,869,403
Other financial assets	-	-	-	54,503	54,503
Total financial assets	**18,831**	**35,106**	**1,716,351**	**8,316,414**	**10,086,702**

As at 31 December 2021 and 31 December 2020, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities, and financial liabilities measured at fair value through profit or loss, were carried at amortised cost.

6.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices), or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the Bank's Assets and Liabilities Committee (ALCO). Global Risk also monitors and manages exposure to market risks separately for the banking and trading books. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The Bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress-testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress-testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low to medium exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading with financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted.

For monitoring and managing NLB Group's exposure to market risks uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the Bank. The Bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress-testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board of the Bank and in accordance to the adopted policy of managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the income statement. FX exposures in banking book result from core banking business activities.

Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with the parent Bank's guidelines and standards, as well as local regulatory requirements. Policies are confirmed by either the local Management Board or Supervisory Board. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

NLB Group banks follow the guidelines for managing FX lending in NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks, and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. FX positions are managed on the currency level so that they are always within the limits.

Regarding structural FX positions on a consolidation level, assets, and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the reporting date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect shareholder's equity and CET1 capital. NLB Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the ALCO committee of the NLB Group, and quarterly on the consolidated level.

a) Analysis of financial instruments by currency exposure

in EUR thousands

	NLB Group					
31 Dec 2021	**EUR**	**RSD**	**USD**	**CHF**	**Other**	**Total**
Financial assets						
Cash, cash balances at central banks, and other demand deposits at banks	4,035,603	294,459	58,367	112,880	503,743	5,005,052
Financial assets held for trading	7,678	-	-	-	-	7,678
Non-trading financial assets mandatorily at fair value through profit or loss	11,000	5,689	4,472	-	-	21,161
Financial assets measured at fair value through other comprehensive income	2,349,722	802,321	206,583	14,992	88,242	3,461,860
Financial assets measured at amortised cost						
- debt securities	1,489,279	7,168	19,172	-	202,007	1,717,626
- loans and advances to banks	79,530	145	37,070	17,293	6,645	140,683
- loans and advances to customers	8,582,987	763,856	19,478	68,284	1,152,516	10,587,121
- other financial assets	61,713	12,463	20,813	48	27,192	122,229
Derivatives - hedge accounting	568	-	-	-	-	568
Fair value changes of the hedged items in portfolio hedge of interest rate risk	7,082	-	-	-	-	7,082
Total financial assets	**16,625,162**	**1,886,101**	**365,955**	**213,497**	**1,980,345**	**21,071,060**
Financial liabilities						
Financial liabilities held for trading	7,585	-	-	-	-	7,585
Derivatives - hedge accounting	35,377	-	-	-	-	35,377
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	49,351	1,456	6,370	2,114	12,537	71,828
- borrowings from banks and central banks	845,649	-	12,882	-	-	858,531
- due to customers	14,295,198	1,244,161	358,851	179,934	1,562,665	17,640,809
- borrowings from other customers	73,645	-	406	-	-	74,051
- subordinated liabilities	288,519	-	-	-	-	288,519
- other financial liabilities	133,555	24,471	26,131	2,641	20,080	206,878
Total financial liabilities	**15,728,879**	**1,270,088**	**404,640**	**184,689**	**1,595,282**	**19,183,578**
Net on-balance sheet financial position	**896,283**	**616,013**	**(38,685)**	**28,808**	**385,063**	**1,887,482**
Derivative financial instruments	(27,149)	2,002	44,115	(24,124)	(13,568)	(18,724)
Net financial position	**869,134**	**618,015**	**5,430**	**4,684**	**371,495**	**1,868,758**
31 Dec 2020						
Total financial assets	**14,728,767**	**1,921,270**	**376,572**	**176,890**	**1,846,785**	**19,050,284**
Total financial liabilities	**13,962,729**	**1,254,761**	**371,229**	**175,275**	**1,502,653**	**17,266,647**
Net on-balance sheet financial position	**766,038**	**666,509**	**5,343**	**1,615**	**344,132**	**1,783,637**
Derivative financial instruments	30,748	-	651	(2,303)	(43,314)	(14,218)
Net financial position	**796,786**	**666,509**	**5,994**	**(688)**	**300,818**	**1,769,419**

			NLB			in EUR thousands
31 Dec 2021	EUR	RSD	USD	CHF	Other	Total
Financial assets						
Cash, cash balances at central banks, and other demand deposits at banks	3,165,604	1,212	24,185	13,648	45,788	3,250,437
Financial assets held for trading	7,682	-	-	-	-	7,682
Non-trading financial assets mandatorily at fair value through profit or loss	7,888	-	4,472	-	-	12,360
Financial assets measured at fair value through other comprehensive income	1,477,670	-	82,038	-	26,043	1,585,751
Financial assets measured at amortised cost						
- debt securities	1,407,226	-	19,172	-	10,026	1,436,424
- loans and advances to banks	199,287	-	-	-	-	199,287
- loans and advances to customers	5,060,091	-	13,932	69,808	1,322	5,145,153
- other financial assets	50,515	7	20,755	1	21,126	92,404
Derivatives - hedge accounting	568	-	-	-	-	568
Fair value changes of the hedged items in portfolio hedge of interest rate risk	7,082	-	-	-	-	7,082
Total financial assets	**11,383,613**	**1,219**	**164,554**	**83,457**	**104,305**	**11,737,148**
Financial liabilities						
Financial liabilities held for trading	7,602	-	-	-	-	7,602
Financial liabilities measured at fair value through profit or loss	352	-	-	-	-	352
Derivatives - hedge accounting	35,377	-	-	-	-	35,377
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	75,149	13	10,878	2,416	20,873	109,329
- borrowings from banks and central banks	860,597	-	12,882	-	-	873,479
- due to customers	9,412,452	5	148,364	55,391	43,393	9,659,605
- borrowings from other customers	-	-	406	-	-	406
- subordinated liabilities	288,519	-	-	-	-	288,519
- other financial liabilities	79,050	-	22,174	153	1,150	102,527
Total financial liabilities	**10,759,098**	**18**	**194,704**	**57,960**	**65,416**	**11,077,196**
Net on-balance sheetfinancial position	**624,515**	**1,201**	**(30,150)**	**25,497**	**38,889**	**659,952**
Derivative financial instruments	(15,358)	-	35,825	(25,132)	(14,076)	(18,741)
Net financial position	**609,157**	**1,201**	**5,675**	**365**	**24,813**	**641,211**
31 Dec 2020						
Total financial assets	**9,780,372**	**2,289**	**177,771**	**63,153**	**76,961**	**10,100,546**
Total financial liabilities	**9,199,763**	**13**	**171,281**	**60,015**	**58,746**	**9,489,818**
Net on-balance sheet financial position	**580,609**	**2,276**	**6,490**	**3,138**	**18,215**	**610,728**
Derivative financial instruments	4,136	-	(2,491)	(3,299)	(12,169)	(13,823)
Net financial position	**584,745**	**2,276**	**3,999**	**(161)**	**6,046**	**596,905**

b) FX sensitivity analysis

	NLB Group and NLB	
Scenarios	**31 Dec 2021**	**31 Dec 2020**
USD	+/-5.74%	+/-7.89%
CHF	+/-4.23%	+/-4.02%
CZK	+/-4.55%	+/-8.57%
RSD	+/-0.35%	+/-0.97%
MKD	+/-1.34%	+/-3.46%
JPY	+/-5.66%	+/-8.56%
AUD	+/-6.77%	+/-10.70%
HUF	+/-6.53%	+/-9.63%
HRK	+/-1.38%	+/-2.02%
BAM	+/-0%	+/-0%

in EUR thousands

	NLB Group		NLB	
31 Dec 2021	**Effects on income statement**	**Effects on other comprehensive income**	**Effects on income statement**	**Effects on other comprehensive income**
Appreciation of				
USD	454	-	(132)	42
CHF	(358)	566	6	-
CZK	11	-	11	-
RSD	2	2,501	4	-
MKD	2	3,570	285	-
Other	23	70	(17)	-
Effects on comprehensive income	**134**	**6,707**	**157**	**42**
Depreciation of				
USD	(405)	-	117	(38)
CHF	329	(520)	(5)	-
CZK	(10)	-	(10)	-
RSD	(2)	(2,484)	(4)	-
MKD	(2)	(3,476)	(277)	-
Other	(21)	(69)	15	-
Effects on comprehensive income	**(111)**	**(6,549)**	**(164)**	**(38)**

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				in EUR thousands
	NLB Group		NLB	
31 Dec 2020	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	(345)	-	(97)	(11)
CHF	(293)	231	(32)	-
CZK	(4)	-	(4)	-
RSD	9	7,096	22	-
MKD	4	7,663	19	-
Other	85	91	89	-
Effects on comprehensive income	**(544)**	**15,081**	**(3)**	**(11)**
Depreciation of				
USD	295	-	83	10
CHF	270	(213)	29	-
CZK	3	-	3	-
RSD	(9)	(6,959)	(22)	-
MKD	(4)	(7,151)	(18)	-
Other	(68)	(89)	(70)	-
Effects on comprehensive income	**487**	**(14,412)**	**5**	**10**

The effect on the other comprehensive income statement of NLB Group has decreased by half due to the lower translation positions in MKD and RSD currencies and due to the lower volatility growths' scenarios for MKD and RSD currencies.

6.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines low total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, a monitored period of 250 business days, a 10-day holding position period).

6.2.3. Interest rate risk

Interest rate risk is the risk to NLB Group's capital and profit or loss 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 takes into account the positions in each currency. Interest rate risk management in NLB Group is adopted in accordance with the risk appetite and risk strategy, based on general Basel standards on interest rate management in the banking book (IRRBB; hereinafter: 'Standards') and European Banking Authority guidelines.

In the trading book, interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The 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, and limit systems. NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method (Basis Point Value), which measures the extent to which the economic value of the banking book would change if interest rates change according to the scenario.
- Sensitivity of net interest income – using EaR method (Earnings at Risk), 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.

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 interest rate yield curve, including all significant sources of risk, taking into account behavioural and modelling assumptions. Part of non-maturing deposits, which is considered as a core part is allocated long-term by using replicating portfolio. Optionality risk is mainly derived from behavioural options, reflected in prepayments and withdrawals, and embedded options such as caps and floors. Moreover, considering expected cash flows, non-performing exposures, as well as off-balance sheet items are considered when measuring interest rate risk exposure.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in the Group's interest rate risk management model.

NLB Group also manages interest rates risk by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded an increased volume of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight.

Each member of NLB Group is responsible for its own interest rate risk policy, which includes the limit system and is in line with the parent Bank's guidelines and standards, as well as with the local regulatory requirements. NLB regularly monitors the interest rate risk exposure of each individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported by the Global Risk Department (weekly in the case of NLB and monthly on Group level), while positions are managed by Financial Markets. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level.

a) Analysis of financial instruments according to the exposure to interest rate risk

The following table presents open net interest rate risk positions by the most important currencies of NLB Group.

Financial instruments without maturity such as sight deposits are presented in the first gap irrespective of their behavioural characteristics and the NLB Group's expectations.

				in EUR thousands
31 Dec 2021		**NLB Group**		
Currency	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Over 10 Years**
EUR	(2,404,620)	1,211,248	1,573,325	446,585
RSD	203,340	341,214	62,458	1,912
MKD	141,261	21,960	13,835	9,378
Other	(32,296)	124,132	66,726	3,234

				in EUR thousands
31 Dec 2020		**NLB Group**		
Currency	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Over 10 Years**
EUR	(1,856,327)	816,980	1,397,446	279,265
RSD	216,751	175,362	167,139	-
MKD	74,788	43,725	5,224	11,032
Other	(134,917)	49,451	16,095	(2,886)

				in EUR thousands
31 Dec 2021		**NLB**		
Currency	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Over 10 Years**
EUR	(1,803,603)	815,356	1,203,636	389,570
Other	1,626	32,325	1,242	6,627

				in EUR thousands
31 Dec 2020		**NLB**		
Currency	**1 - 3 years**	**3 - 5 years**	**5 - 10 years**	**Over 10 Years**
EUR	(1,479,227)	451,008	1,071,925	227,828
Other	(9,471)	9,171	5,628	(7)

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity for the horizon of the next 12 months assumes a sudden parallel interest rate shock down by 50 basis points or 100 basis points. The analysis assumes that the positions used remain unchanged.

The assessment of the impact of a change in interest rates of 50/100 basis points on the amount of net interest income of the banking book position:

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Net interest income sensitivity	18,520	13,852	6,668	7,493
Net interest income sensitivity - as % of Equity	0.94%	0.78%	0.49%	0.55%

The values in the table are calculated on short-term interest rate gaps, where the applied parallel interest rate shock down by 50/100 basis points represents a realistic and practical scenario. The calculations of the sensitivity of net interest income are implemented in technological support.

The 'EVE' (Economic Value of Equity) method is a measure of the sensitivity of changes in market interest rates on the economic value of financial instruments. The EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates at least under the six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations are considering behavioural and automatic options, as well as the allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Interest risk in banking book - EVE	126,651	128,370	84,130	82,116
Interest risk in banking book - EVE as % of Equity	6.42%	7.27%	6.14%	5.98%

The applied sudden parallel interest rate shock up is by 200 basis points, which represents a "worst case" scenario for NLB Group. The calculation takes into the account allocation of the core part of non-maturing deposits and other behavioural assumptions.

Exposure to the interest rate risk of the banking book mainly arises from investments in long-term debt securities and loans with fixed interest rate, as well as from transformation of term to sight deposits due to a low interest rate environment. Long-term interest positions of other members in NLB Group, which present a majority of their exposure to interest-rate risk (an economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

6.3. Liquidity risk

Liquidity risk is the risk of the NLB Group being unable to fulfil current or future expected and unexpected cash requirements, across all time horizons. The risk may stem from the reduction in funding sources or a reduction in the liquidity of certain assets.

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

Intraday liquidity risk is the capacity required during the business day to enable financial institutions to make payments and settle obligations.

In the risk identification process, first the reasons for the realisation of each identified material risk are analysed and grouped together in short risk descriptions. Material risks are then classified into three groups based on what part of liquidity is affected by the realisation of the material risks: liabilities side, assets side, intraday liquidity risk. Based on the identified material risks, key liquidity risk drivers are defined. Key risk drivers of the liquidity position are factors that are expected to trigger a substantial deterioration of the Group's liquidity position. This deterioration may take place in the form of an increase in outflows, a decrease in inflows or a decrease in the liquidity value of the counterbalancing capacity.

Liquidity risk is defined as an important risk type for NLB Group, and one which must be managed carefully. NLB Group has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. NLB Group formulated a set of liquidity risk metrics and limits to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding, and holding a solid liquidity buffer, the NLB Group maintains a sound and robust liquidity position, even under severely adverse conditions.

The Management Board approves the Liquidity Risk Management Policy, which outlines the key principles for the Bank's liquidity management. ALCO receives a regular report on the liquidity position and the performance against approved limits and targets. ALCO oversees the development of the Bank's funding and liquidity position and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group must be able to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in two stages:

- Static view (current exposure),
- Forward-looking and stress-testing.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:

- ensuring a sufficient amount of liquidity for the settlement of all NLB Group's liabilities;
- minimising the costs of maintaining liquidity;
- determining an adequate amount of counterbalancing capacity and optimal liquidity management;
- ensuring adequate control environment;
- ensuring an appropriate level of liquidity for different situations and stress scenarios;
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- ensuring regular projections of future cash flows and stress-testing of liquidity risk;
- preparing proposals for establishing additional financial assets as collateral for sources of funding.

Overall assessment of the liquidity position of NLB Group is assessed in the Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. The ILAAP process is integral to risk management frameworks and is aligned with the NLB Group's risk appetite which is consistent with the business model and approved by the management board. Based on the Risk Appetite, the NLB Group prepares a business plan and financial forecasts which are crucial for defining internal capital needs (ICAAP process) and internal liquidity assessment (ILAAP process). Both processes are conducted from the normative and economic perspectives and supplemented by the stress-testing programme.

NLB Group performs stress tests on a regular basis for a variety of bank-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the NLB Group's established liquidity risk tolerance. Stress test outcomes are used to adjust its liquidity risk management strategies, policies, and positions, define minimum amount of counterbalancing capacity, and to develop effective contingency plans.

The NLB Group has a formal liquidity contingency plan (LCP) that clearly sets out the procedures for addressing liquidity shortfalls in stressed situations. The plan outlines procedures to manage a range of stress environments, establish clear lines of responsibility, include clear invocation and escalation procedures, and is regularly tested and updated to ensure that it is operationally robust.

NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB/central bank or on the market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance.

The Group manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and

- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

Liquidity risk management in NLB Group is under strict monitoring by NLB as a parent bank. Reporting to NLB by all Group members is performed daily. Global Risk gives guidelines and defines minimal standards for Group members regarding liquidity risk management in NLB Group Risk Management Standards. Each Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO, and to local Assets and Liabilities Committees.

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves are comprised of cash, the settlement account at the central bank above reserve requirement, debt securities, and loans eligible as collateral for the Eurosystem's liquidity providing operations, on the basis of which the Bank may generate the requisite liquidity at any time. The available liquidity reserves are liquidity reserves decreased by the required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The minimum amount of liquidity reserves is determined on the basis of the methodology pertaining to liquidity risk stress tests. The amount represents a sum of liquidity reserves that would enable the survival of a severe stress over a period of one month in a combined stress scenario and comprises high quality liquid assets according to LCR methodology, specified in Commission Delegated Regulation (EU) 2015/61 and the later amendments.

The structure of liquidity reserves is shown in the following table.

in EUR thousands

	NLB Group		NLB	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Liquidity reserves				
Cash, cash balances at central banks*	3,567,873	2,683,851	3,068,123	2,106,517
Trading book securities	-	68,809	-	2,450
Banking book securities	4,615,374	4,946,632	2,479,952	2,896,747
ECB eligible loans	80,043	582,986	80,043	582,986
Total available liquidity reserves	**8,263,290**	**8,282,278**	**5,628,118**	**5,588,700**
Encumbered liquidity reserves	**874,827**	**52,336**	**874,827**	**52,336**

*above reserve requirement

As at 31 December 2021, 79.8% (31 December 2020: 81.8%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 10.0% (31 December 2020: 8.4%) were senior unsecured bonds.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and the interest rate risk management, simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities is the Policy for managing debt securities in the Financial Markets' banking book and the Policy for Managing Domestic (Slovenian) Corporate Debt Securities in Large Corporates, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the general terms about execution of monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. As such, these ECB credit claims are included among liquidity reserves.

Members of NLB Group manage their liquid assets on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

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b) Encumbered/unencumbered assets

in EUR thousands

31 Dec 2021	NLB Group Carrying amount of encumbered assets	NLB Group Fair value of encumbered securities	NLB Group Carrying amount of unencumbered assets	NLB Group Fair value of unencumbered securities	NLB Carrying amount of encumbered assets	NLB Fair value of encumbered securities	NLB Carrying amount of unencumbered assets	NLB Fair value of unencumbered securities
Loans on demand	1,083,713	-	3,411,743	-	101,854	-	2,970,538	-
Equity instruments	780	780	82,719	82,719	-	-	49,181	49,181
Debt securities	454,939	455,631	4,662,209	4,689,116	497,515	500,328	2,479,951	2,501,899
Loans and advances other than loans on demand	471,556	-	10,378,477	-	464,027	-	4,980,705	-
Other assets	-	-	1,031,360	-	-	-	1,155,761	-
Total	**2,010,988**		**19,566,508**		**1,063,396**		**11,636,136**	

in EUR thousands

31 Dec 2020	NLB Group Carrying amount of encumbered assets	NLB Group Fair value of encumbered securities	NLB Group Carrying amount of unencumbered assets	NLB Group Fair value of unencumbered securities	NLB Carrying amount of encumbered assets	NLB Fair value of encumbered securities	NLB Carrying amount of unencumbered assets	NLB Fair value of unencumbered securities
Loans on demand	991,649	-	2,462,193	-	102,458	-	1,966,670	-
Equity instruments	708	708	82,251	80,949	-	-	49,318	49,318
Debt securities	52,336	55,519	4,968,205	5,017,867	52,336	55,519	2,899,197	2,951,975
Loans and advances other than loans on demand	80,204	-	9,874,875	-	72,943	-	4,734,993	-
Other assets	-	-	1,053,435	-	-	-	1,148,687	-
Total	**1,124,897**		**18,440,959**		**227,737**		**10,798,865**	

Contents

c) Collateral received – unencumbered

The nominal amount of collateral received, or own debt securities issued not available for encumbrance are shown in the table below:

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Equity instruments	242,682	268,249	203,620	198,874
Debt securities	-	10,438	-	-
Loans and advances other than loans on demand	140,751	146,750	20,245	20,165
Other assets	9,839,848	10,679,630	4,120,940	3,809,244
Total	**10,223,281**	**11,105,067**	**4,344,805**	**4,028,283**

d) Source of encumbrance

								in EUR thousands
	NLB Group				NLB			
	31 Dec 2021		31 Dec 2020		31 Dec 2021		31 Dec 2020	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	42,292	53,744	76,187	91,250	42,292	53,744	76,187	91,250
Deposits	746,021	835,066	5,978	12,055	790,505	877,641	5,978	12,055
Other sources of encumbrance	3,698	1,122,179	3,875	1,021,592	-	132,010	-	124,433
Total	**792,011**	**2,010,989**	**86,040**	**1,124,897**	**832,797**	**1,063,395**	**82,165**	**227,738**

As at 31 December 2021, NLB Group and NLB had a large share of unencumbered assets. Other sources of encumbrance mostly relate to the obligatory reserve. On the NLB Group level, the amount of encumbered assets equalled EUR 2,011 million (31 December 2020: EUR 1,125 million), relating to the deposit guarantee scheme and to targeted longer-term refinancing operations (TLTRO).

Contents

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousands

	NLB Group					
31 Dec 2021	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	56,073	173	684	15,448	-	72,378
- borrowings from banks and central banks	954	480	748,496	99,842	6,048	855,820
- due to customers	15,772,513	270,238	859,204	743,774	22,543	17,668,272
- borrowings from other customers	614	1,929	6,824	29,554	40,862	79,783
- subordinated liabilities	-	4,427	6,803	41,400	318,201	370,831
- other financial liabilities	120,694	11,678	17,866	55,321	1,319	206,878
Credit risk related commitments	578,233	166,473	838,890	470,308	407,499	2,461,403
Non-financial guarantees	30,426	72,983	195,917	342,426	61,349	703,101
Total	**16,559,507**	**528,381**	**2,674,684**	**1,798,073**	**857,821**	**22,418,466**
Total financial assets	**6,179,369**	**820,022**	**2,704,322**	**8,110,038**	**5,031,994**	**22,845,745**

in EUR thousands

	NLB Group					
31 Dec 2020	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	52,434	19,813	558	491	-	73,296
- borrowings from banks and central banks	666	727	18,146	130,821	10,273	160,633
- due to customers	14,111,895	379,127	1,080,487	848,237	19,059	16,438,805
- borrowings from other customers	1,041	2,899	9,719	43,382	39,743	96,784
- subordinated liabilities	-	4,426	6,803	41,400	328,352	380,981
- other financial liabilities	112,258	8,762	14,402	42,917	3,756	182,095
Credit risk related commitments	563,821	226,551	703,691	408,880	424,681	2,327,624
Non-financial guarantees	25,177	67,127	154,766	334,078	66,198	647,346
Total	**14,867,292**	**709,432**	**1,988,572**	**1,850,206**	**892,062**	**20,307,564**
Total financial assets	**5,228,895**	**651,541**	**2,434,589**	**7,867,386**	**4,621,083**	**20,803,494**

						in EUR thousands
				NLB		
31 Dec 2021	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	-	-	352	-	352
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	94,326	-	-	15,197	-	109,523
- borrowings from banks and central banks	44,569	-	742,584	82,882	-	870,035
- due to customers	9,303,784	65,745	125,834	158,637	8,706	9,662,706
- borrowings from other customers	-	-	-	406	-	406
- subordinated liabilities	-	4,427	6,803	41,400	318,201	370,831
- other financial liabilities	71,942	4,041	616	25,501	427	102,527
Credit risk related commitments	503,492	96,524	451,614	280,201	220,580	1,552,411
Non-financial guarantees	16,714	45,786	100,102	240,761	33,803	437,166
Total	**10,034,827**	**216,523**	**1,427,553**	**845,337**	**581,717**	**13,105,957**
Total financial assets	**3,678,758**	**308,197**	**1,061,588**	**4,150,714**	**3,280,846**	**12,480,103**

						in EUR thousands
				NLB		
31 Dec 2020	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,635	-	-	-	-	41,635
- borrowings from banks and central banks	85	704	13,547	121,751	9,561	145,648
- due to customers	8,412,546	108,942	184,159	143,115	4,775	8,853,537
- borrowings from other customers	-	-	13	-	-	13
- subordinated liabilities	-	4,426	6,803	41,400	328,352	380,981
- other financial liabilities	57,913	6,134	582	23,813	527	88,969
Credit risk related commitments	478,872	143,562	418,866	261,282	270,333	1,572,915
Non-financial guarantees	18,203	41,599	90,299	245,158	36,406	431,665
Total	**9,009,254**	**305,367**	**714,269**	**836,519**	**649,954**	**11,515,363**
Total financial assets	**2,800,273**	**217,309**	**1,008,108**	**3,878,926**	**2,904,506**	**10,809,122**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity, with the exception of the TLTRO loan, which is included based on expected early repayment in June 2022 (note 5.15.b).

f) An analysis of the statement of financial position by residual contractual maturity

in EUR thousands

	NLB Group					
31 Dec 2021	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	5,005,052	-	-	-	-	5,005,052
Financial assets held for trading	7,678	-	-	-	-	7,678
Non-trading financial assets mandatorily at fair value through profit or loss	6,739	-	921	3,340	10,161	21,161
Financial assets measured at fair value through other comprehensive income	401,080	163,233	400,588	1,888,222	608,737	3,461,860
Financial assets measured at amortised cost						
- debt securities	38,317	19,107	124,948	783,028	752,226	1,717,626
- loans and advances to banks	119,930	16,827	2,374	1,552	-	140,683
- loans and advances to customers	466,930	547,238	1,912,038	4,519,726	3,141,189	10,587,121
- other financial assets	92,505	3,309	773	25,538	104	122,229
Derivatives - hedge accounting	568	-	-	-	-	568
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	1,330	5,752	7,082
Non-current assets held for sale	-	-	7,051	-	-	7,051
Property and equipment	-	-	-	89,813	157,201	247,014
Investment property	-	-	-	43,693	3,931	47,624
Intangible assets	-	-	-	29,259	29,817	59,076
Investments in associates and joint ventures	-	-	-	-	11,525	11,525
Current income tax assets	-	-	3,948	-	-	3,948
Deferred income tax assets	-	-	620	31,934	6,423	38,977
Other assets	23,983	9,655	19,859	37,563	161	91,221
Total assets	**6,162,782**	**759,369**	**2,473,120**	**7,454,998**	**4,727,227**	**21,577,496**
Financial liabilities held for trading	7,585	-	-	-	-	7,585
Derivatives - hedge accounting	35,377	-	-	-	-	35,377
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	56,053	-	521	15,254	-	71,828
- borrowings from banks and central banks	889	442	751,773	99,418	6,009	858,531
- due to customers	15,771,461	268,484	852,576	727,308	20,980	17,640,809
- borrowings from other customers	535	1,770	6,186	27,074	38,486	74,051
- subordinated liabilities	-	3,689	1,759	-	283,071	288,519
- other financial liabilities	120,182	10,655	13,817	37,643	257	182,554
- lease liabilities	512	1,023	4,049	17,678	1,062	24,324
Provisions	7,314	1,183	39,914	69,863	1,130	119,404
Current income tax liabilities	2,722	3,156	-	-	-	5,878
Deferred income tax liabilities	-	-	-	3,045	-	3,045
Other liabilities	36,495	748	5,749	4,867	1,609	49,468
Total liabilities	**16,039,125**	**291,150**	**1,676,344**	**1,002,150**	**352,604**	**19,361,373**
Credit risk related commitments	578,233	166,473	838,890	470,308	407,499	2,461,403
Non-financial guarantees	30,426	72,983	195,917	342,426	61,349	703,101
Total liabilities and credit-related commitments	**16,647,784**	**530,606**	**2,711,151**	**1,814,884**	**821,452**	**22,525,877**

						in EUR thousands
			NLB Group			
31 Dec 2020	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	3,961,812	-	-	-	-	3,961,812
Financial assets held for trading	16,046	15,173	1	47,223	6,412	84,855
Non-trading financial assets mandatorily at fair value through profit or loss	6,067	120	24,954	1,171	10,081	42,393
Financial assets measured at fair value through other comprehensive income	352,474	57,055	337,298	1,960,192	807,271	3,514,290
Financial assets measured at amortised cost						
- debt securities	74,540	47,087	76,672	695,030	609,758	1,503,087
- loans and advances to banks	154,686	36,706	4,375	1,238	-	197,005
- loans and advances to customers	538,078	421,665	1,733,251	4,252,968	2,673,898	9,619,860
- other financial assets	80,692	8,319	3,380	20,597	150	113,138
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	885	12,959	13,844
Non-current assets held for sale	-	-	8,658	-	-	8,658
Property and equipment	-	-	-	78,847	170,270	249,117
Investment property	-	-	-	41,501	13,341	54,842
Intangible assets	-	-	-	32,274	29,394	61,668
Investments in associates and joint ventures	-	-	-	-	7,988	7,988
Current income tax assets	1,656	22	2,691	-	-	4,369
Deferred income tax assets	327	-	-	28,759	2,703	31,789
Other assets	24,548	9,109	54,992	8,337	154	97,140
Total assets	**5,210,926**	**595,256**	**2,246,272**	**7,169,022**	**4,344,379**	**19,565,855**
Financial liabilities held for trading	15,485	-	-	-	-	15,485
Derivatives - hedge accounting	61,161	-	-	-	-	61,161
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	52,434	19,813	163	223	-	72,633
- borrowings from banks and central banks	658	717	17,468	129,215	10,167	158,225
- due to customers	14,109,959	375,751	1,069,785	825,076	16,596	16,397,167
- borrowings from other customers	977	2,731	9,120	41,072	37,660	91,560
- subordinated liabilities	-	3,690	1,759	-	282,872	288,321
- other financial liabilities	111,166	7,703	9,552	25,970	1,345	155,736
- lease liabilities	1,092	1,059	4,850	16,947	2,411	26,359
Provisions	8,507	1,183	32,785	79,159	3,425	125,059
Current income tax liabilities	644	358	-	-	-	1,002
Deferred income tax liabilities	763	-	-	3,301	411	4,475
Other liabilities	31,914	412	4,505	2,464	6,337	45,632
Total liabilities	**14,394,760**	**413,417**	**1,149,987**	**1,123,427**	**361,224**	**17,442,815**
Credit risk related commitments	563,821	226,551	703,691	408,880	424,681	2,327,624
Non-financial guarantees	25,177	67,127	154,766	334,078	66,198	647,346
Total liabilities and credit-related commitments	**14,983,758**	**707,095**	**2,008,444**	**1,866,385**	**852,103**	**20,417,785**

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						in EUR thousands
			NLB			
31 Dec 2021	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	3,250,437	-	-	-	-	3,250,437
Financial assets held for trading	7,682	-	-	-	-	7,682
Non-trading financial assets mandatorily at fair value through profit or loss	614	29	306	6,939	4,472	12,360
Financial assets measured at fair value through other comprehensive income	24,773	57,473	141,428	918,421	443,656	1,585,751
Financial assets measured at amortised cost						
- debt securities	2,825	18,182	90,276	608,223	716,918	1,436,424
- loans and advances to banks	916	40,463	50,129	32,066	75,713	199,287
- loans and advances to customers	317,315	171,605	676,938	2,183,239	1,796,056	5,145,153
- other financial assets	66,454	658	3,100	22,192	-	92,404
Derivatives - hedge accounting	568	-	-	-	-	568
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	1,330	5,752	7,082
Non-current assets held for sale	-	-	4,089	-	-	4,089
Property and equipment	-	-	-	19,304	66,818	86,122
Investment property	-	-	-	9,181	-	9,181
Intangible assets	-	-	-	14,255	15,198	29,453
Investments in subsidiaries, associates and joint ventures	-	-	24,282	37,984	723,757	786,023
Current income tax assets	-	-	3,761	-	-	3,761
Deferred income tax assets	-	-	-	31,902	-	31,902
Other assets	6,984	-	4,869	-	-	11,853
Total assets	**3,678,568**	**288,410**	**999,178**	**3,885,036**	**3,848,340**	**12,699,532**
Financial liabilities held for trading	7,602	-	-	-	-	7,602
Financial liabilities measured at fair value through profit or loss	-	-	-	352	-	352
Derivatives - hedge accounting	35,377	-	-	-	-	35,377
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	94,326	-	-	15,003	-	109,329
- borrowings from banks and central banks	44,569	-	746,028	82,882	-	873,479
- due to customers	9,303,755	65,612	125,287	156,322	8,629	9,659,605
- borrowings from other customers	-	-	-	406	-	406
- subordinated liabilities	-	3,689	1,759	-	283,071	288,519
- other financial liabilities	71,866	3,895	2	23,495	13	99,271
- lease liabilities	76	146	614	2,006	414	3,256
Provisions	544	672	18,501	29,646	-	49,363
Other liabilities	14,216	166	1,442	3,683	1,532	21,039
Total liabilities	**9,572,331**	**74,180**	**893,633**	**313,795**	**293,659**	**11,147,598**
Credit risk related commitments	503,492	96,524	451,614	280,201	220,580	1,552,411
Non-financial guarantees	16,714	45,786	100,102	240,761	33,803	437,166
Total liabilities and credit-related commitments	**10,092,537**	**216,490**	**1,445,349**	**834,757**	**548,042**	**13,137,175**

						in EUR thousands
			NLB			
31 Dec 2020	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	2,261,533	-	-	-	-	2,261,533
Financial assets held for trading	16,381	-	1	2,449	-	18,831
Non-trading financial assets mandatorily at fair value through profit or loss	526	158	26,084	3,885	4,453	35,106
Financial assets measured at fair value through other comprehensive income	91,312	19,936	185,583	867,674	551,846	1,716,351
Financial assets measured at amortised cost						
- debt securities	66,893	13,792	41,502	556,444	599,249	1,277,880
- loans and advances to banks	392	22,824	50,274	28,990	55,840	158,320
- loans and advances to customers	322,669	141,946	609,404	2,029,791	1,460,368	4,564,178
- other financial assets	33,661	218	40	20,584	-	54,503
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	-	885	12,959	13,844
Non-current assets held for sale	-	-	4,454	-	-	4,454
Property and equipment	-	-	-	22,173	69,502	91,675
Investment property	-	-	-	8,300	-	8,300
Intangible assets	-	-	-	13,058	15,047	28,105
Investments in subsidiaries, associates and joint ventures	-	-	1,719	65,140	683,863	750,722
Current income tax assets	-	-	1,923	-	-	1,923
Deferred income tax assets	-	-	-	29,214	-	29,214
Other assets	6,558	-	5,106	-	-	11,664
Total assets	**2,799,925**	**198,874**	**926,090**	**3,648,587**	**3,453,127**	**11,026,603**
Financial liabilities held for trading	15,500	-	-	-	-	15,500
Derivatives - hedge accounting	61,161	-	-	-	-	61,161
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	41,635	-	-	-	-	41,635
- borrowings from banks and central banks	85	704	12,948	120,260	9,467	143,464
- due to customers	8,412,510	108,772	183,709	141,077	4,687	8,850,755
- borrowings from other customers	-	-	13	-	-	13
- subordinated liabilities	-	3,690	1,759	-	282,870	288,319
- other financial liabilities	57,840	6,006	-	21,899	12	85,757
- lease liabilities	73	128	582	1,914	515	3,212
Provisions	495	669	19,463	41,533	1,630	63,790
Other liabilities	14,610	94	2,236	2,430	2,631	22,001
Total liabilities	**8,603,909**	**120,063**	**220,710**	**329,113**	**301,812**	**9,575,607**
Credit risk related commitments	478,872	143,562	418,866	261,282	270,333	1,572,915
Non-financial guarantees	18,203	41,599	90,299	245,158	36,406	431,665
Total liabilities and credit-related commitments	**9,100,984**	**305,224**	**729,875**	**835,553**	**608,551**	**11,580,187**

g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousands

	NLB Group					
31 Dec 2021	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(26,202)	(10,460)	(16,853)	(12,180)	-	(65,695)
- Inflow	26,214	10,465	16,865	12,199	-	65,743
- Swaps						
- Outflow	(96,742)	(2,362)	(17,335)	-	-	(116,439)
- Inflow	96,483	2,364	17,346	-	-	116,193
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,116)	(2,107)	(10,153)	(26,901)	(12,053)	(52,330)
- Inflow	34	237	3,321	7,179	7,287	18,058
- Caps and floors						
- Outflow	-	-	(1)	(51)	-	(52)
- Inflow	-	-	2	52	-	54
Total outflow	**(124,060)**	**(14,929)**	**(44,342)**	**(39,132)**	**(12,053)**	**(234,516)**
Total inflow	**122,731**	**13,066**	**37,534**	**19,430**	**7,287**	**200,048**

in EUR thousands

	NLB Group					
31 Dec 2020	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(24,456)	(28,334)	(65,976)	(13,817)	-	(132,583)
- Inflow	24,494	28,368	66,041	13,828	-	132,731
- Swaps						
- Outflow	(20,709)	(49,105)	(36,055)	-	-	(105,869)
- Inflow	20,297	49,112	36,034	-	-	105,443
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(692)	(2,962)	(11,378)	(42,239)	(18,643)	(75,914)
- Inflow	73	718	4,394	8,777	2,348	16,310
Total outflow	**(45,857)**	**(80,401)**	**(113,409)**	**(56,056)**	**(18,643)**	**(314,366)**
Total inflow	**44,864**	**78,198**	**106,469**	**22,605**	**2,348**	**254,484**

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31 Dec 2021	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			NLB			in EUR thousands
Foreign exchange derivatives						
- Forwards						
- Outflow	(24,891)	(10,460)	(16,853)	(12,180)	-	(64,384)
- Inflow	24,902	10,465	16,865	12,199	-	64,431
- Swaps						
- Outflow	(102,036)	(6,875)	(17,335)	-	-	(126,246)
- Inflow	101,772	6,864	17,346	-	-	125,982
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,116)	(2,107)	(10,153)	(26,901)	(12,053)	(52,330)
- Inflow	34	237	3,321	7,179	7,287	18,058
- Caps and floors						
- Outflow	-	-	(1)	(51)	-	(52)
- Inflow	-	-	2	52	-	54
Total outflow	**(128,043)**	**(19,442)**	**(44,342)**	**(39,132)**	**(12,053)**	**(243,012)**
Total inflow	**126,708**	**17,566**	**37,534**	**19,430**	**7,287**	**208,525**

31 Dec 2020	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
			NLB			in EUR thousands
Foreign exchange derivatives						
- Forwards						
- Outflow	(23,685)	(31,650)	(65,976)	(13,817)	-	(135,128)
- Inflow	23,715	31,685	66,041	13,828	-	135,269
- Swaps						
- Outflow	(24,874)	(53,580)	(6,063)	-	-	(84,517)
- Inflow	24,821	53,592	6,068	-	-	84,481
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(692)	(2,962)	(11,378)	(42,239)	(18,643)	(75,914)
- Inflow	73	718	4,394	8,777	2,348	16,310
Total outflow	**(49,251)**	**(88,192)**	**(83,417)**	**(56,056)**	**(18,643)**	**(295,559)**
Total inflow	**48,609**	**85,995**	**76,503**	**22,605**	**2,348**	**236,060**

6.4. Management of non-financial risks

a) 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 NLB Group, with disinvestment process of non-core activities and optimisation of internal processes. 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, takes 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 an 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 aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. All 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 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 was higher than in the previous year, mostly due to inclusion of the net losses arising from acquired Komercijalna banka Group. Nevertheless, the reported incurred net loss remained 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, servicing 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.

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.

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, epidemic/pandemic, and the undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the Business Continuity Management System. In 2021, Business Continuity Management was upgraded System according to external influence – we added scenarios for most likely events which could affect the bank (earthquake, fire, floods, sleet, epidemic, terrorism, IT disaster, cyber-attack).

The basis for modernising the business continuity plans is the regular annual Business Impact Analysis (BIA). On its basis, the adequacy of the plans for office buildings, HR plans and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2021, only external tests and an IT test were carried out at NLB (no evacuation and manual procedures test because of the COVID-19 pandemic). No major deviations were identified.

In NLB Group, know-how and methodologies are transferred to the members (except non-core members which are in the process of liquidation). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary.

For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2021, visits of NLB Group banking subsidiaries were suspended due to COVID-19 situation, nevertheless all preventive and response measures with regard to business continuity were sent to the members with the purpose to help and act in the uniform way. Besides, workshops were performed to present development of Business Continuity Management System to all the NLB Group members to be more resilient in the epidemic/pandemic circumstances.

With regards to IT failures, the Bank successfully used the IT plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

During COVID-19 pandemic in Slovenia and SEE, NLB Group has taken measures to protect its customers and employees, such as (but not limited to) ensuring the relevant safety conditions and making sure that the services offered by the Group are provided without any disruption. The NLB Group continuously offered necessary services to clients, especially through digital channels (mobile banking, video calls and telebanking), which the NLB Group continues to develop at an accelerated pace. A Crisis Management Team was activated in the Bank and other banking members with full engagement of the Management Board members. Special attention was paid to continuous provision of services to clients, their monitoring, health protection measures, and prevention of cyber fraud.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk, and profitability risk

Risks not included in the regulatory capital requirements (standardised approach) but have or might have an important influence on the risk profile of NLB Group, are regularly assessed, monitored, and managed. In addition, they are integrated into internal capital adequacy assessment process (ICAAP). NLB Group established internal methodologies for identifying and assessing specific types of risk, referring to the Group's business model or arising from other external circumstances. If a certain risk is assessed as a materially important risk, relevant disposable preventive and mitigation measures are applied, including regular monitoring of their effectiveness. On this basis, internal capital is considered and its consumption regularly monitored.

6.5. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.

- Level 2 – A valuation technique where inputs are observable, either directly (i.e., prices) or indirectly (i.e., derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, is Bloomberg.

- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds, and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g., share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. These techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

in EUR thousands

31 Dec 2021	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	-	7,677	1	7,678	-	7,681	1	7,682
Derivatives	-	7,677	1	7,678	-	7,681	1	7,682
Derivatives - hedge accounting	-	568	-	568	-	568	-	568
Financial assets measured at fair value through other comprehensive income	2,010,485	1,449,888	1,487	3,461,860	1,533,797	51,735	219	1,585,751
Debt instruments	2,009,699	1,385,211	351	3,395,261	1,533,797	7,245	-	1,541,042
Equity instruments	786	64,677	1,136	66,599	-	44,490	219	44,709
Non-trading financial assets mandatorily at fair value through profit and loss	16,689	-	4,472	21,161	-	7,888	4,472	12,360
Debt instruments	4,261	-	-	4,261	-	-	-	-
Equity instruments	12,428	-	4,472	16,900	-	-	4,472	4,472
Loans	-	-	-	-	-	7,888	-	7,888
Financial liabilities								
Financial instruments held for trading	-	7,585	-	7,585	-	7,602	-	7,602
Derivatives	-	7,585	-	7,585	-	7,602	-	7,602
Derivatives - hedge accounting	-	35,377	-	35,377	-	35,377	-	35,377
Financial liabilities measured at fair value through profit or loss	-	-	-	-	-	352	-	352
Non-financial assets								
Investment properties	-	19,982	27,642	47,624	-	9,181	-	9,181
Non-current assets held for sale	-	7,051	-	7,051	-	4,089	-	4,089
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	-	-	2,990	2,990	-	-	-	-
Recoverable amount of intangible assets	-	-	872	872	-	-	-	-
Recoverable amount of investments in subsidiaries, associates and joint ventures	-	-	-	-	-	201	2,618	2,819

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in EUR thousands

31 Dec 2020	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	2,450	81,619	786	84,855	2,450	15,595	786	18,831
Debt instruments	2,450	66,356	-	68,806	2,450	-	-	2,450
Derivatives	-	15,263	786	16,049	-	15,595	786	16,381
Financial assets measured at fair value through other comprehensive income	2,068,317	1,444,146	1,827	3,514,290	1,663,619	52,458	274	1,716,351
Debt instruments	2,060,346	1,385,245	900	3,446,491	1,663,619	7,585	-	1,671,204
Equity instruments	7,971	58,901	927	67,799	-	44,873	274	45,147
Non-trading financial assets mandatorily at fair value through profit and loss	13,146	-	29,247	42,393	-	7,947	27,159	35,106
Debt instruments	2,157	-	-	2,157	-	-	-	-
Equity instruments	10,989	-	4,171	15,160	-	-	4,171	4,171
Loans	-	-	25,076	25,076	-	7,947	22,988	30,935
Financial liabilities								
Financial instruments held for trading	-	15,485	-	15,485	-	15,500	-	15,500
Derivatives	-	15,485	-	15,485	-	15,500	-	15,500
Derivatives - hedge accounting	-	61,161	-	61,161	-	61,161	-	61,161
Non-financial assets								
Investment properties	-	22,632	32,210	54,842	-	8,300	-	8,300
Non-current assets held for sale	-	8,658	-	8,658	-	4,454	-	4,454
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	-	-	3,897	3,897	-	-	-	-
Recoverable amount of investments in subsidiaries, associates and joint ventures	-	-	-	-	-	280	4,670	4,950

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

						Derivatives		
Fair value hierarchy	**Equities**	**Equity stake**	**Funds**	**Debt securities**	**Loans**	**Equities**	**Currency**	**Interest**
1	market value from exchange market		regular valuation by fund management company	market value from exchange market				
2				valuation model	valuation model	valuation model (underlying in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model	valuation model (underlying instrument in level 3)		
Transfers								
	from level 1 to 3		*from level 1 to 3*	*from level 1 to 2*	*from level 2 to 3*	*from level 2 to 3*		
	equity excluded from exchange market		fund management company stops publishing regular valuation	debt securities excluded from exchange market	counterparty reclassified from performing to NPL	underlying instrument excluded from exchange market		
	from level 1 to 3		*from level 3 to 1*	*from level 1 to 2*	*from level 3 to 2*	*from level 3 to 2*		
	companies in insolvency proceedings		fund management company starts publishing regular valuation	debt securities not liquid (not trading for 6 months)	counterparty reclassified from NPL to performing	underlying instrument included in exchange market		
	from level 1 to 3			*from level 1 to 3 and from 2 to 3*				
	equity not liquid (not trading for 2 months)			companies in insolvency proceedings				
	from level 3 to 1			*from level 2 to 1 and from 3 to 1*				
	equity included in exchange market			start trading with debt securities on exchange market				
				from level 3 to 2				
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)				

For 2021 and 2020, neither NLB Group nor NLB had any significant transfers between levels of valuation of financial instruments measured at fair value in financial statements.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy
Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: mostly bonds not quoted on active markets and valuated by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets;
- performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return; and
- the National Resolution Fund.

Non-financial assets on Level 2 of the fair value hierarchy at NLB Group and NLB include investment properties.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (the Garman and Kohlhagen model, binomial model, and Black-Scholes model).

At least one of the three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and adjusts it appropriately.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy
Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- equities: mainly financial equities that are not quoted on active markets;
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (the Garman and Kohlhagen model, binomial model, and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Bloomberg information system; and
- non-performing loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return. In defining the expected cash flows for non-performing loans, the value of collateral and other pay off estimates can be used.

Non-financial assets on Level 3 of the fair value hierarchy at NLB Group include investment properties.

NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in first bullet: the income, market, and cost approaches.

NLB Group selects valuation model and values of unobservable input data within a reasonable possible range, but uses model and input data that other market participants would use.

At least one of the three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and adjusts it appropriately.

Movements of financial assets and liabilities at Level 3

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
NLB Group	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**		**Loans and other financial liabilities**
Balance as at 1 January 2020	807	-	4,109	2,716	14,961	22,593	7,998
Effects of translation of foreign operations to presentation currency	-	-	53	-	-	53	-
Acquisition of subsidiaries	-	900	85	-	-	985	
Valuation:							
- through profit or loss	(21)	-	-	1,642	(2,720)	(1,099)	(8,006)
- recognised in other comprehensive income	-	-	21	-	-	21	-
Foreign exchange differences	-	-	-	(187)	(48)	(235)	8
Increases	-	-	-	-	20,399	20,399	-
Decreases	-	-	(3,341)	-	(7,516)	(10,857)	-
Balance as at 31 December 2020	**786**	**900**	**927**	**4,171**	**25,076**	**31,860**	**-**
Effects of translation of foreign operations to presentation currency	-	-	(2)	-	-	(2)	-
Valuation:							
- through profit or loss	(785)	-	-	(56)	15,747	14,906	-
- recognised in other comprehensive income	-	-	266	-	-	266	-
Foreign exchange differences				357	9	366	-
Increases	-	63	-	-	3,017	3,080	-
Decreases	-	(612)	(55)	-	(43,849)	(44,516)	-
Balance as at 31 December 2021	**1**	**351**	**1,136**	**4,472**	**-**	**5,960**	**-**

						in EUR thousands
	Financial instruments held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Total financial assets	Financial liabilities measured at fair value through profit or loss
NLB	**Derivatives**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**		**Loans and other financial liabilities**
Balance as at 1 January 2020	807	259	2,716	13,055	16,837	7,746
Valuation:						
- through profit or loss	(21)	-	1,642	(2,831)	(1,210)	(7,754)
- recognised in other comprehensive income	-	15	-	-	15	-
Foreign exchange differences	-	-	(187)	(48)	(235)	8
Increases	-	-	-	19,833	19,833	-
Decreases	-	-	-	(7,021)	(7,021)	-
Balance as at 31 December 2020	**786**	**274**	**4,171**	**22,988**	**28,219**	**-**
Valuation:						
- through profit or loss	(785)	-	(56)	13,749	12,908	-
Foreign exchange differences	-	-	357	9	366	-
Increases	-	-	-	3,005	3,005	-
Decreases	-	(55)	-	(39,751)	(39,806)	-
Balance as at 31 December 2021	**1**	**219**	**4,472**	**-**	**4,692**	**-**

NLB Group and NLB recognise the effects from valuation of trading instruments in income statement line item 'Gains less losses from financial assets and liabilities held for trading,' effects from valuation of non-trading equity instruments and loans mandatorily measured at fair value through profit or loss in income statement line item 'Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss,' and effects from valuation of financial assets measured at fair value through other comprehensive income in the accumulated other comprehensive income line item 'Financial assets measured at fair value through other comprehensive income.'

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In 2021 and in 2020, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December:

in EUR thousands

NLB Group	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Financial liabilities measured at fair value through profit or loss
2021	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	(56)	-	-
Foreign exchange translation gains less losses	-	-	357	-	-
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	266	-	-	-

in EUR thousands

NLB Group	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss		Financial liabilities measured at fair value through profit or loss
2020	Derivatives	Equity instruments	Equity instruments	Loans and other financial assets	Loans and other financial liabilities
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(21)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	1,642	(2,720)	8,006
Foreign exchange translation gains less losses	-	-	(187)	(48)	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	21	-	-	-

					in EUR thousands
NLB	**Financial assets held for trading**	**Financial assets measured at fair value through OCI**	**Non-trading financial assets mandatorily at fair value through profit or loss**		**Financial liabilities measured at fair value through profit or loss**
2021	**Derivatives**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**	**Loans and other financial liabilities**
Items of Income statement					
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	(56)	-	-
Foreign exchange translation gains less losses	-	-	357	-	-

					in EUR thousands
NLB	**Financial assets held for trading**	**Financial assets measured at fair value through OCI**	**Non-trading financial assets mandatorily at fair value through profit or loss**		**Financial liabilities measured at fair value through profit or loss**
2020	**Derivatives**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**	**Loans and other financial liabilities**
Items of Income statement					
Gains less losses from financial assets and liabilities held for trading	(21)	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	1,642	(2,831)	7,754
Foreign exchange translation gains less losses	-	-	(187)	(48)	(8)
Item of Other comprehensive income					
Financial assets measured at fair value through other comprehensive income	-	15	-	-	-

Movements of non-financial assets at Level 3

		in EUR thousands
	NLB Group	
Investment property	**2021**	**2020**
Balance as at 1 January	32,210	28,933
Effects of translation of foreign operations to presentation currency	19	(24)
Acquisition of subsidiaries (note 5.12.c)	-	19,643
Additions	-	609
Disposals	(502)	(189)
Transfer from/(to) property and equipment	(7,568)	(62)
Transfer from/(to) non-current assets held for sale	22	17
Transfer from/(to) other assets	1,260	(16,790)
Net valuation to fair value	3,416	73
Disposal of subsidiary (note 5.12.b)	(1,215)	-
Balance as at 31 December	**27,642**	**32,210**

e) Fair value of financial instruments not measured at fair value in financial statements

Financial instruments not measured at fair value in financial statements are not managed on a fair value basis. For respective instruments fair values are calculated for disclosure purposes only and do not impact NLB Group statement of financial position or income statement.

The table below shows estimated fair values of financial instruments not measured at fair value in the statement of financial position.

in EUR thousands

	NLB Group				NLB			
	31 Dec 2021		31 Dec 2020		31 Dec 2021		31 Dec 2020	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	1,717,626	1,745,225	1,503,087	1,563,103	1,436,424	1,461,185	1,277,880	1,333,840
- loans and advances to banks	140,683	140,843	197,005	197,220	199,287	204,743	158,320	165,966
- loans and advances to customers	10,587,121	10,751,051	9,619,860	9,873,137	5,145,153	5,235,839	4,564,178	4,674,069
- other financial assets	122,229	122,229	113,138	113,138	92,404	92,404	54,503	54,503
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	71,828	69,720	72,633	72,648	109,329	109,522	41,635	41,635
- borrowings from banks and central banks	858,531	849,834	158,225	155,673	873,479	863,970	143,464	140,702
- due to customers	17,640,809	17,658,686	16,397,167	16,414,382	9,659,605	9,664,607	8,850,755	8,860,267
- borrowings from other customers	74,051	73,744	91,560	93,020	406	406	13	13
- subordinated liabilities	288,519	292,130	288,321	281,001	288,519	292,130	288,321	281,001
- other financial liabilities	206,878	206,878	182,095	182,095	102,527	102,527	88,969	88,969

Loans and advances to banks
The estimated fair value of deposits is based on discounted cash flows using prevailing market interest rates for instruments with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers
The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings
The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates, and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Other financial assets and liabilities
The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

								in EUR thousands
31 Dec 2021	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	1,434,411	303,647	7,167	1,745,225	1,358,293	102,892	-	1,461,185
- loans and advances to banks	-	140,843	-	140,843	-	204,743	-	204,743
- loans and advances to customers	-	10,751,051	-	10,751,051	-	5,235,839	-	5,235,839
- other financial assets	-	122,229	-	122,229	-	92,404	-	92,404
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	69,720	-	69,720	-	109,522	-	109,522
- borrowings from banks and central banks	-	849,834	-	849,834	-	863,970	-	863,970
- due to customers	-	17,658,686	-	17,658,686	-	9,664,607	-	9,664,607
- borrowings from other customers	-	73,744	-	73,744	-	406	-	406
- subordinated liabilities	245,700	46,430	-	292,130	245,700	46,430	-	292,130
- other financial liabilities	-	206,878	-	206,878	-	102,527	-	102,527

								in EUR thousands
31 Dec 2020	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	1,267,437	288,484	7,182	1,563,103	1,254,337	79,503	-	1,333,840
- loans and advances to banks	-	197,220	-	197,220	-	165,966	-	165,966
- loans and advances to customers	-	9,873,137	-	9,873,137	-	4,674,069	-	4,674,069
- other financial assets	-	113,138	-	113,138	-	54,503	-	54,503
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	72,648	-	72,648	-	41,635	-	41,635
- borrowings from banks and central banks	-	155,673	-	155,673	-	140,702	-	140,702
- due to customers	-	16,414,382	-	16,414,382	-	8,860,267	-	8,860,267
- borrowings from other customers	-	93,020	-	93,020	-	13	-	13
- subordinated liabilities	234,629	46,372	-	281,001	234,629	46,372	-	281,001
- other financial liabilities	-	182,095	-	182,095	-	88,969	-	88,969

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6.6. Offsetting financial assets and financial liabilities

NLB Group has entered into bilateral foreign exchange netting arrangements with certain banks and corporates. Cash flows from such transactions that are due on the same day in the same currency, are settled on a net basis, i.e., a single cash flow for each currency. The settlement of all interest rates derivatives is also carried out by netting of both legs of transaction. Assets and liabilities related to these netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to the entire financial instrument.

In 2013, NLB Group also novated certain standardised derivatives (some interest rate swaps) to a clearing house or central counterparty. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

All derivatives are conducted under the conditions of signed Master Agreements (MA), with international banks ISDA MA is in place along with CSA annex and for corporates domestic MA is in place, which enable daily evaluation and exchange of margining.

				in EUR thousands
		NLB Group		
31 Dec 2021		Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	8,239	998	445	6,796
Derivatives - liabilities	42,961	998	41,121	842

				in EUR thousands
		NLB Group		
31 Dec 2020		Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	15,820	608	594	14,618
Derivatives - liabilities	76,646	608	74,861	1,177

				in EUR thousands
		NLB		
31 Dec 2021		Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	8,249	1,008	445	6,796
Derivatives - liabilities	42,978	1,008	41,121	849

				in EUR thousands
		NLB		
31 Dec 2020		Amounts not set off in the statement of financial position		
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	16,189	623	594	14,972
Derivatives - liabilities	76,661	623	74,861	1,177

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

7. Analysis by segment for NLB Group

a) Segments

in EUR thousands

2021	NLB Group Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Unallocated	Total
Total net income	171,046	101,505	361,945	24,107	7,223	6,127	-	671,953
Net income from external customers	188,629	110,588	363,452	(8,855)	7,014	6,091	-	666,919
Intersegment net income	(17,583)	(9,083)	(1,507)	32,962	209	36	-	5,034
Net interest income	79,535	35,714	266,804	26,377	1,331	(401)	-	409,360
Net interest income from external customers	98,898	44,481	270,839	(6,188)	1,751	(421)	-	409,360
Intersegment net interest income	(19,363)	(8,767)	(4,035)	32,565	(420)	20	-	-
Administrative expenses	(104,844)	(40,829)	(198,589)	(7,963)	(10,534)	(10,259)	-	(373,018)
Depreciation and amortisation	(11,659)	(4,278)	(29,329)	(677)	(833)	(619)	-	(47,395)
Reportable segment profit/(loss) before impairment and provision charge	54,543	56,398	134,027	15,467	(4,144)	(4,751)	-	251,540
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	1,108	-	-	-	-	-	-	1,108
Impairment and provisions charge	(6,684)	30,450	(20,779)	329	5,403	39	-	8,758
Profit/(loss) before income tax	48,967	86,848	113,248	15,796	1,259	(4,712)	-	261,406
Owners of the parent	48,967	86,848	101,784	15,796	1,259	(4,712)	-	249,942
Non-controlling interests	-	-	11,464	-	-	-	-	11,464
Income tax	-	-	-	-	-	-	(13,538)	(13,538)
Profit for the year								**236,404**
Reportable segment assets	2,811,209	2,333,769	9,797,839	6,190,193	95,905	337,056	-	21,565,971
Investments in associates and joint ventures	11,525	-	-	-	-	-	-	11,525
Reportable segment liabilities	7,720,693	1,966,530	8,315,316	1,231,669	7,749	119,416	-	19,361,373
Additions to non-current assets	9,972	4,218	26,608	264	(10,036)	2,039	-	33,065

in EUR thousands

2020	Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Unallocated	Total
	NLB Group							
Total net income	170,358	75,185	209,091	39,633	5,445	7,958	-	507,670
Net income from external customers	184,758	81,124	213,881	12,713	4,537	7,472	-	504,484
Intersegment net income	(14,400)	(5,939)	(4,790)	26,921	908	486	-	3,186
Net interest income	81,395	34,007	159,261	23,471	1,199	240	-	299,573
Net interest income from external customers	96,357	40,873	163,255	(3,126)	2,012	203	-	299,573
Intersegment net interest income	(14,962)	(6,866)	(3,994)	26,598	(813)	37	-	-
Administrative expenses	(102,089)	(37,878)	(94,862)	(6,972)	(11,848)	(11,047)	-	(264,696)
Depreciation and amortisation	(12,043)	(3,911)	(14,162)	(619)	(1,011)	(685)	-	(32,431)
Reportable segment profit/(loss) before impairment and provision charge	56,226	33,396	100,067	32,042	(7,414)	(3,774)	-	210,543
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	874	-	-	-	-	-	-	874
Negative goodwill	-	-	137,858	-	-	-	-	137,858
Impairment and provisions charge	(15,069)	8,982	(59,084)	(1,267)	2,854	(7,770)	-	(71,354)
Profit/(loss) before income tax	42,031	42,378	178,841	30,775	(4,560)	(11,544)	-	277,921
Owners of the parent	42,031	42,378	175,792	30,775	(4,560)	(11,544)	-	274,872
Non-controlling interests	-	-	3,049	-	-	-	-	3,049
Income tax	-	-	-	-	-	-	(5,165)	(5,165)
Profit for the year								**269,707**
Reportable segment assets	2,545,714	2,043,324	9,346,255	5,218,038	131,204	273,332	-	19,557,867
Investments in associates and joint ventures	7,988	-	-	-	-	-	-	7,988
Reportable segment liabilities	7,367,145	1,519,067	7,879,089	557,402	4,571	115,540	-	17,442,815
Additions to non-current assets	15,679	6,047	13,517	418	695	2,941	-	39,298

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results. NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

The business activities of NLB are divided into several segments. Interest income and expenses are allocated between segments on the basis of fund transfer prices (FTP). Other NLB Group members are, based on their business activity, included in only one segment except NLB Lease&Go which is according to its business activities divided into two segments.

The segments of NLB Group are divided into core and non-core segments.

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals and asset management (NLB Skladi), and part of new subsidiary NLB Lease&Go that includes operations with retail clients, as well as the contribution to the result of the associated company Bankart.
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Cross-border corporate financing, Investment Banking and Custody, Restructuring and Workout, and part of the new subsidiary NLB Lease&Go that includes operations with corporate clients.

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- Strategic Foreign Markets, which consist of the operations of strategic Group banks in the strategic markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia). As a result of the acquisition of Komercijalna banka Beograd at the end of the year 2020, NLB Group acquired three banks: Komercijalna banka Beograd, Komercijalna banka Podgorica, and Komercijalna banka Banja Luka, as well as an investment fund company KomBank Invest Beograd. In November 2021, the merger of NLB Banka Podgorica and Komercijalna banka Podgorica was finalized. Komercijalna banka Banja Luka was sold outside the NLB Group on 9 December 2021, so it is included in the result of the segment for 2021 with its operations until the specified date.
- Financial Markets in Slovenia include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM).
- Other accounts for the Bank's categories whose operating results cannot be allocated to specific segments as well as subsidiary NLB Cultural Heritage Management Institute.

Non-Core Members include the operations of non-core Group members, namely REAM and leasing entities (except NLB Lease&Go), NLB Srbija, and NLB Crna Gora. NLB Leasing Ljubljana was sold to the strategic company Lease&Go within the NLB Group in 2021. Despite the change in ownership, its operations continue to be monitored within the segment of non-core members.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

No revenues were generated from transactions with a single external customer that would amount to 10% or more of Group's revenues.

b) Geographical information

Geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Slovenia	352,053	322,128	301,021	290,376	137,857	93,362	(5,043)	(1,154)
South East Europe	458,571	265,600	365,649	214,486	121,301	184,266	(8,462)	(3,963)
North Macedonia	87,936	81,710	70,157	64,466	43,277	21,008	(4,054)	(1,566)
Serbia	192,048	35,240	165,199	28,046	29,405	130,912	2,077	1,323
Montenegro	43,983	31,291	34,756	25,033	6,508	2,741	(1,484)	(426)
Croatia	5	42	207	454	(181)	(1,019)	(1)	(12)
Bosnia and Herzegovina	83,087	69,616	52,735	57,079	15,236	15,776	(2,213)	(1,572)
Kosovo	51,512	47,701	42,595	39,408	27,056	14,848	(2,787)	(1,710)
Western Europe	17	3	249	(378)	2,248	293	(33)	(48)
Germany	1	2	499	80	488	(433)	-	-
Switzerland	16	1	(250)	(458)	1,760	726	(33)	(48)
Total	**810,641**	**587,731**	**666,919**	**504,484**	**261,406**	**277,921**	**(13,538)**	**(5,165)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income.

The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, the effect on the derecognition of assets, net operating income, and gain less losses from non-current assets held for sale.

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in EUR thousands

NLB Group	Non-current assets		Total assets		Number of employees	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Slovenia	150,829	153,671	11,716,270	10,142,675	2,619	2,691
South East Europe	214,380	219,886	9,845,128	9,411,671	5,563	6,098
North Macedonia	37,384	37,181	1,758,269	1,576,941	877	877
Serbia	108,515	109,167	4,780,843	4,587,600	2,901	3,198
Montenegro	18,328	17,934	775,238	709,797	374	467
Croatia	383	381	4,025	4,390	6	7
Bosnia and Herzegovina	34,782	39,576	1,596,370	1,654,026	942	1,086
Kosovo	14,988	15,647	930,383	878,917	463	463
Western Europe	30	58	16,098	11,509	3	3
Germany	30	58	971	1,648	1	1
Switzerland	-	-	15,127	9,861	2	2
Total	**365,239**	**373,615**	**21,577,496**	**19,565,855**	**8,185**	**8,792**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousands

NLB Group	Revenues		Net income		Profit/(loss) before income tax		Income tax	
	2021	2020	2021	2020	2021	2020	2021	2020
Slovenia	448,559	341,092	387,692	328,302	225,706	120,806	(5,252)	(1,221)
South East Europe	459,405	265,889	374,776	211,337	146,496	44,271	(8,940)	(3,949)
North Macedonia	87,864	81,673	68,429	62,658	43,054	20,788	(4,054)	(1,566)
Serbia	192,776	35,318	161,017	28,386	37,536	(6,761)	1,599	1,337
Montenegro	43,978	31,376	35,417	24,356	7,969	187	(1,484)	(426)
Croatia	3	145	274	468	(181)	(1,019)	(1)	(12)
Bosnia and Herzegovina	83,275	69,678	67,806	56,791	30,895	16,032	(2,213)	(1,572)
Kosovo	51,509	47,699	41,833	38,678	27,223	15,044	(2,787)	(1,710)
Western Europe	19	335	86	(144)	2,247	588	(33)	(34)
Germany	1	2	493	81	489	(432)	-	-
Switzerland	18	333	(407)	(225)	1,758	1,020	(33)	(34)
Total	**907,983**	**607,316**	**762,554**	**539,495**	**374,449**	**165,665**	**(14,225)**	**(5,204)**

8. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel, or their family members have control, joint control, or a significant influence; a major shareholder of NLB with significant influence, subsidiaries, associates and joint ventures.

Related-party transactions with Management Board and other key management personnel, their family members and companies these related parties have control, joint control, or significant influence

A number of banking transactions are entered into with related parties within regular course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousands

NLB Group and NLB	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
	2021	2020	2021	2020	2021	2020	2021	2020
Loans issued								
Balance at 1 January	2,284	2,119	444	520	-	130	305	248
Increase	1,041	1,476	228	184	891	90	55	109
Decrease	(1,228)	(1,311)	(257)	(260)	(359)	(220)	(300)	(52)
Balance at 31 December	**2,097**	**2,284**	**415**	**444**	**532**	**-**	**60**	**305**
Interest income	39	40	7	8	6	1	4	7
Deposits received								
Balance at 1 January	1,610	1,579	956	871	136	193	323	198
Increase	2,048	1,392	595	826	1,625	207	321	277
Decrease	(1,488)	(1,361)	(833)	(741)	(1,171)	(264)	(139)	(152)
Balance at 31 December	**2,170**	**1,610**	**718**	**956**	**590**	**136**	**505**	**323**
Interest expenses	(4)	(4)	-	-	-	-	(1)	-
Other financial assets	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities	**2,268**	**2,759**	**1**	**-**	**14**	**8**	**-**	**-**
Guarantees issued and loan commitments	**215**	**242**	**72**	**78**	**194**	**6**	**23**	**33**
Fee income	12	15	6	7	83	101	2	1
Other income	13	16	-	-	-	-	-	-
Other expenses	-	(11)	-	-	(78)	(76)	-	-

Key management compensation

The remuneration for the members of the Supervisory Board of NLB d.d. and the Management Board of NLB d.d. is regulated in Remuneration Policy for the Members of the Supervisory Board of NLB d.d. and the Members of the Management Board of NLB d.d. The remuneration for the identified employees and other employees is regulated in Remuneration Policy for employees of NLB d.d. and NLB Group.

In 2021, NLB d.d. in accordance with the Companies Act (ZGD-1) and the Banking Act (ZBan-3), adopted a new Remuneration Policy for members of the Supervisory Board of NLB d.d. and members of the Management Board of NLB d.d., which was adopted by the Supervisory Board of NLB d.d. and then submitted to the General Meeting of Shareholders of NLB d.d., where it was voted in December 2021. Pursuant to Article 294.a of the Companies Act (ZGD-1), the Bank must in case of every significant change submit the Remuneration Policy to the General Meeting of Shareholders for voting, and in any case at least every four years.

In the Remuneration Policy and based thereon, the Bank designates identified employees. In designating identified employees, the internal organisation and the nature, scope and complexity of the Bank's activities are taken into account. The criteria fully take into account the risks that the Bank or the NLB Group is or could be exposed to its given risk profile and risk appetite. The Remuneration Policy includes members of the Supervisory Board, members of the Management Board, senior management and other identified employees who are included in the Policy on the basis of the Bank's self-assessment.

Members of the Supervisory Board may, in relation to their function of a member of the Supervisory Board, only receive remuneration that is compliant with the relevant resolutions of the Bank's General Meeting.

The Supervisory Board members are entitled to a remuneration for performing their function and/or attendance fees for their membership in the Supervisory Board of the Bank and the committees of the Supervisory Board of the Bank, which are determined in accordance with respective applicable resolution by the General Meeting of the Bank, and to reimbursement of travel expenses, daily allowances, and accommodation costs up to the amount provided by the regulations governing reimbursement of costs related to work and other income not included in the tax base.

The Bank's General Meeting may determine and change the remuneration of the members of the Supervisory Board independently from the 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.

The performance of key management is defined by financial and non-financial criteria. In addition to the salary determined in their employment contract, they are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

The objectives and criteria of each member of the Management Board shall be determined each year by the Supervisory Board NLB d.d. at the time of adoption of the Bank's annual business plan. The objectives and criteria for the identified employees are determined by the Management Board.

The variable portion of receipts for a given financial year may not exceed eight salaries for the period including 5 July 2021, while for the period as of 6 July 2021 onwards it shall be seven salaries of a member of the Management Board in the financial year. Other identified employees are entitled to a variable part of remuneration according to the category of employee in the maximum amount of three to six salaries. Key management shall be entitled to a variable part of the performance benefit only in proportional part to the actual period of employment (duration of the term of office) of the Bank during the period to which the variable part of the performance benefit relates.

The non-deferred part of variable remuneration is paid no later than three months after the adoption of the Annual Report of NLB Group for the business year to which the variable remuneration relates. Variable remuneration part of payment of an identified employee is awarded and paid in cash, provided that the amount does not exceed EUR 50 thousand or/and is higher than one-third of his/her total remuneration for each financial year, and if this is permissible in accordance with the relevant regulation.

If the variable remuneration part of payment of an identified employee exceeds EUR 50 thousand or/and is higher than one-third of his/her total remuneration for each financial year and if this is permissible in accordance with the relevant regulation, then at least 50% of the variable remuneration must consist of instruments. The part of the variable remuneration of an identified employee consisting of instruments shall be awarded and paid, under the terms and conditions in the valid Remuneration Policy, in instruments whose value is based on the value of the share of NLB d.d. (with these instruments not giving any dividends or other yields).

The deferred part of the variable part of the salary must be deferred for a period of at least five years of the day on which the non-deferred part of such variable remuneration is paid and it is paid in proportional shares, according to the relevant legislation.

The table below shows payments in presented periods.

						in EUR thousands
NLB Group and NLB	**Management Board**		**Other key management personnel**		**Supervisory Board**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Short-term benefits	1,589	1,401	5,480	5,501	705	649
Cost refunds	4	4	83	95	26	34
Long-term bonuses:						
- severance pay	385	259	5	108	-	-
- other benefits	5	4	70	49	-	-
- variable part of payments	394	-	2,898	-	-	-
Total	**2,377**	**1,668**	**8,536**	**5,753**	**731**	**683**

Short-term benefits include:
- monetary benefits (gross salaries, supplementary insurance, holiday allowances and other bonuses);
- non-monetary benefits (company cars, health care, residential facilities, etc.).

The reimbursement of cost comprises food allowances, travel expenses, and use of own resources.

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Payments to individual members of the Management Board

			in EUR
Member		**2021**	**2020**
Blaž Brodnjak	Short-term benefits:		
01.12.2012	- gross salary and holiday allowance	441,770	384,734
	- benefits and other short-term bonuses	2,310	2,250
	Costs refunds	1,302	1,304
	Long-term bonuses:		
	- other benefits	1,410	940
	- variable part of payments	130,211	-
	Total	**577,003**	**389,228**
Andreas Burkhardt	Short-term benefits:		
18.09.2013	- gross salary and holiday allowance	405,092	352,796
	- benefits and other short-term bonuses	32,672	17,861
	Costs refunds	1,290	1,212
	Long-term bonuses:		
	- other benefits	1,410	940
	- variable part of payments	122,919	-
	Total	**563,383**	**372,809**
Archibald Kremser	Short-term benefits:		
31.07.2013	- gross salary and holiday allowance	420,809	366,484
	- benefits and other short-term bonuses	34,117	24,331
	Costs refunds	1,249	1,248
	Long-term bonuses:		
	- other benefits	1,410	940
	- variable part of payments	126,044	-
	Total	**583,629**	**393,003**
Petr Brunclík	Short-term benefits:		
18.05.2020 - 30.06.2021	- gross salary and holiday allowance	221,963	170,517
	- benefits and other short-term bonuses	30,092	20,647
	Costs refunds	476	710
	Long-term bonuses:		
	- severance payments	385,000	-
	- other benefits	705	705
	- variable part of payments	14,633	-
	Total	**652,869**	**192,579**
László Pelle	Short-term benefits:		
26.10.2016 - 31.01.2020	- gross salary and holiday allowance	-	57,624
	- benefits and other short-term bonuses	-	4,343
	Costs refunds	-	129
	Long-term bonuses:		
	- severance payments	-	258,750
	- other benefits	-	117
	- variable part of payments	-	-
	Total	**-**	**320,963**

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Payments to individual members of the Supervisory Board

			in EUR
Member		**2021**	**2020**
Andreas Klingen	Session fees	-	-
22.06.2015	Annual compensation	90,000	84,000
	Other bonuese - benefit	447	388
	Costs refunds	4,947	2,690
Primož Karpe	Session fees	-	-
11.02.2016	Annual compensation	96,000	89,583
	Other bonuese - benefit	447	388
	Costs refunds	4,629	8,235
David Eric Simon	Session fees	-	-
04.08.2016	Annual compensation	81,000	75,000
	Other bonuese - benefit	447	388
	Costs refunds	5,251	6,455
Gregor Rok Kastelic	Session fees	-	-
10.06.2019	Annual compensation	81,000	70,625
	Other bonuese - benefit	447	388
	Costs refunds	758	4,239
Shrenik Dhirajlal Davda	Session fees	-	-
10.06.2019	Annual compensation	72,000	66,000
	Other bonuese - benefit	447	388
	Costs refunds	2,367	3,917
Mark William Lane Richards	Session fees	-	-
10.06.2019	Annual compensation	81,000	75,000
	Other bonuese - benefit	447	388
	Costs refunds	2,643	3,617
Verica Trstenjak	Session fees	-	-
15.06.2020	Annual compensation	65,790	33,933
	Other bonuese - benefit	447	388
	Costs refunds	-	-
Sergeja Kočar	Session fees	-	-
17.06.2020	Annual compensation	11,856	5,662
	Other bonuese - benefit	447	500
	Costs refunds	-	153

			in EUR
Member		**2021**	**2020**
Bojana Šteblaj	Session fees	-	-
17.06.2020	Annual compensation	15,655	5,255
	Other bonuese - benefit	447	500
	Costs refunds	-	457
Janja Žabjek Dolinšek	Session fees	-	-
20.11.2020	Annual compensation	6,839	169
	Other bonuese - benefit	447	-
	Costs refunds	-	-
Islam Osama Bahgat Zekry	Session fees	-	-
14.06.2021	Annual compensation	38,608	-
	Other bonuese - benefit	447	-
	Costs refunds	5,705	-
Tadeja Žbontar Rems	Session fees	-	-
22.01.2021	Annual compensation	26,656	-
	Other bonuese - benefit	447	-
	Costs refunds	-	-
Peter Groznik	Session fees	-	-
08.09.2017 - 14.06.2021	Annual compensation	32,800	66,000
	Other bonuese - benefit	-	388
	Costs refunds	-	429
Petra Kakovič Bizjak	Session fees	-	-
17.06.2020 - 10.09.2020	Annual compensation	-	7,302
	Other bonuese - benefit		112
	Costs refunds	-	178
László Zoltan Urbán	Session fees	-	-
11.02.2016 - 15.06.2020	Annual compensation	-	31,875
	Other bonuese - benefit		-
	Costs refunds	-	1,456
Alexander Bayr	Session fees	-	-
04.08.2016 - 15.06.2020	Annual compensation	-	36,000
	Other bonuese - benefit		-
	Costs refunds	-	2,799

Related-party transactions with subsidiaries, associates and joint ventures

in EUR thousands				
	NLB Group			
	Associates		Joint ventures	
	2021	2020	2021	2020
Loans issued				
Balance at 1 January	1,106	1,066	851	1,205
Increase	89	165	7	11
Decrease	(184)	(125)	(657)	(365)
Balance at 31 December	**1,011**	**1,106**	**201**	**851**
Interest income	38	32	4	11
Impairment	26	27	69	(23)
Deposits received				
Balance at 1 January	3,973	842	3,434	8,455
Effects of translation of foreign operations to presentation currency	-	-	3	(3)
Increase	7,610	4,461	7,706	90,966
Decrease	(3,616)	(1,330)	(7,651)	(95,984)
Balance at 31 December	**7,967**	**3,973**	**3,492**	**3,434**
Interest expenses	-	-	(59)	(62)
Other financial assets	**20**	**19**	**-**	**1**
Other financial liabilities	**1,148**	**596**	**1**	**-**
Guarantees issued and loan commitments	**2,032**	**38**	**-**	**21**
Fee income	38	15	1	983
Fee expenses	(13,583)	(13,977)	-	(952)
Other income	162	177	2	144
Other expenses	(726)	(699)	-	(37)

in EUR thousands

	NLB					
	Subsidiaries		Associates		Joint ventures	
	2021	2020	2021	2020	2021	2020
Loans issued						
Balance at 1 January	169,176	160,634	1,106	1,066	851	1,174
Increase	170,308	98,221	89	165	7	10
Decrease	(89,181)	(89,679)	(184)	(125)	(657)	(333)
Balance at 31 December	**250,303**	**169,176**	**1,011**	**1,106**	**201**	**851**
Interest income	4,906	5,007	38	32	4	10
Impairment	1,075	(1,835)	26	27	69	(23)
Deposits						
Balance at 1 January	69,386	70,469	-	-	-	-
Increase	433,380	658,253	-	-	-	-
Decrease	(418,818)	(659,336)	-	-	-	-
Balance at 31 December	**83,948**	**69,386**	**-**	**-**	**-**	**-**
Interest income	3	21	-	-	-	-
Impairment	2	4	-	-	-	-
Loans received						
Balance at 1 January	-	-	-	-	-	-
Increase	44,484	-	-	-	-	-
Balance at 31 December	**44,484**	**-**	**-**	**-**	**-**	**-**
Interest income	1	-	-	-	-	-
Deposits received						
Balance at 1 January	19,415	80,806	3,973	842	284	5,418
Increase	7,558,162	7,934,453	7,610	4,461	213	86,850
Decrease	(7,509,205)	(7,995,844)	(3,616)	(1,330)	(470)	(91,984)
Balance at 31 December	**68,372**	**19,415**	**7,967**	**3,973**	**27**	**284**
Interest expenses	(2)	(21)	-	-	-	-
Derivatives						
Fair value	(7)	354	-	-	-	-
Contractual amount	9,789	12,424	-	-	-	-
Other financial assets	**25,491**	**948**	**20**	**19**	**-**	**1**
Impairment	(8)	-	-	-	-	-
Other financial liabilities	**1,860**	**800**	**1,001**	**480**	**-**	**-**
Guarantees issued and loan commitments	**31,003**	**55,068**	**2,032**	**38**	**-**	**21**
Income/(expenses) provisions for guaranties and commitments	584	(53)	-	-	-	-
Received loan commitments and financial guarantees	**14,541**	**6,692**	**-**	**-**	**-**	**-**
Fee income	9,720	6,857	38	15	1	925
Fee expenses	(21)	(25)	(10,782)	(11,140)	-	(332)
Other income	1,078	780	162	177	2	144
Other expenses	(2,133)	(1,065)	(708)	(664)	-	(37)
Gains less losses from financial assets and liabilities held for trading	(298)	1,208	-	-	-	-
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	(558)	436	-	-	-	-

Related-party transactions with major shareholder with significant influence

The volumes of related party transactions with major shareholder are as follows:

				in EUR thousands
	NLB Group		NLB	
	Shareholder		Shareholder	
	2021	2020	2021	2020
Loans issued				
Balance at 1 January	23,219	28,206	23,219	28,206
Increase	13,199	1,607	13,199	1,607
Decrease	(15,884)	(6,594)	(15,884)	(6,594)
Balance at 31 December	**20,534**	**23,219**	**20,534**	**23,219**
Interest income	713	720	713	720
Investments in securities				
Balance at 1 January	691,868	850,965	597,123	778,088
Increase	1,247,211	866,414	947,581	758,140
Decrease	(1,392,356)	(1,026,883)	(1,049,482)	(940,974)
Valuation	(12,201)	1,372	(11,566)	1,869
Balance at 31 December	**534,522**	**691,868**	**483,656**	**597,123**
Interest income	6,021	9,024	6,389	9,486
Interest expenses	(652)	(805)	(652)	(805)
Other financial assets	**659**	**807**	**659**	**807**
Other financial liabilities	**4**	**6**	**4**	**6**
Guarantees issued and loan commitments	**1,184**	**1,241**	**1,184**	**1,241**
Fee income	309	194	309	194
Fee expenses	(27)	(30)	(27)	(30)
Other income	212	206	212	206
Other expenses	(5)	(6)	(5)	(6)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	-	14,660	-	14,660
Gains less losses from financial assets and liabilities held for trading	(158)	43	(158)	43

NLB Group and NLB disclose all transactions with the major shareholder with significant influence. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

Contents

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2021	2020	2021	2020
Guarantees issued and loan commitments	70,000	112,500	1	1

in EUR thousands

NLB Group and NLB	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2021	2020	2021	2020
Loans	507,159	516,058	7	6
Debt securities measured at amortised cost	72,633	76,396	1	1
Borrowings, deposits and business accounts	184,267	70,006	3	1
Guarantees issued and loan commitments	152,500	152,500	2	2

in EUR thousands

NLB Group and NLB	Effects in income statement during the year	
	2021	2020
Interest income from loans	3,141	3,706
Fees and commissions income	241	27
Interest income from debt securities measured at amortised cost and net valuation effects from hedge accounting	(990)	1,166
Interest expenses from borrowings, deposits, and business accounts	(213)	(290)

in EUR thousands

9. 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 (analysis of debt securities by geographical sectors as at year-end is disclosed in note 6.1.o). 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 volume of trade is done with the EU.

Country	Export to Russia	Import from Russia
Bosnia and Herzegovina	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).

Contents

NLB Group Directory

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23 Until 31 December 2021.
24 Until 31 December 2021.

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Contents

Definitions and Glossary of Selected Terms

AC	Amortised Costs
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
ALMM	Additional Liquidity Monitoring Metrics
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
BARS	The Banking Agency of Republic of Srpska
BCM	Business Continuity Management
BIA	Business Impact Analysis
BiH	Bosnia and Herzegovina
BIS	Bank for International Settlements
BMR	Benchmarks Regulation
BoS	Bank of Slovenia
bps	Basis Points
BPV	Basis Point Value
CAGR	Compound Annual Growth Rate
CB	Central Bank
CBR	Combined Buffer Requirement
CCF	Credit Conversion Factor
CEE	Central Eastern Europe
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGU	Cash-Generating Units
CIR	Cost-to-Income Ratio
CIRS	Currency Interest Rate Swaps
CISO	Chief Information Security Officer
CMO	Chief Marketing Officer
COO	Chief Operating Officer
CoR	Cost of Risk
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD	Capital Requirements Directive
CRM	Customer Relationship Management
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CSD	Central Security Depository
CSI	Customer Satisfaction Index
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustments
DGS	Deposit Guarantee Scheme
DPS	Dividend per Share
DWH	Data Warehouse
EAD	Exposure at Default
EaR	Earnings at Risk
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECL	Expected Credit Losses
ECRA	Enterprise Compliance Risk Assessment
EEA	European Economic Area
EIB	European Investment Bank
EMIR	European Market Infrastructure Regulation
EPS	Earnings Per Share
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System

EU	European Union
EVE	Economic Value of Equity
EVS	European Valuation Standards
EWS	Early Warning System
FATF	Financial Action Task Force
FTP	Fund Transfer Pricing
FURS	Financial Administration of the Republic of Slovenia
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GDR	Global Depositary Receipts
GGB	Government Guaranteed Bonds
GRI GS	Global Reporting Initiative - Global Standards
HHI	Herfindahl-Hirschman Index
HR	Human Resources
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risks for Banking Book
IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association
IVS	International Valuation Standards
JST	Joint Supervisory Team
JV	Joint Venture
KB	Komercijalna Banka
KDD	Central Securities Clearing Corporation
KPI	Key Performance Indicator
KRI	Key Risk Indicators
LCP	Liquidity Contingency Plan
LCR	Liquidity Coverage Ratio
LECL	Lifetime Expected Credit Losses
LGD	Loss Given Default
LPD	Lifetime Probability of a Default
LRE	Leverage Ratio Exposure
LTD	Loan-to-Deposit Ratio
M&A	Mergers and Acquisitions
MA	Master Agreements
MAR	Market Abuse Regulation
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation Rules
MIGA	Multilateral Investment Guarantee Agency (part of the World Bank Group)
MREL	Minimum Requirement of Own Funds and Eligible Liabilities
NACE	Statistical Classification of Economic Activities in the European Community
NLB or the Bank	NLB d.d.
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
NPS	Net Promoter Score
NPV	Net Present Value
NSFR	Net stable funding ratio

OBM	Operational Business Margin
OCR	Overall Capital Requirement
OEM	Original Exposure Method
O-SII	Other Systemically Important Institutions
OU	Organisational Units
p.p.	Percentage Point(s)
P1R	Pillar 1 Requirement
P2eM	Person to e-Merchant
P2G	Pillar 2 Guidance
P2M	Person to Merchant
P2P	Person to Person
P2R	Pillar 2 Requirements
PD	Probability of Default
PEPP	Pandemic Emergency Purchase Programme
POCI	Purchased or Originated Credit-Impaired
POS	Point of Sale
PSD2	Payments Services Directive
REAM	Real Estate Asset Management
RFR	Risk-Free Rates
RICS	Royal Institution of Chartered Surveyors
ROA	Return on Assets
ROE	Return on Equity
RoS	Republic of Slovenia
RPA	Robotic Process Automation
RSD	Serbian Dinar
RWA	Risk Weighted Assets
SDG	Sustainable Development Goals
SEE	South Eastern Europe
SICR	Significant Increase of Credit Risk
SLA	Service Level Agreements
SME	Small and Medium-sized Enterprises
SPPI	Solely Payment of Principal and Interest
SRB	Single Resolution Board
SRD II	Shareholders Rights Directive
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SSM	Single Supervisory Mechanism
TCR	Total Capital Ratio
The Group	NLB Group
TLTRO	Targeted Longer-Term Refinancing Operations
TREA	Total Risk Exposure Amount
TSCR	Total SREP Capital Requirement
UN	United Nations
UN SDG	United Nations Sustainable Development Goals
UNEP FI PRB	United Nations Environment Programme Finance Initiative's Principles for Responsible Banking
VaR	Value-at-Risk
VAT	Value Added Tax
ZBan-3	Slovenian Banking Act
ZGD-1	Companies Act
ZPIZ	Slovenian Pension and Disability Insurance Act
ZTFI-1	Financial Instruments Market Act
ZVKNNLB	Slovenian Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana
ZVOP-2	Slovenian Personal Data Protection Act

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