We believe in this region's potential

Q1 2022 / Pillar 3 Disclosures

Contents

1. Key highlights

(Article 447 of CRR)

Table 1 – EU KM Key metrics template of NLB Group

		31.03.2022	31.12.2021	30.09.2021	30.06.2021	31.03.2021
		a	b	c	d	e
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	1,901,470	1,959,601	1,891,439	1,879,419	1,734,201
2	Tier 1 capital	1,906,565	1,965,551	1,905,247	1,885,268	1,739,075
3	Total capital	2,193,990	2,252,490	2,200,649	2,172,353	2,025,437
	Risk-weighted exposure amounts					
4	Total risk exposure amount (TREA)	13,843,373	12,667,408	12,824,373	12,755,591	12,615,065
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	13.74%	15.47%	14.75%	14.73%	13.75%
6	Tier 1 ratio	13.77%	15.52%	14.86%	14.78%	13.79%
7	Total capital ratio	15.85%	17.78%	17.16%	17.03%	16.06%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.60%	2.75%	2.75%	2.75%	2.75%
EU 7b	of which: to be made up of CET1 capital	1.46%	1.55%	1.55%	1.55%	1.55%
EU 7c	of which: to be made up of Tier 1 capital	1.95%	2.06%	2.06%	2.06%	2.06%
EU 7d	Total SREP own funds requirements	10.60%	10.75%	10.75%	10.75%	10.75%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50%	2.50%	2.50%	2.50%	2.50%
EU 10a	Other Systemically Important Institution buffer	1.00%	1.00%	1.00%	1.00%	1.00%
11	Combined buffer requirement	3.50%	3.50%	3.50%	3.50%	3.50%
EU 11a	Overall capital requirements	14.10%	14.25%	14.25%	14.25%	14.25%
12	CET1 available after meeting the total SREP own funds requirements	591,887	749,864	666,711	661,260	529,462
	Leverage ratio					
13	Total exposure measure	20,854,558	19,229,497	19,145,896	21,767,392	22,958,066
14	Leverage ratio	9.14%	10.22%	9.95%	8.66%	7.58%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Total SREP leverage ratio requirements	3.14%	3.14%	3.14%	3.14%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	3.14%	3.14%	3.14%	3.14%	3.00%
EU 14e	Overall leverage ratio requirement	3.14%	3.14%	3.14%	3.14%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	5,336,395	5,174,269	5,063,883	4,912,483	4,754,938
EU 16a	Cash outflows - Total weighted value	2,623,971	2,551,704	2,420,081	2,259,409	2,079,145
EU 16b	Cash inflows - Total weighted value	577,103	590,383	550,236	478,443	410,137
16	Total net cash outflows	2,046,825	1,961,279	1,869,802	1,780,866	1,668,894
17	Liquidity coverage ratio	261.43%	263.92%	271.86%	277.78%	287.02%
	Net Stable Funding Ratio					
18	Total available stable funding	19,268,104	18,446,656	18,170,538	18,031,347	16,758,272
19	Total required stable funding	11,072,422	9,960,818	9,667,399	9,484,900	10,119,584
20	NSFR ratio	174.02%	185.19%	187.96%	190.11%	165.60%

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

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

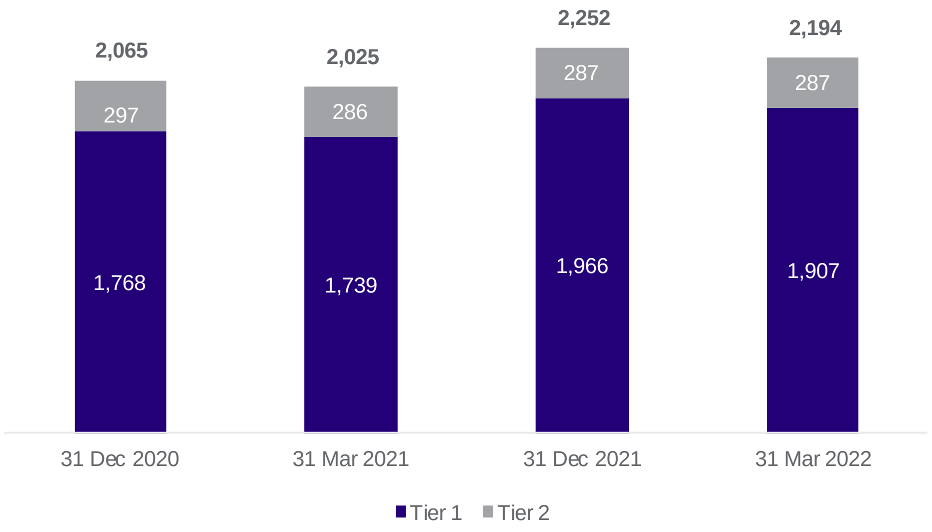
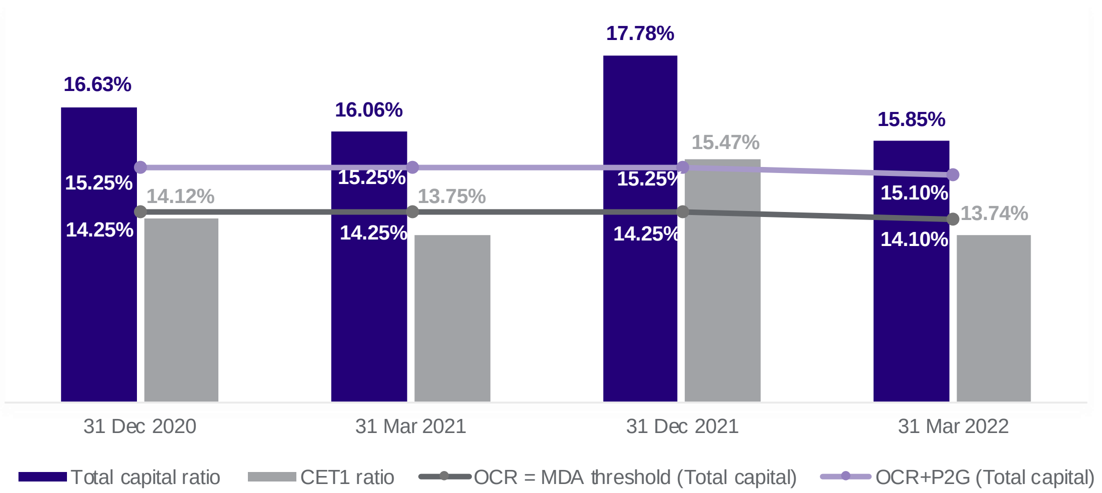


Figure 2: Total capital and capital ratio evolution YtD of NLB Group

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



2. Introduction

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

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

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

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

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

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

Verifications and source of information

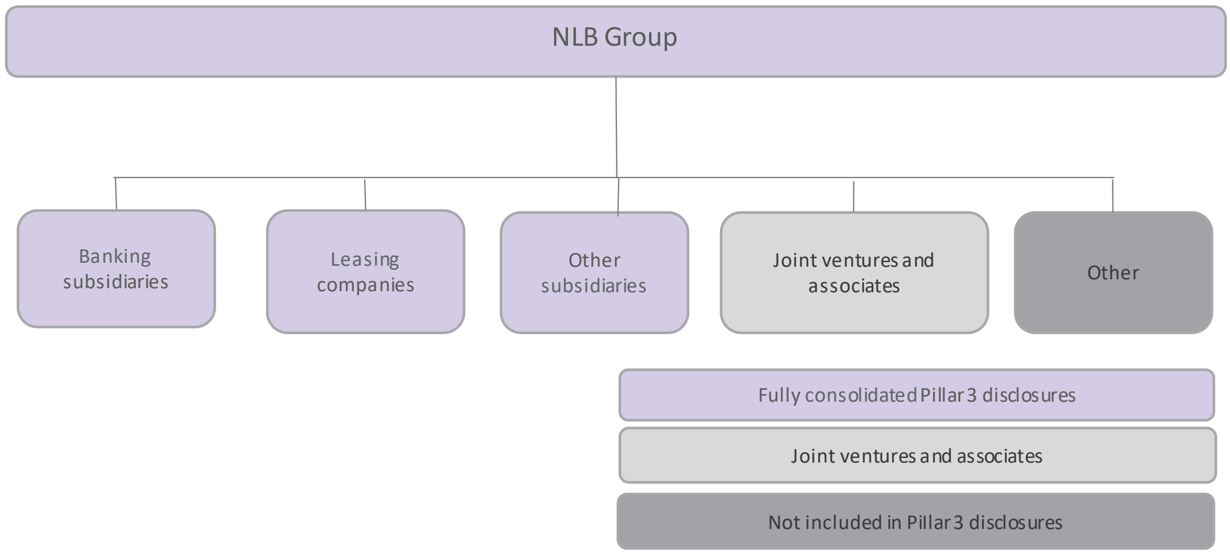
Verification of information included in the disclosures is subject to strict procedure of internal control and management. The persons in charge of individual contents are responsible for primary controls. Quantitative reports must be submitted in individual templates and precisely aligned with the information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

It should be noted that while some quantitative information in this document is based on financial data contained in the Q1 2022 NLB Group Interim Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the Q1 2022 NLB Group Interim Report.

3. Scope of application

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

Figure 4: NLB Group scheme



The consolidation for *accounting purposes* comprises all:

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

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

The difference between accounting consolidation and regulatory consolidation as at 31 March 2022 represents the company operating in the area of other activities ZUKD which is not included in regulatory consolidation in accordance with Article 4 of CRR. Companies from the Prvi Faktor Group are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amount to zero.

4. Capital and capital requirements

4.1. Capital adequacy

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

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

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

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

Table 2 – Capital requirements and buffers of NLB Group

		2022	2021	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 (SREP req. - P2R)	CET1	1.46%	1.55%	1.55%
	Tier 1	1.95%	2.06%	2.06%
	Total Capital	2.60%	2.75%	2.75%
Total SREP Capital requirement (TSCR)	CET1	5.96%	6.05%	6.05%
	Tier 1	7.95%	8.06%	8.06%
	Total Capital	10.60%	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	9.46%	9.55%	9.55%
	Tier 1	11.45%	11.56%	11.56%
	Total Capital	14.10%	14.25%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.46%	10.55%	10.55%
	Tier 1	12.45%	12.56%	12.56%
	Total Capital	15.10%	15.25%	15.25%

At end of March 2022, NLB was required to maintain the OCR at the level of 14.10% on the consolidated basis, consisting of:

- 10.60% TSCR (8% P1R and 2.60% P2R); and
- 3.5% CBR (2.5% Capital conservation buffer, 1% O-SII buffer[1] 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 Bank and Group's capital covers all the current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the P2G.

Table 3 – Capital adequacy of NLB Group:

	31.03.2022	31.12.2021
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	902,773	767,152
Current result	-	135,968
Accumulated other comprehensive income	(65,593)	(10,091)
Other reserves	13,522	13,522
Minority interest	25,849	27,905
Prudential filters: Additional Valuation Adjustments (AVA)	(3,383)	(3,498)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(38,654)	(39,116)
(-) Insufficient coverage for non-performing exposures	(337)	(90)
(-) Deduction item related to credit impairments and provisions not included in capital	(556)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,901,470**	**1,959,601**
Minority interest	5,095	5,950
Additional Tier 1 capital	**5,095**	**5,950**
TIER 1 CAPITAL	**1,906,565**	**1,965,551**
Capital instruments and subordinated loans eligible as T2 capital	284,595	284,595
Minority interest	2,830	2,344
Tier 2 capital	**287,425**	**286,939**
TOTAL CAPITAL	**2,193,990**	**2,252,490**
Risk exposure amount for credit risk	11,366,649	10,205,172
Risk exposure amount for market risks	1,203,651	1,206,363
Risk exposure amount for CVA	29,050	11,850
Risk exposure amount for operational risk	1,244,023	1,244,023
TOTAL RISK EXPOSURE AMOUNT (RWA)	**13,843,373**	**12,667,408**
Common Equity Tier 1 Ratio	13.74%	15.47%
Tier 1 Ratio	13.77%	15.52%
Total Capital Ratio	**15.85%**	**17.78%**

As at 31 March 2022, the TCR for the Group stood at 15.8% (or 1.9 p.p. lower than as at 31 December 2021), and for the Bank at 23.1% (or 1.4 p.p. lower than as at 31 December 2021). As at 31 March 2022, the CET1 ratio at the consolidated level stood at 13.7% (1.7 p.p. lower than as at 31 December 2021). The lower total capital adequacy derives from higher RWA (EUR 1,176.0 million from the end of 2021) and lower capital (EUR 58.5 million from the end of 2021).

The main reason for increased RWA is acquisition of N Banka in March 2022 (note 4.13. in Q1 NLB Group Interim report), while the capital is lower mainly due to negative revaluation adjustments (EUR 55.5 million from the end of 2021) on FVOCI.

[1] As of 1 January 2023, the O-SII Buffer will amount to 1.25%.

The capital position will be further strengthened by the inclusion of negative goodwill from N Banka acquisition, when the approval from the ECB is obtained. The capital calculation does not include a part of the 2021 result in the amount of EUR 100 million, envisaged for dividend distribution in 2022. Therefore, there will be no effect on the capital in case dividends are paid.

The drivers behind the differences between the RWAs in first quartet of 2022 are explained in Chapter 4.2 Capital requirements in the Table 4 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group.

4.2. Capital requirements

(Article 438 d of CRR)

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

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

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

Table 4 shows the detailed composition of the risk weighted exposure amounts of NLB Group at the end of March 2022 and at the end of 2021; and also, composition of own fund (capital) requirements at the end of March 2022.

Table 4 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group

		Total risk exposure amounts (TREA)		Total own funds requirement
		31.03.2022	31.12.2021	31.03.2022
		a	b	c
1	**Credit risk (excluding CCR)**	**11,179,873**	**10,049,886**	**894,390**
2	of which the standardised approach	11,179,873	10,049,886	894,390
6	**Counterparty credit risk - CCR**	**67,556**	**40,881**	**5,404**
7	of which the standardised approach	38,506	29,031	3,080
EU 8b	of which credit valuation adjustment - CVA	29,050	11,850	2,324
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,203,651**	**1,206,363**	**96,292**
21	of which the standardised approach	1,203,651	1,206,363	96,292
23	**Operational risk**	**1,244,023**	**1,244,023**	**99,522**
EU 23a	of which basic indicator approach	1,244,023	1,244,023	99,522
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**148,270**	**126,255**	**11,862**
29	**Total**	**13,843,373**	**12,667,408**	**1,107,470**

RWAs in the Group increased by EUR 1,176.0 million from the end of 2021. RWA for credit risk increased by EUR 1,161.5 million, where EUR 858.9 million of the increase relates to N Banka. The remaining part of RWA increase in the amount of EUR 302.6 million was mainly the consequence of increased lending activity, mostly in the Bank and Komercijalna Banka, Beograd. Higher RWAs for high-risk exposures is the result of a new loan given to a venture capital company, new loans for project financing as well as drawing of loans for project financing granted in the previous months. Repayments, upgrade and change in provisioning level reduced RWA for defaulted exposures. Furthermore, RWA decrease was observed for liquid assets due to a lower exposure to the Serbian central bank and maturity of some Serbian bonds, both in Komercijalna Banka, Beograd. The lower exposure to institutions also resulted in a reduced RWA in almost all Group banks, the most in Komercijalna Banka, Beograd.

The increase in RWAs for market risks and CVA (Credit Value Adjustments) in the amount of EUR 14.5 million from the end of 2021 is mainly the result of higher RWA for CVA risk in the amount of EUR 17.2 million (a consequence of the conclusion of long-term derivatives).

4.3. Risk factors and Outlook

Risk factors

In 2022, the Group's region continued to grow on the back of revival in private and investment consumption after being affected by the COVID-19 pandemic in the past period. Higher prices of energy, commodities, raw materials and food, as a result of the war in Ukraine, has and will further on impact the economic momentum. The Group's region is expected to grow, though the inflationary pressures might suggest a further slowdown, namely in the area of private consumption. However, it is not possible to assume with a high degree of confidence that positive economic momentum will continue.

Lending growth in the corporate segment is expected to remain relatively moderate, especially in the current circumstances. N Banka became a member of the NLB Group in March 2022. With regards to credit portfolio the Group carefully monitors its clients who are present or have direct and indirect connection with Russia, Ukraine, or their neighbouring countries. The Group's direct and indirect exposures toward Russia and Ukraine are moderate. These clients are closely monitored with the intention to detect any significant increase in credit risk at a very early stage.

Credit risk is usually materially increased in times of economic slowdown. The length and intensity of the war in Ukraine might cause additional spill-over effects in the mid-term period, such as raising the price of energy sources or their availability, which might at a later period have some impact also on other segments of the credit portfolio. These adverse developments could affect the evolution of cost of risk and NPLs. 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. The war in Ukraine 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 Group is closely monitoring its major bond portfolio positions, mostly sovereigns, with stronger connection to the crisis in Russia. Besides, the Group holds Russian government bonds. Since beginning of the crisis the Group has been observing credit spreads widening which is currently impacting our FVOCI positions.

Regarding the Group's major FX positions no material movements were observed so far. Current developments, market observations and potential mitigations are very closely monitored and discussed. While the Group monitors its liquidity, interest rate, credit spread and FX position and corresponding trends, impacts of credit spread, interest rate and FX 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, capital 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
- Energy and commodity prices
- 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.

In H1 2022 the Group will conduct regular yearly revision of IFRS 9 provisioning.

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

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

Outlook 2022

Macroeconomic

The euro area inflationary pressure risks are lasting longer than was expected and are hitting low-income households in particular. Greater supply of labour and fast growth in capital stock to worker ratios, are expected to weaken. The household saving rate was at 13.3% in Q4 2021 (15.0% in Q3 2021). The euro area Q1 2022 GDP growth rate was reported at 0.2% QoQ and 5.0% YoY. Energy is expected to be the most important driver (44.7%, compared with 32.0% in February). While inflation pressures intensify (7.5% in March 2022 YoY), consumers and companies grew more cautious. The willingness to spend has abated considering high uncertainty, suggesting a further slowdown in private consumption, while elevated levels of savings provide some buffer for consumption. The ECB decided to accelerate the pace of policy normalisation, with faster QE tapering in Q2 2022 and net purchases to end in Q3, paving the way for a potential first rake hike. Core inflation advanced to 3.5%. This puts the ECB in a very tough position, as current inflation is greatly influenced by a supply shock. Demand is already being slowed significantly by the massive squeeze in real wages, production disruptions, dropping consumer confidence, and tighter financing conditions because of higher bond yields. The household spending decreased 0.6% in Q4 2021, in contrast to the 4.5% increase in Q3. Gross fixed capital formation rebounded 3.5% after falling 0.9% in Q3. Exports and imports climbed 2.9 % and 4.6%, respectively. The euro area retail trade grew 5.0% YoY in February 2022 and 0.3% MoM. The PMI composite index, dipped to 54.9 in March 2022 from February's 55.5. Industrial production in the Euro zone remained volatile and supressed during Q1 2022 as it swung monthly between positive and negative values ranging from -1.5% to 2.0%.

Revenues and loan growth

The Group expects high single digit loan growth in 2022. Retail Banking in Slovenia is expected to 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 690 million in 2022.

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 (not more than EUR 100 million if N Banka is included).

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 the 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 and N Banka will contribute to total costs in 2022.

The realised cost of risk in Q1 2022 at -17 bps was impacted by acquisition of N Banka, due to recognition of 12-month expected credit losses for the performing portfolio. Otherwise, other members of the Group faced in Q1 2022 a favourable development in NPL resolution, positively contributing to the Group’s cost of risk. It is expected that resolutions will continue to positively impact cost of risk in 2022, but with a diminished importance. Direct and indirect exposure of the Group toward Russia and Ukraine is moderate, respectfully its impact on cost of risk should not be excessive. Based on assessed environment the expected cost of risk will be 30 bps (includes 8 bps of technical adjustment due to N Banka and excludes potential incremental major disruption(s)), and therefore on the lower end of the 2023 outlook range (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 still expected during the year 2022. With regards to credit portfolio the Group carefully monitors its clients being present or having direct and indirect connection with Russia, Ukraine or its neighbouring countries. The Group’s direct and indirect exposures toward Russia and Ukraine are moderate. These clients are closely monitored with the intention to detect any significant increase in credit risk at a very early stage. Potential moderation of current positive economic trends due to uncertainties of global supply constraints and inflationary pressures might have some 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 SEE banking members), although some decrease of retail deposits in most of SEE banking members occurred in Q1 2022 due to the war in Ukraine, impacting their euro liquidity. 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 mostly in the form of placements at the ECB and prime debt securities.

Special attention is given to the markets in the Balkans, neighbouring countries to Ukraine and Russia and international banks with operations in Russia. NLB Group is closely monitoring its major bond portfolio positions, mostly sovereigns, with stronger connection to the Russian crisis. Besides, the Bank holds Russian government bonds in the current outstanding amount of EUR 7.6 million. Since beginning of the crisis the Group has been observing credit spreads widening which is currently materially impacting FVOCI positions. Consequently, the Group carefully manages the structure and concentration of liquidity reserves, by incorporating early warning systems, keeping in mind the potential adverse negative market movements by further shortening of the portfolio duration, reducing certain exposures and classification of new investments with longer duration as hold to collect in order to decrease sensitivity to regulatory capital.

The Bank is considering early repayment of ECB TLTRO 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. It will be further strengthened by inclusion of negative goodwill from N Banka acquisition, when the approval from the ECB is obtained.

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 to the required amount of around EUR 400 million (EUR 94 million of MREL eligible liabilities obtained so far). 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, envisaged for dividend distribution. Therefore, there will be no effect on the capital in case the dividends are paid. The dividend payment in the year 2022 is intended to be split in two instalments. The Bank envisages cumulative dividend payout of EUR 210 million in the period 2022-2023.

Sustainability

In 2022, the Group intends to make sustainability even more tangible throughout the Group. To support the shift towards a low-carbon economy and finance the transition the Group plans to expand the product portfolio with loans dedicated to supporting energy efficiency and renewable energy production. The Group is focused on becoming paperless, and on introducing digital only card. The Group supports global decarbonization goals and aims to expand the Group's measurements of emissions to Scope 3. The Group will continue with implementation of climate related and environmental risk management as per the EBA and ECB guidelines, whereas participation in the ECB climate-risk stress test exercise will provide additional valuable insight. Effective integration of sustainability-related regulatory requirements will be important in 2022 for ESG disclosures and reporting (e.g. EU Taxonomy, BASEL Pillar III) and additionally enhanced by meeting the EBRD and MIGA requirements. The Group plans to make required steps in the direction of obtaining its first ESG rating, and to continue to provide relevant trainings on the topics of Sustainability to the Group's employees.

4.4. Information on COVID-19 moratoria

Table 5 – Information on loans and advances subject to legislative and non-legislative moratoria for NLB Group

	31.03.2022	Gross carrying amount		Accumulated impairment, accumulated negative changes in fair value due to credit risk	
		Total	Performing	Total	Performing
		a	b	h	i
1	Loans and advances subject to moratorium	296	296	(2)	(2)
4	of which: Non-financial corporations	296	296	(2)	(2)
5	of which: Small and Medium-sized Enterprises	296	296	(2)	(2)
6	of which: Collateralised by commercial immovable property	296	296	(2)	(2)

Table 6 – Breakdown of loans and advances subject to moratoria by residual maturity of moratoria for NLB Group

	31.03.2022	Number of obligors	Gross carrying amount			
			Total	Of which: legislative moratoria	Of which: Expired	Residual maturity of moratoria: > 3 months <= 6 months
		a	b	c	d	f
1	Loans and advances for which moratorium was offered	199,043	1,901,944			
2	Loans and advances subject to moratorium (granted)	177,755	1,625,593	1,418,401	1,625,297	296
3	of which: Households		900,835	871,240	900,835	-
4	of which: Collateralised by residential immovable property		441,959	429,285	441,959	-
5	of which: Non-financial corporations		716,797	539,217	716,501	296
6	of which: Small and Medium-sized Enterprises		519,477	357,893	519,181	296
7	of which: Collateralised by commercial immovable property		516,036	363,165	515,740	296

Table 7 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis for NLB Group

	31.03.2022	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		Total	of which: forborne	Public guarantees received	Inflows to non-performing exposures
		a	b	c	d
1	**Newly originated loans and advances subject to public guarantee schemes**	**157,096**	**33**	**53,237**	**125**
2	of which: Households	23,324			63
3	of which: Collateralised by residential immovable property	10			-
4	of which: Non-financial corporations	133,765	33	47,530	62
5	of which: Small and Medium-sized Enterprises	115,197			62
6	of which: Collateralised by commercial immovable property	5,918			-

4.5. CRR 'Quick Fix'

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

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

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

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

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

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

NLB Group implemented:

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

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

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

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

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

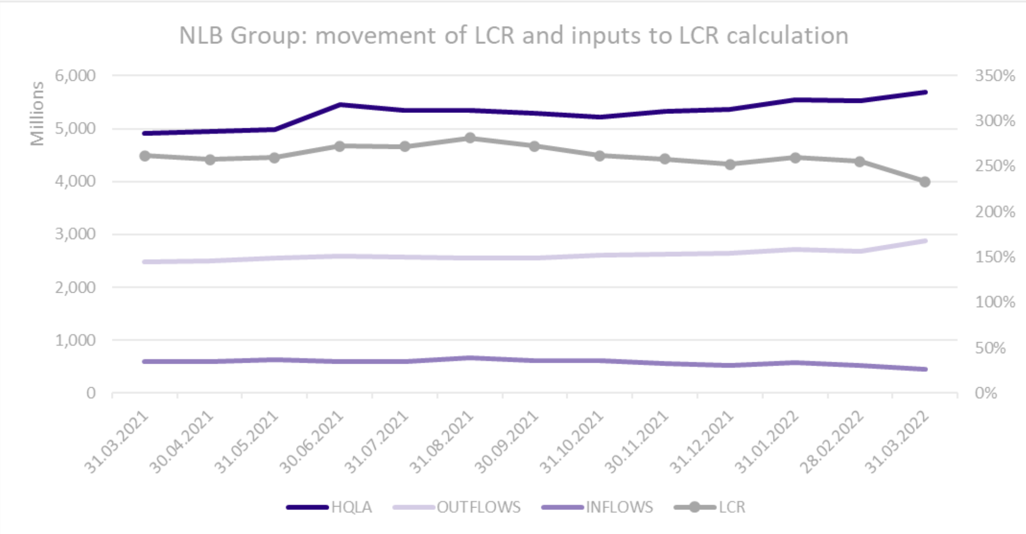
5. Liquidity

(Article 451a (2) of CRR)

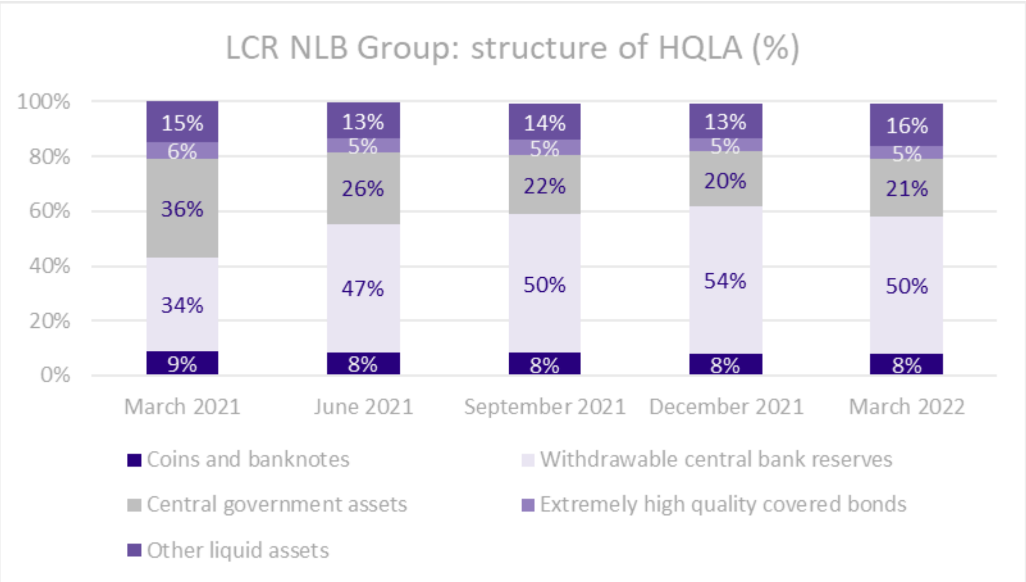
Liquidity coverage ratio

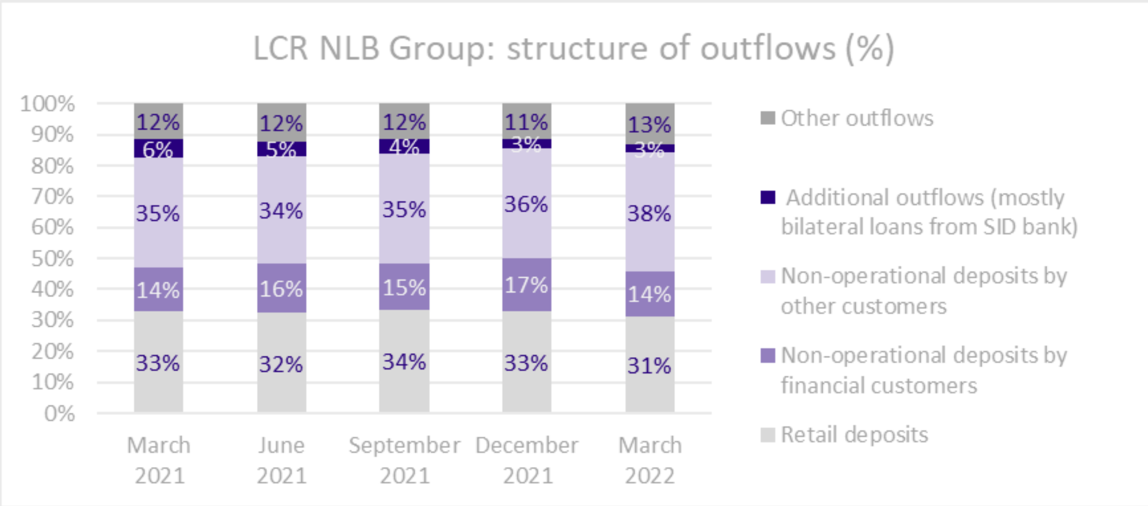
NLB Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In the last twelve months (from 31 March 2021 to 31 March 2022) the LCR of NLB Group ranged between 233% and 281% (233.3% as at 31 March 2022). The surplus of HQLA is at a very high level in NLB Group, ranging between EUR 3.02 billion and EUR 3.45 billion in the last twelve months (EUR 3.25 bn as at 31 March 2022).

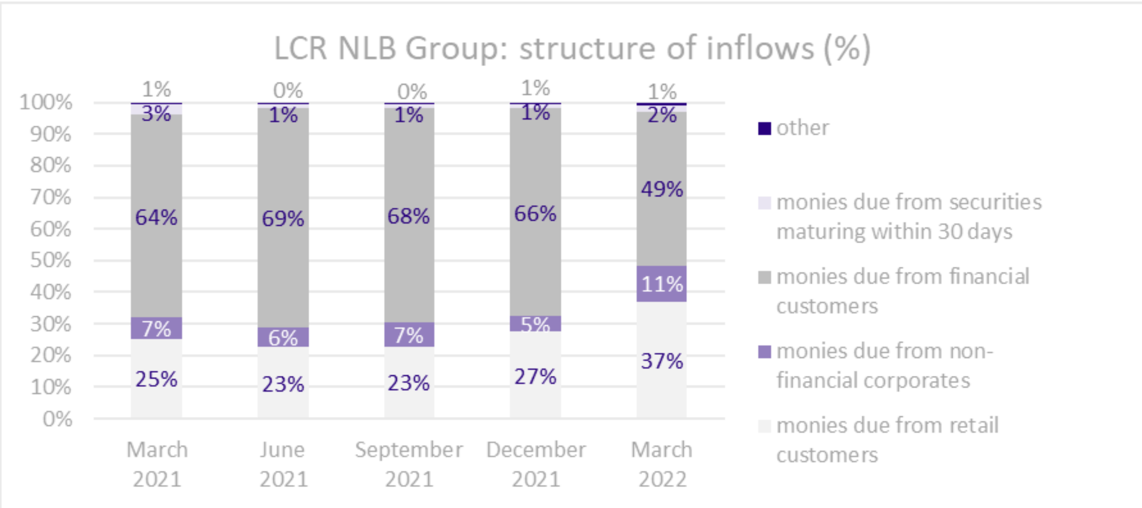
On 31 March 2022, NLB Group LCR was impacted by the acquisition of Sberbank Slovenia (N Banka), which caused high increase in outflows, mostly from non-operational deposits, which resulted in relatively higher HQLA. In addition, the inflows from financial customers decreased. One of the specific rules for calculating consolidated LCR on NLB Group level is that, from each subsidiary (banking member) only HQLA in the amount of its net liquidity outflows in specific currency is included in the calculation of consolidated LCR.



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







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

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

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

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

On the NLB Group level, at the end of March 2022, the top 30 counterparties provided 3.6% of the total liabilities, mostly in retail, while the top 30 counterparties in NLB provided 3.8% of the total liabilities.

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

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

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

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

In NLB Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because NLB Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of NLB Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is from the acquisition of Komercijalna Banka, Beograd in 2020 in Serbian dinar (RSD), whereas before the second significant currency was the Macedonian denar (MKD). As at 31 March 2022, the aggregate liabilities in RSD represented 6.14% of total liabilities of the Group, therefore, RSD qualified as a significant currency.

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

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

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

Table 9 – LIQ1 – Quantitative information of LCR of NLB Group, data in EUR millions

EU 1a	Quarter ending on	Total unweighted value (average)				Total weighted value (average)			
		31.03.2022	31.12.2021	30.09.2021	30.06.2021	31.03.2022	31.12.2021	30.09.2021	30.06.2021
		a	b	c	d	e	f	g	h
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	5,336	5,174	5,064	4,912
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	14,505	14,262	13,503	12,465	861	842	793	728
3	*Stable deposits*	10,747	10,514	9,889	9,050	537	526	494	452
4	*Less stable deposits*	2,764	2,702	2,551	2,351	323	316	299	275
5	Unsecured wholesale funding	2,755	2,640	2,491	2,307	1,337	1,277	1,195	1,106
7	*Non-operational deposits (all counterparties)*	2,755	2,639	2,491	2,306	1,336	1,276	1,194	1,105
8	*Unsecured debt*	1	1	1	1	1	1	1	1
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	2,024	1,976	1,938	1,864	264	276	285	288
11	*Outflows related to derivative exposures and other collateral requirements*	107	124	139	148	107	124	139	148
13	*Credit and liquidity facilities*	1,917	1,851	1,799	1,715	158	152	146	139
14	Other contractual funding obligations	208	203	191	181	90	86	80	73
15	Other contingent funding obligations	1,228	1,183	1,136	1,089	72	70	68	65
16	**TOTAL CASH OUTFLOWS**					**2,624**	**2,552**	**2,420**	**2,259**
Cash-inflows									
18	Inflows from fully performing exposures	773	783	731	643	566	580	539	465
19	Other cash inflows	11	10	11	13	11	10	11	13
20	**TOTAL CASH INFLOWS**	**785**	**792**	**742**	**657**	**577**	**590**	**550**	**478**
EU-20c	***Inflows subject to 75% cap***	**785**	**792**	**742**	**657**	**577**	**590**	**550**	**478**
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					**5,336**	**5,174**	**5,064**	**4,912**
22	**TOTAL NET CASH OUTFLOWS**					**2,047**	**1,961**	**1,870**	**1,781**
23	**LIQUIDITY COVERAGE RATIO**					**261.43%**	**263.92%**	**271.86%**	**277.78%**

6. Appendices

6.1. Appendix 1

List of all disclosures required under Part 8 of CRR

Article	Chapter	Page
438 d)	4.2	9
h)	/	/
447	1	3
451a (2)	5	16

6.2. Appendix 2

Abbreviations

AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
CBR	Combined buffer requirement
CCR	Counterparty credit risk
CET1	Common equity tier 1 capital
COVID-19	Coronavirus Disease 2019
CRD	Capital Requirements Directive
CRD V	Capital Requirements Directive and Regulation
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECL	Expected Credit Losses
EMIR	European Market Infrastructure Regulation
ESG	Environmental, social and governance
EU	European Union
FVOCI	Fair Value Through Other Comprehensive Income
FX	Foreign Exchange
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
HQLA	High-quality liquid assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ISDA	International Swaps and Derivatives Association
LCR	Liquidity coverage ratio
LEI	Legal Entity Identifier
LGD	Loss given default
M&A	Mergers and acquisitions
MDA	Maximum Distributable Amount
MIGA	Multilateral Investment Guarantee Agency
MREL	Minimum Requirement for own funds and Eligible Liabilities
NPL	Non Performing Loans
NSFR	Net Stable Funding Ratio
OCI	Other comprehensive income
OCR	Overall capital requirement
O-SII	Other systemically important institutions
P2G	Pillar 2 Guidance
P1R	Pillar 2 Requirement
P2R	Pillar 2 Requirement
PD	Probability of default
PMI	Purchasing Managers' Index
QE	Quantitative Easing
RoS	Republic of Slovenia
RWA	Risk-weighted assets
RWEA	Risk weighted exposure amount
SEE	Southeast Europe
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
T2	Tier 2 (capital)
TCR	Total Capital ratio
TLTRO	Targeted longer-term refinancing operation
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement
ZUKD	Zavod za upravljanje kulturne dediščine - NLB Cultural Heritage Management institute