NLB Group

Creating better footprints. For today.

NLB Group Annual Report 2022

Pictured: NLB employees

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Report format
The Annual Report in PDF format represents its unofficial version. The Annual Report in European Single Electronic Format (ESEF) 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.

NLB Group at a Glance

Vision

The Group will take care of the financial needs of its clients and improve the quality of life in its home region – South-Eastern Europe.

Our strategic focus

- Be a **regional champion**
- **Put** clients first
- **Grow** our market position
- Monetize **opportunities and synergies**

Who we are

- **The leading banking and financial group in the region**, with eight banking members, companies for ancillary services (leasing, asset management, real estate management, etc.) and limited number of subsidiaries in a controlled wind-down.

Total Assets: **EUR 24,160 million**

Total Capital: **EUR 2,806 million**

Regular Income: **EUR 779 million**

- **The leading and systemically most important bank in Slovenia.**
- **Universal banking model** offering services to retail and corporate clients.
- **The market share of member banks in excess of 10%** (measured by total assets) in six out of seven markets.

Number of active clients: **more than 2.7 million**

Employees: **8,228**

Branches: **440**

Sustainable banking

- NLB officially joined the **Net-Zero Banking Alliance** in May 2022.
- **Sustainalytics ESG Rating:** 17.7 (top 15%).
- Improving our operational energy efficiency and **lowering carbon footprint.**
- **Reduction of CO_2 footprint 2022:**
  - 52% (Scope 1 and 2)
  - 46% (Scope 1, 2, 3; category 15 (financed emissions) excluded)
- **Substantial progress made in all three pillars:**
  - Sustainable finance
  - Sustainable operations
  - Contribution to society
- **Following sustainability reporting standards:**
  - Global Reporting Initiative
  - UNEP FI Principles of Responsible Banking
  - TCFD standards
- **Implementation of ECB Guide** on climate and environmental risk management.

Ratings

2021 BBB- → **2022** BBB

Positive **investment grade rating** dynamics in S&P Global Ratings.

Statement by the Management Board of NLB

Esteemed Stakeholders,

We have been living in an extremely turbulent period in 2022, with serious new challenges throughout the entire European society. In the past year, more than ever before, the systemically important role of the banks in the Group and the footprints we create in our home region of South-Eastern Europe (SEE) came to the forefront.

“We consistently follow our strategic priorities and look into the future with confidence.”

— Blaž Brodnjak,
CEO

“Our high quality of the loan portfolio is a warranty for the sustainable growth of the Group.”

— Andreas Burkhardt,
Member of the Management Board (CRO)

The need to prove our systemic importance has been accentuated soon after the beginning of the year. We entered 2022 firmly positioned and prepared to tackle any challenges still anticipated by the post-covid recovery of the economies in SEE where we operate. What wasn’t anticipated, however, were the uncertainties, challenges, and consequences brought on by the Russian aggression in Ukraine. Nonetheless, our response was decisive and concrete. We are enormously proud to be able to confidently state that the Group and its member banks have contributed their share to stabilisation of the industry and regional economy. Following the sanctions directed towards the Russian Sberbank and its subsidiaries, including Sberbank banka d.d. Slovenija, NLB responded conscientiously and responsibly, and by entering the ownership structure of this Slovenian bank (later renamed to N Banka) at short notice helped to stabilise the Slovenian banking system during one of its most critical periods. In parallel, we also signalled our interest in resolving comparable challenges in Bosnia and Herzegovina and potentially Croatia (if legacy hurdles were removed), and in case of lack of alternatives, NLB was prepared to act as the last resort solution. Furthermore, the Group’s banks in various markets also stepped up in times of instability of the energy sectors and by providing much-needed liquidity contributed to the successful mastering of this challenge as well.

All of this came on top of the Group’s regular business objectives of growth in all key segments and providing our clients with innovative, relevant solutions through an ever-improving user experience. The Group responded to the global industry disruptive trends by establishing a Group competence centre, ‘NLB DigIT,’ in Belgrade to act as a development hub for group wide IT solutions. Nowadays, NLB Group is no longer just a banking group, but surely one of the most ambitious and most dedicated IT employers in the region. The Group’s clear objective is to keep and build its digital leadership position by using the most advanced available technologies in all of its home markets.

Yet, NLB DigIT and the aforementioned N Banka, were not the only new strategic members of the Group in 2022. As we see the potential and believe that modern mobility solutions with embedded leasing services significantly complement our universal offering, we decided to gradually expand this activity by establishing a presence in Serbia and in North Macedonia.

“We strive to keep and build Group’s digital leadership position.”

— Archibald Kremser,
Member of the Management Board (CFO)

“We support our clients and stand for what’s right, in business and everyday life.”

— Hedvika Usenik,
Member of the Management Board(i)

It is planned that in its mature phase, leasing will contribute more than EUR 1 billion to the total assets of the Group, through organic and potentially also inorganic growth. With leasing activities and its eventual partnering ecosystem, we aim to become one of the leading providers of mobility solutions in the region.

It is also worth to highlight one of the most challenging, but also the most important processes NLB has undertaken in recent years – the integration of NLB Banka, Beograd and Komercijalna Banka, Beograd to NLB Komercijalna Banka, Beograd in spring of 2022. This successfully completed process further strengthened NLB’s position in Serbia, providing it with the ability and the responsibility to truly influence the economic environment and society in one of the key markets in the region; while on the other hand once again confirming the ever-growing, key importance of subsidiary banks and their contribution to the Group’s financial performance.

Despite the aforementioned precarious circumstances, the shadow of the war in Europe, the resulting energy crisis, and the economic slowdown, 2022 was the best year in the history of this banking group, evidenced by the historically highest absolute net income of any business group headquartered in Slovenia. The financial performance was truly exceptional despite the level of fear and stress in the markets. While the Group generated EUR 446.9 million in profit after tax (89% higher year on year), we also enhanced market shares in all key segments.

The Group’s strong business results translated into added value for our shareholders, with a substantial dividend pay-out in two tranches in the total amount of EUR 100 million. The Group remains committed to justify stakeholder expectations, and projects a total capital return through solid cash dividends in the cumulative amount of EUR 500 million (including 2022 pay-outs) by 2025. This will, on one hand, ensure a stable dividend increase, and on the other provide room for incremental organic growth and pursuit of tactical M&A opportunities. More specifically, NLB has the capacity to grow organically or by acquisition in any of our existing, as well as neighbouring markets, including the currently missing Croatia, thus becoming a natural choice for a pan-regional platform.

“We are a trusted partner for the financial well-being of the region.”

— Antonio Argir,
Member of the Management Board(i)

“We are only as strong and robust as our clients are – our households and our economies.”

— Andrej Lasič,
Member of the Management Board(i)

The Group’s business results, although remarkable and unprecedented thus far, are by no means the only indicator of the vital role the Group holds in SEE. At least equally important is our goal of improving the quality of lives and business environment in our home region. Guided by this objective, it is not surprising that we have put sustainability in its broadest sense at the heart of our business decisions and actions. Our efforts encompass the environmental, social and management aspects, and result in a number of initiatives and milestones, many of them reached in 2022. In the past year, we have, for example, established the NLB Group Sustainability framework and joined the United Nations Net Zero Banking Alliance, which aims to harmonise credit and investment portfolios to reaching zero net emissions by 2050 or earlier. We have continued to develop a range of green services and solutions, have been mindful of our own carbon footprint, and have supported and promoted sports, culture, and socially disadvantaged groups. We further recognised not only opportunities, but also our responsibility for helping the economy outside the framework of banking, as demonstrated by the project #FrameOfHelp in

(i) Since 28 April 2022.

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its third edition, during which we encouraged reflection and discussion about the sustainable future of our home region.

We are truly proud that our efforts and our progress were recognised by receiving our first ESG rating. Sustainalytics, one of the leading independent ESG research, ratings, and data firms in the world has rated NLB with an ESG Risk Rating of 17.7 and a low risk of experiencing material financial impacts from ESG factors, due to medium exposure and strong management of material ESG issues. NLB thereby became the first bank with headquarters and an exclusive strategic interest in SEE which has obtained this rating, as well as the first among the companies listed on the Ljubljana Stock Exchange.

The first ESG rating, however, was not the only important recognition NLB received in 2022. Standard and Poor's rating agency raised NLB's credit rating to BBB/A-2 from BBB-/A-3, with a stable outlook; while the Top Employers Institute awarded NLB the prestigious Top Employer certificate.

Looking at all these achievements and results of the Group in the past year, it can-not be denied that they are impressive and make us feel extremely proud. However, with an entrepreneurial mindset being amongst our core values, we are not the ones to sit idly, resting on our laurels. Circumstances have arisen where it is essential to look into the future. In it, we see plenty of new challenges, but, above all, plenty of opportunities. The Group is extremely well positioned. We will do our best to live up to the expectations of all our stakeholders – shareholders, employees, clients, and the public – to seize all opportunities and thereby create better footprints in the region which is our home.

Yours truly,

EUR 446.9 million
net profit of NLB Group (EUR 184.1 million contribution of N Banka)

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

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Statement by the Chairman of the Supervisory Board of NLB

To Our Shareholders,

"It's about being, not having" wrote Derek Sivers, in his heart-warming book, *Anything You Want*. You might ask yourself what does this book have to do with banking? I'll tell you that the answer lies in the mindset Derek describes in his book about the logic we should pursue when talking about "put clients first," which is one of our strategic focus points.

More specifically, if we want to grow with a self-sustaining long-term rate, show the investment public our underwriting and lending practices are the industry's best practices, grow using the principles of margin accretion (and not only volume), continue proving our business model is set to create value because we can profitably grow at a fast pace and increase the positive gap between the cost of our equity and our RAROC and ROE metrics, then we need to be the banking group that works on establishing a deep, even emotional connection with our growing client base. It is from that connection that our other stakeholder groups feed, including you shareholders. This connection should be created everywhere you look within our banking group. Starting from the welcoming smile at our retail desks, up to the complex financing instruments serving our most demanding corporate clients, while at the same time placing the utmost attention and skillset to the investment tactics we use to shield and profitably grow our big surplus liquidity. Everything we embark upon, as we do our job, stems from the desire to be able to create an offering of services and products our existing and new clients will want to use on a recurring basis. These are the services and products which they need, like, and will be ready to recommend to their friends, neighbours, peers, and even competitors.

— Primož Karpe,
President of the Supervisory Board of NLB

So, it's all about what we want to be, before we get to the point of having and deciding what we'll distribute to our shareholders, employees, and society. So, what do we want to be, and are we on a good path to become that?

If you read this Annual Report, you should find some of the answers yourself. We hope you see that we want to be a bank which is customer-centric and exists and develops to serve our clientele in a way that makes them happy. I personally believe our clients don't care about our size and systemic nature, they care about their customer experience and nothing else. It's also about being a bank our current and future employees are and will be proud to work for, and it's about being a bank whose business model is ESG-focused, creating a future-proof society impact alongside above-average returns. Furthermore, it's about showing our investors our regional risk premium is decreasing.

You see, to have something is the means, not the end, while to be something we promise is the final goal. The end game in sight is the banking group, which is built on the strong fundamental principles of a modern, future-focused financial institution business model. We want to follow the best peers across the globe and to strive to learn from the best, while acknowledging we have comparative advantages in our core region. We believe the business ideas embedded in our budget and forecasts are just the multiplier of our execution capacity, and is only up to our execution capacity to show we can deliver on our promises. And in our capacity as the Supervisory Board, we can only promise you that we are doing everything in our power to spread this logic of thinking across our organisation, so that NLB Group will always be able to back its promises with its execution.

Yes, 2022 brought precarious circumstances, like the continuing shadow of war in Europe, the resulting energy crisis, and the economic slowdown, but 2022 was also the year when suddenly almost everything changed in the world of banking. Interest rates leaped from their historic lows, and with them, bank margins increased after a decade or more of contraction. The spread between inflation and interest rates in Europe reached a 40-year high (almost 9 p.p. difference between the Eurozone inflation and marginal refinancing rate), something unseen across the investors' universe to-date. The business model of banks across the world started to create returns on equity above the cost of capital after years of languishing below it. It's now the time to realize that banks everywhere have an opportunity to make use of these higher margins to invest and reinvent as they lay the groundwork for long-term accelerated growth and profitability. Of course, there are strong divergences among developed, emerging, and what is classified as frontier markets, but our core region should be anything but a frontier. Since asset valuations have contracted across several industries, and market volatility peaked, some so-called "reinventors of financial industry" (referring to several fintech segments) have come to the realisation that sales growth has to be profitable to be sustainable. And somewhere in the background we observed the retrenchment to value investing. Seeing that, we in the NLB Group believe we sit at the heart of it. Because so many banks have such low valuations, it is a clear sign that the banking industry still lacks a persuasive future-proof business model to create the growth premium seen in other industries. And now is the perfect time to change the existing model and re-wire our mental perception of the future. How?

We should focus on persistence. I mean, the persistence to innovate in the field of digital solutions and products, the persistence to innovate in the field of middle and back-office processes, the persistence to step out of the "doing business as usual" mentality in the fields of talent attraction, and the persistence in the digging deeper into the AI-driven data science to drive incremental value for the business through improved business performance, better marketing leads, customer satisfaction, and engagement experience. And finally, we should show the persistence to find ways to safeguard the bank by applying sophisticated risk and fraud detection models.

Dear shareholders, we at the NLB Group believe the right time to prove that is right now.

Yours truly,

Supervisory Board of NLB

Primož Karpe
Chairman

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This is our home. A region of opportunities.

NLB, Ljubljana

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
27.6%	160	13,939	687,537

N Banka, Ljubljana

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
2.6%	11	1,293	39,769

NLB Banka, Sarajevo

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
5.9%	11	838	138,454

NLB Banka, Podgorica

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
13.3%	17	852	84,720

NLB Banka, Banja Luka

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
20.1%	19	995	211,356

NLB Komercijalna Banka, Beograd

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
10.0%	66	4,670	972,264

NLB Banka, Skopje

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
16.3%	38	1,848	412,362

NLB Banka, Prishtina

Market share (by total assets)	Result after tax (in EUR milliions)	Total assets (in EUR millions)	Active clients
16.7%	32	1,084	225,880

Key Members Overview[1]

Table 1: Key members overview for 2022 or as at 31 December 2022

		Slovenia				Serbia	North Macedonia	Bosnia and Herzegovina		Kosovo	Montenegro
	NLB Group	**NLB, Ljubljana**	**N Banka, Ljubljana**	**NLB Lease&Go, Ljubljana**	**NLB Skladi, Ljubljana**	**NLB Komercijalna Banka, Beograd[viii]**	**NLB Banka, Skopje**	**NLB Banka, Banja Luka**	**NLB Banka, Sarajevo**	**NLB Banka, Prishtina**	**NLB Banka, Podgorica**
Market position											
Total assets (in EUR millions)	24,160	13,939	1,293	217	1,960[iii]	4,670	1,848	995	838	1,084	852
Net loans to customers (in EUR millions)	13,073	6,062	939	189	-	2,589	1,171	523	521	741	532
Deposits from customers (in EUR millions)	20,028	10,984	899	-	-	3,692	1,462	797	673	894	693
Result after tax (in EUR millions)	447	160	11	1	8	66	38	19	11	32	17
Market share by total assets	-	27.6%	2.6%	-	39.1%[iv]	10.0%	16.3%	20.1%[v, vi]	5.9%[v, vii]	16.7%	13.3%
Branches	440[i]	71	11	-	-	180	48	47	35	33	22
Active clients	2,772,342	687,537	39,769	-	-	972,264[ii]	412,362	211,356	138,454	225,880	84,720
Macroeconomic indicators											
GDP (real growth)	3.8%	5.4%				2.3%	2.1%	3.8%		3.3%	6.1%
Average inflation	11.5%	9.3%				12.0%	14.1%	14.0%		11.6%	13.0%
Unemployment rate	9.3%	4.2%				9.4%	14.4%	15.6%		17.0%	14.8%
Current account of the balance of payments (as a % of GDP)	-4.6%	-0.8%				-7.0%	-6.0%	-4.1%		-9.4%	-11.6%
Budget deficit/surplus (as a % of GDP)	-2.9%	-3.5%				-3.3%	-4.5%	0.5%		-1.6%	-5.3%

(i) 7 out of 11 N Banka's branches operating within NLB, Ljubljana branches, therefore not included in total number.
(ii) Number of active clients of NLB Komercijalna Banka, Beograd measured by different definitions as for the rest of the NLB Group members.
(iii) Assets under management.
(iv) Market share of assets under management in mutual funds.
(v) Market share as at 30 September 2022.
(vi) Market share in the Republic of Srpska.
(vii) Market share in the Federation of BiH.
(viii) In April 2022 NLB Banka, Beograd merged with Komercijalna Banka, Beograd.

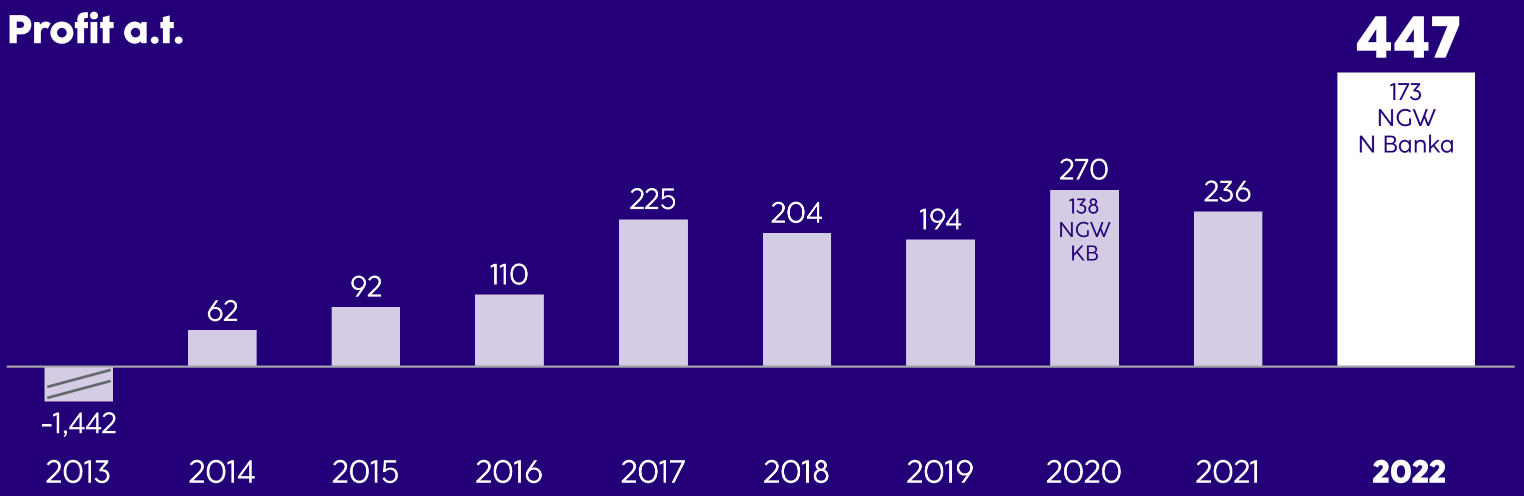
1 Data on a stand-alone basis as included in the consolidated financial statements of the Group. Only members with material contributions to the NLB Group performance are included.

Key Highlights

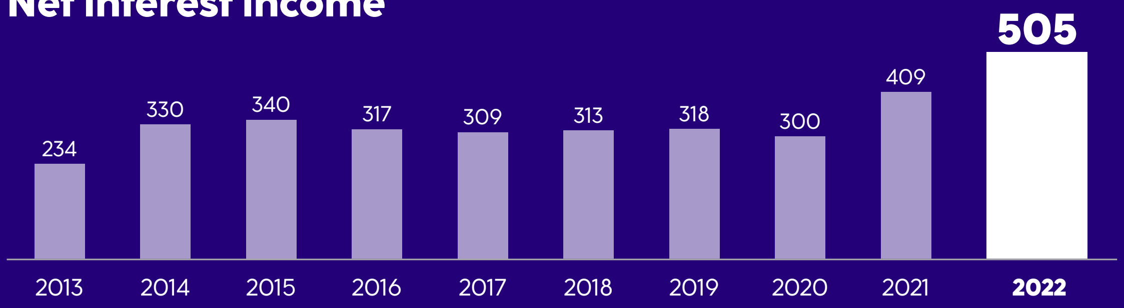
Records achieved in all financial dimensions

(in EUR millions)

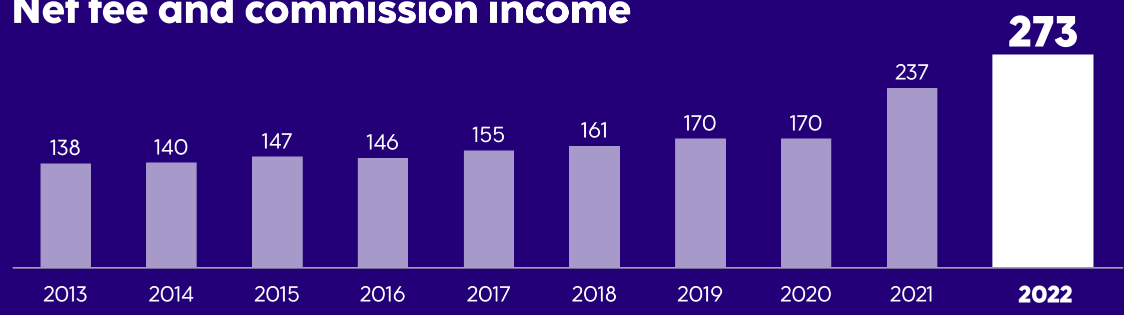
Profit a.t.



Net interest income

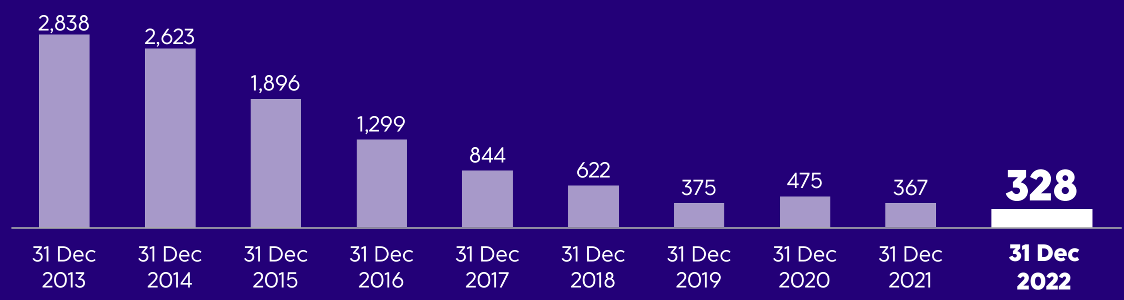


Net fee and commission income



Gross loans to customers

Non-performing loans (NPLs)



Fortress balance sheet to enable seizing of growth opportunities

N Banka acquisition[2]

negative goodwill

EUR 173 million

total assets

EUR 1,293 million

Capital

TCR

19.2%

vs 15.1% requirement (incl. P2G)

dividends paid out

EUR 500 million

ambition for 2022 to 2025 (of which EUR 100 million paid in 2022)

MREL

MREL ratio

36.3%

vs 28.7% requirement

MREL funding

~ EUR 740 million

~ EUR 300 million in subordinated debt
~ EUR 440 million in other MREL eligible instruments

Asset quality

cost of risk

14 bps

NPL ratio

1.8%

2 On 1 March 2022 NLB acquired the Slovenian Sberbank and renamed it to N Banka. It is currently in the process of integration with NLB.

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Key Performance Indicators

Table 2: Key financial indicators for NLB Group and NLB

	NLB Group			NLB		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Income statement data (in EUR millions)						
Net interest income	505	409	300	177	139	139
Net non-interest income	294	258	205	189	222	173
Net non-interest income (BoS)	503	294	360	199	232	180
Total costs	-460	-415	-294	-208	-184	-180
Operating costs (BoS)	-496	-451	-311	-218	-193	-188
Result before impairments and provisions[i]	338	252	211	158	178	131
Impairments and provisions	-29	9	-71	6	34	-17
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	1	1	1	-	-	-
Result before tax	483	261	278	164	211	114
Result of non-controlling interests	11	11	3	-	-	-
Result after tax	447	236	270	160	208	114
Financial position statement data (in EUR millions)						
Total assets	24,160	21,577	19,566	13,939	12,700	11,027
Gross loans to customers	13,397	10,903	10,033	6,157	5,250	4,753
Impairments and deviations from FV	-324	-316	-388	-95	-97	-158
Net loans to customers	13,073	10,587	9,645	6,062	5,153	4,595
Financial assets	4,877	5,208	5,120	2,961	3,034	3,017
Deposits from customers	20,028	17,641	16,397	10,984	9,660	8,851
Equity	2,366	2,079	1,953	1,603	1,552	1,451
Non-controlling interests	57	137	170	-	-	-
Total off-balance sheet items	5,449	4,655	4,671	4,046	3,489	3,684
Key financial indicators						
a) Capital adequacy						
Total capital ratio	19.2%	17.8%	16.6%	25.6%	24.6%	27.1%
Tier 1 ratio	15.7%	15.5%	14.2%	19.1%	20.3%	22.3%
CET 1 ratio	15.1%	15.5%	14.1%	18.1%	20.3%	22.3%
Total RWA (in EUR millions)	14,653	12,667	12,421	7,833	6,709	6,029
RWA / Total assets	60.6%	58.7%	63.5%	56.2%	52.8%	54.7%
b) Asset quality						
NPL coverage ratio 1 (coverage of gross non-performing loans with impairments for all loans)	98.9%	86.1%	81.8%	86.1%	75.1%	76.0%
NPL coverage ratio 2 (coverage of gross non-performing loans with impairments for non-performing loans)	57.1%	57.9%	57.3%	58.1%	60.6%	57.9%
NPL coverage ratio (EBA definition)[ii]	58.1%	58.4%	56.9%	58.2%	60.8%	55.3%
NPL coverage ratio (EBA definition) (BoS)[iii]	58.1%	58.4%	56.9%	58.2%	60.8%	55.3%
NPL volume (in EUR millions)	328	367	475	111	130	208
NPL ratio (internal def.; NPL/ Total loans)	1.8%	2.4%	3.5%	1.1%	1.5%	3.0%
Net NPL ratio (internal def.; net NPL / Total net loans)	0.8%	1.0%	1.5%	0.5%	0.6%	1.3%
NPL ratio (EBA definition)[ii]	2.4%	3.4%	4.5%	1.7%	2.4%	4.0%
NPL ratio (EBA definition) (BoS)[iii]	1.8%	2.4%	3.4%	1.1%	1.5%	2.8%
NPE ratio (EBA definition)	1.3%	1.7%	2.3%	0.9%	1.1%	1.9%

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
NPE ratio (EBA definition) (BoS)[iv]	1.3%	1.7%	2.3%	0.9%	1.1%	1.9%
Received collaterals / NPL	61.0%	61.7%	60.7%	58.4%	60.0%	65.8%
NPL Collateral received / NPL (EBA definition)	54.7%	58.8%	42.4%	75.6%	63.1%	43.5%
Credit impairments and provisions / RWA	0.1%	-0.3%	0.5%	0.2%	-0.4%	0.1%
c) Profitability						
Net interest margin (BoS)[v]	2.2%	2.0%	2.0%	1.3%	1.2%	1.3%
Financial intermediation margin (BoS)	4.4%	3.4%	4.4%	2.9%	3.1%	3.1%
Operational business margin[vi]	3.6%	3.3%	3.2%	2.5%	2.3%	2.5%
ROE b.t.	20.6%	11.8%	15.4%	10.5%	14.0%	8.2%
ROA b.t.	2.1%	1.3%	1.8%	1.2%	1.8%	1.1%
ROE a.t.	19.9%	11.4%	15.4%	10.2%	13.8%	8.2%
ROA a.t.	1.9%	1.1%	1.8%	1.2%	1.8%	1.1%
d) Business costs						
Operating costs / Average total assets (BoS)	2.2%	2.2%	2.1%	1.7%	1.6%	1.8%
CIR	57.6%	62.3%	58.3%	56.8%	50.8%	57.9%
Total costs / RWA	3.1%	3.3%	2.4%	2.7%	2.7%	3.0%
Total costs / Total assets	1.9%	1.9%	1.5%	1.5%	1.4%	1.6%
e) Liquidity						
Liquidity assets / Short-term financial liabilities to non-banking sector	48.5%	48.9%	56.1%	61.8%	59.4%	65.8%
Liquidity assets / Average total assets	40.7%	40.2%	51.8%	49.8%	47.4%	54.9%
Liquidity Coverage Ratio (LCR)	220.3%	252.6%	257.5%	276.5%	314.5%	336.3%
Net stable funding ratio (NSFR)	183.0%	185.2%	165.7%	177.6%	171.4%	162.1%
f) Leverage ratio						
Leverage ratio	9.1%	10.2%	7.8%	10.3%	13.6%	10.3%
g) Other						
Market share in terms of total assets	-	-	-	27.6%	26.3%	24.7%
LTD	65.3%	60.0%	58.8%	55.2%	53.3%	51.9%
Total revenues / RWA	5.4%	5.3%	4.1%	4.7%	5.4%	5.2%
Key indicators per share						
Shareholders[vii]	-	-	-	3,025	2,571	2,455
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)	114.1	103.9	97.6	75.9	77.6	72.5
Branches						
Number of branches	440	479[viii]	530[ix]	71	75	80
Employees						
Number of employees	8,228	8,185	8,792	2,418	2,510	2,591
International credit ratings	**NLB Rating 2022**	**NLB Rating 2021**	**NLB Rating 2020**	**NLB Outlook 2022**	**NLB Outlook 2021**	**NLB Outlook 2020**
S&P	BBB	BBB-	BBB-	Stable	Stable	Negative
Fitch	-	-	BB+	-	-	Negative
Moody's[viii], [ix]	Baa1	Baa1	Baa1	Stable	Stable	Stable

Further details on the definition of certain indicators in this table are available in the chapter Alternative Performance Indicators.
(i) The result before impairments and provisions of NLB Group for the years 2020 and 2022 does not include negative goodwill.
(ii) Loans and advances without loans and advances classified as held for sale, cash balances at central banks and other demand deposits.
(iii) Loans and advances including cash balances at CBs and other demand deposits.
(iv) The carrying amount of debt instruments measured at fair value through other comprehensive income (FVOCI) is increased by value adjustments due to impairments.
(v) Calculated on the basis of average total assets.
(vi) Calculated as Net income from operational business (NII - Tier 2 expenses + Net fee and commission income + Recurring net income from financial operations)/Average total assets.
(vii) As per share register of Central Securities Clearing Corporation (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.
(viii) Unsolicited rating.
(ix) For more information, see chapter Events After the End of the 2022 Financial Year.

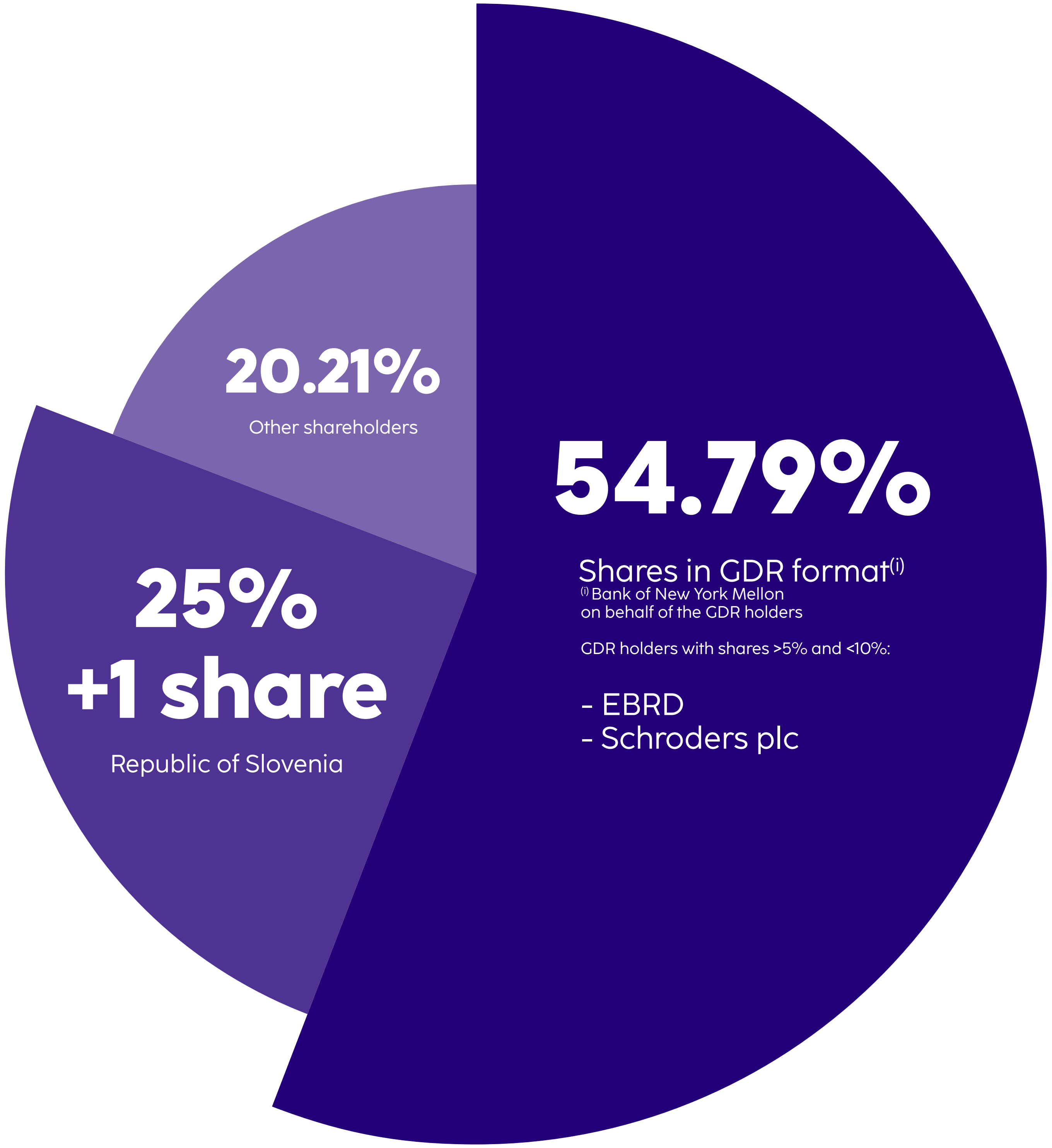
The Shareholder Structure of NLB

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, that represent 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 3: NLB's main shareholders as at 31 December 2022[i]

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders[ii]	10,957,270	54.79
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	4,042,729	20.21
Total	**20,000,000**	**100.00**

(i) The information is sourced from NLB's shareholders book that is 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 require that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings pass the set thresholds of 5%, 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 the chapter Key Events.



Key Events

1 **January**
'Top Employer' certificate

2 **February**
New SREP Decision reduced P2R

3 **March**
Acquisition of N Banka

4 **April**
Merger of Serbian subsidiaries

5 **May**
S&P upgrade

6 **June**
Dividend payment

7 **July**
NLB 100% owner of NLB Komercijalna Banka, Beograd

Senior Preferred Notes issued

8 **August**
Cancelation of high balance deposit fee

9 **September**
Leasing activities in N. Macedonia

AT1 Notes issued

10

11 **November**
T2 Notes issued

Leasing activities in Serbia

12 **December**
Dividend payment

ESG rating

New SREP Decision reduced P2R

Key Events

January

- **'Top Employer' certificate:** The Top Employers Institute awarded the Bank the prestigious 'Top Employer' certificate for the 7th consecutive year.

February

- **Swiss Francs Law:** NLB, together with eight other banks, filed an initiative to review the constitutionality of the adopted Swiss Francs Law by The National Assembly. The Constitutional Court adopted a decision to suspend in whole the implementation of the Swiss Francs Law until the final decision conformity of the Swiss Francs Law with the Constitution. In December, the Constitutional Court annulled the Law.
- **New Supervisory Review and Evaluation Process (SREP) Decision:** The European Central Bank (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%.[3]

March

- **Acquisition of N Banka:** NLB became a 100% owner of Sberbank banka d.d. (Sberbank). Sberbank was renamed to N Banka and new supervisory board members of the bank were appointed.
- **Notifications of major holdings change:** Schroders's shareholding in the Bank changed from 5.061% to 4.95%.

April

- **New members of the Management Board:** Hedvika Usenik, Antonio Argir and Andrej Lasič assumed their offices. Thus, the Management Board has six members.
- **Merger of Serbian subsidiaries:** Serbian subsidiaries, Komercijalna Banka, Beograd and NLB Banka, Beograd merged and operate under the new name NLB Komercijalna banka a.d. Beograd.
- **New Macroprudential instruments:** The BoS issued a new regulation on determining the requirement to maintain a systemic risk buffer for banks and savings banks which has with 1 January 2023 introduced the systemic risk buffer rates for the sectoral exposures.[4]
- **IT solutions:** NLB established NLB DigIT in Serbia to act as a development hub for common IT Group solutions.

3 Further information is available in the chapter Capital.
4 Further information is available in the chapter Capital.

May

- **1st Investor Day of NLB Group held in Beograd:** The commitment to exceed EUR 300 million[5] in regular profit by 2025.
- **Rating upgrade:** Standard and Poor's rating agency upgraded NLB's credit rating to BBB/A-2 from BBB-/A-3, with a stable outlook.
- **The Bank officially joined the UN-Convened Net-Zero Banking Alliance.**

June

- **Notifications of major holdings change:** The shareholding of Brandes Investment Partners, L.P. in the Bank changed to 4.78%.
- **Dividend payment:** The Bank paid the dividends (the first tranche) in the amount of EUR 50 million.

July

- **NLB became a 100% owner of NLB Komercijalna Banka, Beograd.**
- **Supervisory Board change:** Janja Žabjek Dolinšek member of the Supervisory Board – Workers' Representative terminated her mandate.
- **Senior Preferred Notes:** The Bank issued 3NC2 Senior Preferred notes in the amount of EUR 300 million.

August

- **High balance deposit fee:** The Bank stopped charging fees on high balances for individuals and corporate clients.

September

- **Leasing activities:** Leasing company NLB Liz&Go, Skopje was established, and it was renamed to NLB Lease&Go, Skopje in December.
- **Supervisory Board change:** NLB Workers' Council recalls a member of the Supervisory Board – workers' representative Bojana Šteblaj.
- **AT1 Notes:** The Bank issued AT1 notes in the amount of EUR 82 million.

October

- **Notifications of major holdings change:** Schroders's shareholding in the Bank changed from 4.95% to 5.05%.

5 Further information is available in the chapter Risk Factors and Outlook, the subchapter Outlook.

November

- **Tier 2 Notes:** The Bank issued 10NC5 subordinated Tier 2 notes in the amount of EUR 225 million.
- **Notifications of major holdings change:** Schroders's shareholding in the Bank changed from 5.05% to 5.12%.
- **Leasing activities:** Acquisition of leasing company Zastava Istrabenz Lizing, Serbia, and it was renamed to NLB Lease&Go Leasing, Beograd on 17 January 2023.

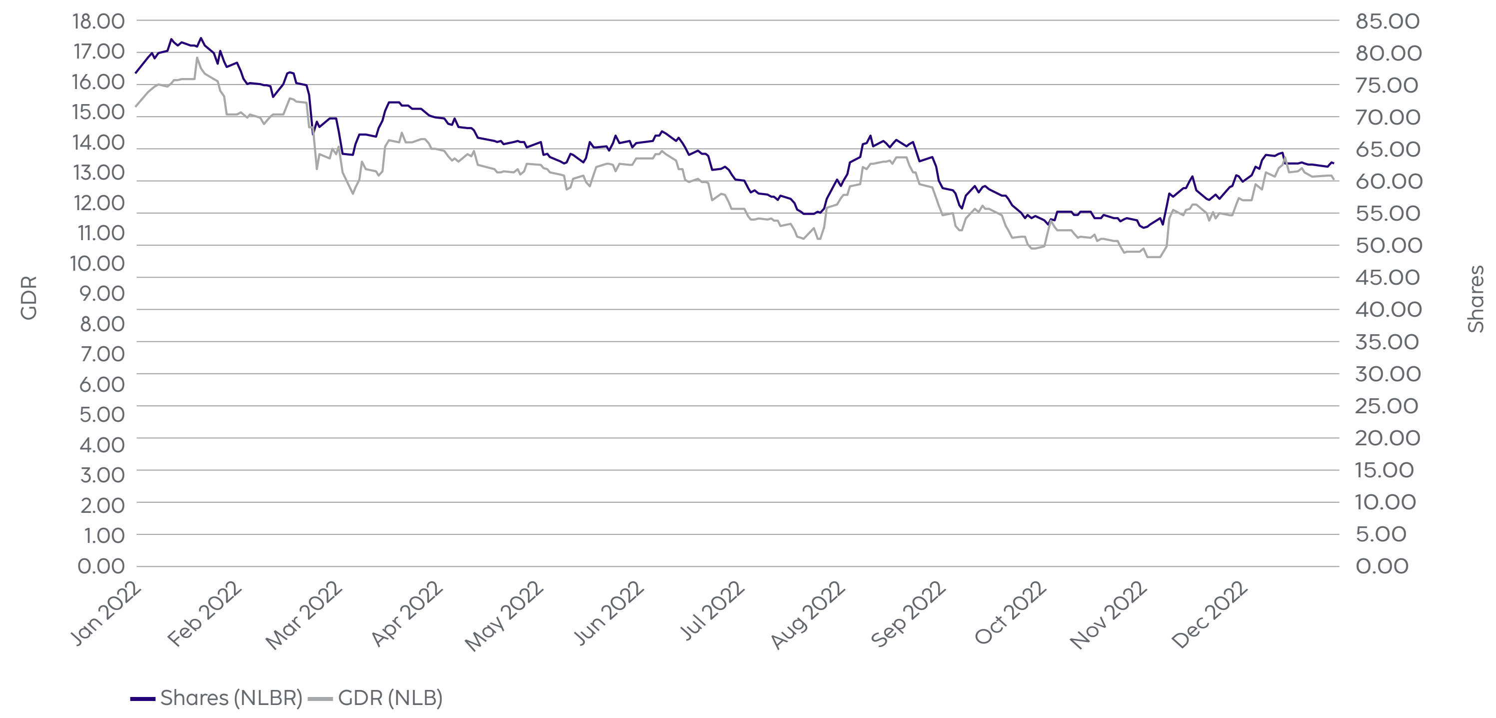
December

- **Dividend payment:** The Bank paid the dividends (the second tranche) in the amount of EUR 50 million.
- **ESG rating:** NLB obtained for the first time an ESG Risk Rating of 17.7 for having a low risk of experiencing material financial impacts from ESG factors.
- **New SREP Decision:** ECB issued a new SREP decision for the Bank under which it has reduced the P2R from 2.60% to 2.40%, while P2G remains at 1.00%. The new SREP decision applies as of 1 January 2023.[6]
- **Macroprudential instruments:** The BoS raised the countercyclical capital buffer for exposures to Slovenia from zero to 0.5% of the total risk exposure amount. Banks have to meet the requirement by 31 December 2023.[7]

6 Further information is available in the chapter Capital.
7 Further information is available in the chapter Capital.

Market Performance of NLB's Shares and GDRs

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.

European banking stocks lost roughly only 4% in value during 2022, and it was all thanks to a stellar performance in the last quarter. Rebased to January 2022, the index saw it highest point in February after growing approximately 15%, only to reach -15% in the beginning of March. Investors clearly were afraid that a weakening economy would result in credit losses, which explains the steep fall. The lowest point of the year was reached in October 2022 with the index hovering in the negative territory the whole time. Thanks to the strong close of the year, European banking stocks outperformed the European stock index. In fact, the last quarter performance was the strongest amongst all sectors contributing to the index. The reason must lie in the higher interest rates, that saw banks increase their net interest margins. Yet, still it was not enough to break into the positive territory at the close of the year. A war, high (energy) prices, and the looming stagflation have weighed on the gains from higher interest rates.

The SBI index saw its peak in the beginning of the year, towards the end of January 2022, and was in a steady decline that lasted until mid-March 2022. A rebound that made up for roughly half of the lost value was followed by a period where the indexes stuck to a certain level, followed by a drop in October 2022 that marked the lowest value of the year (losing almost 10% compared to the year's maximum). The European stock markets had their worst year since 2018 due to the war, persisting inflation, and a tightened monetary policy, as the central banks were directing the markets with their action.

The Bank's stock declined through the vast majority of year 2022. From its peak in January 2022, the value declined almost 24% in March 2022, a consequence of the hostilities breaking out and the inflation imposing itself on the economy. Two periods, consisting of a rebound and a steady decline ended with the lowest value of the 2022 in November, after which the Bank's stock gained some 15% in value again, to close the year on a positive note. In 2022, the stock lost 18% in value, while still outperforming the SBI top Slovenian blue-chip index by 2 p.p.

Growth in Trading

Combined trading in our shares and GDRs in 2022 increased by more than

40%

as compared to the previous year

>EUR 600,000

in combined average regular trading volume per day (excluding block trades)

Contents

NLB Shares and GDRs

Table 4: NLB share information

Share information	31 Dec 2022
Total number of shares issued	20,000,000
Highest closing price (in 2022)	EUR 82.0
Lowest closing price (in 2022)	EUR 52.4
Closing price as at 30 December 2022(i)	EUR 62.4
NLB Group book value per share	EUR 114.1
NLB Group earnings per share (EPS)	EUR 22.3
Price/NLB Group book value (P/B)	0.55
Dividend per share (for the previous business year)	EUR 5.0
Market capitalisation(i)	EUR 1,248,000,000

(i) No market on 31 December 2022.

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, among others.

The Investor Relations' function

The Bank participated in varied forms of engagement, such as investor meetings, calls, conferences, and roadshows, to meet the requirements of the Bank's ownership. Transparent communication with investors and analysts allowed for dialogue on strategic developments, as well as on the 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. Performance of the Bank is covered by analysts from EFG Hermes, JP Morgan, Deutsche Bank, Wood & Company, Citi, InterCapital, Raiffeisen Bank International and Ilirika BPH.

In May 2022, the Bank organised its first ever Investor Day. The event took place in Beograd, Serbia with the key message: "Welcome to our home, welcome to our region of opportunities!"

During the inaugural Investor Day the Group communicated several KPIs for the year 2025, i.e. regular profit to exceed EUR 300 million, EUR 100 million contribution from Serbian market, EUR 500 million total capital return through cash dividends between 2022 and 2025, tactical M&A capacity of EUR 1.5 billion RWA, and ROE to exceed 12%.[8]

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

In December 2022, the Ljubljana Stock Exchange awarded the IR team as having the best investor relations among listed companies.

Ljubljana Stock Exchange awarded NLB as:

the Best Investor Relations

Expanded Analyst Coverage

In 2022, the list of respectable analysts covering NLB has further expanded with initiation of the report by EFG Hermes, helping us share our equity story to a larger investor universe

8 Further information is available in the chapter Risk Factors and Outlook, the subchapter Outlook.

Contents

The Macroeconomic Environment

In 2022, the momentum from the 2021 rebound started to wane as the global economy was forced to deal with supply bottlenecks, a war in Ukraine, and rising inflation. High energy prices and the highest interest rates in 15 years cooled growth and sentiment indicators substantially in the second half, resulting in a low growth environment towards the year's end.

The global and European economy

Year 2022 opened with inflation above 5% and rising. The pace of the sequential GDP expansion slowed notably at the close of 2021. Momentum seemingly remained subdued at the outset of 2022. The spread of the Omicron variant and the highest inflation rate since the 1990s took a toll on the tertiary sector, as showed by deteriorating Purchasing Managers' Index (PMI). Consumer sentiment in February 2022 showed first signs of deterioration, while hawkish signals from the ECB and Russia's invasion of Ukraine have put bond rates in the countries of Southern Europe under pressure. The following months saw global real GDP contract modestly in China, Russia, and the US, as well as sharp slowdowns in Eastern European countries most directly affected by the war in Ukraine and international sanctions aimed at pressuring Russia to end hostilities. During 2022, the key trends were steadily slowing growth, a tightening labour market, and growing inflation. Private consumption was the main driver of growth, causing the savings rates to decrease and the appetite for loans to increase. The loan growth rates were surprisingly marginally impacted by the growing interest rates that eventually started restraining global demand, causing the retail indexes and sentiments to drop. In the second half of the year, supply constraints eased off and commodities prices began falling. Large firms reported a contraction in profit margins due to higher costs, while downward pressures to global earnings growth appeared to be gaining momentum. In small firms, bankruptcies have already started to increase in major advanced economies, as these firms are more affected by rising borrowing costs and declining fiscal support. China's abrupt reversal of its 'COVID Zero' policy resulted from the domestic backlash and pushed economic activity in December 2022 to its slowest pace since February 2020 as infections increased and kept people at home which prompted businesses to close. This pent-up demand is set to be released once the sentiment improves. China's reopening has already elevated commodity prices and could rekindle pressures just as the year end brought some relief to the still elevated inflation and producer price indexes. Global manufacturing has been in decline most of the year, and its movement could hold the key whether the world will see stagflation or a "soft landing."

Momentum in the euro area remained subdued in the first months. Industrial production was weak in the period, weighed down by soaring commodity prices and supply constraints. The services sector suffered from surging inflation and souring consumer sentiment. More positively, the unemployment rate continued to fall amid easing COVID-19 restrictions. In Q2, robust PMI readings suggested solid activity, a resumption of some services sector activity, and a healthy early tourism season. However, pessimistic consumer sentiment and elevated inflation have started weighing on household spending. In July, inflation climbed further, while consumer sentiment tanked, pointing to consumer spending slowing its pace. Moreover, the PMI started contracting, due to slowing services sector activity and shrinking manufacturing output. Electricity prices hit new highs in August, amid the war in Ukraine and a prolonged heatwave, prompting the closure of European smelters and the adoption of energy-saving measures. Many countries of the Euro area have chosen to cut energy taxes and excise duties. The ECB started raising interest rates in July to cool demand. The slowdown came amid higher inflation, energy prices, and interest rates. Business and consumer sentiment tumbled due to the impact of the war in Ukraine and global headwinds. The manufacturing and services PMIs contracted further in October 2022, while economic sentiment slipped again, pointing to a further weakening in activity. Both industrial production and retail sales fell. The low number of new manufacturing orders, shortening of suppliers' delivery times, and contracting manufacturing PMIs suggest/indicate that the eurozone industrial sector moved into a cyclical downturn nearing the year end. Supply bottlenecks started easing off noticeably by year's end, as household consumption started retreating due to persisting inflation and rising interest rates that also hurt real wages. Energy prices have risen to such an extent that they have also become visible in other goods and services. This effect was most pronounced in food prices that continued going strong and rising further even though the end of the year could be categorised as disinflationary.

3.5%

economic growth in the Euro-area in 2022

The sharp rebound from the COVID recession has turned in the prospect of low growth in 2023. It had an effect on the headline inflation and hence the calibration of the monetary policy by central banks, which has tightened much more than the CBs themselves had anticipated at the beginning of the year. The FED set the stage for the hiking cycle at the January meeting, providing a hint that a first hike would be seen in March. The hiking cycle brought the federal funds rate in 2022 from 0.25%-0.50% up 4 p.p. As the FED started raising the interest rates before the ECB, the dollar gained in value and pushed the euro to fall below parity for the first time since December 2002. However, the euro eventually appreciated, trading at 1.07 dollars at the close of the year. The FED now foresees a higher peak in rates, at 5.0% by the end of 2023. The ECB started hiking the key interest rates in July 2022, to rise from -0.75% to 2% at the end of the year in order to, according to its mandate, bring inflation down. The last inflation rates of the year offered positive reinforcement to the ECB's endeavours, however, core inflation never eased in 2022. That was the key message from the December 2022 ECB meeting, when President Lagarde struck an unusually hawkish tone. The December 2022 HICP figures supported this view, while markets cheered another marked decline in headline inflation. It is lower energy prices and the resulting base effects, as well as government interventions that are pushing down headline inflation. In August, the Governing Council decided to reinvest the principal payments from maturing securities purchased under the Pandemic Emergency Purchase Programme until at least the end of 2024. Their decision also ended full APP reinvestments in March 2023 and the decline with a pace of EUR 15 billion per month until June 2023. The pace beyond that is still to be determined. Such a reduction in the central banks' demand could potentially translate into less potential to absorb shocks and therefore higher liquidity premiums and lower market liquidity. Consequently, the ECB approved the Transmission Protection Instrument (TPI) to ensure the uniform monetary policy transmission by alleviating prospective excessive pressures on sovereign bonds' credit spreads.

Global activity should remain muted in 2023. Private consumption will be weighed on by stubbornly high inflation, tighter financing conditions, and depleted savings. Additionally, global economic headwinds will hit the external sector. Elevated interest rates, heavy public debts, and volatile commodity prices pose risks. The price pressures will decrease due to combined effects of increased key rates and quantitative tightening signalled by central banks. The labour markets are predicted to balance a little due to stagnation, and so pressures on wage growth should ease. Global trade should experience no additional supply shocks in energy and commodities. Political tensions are expected to remain, but will stay regionally contained. The GDP growth rate in 2024 and beyond should be supported by declining interest rates and positive expectations regarding investments and durable goods consumption.

A relatively warm winter, energy savings, and fiscal support measures helped to alleviate fears of imminent energy shortages in the euro area. Production levels will benefit from improving supply conditions and declining energy and commodity prices. The inflation rate will decrease as the expected Central Bank balance sheet reduction and the increased interest rates will push it down. Deteriorating retail sales data in the euro area, even with declining fuel prices, suggest that private consumption will remain subdued in 2023 as increasing uncertainty, declining purchasing power, and rising political risk that will remain regionally contained, indicate a slowdown. We see the euro area economy stagnating in 2023, the tightness of the labour market should decrease. Finally, the monetary policy tightening works with long and variable lags, and so past and upcoming rate hikes and tightening of financial and bank lending conditions will continue to impact the economy.

The economy in the Group's region

Private consumption has been the main driver of growth in 2022 as it has dwarfed government consumption. It has been spurred by surprisingly resilient and strong credit growth, remittances, and tourism, joined by strong export demand from the EU propping up the growth of regional economies. Fixed investment, which rebounded sharply after abrupt drops in 2021 for Montenegro and N. Macedonia, also helped drive growth. The trend was the opposite in BiH and Serbia where investments diminished rapidly compared to 2021. The relatively high inflation rate can be explained by both relatively large price increases in energy and food, as well as those items' relatively large share in the consumer basket. Higher energy prices have translated directly into larger import bills, a wider current account, and generated sizable fiscal costs in several countries because of fossil fuel subsidies, price caps, and support to households and firms. The EU accession reforms, and investment mitigate the negative effects of high energy and food prices, disruptions to trade and investment flows, and spillovers from the slowdown in the euro area. However, there is significant political uncertainty about the risk that parliamentary impasses will create delays in the implementation of reforms, and thus prevent efficient absorption of related funds (BiH, Montenegro, N. Macedonia). Regional instability due to the rekindled conflict between Serbia and Kosovo also poses a risk.

5.4%

economic growth in Slovenia in 2022

Table 5: Movement of key macroeconomic indicators in the Euro area and NLB Group region

	GDP (real growth in %)					Average inflation (in %)					Unemployment rate (in %)				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Euro area	-6.3	5.3	3.5	0.0	1.6	0.3	2.6	8.4	6.1	3.0	8.0	7.7	6.7	7.0	7.3
Slovenia	-4.3	8.2	5.4	0.6	2.2	-0.1	1.9	9.3	6.8	3.9	5.0	4.7	4.2	4.0	4.2
Serbia	-0.9	7.5	2.3	1.8	3.1	1.6	4.1	12.0	10.1	5.4	9.7	11.0	9.4	9.5	9.2
N. Macedonia	-4.7	3.9	2.1	1.6	3.0	1.2	3.2	14.1	8.5	3.6	16.4	15.7	14.4	13.9	13.7
BiH	-3.3	7.1	3.8	1.0	2.0	-1.1	2.0	14.0	8.0	3.0	15.9	17.4	15.6	15.2	15.1
Kosovo	-5.3	10.5	3.3	2.4	3.5	0.2	3.3	11.6	7.0	3.5	26.0	20.8	17.0	16.5	16.0
Montenegro	-15.3	13.0	6.1	2.6	3.2	-0.3	2.4	13.0	7.5	2.6	17.9	16.6	14.8	13.7	13.3

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

Table 6: 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)				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Euro area	1.6	2.3	0.0	0.5	1.1	-7.0	-5.1	-3.7	-3.6	-3.1	97.0	95.4	94.1	93.5	92.9
Slovenia	7.6	3.8	-0.8	0.5	0.9	-7.7	-4.7	-3.5	-4.3	-2.7	79.6	74.5	70.0	69.5	68.1
Serbia	-4.1	-4.2	-7.0	-6.5	-5.9	-8.0	-4.1	-3.3	-2.8	-2.1	57.0	56.5	53.4	53.4	51.9
N. Macedonia	-3.0	-3.1	-6.0	-4.9	-4.1	-8.2	-5.4	-4.5	-4.0	-3.4	51.9	51.8	50.9	51.0	51.5
BiH	-3.2	-2.3	-4.1	-4.5	-3.9	-4.7	0.7	0.5	0.0	0.2	36.5	35.4	31.0	29.2	28.1
Kosovo	-7.0	-8.7	-9.4	-7.9	-7.6	-7.1	-0.9	-1.6	-2.0	-1.8	22.4	21.9	21.2	22.4	23.4
Montenegro	-26.1	-9.2	-11.6	-11.2	-10.6	-10.2	-2.0	-5.3	-4.9	-4.4	103.5	83.3	77.5	75.3	74.6

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

A macroeconomic snapshot for the NLB Group's region

In **Slovenia**, the driver of growth was household consumption expenditure which started to lose steam as inflation persisted and sentiment deteriorated. Growth rates outperformed those of the euro area, and confirmed the presence of accumulated savings and consumers' spending inclination. After lagging behind imports in H1 2022, exports improved in Q3 2022, and in last months of the year decreased the deficit accumulated throughout the year. Prices remained elevated throughout 2022, easing off only marginally in the final two months. Household final consumption expenditures increased significantly due to the persistent growth of gross disposable income in nominal terms and the higher essential costs of living. For the first time in more than a decade, households in Slovenia in the Q3 2022, generated a deficit, mainly due to the significant decrease in gross savings and an increase in gross investments. The turning point in consumer survey was in April 2022 when indicators about major purchases, savings, and the financial situation in households began declining and stayed below average for the rest of the year.

In **BiH**, the economy performed well in 2022. Domestic demand was the key growth factor. Investment activity was robust due to infrastructure works, while private consumption rose, driven by the double-digit rise in nominal wages and higher remittances. Real export growth outpaced that of imports, but the net external contribution was still negative at the half-year mark. Despite the robust nominal growth in exports, the overall external balance deteriorated, due to a similar surge on the import side. Remittances inflow remained solid. On the financing side, net FDI slowed down. In the second half of 2022, activity started to wane. As real wages remained subdued by inflation, retail activity started decelerating. Headline inflation surged this year as food prices continue to soar, contributing roughly 50% of headline inflation at the close of the year, given its relatively high share in the consumer basket. BiH subsidized household electricity prices, so the cost was much lower than on the international markets.

In **North Macedonia,** moderate growth from 2021 continued with a soft pace into 2022 and was mainly driven by services. Investments rose significantly, reflecting stocking in inventories. Household demand grew at a stable pace, causing the demand to be served by surging imports, leading net exports into negative territory. The inflationary environment and underlying energy crisis continue to put the economy under pressure. Economic activity is correlated to the euro area, which is a key source of demand for the country's goods and a source of investment and remittances. The inflation rate reflected the consecutive hikes in the regulated energy tariffs, full passthrough of fuel prices, no VAT rate reductions on food and fuel prices, and a large amount of food in the consumption basket. The energy crisis and deteriorating external demand are creating a balance of payment pressures. The temporary tax cuts on food and fuel products that were implemented following Russia's invasion of Ukraine were not extended in May 2022. A new organic budget law was adopted in September 2022.

3.8%

economic growth in the Group's region in 2022

In **Montenegro**, the economy exhibited strong growth in the first half of 2022, courtesy of robust private consumption, inventory build-up, and solid export performance. Tourism, as the most important sector, exceeded expectations. Tourist arrivals in November YtD almost reached the 2019 level, missing the mark by roughly 10%, with the months of July and August exceeding it. A reform of the tax code had a noticeable effect on real wage growth and further lowered unemployment. By May, exports recorded strong growth of both - goods and services. At the same time, strong domestic demand pushed imports higher. Secondary accounts rose due to remittances, and FDIs exhibited solid growth in 2022. Inflationary pressures continue to weigh on the economy, with the most important driver being food and non-alcoholic beverages. High energy prices presented a unique opportunity, as the strong electricity generating capacity enabled energy exports to more than double in 2022, compared YoY.

In **Serbia,** the net external demand contributed strongly to growth. The drought during the summer months caused agriculture to underperform, as it hurt hydro electricity generation which Serbia usually exports. The coverage of imports by exports decreased significantly, reflecting the much higher yearly growth rates of imports compared to exports. The current account deficit increased sharply in 2022, mainly due to higher costs of energy imports. The realised net foreign direct investments were lower than in 2021. Inflation never eased off during the year, with food being the most important driver. Core inflation rose further, hurting the disposable income and dampening private consumption. The increase of gross and net salaries and wages translated to growth in real terms. The total public debt increased, as did total public revenues in real terms due to growth in most revenue categories - particularly in corporate income taxes, VAT, and custom duties, while excises revenues decreased.

In **Kosovo**, services spurred by the diaspora's demand, credit growth, and public transfers were the main drivers of growth. Trade deficit widened and final consumption expenditure was strong. The growth rate soon halved, driven by a notable contraction in construction and capital formation. Inflation started picking up in March 2022, peaked in July, and remained elevated thereafter, but lower than most other countries of the region. Food become an increasingly important driver. The second part of the year saw further moderation in most activities. The total amount of General Government revenues picked up in the second part of the year (VAT, income tax).

The macroeconomic outlook for NLB Group's region

In **Slovenia**, on the fiscal side, the 2023 budget deficit target is suggesting a more accommodative stance, with the expected widening of the gap reflecting the government's efforts to tackle the energy crisis. The government is planning measures worth nearly EUR 5 billion to fight the energy crisis in 2023. The slowdown is to be induced by weaker external demand, still elevated inflation, and greater uncertainty, which are expected to weigh on private consumption and investment growth. The labour market will be slightly less tight, muting the pressures of wage demands. Inflation should ease off due to a tighter monetary policy.

In **BiH**, electricity price pressures are likely to be contained, as BiH has one of the largest electricity generations in the region and limited gas usage. Investments in energy and infrastructure will continue to add to overall growth, although to a lesser extent than in the last two years. Indirect effects stemming from destabilizing global commodity and financial markets negatively impact external account and domestic growth prospects. Inflation will ease in 2023, albeit remaining high in historical terms. The unemployment rate is expected to decline slightly in 2023 with stabilization of the international situation.

In **Kosovo**, the gradual projected decline in commodity prices should bring relief, with expansionary fiscal policy contributing to activity. A slowdown in investments and private consumption is to be expected. Remittances should slow down as well as the current account. In addition, FDI and external lending will be key sources of financing for the current account.

In **North Macedonia**, however, growth should be supported by planned investments in infrastructure and capacity expansion of the export sector. External demand will weaken, wage pressures will become more pronounced, and a further tightening of financial market conditions pose downside risks. Inflation should ease in 2023 as import prices will fall. The labour market should get slightly tighter. The opening of EU accession talks could boost capital inflows and momentum for reforms. Tighter financial conditions, and the withdrawal of wage subsidies is expected to weigh on consumer spending and business investments.

In **Montenegro**, growth should be subdued in 2023, but amongst the highest in the region. Private consumption will slow down. The current account deficit should remain amongst the highest in the region. Higher energy prices support its reduction as the growing capacities are used for energy exports. Together with exports, tourism, and transport services should aid in reducing the current account deficit. Further development of electricity-generating capabilities, together with tourism revenue, has the potential to improve country's external equation.

In **Serbia**, the economy is set to soften in 2023. Private spending growth will decelerate due to high inflation eroding real incomes, while a slowing global economy will see export growth cool. Regional instability and elevated inflation amid commodity price swings and gas supply disruptions represent downside risks. The current account deficit is set to increase. The inflation growth rate is expected to stay elevated in 2023, as we see it as the highest and most persistent in the region. The contribution of net exports to growth is expected to improve due to decelerating imports and an increased export capacity supported by the FDIs. Serbia remains an attractive destination for "nearshoring."

The Group's region is expected to grow at a rate of 1.3% in 2023. Regional growth will cool significantly this year. A weaker Euro Area economy, elevated inflation, declining real wages, geopolitical volatility, and the war in Ukraine will restrain household spending, industrial production, and exports. In addition, tighter financing conditions should further subdue activity in most countries of the region. Performance will depend upon the euro area, with remittances and exports waiting upon the outlook to improve. Since tourism rebounded in 2022, 2023 could be beneficial for tourism-dependent countries. Current accounts are mostly set to deteriorate in 2023. Growth should start picking up towards the end of the year. A reduction in inflation should happen in the second half of the year, providing some relief to real income and household consumption. The effect of the electricity prices pass-through waned in the second part of the year, after core inflation pressures were still rising in the beginning of the year. China's reopening unsettled the

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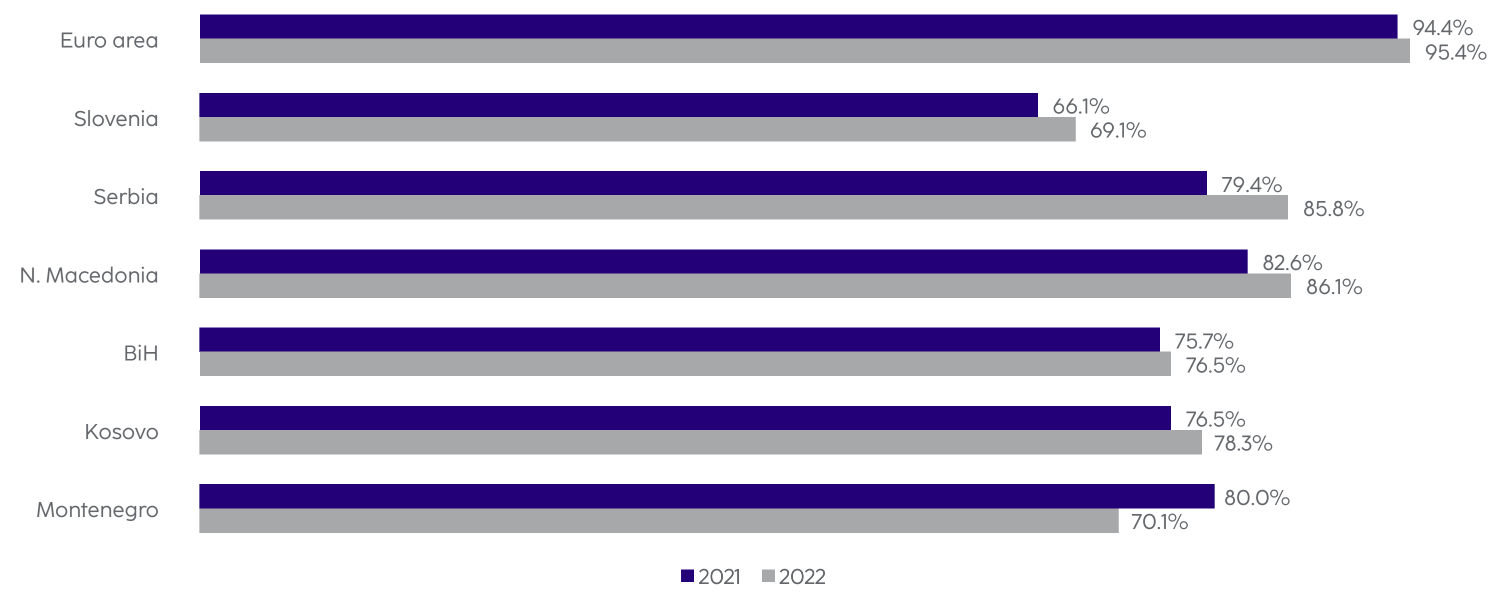
Table 7: Movement of key banking systems indicators in the NLB Group region, 2022

	Corporate loans		Household loans		Corporate deposits		Household deposits		Net interest margin		NPL		CAR	
	in EUR millions	Δ % YoY	in EUR millions	Δ % YoY	in EUR millions	Δ % YoY	in EUR millions	Δ % YoY	2021, in %	2022, in %	in %	Δ pp YoY	in %	Δ pp YoY
Slovenia	10,487	▲ 12.8	12,138	▲ 7.8	9,710	▲ 7.9	25,784	▲ 7.6	1.4	1.6	1.1	▼ -0.1	17.0(i)	▼ -1.5
Serbia	13,641	▲ 5.8	11,904	▲ 6.2	13,233	▲ 12.7	17,864	▲ 2.9	2.7	2.9(ii)	3.2(i)	▼ -0.4	19.5(i)	▼ -1.3
N. Macedonia	3,349	▲ 11.5	3,495	▲ 7.3	2,319	▲ 3.7	5,253	▲ 5.8	3.0	3.0(i)	2.9	▼ -0.3	17.7	▲ 0.4
BiH	4,681	▲ 4.3	5,613	▲ 5.2	3,142	▲ 11.0	7,452	▼ -0.8	2.3	1.7(i)	4.9	▼ -0.6	19.2	0.0
Kosovo	2,689	▲ 15.2	1,632	▲ 16.7	1,175	▲ 19.0	3,647	▲ 8.3	4.5	3.9	2.0	▼ -0.3	14.8	▼ -0.5
Montenegro	1,413	▲ 10.7	1,588	▲ 9.1	2,321	▲ 43.7	2,458	▲ 12.6	4.0	4.0(i)	5.9(i)	▲ 0.3	18.4(i)	▼ -0.1

Source: Statistical offices, CBs, NLB.
Note: Net interest margin calculated on interest-bearing assets; Residential deposits and loans for Montenegro; (i) Data for Q3 2022; (ii) Data for 30 November 2022.

commodity markets, caused prices to rise again, and didn't bode well for industrial production. Growing wages will induce additional price pressures. Labour markets should continue with rising employment rates and the unemployment rate should reduce for the most part. Loan appetite in the region should cool amid tightened monetary policies and rising food prices, slowing down demand. Geopolitical tension remains a strong possible constraint on growth and on a predictable business environment.

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



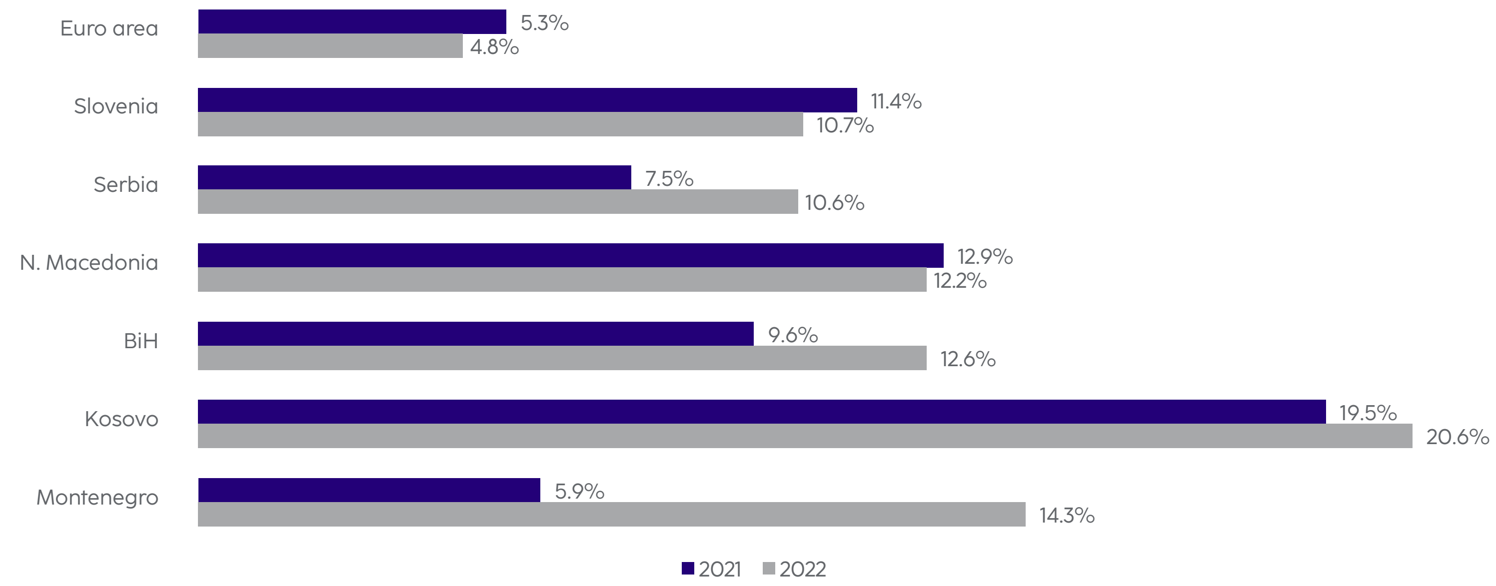
Source: ECB, National CBs, NLB.
Note: LTD for Slovenia and BiH is from Q3 2022, and for Serbia for 30 November 2022.

The banking system in the Group's region

Since the population of the region amassed notable savings since the COVID pandemic, consumption was amongst the most notable drivers of growth. As a result, the loan appetite of corporates and households alike remained very robust throughout the region, slowing down slightly towards the year end. Corporate loans were particularly in high demand and grew notably due to a turbulent year, with supply bottlenecks, high producer prices, higher commodity prices, and stock refilling. Kosovo, Slovenia, Montenegro, and N. Macedonia saw corporate credit grow in double digits, with Serbia and BiH ending the year in mid-single digits. The household loans' segment grew at a little softer pace in comparison, but was still fuelled by private consumption and exhibited higher growth rates than expected. The dynamics were very similar to the corporates. Likewise, Slovenia, Kosovo, Montenegro, and N. Macedonia saw the strongest growth, with Serbia growing at a slightly slower pace. BiH followed with a similar growth rate as in the corporate sector. The NPLs fell in all countries of the Group's region, except for Montenegro.

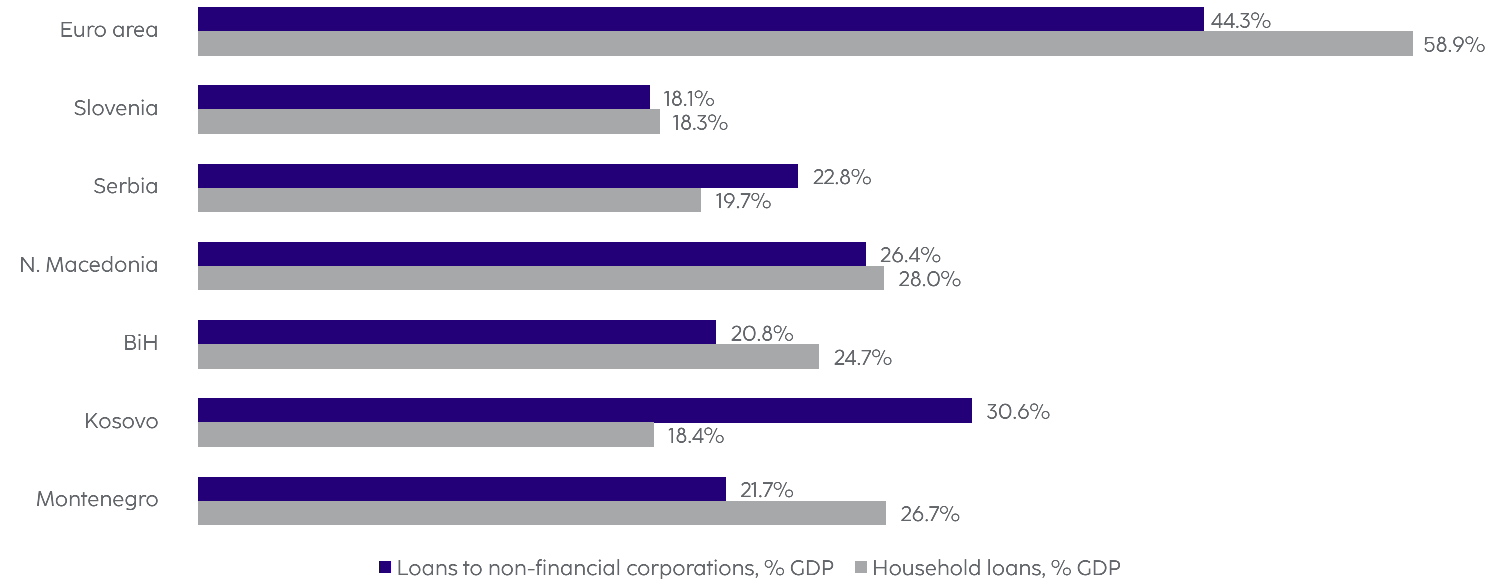
The corporate deposit growth was in double digits in Kosovo, BiH, Serbia, and particularly in Montenegro, which saw notable growth. In N. Macedonia, the rate was subdued, while in Slovenia the growth was nearing the 8% mark. The growth of household deposits was much less pronounced as savings were being used to sustain consumption. Considering the macro circumstances Slovenia, Kosovo, N. Macedonia, and Serbia saw solid growth, with Montenegro as an outlier, exceeding the other rates by a big margin. BiH was the only country to register a contraction.

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 2022 data for BiH and the Euro area. November 2022 data for Serbia.

Figure 4: Loans to non-financial corporations and household loans (% GDP) in the Euro area and NLB Group region in 2022



Source: National CBs, National Statistical Offices.
Note: Q3 2022 annualised data for BiH and Kosovo. Residential loans for Montenegro.

The net interest margin was not moving uniformly in the Group region. It grew in Serbia and Slovenia, reflecting the interest rate hikes by respective central banks, the growth of lending, and price effects. It fell in BiH and in Kosovo, reflecting a competitive environment. In Montenegro and N. Macedonia, the margin saw no change YoY.

The capital adequacy ratio mostly saw slight negative change in Slovenia, Serbia, Montenegro, and in Kosovo. In N. Macedonia, the ratio improved. Despite a turbulent year, the banks in the Group remain solid and well-capitalized.

The LTD ratio increased in all countries, except in Montenegro where the growth of deposits was the highest. For the rest of the countries, the ratio movement reflects the growth of loans outpacing the growth of deposits. The profitability of the banking systems of the NLB group improved in all countries except in Slovenia and N. Macedonia, where slight decreases were noted.

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 further potential for expansion, as compared to the same categories in the Euro area. This is so especially in the household loans sector where the growth in the euro area has been much more pronounced, as the households seemed more at ease with taking on additional debt. However, seeing that private consumption is expected to slow down in 2023, this does not bode well for new household credit origination. Private consumption is the most important driver of GDP growth and is expected to range between 0.7% in Slovenia and 2.5% in Serbia. Fixed investment is expected to range from a contraction of -0.7% in BiH, and a growth of 4.3% in N. Macedonia. Banking sector loan growth is expected to slow down in 2023, however, in most of NLB Group home markets loan growth rates will likely stay positive in low to mid single-digit range for both, corporate and retail sectors.

The Regulatory Environment

During 2022, 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 in legislation and regulation which influence 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 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). In October 2021, the European Commission adopted a further package of a review of the CRR and CRD. One core aspect of that package (Regulation (EU) 2022/2036 which introduces targeted adjustments to improve the resolvability of banks) has already been finalised and published in the Official Journal in December 2022.

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 to the Bank. The Bank strictly adheres to its obligations imposed on it by GDPR in both Slovenia and the Group. The new Slovenian Personal Data Protection Act (ZVOP-2) was adopted in December 2022, and is in the process of implementation in the Bank's operations.

In the field of financial markets, there were no significant changes in the regulatory environment in 2022. 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 considers and complies with the regulations in the field of preventing money laundering and terrorist financing (AML/CTF). In April 2022, the new Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-2) entered into force and replaced the law in force at the time. The new Act has implemented the provisions of Directive (EU) 2019/1153, of Directive (EU) 2019/2177, and of Regulation (EU) 2018/1672 into Slovenia's legislation. In addition, an Amendment and supplements to the Act on Prevention of Money Laundering and Terrorist Financing (ZPPDFT-2A) was published in the Slovenian *Official Gazette* in November 2022. Due to the aforementioned regulatory changes, several activities were carried out by the Group to ensure compliance with new AML/CFT requirements. Concerning the changed geopolitical environment related to the Russian aggression in Ukraine, the Group regularly monitors and manages all newly introduced financial sanctions stemming from all relevant regimes.

In the field of payment and settlement systems, there were no significant changes in the regulatory environment in 2022. The Bank meets its obligations under PSD2, the respective regulatory technical standards and Payment Services, Services for Issuing Electronic Money and Payment Systems Act (ZPlaSSIED). New regulatory requirements imposed by the regulator are constantly monitored and managed, also taking into account what constitutes the best user experience.

In light of the EBA Guidelines on outsourcing arrangements, the Group has undertaken a continuous effort to adhere to regulatory requirements. This has entailed the revision of internal policies and the modification of contracts with external (service) providers.

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 formed a comprehensive sustainability governance structure and adopted the NLB Group Sustainability framework. In 2022, substantial effort was made in implementing EU Taxonomy regulation in the Group financing process. The Group has also performed stress-testing using the ECB's adverse and severe scenarios.

In the field of consumer protection, the new Consumer Protection Act (ZVPot-1) was adopted by Slovenia's National Assembly in October 2022.

In December 2022, the Digital Operational Resilience Act (DORA) Regulation was published in the EU's Official Journal alongside the revised directive on the security of network and information systems (NIS2). The new framework introduces a comprehensive set of rules concerning the information and communications technologies (ICT), risk management of financial sector firms to strengthen their digital operational resilience, and prevents and mitigates cyber threats.

The regulatory environment in the Group's region

The regulatory environment in the rest of the region where the Group operates was dominated by actions to ensure the stable functioning of financial systems.

In **Serbia** throughout 2022, there were numerous regulatory changes adopted by the National Bank of Serbia with the intention to minimise the consequences of the COVID-19 pandemic on the economy and the financial sector (e.g., the agreement concluded between the National Bank of Serbia and the banks in 2020, which, among other things, contains restrictions on the payment of dividends), as well as to determine and define the support of the citizens (e.g., to facilitate Access to Financing for Natural Persons, Adequate Management of Credit Risk in Agricultural Loans Portfolio in Conditions of Aggravated Agricultural Production). To protect citizen standards regarding payment services needed for everyday activities, the National Bank of Serbia adopted the Decision on the Payment Account with Basic Features. The National Bank of Serbia has also adopted the Decision Amending the Decision on Risk Management by Banks to provide an additional bank supervisory mechanism and ensure transparent and clear conduct of banks in the case of intended increases in fees for the provision of payment services and in the case of an introduction of new fees.

In **North Macedonia**, the past year was marked by a significant change in the regulation that includes the adoption of two systemically important laws. The Law on Payment Services and Payment Systems, harmonised with European legislation in the relevant area – which includes liberalisation of the payment services market through entry of non-banking institutions such as payment institutions and electronic money institutions. Furthermore, it ensures transparency and comparability of fees for payment services, and enables the opening of an account with basic functions. Also, it limits the maximum charge for natural person accounts and the introduction of an obligatory number of transactions free-of-charge for vulnerable social categories. The Law on the Prevention of Money Laundering and Financing of Terrorism, harmonised with European legislation in the field of fighting organised crime. This law strengthens the analysis measures that banks should apply when there is a high risk, when cross-border correspondence is established, when the person is not physically present for the purposes of identification, when the client is a politically exposed person, in a business relationship, or in a transaction that is involved in a high-risk state.

In the **Federation of BiH,** the most important decision of the regulator in 2022 was the new decision for managing outsourcing arrangements in the bank, which includes: activities and conditions for outsourcing, applications within the banking group, materially significant activities, risk assessment, duties and responsibilities of the bank's Management and Supervisory Board, conflict of interests, the outsourcing register, contracting, supervision, and the powers and procedures of the regulator. The new decision represents an alignment of local regulations with EBA outsourcing standards.

In the **Republic of Srpska**, the most significant activity relates to the adoption of the Law on Amendments to the Law on National Payment Transactions in April 2022 by the Ministry of Finance of the Republic of Srpska, with the aim of greater transparency of payment services, greater financial inclusion of individuals through the use of a basic payment account, introduction of safe deposit boxes for individuals and business entities, and the Law on Inter-banking Fees for Payment Card Transactions. In addition, other significant regulatory changes refer to the adoption of several bylaws related to the number of eligible deposits, temporary measures to mitigate the risk of interest rate growth, outsourcing of arrangements, and a new accounting framework for banks and other financial organisations.

In **Kosovo,** three regulations were adopted by the Central Bank of Kosovo. The regulation on the liquidity coverage ratio, the regulation on the net stable funding ratio, and the regulation on access to payment accounts with basic services. The Law on Implementation of Targeted International Financial Sanctions was adopted concerning the prevention and combating against terrorism, terrorist financing, and the proliferation of weapons of mass destruction, etc., in accordance with the Resolutions of the UN Security Council, and the European Union Acts. As foreseen by the Law on Electronic identification and Trust Services in Electronic Transactions, 10 bylaws were adopted by the end of December 2022.

In **Montenegro**, the main activities in 2022 were dedicated to the implementation of the new law on comparability of fees associated with consumer payment accounts, the transfer of consumer payment accounts, and payment accounts with basic services. The amendments to the Law on Payment Transactions were published in October 2022. Pursuant to the amendments to the Law on Tax Administration, banks are obliged to implement the new instruction on a way of reporting data to the administrative body responsible for taxation. This instruction includes reporting under the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS). The Bank continued to regularly apply the decisions on the introduction of international restrictive measures in relation to activities that undermine or threaten the territorial integrity, sovereignty, and independence of Ukraine.

BUSINESS REPORT

The record results in 2022 are just the tip of **NLB Banka, Banja Luka** successful operations over the past few years. We reached many important milestones and improved our market share. For the fifth year in a row, we received the Golden BAM award as the bank with the highest ROA and ROE in BiH.

We intertwined the commitment to a better quality of life and ESG principles in all segments of our operations. Environmental and social actions supported responsible activities and initiatives through sponsorships and donations, supporting ecology, digitalization , energy efficiency, inclusion, and equality. Our focus on youth segment and digital channels **created better footprints** for today and made data-based decisions for the future.

Our business results are a solid basis for successful transformation to a modern digital bank that is ready for whatever may come, preserving the potential of our home region, and utilizing opportunities of sustainability.

Pictured: NLB Banka, Banja Luka employees

Strategy

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

Be a regional champion

The Group aims to further strengthen its role as a systemically important financial institution in the SEE region. To achieve this, it strives to become a market leader in all its markets and to have a prominent role in the region's development. The Group believes there is significant value to be unlocked by facilitating further development of the region and increasing its standard of living. This will be further accelerated by promoting advanced environmental, sustainability, and corporate governance agendas. The Group is accelerating its efforts to adhere to all modern standards, as well as catalyse their adoption throughout its client base and markets. It has created novel green financial products for financing clients' green transformation, as well as invested significant efforts and resources to reduce the carbon footprint of the Group's own business operations. For information on environmental risks that may affect the Group's business results, please refer to the chapter Risk Factors below.

As one of the most important players in the region's financial system, the Group is carrying its share of responsibility for building a stable banking system. The 2022 acquisition of N Banka in the wake of Russia's attack on Ukraine is an example of the Group's resolve to commit capital in turbulent times for the benefit of all stakeholders. By stopping the run on the bank in fast cooperation with the regulator, the Group has safeguarded unsecured deposits of retail and even more so of corporate customers. This endeavour brought not only stability to the Slovenian banking sector, but also enabled the Group to remain a leading player.

Put clients first

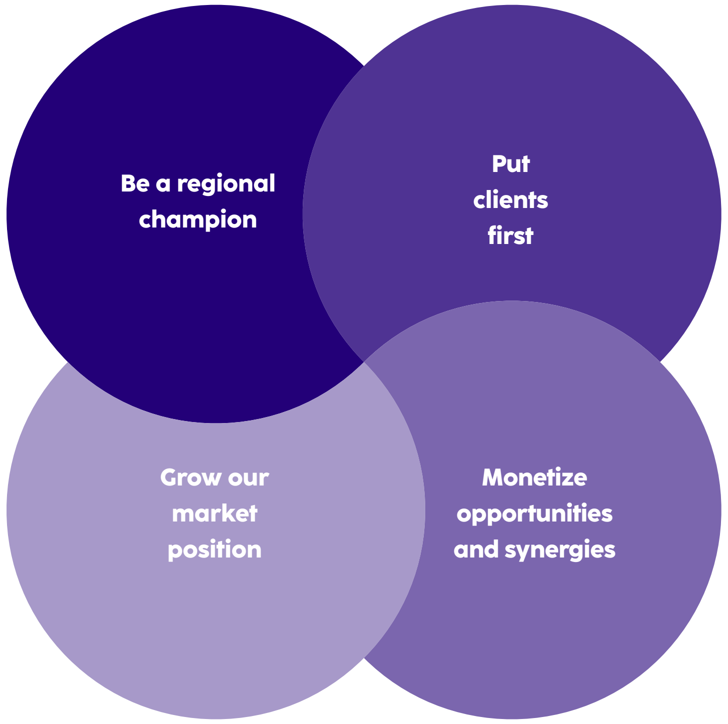
The Group is driving its customer-centricity agenda by starting with the client's financial needs and looking for ways to improve and streamline its products and services to fulfil them to the utmost extent. One way the Group does this is by digitizing its distribution channels, allowing clients to access its products and services from anywhere at any time. This makes it easier for clients to manage their finances and take care of their banking needs at their own convenience without having to visit a physical branch.

The Group is committed to adding new financial solutions to meet unmet and new needs of its clients. By staying on top of the latest trends, needs, and technologies, it will stay competitive and provide the best possible banking experience.

Accelerating the development of the SEE region

Promoting the ESG agenda

Supporting stability of the banking sector



Digitalizing distribution channels

Adding new financial solutions as per clients' needs

Offering strong customer support

Growing client market share

Creating value for shareholders

Offering a great place to work

Finding inorganic expansion opportunlties

Establishing horizontally diversified businesses

Finishing integration of N Banka

Continuing strategic transformation

Ensuring strong customer support remains one of the Group's key focuses. It requires that its customer service team is knowledgeable, friendly, and always ready to assist clients with their questions or concerns, wherever they may be.

Digitalization

The Group continues to implement substantial efforts and resources toward digital distribution channels and operating models. The customers' preference for an increased share of digital business interactions has remained even after normalization since the COVID-19 pandemic. Effective and safe digital distribution channels require novel operating models and automated processes to minimise response times 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 digital capabilities and roles. The focus will be on improving the speed of IT delivery by adopting agile methodology principles, provision, and implementation of the best online experience for customers in the SEE, and enhancing capabilities for processing data, modelling, and relevance of services to clients. One such example is the establishment of technological hub NLB DigIT in Beograd that develops solutions for the whole Group. For more information on NLB DigIT please refer to the chapter Strategic Foreign Markets.

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 and carbon footprint 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. 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 its shareholders, the Group views its decisions through a lens of maximising its return on equity. With respect to its customers, market shares and Net Promoter Scores (NPS) are tracked. With respect to its employees, an employee engagement metric is measured and analysed. In addition, other supporting indicators and benchmarks are tracked to continually revaluate current projects and utilise those insights for future decisions.

The Group regularly engages with 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 Corporate Social Responsibility (CSR) and Sustainability e-mail box, the corporate website, and social media channels.

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

Monetize opportunities and synergies

The Group is 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 ongoing growth and consolidation of the banking markets. The Group is fully engaged in re-establishing some key financial services (leasing, factoring, etc.) across all its markets, thus also diversifying its services on a horizontal level.

The Group is moving closer to the fintech ecosystem to find new and better ways of solving customers' financial needs. To achieve this, it has established a corporate venture team eNLaB, for building business cooperation with ambitious fintech players, to accelerate the Group's efforts in bringing novel use cases and business solutions to the market. It is looking into opportunities in the areas of credit underwriting, payments and digital banking services, financial enterprise technology, regulatory technology, web 3.0 and blockchain technology, and personal finance and asset management.

Significant strategic business efforts have been undertaken to achieve business synergies across the Group, both in costs and operational efficiency. The Group believes these can help offset the negative economic effects the rising inflation will have on the Group's clients. In Slovenia, further synergies are expected after full integration of N Banka in 2023.

The increased importance of leasing – A new business opportunity

In the Group Strategy, leasing activities represent a significant part of the Group's business mix. Leasing operations in Slovenia (NLB Lease&Go, Ljubljana) are gaining momentum with increased total assets, while new leasing operations have been added in North Macedonia and Serbia.

Management and governance structures are being set up in new leasing Group members, with full implementation of the Group's corporate governance principles, including two members of NLB Management Board being Chair and Co-chair of NLB Lease&Go, Ljubljana Supervisory Board.

The Group expects leasing will once again become a significant part of its business operations. It is planned that in its mature phase, leasing will contribute more than EUR 1 billion to the total assets of the Group, through organic and potentially inorganic growth. For more information on leasing operations expansion in SEE please refer to the chapter Strategic Foreign Markets.

Continuing transformation

To facilitate the continuous transformation in an everchanging environment, the Group is following comprehensive plan to deliver its mission and financial targets. The Group has identified a series of projects and initiatives, and has dedicated considerable resources for their implementation. All major running change efforts are channelled into one overall strategic transformation programme.

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 programme 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 has been set up.

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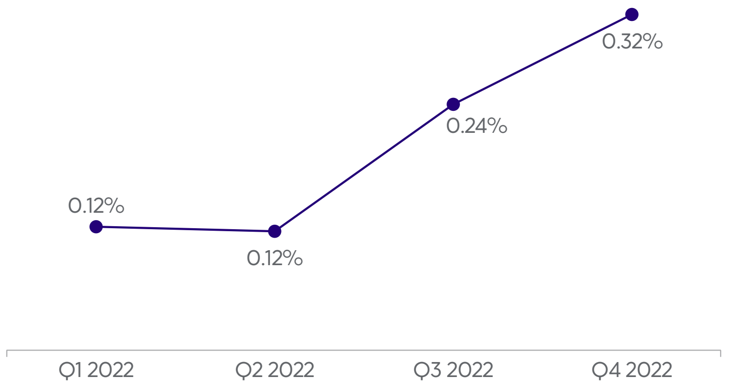
Funding Strategy and MREL Compliance

A good client relationship is the main foundation for a stable and growing deposit base, while wholesale funding is primarily driven by fulfilment of minimum requirement of own funds and eligible liabilities (MREL) and further strengthening and optimizing the capital. The latter drives the average cost of funding higher, however, the total cost of funding remains low for now due to a comfortable high and stable deposit base and the inelasticity of the sight deposit pricing.

Figure 5: Average cost of funding (quarterly data)



Deposit strategy

Deposits from customers represent the main funding source for the Group, and each bank within the Group has established processes that enable prudent strategic deposits management that is aligned with business targets and regulatory requirements. Regular monitoring of deposits and its structure enables timely reactions whenever necessary due to business or regulatory-related reasons. Events that caused significant economic and even political disturbances in 2022 proved that the deposit base of the Group is robust and liquidity position strong – the LTD ratio evolution in recent years that include the COVID pandemic, as well as turbulent 2022 regime was still confined to a healthy liquidity zone below 70%.

A leading Group market position and a responsive relationship with clients are important factors for a stable deposit base, and besides that, proper deposit pricing plays a pivotal role in risk management and business decision-making. Established funds pricing, aligned with international liquidity pricing standards, is regularly part of the Group business process. Year 2022 underlined the importance of proper liquidity pricing for business stability in the uncertain environment.

Group retail deposits represent a majority in the structure and are the most stable funding source with around 80% being insured by the Deposit Guarantee Scheme. Despite turbulent business environment, Group retail deposits recorded an increase in 2022. Sight deposits represent around 90% of retail deposits and witnessed stable growth in recent years. This supports the stable business of the Group in the region, even during the volatile times on the wholesale funding markets. Corporate sector deposits, albeit representing a smaller share in the deposit structure of the Group, are an important source of liquidity, as well. Corporations are offered various deposit products to manage their liquidity position in a flexible way, supporting young and small businesses, as well as already established large firms in all sectors of the regional economy.

As the funding structure of the Group relies mostly on non-banking sector deposits, the Group's average funding costs was still relatively low.

Wholesale funding and MREL

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 MREL requirement for the Group is based on the Multiple Point of Entry (MPE) approach.

As at 1 January 2022, NLB must comply with MREL requirement on a consolidated basis at resolution group level (i.e., NLB Resolution Group), which amounts to:

- 28.69% of Total Risk Exposure Amount (TREA) (consisting of (i) 25.19% of TREA and (ii) 3.5% of Combined Buffer Requirement (CBR)),
- 8.03% of Leverage Ratio Exposure (LRE).

NLB has to ensure a linear build-up of own funds and eligible liabilities towards the MREL requirement applicable as at 1 January 2024, which amounts to:

- 31.38% of TREA + applicable CBR,
- 9.97% of LRE.

The NLB Resolution Group consists of NLB as the resolution entity and other non-banking members. The entities and their contribution to the NLB Resolution Group are presented in the Table 8.

Table 8: Composition of NLB Resolution Group by TREA

	in EUR millions
Entity	**31 Dec 2022**
NLB	6,679
NLB Lease&Go, Ljubljana	146
NLB Skladi, Ljubljana	53
NLB Interfinanz - in liquidation	15
TARA HOTEL, Budva	14
REAM d.o.o., Beograd	13
Other	49
TREA total	**6,968**

On 31 December 2022, the MREL ratio amounted to 36.32% and was well above the required level.

The composition of the own funds and eligible liabilities items by which the Bank met the MREL requirement was as presented in the table below.

Table 9: Composition of the own funds and eligible liabilities of NLB Resolution Group

	in EUR millions
Own funds and eligible liabilities items	**31 Dec 2022**
CET1	1,451
Additional Tier 1 instruments	82
Tier 2 instruments	508
Unsecured and unsubordinated claims arising from debt instruments	490
Total	**2,531**

To support the Group's growth capacity and comply with MREL, the Bank was very active on the debt capital markets in 2022 with the issuance of EUR 300 million Senior Preferred notes in July 2022, EUR 82 million Additional Tier 1 notes in September 2022, and EUR 225 million Tier 2 notes in November 2022. In addition, the Bank attracted EUR 114 million in eligible deposits and concluded loans in the amount of EUR 30 million. All mentioned instruments are MREL-eligible, while subordinated instruments also strengthened the capital position and the Bank's rating.

The Bank expects to be active on debt capital markets in 2023 by issuing approximately EUR 300 million of new senior notes that count for MREL. This will lead to the Bank comfortably meeting the binding MREL requirement, applicable as at 1 January 2024.

Risk Factors and Outlook

Risk factors

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

- The economy's sensitivity to a potential slowdown in the euro area or globally
- Widening credit spreads
- Potential liquidity outflows
- Worsened interest rate outlook / Persistence of high inflation
- Energy and commodity price volatility
- Increasing Unemployment
- Potential cyber-attacks
- Regulatory, other legislative, and tax measures impacting the banks
- Geopolitical uncertainties

In 2022, the Group's region continued to grow on the back of the revival in private and investment consumption after being affected by the pandemic in the past period. Higher prices of energy, commodities, raw materials, and food as a result of the war in Ukraine, have and will further impact the economic momentum. As a result, a gradual slowdown in economic growth can be expected. The Group's region is still expected to grow moderately, 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 the positive economic momentum will further continue.

Lending growth in the corporate and retail segments is expected to remain relatively moderate, especially in the current circumstances. With regards to credit portfolio quality, the Group carefully monitors the most affected client segments with the intention to detect any significant increase in credit risk at a very early stage. The Group's direct and indirect exposures towards Russia and Ukraine in 2022 was rather limited, additionally in February 2023 all remaining outstanding Russian government bonds were sold.

Credit risk usually considerably increases in times of economic slowdown. In light of increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impact on the credit portfolio. The Group closely monitors the circumstances in the most affected credit portfolio segments and makes the necessary adjustments. 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 also have some impact on other segments of the credit portfolio. These adverse developments could affect the evolution of the cost of risk and NPLs. Notwithstanding the established procedures in the Group's credit risk management, there can be no certainty that they will be sufficient to ensure 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, rising of interest rates and foreign exchange rates fluctuations. 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, by incorporating adequate early warning systems. Since the beginning of the crisis, the Group has been observing credit spreads widening, which impacted FVOCI positions.

No material movements were observed so far regarding the Group's major FX positions. Current developments, market observations, and potential mitigations are very closely monitored and discussed. While the Group monitors its liquidity, interest rate, credit spread, 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 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 the 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. The Group's financial condition could be adversely affected as a result of any instability or economic deterioration in this region.

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 2022, 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 an Expected Cred Losses (ECL) calculation. The baseline scenario presents a common forecast macroeconomic view for all countries of 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 most recent official and professional forecaster outputs, with additional specific adjustments for individual countries of the Group.

The macroeconomic rationale behind the alternative scenarios is related to a range of plausible drivers of economic development in the next three years. The narrative for the alternative scenarios combines statistical techniques with

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expert knowledge as a means of the concept and validation of outputs. The Group developed both alternative scenarios through the lens of possible expected impact on the regional economic activity. In general, the mild scenario is a demand-driven optimistic scenario, where limited supply disruption factors and an active role from the central banks help to brighten the economic conditions and economic subjects' confidence. This scenario narrates stronger economic growth, while the severe scenario envisions zero real economic growth for all Group home countries. Namely, the severe one is a supply-driven pessimistic scenario, where both upside inflation risk and downside growth risk materialize. The Bank includes these scenarios in calculating expected credit losses in the context of IFRS 9.

The Group formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of IFRS 9. These 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.

The monitoring process of the macroeconomic environment revealed that uncertainties remain high in the global economy due to the energy crisis, inflation, and the war in Ukraine. The current economic situation led to sluggish growth projections, persistent inflationary pressures, and interest rate hikes. Increased uncertainty and changes in expectations of macroeconomic development affected forecasts for some economies in the Group. Material decreases in growth projections for Slovenia and Serbia for 2023 was noticed. Hence, an executive decision was taken to adjust risk expectations using the scenario's weight. The scenario probability weighting was changed to 0%-10%-90% where severe and baseline scenarios reflect the likelihood of relevant future economic conditions for them. The likelihood of occurrence for the pessimistic scenario was derived to 90%, whereby the baseline scenario received a weight of 10%. Minor changes were also applied in other countries based on the latest available forecast.

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, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), and the 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 the 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. The interest rate outlook is uncertain given the adaptive monetary policy of the ECB and local central banks to the general economic sentiment. The Bank is committed to delivering sound financial performance.

Based on current and expected rates environment, growth outlook, strict costs control supported by IT/digital solutions and successful implementation of the Group's strategy and initiatives, the 2023 outlook and guidance for 2025 have been revised and further improved. During the inaugural Investor Day which took place in May 2022, the Group communicated several KPIs for the year 2025, i.e., regular profit will exceed EUR 300 million, a EUR 100 million contribution from the Serbian market, EUR 500 million total capital return through cash dividends between 2022 and 2025, tactical M&A capacity of EUR 1.5 billion RWA, and ROE will exceed 12%. The Group remains committed to deliver on these KPIs, moreover it is improving the outlook for regular profit (to be around EUR 400 million), tactical M&A capacity (to EUR 2 billion RWA), and ROE (to exceed 13%).

The measures and potentials outlined in the above strategy are reflected in the Group's outlook for the 2023-2025 period (Table 10).

Table 10: Market performance and outlook for the period 2023-2025

	Last Guidance for 2022	Actual 2022 Performance	Last Guidance for 2023	Revised Guidance for 2023	Last Outlook for 2025	Revised Outlook for 2025
Regular income	~ EUR 750 million	EUR 779 million	> EUR 850 million	~ EUR 900 million		> EUR 1 billion
Costs	~ EUR 460 million	EUR 460 million	~ EUR 490 million	~ EUR 490 million		Flat on 2023 level or below
Cost of risk	Below 30 bps	14 bps	30-50 bps	30-50 bps		30-50 bps
Loan growth	Low double-digit organic growth[ii]	14%[ii] (23% with N Banka)	Mid single-digit	Mid single-digit		High single-digit
Dividends	EUR 100 million	EUR 100 million	EUR 110 million	EUR 110 million	EUR 500 million (2022-2025)	EUR 500 million (2022-2025)
ROE a.t.	~ 10% w/o NGW, (ROE normalized[i]: 12% w/o NGW)	20%, 12% w/o NGW (ROE normalized[i]: 16% w/o NGW)	> 10%, (ROE normalized[i]: > 12%)	~11%, (ROE normalized[i]: ~14%)	> 12%	> 13%, (ROE normalized[i]: > 17%)
Regular profit					> EUR 300 million	~ EUR 400 million
Contribution from Serbian market					EUR 100 million	> EUR 100 million
M&A potential					Tactical M&A capacity of EUR 1.5 billion RWA	Tactical M&A capacity of EUR 2 billion RWA

(i) ROE normalized = Result a.t. divided by Average risk adjusted capital. Average risk adjusted capital calculated as Tier 1 requirement of average Risk Weighted Assets (RWA) reduced for minority shareholder capital contribution.
(ii) Without N Banka.

Outlook 2023

Macroeconomic

A warmer-than-expected winter, energy savings, and fiscal support measures helped to alleviate fears of imminent energy shortages in the euro area. Production levels should benefit from improving supply conditions, while energy and commodities markets are not expected to experience any additional supply shocks. The inflation rate growth should decrease, but remain elevated, due to the combined effects of higher interest rates, tighter financial conditions, and alleviated inflationary pressures stemming from commodities prices. Private consumption should remain subdued in 2023 due to declining purchasing power, as core inflation is to become the predominant inflation driver. Muted private consumption and uncertainty, stemming from continued although regionally contained political tensions, are expected to be the main drag on economic growth. The labour market tightness should slightly decrease due to the stagnating economy, which is expected to result in less pressure on wage growth and consequently fewer second round effects driving inflation. Overall, we see the euro area economy stagnating in 2023, while the Group's region economies are expected to grow 1.3% on average in 2023. However, the Group's region growth is set to cool notably this year with the weaker euro area economy, elevated inflation, declining real wages, geopolitical volatility, and the war in Ukraine restraining household spending, industrial production, and exports. On top of this, tighter financing conditions could further subdue activity in most countries of the region. More information is available in the chapter Macroeconomic Environment, and the subchapter Loans potential outlook for the Group's Region.

Revenues

Interest income growth is expected to be primarily driven by loan production, higher rates, and the productive use of liquid assets. Moderate growth of net fee and commission income is expected for 2023, mainly on the account of basic services such as payments and cards, but also bancassurance and asset management products. The continued increase of digital sales activities, cross-sell, and new client acquisition should further support the growth of net fee and commission income going forward. Based on these expectations, the outlook for regular income increased from the previously communicated of more than EUR 850 million to around EUR 900 million in 2023.

Costs

The Group continues to pursue a strong cost containment agenda addressing both employee and other cost elements. Total costs continue to be impacted by the business environment with a visible cost inflation throughout the region. Additionally, the Group continues with its investment activities into information technology upgrades amid the growing relevance of digital banking. Moreover, integration costs associated with N Banka will contribute to the total costs in 2023. All this will increase the costs, with the expectation for the cost base of around EUR 490 million in 2023.

Loan growth and portfolio quality

The Group expects mid-single digit organic loan growth in 2023. Slower loan growth is foreseen for 2023 after exceptionally high new corporate and retail loan origination across all markets in 2022 that is also influenced by expectations of higher interest rates.

In light of the war in Ukraine, increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made the necessary adjustments. The Group's direct and indirect exposures toward Russia and Ukraine are quite limited. The most affected industries are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage. Increased and prolonged inflationary pressures might cause some deterioration of the credit portfolio quality in the retail segment, though its impact should not be too excessive. As a result, the Group strengthened the early warning system for this segment.

The Group remains very prudent in identifying any increase in credit risk, as well as proactive in the area of NPL management. Consequently, a well-diversified and stable quality of credit portfolio is expected in 2023. Based on assessed environment, the expected cost of risk in 2023 will be between 30 to 50 bps.

Liquidity

From a liquidity perspective, deposits at the Group level grew in 2022, and it is expected they will continue to grow in the next period. The liquidity position of the Group is expected to remain very robust even if a highly unfavourable liquidity scenario materialises, as the Group holds sufficient liquidity reserves mostly in the form of high-quality liquid assets.

As major part of liquidity reserves, the Group closely monitors its major bond portfolio positions, mostly sovereigns. Since beginning of the crisis, the Group has been observing the rising yield environment and the widening of credit spreads, which materially impacted FVOCI positions in 2022. Consequently, the Group will continue to carefully manage the structure and concentration of liquidity reserves in order to limit the potential sensitivity of regulatory capital.

Capital and MREL

The capital position represents a strong basis to cover all regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance.

Wholesale funding in 2023 will be driven by the MREL requirement, for this purpose the Bank intends to issue new senior MREL eligible notes of approximately EUR 300 million. This will lead to the Bank comfortably meeting binding MREL requirement applicable as of 1 January 2024.

The Bank will become more frequent issuer on capital markets in the following years, mainly for the purpose of MREL compliance. The annual anticipated issuance / re-financing size will be in the area of EUR 300 million.

Dividends

The Bank's general intention is to distribute dividends on a yearly basis, while at the same time fulfilling all regulatory requirements, including the Pillar 2 Guidance and risk appetite. The Group aims to maintain stable dividend growth and at the same time have room to support organic growth and potential M&A opportunities.

In the period between 2022 and 2025, the Bank envisages a total capital return through cash dividends of EUR 500 million. Dividends in the amount of EUR 100 million were paid in 2022, while for the year 2023 the Bank anticipates a dividend payment in the amount of EUR 110 million.

M&A opportunities

The Group's drive to deliver value to the shareholders is subject to organic growth and the capacity to engage in further value accretive M&A opportunities. Such opportunities for inorganic growth will be subject to a diligent analysis of strategic, financial, and other resource utilisation.

Sustainability

In 2023, the Group will continue to implement its sustainability agenda in all three pillars of its Sustainability Framework. In the Sustainable Financing Pillar, the primary focus of the Group will be in the development and implementation of net-zero business strategy and financing, as well as measurement of portfolio emissions. The first targets related to reducing its footprint in carbon-intensive industries will be published by the end of 2023. In the Sustainable Operations Pillar, the Bank will continue to adhere to high standard of corporate governance, which are the foundation of sustainable operation, and will maintain long-term relationships with key stakeholders. The Group will also take measures to lower energy and resources consumption and to increase energy efficiency, disclose all relevant ESG data and further implement the EU Taxonomy. Focus will also be on analysis and implementation of the newly adopted Corporate Sustainability Reporting Directive, as well as the upcoming Corporate Sustainability Due Diligence Directive. In the third pillar, the Group will continue with its active CSR programme contributing to development of local communities and society in all regions where the Group operates. Our sponsorship, donations, and partnership projects will continue to be based on supporting and following the UN Sustainable Development Goals (UN SDG).

The Impact on Operations of the Russian invasion in Ukraine

In 2022, the world was once again confronted with additional new challenges, as the war in Ukraine had unprecedented effects around the globe. The impact of the Russian invasion in Ukraine is still present and will continue to affect the economies to various degrees.

The impact on the global economy and SEE region

The consequences of the war in Ukraine reached far beyond the Ukrainian-Russian border as the conflict had a lasting effect globally. Even prior to the beginning of the war in Ukraine, commodity prices had risen substantially, and global supply chains were strained. The start of the war exacerbated these trends. The global economy was impacted by the war through significant disruptions in trade, food, and fuel price shocks, decelerating global economic activity and intensifying inflationary pressures. The EU is among the most exposed economies due to geographical proximity to the war and heavy dependence on imports of fossil fuels from Russia. Reduced exports from Russia have affected fossil fuel trade and contributed to the steep increase in natural gas prices, as the EU needed to refill gas storages by diversifying energy suppliers. What is more, the wholesale price of electricity in the EU's internal market is directly linked to the price of gas resulting in skyrocketing gas and electricity prices. High energy prices affected the profitability of energy-intensive firms, while inflationary pressures resulted in a sharp erosion of households' purchasing power and deteriorated consumer sentiment. Real income losses, deteriorating economic sentiment, and heightened uncertainty resulted in worsened confidence also in the business sector amid high production costs, supply bottlenecks, and tighter financing conditions. In response to the cost-of-living crisis, European governments implemented a range of policy measures at national and supranational levels with policies tackling the impact of higher costs on consumers and businesses, and policies aiming at stabilisation and reduction of wholesale prices and ensuring energy security. Countries of the Group's region are in general largely dependent on energy and food commodities imports. As a consequence, globally rising prices resulted in a widening of the current account deficits and double-digit inflation. The latter weighed on households' purchasing power and consumption habits. To cope with the rising-cost-of-living crisis, governments implemented different measures that were to lessen the burden of the rising prices for households and businesses.

Impact on credit portfolio

In the light of the war in Ukraine, increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed the potential impact on the credit portfolio. Increasing prices of raw materials, commodities, and energy may represent an important factor for certain corporate clients. Additional effects can be related to a potential gas shortage for certain corporate clients with high dependency on the production cycle mainly from steel, aluminium, glass, mineral, stone, chemicals, and the paper industry. The Group is closely monitoring the circumstances in the most affected industries (energy, transport, automotive, construction, and food production) and is in close communication with key clients to identify any changes in business circumstances. The Group performed stress-testing by applying adverse and severe scenarios, and the potential estimated losses are perceived as sustainable. In contrast, the inflation pressure and prices of energy sources may limit the credit capabilities in the retail segment. To enable early identification of a significant increase in credit risk (SICR), the Group strengthened the early warning system for the retail segment in Q3 2022.

At the beginning of the war in Ukraine, the Group had limited exposure to Russian government bonds in the notional amount of USD 22.0 million. In May 2022, Russian government bonds in the notional amount of USD 14.0 million were fully repaid. Therefore, on 31 December 2022, the Group had very limited exposure to Russian government bonds with the notional amount of USD 8.0 million, maturing in September 2023. In February 2023, these bonds were sold. Further information is available in Note 5.4. of the financial part of this report.

The Bank's response to clients' needs

After the war started in Ukraine, the international market environment has become strongly unpredictable and a higher demand for and utilisations of working capital facilities was recognised. With the emerging of energy crisis, the Bank rapidly responded to its clients' needs and organised the arrangement of new syndication financing to the respective energy sector.

In March 2022, the Bank decided to help refugees coming from Ukraine. These customers received the management of the NLB Basic package account free-of-charge for three months after opening. For more information, see chapters Retail Banking in Slovenia and Corporate and Investment Banking in Slovenia.

Impact on payment transactions

The execution of payments to banks that were excluded from the SWIFT area were stopped and all other payments to other banks to Russia and Belarus were also stopped. This action made these payments only possible after preliminary consideration and obtained a positive opinion from the authorities (compliance). The exchange of Russian rubles was suspended.

N Banka – NLB's contribution to financial stability

NLB as a systemic institution responded responsibly and decisively to the sudden challenge to the financial stability of the Slovenian banking sector due to the Russian invasion. As a complement to NLB's Slovenian franchise, and as contribution to the financial stability of the Slovenian banking system, NLB acquired Slovenian Sberbank in March 2022. With the acquisition, NLB helped to provide certainty for Sberbank's customers and strengthen the stability of the Slovenian banking sector.

After the stabilisation period and rebranding to N Banka, the integration process started. The integration of N Banka is running on track, targeting completion of the legal and technical merger in September 2023.

Acquisition

27 Feb 2022
SRB determines Sberbank Europe failing or likely to fail

1 Mar 2022
BoS Decision to utilize a resolution tool

1 Mar 2022
Decision to transfer all shares to NLB taken

2 Mar 2022
All the necessary approvals obtained

On 1 March 2022, NLB acquired 100% shareholding in Sberbank, Ljubljana (subsequently renamed to N Banka) in the course of the regulatory resolution procedure led by the Single Resolution Board (SRB) and the BoS. By that NLB contributed on one side to the financial stability of the Slovenian banking sector, however, on the other side it also further improved NLB's market position in Slovenia.

Following the acquisition, NLB worked on the corporate image of the new member of the Group that from 12 April 2022 now operates under the name of N Banka. NLB took over the control over the bank's operations by setting a new Supervisory Board of the bank on 30 June 2022, and also engaged in the process of harmonisation with the Group standards, that finalised in Q3 2022.

In addition to contributing to the stability of the Slovenian banking sector, there were also strategic and financial rationales behind the acquisition, namely:

- Strategic Rationale: The key rationale motivating the acquisition of N Banka was the optimisation of business performance on one market. N Banka was running a subscale operation (68% CIR, 53,000 clients, relatively capped revenue base, costs increasing by approximately 12% in the last four years); considering the additional capex investments needed to modernise the business and keep up with the technology development in the coming years, it would be difficult to maintain a satisfactory level of profitability of N Banka on a standalone basis. The transaction would complement NLB's existing franchise in Slovenia, particularly in the corporate and Small and Medium-sized Enterprises (SME) segments which accounted for app. 56% of Sberbank's net customer loans at the end of 2021. Additionally, the planned merger would also bring several benefits from the clients' perspective, since they would be able to receive a full range of products and services, and so at the quality at the level of other NLB clients.
- Financial rationale: Integration of two banks would improve market share in terms of total assets to 30.2% in the Slovenian banking system as per the end of 2022. NLB's capital position has been strengthened by the inclusion of negative goodwill (EUR 172.8 million) from the N Banka acquisition. From the new production perspective, the acquisition was anticipated to be earnings accretive already in 2023. Run rate synergies are estimated at a level exceeding EUR 14 million by 2025. Total integration costs are expected to be covered by synergies by the end of 2025.

The integration process

NLB conducted a detailed post-acquisition review, and in line with the Management Board's resolution of March 2022 started the process for the merger of the bank with NLB. The defined target operating model confirmed NLB's commitment to keep its clients' satisfaction as a clear priority. By the acquisition N Banka's clients were given the access to the Group benefits.

To ensure smooth and successful merger of N Banka, the Group established a comprehensive and well-structured integration project, that allows strong oversight of all integration initiatives, implementation of all necessary tasks according to agreed plan, and protection of the Group and its key stakeholder interests. A complete and comprehensive integration of N Banka into the organisational structure of NLB requires a merger to be conducted on two levels – legal and operational. According to the plan, they are going to be executed simultaneously – in September 2023.

Financial performance

Table 11: Key performance indicators of N Banka[i]

	in EUR thousands
	2022
Key performance indicators	
Net interest income	25,270
Net non-interest income	10,453
Total costs	-22,976
Impairments and provisions	925
Result before tax	13,672
Result after tax	11,085
Financial position statement indicators	
Total assets	1,293,280
Net loans to customers	939,238
Gross loans to customers	955,035
Deposits from customers	898,768
Equity	186,423
Key financial indicators	
Total capital ratio	21.4%
Net interest margin	2.0%
CIR	64.3%
NPL volume	23,633
NPL ratio (internal def.: NPL/Total loans)	1.9%
Market share by total assets	2.6%
LTD	104.5%

(i) Data on a stand-alone basis for the period March-December as included in the consolidated financial statements of the Group. For year 2021, comparable data are not available. N Banka internal calculation of net interest margin and total capital ratio.

Since N Banka is in procedure of integration, the bank is running its business under special circumstances. The contribution of N Banka to NLB Group total assets and loans to customers amounted to 5% and 7% respectively at the end of 2022. Loans portfolio was decreasing in 2022 as per integration plan and transferring of business clients from N Banka to NLB. Deposit base also decreased, however cash position and financial assets sum up to around 20% of the total assets and represents liquid assets which could be transferred to cash fast, if need for liquidity arises. Contribution to revenues and cost to the Group was approximately 5% in 2022. Full potential contribution is expected in 2025 when run-rate synergies kick in from employee optimization, IT synergies, head quarter synergies and other general and administrative expenses.

Business performance

Retail banking

Clients are the core focus of the Group. Therefore, in the merging process, special attention to client retention is paid, aiming at the smallest possible churn rate. At the end of the year, N Banka had 40,068 clients in the private individuals' segment, of which 86% were active clients. In future, we expect a strong commercial push to activate the remaining idle customer base, to increase the cross sales of clients, for loan penetration, e/-m-bank usage, and bancassurance penetration.

Corporate banking

With the executed acquisition and initiated integration process with the Bank, the corporate segment of N Banka was primarily focused on the following goals:

- active integration of business and clients in the Group;
- continued active financing of all existing corporate clients, primarily in the SME segment with working capital facilities;
- continue executing project financing deals;
- active processing of new financing products under special schemes from "Slovenski podjetniški sklad" and from "Sklad skladov" in cooperation with the SID bank.

Client care and responsible risk management are key to success; however, our results are foremost an indicator of the dedicated work of our whole team. In 2022, **NLB Banka, Sarajevo** was recognized as the second most desirable employer in the financial sector in BiH, which further confirmed our efforts to promote human-cantered values, the development of human potential, prosperity, and continuous learning and trust.

We are also proud of other recognitions, for example of the Golden BAM award for the most successful bank in the category growth in loan market share; and the Best Business Move in Tourism by Indikator.ba for the project of developing winter tourism.

We believe that the best is yet to come, look forward to the upcoming challenges and the **footprints we will create** continuing to justify the trust given to us by shareholders, partners, and clients.

Pictured: NLB Banka, Sarajevo employees

Sustainability

An important part of our mission – besides taking care for our customers with our commitment, knowledge, and innovative solutions – is to create a better life and a better future for us all. That is why the Group has embarked on the path of intensive integration of sustainability into its operations and business model. In the broadest sense, the Group understands sustainability as its operations that meet the needs of this generation and simultaneously preserve the opportunities of future generations.

Implementation of sustainability into the Group's business model

In 2022, the world, and especially Europe, was faced with impactful geopolitical changes which had direct influence on the role of sustainability not only in business, but in our everyday lives as well. The shift towards net-zero became ever more important, and in the EU the sustainable agenda received strong regulatory support with the adoption of the Corporate Sustainability Reporting Directive. Being aware of the changes and their far-reaching consequences, the Group has made important steps forward in implementing Sustainability into its operations and business model, and has also received its first external ratings for its endeavours.

Sustainability Framework

In 2022, the Group continued to implement the activities as outlined in the NLB Group Sustainability Framework. Substantial progress has been made in all three pillars (Sustainable finance, Sustainable operations, and Contribution to society) alongside with implementation of public targets as announced in Sustainability report 2021. Special attention was given to implementation within the Group, having a direct effect on the improved level of comprehensiveness of sustainability.

Net-zero Banking Alliance

After successful feedback on the Banks' first self-assessment report on implementing the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking (UNEP FI PRB), the Group has committed itself to contributing to a climate-positive future. In May 2022, NLB (as the first bank from Slovenia) officially became a member of the United Nations-Convened Net-Zero Banking Alliance. With this step, the Bank made a pledge to align the bank's lending and investment portfolio with net-zero emissions by 2050, and published its first target, which will focus on priority sectors where the Bank can have the most significant impact, i.e., the most GHG-intensive sectors within their portfolios. For this purpose, the Group started with a portfolio emissions measurement and formed its net-zero business strategy.

ESG Rating

In December 2022, NLB received an ESG Risk Rating of 17.7 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors, due to its medium exposure and strong management of material ESG issues. NLB's efforts in the field of sustainability encompass the environmental, social, and management aspects.

Carbon Footprint

After last year, the Group calculated its first operational carbon footprint for the years 2019–2021, special attention was given to reduction measures in 2022. In the field of energy consumption, the Group (where energy market rules allow) was supplied with electricity from zero-carbon sources. Extensive activities went on in the following areas:

- energy efficiency – possibilities for the continuation of energy consumption (electricity and heating) decreasing were reviewed,
- renewable energy production – a review of the Group's premises for setting up solar power plants and a review of renewable power purchase agreements,
- transformation of the NLB car fleet – NLB Group Sustainable Car Fleet Management and Company Car Policy was successfully adopted and marks the start of the replacement of ICE vehicles for electric and hybrid,
- office space-demand optimisation.

For the purpose of calculation of GHG Protocol Category 15 (credit portfolio GHG emissions), several important activities started in 2022. For larger corporate clients, the Bank initiated direct Scope 1, Scope 2, & Scope 3 data gathering processes, whereas for the SME and micro segments the Bank developed its own proxies. In residential mortgages, the most important input for GHG calculation are the buildings' energy performance certificates. By end of 2022, the Bank formed the emission calculation for the Slovenian market, whereas in the Region this process will continue and will be developed in 2023.

Sustainable Financing

The Group successfully started to fulfil its publicly announced target to generate at least EUR 785 million of new sustainable corporate financing by 2030. In 2022, the Group strengthened its activities in ESG financing and achieved EUR 166.9 million of new loans, out of which EUR 105.5 million in Slovenia. The purpose of financing throughout the region was to support wind farms, solar projects, biomass projects, energy efficient buildings. The Group arranged and co-arranged several larger projects financings, including major residential real estate in Bosnia and Hercegovina and a large renewables project in Serbia. The Bank upgraded its Green loan offer with two new loans for legal entities – the NLB Green loan for investments in energy efficiency of business buildings, and the NLB Green loan for reducing carbon footprint. Besides that, the Bank signed a partnership contract with two providers of the Green partner loan, covering renewable energy and energy efficiency purposes for private individuals and legal entities. A substantial amount of time was dedicated to training our employees, whereas sustainability has been the central topic in all our regional events with our clients.

EU Taxonomy

To determine the eligibility of the portfolio, the Bank followed a sector approach (based on Statistical Classification of Economic Activities in the European Community (NACE) codes). In such manner, EU Taxonomy was implemented in the credit process where credit application was amended with display of listed/not listed activity based on NACE and SKD activity. Representatives of the Bank are also actively involved in EU Taxonomy Task Force at the Slovenian Bank Association.

ESG Risk Management

In 2022, the Group continued with the implementation and upgrading of its environmental and social risk management requirements in line with ECB and EBA guidelines, showing in enhancement of the existing stress-testing framework and integration of ESG risks into the existing risk-management framework. As a systemically important institution, the Group successfully participated in the 2022 ECB Climate Stress test exercise. Being part of the Bank Association of Slovenia working groups, NLB experts participated in the preparation of ESG questionnaires on client & transaction levels, which result in an internal ESG rating. In recent years, the Bank signed Framework Agreements with the EBRD and the Contract of Guarantees with Multilateral Investment Guarantee Agency (MIGA), whereas environmental and social performance requirements were implemented within the loan approval process (preparation of manuals & process instructions and their implementation throughout the Group). More information is available in the Risk Management chapter of this report.

Sustainability Training

With the goal to enhance and further develop the skills and knowledge of employees, strong focus was given to different levels and manners of sustainability training, namely:

- external (expert) ESG training programmes,
- internal workshops to facilitate the upgrading of employee skills in the ESG area (ESG Documentary Framework – Commitments & Regulatory Requirements with Overview of Environmental and Social Management System (ESMS) in NLB and NLB Group),
- workshops where comprehensive integration of ESG elements into the Group's risk management framework and corresponding data requirements were presented,
- regular training for NLB Group Supervisory Board members,
- providing essential information on sustainability and its implementation to the Group to competence lines and working groups in the Group.

NLB Group Sustainability Governance Structure

With the adoption of the NLB Sustainability Programme at the end of 2020, and the implementation of the NLB Group Sustainability Framework in the fall of 2021, the Group accelerated implementation of sustainability elements into its business model and upgraded sustainable operations of the Bank. Sustainability is centrally managed by a coordination team in NLB, which regularly reports to the Management and Supervisory Board. The sustainability team closely works with regional ESG coordinators and ESMS Officers, who manage the topic on the Group level. All relevant internal stakeholders (Management board of NLB and the Group members, designated directors, ESG coordinators, and ESMS officers) convene on a quarterly basis at the Sustainability Committee chaired by the CEO, which serves as a forum to address the most relevant sustainability topics. In 2022, four regular and one ad hoc sessions were carried out. For more information, please refer to the chapter Corporate Governance and the NLB Group Sustainability Report 2022.

NLB Group Sustainability Day

For its employees, the Bank organised its first Group-wide sustainability awareness event – 'NLB Group Sustainability Day.' The main goal was to increase awareness, understanding, and the impact of sustainable development and sustainable financing among employees within the Group in order to successfully integrate ESG factors in the Bank's operations.

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 2022 several other sustainability-related topics were regularly addressed, such as:

- Procurement
- Remuneration policy
- Digitalization
- Diversity policy
- CSR projects corresponding to UN SDGs
- Talent development and caring for employees
- Partnership and capacity-building
- Innovation

Outlook

In 2023, the Group will continue to implement its sustainability agenda in all three pillars. In the Sustainable Financing Pillar, the primary focus of the Group will be in development and implementation of net-zero business strategy and measurement of portfolio emissions. First targets related to reducing its footprint in carbon-intensive industries will be published by the end of 2023. The Group will continue its engagement in contributing to sustainable finance by incorporating environmental, social, and governance risks into its business strategies, risk management framework, and internal governance in accordance with ECB and EBA guidelines and best banking practises. The Group aims to improve its ESG rating and will finalize implementation of EBRD environmental and social performance requirements in its business model. The Group will continue to support its clients in their green transition – fine tuning its products and expanding its green financing.

In the Sustainable Operations Pillar, the Group will disclose all relevant ESG data and further implement the EU Taxonomy. Focus will also be on analysis and implementation of the newly adopted Corporative Sustainability Reporting Directive, as well as the upcoming Corporate Sustainability Due Diligence Directive. The Bank will further strengthen sustainability governance and will put extra effort in standardisation of sustainability throughout the Group. On the operational side, the Group will continue to lower its carbon footprint by implementing energy efficiency and energy resources management. NLB will sign the Commitment to respect Human rights in business, which is part of the National Action Plan on Business and Human Rights of the Republic of Slovenia, and appoint a Human Rights Custodian to monitor and manage human rights compliance. The Bank will continue to offer regular (internal and external) sustainability trainings to all its employees and new activities to the related well-being of employees and in line with the Full Family Friendly Company certificate. A NLB Procurement team will upgrade all relevant internal acts for the inclusion of ESG criteria in the supply chain.

The Group will continue with its contributions to local communities. To raise the level of sustainability awareness among employees, the Bank will again organising the NLB Group Sustainability Day, which aims at presenting sustainability-related topics, holding lectures by prominent sustainability experts and other educational activities. Our sponsorship and donations will continue to be based on supporting and following the UN Sustainable Development Goals.

For more information, please refer to:

- the chapter Risk Management, subchapter Incorporating ESG Risks
- the Chapter Corporate Governance
- Note 6 of the financial part of the report
- the chapter Statement of Management of Risk
- the NLB Group Sustainability Report 2022
- the Pillar 3 Disclosures

Corporate Social Responsibility

The Group remains determined in its intention to create better footprints in its home region. It strives to increase the share of CSR activities that pursue the UN SDG every year. The Group's target for 2022 – at least 40% of all CSR activities in every bank member should be aligned with UN SDG – was achieved, even more, it was even exceeded. More information is also available in NLB Group Sustainability Report 2022.

Environmental care – #FrameOfHelp focused on sustainable ideas

In 2022, the Group continued with the #FrameOfHelp project for the third consecutive year, this time offering opportunity to regional companies that prioritise sustainable ideas. As many as 300 companies participated in the project with which the Group sought sustainable solutions to challenges of the future. Among 60 finalists, three regional winners were selected and awarded sponsorship funds and professional consulting on the successful introduction of sustainable business into the company's strategic and operational processes. The awarded companies presented solutions on circular economy with artificial intelligence being the key, water consumption and food production, and modern technology to face the threat of fires.

Support for professional and youth sports

The Group's socially responsible operations are traditionally focused on the strong promotion of sports. Its goal is to raise awareness about the importance of physical exercise for preserving health, which during the previous years was a common concern and focused public's attention on the positive impact that sport has on rehabilitation, socialisation, and inclusion. The Group is particularly proud of the long tradition of NLB Youth Sports project in Slovenia (in 2022, the project continued for the eighth consecutive year with NLB supporting 65 sports clubs) and NLB Wheel – an International Wheelchair Basketball League.

Culture and protection of cultural heritage

Most of the Group's efforts in protection of cultural heritage in 2022 were concentrated on Bankarium, the Slovenian Banking Museum. Founded by NLB, it is the first and only banking museum in the country. Visitors can walk through a 5,000-year-old history of world banking in a multimedia introduction, explore the 200-year-old banking heritage on the Slovenian territory, learn about all the currencies that were valid here during this period, as well as different economic systems, a major banking institution, and key personalities of the Slovenian banking system.

Business and financial literacy

As a financial mentor, the Group is dedicated to counselling in the field of financial literacy. Bankarium is therefore not just a museum – it is also a financial literacy centre where visitors, mostly schoolchildren, can play digital games and quizzes, and learn or check their financial literacy in a playful way. Furthermore, NLB Banka, Podgorica helps customers with a special web platform within the web portal, offers advice and knowledge on social networks, and teaches courses at elementary schools and preschool institutions. NLB Banka, Sarajevo supports the Youth Business Camp – a project that educates and implements workshops with young people who want to develop in the business world.

Humanitarian activities - End of the year charitable donation

The Group concluded 2022 with charitable donations in all of the markets of its operations in a total amount of more than EUR 500,000 to various associations, humanitarian organisations, and groups, chosen by employees.

Inclusiveness – EBRD Support Program "Women in Business"

NLB Banka, Podgorica, the bank of primary choice for more than 32% of registered businesses managed by women in Montenegro, is the first commercial bank in this country that joined the EBRD Support Program "Women in Business", with the aim of supporting the potential of female entrepreneurs, providing access to financing, but also to the knowledge needed for business growth.

Contents

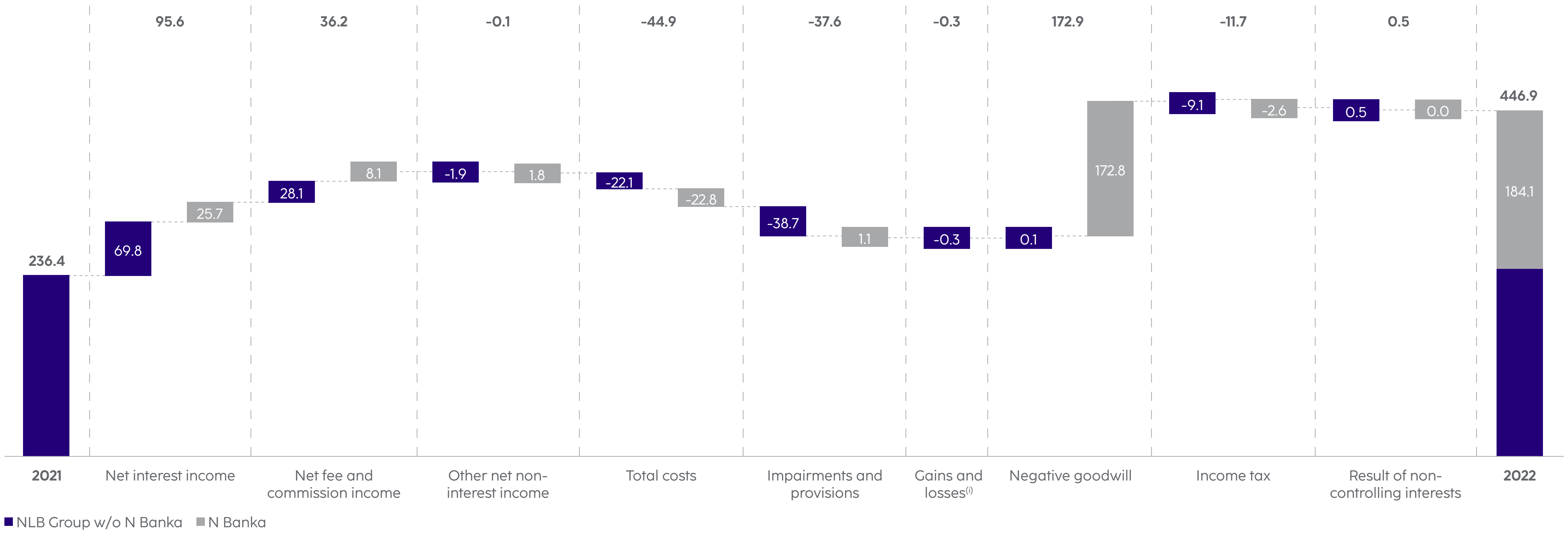
Overview of Financial Performance

The Group achieved a profit after tax in the amount of EUR 446.9 million, 89% or EUR 210.5 million more than the year before (2021: EUR 236.4 million), with the EUR 184.1 million contribution of N Banka.

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

- Acquisition of N Banka, with a positive effect from negative goodwill in the amount of EUR 172.8 million.
- EUR 2,493.9 million YoY increase of the Group's gross loans to customers, with EUR 953.7 million increase due to the acquisition of N Banka; impressive new loan production with increasing interest rates supported growth of net interest income.
- An increase of the deposit base of the Group, EUR 2,386.9 million YoY, of which EUR 898.5 million due to the acquisition of N Banka.
- Net interest income increased EUR 69.8 million YoY without N Banka's contribution mostly due to a higher volume of loans. Interest rates on loans and on central bank balances were also increasing in the second half of the year - which had positive influence on interest income.
- Net fee and commission income increased 12% YoY without N Banka's contribution; the increase was recorded in all banks of the Group, in the Bank by EUR 9.6 million due to higher fees from cards, payments, investment funds and bancassurance products, and income from high balance deposit fee, which was cancelled in August. This cancellation negatively affected net fee and commission income, but was compensated with positive evolution of the interest income for central bank balances.
- Total costs increased YoY in most Group banking members, due to increasing employee costs and other general and administrative expenses, mostly related to the overall inflation in the region.
- The Group established net impairments and provisions for credit risk in total amount of EUR 17.5 million, with portfolio development along with the portfolio growth being the key factors for the establishment, while the impact was partially offset by releases of provisions from successful collection of previously written-off receivables. Other impairments and provisions were net established in the amount of EUR 11.4 million.
- ROE a.t. stood at 19.9% or 12.2% without inclusion of negative goodwill (N Banka EUR 172.8 million, NLB Lease&Go Leasing, Beograd EUR 0.1 million).
- Cost of risk was 14 bps, with good asset quality trends and a decisive workout approach.
- A strong Total Capital Ratio (TCR) of 19.2%, mainly due to inclusion of negative goodwill from N Banka, partial inclusion of 2022 result, and new AT1 and Tier 2 notes.
- The multi-year declining trend of the non-performing credit portfolio stock continued, mostly due to repayments, cured clients, collection, and the sale of claims. 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 3.4% to 2.4% YoY, and the NPE ratio (EBA def.) by 0.4 p.p. YoY to 1.3%.
- Unencumbered liquidity reserves portfolio amounted to EUR 9,187.5 million (39.0% of total assets).

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



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

Recurring profit before impairments and provisions of the Group totalled EUR 318.7 million, EUR 93.2 million or 41% higher YoY, with a EUR 9.6 million contribution from N Banka. In Q2 2022, the result before impairments and provisions was influenced by a one-time yearly payment of regulatory costs in the Bank (EUR 2.1 million Single Resolution Fund (SRF) and EUR 7.6 million Deposit Guarantee Scheme (DGS)), while in Q4 various non-recurring effects were recorded (e.g., volatility of financial markets, exchange rate differences, and the valuation of real estates).

Figure 7: Result before impairments and provisions of NLB Group (in EUR millions)

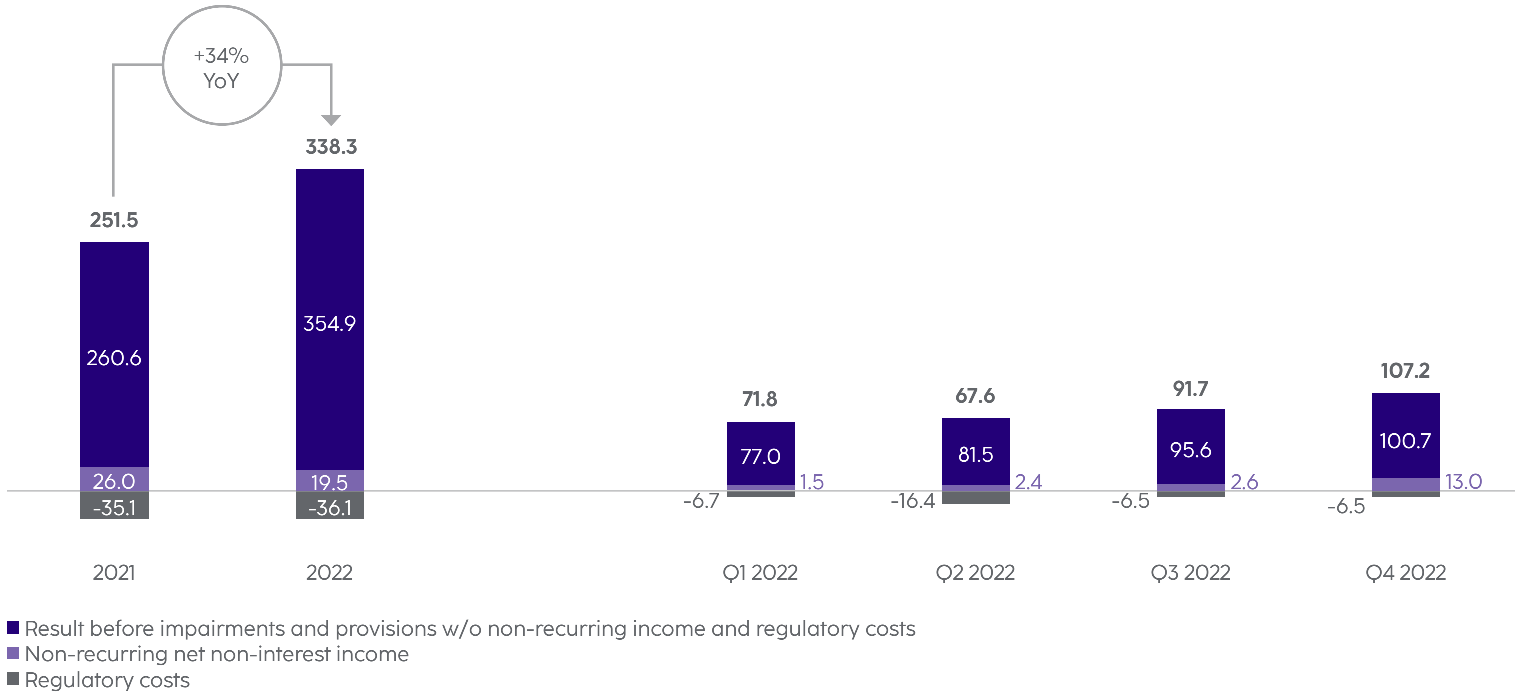
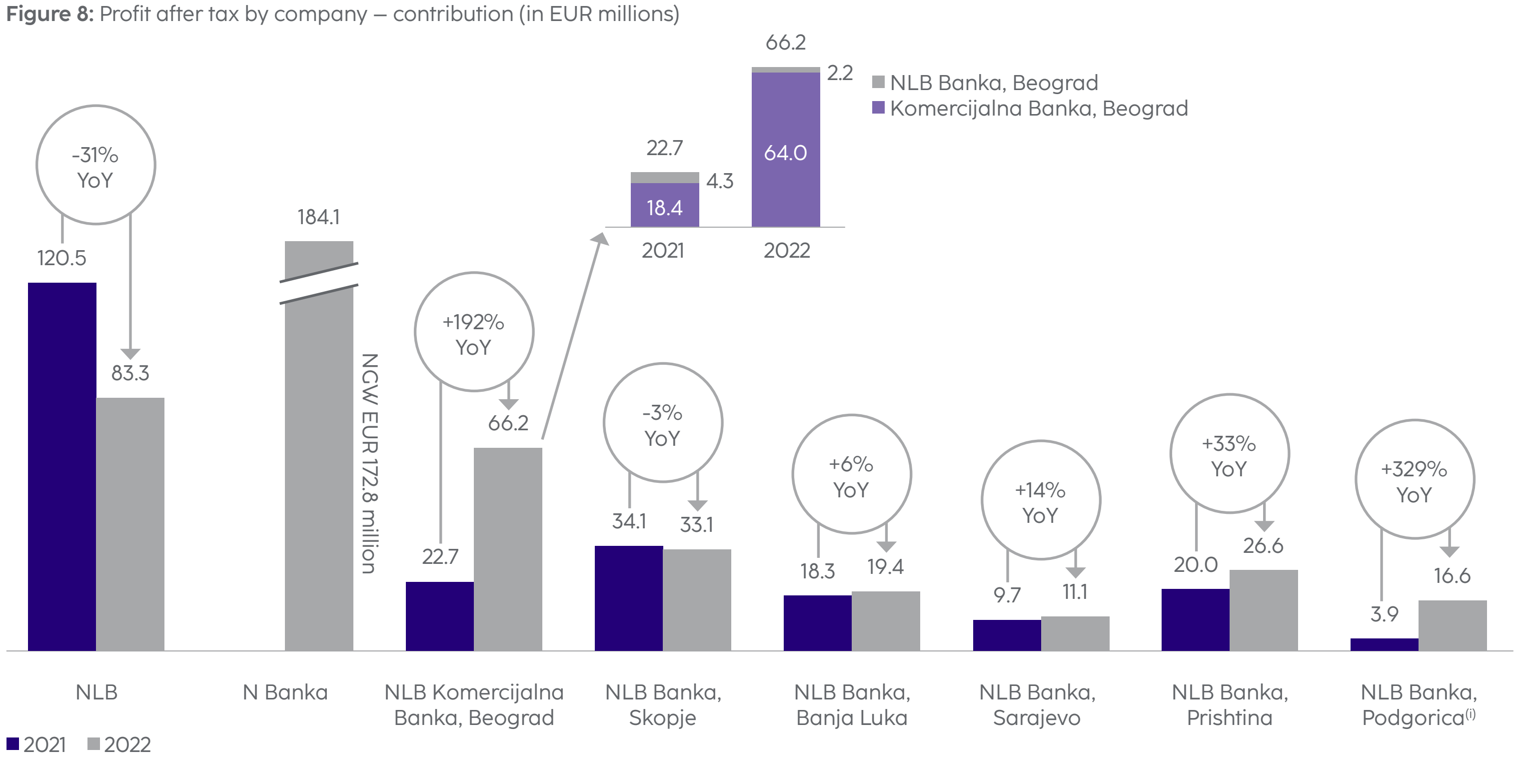


Figure 8: Profit after tax by company – contribution (in EUR millions)



(i) Result for 2021 for NLB Banka, Podgorica includes also result of Komercijalna Banka, Podgorica (merger in November 2021).

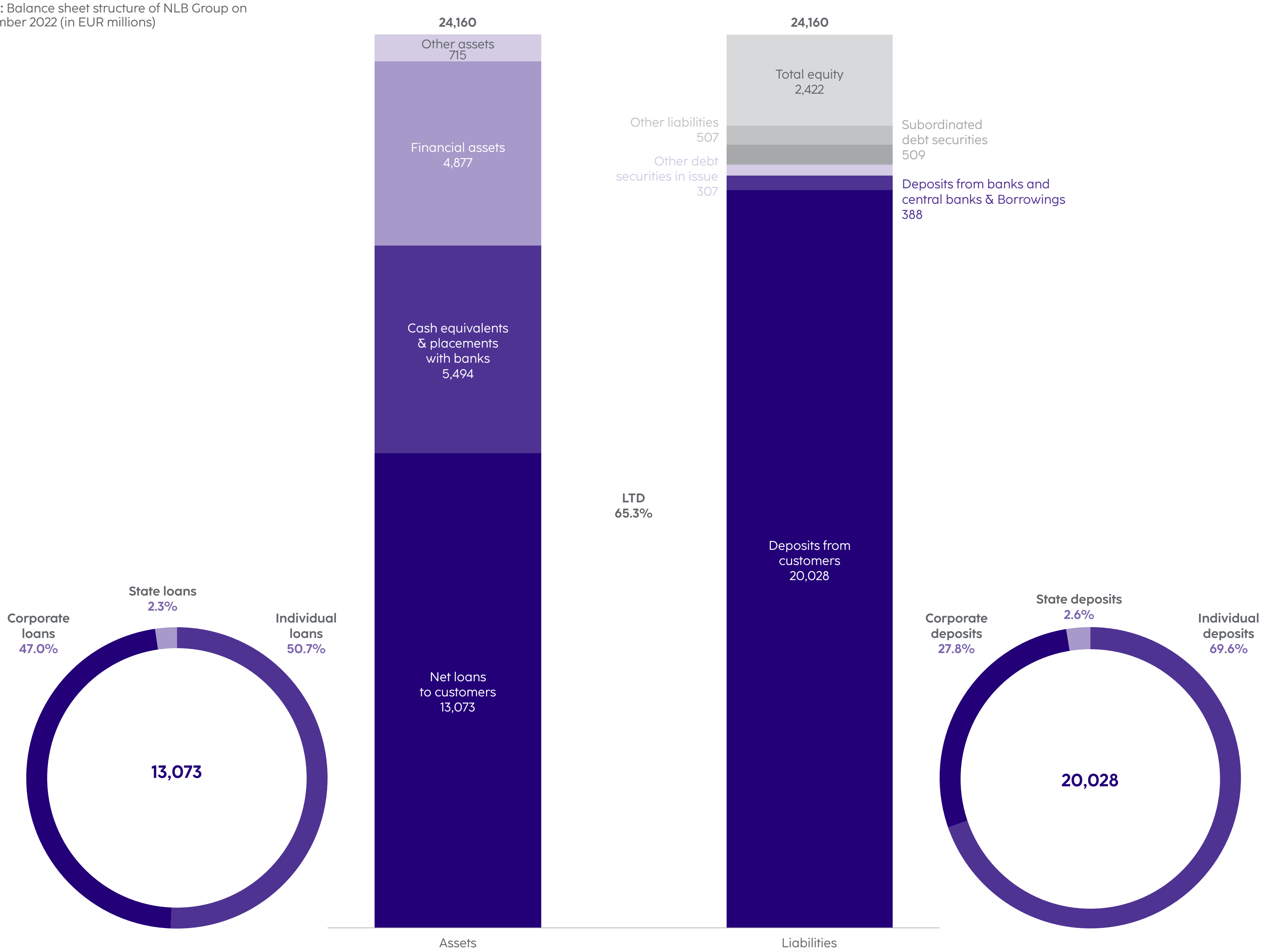
All banks reported a profit on stand-alone basis and positively contributed to the Group's result. The largest contribution of EUR 184.1 million came from N Banka due to negative goodwill from the acquisition, followed by contribution of the Bank and NLB Komercijalna Banka, Beograd with EUR 83.3 million and EUR 66.2 million, respectively. The YoY contribution of the Bank was lower due to higher total costs, higher net impairments and provisions, and the positive effects from non-recurring items in 2021. However, it was partially neutralized by higher regular income. SEE banks contributed 39% to the Group result with growth achieved in all banks, except NLB Banka, Skopje. For more information on banks' operations, please refer to chapter Strategic Foreign Markets.

EUR 446.9 million of net profit

EUR 172.8 million negative goodwill from the N Banka acquisition

Balance sheet volume of the Group totalled to EUR 24,160.2 million at the end of the year, with an 83% share of the total funding represented by customers' deposits to support lending activity with LTD ratio at 65.3%.

Figure 9: Balance sheet structure of NLB Group on 31 December 2022 (in EUR millions)



Income statement

Table 12: Income statement of NLB Group and NLB

NLB Group									**in EUR millions**
	2022	**2021**	**Change YoY**			**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**
				o/w N Banka contribution					
Net interest income	504.9	409.4	95.6	25.7	▲ 23%	151.8	126.7	118.6	107.8
Net fee and commission income	273.4	237.2	36.2	8.1	▲ 15%	69.2	70.5	69.1	64.5
Dividend income	0.2	0.2	0.0	0.0	▲ 9%	0.0	0.1	0.1	0.0
Net income from financial transactions	36.6	38.4	-1.8	-7.0	▼ -5%	12.6	10.3	8.5	5.2
Net other income	-16.6	-18.3	1.7	8.8	▲ 9%	1.2	-2.0	-12.7	-3.0
Net non-interest income	293.6	257.6	36.1	9.9	▲ 14%	83.0	78.9	65.0	66.7
Total net operating income	**798.5**	**666.9**	**131.6**	**35.6**	**▲ 20%**	**234.9**	**205.6**	**183.6**	**174.5**
Employee costs	-257.7	-231.3	-26.3	-14.2	▼ -11%	-71.2	-63.7	-65.2	-57.5
Other general and administrative expenses	-155.2	-137.5	-17.7	-6.8	▼ -13%	-44.2	-38.3	-39.0	-33.7
Depreciation and amortisation	-47.4	-46.5	-0.9	-1.9	▼ -2%	-12.2	-11.9	-11.8	-11.5
Total costs	-460.3	-415.4	-44.9	-22.8	▼ -11%	-127.7	-113.9	-116.0	-102.7
Result before impairments and provisions	**338.3**	**251.5**	**86.7**	**12.7**	**▲ 34%**	**107.2**	**91.7**	**67.6**	**71.8**
Impairments and provisions for credit risk	-17.5	35.8	-53.3	-1.6	-	-25.0	9.8	1.6	-4.0
Other impairments and provisions	-11.4	-27.1	15.7	2.6	▲ 58%	-6.3	0.2	-4.9	-0.4
Impairments and provisions	-28.9	8.8	-37.6	1.1	-	-31.2	10.0	-3.3	-4.4
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	0.8	1.1	-0.3	0.0	▼ -30%	-0.4	-0.4	1.0	0.6
Negative goodwill	172.9	0.0	172.9	172.8	-	0.1	0.0	0.0	172.8
Result before tax	**483.1**	**261.4**	**221.7**	**186.6**	**▲ 85%**	**75.7**	**101.3**	**65.2**	**240.8**
Income tax	-25.2	-13.5	-11.7	-2.6	▼ -86%	-4.2	-10.4	-5.4	-5.2
Result of non-controlling interests	11.0	11.5	-0.5	0.0	▼ -4%	2.4	0.1	4.3	4.1
Result after tax	**446.9**	**236.4**	**210.5**	**184.1**	**▲ 89%**	**69.1**	**90.8**	**55.5**	**231.5**

NLB								**in EUR millions**
	2022	**2021**	**Change YoY**		**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**
Net interest income	177.0	139.1	37.9	▲ 27%	57.2	42.3	39.7	37.9
Net fee and commission income	129.1	119.6	9.6	▲ 8%	31.3	33.7	32.3	31.8
Dividend income	56.0	79.6	-23.6	▼ -30%	21.6	0.8	24.2	9.5
Net income from financial transactions	9.1	19.0	-9.9	▼ -52%	3.3	2.7	1.9	1.1
Net other income	-5.1	4.2	-9.3	-	2.1	2.0	-7.5	-1.7
Net non-interest income	189.2	222.4	-33.2	▼ -15%	58.4	39.2	50.9	40.6
Total net operating income	**366.2**	**361.5**	**4.7**	**▲ 1%**	**115.6**	**81.5**	**90.6**	**78.5**
Employee costs	-117.3	-107.0	-10.3	▼ -10%	-32.9	-28.4	-29.5	-26.5
Other general and administrative expenses	-73.6	-59.1	-14.5	▼ -24%	-22.9	-17.4	-17.9	-15.4
Depreciation and amortisation	-17.0	-17.5	0.5	▲ 3%	-4.2	-4.2	-4.3	-4.3
Total costs	-207.9	-183.6	-24.3	▼ -13%	-60.0	-49.9	-51.6	-46.3
Result before impairments and provisions	**158.3**	**177.9**	**-19.6**	**▼ -11%**	**55.5**	**31.6**	**39.0**	**32.3**
Impairments and provisions for credit risk	-14.7	26.1	-40.8	-	-8.0	-2.8	-4.6	0.8
Other impairments and provisions	20.4	7.5	13.0	▲ 173%	20.5	0.0	-0.1	0.0
Impairments and provisions	5.8	33.6	-27.8	▼ -83%	12.5	-2.9	-4.7	0.8
Result before tax	**164.1**	**211.5**	**-47.4**	**▼ -22%**	**68.1**	**28.7**	**34.3**	**33.0**
Income tax	-4.5	-3.0	-1.4	▼ -47%	-2.7	-1.4	-0.1	-0.4
Result after tax	**159.6**	**208.4**	**-48.8**	**▼ -23%**	**65.4**	**27.3**	**34.2**	**32.7**

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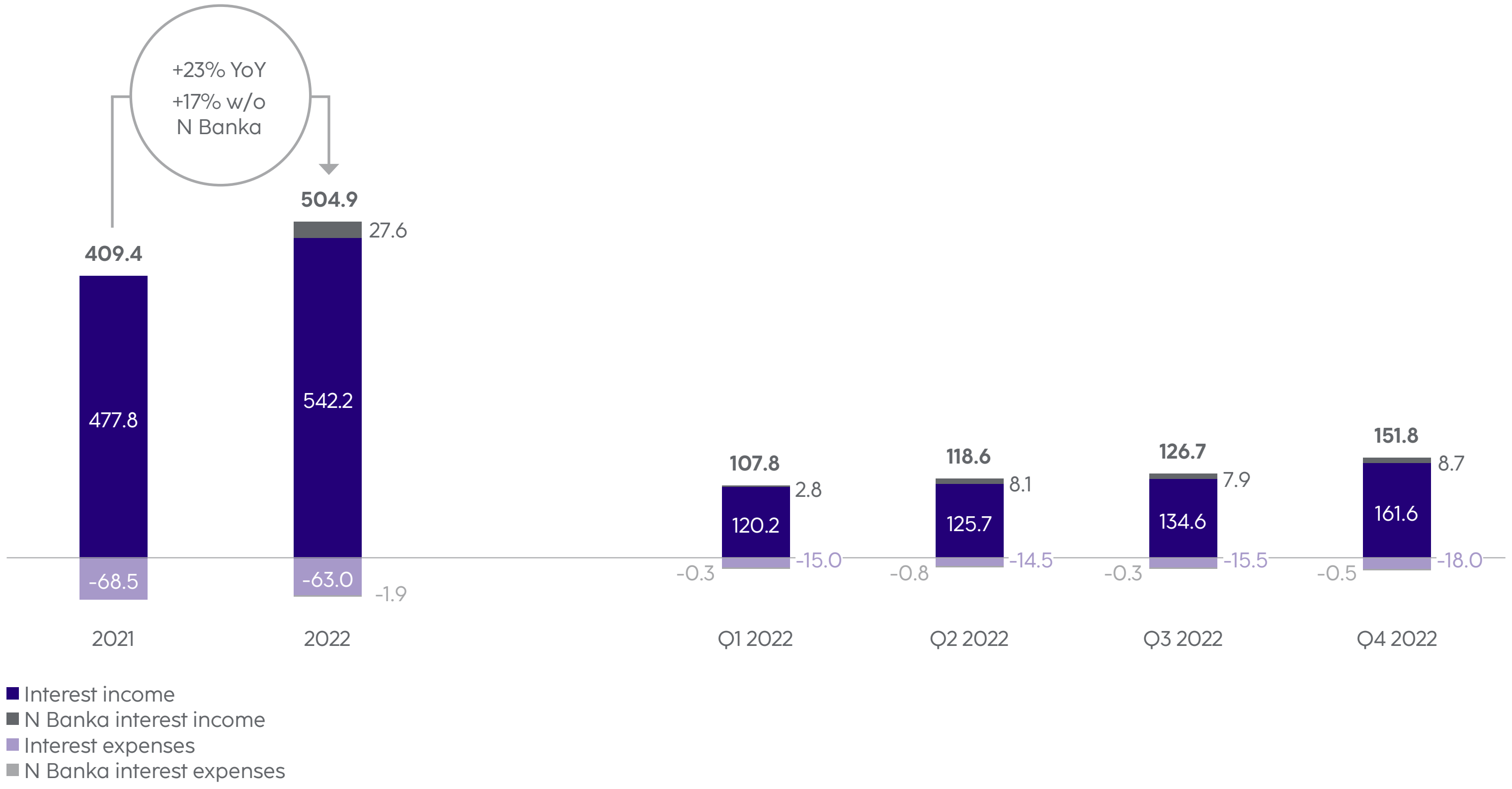
Net interest income

Figure 10: Net interest income of NLB Group (in EUR millions)



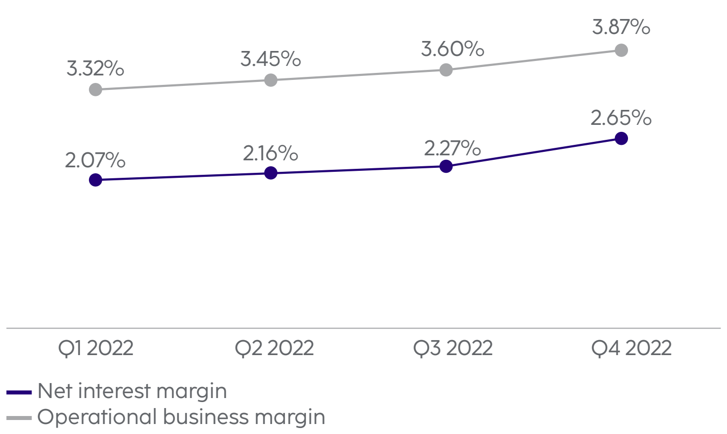
EUR 798.5 million of total net operating income

Net interest income of the Group accounted for 63% of the Group's total net revenues (2021: 61%) and totalled EUR 504.9 million. Out of the EUR 95.6 million increase, EUR 25.7 million was contributed by N Banka.

Not considering the contribution of N Banka, a higher level of interest income was achieved YoY, as a result of higher volumes, increase of key ECB and reference interest rates, and repricing of new loan production as a response to the rising inflation environment.

Interest expenses were influenced by the Bank's repayment of Targeted Longer-Term Refinancing Operations (TLTRO) financing with the ECB at a very favourable interest rate of -1% p.a. in June, issue of MREL-eligible Senior Preferred notes in the amount of EUR 300 million in July, and subordinated Tier 2 notes in the aggregate nominal amount of EUR 225 million in November. These new issues increased interest expenses for EUR 8.8 million in second half of the year. In contrast, the interest expenses for deposits in SEE banks decreased due to the decrease of interest rates.

Figure 11: Net interest margin and Operational business margin of NLB Group[i] (quarterly data)

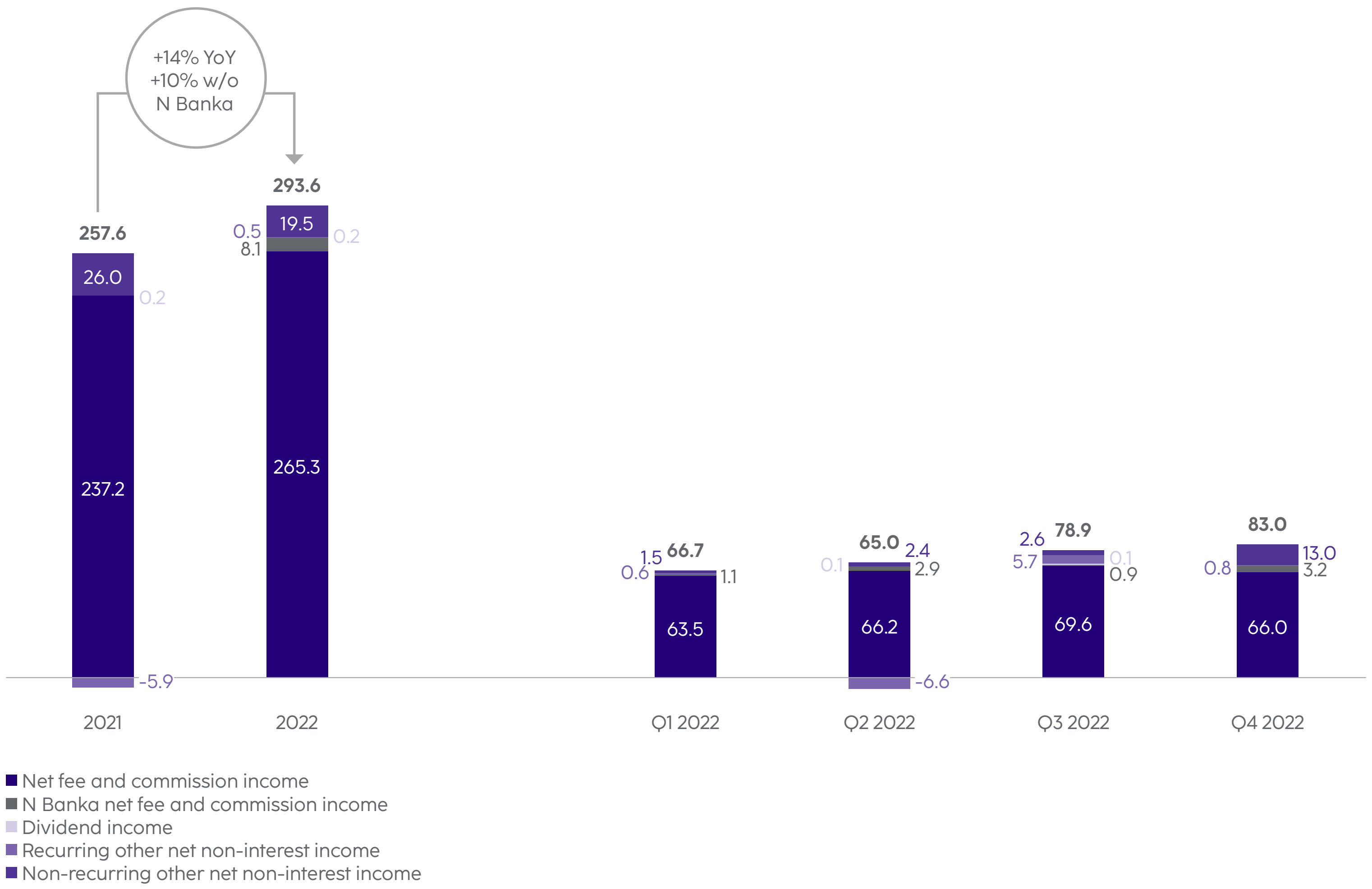


(i) Calculated on the basis of average interest-bearing assets.

Consequently, the annual net interest margin of the Group was improved by 0.23 p.p to 2.30% in 2022. The annual operational business margin was 3.57%, 0.29 p.p. higher YoY, due to net interest income and net fee and commission income growth. The increase in last quarter was solely due to the net interest income growth.

Net non-interest income

Figure 12: Net non-interest income of NLB Group (in EUR millions)



The net non-interest income reached EUR 293.6 million, of which EUR 9.9 million was contributed by N Banka. 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 (higher fees from investment funds and bancassurance products, high balance deposit fee, and higher fees from cards and payment services).

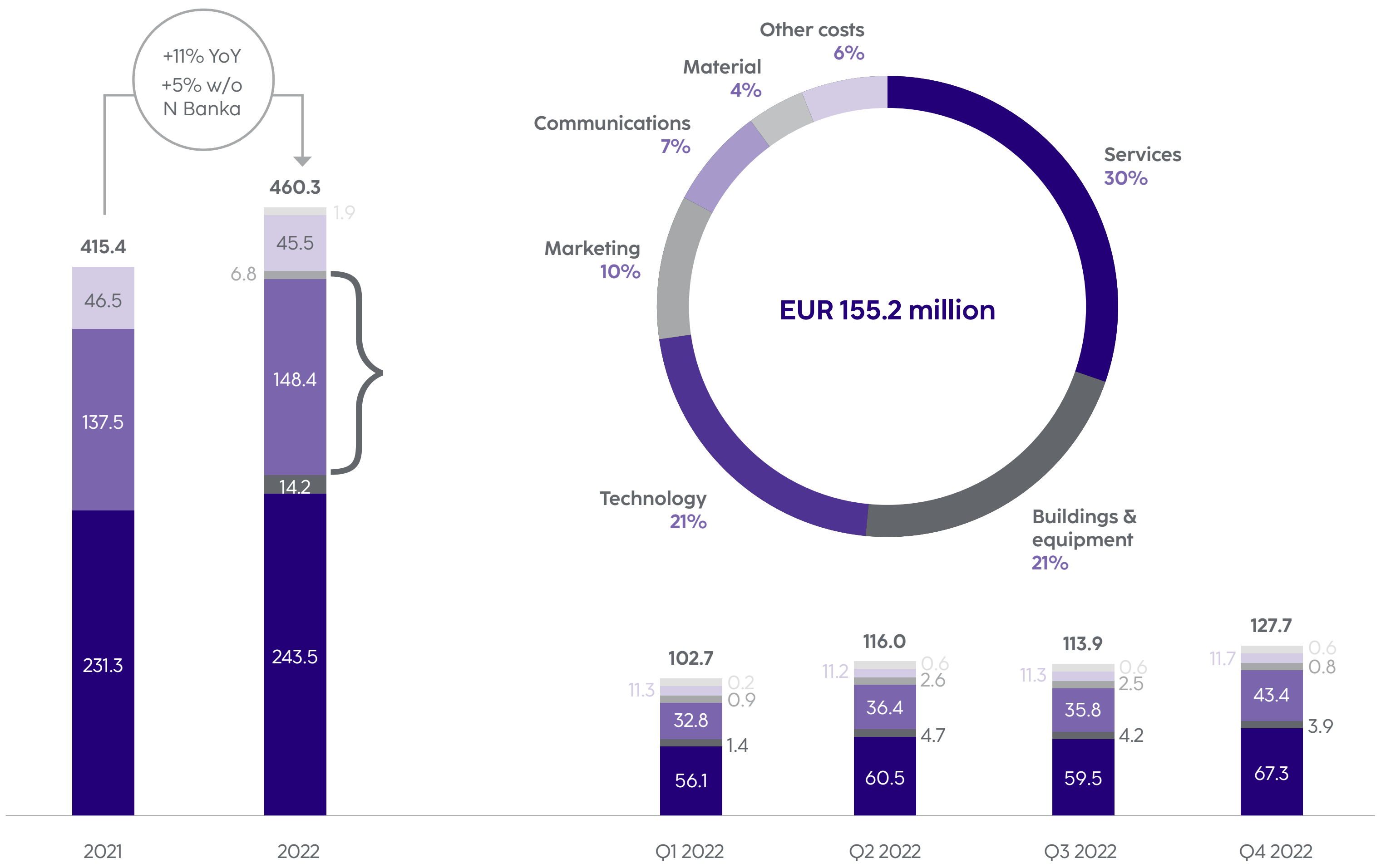
No major one-offs that influenced net non-interest income were recorded in the current year, just various smaller ones, in the total amount of EUR 19.5 million, the majority of which occurred in Q4 (e.g., volatility of financial markets, exchange rate differences, valuation of real estates). At the same time, the 2021 result was positively 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 negatively affected by a EUR 8.1 million loss from the sale of Komercijalna Banka, Banja Luka.

In Q3, two important effects on net fee and commissions were observed, the cancellation of the high balance deposit fee, and the Serbian central bank decision to contain retail fees for a limited period.

Total costs

Figure 13: Total costs of NLB Group (in EUR millions)

Breakdown of Other general and administrative expenses(i)



- Employee costs
- Other general and administrative expenses
- Depreciation and amortisation
- N Banka employee costs
- N Banka other general and administrative expenses
- N Banka depreciation and amortisation

(i) Further information available in the Note 4.9. of the financial part of the report.

Total costs amounted to EUR 460.3 million of which EUR 22.8 million from N Banka. Without the N Banka contribution, the costs increased YoY by EUR 22.1 million due to an increase in the Bank and in most of the SEE banking members. The Group is affected by the inflation and rising employee, material, and energy costs, but has successfully kept them under control. The largest YoY increases were recorded on employee costs (EUR 12.2 million without N Banka contribution) and general and administrative expenses (EUR 10.9 million without N Banka contribution) with increasing marketing costs, especially in the Bank related to the acquisition of N Banka and merger of the Group banks in Serbia (NLB Banka, Beograd and Komercijalna Banka, Beograd), electricity costs (EUR 4.3 million higher YoY), and software maintenance (EUR 2.7 million due to the N Banka acquisition).

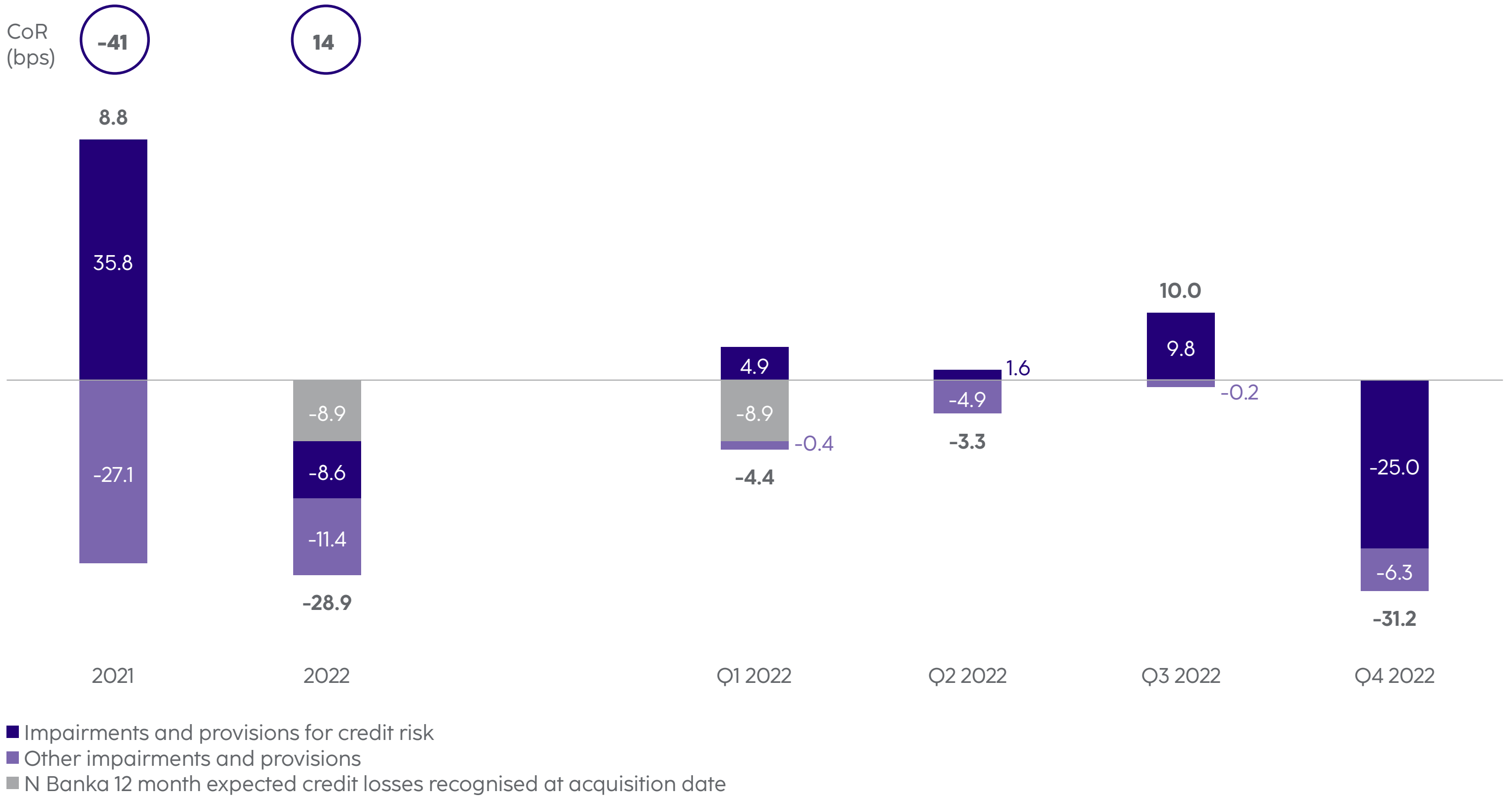
Distribution of costs throughout the year was regular, with higher share occurring in the last quarter of the year (28% of total costs in current and previous year).

The Group is undertaking several strategic initiatives (channel strategy, digitalization, going paperless, lean process, branch network optimisation, etc.) to keep costs low. However, given the circumstances and economic situation, significant inflationary pressures have been noticed across all cost categories consuming much of the successful efficiency measures across the Group, and specifically in Serbia. Combined with further planned investments into technology enhancements across the Group, upward cost trends are expected for 2023 which will still be a transition year with regard to integration processes in Serbia and Slovenia.

CIR stood at 57.6%, a 4.6 p.p. decrease YoY.

Impairments and provisions

Figure 14: Impairments and provisions of NLB Group (in EUR millions)



The Group established net impairments and provisions for credit risk in the amount of EUR 17.5 million. Portfolio development along with the portfolio growth during 2022 was the key factor contributing to the establishment of net provisions. At the same time, expected 12-month credit losses were recognised at the acquisition date for the performing portfolio of N Banka (EUR 8.9 million). As a result of less favourable macroeconomic forecasts and risk, parameters deteriorated, and additional impairments and provisions were formed in Q3 and Q4 2022. The positive effects derived also from a successful collection of previously written-off receivables due to successful NPL resolution, mostly in the corporate segment.

Other impairments and provisions were established in the amount of EUR 11.4 million, of which EUR 4.6 million and EUR 5.7 million for the reorganisation in NLB Komercijalna Banka, Beograd and N Banka, respectively. In contrast, EUR 8.4 million provisions for contingent liabilities, which were recognised at the acquisition of N Banka, where released in December, when the possible obligation ceased to exist.

The Group's cost of risk settled at 14 bps.

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Statement of financial position

Table 13: Statement of financial position of NLB Group and NLB

NLB Group — in EUR millions

	31 Dec 2022	o/w N Banka	31 Dec 2021	Change YoY		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
ASSETS									
Cash, cash balances at central banks, and other demand deposits at banks	5,271.4	202.4 [(i)]	5,005.1	266.3	▲ 5%	5,271.4	4,911.4	4,321.1	4,865.4
Loans to banks	223.0	0.0	140.7	82.3	▲ 58%	223.0	210.7	176.8	162.8
Net loans to customers	13,073.0	937.9	10,587.1	2,485.9	▲ 23%	13,073.0	12,925.3	12,620.2	12,108.7
Gross loans to customers	13,397.3	953.7	10,903.5	2,493.9	▲ 23%	13,397.3	13,244.0	12,944.2	12,434.6
- Corporate	6,345.7	589.3	4,996.0	1,349.7	▲ 27%	6,345.7	6,321.7	6,213.5	5,884.6
- Individuals	6,743.4	363.6	5,621.1	1,122.4	▲ 20%	6,743.4	6,635.5	6,445.0	6,242.1
- State	308.2	0.8	286.3	21.8	▲ 8%	308.2	286.9	285.7	307.9
Impairments and valuation of loans to customers	-324.4	-15.8	-316.3	-8.0	▼ -3%	-324.4	-318.7	-324.0	-325.9
Financial assets	4,877.4	62.1	5,208.3	-330.9	▼ -6%	4,877.4	4,765.1	4,919.5	5,219.9
- Trading book	21.6	0.0	7.7	13.9	▲ 181%	21.6	21.3	14.9	10.9
- Non-trading book	4,855.8	62.1	5,200.6	-344.8	▼ -7%	4,855.8	4,743.8	4,904.6	5,209.0
Investments in subsidiaries, associates, and joint ventures	11.7	0.0	11.5	0.2	▲ 1%	11.7	11.9	13.1	12.1
Property and equipment	251.3	7.9	247.0	4.3	▲ 2%	251.3	255.8	252.6	254.0
Investment property	35.6	1.0	47.6	-12.0	▼ -25%	35.6	37.4	45.3	48.2
Intangible assets	58.2	1.5	59.1	-0.8	▼ -1%	58.2	55.2	55.3	57.8
Other assets	358.6	16.2	271.1	87.5	▲ 32%	358.6	325.0	326.3	290.2
TOTAL ASSETS	**24,160.2**	**1,229.0**	**21,577.5**	**2,582.7**	**▲ 12%**	**24,160.2**	**23,497.8**	**22,730.3**	**23,019.1**
LIABILITIES									
Deposits from customers	20,027.7	898.5	17,640.8	2,386.9	▲ 14%	20,027.7	19,573.1	19,151.1	18,525.8
- Corporate	5,565.6	447.4	4,463.7	1,101.9	▲ 25%	5,565.6	5,387.4	5,091.8	4,934.8
- Individuals	13,948.7	409.6	12,680.8	1,268.0	▲ 10%	13,948.7	13,569.2	13,498.1	13,097.3
- State	513.4	41.5	496.4	17.1	▲ 3%	513.4	616.5	561.2	493.6
Deposits form banks and central banks	106.4	0.0	71.8	34.6	▲ 48%	106.4	108.3	138.0	115.0
Borrowings	281.1	116.2	932.6	-651.5	▼ -70%	281.1	322.0	326.8	1,241.0
Subordinated debt securities	508.8	0.0	288.5	220.3	▲ 76%	508.8	290.4	287.8	287.0
Other debt securities in issue	307.2	0.0	0.0	307.2	-	307.2	302.6	0.0	0.0
Other liabilities	506.7	33.0	427.6	79.1	▲ 18%	506.7	504.3	507.6	474.3
Equity	2,365.6	181.3	2,078.7	286.9	▲ 14%	2,365.6	2,339.8	2,195.6	2,254.4
Non-controlling interests	56.7	0.0	137.4	-80.7	▼ -59%	56.7	57.2	123.5	121.6
TOTAL LIABILITIES AND EQUITY	**24,160.2**	**1,229.0**	**21,577.5**	**2,582.7**	**▲ 12%**	**24,160.2**	**23,497.8**	**22,730.3**	**23,019.1**

(i) Excluding funding provided by NLB in the amount of EUR 64.0 million.

NLB								in EUR millions
	31 Dec 2022	31 Dec 2021	Change YoY		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
ASSETS								
Cash, cash balances at central banks, and other demand deposits at banks	3,339.0	3,250.4	88.6	▲ 3%	3,339.0	3,019.1	2,368.6	3,127.4
Loans to banks	350.6	199.3	151.3	▲ 76%	350.6	278.2	300.9	406.6
Net loans to customers	6,062.3	5,153.0	909.3	▲ 18%	6,062.3	5,931.7	5,655.5	5,327.7
Gross loans to customers	6,157.4	5,250.4	907.0	▲ 17%	6,157.4	6,024.8	5,753.0	5,426.8
- Corporate	2,947.1	2,411.1	536.0	▲ 22%	2,947.1	2,868.5	2,722.9	2,499.6
- Individuals	3,084.3	2,694.4	390.0	▲ 14%	3,084.3	3,026.4	2,901.9	2,791.9
- State	126.0	144.9	-18.9	▼ -13%	126.0	129.9	128.2	135.3
Impairments and valuation of loans to customers	-95.1	-97.4	2.2	▲ 2%	-95.1	-93.1	-97.5	-99.1
Financial assets	2,960.7	3,034.3	-73.6	▼ -2%	2,960.7	2,966.1	3,121.1	3,171.5
- Trading book	21.7	7.7	14.0	▲ 182%	21.7	20.9	10.7	8.1
- Non-trading book	2,939.0	3,026.6	-87.6	▼ -3%	2,939.0	2,945.2	3,110.4	3,163.4
Investments in subsidiaries, associates, and joint ventures	908.6	786.0	122.6	▲ 16%	908.6	871.4	809.2	791.1
Property and equipment	78.6	86.1	-7.5	▼ -9%	78.6	78.8	79.5	81.5
Investment property	6.8	9.2	-2.4	▼ -26%	6.8	6.8	9.0	9.1
Intangible assets	30.4	29.5	1.0	▲ 3%	30.4	27.6	28.0	28.2
Other assets	202.3	151.7	50.6	▲ 33%	202.3	178.5	185.9	132.0
TOTAL ASSETS	**13,939.3**	**12,699.5**	**1,239.8**	**▲ 10%**	**13,939.3**	**13,358.3**	**12,557.7**	**13,075.1**
LIABILITIES								
Deposits from customers	10,984.4	9,659.6	1,324.8	▲ 14%	10,984.4	10,604.9	10,296.6	9,914.5
- Corporate	2,874.9	2,436.7	438.2	▲ 18%	2,874.9	2,804.7	2,592.2	2,547.1
- Individuals	7,916.2	7,078.9	837.3	▲ 12%	7,916.2	7,616.5	7,603.0	7,254.7
- State	193.3	144.0	49.3	▲ 34%	193.3	183.8	101.4	112.6
Deposits form banks and central banks	212.7	109.3	103.3	▲ 95%	212.7	257.8	169.5	258.2
Borrowings	57.5	873.9	-816.4	▼ -93%	57.5	45.9	44.6	857.8
Subordinated liabilities	508.8	288.5	220.3	▲ 76%	508.8	290.4	287.8	287.0
Other debt securities in issue	307.2	0.0	307.2	-	307.2	302.6	0.0	0.0
Other liabilities	265.9	216.3	49.6	▲ 23%	265.9	271.5	263.1	213.1
Equity	1,602.9	1,551.9	50.9	▲ 3%	1,602.9	1,585.1	1,496.1	1,544.6
TOTAL LIABILITIES AND EQUITY	**13,939.3**	**12,699.5**	**1,239.8**	**▲ 10%**	**13,939.3**	**13,358.3**	**12,557.7**	**13,075.1**

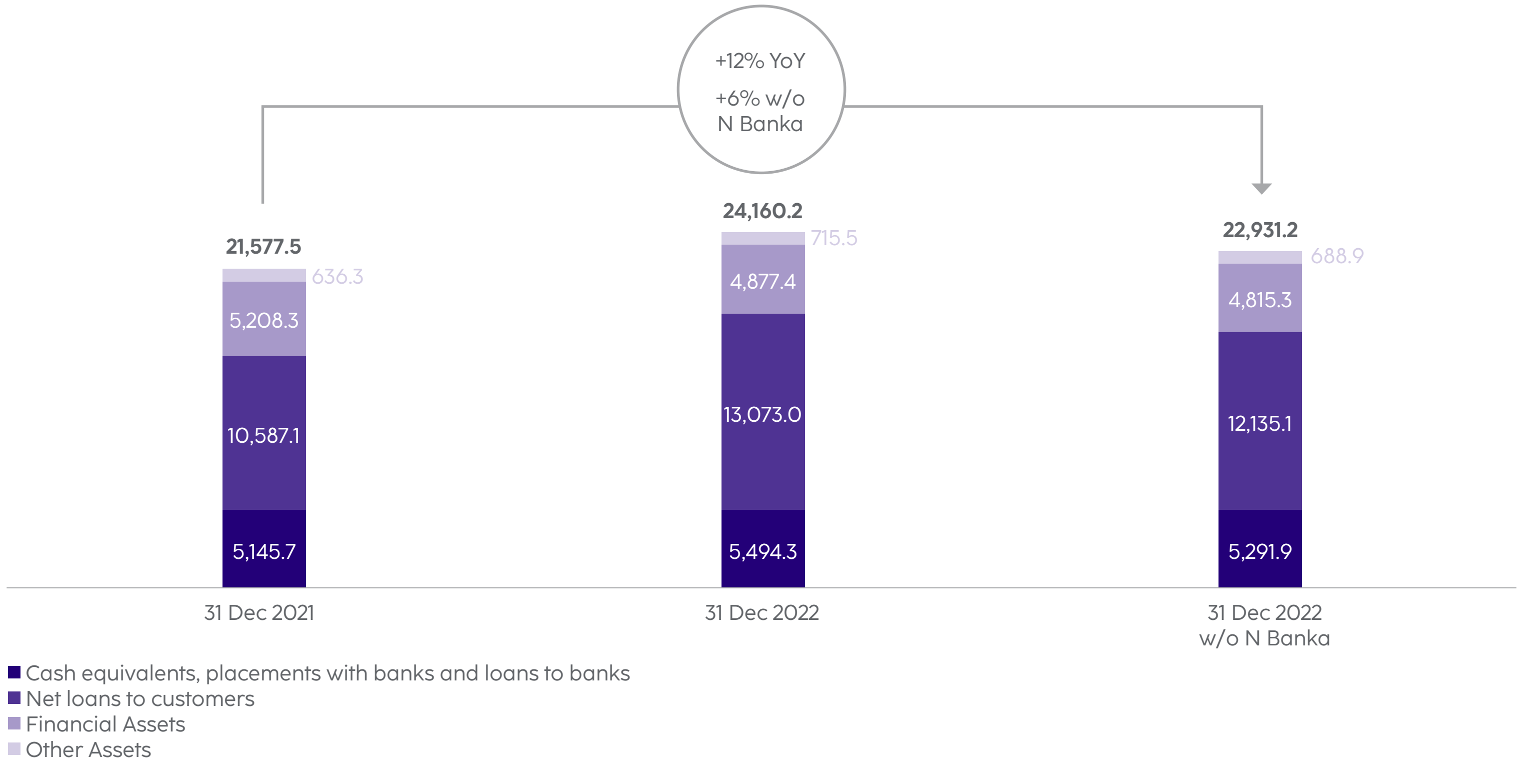
Balance sheet volume of the Group increased by EUR 2,582.7 million YoY totalling to EUR 24,160.2 million, mainly due to the acquisition of N Banka (EUR 1,229.0 million). The strong inflow of deposits (EUR 2,386.9 million, of which EUR 898.5 million from N Banka) enabled substantial growth of gross loans to customers (EUR 2,493.9 million, of which EUR 953.7 million from N Banka).

There was a decrease of borrowings totalling EUR 651.5 million, due to TLTRO early repayment (EUR 750 million) and SID repayment (EUR 70 million) in the Bank in June, but there was an increase of debt securities with the issuance of MREL eligible Senior Preferred notes in the amount of EUR 300 million at 6% coupon rate in July, and subordinated Tier 2 notes in the aggregate nominal amount of EUR 225 million in November.

Issued subordinated Additional Tier 1 notes in the amount of EUR 82 million increased the equity of the Bank in September.

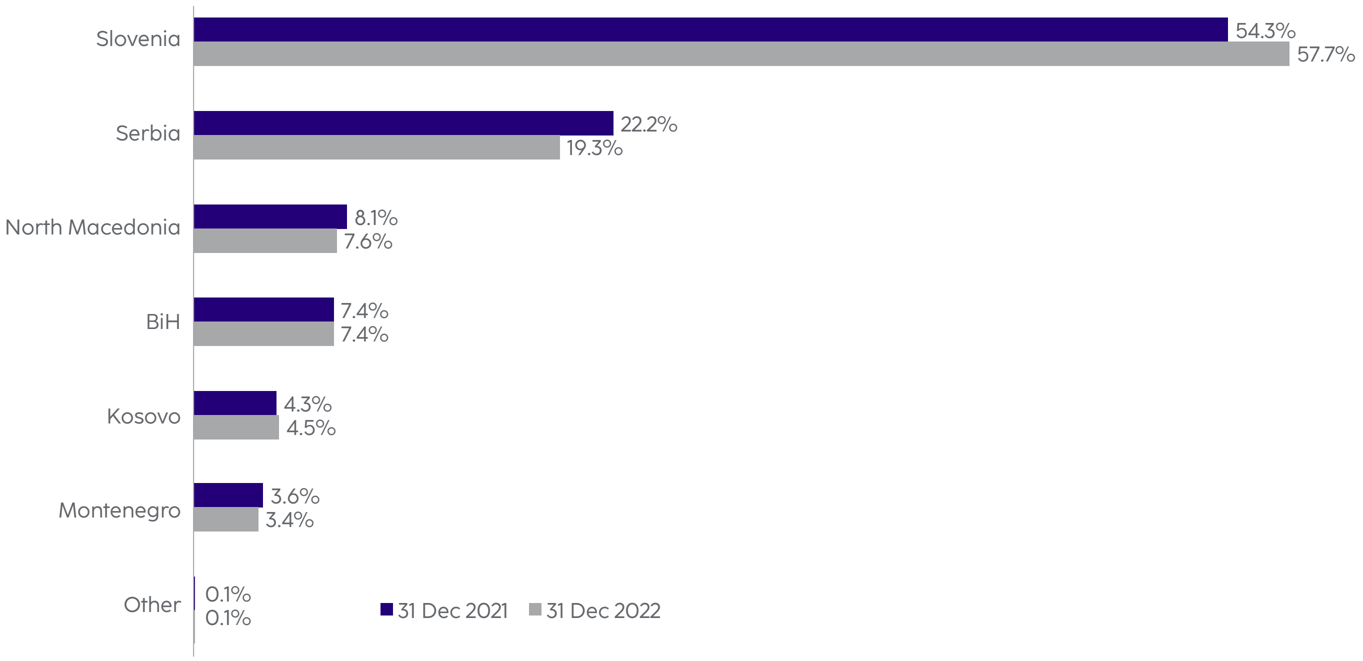
Assets

Figure 15: Total assets of NLB Group – structure (in EUR millions)



57.7% of the total assets were related to Group members located in Slovenia (2021: 54.3%) and 19.3% in Serbia (2021: 22.2%).

Figure 16: Total assets of NLB Group by country (in %)[i]



(i) The geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group members are located.

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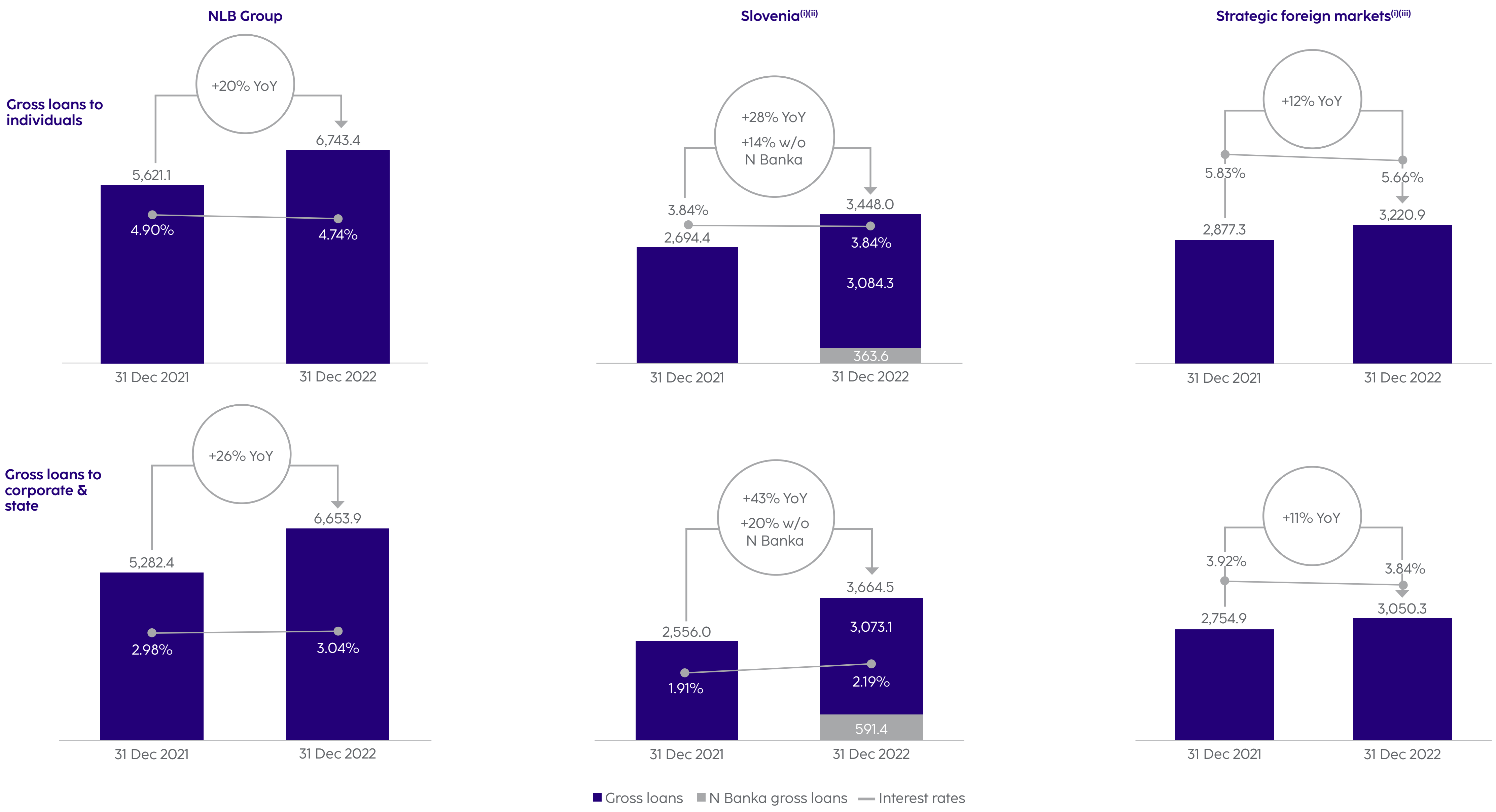
The lending activity continued with enviable growth in all the banks in 2022. The highest increases were recorded in Slovenia, with a 20% YoY increase of gross loans to corporate and state (43% with N Banka) and a 14% YoY increase of gross loans to individuals (28% with N Banka). Strategic foreign markets also achieved strong growth, with 12% and 11% YoY increase of gross loans to individuals and corporate and state, respectively.

Gross loans to individuals in the Bank grew mostly due to an increasing volume of housing loans (EUR 358.4 million YoY, with high new production of EUR 726.6 million contractual value in 2022, compared to EUR 558.3 million in the previous year) related to generally positive economic sentiment and successful marketing campaigns. The volume of consumer loans was on the same level YoY, however, the new production in 2022 amounted to EUR 254.7 million and was higher compared to the previous year (EUR 229.3 million).

Gross loans to corporate and state in the Bank recorded a EUR 517.1 million growth YoY, where growth derived from the corporate segment (EUR 536.0 million), while the state segment exposures shrank by EUR 18.9 million. New production was high, with over EUR 1.5 billion of new loans approved in 2022. Since the war started in Ukraine, the international market environment has become strongly unpredictable, and a higher demand for and utilisations of working capital facilities was recognised. With the emerging of energy crisis, the Bank rapidly responded to its clients' needs and organised the arrangement of new syndication financing to the respective energy sector.

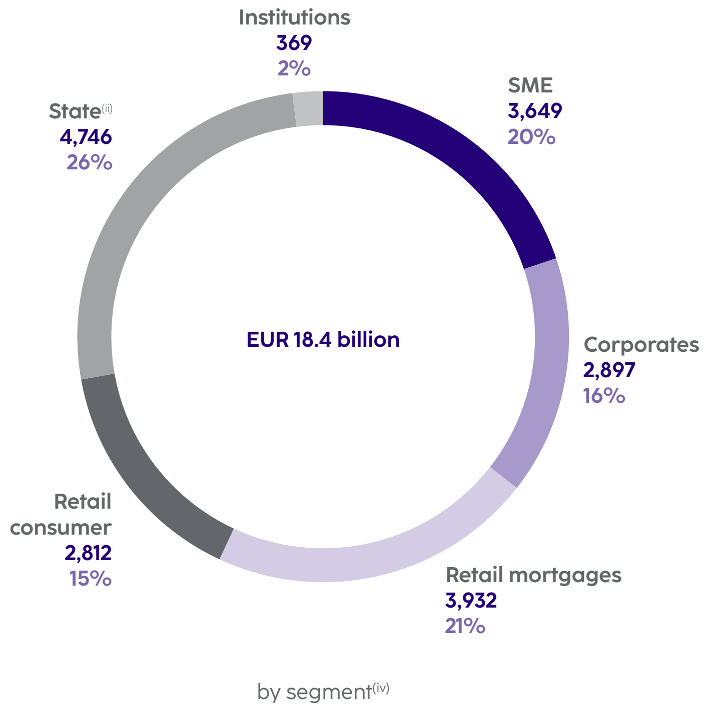
The volume of gross loans to customers in Strategic Foreign Markets also increased, with even higher new production in consumer loans compared to the more than successful previous year, with all the Group member banks recording high YoY growth in outstanding loan balances.

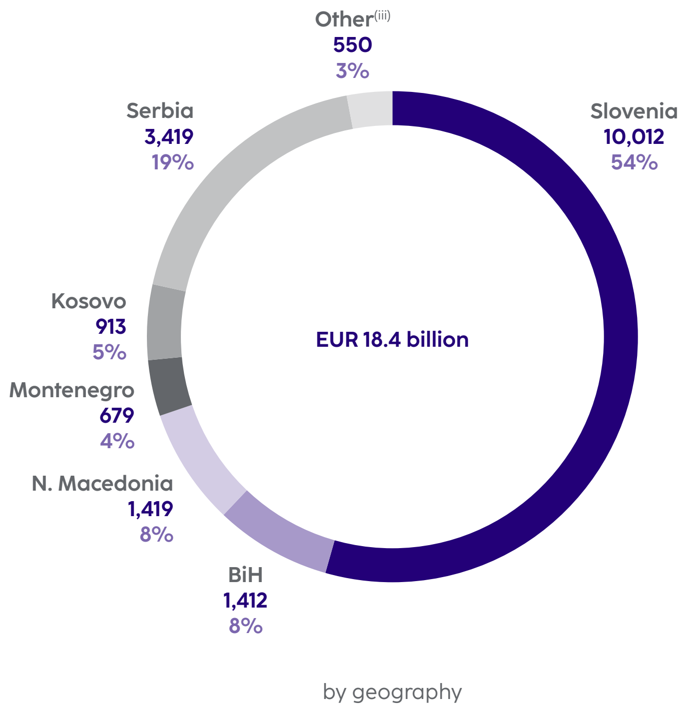
Figure 17: NLB Group gross loans to customers dynamics (in EUR millions)

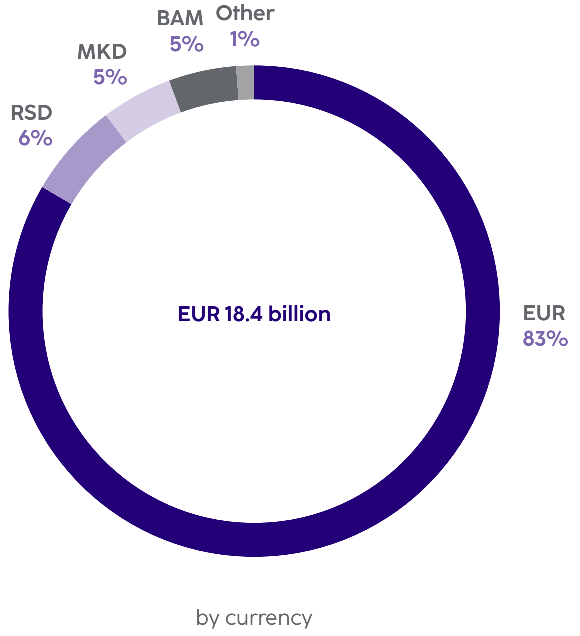


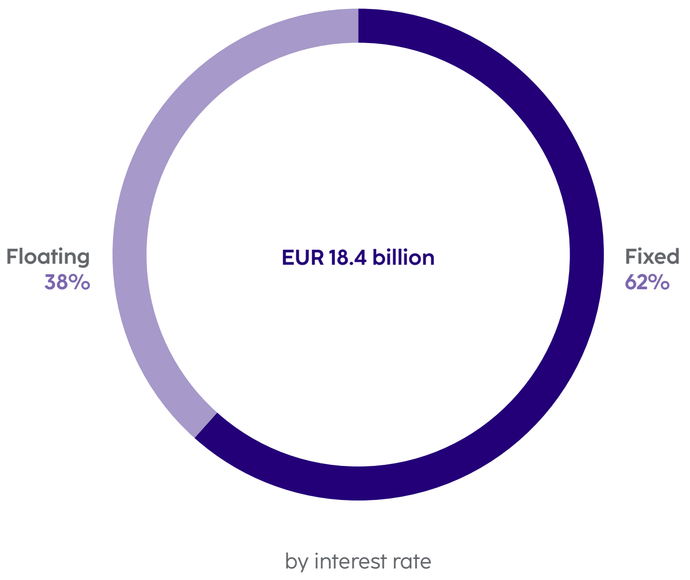
(i) On a standalone basis.
(ii) Includes NLB and N Banka; interest rates only for NLB.
(iii) Includes only banks.

Figure 18: Loan portfolio(i) by segment, geography, currency, and rate type (in EUR millions)









(i) Loan portfolio also includes account balances and required reserves at CBs, as well as 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 2022, there were no major changes in the corporate and retail loan portfolio structure. The loan portfolio remained well-diversified, and there was no large concentration in any specific industry or client segment. The share of retail portfolio in the whole loan portfolio was 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, almost 62% of the loan portfolio was linked to a fixed interest rate, and the rest mostly to the Euribor reference rate.

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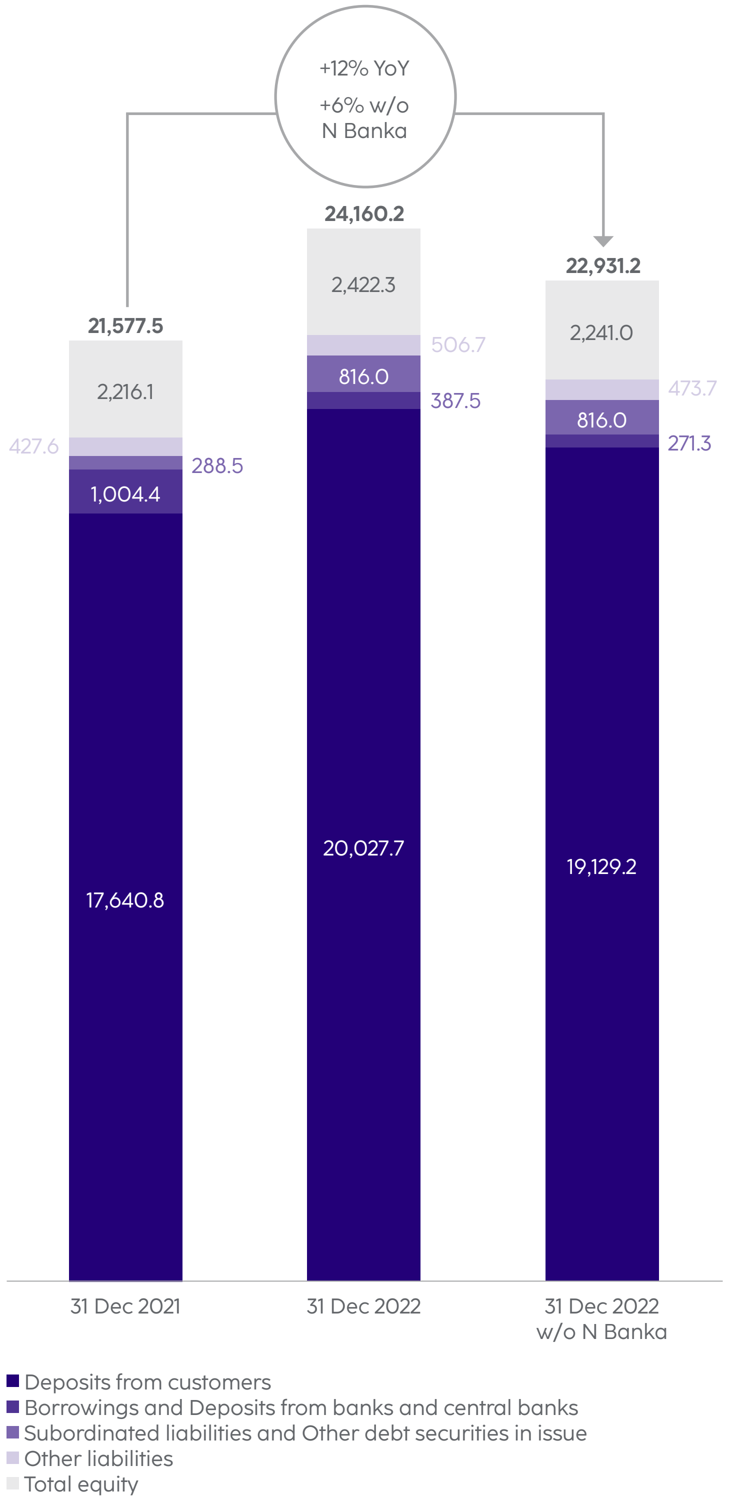
Liabilities

Figure 19: Total liabilities and equity of NLB Group – structure (in EUR millions)

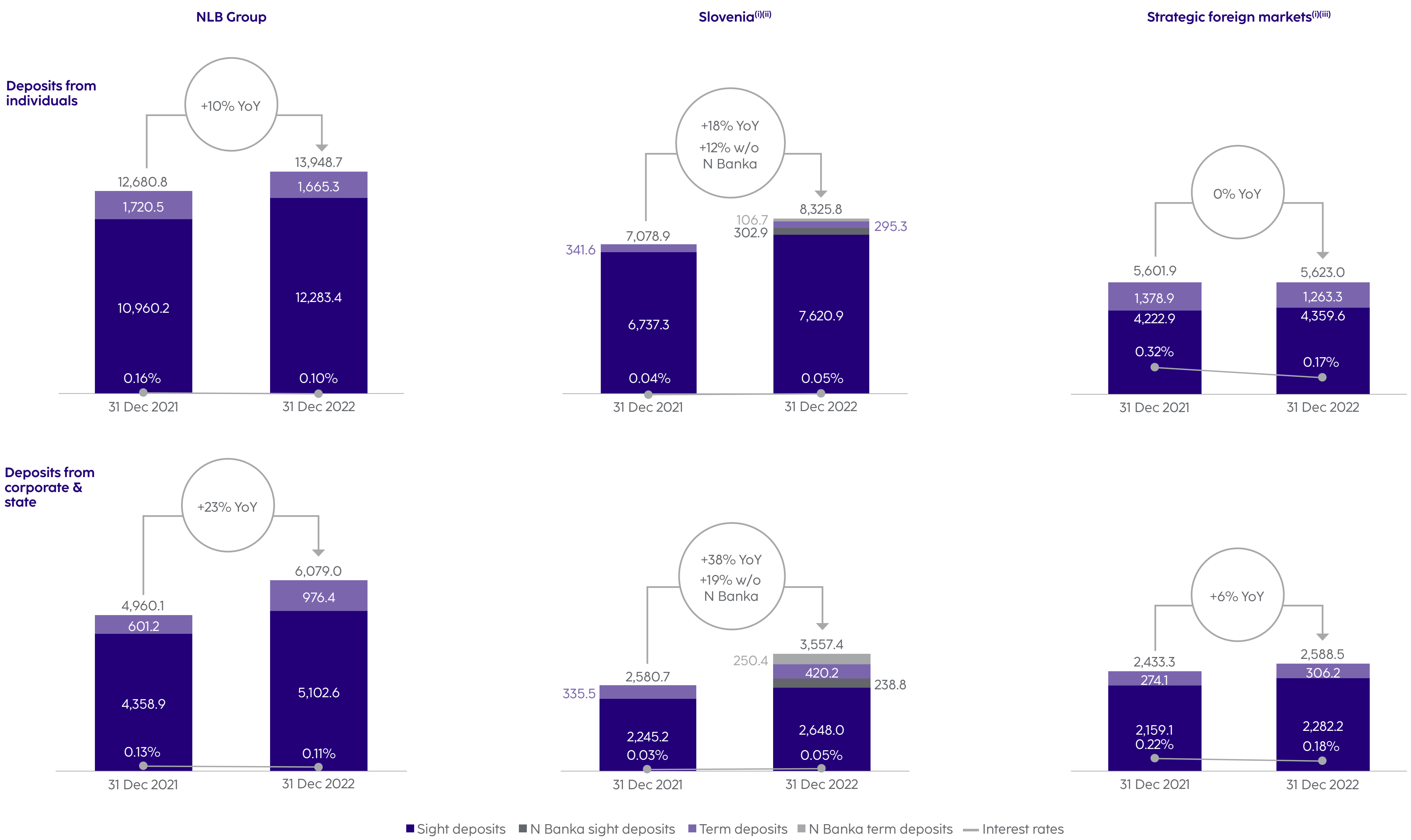


Total liabilities of the Group increased and amounted to EUR 21,737.9 million. The Group's funding base is dominated by customer deposits accounting for 83% in which sight deposits prevail (87%, same as at the end of 2021). The majority of customer deposits were from individuals (70%). 59% of deposits were collected in Slovenia (55% at 2021 YE), 18% in Serbia (22% at 2021 YE), and the rest in other Group banking members in SEE.

Deposits from customers increased by 8% YoY, without the N Banka contribution. The largest increase of 19% 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, and inflows from takeovers on the market. The precautionary savings of households have contributed to a 12% YoY increase in deposits from individuals in the Bank, due to the uncertainty of rising prices and the expected impact on their financial situation in the future.

In Strategic Foreign Markets, deposits from corporate and state recorded 6% growth, while deposits from individuals stayed on the same level YoY. The main reason for this were the outflows in Q1 as a response to the Ukraine war and its influence on prices and consumer behaviour, while slow growth was perceived in the remaining year in most members, with further outflow in the second half of the year in the Serbian market, mostly due to attractive offers with higher interest rates from competitors.

Figure 20: NLB Group deposits from customers dynamics (in EUR millions)



(i) On a standalone basis.
(ii) Includes NLB and N Banka; interest rates only for NLB.
(iii) Includes only banks.

Figure 21: Deposits from customers in NLB Group by type as at 31 December 2022

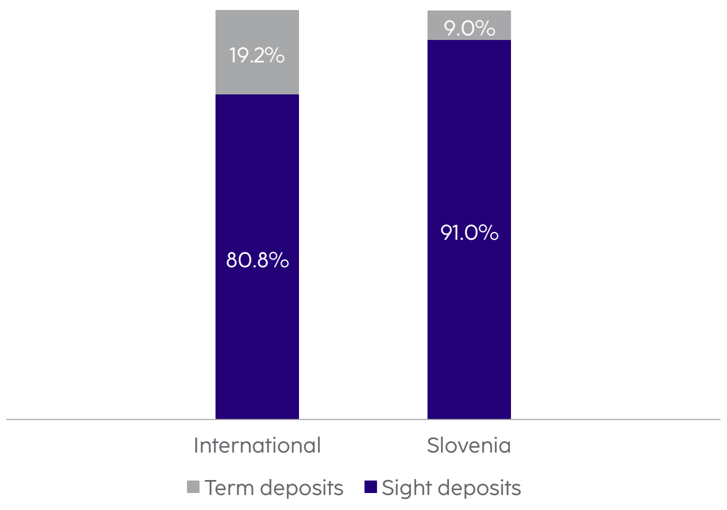
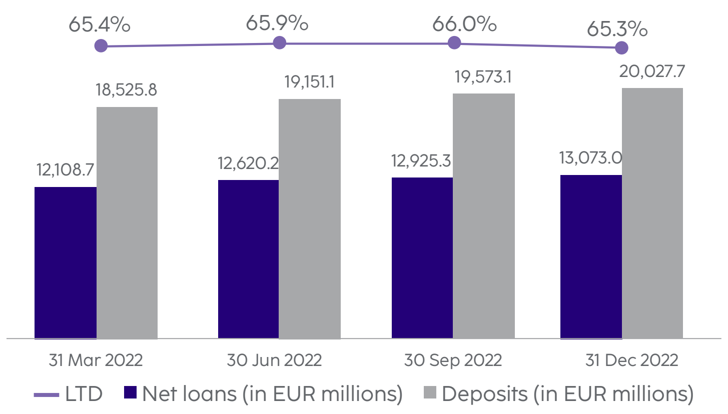
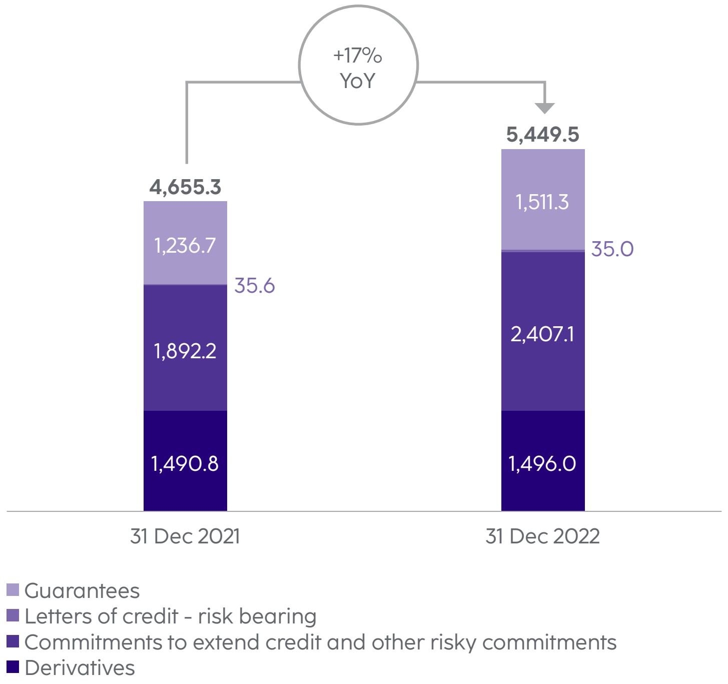


Figure 22: NLB Group's LTD ratio movement



The LTD ratio (net) was 65.3% at the Group level; a 5.3 p.p. YoY increase, as a result of the acquisition of N Banka, with a higher LTD, as well as a higher increase of gross loans compared to deposits.

Figure 23: Off-balance sheet items of NLB Group (in EUR millions)



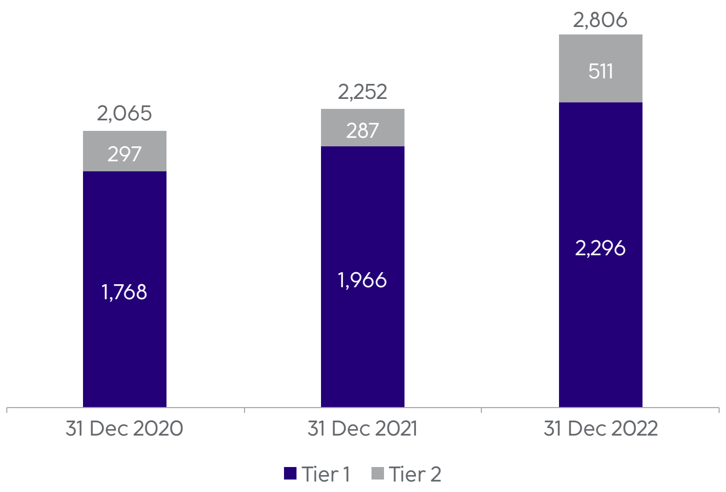
Off-balance sheet items of the Group amounted to EUR 5,449.5 million and were comprised of guarantees (28%), letters of credit (1%), commitments to extend credit and other risky commitments (44%), and derivatives (27%).

Commitments to extend credit and other risky commitments were divided between loans (99% corporate), overdrafts (58% retail and 42% 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 24: NLB Group capital (in EUR millions)



In 2022, the Overall Capital Requirement (OCR) for the Group was 14.10%, consisting of:

- 10.60% Total SREP Capital Requirement (TSCR) (8.00% Pillar 1 Requirement and 2.60% Pillar 2 Requirement[9]) and
- 3.50% CBR (2.50% Capital Conservation Buffer, 1.00% O-SII Buffer[10] and 0.00% Countercyclical Buffer).

Pillar 2 Guidance (P2G) amounts to 1.0% of Common Equity Tier 1 (CET1).

On 29 April 2022, the BoS issued a new Regulation on determining the requirement to maintain a systemic risk buffer for banks and savings banks, which will on 1 January 2023, introduce the systemic risk buffer rates for the sectoral exposures:

- 1.00% for all retail exposures to natural persons secured by residential real estate in Slovenia,
- 0.50% for all other exposures to natural persons in Slovenia.

Additionally, in December 2022, the BoS announced that due to growing uncertainties in the economic environment and systemic risks, the countercyclical buffer for exposures to the Republic of Slovenia is raised from 0% to the level of 0.5% of the total risk exposure amount. Banks have to meet the requirement by 31 December 2023.

9 As of 1 January 2023, the Pillar 2 Requirement decreased by 0.2 p.p. to 2.40%, as a result of better overall SREP assessment.
10 As of 1 January 2023, the O-SII Buffer amounts to 1.25%.

Figure 25: NLB Group capital ratios and regulatory thresholds (in %)

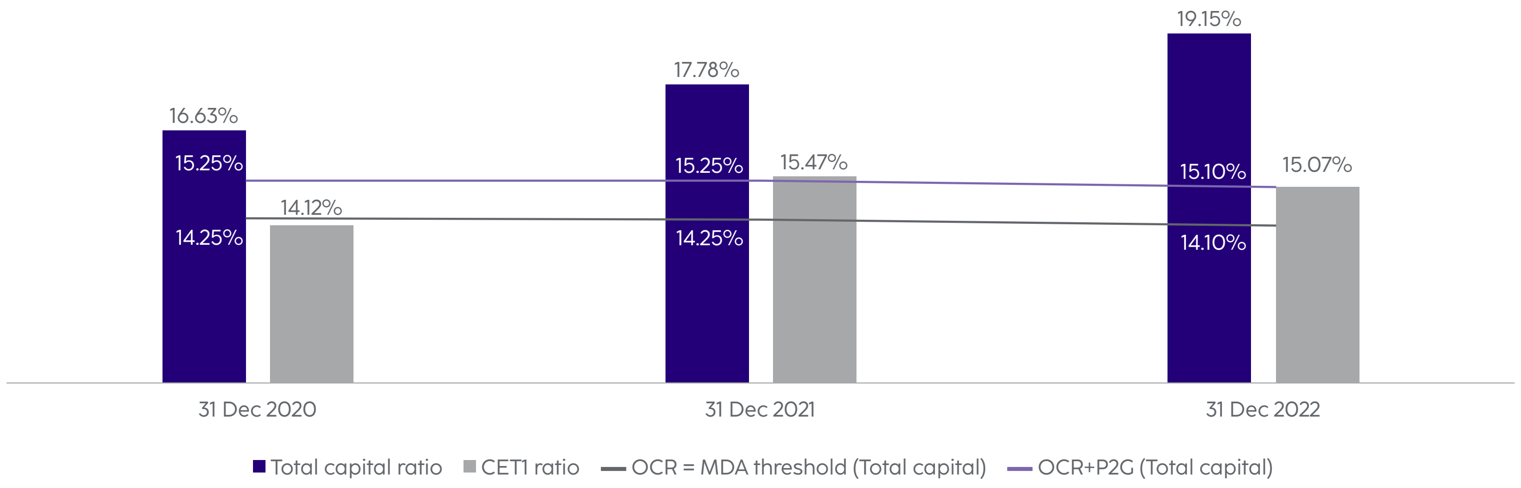


Figure 26: NLB Group capital requirements as at 31 December 2022

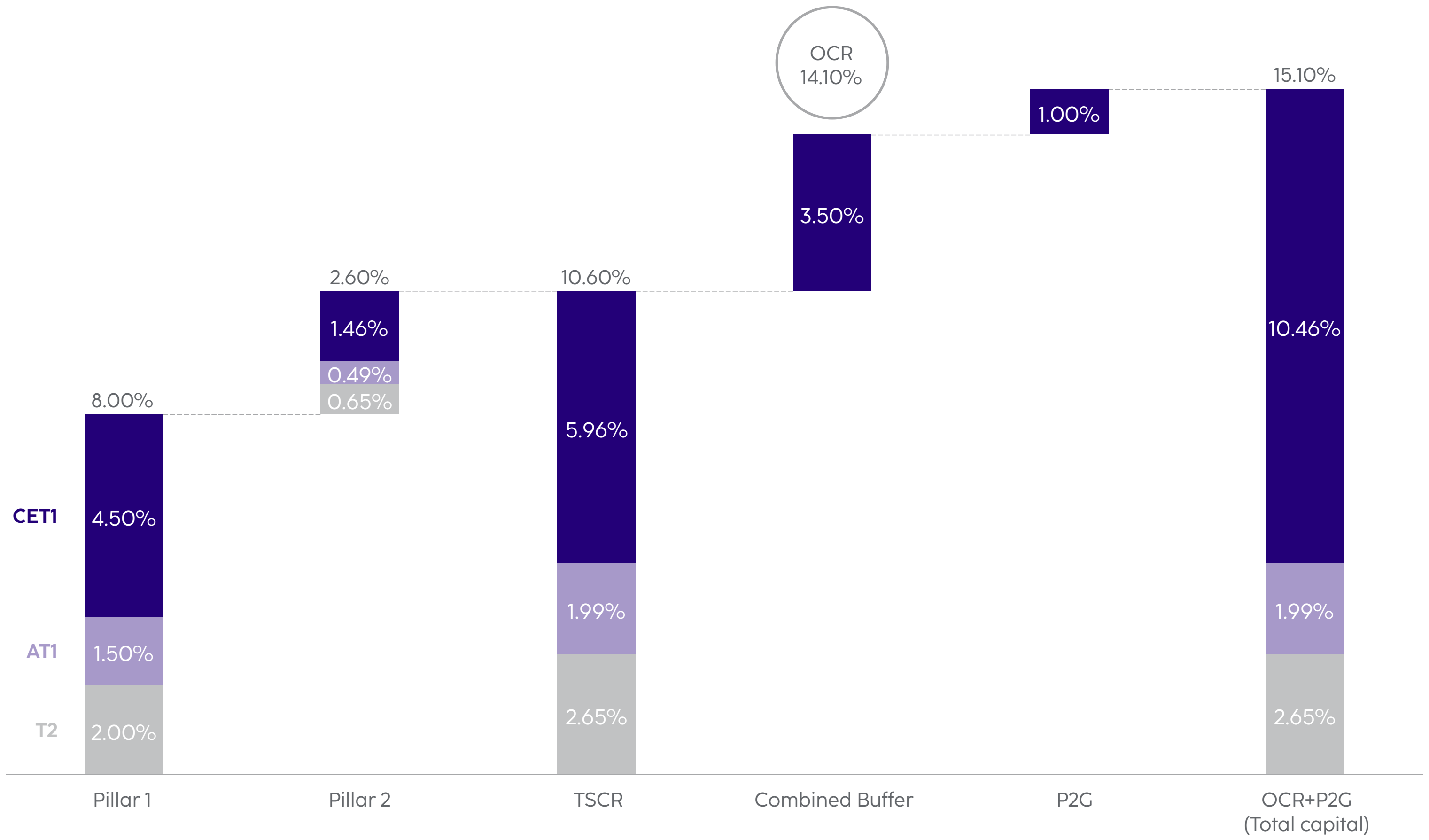


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Table 14: NLB Group Capital Requirements and buffers

		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%

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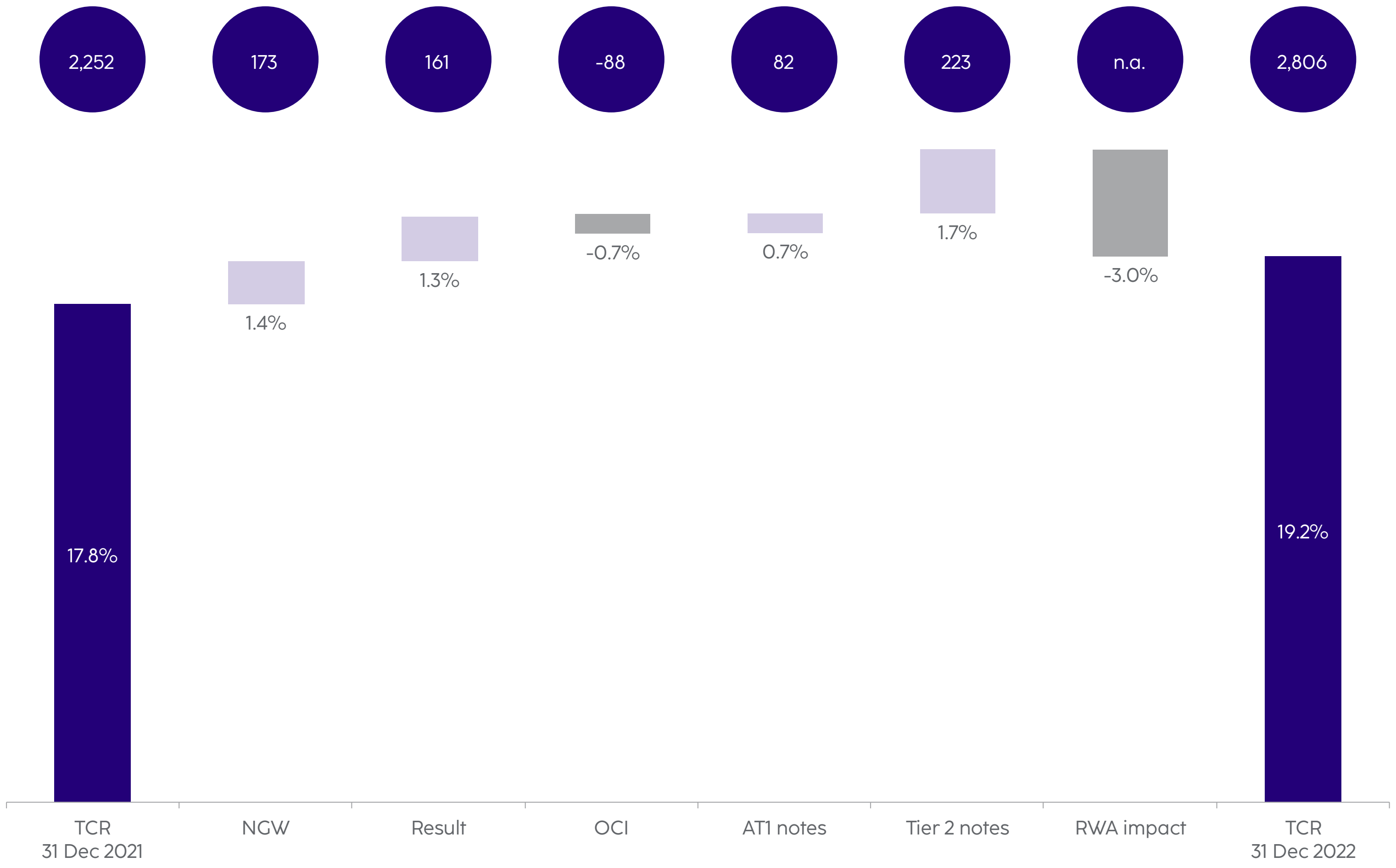
As at 31 December 2022, the TCR for the Group stood at 19.2% (or 1.4 p.p. increase YoY), and the CET1 ratio stood at 15.1% (0.4 p.p. decrease YoY). The higher total capital adequacy derives from higher capital (EUR 553.9 million YoY), which compensated the increase of the RWA (EUR 1,985.7 million YoY). The Group increased the capital with the inclusion of negative goodwill from the acquisition of N Banka in retained earnings (EUR 172.8 million), a partial inclusion of 2022 profit (EUR 161.5 million), additional Tier 1 notes issued in September (EUR 82 million), and subordinated Tier 2 notes issued in November (EUR 222.9 million[11]). In accordance with the CRR 'Quick fix' from June 2020, temporary treatment of FVOCI for sovereign securities was implemented by the Group in September 2022, which increased the capital by EUR 61.6 million (i.e., accumulated other comprehensive income amounted EUR -98.5 million instead of EUR -160.1 million). This temporary measure ceased to apply as of 1 January 2023.

The capital calculation does not include a part of the 2022 result in the amount of EUR 110 million, which is envisaged to be paid as the dividend distribution in 2023.

Dividend pay-out

The dividend pay-out in 2022 was split into two tranches. The first instalment in the amount of EUR 50.0 million was paid in June 2022, while the second was paid in the same amount of EUR 50.0 million in December 2022, thereby contributing to the 2022 cumulative pay-out of EUR 100.0 million.

Figure 27: Capital of NLB Group – evolution YoY (in EUR millions)



11 T2 notes were issued in the amount of EUR 225 million, amount included in the capital was EUR 222.9 million (due to issuance below par).

Total risk exposure dynamic

Table 15: Total risk exposure for NLB Group

			in EUR millions
	31 Dec 2022	31 Dec 2021	Change YoY
Total risk exposure amount (RWA)	**14,653.1**	**12,667.4**	**1,985.7**
RWA for credit risk	**11,797.9**	**10,205.2**	**1,592.7**
Central governments or central banks	1,109.2	1,158.5	-49.2
Regional governments or local authorities	101.2	99.8	1.4
Public sector entities	57.9	47.0	10.9
Institutions	292.0	310.2	-18.2
Corporates	3,520.3	2,748.7	771.6
Retail	4,371.0	4,171.0	200.0
Secured by mortgages on immovable property	987.7	453.0	534.7
Exposures in default	156.4	179.4	-23.0
Items associated with particularly high risk	642.4	442.5	199.9
Covered bonds	31.5	41.1	-9.6
Claims in the form of CU	17.9	19.4	-1.5
Equity exposures	90.1	88.5	1.6
Other items	420.1	446.0	-25.9
RWA for market risk + CVA	**1,445.1**	**1,218.2**	**226.9**
RWA for operational risk	**1,410.1**	**1,244.0**	**166.1**

In 2022 (YoY), the RWA of Group for credit risk increased by EUR 1,592.7 million, where EUR 747.1 million of the increase relates to the acquisition of N Banka (on the purchase day the contribution of N Banka to NLB Group was EUR 858.9 million). The remaining part of the RWA increase in the amount of EUR 845.6 million was mainly the consequence of ramping up lending activity in all Group banks, the most in the Bank and NLB Komercijalna Banka, Beograd. The RWA growth was partially mitigated by CRR eligible real estate collaterals from BiH, Serbia, and North Macedonia. Higher RWA for high-risk exposures was the result of higher project finance exposure. Furthermore, the RWA decrease was observed for liquidity assets mainly due to the maturity of some non-EU sovereign bonds (mainly Serbia, Kosovo and Russia). The lower exposure to institutions also resulted in the RWA reduction, the most in NLB Komercijalna Banka, Beograd, banks from BiH, the Bank, and NLB Banka, Skopje. At the same time, lower exposure to the covered bonds in the Bank also reduced the RWA. The repayments, as well as the upgrade of some clients, additional impairments and provisions recognised, and the package sale of NPLs from Serbia contributed to a lower RWA for the exposures in default.

The increase in RWAs for market risks and Credit Value Adjustments (CVA) in the amount of EUR 226.9 million YoY was the result of a higher RWA for FX risk in the amount of EUR 139.4 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks), higher RWA for CVA risk in the amount of EUR 73.8 million (a consequence of an adjustment of calculating exposure in the CVA calculation due to the change of a methodology from a mark to market method to the Original Exposure Method (OEM), and due to the conclusion of longer term and higher size of derivatives by the Bank) and higher RWA for Traded Debt Instruments (TDI) risk in the amount of EUR 13.7 million (a consequence of new derivatives businesses).

The increase in the RWA for operational risks (EUR 166.1 million YoY) derives from the higher three-year average of relevant income, as defined in Article 316 of CRR, which represented the basis for the calculation. The main reasons for the increase were a generally higher income base in most Group members, and the acquisition of N Banka in March 2022.

Further information on capital and capital adequacy is available in the Note 5.23. of the financial part of the report and in Pillar 3 Disclosures.

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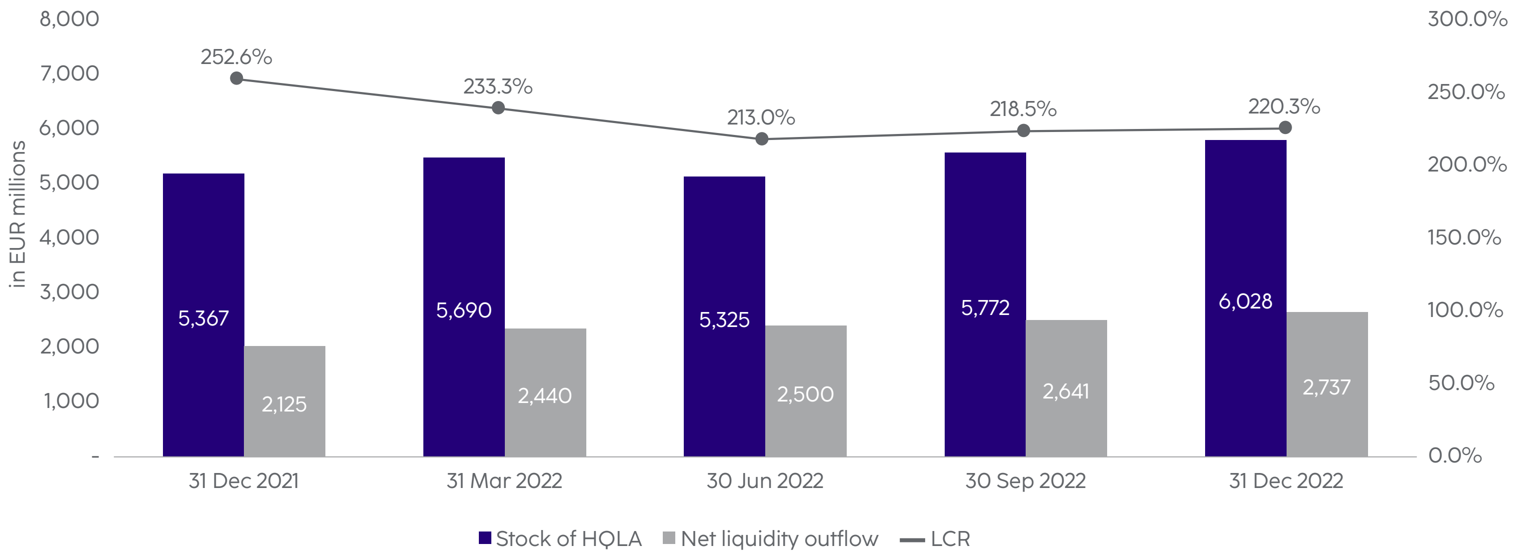
Liquidity position

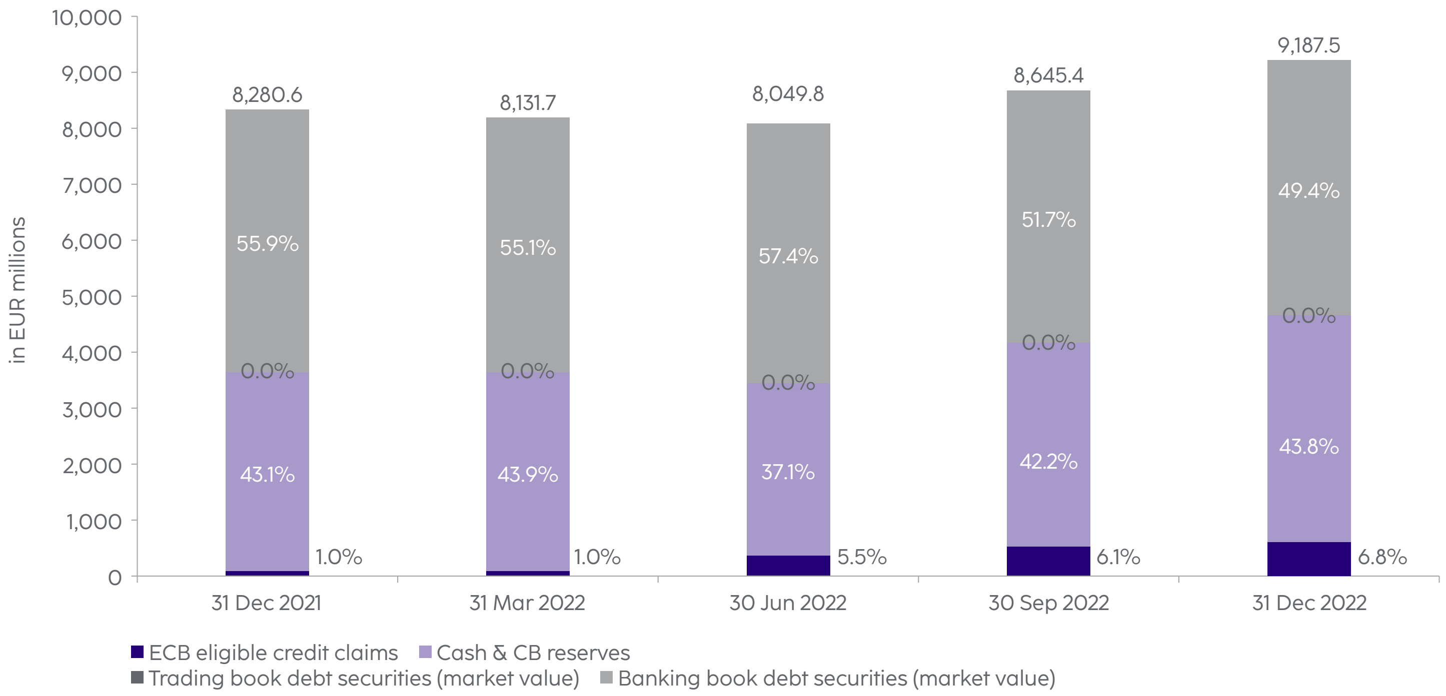
The Group's liquidity remains strong, with a high level of unencumbered liquidity reserves in total assets (39.0%) that is reflected in the LCR ratio standing at 220.3% (31 December 2021: 252.6%). The Group holds a comfortable liquidity position, with liquidity ratios standing well above the risk appetite limit at the Group and individual banking member level.

Figure 28: LCR quarterly dynamic of NLB Group



As at 31 December 2022, the Group's unencumbered liquidity reserves corresponded to EUR 9,187.5 million (2021: EUR 8,280.6 million) comprised of cash, balances with CB without minimum reserve requirement, the debt securities portfolio, and credit claims eligible for CB-secured funding operations. Among others, these liquidity reserves provided the basis for future strategic growth. Encumbered liquidity reserves, used for operational and regulatory purposes, were excluded from the liquidity reserves portfolio and amounted to EUR 123.0 million (excluding obligatory reserves; 31 December 2021: EUR 877.6 million). The decrease of the encumbered liquidity reserves was due to the early repayment of additional financing via the CB secured funding at the end of H1 2022.

Figure 29: Evolution of NLB Group unencumbered liquidity reserves (in EUR millions)



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Segment Analysis

Table 16: Segments of NLB Group

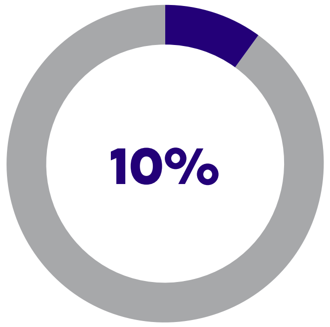
		Core Segments					Non-Core Segment
		Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets[12]	Financial Markets in Slovenia	Other	Non-Core Members
		includes banking with individuals and micro companies (the Bank and N Banka), asset management (NLB Skladi), a part of NLB Lease&Go, Ljubljana that includes operations with retail clients, and the contribution to the result of the associated company Bankart.	includes banking with Key Corporate Clients, SMEs, Cross-Border Corporate financing, Investment Banking and Custody, Restructuring and Workout in the Bank and N Banka and a part of the NLB Lease&Go, Ljubljana that includes operations with corporate clients.	include the operations of strategic Group banking members in the strategic markets (North Macedonia, BiH, Kosovo, Montenegro, and Serbia), investment company KomBank Invest, Beograd, NLB DigIT, Beograd, to which IT services from NLB Banka, Beograd were transferred in 2022, the newly established leasing company NLB Lease&Go, Skopje and in 2022 the purchased company NLB Lease&Go Leasing, Beograd.	include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM) in both, the Bank and N Banka.	accounts in the Bank and N Banka for the categories whose operating results cannot be allocated to specific segments, including negative goodwill from the acquisition of N Banka in March 2022, as well as subsidiaries NLB Cultural Heritage Management Institute and Privatinvest.	includes the operations of non-core Group members, i.e., REAM and leasing entities in liquidation, NLB Srbija, and NLB Crna Gora.
	NLB Group						in EUR millions
Profit b.t.	483	47	52	187	34	172	-9
Contribution to Group's profit b.t.	100%	10%	11%	39%	7%	36%	-2%
Total assets	24,160	3,677	3,372	10,179	6,514	356	62
% of total assets	100%	15%	14%	42%	27%	1%	0%
CIR	57.6%	68.1%	61.9%	53.4%	20.2%	79.1%	268.4%
Cost of risk (bps)	14	58	-42	7	/	/	/

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 the Group's revenues.

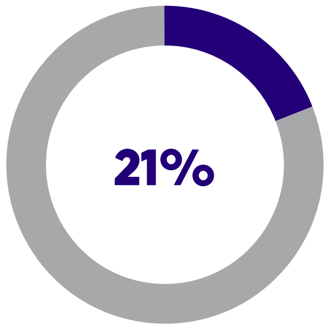
12 Komercijalna banka, Banja Luka was sold outside the NLB Group on 9 December 2021; its operations till that date are included in the result of the segment for the year 2021.

Retail Banking in Slovenia

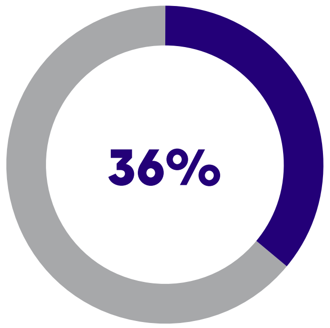
Figure 30: Contribution to NLB Group



Result b.t.



Net interest income



Net non-interest income

Knowing customers' needs and with clients' experience being our focus, the Bank strengthened its position as market leader in retail banking. The trigger to acquire new clients and to activate existing ones is to tailor its product and service offering to the needs of different segments. The Bank is available through its traditional branch offices, a unique mobile branch on wheels, and its wide ATM network. As the main goal is to be a bank that can compete in the digital world and can make the best use of strategic assets – through transformation of the sales process and improving of user experience. The Bank's services are available to clients 24/7 via the Contact Centre and digital banking.

Financial performance

Table 17: Performance of the Retail Banking in Slovenia segment

in EUR millions consolidated

	2022	2021	Change YoY		
				o/w N Banka contribution	
Net interest income	104.8	79.5	25.3	9.3	▲ 32%
Net interest income from Assets[i]	95.8	82.7	13.1	8.0	▲ 16%
Net interest income from Liabilities[i]	9.1	-3.1	12.2	1.3	-
Net non-interest income	106.7	91.5	15.2	6.4	▲ 17%
o/w Net fee and commission income	113.2	96.6	16.7	6.4	▲ 17%
Total net operating income	**211.5**	**171.0**	**40.4**	**15.7**	**▲ 24%**
Total costs	-144.0	-116.5	-27.5	-16.3	▼ -24%
Result before impairments and provisions	**67.4**	**54.5**	**12.9**	**-0.6**	**▲ 24%**
Impairments and provisions	-21.4	-6.7	-14.8	-3.3	-
Net gains from investments in subsidiaries, associates, and JVs'	0.8	1.1	-0.3		▼ -30%
Result before tax	**46.8**	**49.0**	**-2.2**	**-3.8**	**▼ -4%**

	31 Dec 2022	31 Dec 2021	Change YoY	
Net loans to customers	3,586.5	2,731.6	855.0	▲ 31%
Gross loans to customers	3,641.0	2,769.7	871.3	▲ 31%
Housing loans	2,173.9	1,815.5	358.4	▲ 20%
Interest rate on housing loans	*2.35%*	*2.34%*	*0.01 p.p.*	
Consumer loans	640.9	635.6	5.3	▲ 1%
Interest rate on consumer loans	*7.11%*	*6.70%*	*0.41 p.p.*	
N Banka, Ljubljana	446.1			
NLB Lease&Go, Ljubljana	69.0	40.4	28.6	▲ 71%
Other	311.1	278.2	32.8	▲ 12%
Deposits from customers	9,085.8	7,703.6	1,382.1	▲ 18%
Interest rate on deposits[ii]	*0.05%*	*0.03%*	*0.02 p.p.*	
N Banka, Ljubljana	502.0			
Non-performing loans (gross)	67.7	58.1	9.6	▲ 17%

	2022	2021	Change YoY
Cost of risk (in bps)	58	26	32
CIR	68.1%	68.1%	0.0 p.p.
Interest margin[ii]	1.70%	1.55%	0.15 p.p.

(i) Net interest income from assets and liabilities with the use of Fund Transfer Pricing (FTP).
(ii) Interest margins and interest rates only for NLB.

Net interest income
The net interest income from loans to individuals was EUR 25.3 million higher YoY (EUR 9.3 million contributed by N Banka), due to the higher volume of housing loans and overdrafts and the key ECB interest rate increase in the second half of the year that also impacted higher net interest income after use of FTP on clients' deposits.

Net non-interest income
Higher net non-interest income in the amount of EUR 15.2 million YoY was due to EUR 16.7 million higher net fee and commission income, of which EUR 6.4 million came from N Banka. The growth derived from all categories, in large part from card business, due to higher volume and active cost management, but also from payments, asset management, bancassurance products, and the income from the high balance deposit fee.

Total costs
Higher costs by EUR 11.3 million without N Banka's contribution, mostly due to higher operating costs resulting from inflationary pressures.

Net impairments and provisions
Net impairments and provisions were established in the amount of EUR 21.4 million, due to increase of loan volume and changes in risk parameters as a response to worsened macroeconomic projections.

Loans to customers
The high production of new housing loans in the Bank continued (EUR 726.6 million in 2022) and resulted in the increase of the portfolio by 20% YoY. However, the new production stabilised in the last quarter due to an increased interest rate environment.

26.6%

market share in housing loans

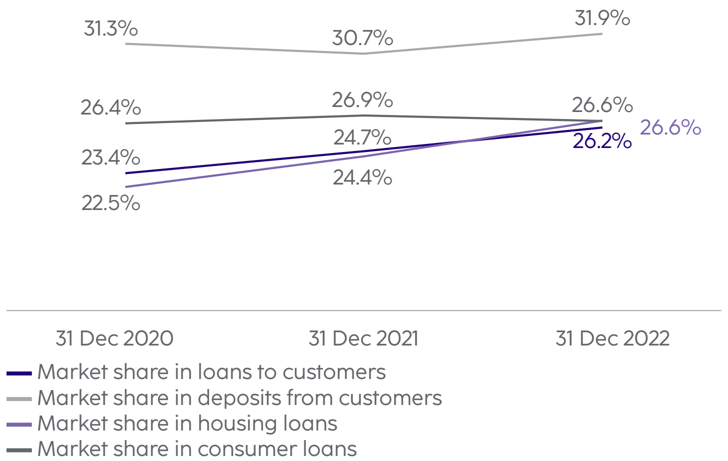
Retail part of NLB Lease&Go, Ljubljana successfully continued with a steady growth pace and concluded approximately EUR 47 million new deals (of which in 97% subject of financing was passenger vehicle, while in remaining 3% light commercial vehicles were largely presented).

Deposits from customers
The deposits base increased by EUR 1,382.1 million (18%) YoY, with EUR 502.0 million from N Banka, as a result of precautionary savings of households, due to the uncertainty of rising prices and the expected impact on their financial situation in the future.

Business performance

The market leader in retail banking in Slovenia

Figure 31: NLB's market share in Retail Banking in Slovenia



Leader in Slovenia
The Bank continued to strengthen its leading position with a market of 26.2% in retail lending (31 December 2021: 24.7%), and 31.9% deposit-taking (31 December 2021: 30.7%).

Market shares in the category of housing loans increased, specifically in portfolio to 26.6% (31 December 2021: 24.4%), and in new production, as a result of the historic record sales of new housing loans, to 32.5% (2021: 32.2%).

A well-established branch network and the largest ATM network (31 December 2022: 538) with the only Slovenian 24/7 banking Contact Centre are other factors establishing the Bank as the market leader.

The Bank retains its role as a market leader in payments by being a reliable and trustworthy provider of services and 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 has been strengthening its position for several years as a leading asset management company with the highest market share and annual net inflows among its peers.

Ways to the Client

Branch network
The Bank's main sales channel remains its branch network in Slovenia with 71 branches, however the preferences of our clients are changing with increasing use of digital solutions in their interaction with the Bank, those being more simple, more convenient, and available wherever and whenever. The focus for the future is in a more advisory role, thus educating clients about self-service on digital channels.

Comprehensive renovation of branch offices, which was stalled by the pandemic, continued in 2022. An important milestone in N Banka's integration was achieved with the smooth transfer of seven branch offices to a kiosk-type of office, which are now part of the NLB respective branches.

30%

annual growth of new housing loans production

Contents

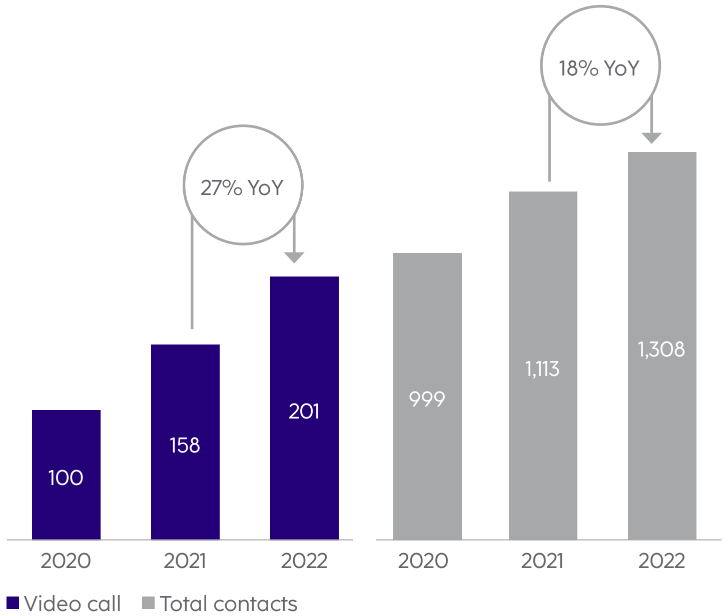
Only 24/7 available banking service in Slovenia

The Contact Centre is positioned as a service and sales channel, transforming to a retail virtual bank for almost all of the Bank's products like consumer and housing loans with straightforward collateral, overdrafts, insurance products, deposits, savings, and onboarding of e-bank and m-bank. In 2022, its share of concluded basic financing products of the Bank (consumer loans and overdrafts) was 11%. This part of Retail banking has an important role as a standalone sales and advisory remote channel, and at the same time offering very much support to customers of m-bank and branch network 24/7.

The Contact Centre further strengthened its role of a proactive customer outbound calling centre and processed 27% more video calls YoY. With the new support for contact management, customers can now also use the "Call back" option and also give a customer experience rating for telephone communication.

An average NPS for a video call was 75, and the first Customer Experience (CX) measurement on telephone communication achieved an NPS of 62.

Figure 32: NLB Contact Centre number of contacts (in thousands)

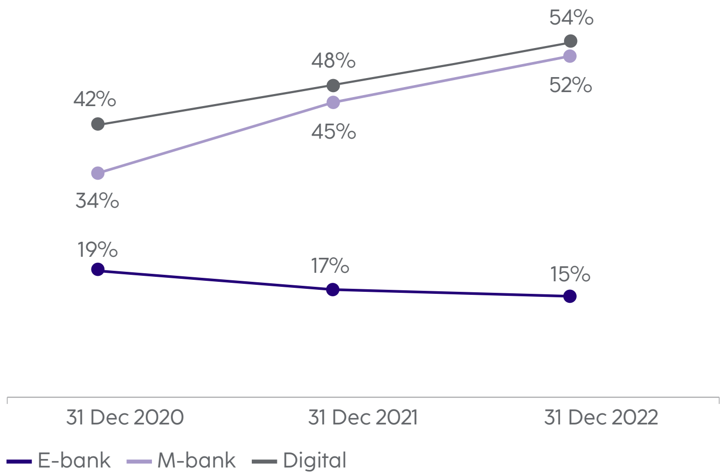


Digital banking

The number of digital users in 2022 increased by 14% YoY. The rate of m-bank Klikin and e-bank NLB Klik users YoY increase remains stable at 16% (66,018 new users) and 6% (23,619 new users), respectively, which is also clearly proven by the digital penetration of active clients (see the figure below). The latter is also an enabler for decreasing cash and transactional business in branches.

The total volume of payments processed digitally through e-bank and m-bank increased by 16% YoY. Moreover, products with contracts are finalized with digital signing of documents in m-bank Klikin, contributing to paperless operations.

Figure 33: Digital penetration of active clients



Active clients' base increase

Constant activities in attracting new clients in 2022 resulted in the acquiring of 36,196 new clients, of which 20% are returning clients. However, with proper measures the retention of clients is also at high level and contributed to growth of the client base. The focus of client acquisition is primarily on the segment which presents the Bank's future client pool – young citizens. Several activities, also in cooperation with relevant companies, are reflected in adjusting products that are most suitable for this segment.

Package Digital onboarding for new clients was upgraded with key advantages including an adjusted view that provides better user experience and automated processes, some of which are now possible due to regulatory changes.

With the acquisition and retention of clients, constant activity is also an activation of existing client pools, resulting in growing the base of active clients. In 2022, the number of active clients increased by 1.7% YoY (+10,645 clients).

Micro segment

The Bank expects to increase the volume of business in the segment, and consequently gain market share through adopting high standards and expertise. With the merging of N Banka's client base, the Bank will be able to use cross-selling and upselling, which will lead to better product penetration of the client portfolio.

Private banking

Leading private banking provider in Slovenia

The Bank was the first in Slovenia to have a clear vision of an exclusive offer of asset management for high net-worth individuals and families. Today, 20 years later, this successful story of private banking is an integral part of the offer, with more than EUR 1.3 billion assets under management (11% YoY growth) for 2,000 clients (11% increase YoY).

By offering carefully selected and tailored products and services, the Bank demonstrates that it can take good care of their clients' wealth. Comprehensive wealth management brings a combination of banking and financial products and the whole spectrum of advisory services.

Increased digital penetration

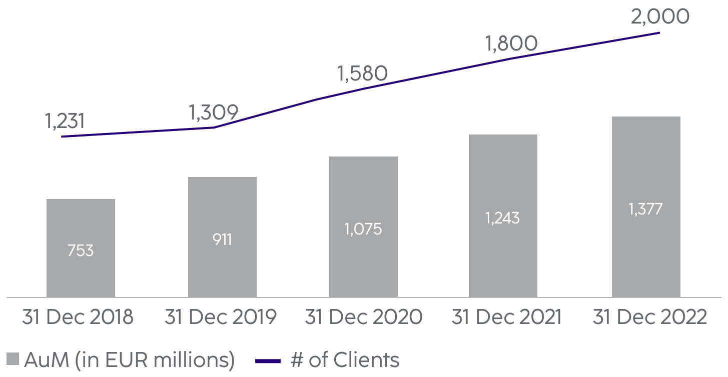
by 6 p.p.

More than 36,000

new clients acquired

As the global markets significantly changed in 2022, the sale of gold was introduced for the clients of private banking, with first encouraging results being achieved for this new investment offering.

Figure 34: Assets under management and the number of private banking clients



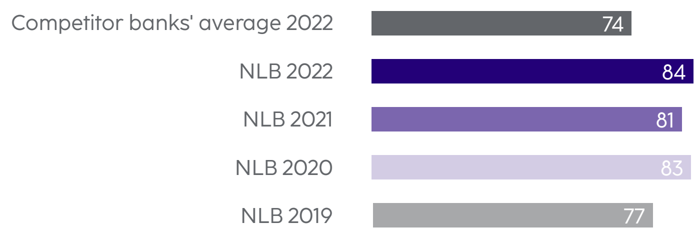
Client satisfaction is our focus

High level of client satisfaction

The Bank measures client satisfaction on two levels, each serving a specific purpose for customer experience management and offers improvements. In our Client Satisfaction Survey (CSS), a long-term relationship with the clients through the indicator Customer Satisfaction Index (CSI) is measured. The indicator of transactional satisfaction after completed service with a focus on processes and attitude towards clients is the NPS.

The Bank maintained a high level of client satisfaction, as measured with CSI remaining stable and well above the competition. Furthermore, clients express a higher level of satisfaction with our advisors. Kindness and competence are valued the most and are the main reasons for higher client satisfaction (84 vs. 74 for the competition; 2022 Valicon Client Satisfaction Survey). Also, the NPS for 2022 shows a high level of satisfaction with value 62 (the benchmark for the financial sector in 2022 is 49; SurveyMonkey global benchmark), which was mostly influenced by the high satisfaction with consultancy.

Figure 35: Satisfaction with the attitude towards customers



Source: 2022 Valicon Client Satisfaction Survey.

Financing products

Dedicated sales teams and successful marketing campaigns played important roles in contributing to the excellent sales results.

To enable our clients' management of unexpected costs or higher monthly expenses (car insurance, paying for vacations, buying school supplies, etc.), the Bank developed a solution of postponing the payment of one monthly instalment of the loan. Without giving a reason, the client can once in each calendar year freeze one payment, with the loan repayment period being extended for the period of payment deferrals. This option can be used after six months of regular loan repayments.

A gradual reduction of the overdraft with automatic renewal was very well accepted by clients who can decrease the amount of the overdraft every month by a pre-agreed amount until it's paid off. Since the overdraft is automatically renewed, it can be paid off over several years.

Sustainability

Environmental and social sustainability are important goals of the Group. They are also being incorporated in the Group with our growing ESG product portfolio. Different financing products help customers implement sustainability measures in developing their own lasting environmental solutions. An ESG-oriented offer includes the NLB Green housing loan to finance construction or purchase of a passive house, and finance the purchase of solar panels, heat pumps, and central ventilation also in cooperation with vendors. Connecting with partners to help our clients in their transition to energy efficiency resulted in the offer of the NLB Green partner loan as an end-to-end solution. In 2022, the Bank provided more than EUR 53 million in ESG-related loans.

The Bank teams organised the workshops entitled, "Modern Banking" for the elderly, where the use of modern digital banking services was presented. In addition to the excellent response and positive feedback, digital products were activated. With the participation of students working for the Contact Centre, this was a true intergenerational event.

Stable card portfolio

In 2022, Mastercard's personal debit card was introduced in digital form only, enabling the card and PIN to be issued instantly, and can be used immediately after the client digitizes its card in the NLB Pay m-wallet.

The contactless payment limit with no PIN needed was raised to EUR 50 for NLB cards, as well. With green awareness in mind, a receipt is issued only on demand.

Individual debit and credit card volumes and the number of payment transactions and cash withdrawals, YoY increased by 18% or 16%, respectively.

Mobile wallet - NLB Pay

From May onwards, online purchases have no longer been possible without strong authentication. Therefore, the use and download of NLB Pay m-wallet is even more important and proven with the continued increase of usage at a significant pace. With NLB Pay solution, the Bank was also among the first complying with the modern security standards of the EU directive.

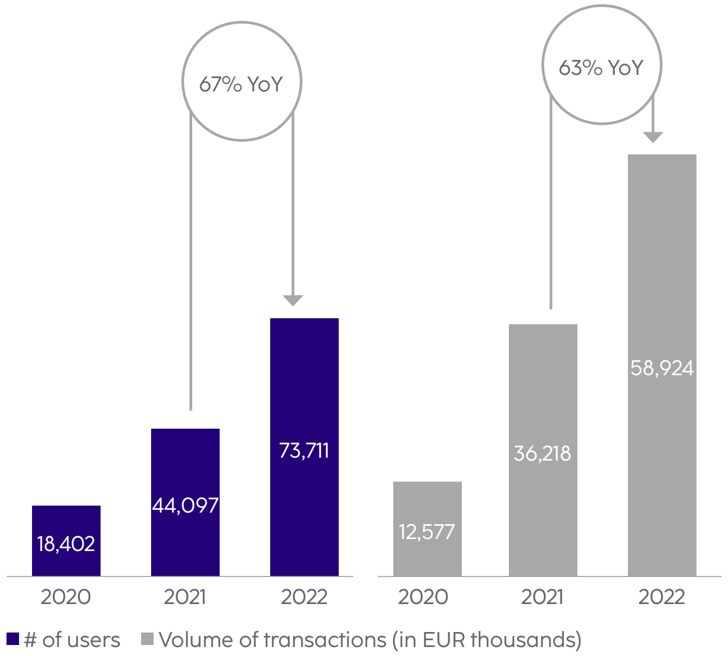
Further strengthening of the market position in

lending, deposits, and asset management

The Flik solution is incorporated in NLB Pay, enabling client's P2P (person to person) money transferring among all Slovenian bank clients, P2M (person to merchant) payments as purchase on NLB POS terminals, and on Point of Sale (POS) terminals of some other Slovenian banks which have upgraded their POS. The Bank is the first on the market also for Person to e-Merchant (P2eM) for online purchases.

Use of m-wallet NLB Pay increased at a significant pace with the number of users and volume of transactions YoY, increasing by 67% and 63% YoY, respectively.

Figure 36: NLB Pay in numbers



Added value in ancillary businesses

NLB Skladi – Slovenia's largest asset management company

The conflict in Ukraine and higher energy costs, which led to a further increase in inflation, higher interest rates and lower purchasing power of the population had a significant impact on the mutual funds market in 2022. Despite that, the market share of NLB Skladi increased to 39.1% (31 December 2021: 37.3%). With EUR 115.3 million of net inflows in 2022, the company again ranked first among its peers in Slovenia, accounting for 55.2% of all net inflows in the market.

The total assets under management nevertheless experienced a YoY drop of 7.9% and amounted to EUR 1,960.4 million (31 December 2021: EUR 2,128.0 million) of which EUR 1,536.2 million consisted of mutual funds (31 December 2021: EUR 1,610.4 million) and EUR 424.2 million of the discretionary portfolio (31 December 2021: EUR 517.6 million).

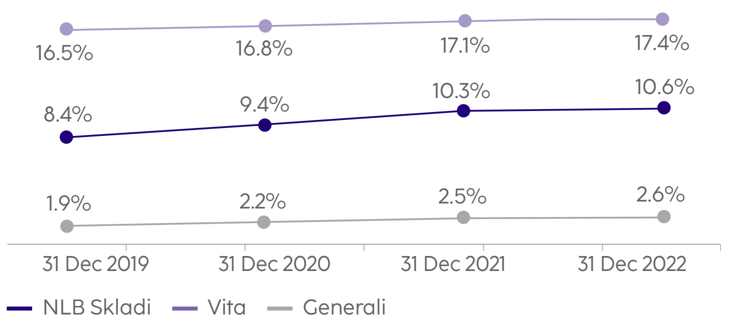
Bancassurance

The Bank is the top sales channel among Slovenian banks with spectrum of life and non-life insurance products in its offer.
In the Bank's sales channels bancassurance products of the insurance companies Vita and GENERALI Zavarovalnica are sold.

The insurance company Vita remains the Bank's strategic partner with products such as savings and investment insurance products, risk, and health insurance products being included in the Bank's offer.

Despite challenging circumstances, excellent results for Generali's products of car insurance and home insurance were achieved, namely gross written premiums increased YoY by 13%.

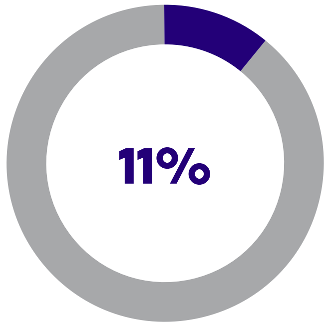
Figure 37: Active clients' penetration of ancillary business



Contents

Corporate and Investment Banking in Slovenia

Figure 38: Contribution to NLB Group



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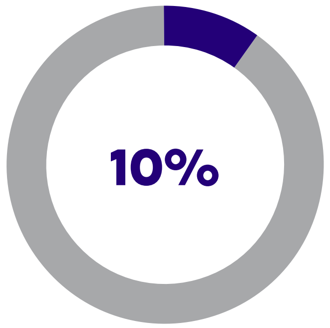
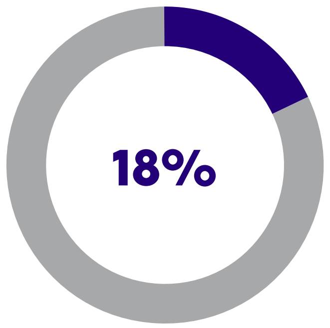


Net interest income



Net non-interest income

The Bank reconfirmed its role of a leading and systemic player in its home region and supporting corporate clients with daily banking and tailor-made comprehensive solutions, including trade finance, corporate finance, and cross border financing. Customer centricity and sustainability are the basis of what we do.

Financial performance

Table 18: Performance of the Corporate and Investment Banking in Slovenia segment

in EUR millions consolidated

	2022	2021	Change YoY	o/w N Banka contribution	
Net interest income	52.9	35.7	17.2	5.5	▲ 48%
Net interest income from Assets[i]	53.7	41.1	12.6	5.1	▲ 31%
Net interest income from Liabilities[i]	-0.8	-5.4	4.6	0.4	▲ 86%
Net non-interest income	52.3	65.8	-13.5	3.3	▼ -21%
o/w Net fee and commission income	43.6	38.9	4.7	3.2	▲ 12%
Total net operating income	**105.2**	**101.5**	**3.7**	**8.7**	**▲ 4%**
Total costs	-65.1	-45.1	-20.0	-12.9	▼ -44%
Result before impairments and provisions	**40.1**	**56.4**	**-16.3**	**-4.2**	**▼ -29%**
Impairments and provisions	12.2	30.5	-18.3	4.6	▼ -60%
Result before tax	**52.3**	**86.8**	**-34.6**	**0.4**	**▼ -40%**

	31 Dec 2022	31 Dec 2021	Change YoY		
Net loans to customers	3,370.1	2,332.4	1,037.7		▲ 44%
Gross loans to customers	3,424.6	2,390.7	1,033.9		▲ 43%
Corporate	3,311.5	2,258.5	1,052.9		▲ 47%
Key/SME/Cross Border Corporates	2,623.2	2,110.6	512.5		▲ 24%
Interest rate on Key/SME/Cross Border Corporates loans	*1.95%*	*1.79%*		*0.16 p.p.*	
Investment banking	0.1	0.1	0.0		▼ -4%
Restructuring and Workout	60.8	88.2	-27.5		▼ -31%
N Banka, Ljubljana	506.7				
NLB Lease&Go, Ljubljana	120.7	59.6	61.1		▲ 103 %
State	112.9	131.9	-19.0		▼ -14%
Interest rate on State loans	*2.59%*	*2.07%*		*0.52 p.p.*	
Deposits from customers	2,731.0	1,938.2	792.8		▲ 41%
Interest rate on deposits[ii]	*0.07%*	*0.03%*		*0.04 p.p.*	
N Banka, Ljubljana	396.5				
Non-performing loans (gross)	67.6	72.5	-4.9		▼ -7%

	2022	2021	Change YoY
Cost of risk (in bps)	-42	-141	99
CIR	61.9%	44.4%	17.4 p.p.
Interest margin[ii]	1.80%	1.76%	0.05 p.p.

(i) Net interest income from assets and liabilities with the use of FTP.
(ii) Interest margins and interest rates only for NLB.

Net interest income

The interest income from loans to corporate and state was EUR 7.5 million higher YoY without N Banka's contribution. The interest margin from loans in the Key, SME and Cross-Border Corporates in the Bank was EUR 5.2 million higher YoY, mostly due to higher volumes in all sub-segments. However, the interest rates also started to increase due to the key ECB interest rate hikes which impacted both, loans and deposits.

Net fee and commission income

Higher net fee and commission income YoY, mostly due to higher income from cards, payment transactions, and guarantees. A high balance deposit fee was cancelled from August on and influences fee income by approximately EUR 0.8 million each month, but was compensated with the net interest income after the user of FTP on clients' deposits.

Total costs

Higher costs by EUR 7.1 million without N Banka's contribution, mostly due to higher operating costs resulting from inflationary pressures.

Net impairments and provisions

Net impairments and provisions were released in the amount of EUR 12.2 million, mostly due to repayments of previously written-off receivables, which offset the establishment of impairments and provisions due to higher exposures and changes in risk parameters as a response to worsened macroeconomic projections.

Loans to customers

The volume of loans increased by EUR 1,033.9 million YoY, with N Banka contributing EUR 506.7 million, with the growth distributed in all sub-segments. With a EUR 61.1 million increase in the portfolio, the contribution of the NLB Lease&Go, Ljubljana to the segment is growing.

Deposits from customers

The volume of deposits increased for EUR 792.8 million YoY, of which EUR 396.5 million contributed N Banka, due to various reasons, i.e., the increase of balances in investment and pension funds, and inflows from takeovers on the market.

Investment Banking and Custody

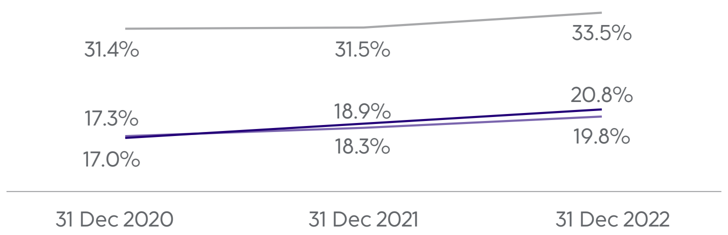
The total value of assets under custody increased YoY and amounted to EUR 16.4 billion (31 December 2021: EUR 15.9 billion).

Arranging
EUR 961.1 million
of syndicated loans

Business performance

Market leader focusing on customer needs

Figure 39: NLB's market share in Corporate Banking in Slovenia



Main achievements of 2022

With deep and strong local and regional presences, the Bank further increased its corporate client base to over 10,000 clients, and not only confirmed its leading role in all areas of corporate banking, but again reinforced its commitments to understanding and supporting the economy and the clients.

The Bank approved over EUR 1.5 billion new financing volume to corporate and state clients, which generated an increase in loan volume by 21.9% YoY, and further strengthened their loan market share to customers to 19.8% (31 December 2021: 18.3%). Loan growth was realised in all business segments, specifically with large corporates enjoying a 17.2% increase YoY, with SME a 31.1% increase YoY, and in the cross border segment a 29.8% increase YoY. The market share of deposits also increased and reached 19.4% at the end of the year (31 December 2021: 18.9%) confirming its strong systemic position and trust from its broad client base.

After the war started in Ukraine, the international market environment became unpredictable with a higher demand for working capital facilities. With the emerging of energy crisis, the Bank rapidly responded to its clients' needs and arranged EUR 285 million of new syndication financing for the respective energy sector, with EUR 105 million of own participation. In addition, the Bank provided certain bilateral facilities, with all this confirming its position as a systemic bank and a strong supporter of the economy.

The Bank further improved its leading position in trade finance products, supporting clients with letters of guarantees, letters of credit, and purchases of receivables, which are also available through digital channels in a safe and fast way.

22%
annual growth in corporate loans volume w/o N Banka contribution

Activities of the Bank in organising syndicated facilities continued with the total annual amount of EUR 961.1 million. In these transactions, the Bank acted as the mandated lead arranger, as an agent and as the leading bank with a EUR 306.0 million participation.

Having a unique regional position with a local presence enabled the Bank to further expand cross-border financing activities and increased its portfolio by up to EUR 500 million of financing volume, including financing in the Group's home region and across European Economic Area (EEA) with sound diversification in terms of geography and industry.

Sustainability has been at the centre of the Bank's activities, where the Bank also introduced new green products for corporate clients, addressing the client needs at lower financing costs. In 2022, the Bank approved more than EUR 105 million in new financing in the ESG area.

Strategic priorities

The Bank remains fully devoted to its strategic priorities:

- Remaining the leading and best preferred bank among all corporate clients, offering them best in class products and solutions, and enabling our clients to improve their international business and footprint.
- Keeping deep customer relationships and continuing to improve customer satisfaction and experience, also by product and process digitalization.
- Maintaining a leading position in Slovenia in the areas of trade finance, project finance, loan syndications, and M&A finance, aiming to further expand that role in the SEE region, while maintaining disciplined risk management.
- Working closely with companies to help them transition towards net zero emissions and confirming the Bank's commitment to sustainability finance by supporting new green projects in a broader region and contributing to society.
- Focusing on profitability, also by improving fee business and strengthening our focus on capital light product solutions.

Comprehensive solution offering

Trade finance solutions

Strong market position

The Bank is a leading Slovenian bank in the field of trade finance with products that support domestic and international trade economy. The trade finance product range and tailor-made solutions are comprehensive and included 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 also aims to offers exporters and importers the international purchase of receivables.

In all product fields (guarantees, letter of credit and purchase of receivables) the Bank realised over 30% volume growth YoY. Despite already strong market position in Slovenia, market shares were further improved, namely in guarantees and letter of credits to 33.5% (2021: 31.5%).

We further enriched our offer with reverse factoring, which represents a safe and quick way of supplier finance, and the Bank can process the transactions in modern digital way. Special attention has been given to letter of guarantees and counter-guarantees by which the Bank supports major infrastructure and ESG projects in Slovenia and the wider home region. A strong market position reflects the Group's active advisory approach towards its customers.

Investment banking and securities services

Arranger of several transactions

In 2022, the Bank organised six syndicated facilities in the total amount of EUR 961.1 million, where it also acted as the mandated lead arranger, as an agent, and as the leading bank with participation of EUR 306.0 million.

The Bank was also very active in the field of issuing new financial instruments by arranging the issuance of both long-term and short-term instruments in the total amount of EUR 621.7 million on debt capital markets.

The Bank was regionally active in M&A and other financial advisory engagements (organising and coordinating M&A procedure, advising on optimal capital structure, organising takeover bids, etc.).

Brokerage services and Financial Instruments

In the brokerage services in 2022, the Bank executed clients' buy and sell orders in the total amount of EUR 1.09 billion (2021: EUR 902.9 million), while in dealing in financial instruments, the Bank executed foreign exchange spot deals in the total amount of EUR 1.38 billion (2021: EUR 946.6 million) and for EUR 433.2 million (2021: EUR 382.5 million) worth of transactions involving derivatives.

Economic conditions in 2022 resulted in more activities of the clients in foreign, non-Euro markets. Consequently a 20% increase was recorded in the number of clients concluding FX deals.

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 2022, was together with the fund administration services EUR 16.4 billion (31 December 2021: EUR 15.9 billion).

33.5%

market share in guarantees and letters of credit

Cross Border Financing

Financing within the Group home region

Excess liquidity, a rather limited Slovenian market, and the desire to expand operations with existing and new clients are the main reasons why cross-border financing has become increasingly important.

At the end of 2022, the portfolio of approved cross-border transactions in the Bank reached EUR 500 million (thereof EUR 360 million already drawn). Adding the participating shares of the Group subsidiaries, with the approved transactions amount exceed EUR 700 million. It is notable that in most cases approvals also meant that local Group subsidiaries can retain or increase their fee business and expand cross-selling potential with our clients.

The overreaching theme of cross-border financing was continuous support of our key clients and involvement in the financing of some of the key projects in our home region. On the corporate finance side, this has meant a dominant focus on supporting energy and telecommunication industries, while on the project finance and real estate side, the Group has arranged and co-arranged several key financings, including major residential real estate in BiH, large renewables project in Serbia, and office and residential real estate projects in Serbia.

Further potential in the home region can especially be observed in corporate financing, renewable energy, infrastructure, and residential/office real estate. Special focus is foreseen in financing renewable projects - as the Group's priority, especially given the exceptional potential and opportunities which our home region offers in this respect.

30%

annual growth in cross border financing volumes

Corporate lending in EEA

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

Deals are primarily made through participation in syndicated international facilities or through participation in Schuldschein loans, which also include some of world-renowned brands and leaders in their industries. The EEA lending part of cross-border portfolio exceeds EUR 160 million and is expected to grow further due to very well-established relationships with some of the European partnership banks. The focus remains profitable investments in stable EEA markets (with lower expected inflation and higher credit ratings) which significantly contribute to the further diversification of the investment portfolio of cross-border financing.

Leasing financing within NLB Lease&Go, Ljubljana

NLB Lease&Go, Ljubljana potential

Leasing activity is and has been since the second half of 2020, again the Group core activity. In 2022, it successfully continued its market progress, with a steady growth pace. Concluded new business totalled approximately EUR 120 million in deals with legal entities. In almost 44% of the deals, the subject of financing was a passenger vehicle (where used vehicles presented 64%), followed by almost 36% on heavy commercial vehicles (where new vehicles presented 73%), 14% represented equipment and the remaining 6% largely concentrated on new light commercial vehicles. The vast majority of respective production consisted of financial leasing, including stock financing. As per the latest publicly available data (outstanding as per 31 December 2022), the company had approximately 10% of the market share in segment in the legal entities.

In March 2022, the Bank obtained permission from the BoS to intermediate in leasing transactions for corporate clients to the affiliated company NLB Lease&Go, Ljubljana with the aim of offering bank clients comprehensive financing solutions and customer experience.

Transaction Banking and Payments

Basic products

After opening business account or any business package Mastercard's business debit card is available in digital form only, enabling the card and PIN to be issued instantly. It can be used immediately after the client digitizes its card in the NLB Pay m-wallet with no visit to any Bank's premises. This is possible also to all authorised card's holders and most importantly, the green issue with less plastic.

Mobile wallet NLB Pay

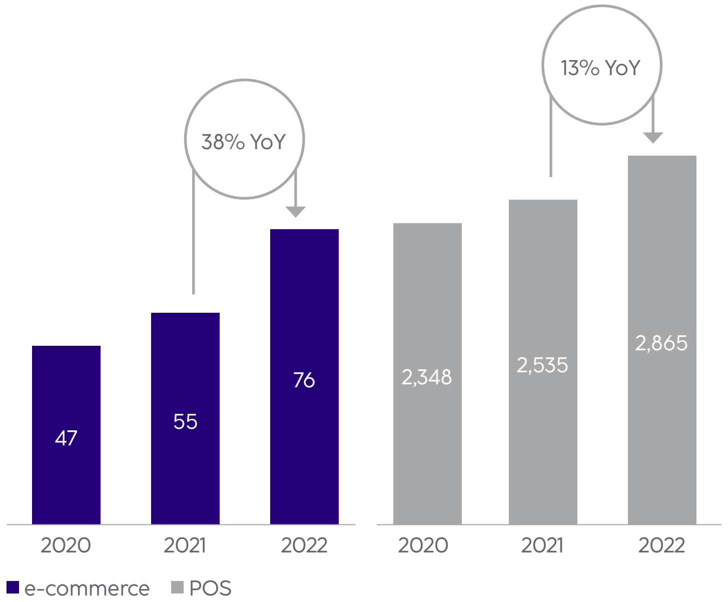
The Bank's mobile wallet NLB Pay application enables clients to make contactless, simple, fast, and secure payments on the contactless POS (in Slovenia and abroad) with the NLB Business debit Mastercard and NLB Business pay later Mastercard.

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 has a modern contactless POS network.

NLB E-commerce, a modern payment platform, enables secure and simple card payments, and enables competitive edge to providers, and good user experience to their clients.

Figure 40: Transaction volume in acquiring (in EUR millions)



Instant payments

The Bank was the leading bank in the introduction of instant payments on the Slovenian market and is the only bank enabling users of m-banks to automatically send out transactions as instant payments - every day of the year both in Slovenia and in the SEPA area.

Contents

Flik payments
Flik P2P (person to person) enables money transfer among all Slovenian banks' clients, while Flik P2M (person to merchant) payments enable purchase on NLB POS terminals and on POS terminals of some other Slovenian banks which have upgraded their POS. The Bank is among the first banks on the market also offering instant payments P2eM for online purchases to merchants.

Global Payments Innovation (GPI)
The Group, as a first banking group in the SEE, enables services arising from the SWIFT Global Payment Initiative, which is international payments service enabling banks to transfer money faster and more safely worldwide. At the same time, it enables full tracking of payment orders and monitoring of related costs.

Digital banking
NLB Trading
The new platform, 'NLB Trading,' is a modern way to facilitate the order of financial instruments to any of the Bank's brokerage client. There are several advantages of NLB Trading which, among others, enable the overview of the portfolio with the possibility to review various options, placing and managing orders for sell or purchase at Ljubljana Stock Exchange, real time monitoring of trading by each instrument, and simple overview of transactions and concluded deals.

M-bank Klikpro
The number of m-bank Klikpro users continue to increase (YoY by 16%), proving that clients are more and more prone to digital banking. With included possibility of digital signing, this will further ease clients' operations.

Sustainable Finance
ESG offer
Climate change is happening, with banks also playing their part with appropriate financing for the transition to a more sustainable future. A NLB Green loan for reducing the carbon footprint is offered within the existing offer of NLB loans, exclusively for purposes where a sufficient positive impact on the environment has been proven. To complement the ESG offer, a NLB Green Investment loan for energy efficient business premises with additional benefits included was implemented. Connecting with partners to help our clients in their transition to energy efficiency resulted in the NLB Green partner loan to provide an end-to-end solution. The Bank will continue to create green products, and in such a way makes clients aware of the sustainable aspect.

#FrameOfHelp
After two successful projects during the pandemic, the Group's #FrameOfHelp under the slogan 'Looking for a New Tesla' started for the third time, offering an opportunity to regional companies giving priority to sustainable ideas. The Bank's attention is focused on the future of this region, on the opportunities that are opening for it and that the Group can support with decisions and services.

Contents

2022 was the most successful year for **NLB Banka, Podgorica** so far. Our team of motivated and ambitious professionals kept its focus on clients. We also started the transformation of our bank into an agile organization to speed up business processes and decision-making and thus become not only a better partner for our clients, but also a most desirable employer for top bankers and professionals in the region.

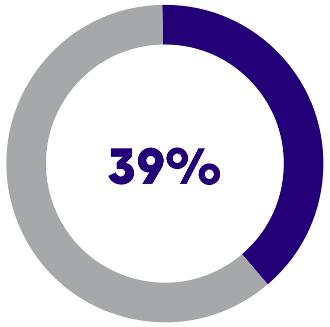
Our success was recognized by two renowned media houses: Euromoney and the Financial Times, who awarded us the prestigious awards Best Bank in Montenegro 2022 and Bank of the Year in Montenegro 2022. Through responsible environmental and societal actions, we **created better footprints** and once again confirmed our commitment and contribution to a better quality of life in South-Eastern Europe, our home region.

Pictured: NLB Banka, Podgorica employees

Strategic Foreign Markets

Contribution to NLB Group

Figure 41: Contribution to NLB Group



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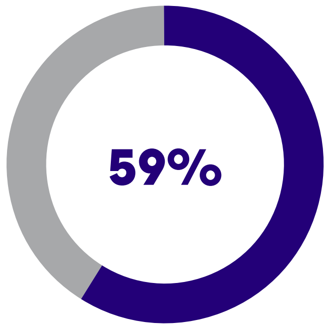
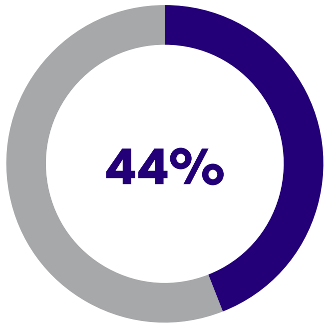


Net interest income



Net non-interest income

With the merger of two banks in Serbia, the establishment of an IT hub, and enlarging the leasing activities in the region, the core part of the Group in foreign markets now consists of six banks, one investment fund company, an IT company, and two leasing companies. The Group banking subsidiaries are locally strongly 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 2022, the global rising inflation pressures impacted the Group's region of operations, however, loan demand remained strong, especially in the H1 2022. Thus, Group banks marked remarkable double-digit growth of gross loans to customers, above the local market average, especially in the retail segment thereby contributing to the overall economic development of local countries households.

The Group banks ESG and CSR activities were continuously upgraded by supporting the financial literacy of clients, the #FrameOfHelp project for small entrepreneurs, tree planting activities, and many more events, stated in the Group Sustainability report.

In 2022, the Group banks accelerated their digital transformation by automating processes and offering various digital solutions to clients, thus further boosting digital penetration by almost doubling the number of digital users.

Financial performance

Table 19: Results of the Strategic Foreign Markets segment

in EUR millions consolidated

	2022	2021	Change YoY	
Net interest income	298.0	266.8	31.2	▲ 12%
Interest income	322.8	299.6	23.2	▲ 8%
Interest expense	-24.8	-32.8	8.1	▲ 25%
Net non-interest income	129.5	95.1	34.3	▲ 36%
o/w Net fee and commission income	118.7	101.6	17.2	▲ 17%
Total net operating income	**427.5**	**361.9**	**65.6**	**▲ 18%**
Total costs	-228.1	-227.9	-0.2	0%
Result before impairments and provisions	**199.4**	**134.0**	**65.4**	**▲ 49%**
Impairments and provisions	-12.3	-20.8	8.5	▲ 41%
Negative goodwill (NLB Lease&Go Leasing, Beograd)	0.1		0.1	-
Result before tax	**187.1**	**113.2**	**73.9**	**▲ 65%**
o/w Result of minority shareholders	11.0	11.5	-0.5	▼ -4%

	31 Dec 2022	31 Dec 2021	Change YoY	
Net loans to customers	6,077.5	5,441.9	635.7	▲ 12%
Gross loans to customers	6,271.4	5,632.2	639.2	▲ 11%
Individuals	3,221.0	2,877.3	343.7	▲ 12%
Interest rate on retail loans[i]	*5.66%*	*5.83%*	*-0.18 p.p.*	
Corporate	2,869.0	2,613.5	255.4	▲ 10%
Interest rate on corporate loans[i]	*3.84%*	*3.96%*	*-0.11 p.p.*	
State	181.4	141.4	40.0	▲ 28%
Interest rate on state loans[i]	*3.65%*	*3.35%*	*0.30 p.p.*	
Deposits from customers	8,171.2	7,998.8	172.4	▲ 2%
Interest rate on deposits[i]	*0.17%*	*0.29%*	*-0.12 p.p.*	
Non-performing loans (gross)	160.6	191.7	-31.1	▼ -16%

	2022	2021	Change YoY
Cost of risk (in bps)	7	-11	19
CIR	53.4%	63.0%	-9.6 p.p.
Interest margin[i]	3.14%	2.86%	0.29 p.p.

(i) Changed methodology.

Contents

Net interest income
Net interest income increased by EUR 31.2 million (12%) YoY, due to the high increase of loan volumes.

Net non-interest income
Net non-interest income increased EUR 34.3 million YoY, of which net fee and commission income EUR 17.2 million. The largest increase was recorded in NLB Komercijalna Banka, Beograd due to the repricing of services in Q2, but the growth did not continue in Q3, since the Serbian central bank decided to contain retail fees for a limited period.

Total costs
Total costs stayed on the same level YoY.

Net impairments and provisions
Net impairments and provisions were established in the amount of EUR 12.3 million, mainly due to impacts arising from successful NPL resolution, and despite additional provisions for reorganisation in NLB Komercijalna Banka, Beograd (EUR 4.6 million).

Gross loans to customers
Gross loans to customers increased by EUR 639.2 million (11%) YoY, with slightly higher growth to individuals (12%) than to corporate (10%). The increase of the loan portfolio was visible in all of the banking members. New loan production continued its enviable growth, especially in consumer loans.

Deposits from customers
Deposits from customers recorded only 2% YoY growth, due to outflows in Q1 as a response to the Ukraine war and its influence on prices and consumer behaviour, while slow growth was perceived in the remaining year in most members, with further outflow in the second half of the year in the Serbian market, mostly due to attractive offers with higher interest rates from competitors.

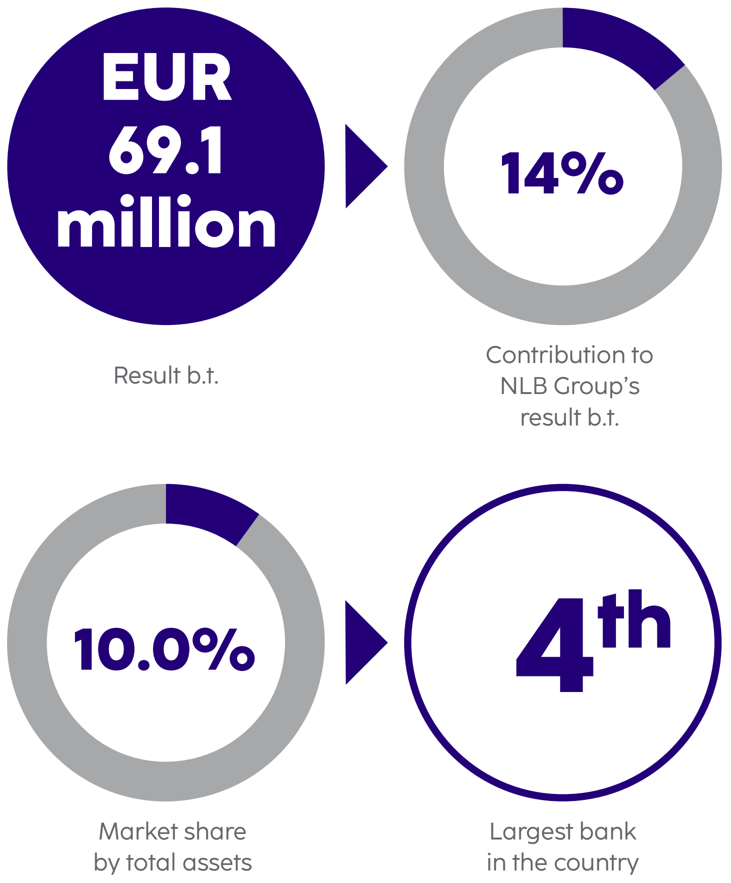
Six
subsidiary banks,
two
leasing companies,
one
IT services company,
and
one
investment fund company

The market shares (by total assets) of subsidiary banks exceed
10%
in five out of six markets

Profit before tax
EUR 187.1 million
65% higher compared to last year

Contents

NLB Komercijalna Banka, Beograd



In 2022, Komercijalna Banka, Beograd and NLB Bank, Beograd were successfully merged with a crucial goal of minimising potential disturbance of clients' operations. Despite the demanding integration, the bank also managed to significantly increase lending activities in all segments and throughout almost the whole year achieved growth higher than the market growth, while simultaneously improving the quality of the loan portfolio.

After the integration, NLB Komercijalna Banka, Beograd opened a new chapter, a complete transformation of the business model by introducing an agile, simple, and fast work model, digitalizing products and services, and putting a sustainability concept at the centre of business decisions.

Financial performance

Table 20: Key performance indicators of NLB Komercijalna Banka, Beograd(i)

			in EUR thousands
	2022	2021	Change YoY
Key performance indicators			
Net interest income	124,269	88,570	▲ 40%
Net non-interest income	58,805	40,110	▲ 47%
Total costs	-102,137	-87,979	▼ -16%
Impairments and provisions	-11,801	-7,637	▼ -55%
Result before tax	69,136	33,064	▲ 109%
Result after tax	66,014	34,818	▲ 90%
Financial position statement indicators			
Total assets	4,670,405	4,165,249	▲ 12%
Net loans to customers	2,589,222	1,795,882	▲ 44%
Gross loans to customers	2,624,735	1,818,793	▲ 44%
Deposits from customers	3,692,213	3,424,633	▲ 8%
Equity	737,972	634,643	▲ 16%
Key financial indicators			
Total capital ratio	24.6%	28.6%	-3.9 p.p.
Net interest margin	3.0%	2.4%	0.6 p.p.
ROE a.t.	9.6%	5.5%	4.0 p.p.
ROA a.t.	1.5%	0.9%	0.6 p.p.
CIR	56.6%	68.4%	-11.7 p.p.
NPL volume	32,519	36,343	-11%
NPL ratio (internal def.: NPL/Total loans)	1.0%	1.4%	-0.4 p.p.
Market share by total assets	10.0%	9.7%	0.4 p.p.
LTD	70.1%	52.4%	17.7 p.p.

(i) Data on a stand-alone basis as included in the consolidated financial statements of the Group. In April 2022 NLB Banka, Beograd merged with Komercijalna Banka, Beograd. Key financial indicators (ROE a.t., ROA a.t., CIR and net interest margin) calculated for merged bank.

Table 21: Key performance indicators of NLB Banka, Beograd(i)

			in EUR thousands
	2022	2021	Change YoY
Key performance indicators			
Net interest income	7,295	23,359	▼ -69%
Net non-interest income	2,456	6,954	▼ -65%
Total costs	-7,242	-22,170	▲ 67%
Impairments and provisions	-38	-3,202	▲ 99%
Result before tax	2,471	4,941	▼ -50%
Result after tax	2,197	4,293	▼ -49%
Financial position statement indicators			
Total assets		715,375	
Net loans to customers		511,693	
Gross loans to customers		520,518	
Deposits from customers		449,476	
Equity		77,918	
Key financial indicators			
Total capital ratio		19.2%	
Net interest margin		3.4%	
ROE a.t.		5.5%	
ROA a.t.		0.6%	
CIR		73.1%	
NPL volume		9,489	
NPL ratio (internal def.: NPL/Total loans)		1.5%	
Market share by total assets		1.7%	
LTD		113.8%	

(i) Data on a stand-alone basis as included in the consolidated financial statements of the Group. In April 2022 NLB Banka, Beograd merged with Komercijalna Banka, Beograd.

Business performance

Retail banking

The retail segment operated in a challenging environment, and the bank continued to provide stable support for households in 2022. Through a number of initiatives, such as #FrameOfHelp project, Awards for the best Organic agriculture projects, Real Opportunity to Live on Your Own campaign (housing loan campaign for young population), the bank continued to build a relationship based on trust and keeping its customer base of around 1 million active customers, stable and strong.

Contents

New production in 2022 reached record levels regarding loans to individuals, and retail banking recorded a significant YoY growth in gross loans (11%), which is over the market average growth and driven mostly by the growth in housing loans (16% YoY). The key drivers of income growth were housing and cash consumer loans, but also fees from payment transactions and current accounts. The bank continued to gain the growth of the market share in cash consumer loans to almost 10% and in housing loans over 12%.

Corporate banking

The corporate segment in 2022 marked a 10% growth in gross loans and 26% growth in documentary business. The bank aimed to build a strong value preposition for all products and services in the cross- & upselling program, which also brought added value to customers. The bank achieved growth in financing, as well as non-interest income, which was an additional stable revenue generator, with further focus on capital light products (trade finance products) and transaction business (payments, investment banking services, acquiring). In the agro segment, the bank confirmed the leading position in the market with almost 30% of the market share.

Growth of the portfolio was based on acquisition efforts, short and mid-term financing of working capital, and financing of ongoing investments through increased borrowing to high-rated clients. The Bank participated in the project financing of the first large wind farm development (windfarm Krivača in the amount of EUR 10.5 million) based on the corporate power purchase agreement, thus confirming its commitment to the green agenda and ESG targets through the support of the increase of renewable energy in Serbia. The bank also approved several project financings for important real estate developments and sovereign financing for road infrastructure development in the amount of EUR 136 million for the financing of Dunavska magistrala.

NLB Banka, Skopje

EUR 41.7 million
Result b.t.

9%
Contribution to NLB Group's result b.t.

16.3%
Market share by total assets

3rd
Largest bank in the country

The Bank is a leading banking institution on the local market, and is identified as a systemically important bank. In 2022, its success was once again confirmed and recognised by receiving the prestigious award "Bank of the Year" by the financial magazine, *The Banker*, for the 11th consecutive year, followed by "The Best Bank in Macedonia" at the Europe Banking Awards, and also won the award from "Finance Central Europe," the award for best automated chatbot tool, three recognitions from Visa, Inc. for exceptional performance and partnership, and the certificate for Fair financial services for consumers. As a support to outstanding user experience, one new branch was opened, and another was fully renovated, both equipped according to the most modern security, architectural, and technological standards. Several improvements were made to mobile and electronic banking, which were mostly aimed at increasing security during their use, as a response to the increased risk and the generally growing trend of cyber-attacks. The bank made improvements to the loans approved through mobile banking, enabling better service for its clientele, and increased throughput and sales of the product.

Financial performance

Table 22: Key performance indicators of NLB Banka, Skopje(i)

			in EUR thousands
	2022	2021	Change YoY
Key performance indicators			
Net interest income	53,932	50,386	▲ 7%
Net non-interest income	21,948	18,043	▲ 22%
Total costs	-31,778	-28,619	▼ -11%
Impairments and provisions	-2,434	3,244	-
Result before tax	41,668	43,054	▼ -3%
Result after tax	37,874	39,000	▼ -3%
Financial position statement indicators			
Total assets	1,847,521	1,770,587	▲ 4%
Net loans to customers	1,170,692	1,084,075	▲ 8%
Gross loans to customers	1,234,343	1,144,420	▲ 8%
Deposits from customers	1,462,015	1,399,501	▲ 4%
Equity	265,844	243,267	▲ 9%
Key financial indicators			
Total capital ratio	18.2%	18.0%	0.2 p.p.
Net interest margin	3.1%	3.1%	0.0 p.p.
ROE a.t.	15.0%	15.9%	-0.9 p.p.
ROA a.t.	2.1%	2.4%	-0.2 p.p.
CIR	41.9%	41.8%	0.1 p.p.
NPL volume	54,549	59,728	-9%
NPL ratio (internal def.: NPL/Total loans)	3.6%	4.3%	-0.7 p.p.
Market share by total assets	16.3%	16.9%	-0.6 p.p.
LTD	80.1%	77.5%	2.6 p.p.

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

Business performance

Retail banking

Significant growth in gross loans of 9% YoY was recorded, which was above the level of the market growth for 2022, and driven by the growth in housing loans (11%) and consumer loans (9%). The highest amounts of disbursed loans so far in the retail segment led to an increase in the market share to 22%.

The retail loan portfolio was dominated by consumer loans (54% of gross loans), while housing loans occupied 38% of gross loans. The deposit base increased 6% YoY. The interest margin in the retail segment was still high, but under strong pressure from competition. The key drivers of income growth were the portfolio increase, foreign payment operations, account management, and card operations.

Corporate banking

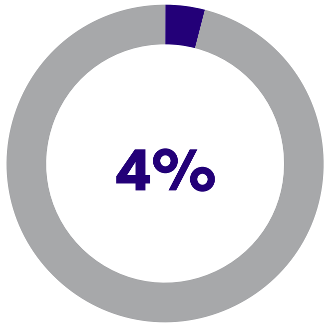
The corporate segment recorded a YoY growth of 6% in gross loans YE. The key drivers of income growth were long-term loans, investment, loans for working capital, and the liquidity needs of companies, as well as domestic and foreign payment operations and account management.

As at 31 December 2022, the bank had a market share of 14% in corporate gross loans. It increased the portfolio, especially in the segment of long-term financing of high creditworthy clients, securing a stable portfolio and revenue generation. The bank had a total outstanding balance of EUR 46 million in project financing, and almost EUR 27 million outstanding balance of loans approved for investments in renewable sources and energy efficient investments. Additionally, the bank supported the business of the clients with documentary business instruments, which enabled them to adapt to the changed macroeconomic circumstances.

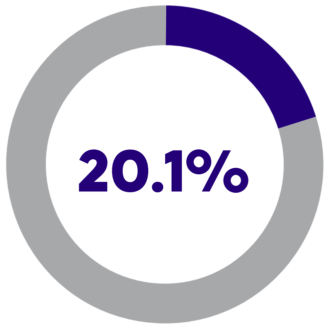
NLB Banka, Banja Luka

EUR 21.0 million

Result b.t.



Contribution to NLB Group's result b.t.



Market share by total assets

2nd

Largest bank in the Republic of Srpska

In 2022, the bank is the second most important bank in the Republic of Srpska market. The market share in loans to individuals increased by 1.3 p.p. to 19.7%. The predominant strength of the Bank was its market position in the corporate and retail segments, and a very strong deposit base. The bank received a "Golden BAM" award for the highest ROA and ROE on the local market for several consecutive years.

Financial performance

Table 23: Key performance indicators of NLB Banka, Banja Luka(i)

			in EUR thousands
	2022	**2021**	**Change YoY**
Key performance indicators			
Net interest income	23,594	20,087	▲ 17%
Net non-interest income	14,941	13,128	▲ 14%
Total costs	-17,293	-15,182	▼ -14%
Impairments and provisions	-280	1,379	-
Result before tax	20,962	19,412	▲ 8%
Result after tax	19,281	18,180	▲ 6%
Financial position statement indicators			
Total assets	995,308	927,152	▲ 7%
Net loans to customers	523,238	471,144	▲ 11%
Gross loans to customers	540,533	488,672	▲ 11%
Deposits from customers	796,668	759,915	▲ 5%
Equity	96,237	97,149	▼ -1%
Key financial indicators			
Total capital ratio	16.0%	16.9%	-0.9 p.p.
Net interest margin	2.6%	2.4%	0.2 p.p.
ROE a.t.	20.2%	17.0%	3.2 p.p.
ROA a.t.	2.0%	2.1%	0.0 p.p.
CIR	44.9%	45.7%	-0.8 p.p.
NPL volume	8,272	9,371	-12%
NPL ratio (internal def.: NPL/Total loans)	1.1%	1.3%	-0.1 p.p.
Market share by total assets (ii)	20.1%	19.1%	1.0 p.p.
LTD	65.7%	62.0%	3.7 p.p.

(i) Data on a stand-alone basis as included in the consolidated financial statements of the Group.
(ii) Data for 2022 as at 30 September 2022.

Business performance

Retail banking

Retail banking recorded excellent double-digit YoY growth in gross loans (15%), while deposits grew by 5% YoY. Consumer loans increased by 21% and housing loans by 10% YoY. Housing loans still dominated in retail loans (51% of gross retail loans), while consumer loans represented 46%. The market share in retail loans was 1.3 p.p. higher and reached 19.7%, while the market share in retail deposits also increased by 2.2 p.p. and was 27.2%. The key drivers of income growth were interest income from new loan production and income from payments processing.

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

Corporate banking

Corporate banking recorded YoY growth in deposits (17%), as well as in gross loans (12%). The market share in loans consequently increased by 1.1 p.p. to 15.4%. The focus remains on cross-selling activities and raising awareness about environmentally responsible business. A Group project, #FrameOfHelp was successfully implemented in 2022, and had a great impact on the market of the bank's image as the "Bank supporting Sustainability."

NLB Banka, Sarajevo

EUR 12.4 million

Result b.t.

3%

Contribution to NLB Group's result b.t.

5.9%

Market share by total assets

6th

Largest bank in the Federation of BiH

In 2022, the bank marked solid performance and remarkable loan growth of 15% by boosting the bank's market share. The predominant strength of the bank was in consumer lending and the development of innovative retail products, largely contributing to the high share of net non-interest income (34% of net fee and commission income in total net operating income). Improving customer experience was achieved with the introduction of new digital products and robotic process automation (RPA) solutions.

Financial performance

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

			in EUR thousands
	2022	**2021**	**Change YoY**
Key performance indicators			
Net interest income	19,524	17,795	▲ 10%
Net non-interest income	12,152	10,256	▲ 18%
Total costs	-18,304	-16,183	▼ -13%
Impairments and provisions	-982	-920	▼ -7%
Result before tax	12,390	10,948	▲ 13%
Result after tax	11,436	10,012	▲ 14%
Financial position statement indicators			
Total assets	838,117	727,860	▲ 15%
Net loans to customers	521,326	452,977	▲ 15%
Gross loans to customers	542,001	473,118	▲ 15%
Deposits from customers	673,402	593,026	▲ 14%
Equity	90,608	87,838	▲ 3%
Key financial indicators			
Total capital ratio	16.5%	16.9%	-0.4 p.p.
Net interest margin	2.6%	2.8%	-0.1 p.p.
ROE a.t.	12.5%	10.7%	1.8 p.p.
ROA a.t.	1.5%	1.5%	0.0 p.p.
CIR	57.8%	57.7%	0.1 p.p.
NPL volume	16,986	19,046	-11%
NPL ratio (internal def.: NPL/Total loans)	2.3%	3.1%	-0.7 p.p.
Market share by total assets[ii]	5.9%	5.5%	0.4 p.p.
LTD	77.4%	76.4%	1.0 p.p.

(i) Data on a standalone basis as included in the consolidated financial statements of the Group.
(ii) Data for 2022 as at 30 September 2022.

Business performance

Retail banking

Retail banking recorded YoY growth in gross loans (18%), driven by growth of housing and consumer loans. Significant growth of housing loans of 28% YoY was the result of increased demand, many campaigns, and increased engagement of employees. The share of housing loans in total retail loans increased by 1.8 p.p., to 22.3%. The average interest rate in the retail segment decreased (2022: 5.37%; 2021: 5.73%).

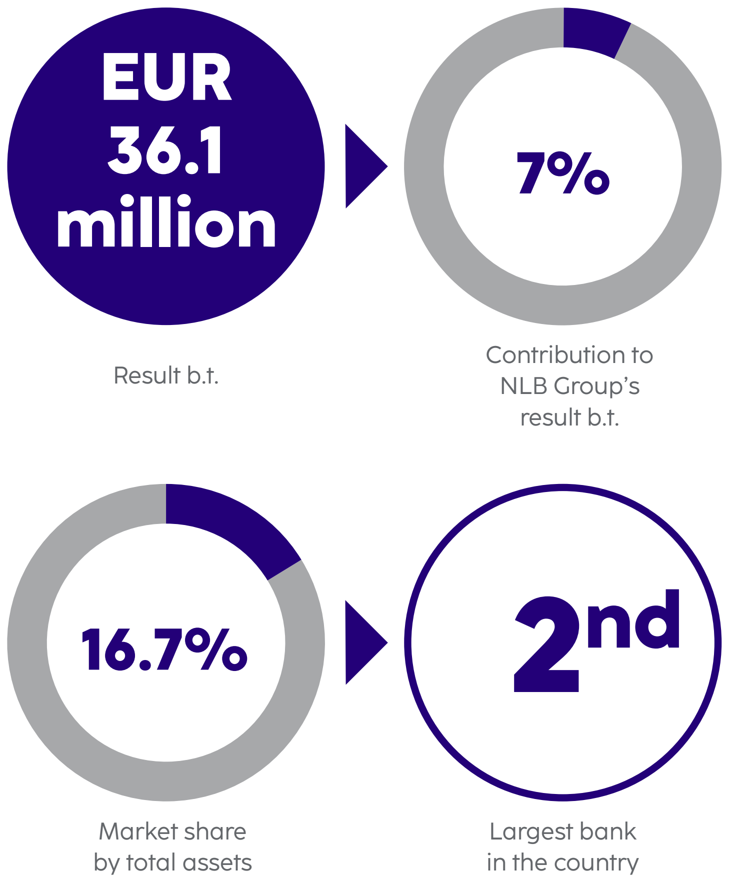
The bank continued with activities aimed to increase the active number of e- and m-banking users, with 133% increase in 2022, while the number of transactions increased by 39% YoY.

Corporate banking

The corporate banking segment recorded YoY growth in gross loans (11%). Focus was on increasing the client loan portfolio with acquisition of new creditworthy clients. Also, a positive trend was recorded in the volume of guarantees portfolio, mainly due to the introduction of a new product 'Guarantee Line.'

Corporate deposits recorded YoY growth of 32%, with a change in the maturity structure, namely the share of corporate term deposits increased by 10% YoY.

NLB Banka, Prishtina



In 2022, the bank was a leader in terms of profitability and ranked as the second biggest bank in Kosovo. The predominant strength of the bank was in providing a full spectrum of financial services to retail and corporate clients, and being a market leader in innovations in the local banking sector. A noticeable boost has been observed in e-banking usage that translates to an increased number of e-banking users by 27% YoY The bank received the EBRD award "Most Active Local Bank in Using TFP Line" for several consecutive years.

Financial performance

Table 25: Key performance indicators of NLB Banka, Prishtina(i)

			in EUR thousands
	2022	2021	Change YoY
Key performance indicators			
Net interest income	39,844	34,459	▲ 16%
Net non-interest income	8,547	7,374	▲ 16%
Total costs	-14,348	-13,546	▼ -6%
Impairments and provisions	2,052	-1,064	-
Result before tax	36,095	27,223	▲ 33%
Result after tax	32,402	24,436	▲ 33%
Financial position statement indicators			
Total assets	1,083,638	930,545	▲ 16%
Net loans to customers	740,775	634,529	▲ 17%
Gross loans to customers	777,202	672,376	▲ 16%
Deposits from customers	894,242	798,790	▲ 12%
Equity	113,844	98,856	▲ 15%
Key financial indicators			
Total capital ratio	15.7%	17.3%	-1.6 p.p.
Net interest margin	4.1%	3.8%	0.2 p.p.
ROE a.t.	29.2%	22.4%	6.7 p.p.
ROA a.t.	3.3%	2.7%	0.6 p.p.
CIR	29.7%	32.4%	-2.7 p.p.
NPL volume	15,705	15,614	1%
NPL ratio (internal def.: NPL/Total loans)	1.7%	1.9%	-0.3 p.p.
Market share by total assets	16.7%	16.3%	0.4 p.p.
LTD	82.8%	79.4%	3.4 p.p.

(i) Data on a standalone basis as included in the consolidated financial statements of the Group.

Business performance

Retail banking

In 2022, the bank recorded YoY growth in gross loans (18%) and deposits (7%). The retail loan portfolio was dominated by housing loans (68%), while consumer loans occupied 32% of gross loans. Growth was recorded in housing 14% and in consumer loans 28% YoY with the key drivers of income growth being consumer loans.

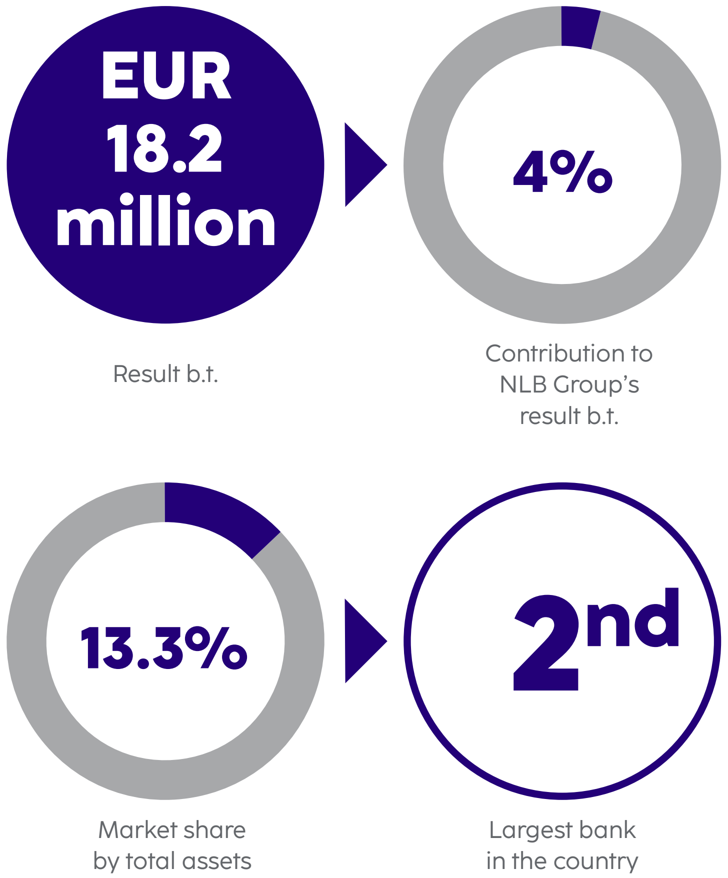
The growth in retail was mainly driven by an increase in loan demand and a further increase of the general consumption pattern. This has resulted in the price increase of real-estate driven by inflation. In addition, the bank has signed several partnership agreements with construction and trade companies to finance their products, and boost the performance committed by the sales department.

Corporate banking

Corporate banking recorded YoY growth in gross loans (14%), which was mainly driven by the disruption of the normal supply chain (external factors) and the cross-selling of products through existing corporate clients targeting new retail and SME clients, as well. Optimisation of bank's liquidity structure was highlighted by a 27% YoY increase in the deposits. The key drivers of income growth were working capital loans, credit lines, and overdrafts.

The bank offers 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 that contributed largely to clean energy production from renewable sources.

NLB Banka, Podgorica



After the merger of Komercijalna Banka, Podgorica and NLB Banka, Podgorica in 2021, the merged bank became the second largest financial institution in Montenegro. On its local market, the bank is categorised as one of the systemically important banks. The predominant strength of the bank was seen in housing and consumer loans, where the bank was an important player on the local market. The year was marked with numerous campaigns for housing loans and innovations with regard to improving the offer for individual clients and for legal entities as well, such as developing a modern call centre and investing in digital channels. In July 2022, the Bank received the recognition 'The Best Bank in Montenegro', awarded by the world most influential financial magazine "Euromoney."

Financial performance

Table 26: Key performance indicators of NLB Banka, Podgorica(i)

			in EUR thousands
	2022	2021	Change YoY
Key performance indicators			
Net interest income	29,607	21,953	▲ 35%
Net non-interest income	7,720	6,161	▲ 25%
Total costs	-20,252	-17,351	▼ -17%
Impairments and provisions	1,165	613	▲ 90%
Result before tax	18,240	11,376	▲ 60%
Result after tax	16,613	10,050	▲ 65%
Financial position statement indicators			
Total assets	851,630	751,351	▲ 13%
Net loans to customers	532,254	491,579	▲ 8%
Gross loans to customers	552,470	514,308	▲ 7%
Deposits from customers	692,872	609,792	▲ 14%
Equity	106,937	92,643	▲ 15%
Key financial indicators			
Total capital ratio	18.4%	16.3%	2.0 p.p.
Net interest margin	4.0%	4.0%	0.0 p.p.
ROE a.t.	16.7%	13.1%	3.6 p.p.
ROA a.t.	2.1%	1.7%	0.4 p.p.
CIR	54.3%	61.7%	-7.5 p.p.
NPL volume	32,610	42,166	-23%
NPL ratio (internal def.: NPL/Total loans)	4.6%	7.0%	-2.4 p.p.
Market share by total assets	13.3%	14.1%	-0.8 p.p.
LTD	76.8%	80.6%	-3.8 p.p.

(i) Data on a standalone basis as included in the consolidated financial statements of the Group.

Business performance

Retail banking

Retail banking recorded YoY growth in gross loans (9%) and deposits (9%). A major part of the retail loan portfolio was dominated by consumer loans (50%), while housing loans occupied 48%. Growth in gross loans was recorded mainly by the increase in consumer loans volume by 14% YoY, and housing loans by 7% YoY. Consumer loans growth was affected by salary increase through the state program "Europe now", thus boosting higher demand.

The bank was the first bank in the market that expanded its offer by introducing video calls to the market for communication with clients. The bank also offered usual products such as 'Credit on the Spot,' which enables purchases on credit in cooperation with partner merchants, without the need to come to the bank. NLB Credit on the Spot involves quick and simple approval of an interest-free loan at more than 30 merchants in Montenegro, *in just two minutes*. The credit is approved when making a purchase at selected merchants, on the spot.

Corporate banking

The corporate banking segment recorded YoY growth in gross loans (8%) and deposits (26%). The loan portfolio predominantly consisted of the large corporates' portfolio, which increased by 11% YoY. Record new production was recorded in both segments, large corporate and SME.

The bank presented a new, innovative, practical, and cost-effective bank service that enriched its offer for companies. It is a fiscal cash register where it is possible to pay by card like on a standard POS terminal, and was a novelty for the local market. This device can be used simultaneously for cash payments and digital payments such as card payments and via the mobile phone. As with a standard POS terminal, it is possible for customers to make payments using mobile wallets or other mobile devices that support payment using NFC technology.

The bank was the first bank on the local market to introduce an online account opening service for legal entities to the market, which significantly simplified and accelerated the account opening process, directly on the bank's website. Companies use a special platform to enter the necessary documentation for opening a business account.

NLB DigIT

On May 2022, NLB DigIT was officially established as an IT service company to act as a regional hub supporting the Group members and delivering digital transformation projects. The company was built on the resource pool of the Group Competence Centre of NLB Banka, Beograd, and additional external staff onboarding.

NLB DigIT's primary focus is to deliver services for Group entities with a high level of quality in domains where IT resources and expertise are scarce throughout the region. NLB DigIT provides services mostly in key areas such as IT security setup for all the banks, IT delivery, data management, and others.

Leasing operations expansion in SEE

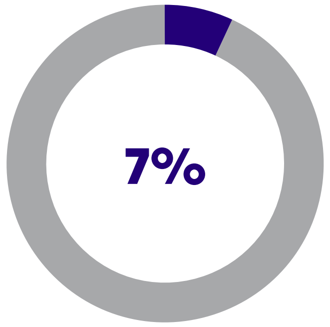
In 2022, the Group started to gradually expand its leasing operations in the region of operations by establishing a presence in North Macedonia and Serbia.

In North Macedonia, the company NLB LIZ&GO DOO Skopje was established in September 2022, and was afterwards renamed to NLB Lease&Go, Skopje. NLB Lease&Go, Ljubljana became the owner of Zastava Istrabenz Lizing in Serbia in November and later renamed it to NLB Lease&Go Leasing, Beograd.

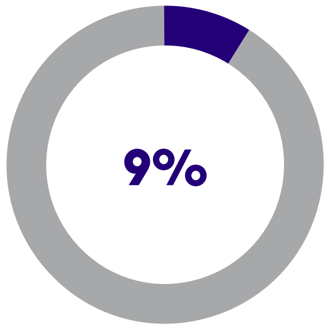
Financial Markets in Slovenia

Contribution to NLB Group

Figure 42: Contribution to NLB Group



Result b.t.



Net interest income

The segment is focused on the Group's activities on international financial markets, including treasury operations. In the changed interest rate environment, continuous focus was on prudent liquidity reserves management. In 2022, the Bank was very active on the wholesale market, with three bond issuances in different asset classes (AT1, Tier 2, and SP notes) for a total of EUR 607 million.

Financial performance

Table 27: Performance of the Financial Markets in Slovenia segment

in EUR millions consolidated

	2022	2021	Change YoY		
				o/w N Banka contribution	
Net interest income	47.3	26.4	20.9	8.9	▲ 79%
o/w ALM(i)	31.1	17.1	14.0	7.6	▲ 82%
Net non-interest income	-0.7	-2.3	1.6	-0.2	▲ 69%
Total net operating income	**46.6**	**24.1**	**22.5**	**8.7**	**▲ 93%**
Total costs	-9.4	-8.6	-0.8	-0.2	▼ -9%
Result before impairments and provisions	**37.2**	**15.5**	**21.7**	**8.6**	**▲ 140%**
Impairments and provisions	-3.4	0.3	-3.7	2.6	-
Result before tax	**33.8**	**15.8**	**18.0**	**11.2**	**▲ 114%**

	31 Dec 2022	31 Dec 2021	Change YoY		
Balances with Central banks	3,373.7	2,982.2	391.4		▲ 13%
Banking book securities	2,993.3	2,977.5	15.9		▲ 1%
Interest rate(ii)	*0.74%*	*0.68%*		*0.06 p.p.*	
Borrowings	160.5	873.5	-713.0		▼ -82%
Interest rate(ii)	*-0.72%*	*-0.46%*		*-0.26 p.p.*	
Subordinated liabilities (Tier 2)	508.8	288.5	220.3		▲ 76%
Interest rate(ii)	*4.16%*	*3.70%*		*0.46 p.p.*	
Other debt securities in issue	307.2		307.2		-
Interest rate(ii)	*6.00%*			*6.00 p.p.*	

(i) Net interest income from assets and liabilities with the use of FTP.
(ii) Interest rates only for NLB.

Net interest income

Net interest income was EUR 20.9 million (79%) higher YoY, of which EUR 8.9 million was due to the N Banka contribution. Excluding N Banka, net interest income increased primarily due to the changed FTP policy, which in H1 partially transferred the costs of placing the excess liquidity from treasury to retail and the corporate segment to de-stimulate the deposit collection, while in H2 net interest income growth was driven by higher yields on treasury investments.

Net non-interest income

Net non-interest income was negative, mostly due to the negative effect from securities divestments and higher premium for RWA optimisation measures.

Balances with central bank

There was an increase in balances with central banks (EUR 391.4 million YoY), due to the piling up of non-banking sector deposits and issues of new bonds for MREL purposes outweighing the early prepayments of wholesale funding.

Wholesale funding

For meeting MREL requirement, the Bank issued new EUR 300 million Senior Preferred notes in July 2022. In contrast, the subordinated Tier 2 debt increased by EUR 220 million due to the subordinated Tier 2 notes issuance on the international market in Q4 2022 (the Bank holding four outstanding subordinated notes). Borrowings decreased by EUR 713.0 million YoY mainly due to early prepayment of TLTRO (EUR 750 million) and certain credit lines (EUR 70 million) in H1.

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Business performance[13]

The Group's ALM

Focus
The purpose of the Group's 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 members. 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, and partly as a result of the acquisition of N Banka. The Group manages its positions and stabilises its interest margin by actively adjusting pricing policy for loans and by strict pricing of its stable deposit base, 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 (LCP).

Organisation
Liquidity management in the Group is decentralised and therefore each Group member manages its own liquidity on operational and strategic levels.

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, according to LCR calculation, are treated as inflows. Likewise, liquid assets are managed by each Group member on its own.

78%
government securities in the Group's banking book securities portfolio

2.7 years
average duration of the Group's banking book securities portfolio

13 This business overview includes the operations of the Group's ALM, due to more comprehensive presentation of the operations on the group level.

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Banking book securities portfolio

The purpose of the banking book securities is to provide liquidity, along with stabilisation of the interest margin, and interest rate risk management. At year-end, the banking book debt securities portfolio constituted 19.7% of the Group's total assets (20.7% of Bank's total assets).

In the rising interest rate environment of 2022, the value of the portfolio partially diminished on the account of bonds valued at fair value through other comprehensive income (FVOCI). This portfolio at year-end represented 59.7% of total Group and 44.7% of Bank securities portfolio with the average duration of 2.0 and 2.6 years respectively. Negative valuation of FVOCI Group portfolio during 2022 amounted to EUR 168.6 million (net of hedge accounting effects). As of 31 December 2022, total accumulated other comprehensive income for FVOCI debt securities was negative in the amount of EUR 144.6 million (Note 5.4.(c) of the financial part of this report), consisting of EUR 168.7 million negative valuation and EUR 24.1 million of related deferred taxes and impairments. Approximately 60% of accumulated other comprehensive income for FVOCI debt securities (EUR 82,913 thousand) was as at 31 December 2022 already absorbed by the capital, with 40% of the valuation result for sovereign exposures exempt from the deduction in the capital due to the use of temporary treatment for FVOCI for sovereign securities. As of January 2023, the so-called 'quick fix' from June 2020 ceased to apply. As and when these exposures are repaid (more than 70% of them mature over the next 3 years) all deductions from capital will be reversed. New FVOCI investments are typically placed at durations of 1 year maximum. Further information is available in Notes 6.1. (j), 6.1. (o) and 6.5. (e) of the financial part of this report.

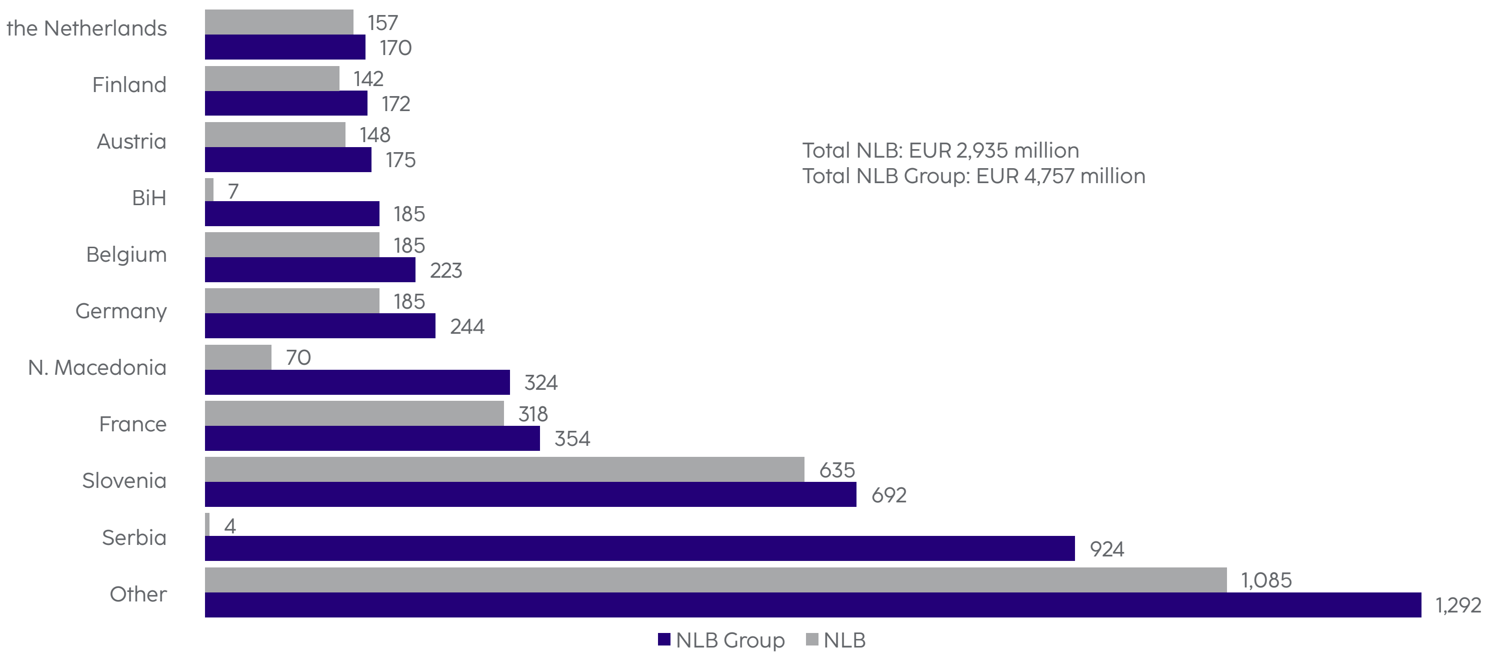
Since the beginning of the bank stress and market turmoil, the financial institutions' credit spreads widening and overall risk-free rates decrease were observed, which is currently positively impacting the Group's FVOCI positions. Further information is available in the Chapter Events After the End of the 2022 Financial Year.

Characteristics of the banking book securities portfolio

The portfolio is well diversified from the geographical, asset class and maturity profile perspective. In 2022, due to the Ukraine-Russia conflict, some exposures to the neighbouring countries were lowered, while the nominal value of EUR 20.6 million in Russian sovereign bonds exposure on the day of the Russian invasion, was partially left to mature (exposure EUR 13.1

Figure 43: Banking book securities portfolio of NLB Group and NLB by geographical structure and asset class as at 31 December 2022 (in EUR millions)

Geographical structure



Asset class distribution

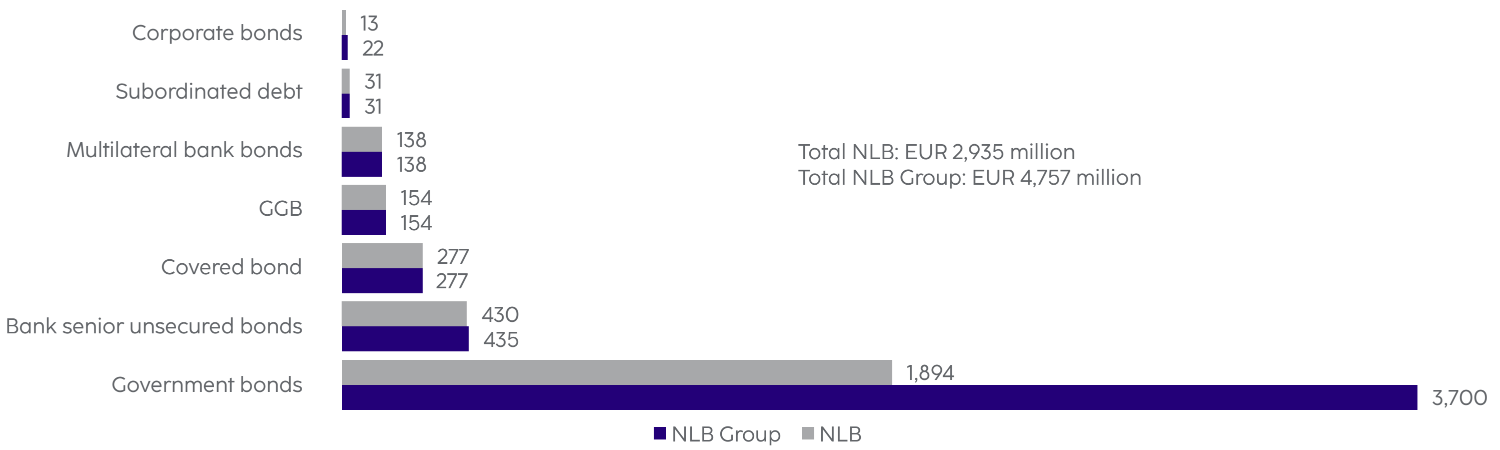


Table 28: Maturity profile of NLB Group and NLB banking book securities as at 31 December 2022

in EUR millions

	NLB Group					NLB				
	2023	**2024-2025**	**2026-2027**	**2028+**	**Total**	**2023**	**2024-2025**	**2026-2027**	**2028+**	**Total**
Domestic securities (the Group's strategic markets)	597.7	824.9	481.1	341.3	2,245.0	57.2	208.1	211.5	248.7	725.5
- Slovenia	64.7	222.1	167.8	237.6	692.2	44.9	184.9	167.8	237.6	635.2
- Other SEE	533.0	602.8	313.3	103.7	1,552.8	12.3	23.2	43.7	11.1	90.3
International securities	741.2	647.5	581.1	541.7	2,511.5	481.7	632.7	577.0	517.8	2,209.3
Total	**1,338.9**	**1,472.4**	**1,062.1**	**883.1**	**4,756.5**	**538.9**	**840.8**	**788.6**	**766.5**	**2,934.8**

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million, maturing in April 2022, settled in May 2022). The other part, the EUR 7.5 million exposure which matures in September 2023 was considered as a technical default at the end of 2022. This exposure was sold and successfully settled at the beginning of February 2023. Further information is available in Note 5.4. of the financial part of this report.

As the Group actively works on incorporating ESG in its business profile, the portfolio reflects the growing market of ESG bonds. Currently, these bonds (EUR 191.2 million) have a share of 4.0% in the Group banking book securities portfolio (5.7% in the Bank's), and it grows simultaneously with the share of ESG reinvestments.

The average duration of the Group banking book securities is approximately 2.7 years as at year-end (3.4 years of the Bank's).

The average yield achieved in 2022 on the Group's banking book securities portfolio was 1.11% (2021: 1.01%), 0.74% of the Bank's (2021: 0.68%).

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 active on the wholesale market with the issuance of EUR 300 million Senior Preferred notes in July, EUR 82 million Additional Tier 1 notes in September, and EUR 225 million Tier 2 notes in November. All instruments are MREL eligible, while Additional Tier 1 and Tier 2 notes also improve the capital position.

The Bank also optimised its funding structure by exercising an early repayment of the EUR 70 million credit line facility.

NLB Group members were also active on the wholesale market. More specifically, they obtained funding from international financial institutions in a total amount of EUR 10 million, which will be used for NLB Banka, Sarajevo for meeting its future MREL requirement.

3

bond issuances on international capital markets in different asset classes (AT1, Tier 2, and SP notes)

Table 29: Overview of outstanding securities

in EUR millions

Type of bond	ISIN code	Issue Date	Maturity	First call date	Interest Rate	Nominal Value
Tier 2	SI0022103855	6 May 2019	6 May 2029	6 May 2024	4.2% p.a.	45
Tier 2	XS2080776607	19 November 2019	19 November 2029	19 November 2024	3.65% p.a.	120
Tier 2	XS2113139195	5 February 2020	5 February 2030	5 February 2025	3.40% p.a.	120
Senior Preferred	XS2498964209	19 July 2022	19 July 2025	19 July 2024	6.0% p.a.	300
Additional Tier 1	SI0022104275	23 September 2022	Perpetual	between 23 September 2027 and 23 March 2028	9.721% p.a.	82
Tier 2	XS2413677464	28 November 2022	28 November 2032	28 November 2027	10.750% p.a.	225

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 18.4 million

reduction of gross loans to customers in 2022

Financial performance

Table 30: Results of the Non-Core Members segment

in EUR millions consolidated

	2022	2021	Change YoY	
Net interest income	0.3	1.3	-1.1	▼ -80%
Net non-interest income	4.4	5.9	-1.5	▼ -25%
Total net operating income	**4.7**	**7.2**	**-2.5**	**▼ -35%**
Total costs	-12.6	-11.4	-1.2	▼ -11%
Result before impairments and provisions	**-7.9**	**-4.1**	**-3.8**	**▼ -91%**
Impairments and provisions	-0.8	5.4	-6.2	-
Result before tax	**-8.7**	**1.3**	**-10.0**	**-**

	31 Dec 2022	31 Dec 2021	Change YoY	
Segment assets	**61.5**	**95.9**	**-34.4**	**▼ -36%**
Net loans to customers	13.8	24.3	-10.5	▼ -43%
Gross loans to customers	35.4	53.9	-18.4	▼ -34%
Investment property and property & equipment received for repayment of loans	39.6	65.6	-26.0	▼ -40%
Other assets	8.1	6.0	2.1	▲ 36%
Non-performing loans (gross)	32.3	45.0	-12.8	▼ -28%

Result before tax

The segment recorded a EUR 8.7 million loss before tax.

Total assets

A decrease of the total assets of the segment YoY (EUR 34.4 million) was in line with the divestment strategy of the non-core segment.

Business performance

The wind-down of the Non-Core Members segment

The wind-down of the Non-Core Members segment in 2022 included:

- divestment of non-core Group members
- active management of real-estate assets

Divestment of non-core Group members

Liquidation process

A liquidation process is ongoing in all non-core leasing and trade finance subsidiaries and some real estate subsidiaries. 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 that 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.

Active management of real estate assets

Divestment process

The divestment process of the 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 2022, real-estate transactions with a total sales value of EUR 242.1 million were executed or supported, and directly or indirectly contributed to a EUR 646.5 million in NPL reduction, of which EUR 23.9 million in 2022 alone.

EUR 48.3 million

the total sales value of real-estate transactions executed or supported by the real-estate team in 2022

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Our objectives are set prudently and strategically, focusing on the innovative, higher recurring growth financial products, and addressing digital innovation.

In **NLB Banka, Prishtina** we started 2022 with a sense of optimism, confidence, and trust in what we do. We took brave decisions promoting loan demand, supporting our clients towards their investments, contributing to economic recovery, and actively supporting wider socio-economic development and a better quality of life through our CSR activities with commitment to different groups of society. The remarkable performance led to a record high profit and rank our bank as the first in the market in terms of profitability. The bank also received the EBRD award "Most Active Local Bank in Using TFP Line" for several consecutive years.

We remain fully dedicated and confident of achievements on our journey towards delivering our vision and **creating better footprints** for all.

Pictured: NLB Banka, Prishtina employees

Risk Management

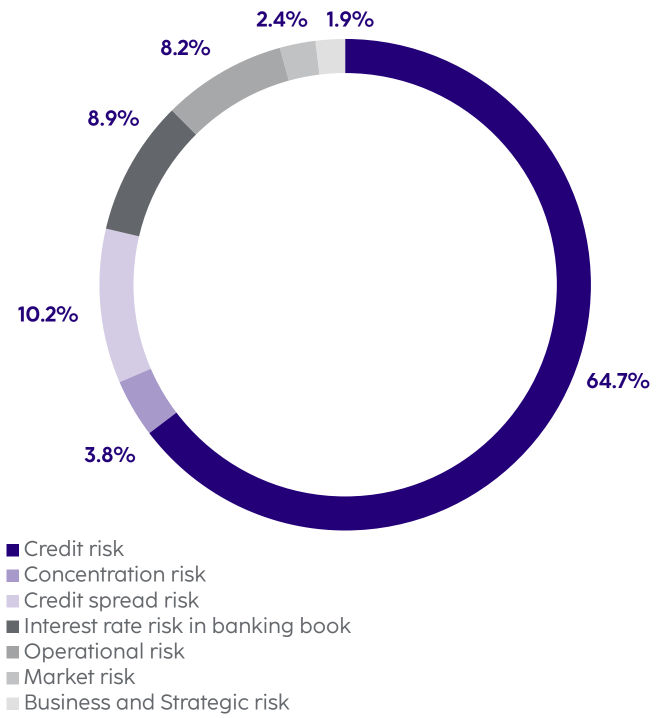
The self-funded model, strong liquidity, and a solid capital position continued in 2022, demonstrating the Group's financial resilience. Efficient management of risks and capital is crucial for the Group to sustain long-term profitable operations. A robust Risk Management framework is comprehensively 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.

1.3%

NPE (EBA def.)

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 sustainable, 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 44: Risk profile of NLB Group as at 31 December 2022



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 a materiality perspective. The Group integrates and manages ESG risks within the existing types of risks, such as credit, liquidity, market, and operational risk, as part of its risk management framework. These risks are estimated as low, except for transition risk in the area of credit, which is assessed as low to medium. 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 31: NLB Group's Key Risk Appetite indicators (KRIs)

KRIs	31 Dec 2022
Total capital ratio	19.2%
CET1 ratio	15.1%
LCR	220.3%
NSFR	183.0%
Cost of Risk	14 bps
NPL ratio (EBA definition)	2.4%
NPE (EBA definition)	1.3%
Interest rate risk (EVE)	-5.1%

In 2022, the war in Ukraine did not have a meaningful direct impact on the quality of the credit portfolio, nor on the liquidity of the Group. The Group's credit portfolio quality remained solid, with a stable rating structure, portfolio diversification, and lower level of NPLs. In the light of increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made necessary adjustments. The most affected industries or segments are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage.

The Group experienced high new corporate and retail loan origination across all markets in 2022, also influenced by expectations of the higher interest rate. The current economic situation led to sluggish growth projections, persistent inflationary pressures, and interest rate hikes. Based on that, slower lending growth in all segments is foreseen for 2023.

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. Increased uncertainty and the changes in expectations of macroeconomic development affected forecasts for some economies in the NLB Group. Hence, an executive decision was made to adjust risk expectations by shifting the scenario's weights to reflect more severe development. The cost of risk remained at a relatively low level, at 14 bps, mainly due to further positive development in NPL resolution in the whole region.

Though the war in Ukraine, coupled with its implications on the business environment, the Group faced a stable liquidity position and managed to stay well capitalised in both the Group and banking member levels. The Group is still perceived as a safe heaven, and therefore, in H2 2022 again faced growing liquidity, while the impacts of the crisis 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. Raising the interest rate environment and corresponding increased market demand for fixed interest rate products resulted in moderate interest rate risk exposure, which stayed within the risk appetite tolerance.

In 2022, the Group was included into the ECB Climate Stress test exercise, consisting of three modules. The exercise was conducted in the first half of 2022 and the aggregate results were published in July 2022. By performing this exercise, the ECB assessed how banks are prepared for dealing with financial and economic shocks stemming from climate risk. The Group's overall results were within the range of average peer results. Additionally, in 2023, the Group will be included into the regular EBA EU-wide/ECB SSM Stress test exercise. This EU-wide stress test is designed to provide valuable input for assessing the resilience of the European banking sector in the current uncertain and changing macroeconomic environment.

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

Supervision is under the jurisdiction of the Joint Supervisory Team (JST) 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 equivalents are approved in Serbia, BiH, and North Macedonia, resulting in alignment of the 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, and to ensure a transparent and documented decision-making process that is subject to an appropriate upward and downward flow of information.

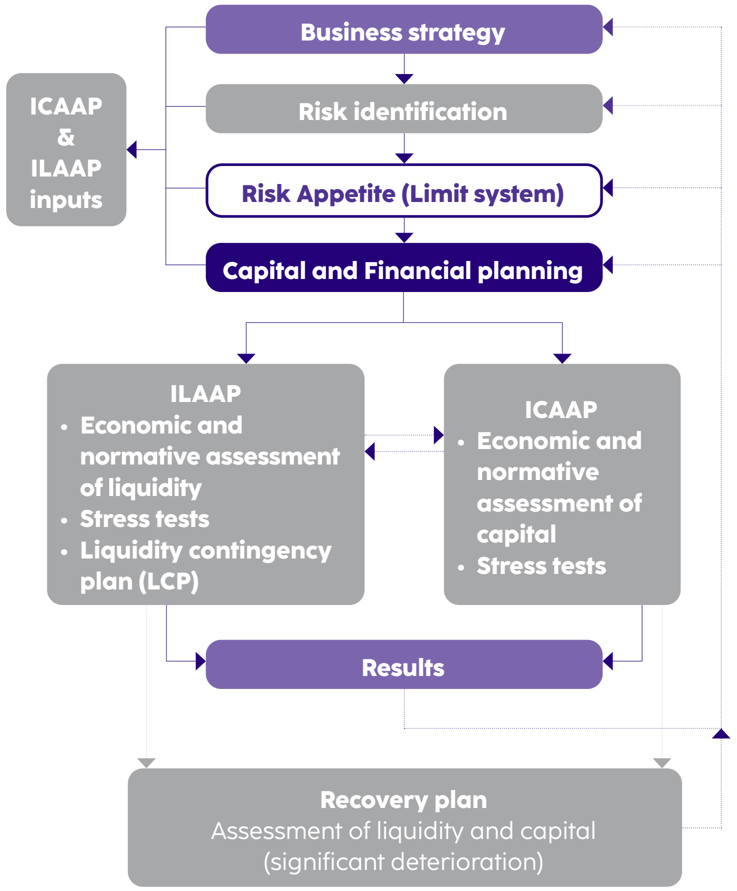
Competence line Risk Management in NLB is, by encompassing several professional areas, in charge of:
- formulating and controlling the Group's Risk Management policies,
- setting limits,
- overseeing the harmonisation,
- regular monitoring of risk exposures and limits based on centralised reporting at the Group level.

Harmonization of risk management framework of N Banka, which was acquired in March 2022, was fully implemented. Completion of the merger process is expected within this year.

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 its business strategy. The Group performs the risk identification process on a 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 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, the 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 to assure proactive support for informed decision-making.

Figure 45: 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 established an internal ESG stress-testing concept to identify the most relevant financial vulnerabilities stemming from climate risk, which will be further enhanced by considering available ESG-related data. Such a stress-testing framework is the subject of a regular internal validation cycle and related procedures where the Group established a comprehensive validation framework. That is to say, the Group supports a strong validation governance process and controls over applied and selected risk approaches and internal models.

The business and operating environment, relevant for the Group operations is changing, with trends such as sustainability, social responsibility, governance, changing customer behaviour, emerging new technologies and competitors, actively contributing to a more sustainable, balanced, and inclusive economic and social system, as well 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 2022

Prudent capital level position and achieved interim MREL targets

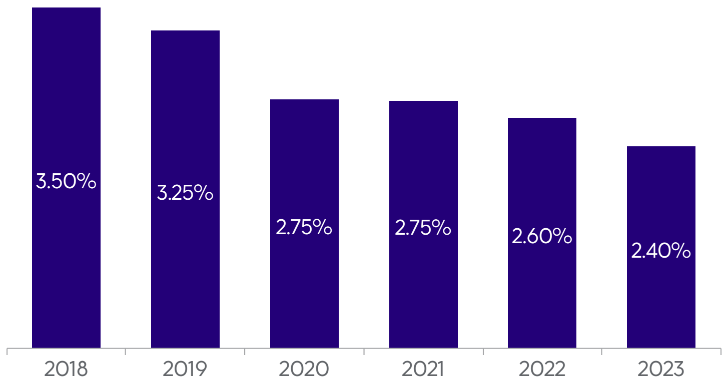
One of the key aims of Risk Management is to preserve a prudent level of the Group's capital position. The Group monitors its capital position at the Group and individual subsidiary bank level in accordance with the Risk Appetite, also incorporating normative and economic perspectives as part of the established ICAAP process. As at 31 December 2022, the Group had a very solid capital position and TCR of 19.2% (1.4 p.p. YoY increase). The CET1 ratio, representing capital of the highest quality, stood at 15.1% (0.4 p.p. YoY decrease).

The capital is higher mainly due to the inclusion of the negative goodwill from the acquisition of N Banka in retained earnings in the amount of EUR 172.8 million, a partial inclusion of 2022 profit in the amount of EUR 161.5 million, additional Tier 1 notes issued in September in the amount of EUR 82 million, and subordinated Tier 2 notes issued in November in the amount of EUR 222.9 million,[14] which compensated the negative revaluation adjustments on FVOCI securities (EUR -98.5 million YoY). An increase of RWA in NLB Group for credit risk relates to the acquisition of N Banka and lending activity in all NLB Group banks. RWA growth was partially mitigated by CRR eligible real estate collaterals from BiH, Serbia, and North Macedonia. The increase in RWAs for market risks and CVA is the result of higher RWA for FX risk and higher RWA for CVA risk. The main effect of an increase in the RWA for operational risks refers to the acquisition of N Banka.

As at 31 December 2022, the Group meets all fully loaded regulatory requirements. Moreover, enhanced overall corporate governance in recent years led to a lower P2R, which decreased from 2.60% applicable in 2022 to 2.40% applicable from 1 January 2023, while Pillar 2 Guidance remains at a low level of 1%.

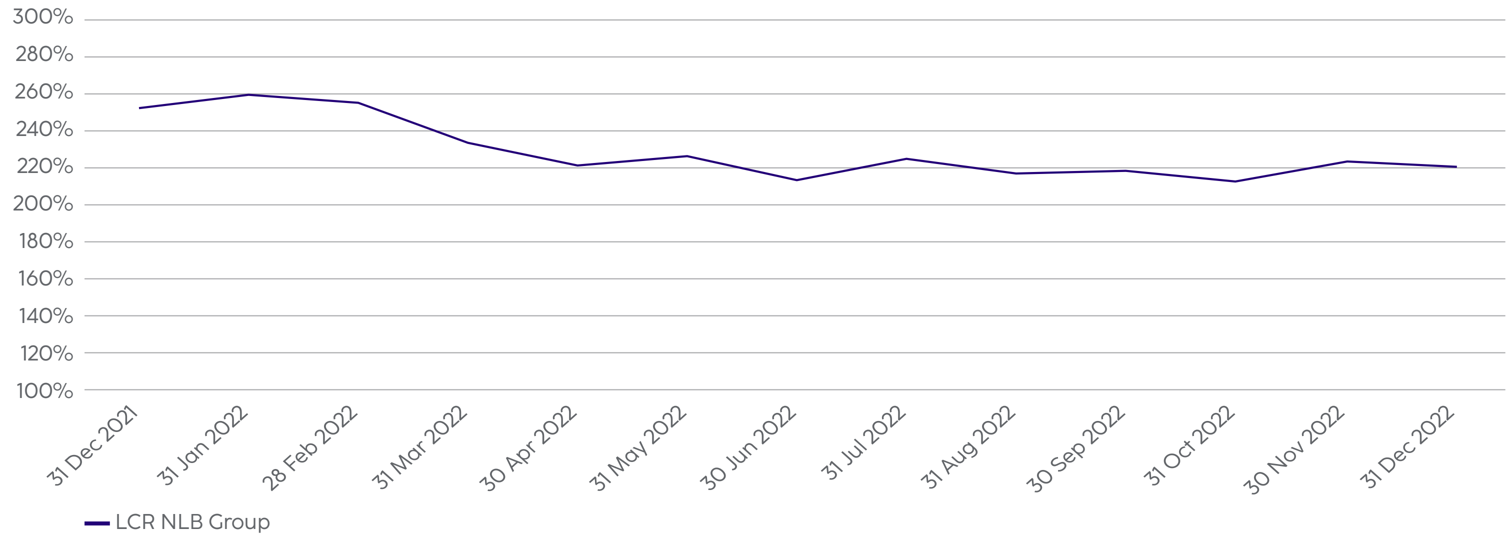
14 T2 notes were issued in the amount of EUR 225 million, amount included in the capital was EUR 222.9 million (due to issuance below par).

Figure 46: NLB Group's Pillar 2 Requirement evolution



MREL requirement forms part of the 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 Funding Strategy and MREL Compliance.

Figure 47: NLB Group's LCR



Maintaining a solid level and structure of liquidity

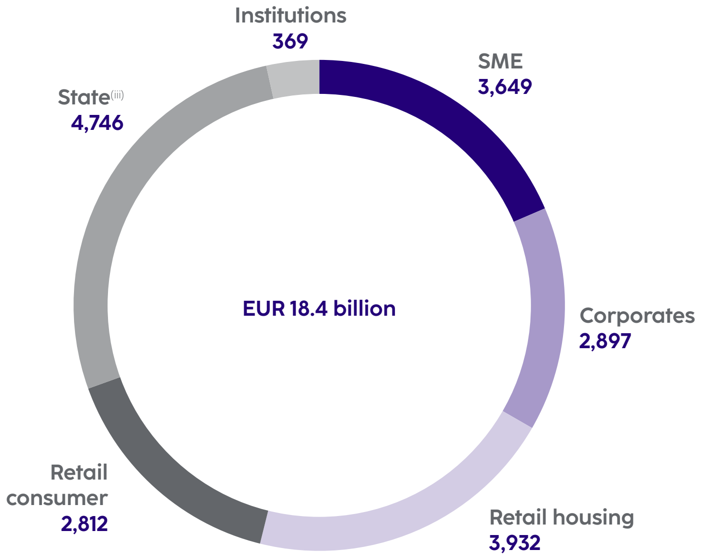
Maintaining a solid level and structure of liquidity represents the next very important risk target. The liquidity position of the Group remained stable, and the impacts of the war in Ukraine and its overall economic implication did not cause any material liquidity outflows. Strong liquidity positions are held at the Group and individual subsidiary bank levels. Group LCR slightly decreased to 220.3% (by 32.3 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 39.0% 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 a very stable and constantly growing base. LTD increased to 65.3% (31 December 2021: 60.0%), remaining at very comfortable level.

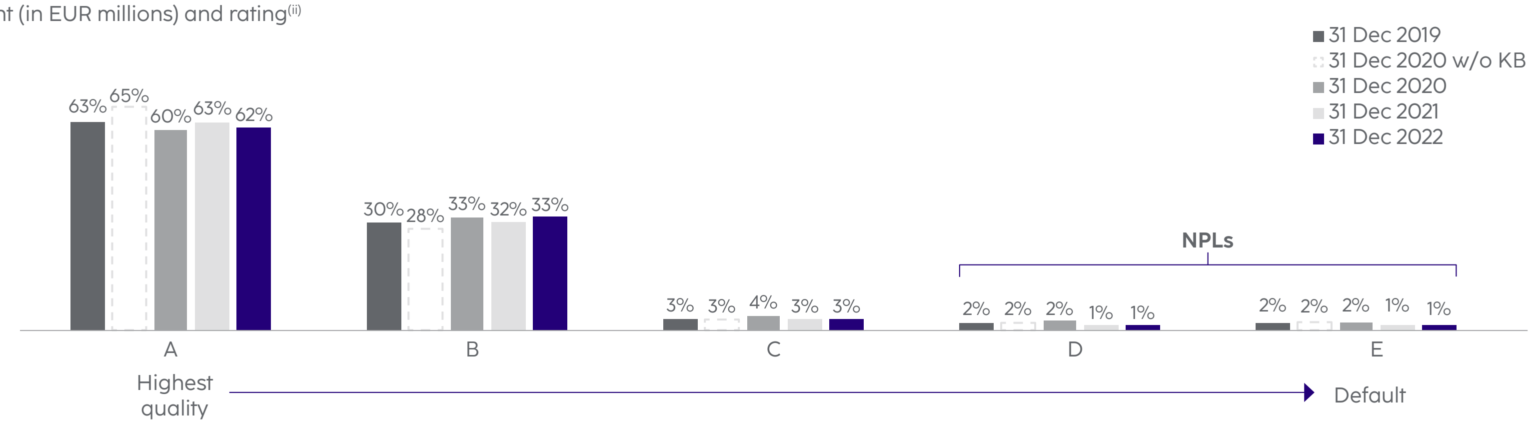
Maintaining adequate credit portfolio quality

Maintaining 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 existing and new creditworthy clients. The Group's lending strategy focuses on its core markets of retail, SME, and selected

Figure 48: NLB Group structure of the credit portfolio[i] (gross loans) by segment (in EUR millions) 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 >90 days 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.

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.

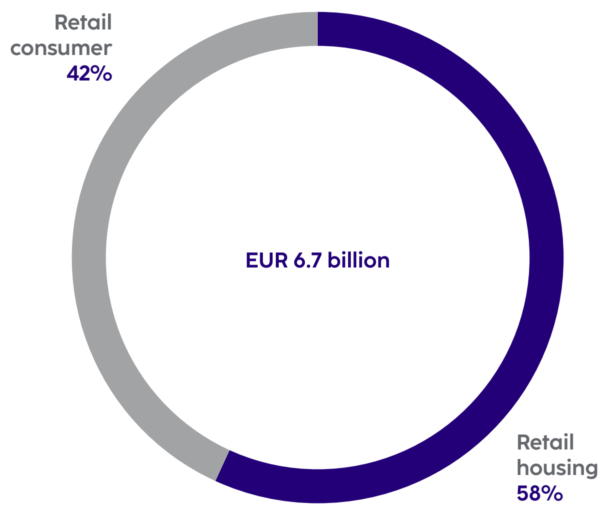
Lending growth was observed in the corporate, as well as in the retail segments in 2022. In the circumstances of the growing EURIBOR, there was a certain transfer to fixed interest rates, especially in the housing loans market, which led to increased new production and the general increase in the volume of retail exposures. In the corporate segment, the Bank seized opportunities to finance some of the top corporate clients in the region, while keeping the focus on SME as its key segment. The current structure of credit portfolio (gross loans) consists of 36.6% retail clients, 15.7% large corporate clients, and 19.8% 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 the retail portfolio in the whole credit portfolio is quite substantial, with mortgage loans as the still prevailing segment.

Table 32: Overview of NLB Group loan portfolio by industry as at 31 December 2022

Corporate sector

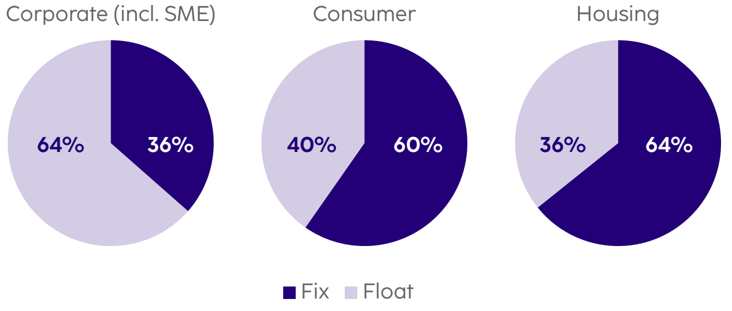
				in EUR millions
Corporate sector by industry	**NLB Group**	**%**	**Δ 2022**	**Δ 2022 w/o N Banka**
Accommodation and food service activities	216.7	3.3%	60.4	4.9
Administrative and support service activities	79.8	1.2%	-28.4	-33.5
Agriculture, forestry and fishing	326.2	5.0%	15.5	14.7
Arts, entertainment and recreation	23.7	0.4%	1.0	-4.3
Construction industry	569.8	8.7%	135.1	97.9
Education	13.9	0.2%	0.6	-0.7
Electricity, gas, steam and air conditioning	550.5	8.4%	232.4	180.8
Finance	224.7	3.4%	104.5	93.3
Human health and social work activities	46.8	0.7%	8.9	2.3
Information and communication	314.9	4.8%	70.8	63.5
Manufacturing	1,458.8	22.3%	367.7	197.9
Mining and quarrying	54.2	0.8%	3.8	-0.6
Professional, scientific and techn. act.	187.1	2.9%	11.8	-59.8
Public admin., defence, compulsory social.	188.7	2.9%	16.3	15.5
Real estate activities	312.8	4.8%	61.5	20.2
Services	16.8	0.3%	4.8	-0.6
Transport and storage	629.5	9.6%	56.2	28.7
Water supply	51.4	0.8%	7.5	-1.7
Wholesale and retail trade	1,278.0	19.5%	234.9	157.1
Other	1.3	0.0%	0.8	0.6
Total Corporate sector	**6,545.6**	**100.0%**	**1,366.1**	**776.2**

Retail sector



Contents

Figure 49: NLB Group corporate and retail loan portfolio by interest rates as at 31 December 2022



Approximately 50% of the NLB Group corporate and retail loan portfolio is linked to a fixed interest rate, and the rest to a floating rate (mostly to the Euribor reference rate). The corporate segment is dominated by floating interest rates. In the retail segment, more than 60% of the loan portfolio is linked to a fixed interest rate, which is a result of considerable growth predominately of housing loans in 2022 and activities of changing the type of contractual interest rates for existing loans at the request of the client.

Figure 50: NLB Group loan portfolio by stages as at 31 December 2022

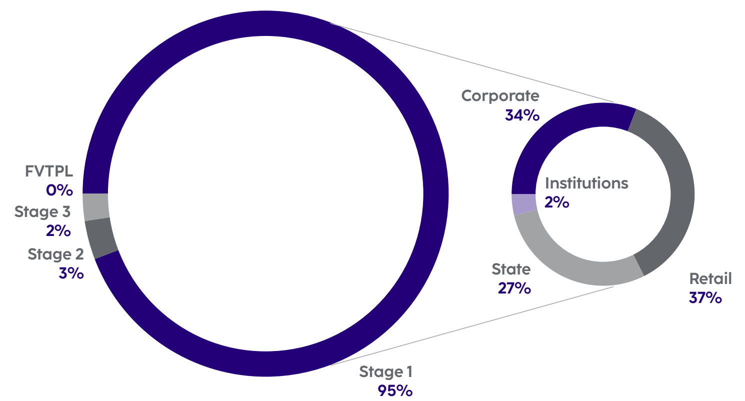
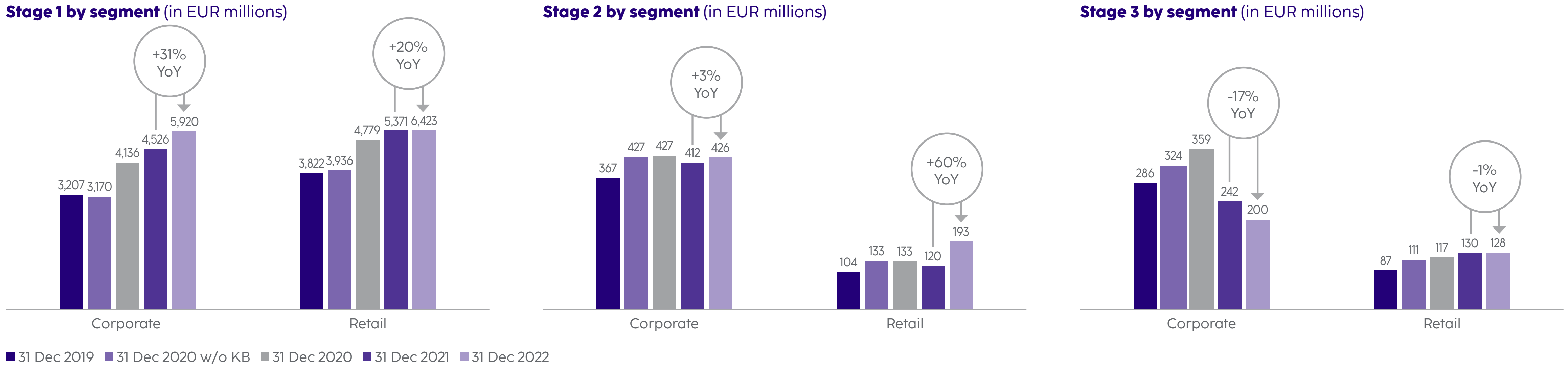


Table 33: NLB Group loan portfolio by stages as at 31 December 2022

in EUR millions

	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	**17,457.5**	**94.9%**	**2,819.6**	**618.3**	**3.4%**	**85.9**	**328.1**	**1.8%**	**-43.4**	**92.5**	**0.5%**	**45.0**	**7.3%**	**187.4**	**57.1%**
o/w Corporate	5,920.1	90.4%	1,394.5	425.7	6.5%	13.5	199.9	3.1%	-41.9	59.3	1.0%	31.1	7.3%	110.6	55.3%
o/w Retail	6,423.0	95.2%	1,051.9	192.6	2.9%	72.4	128.0	1.9%	-1.7	31.3	0.5%	13.9	7.2%	76.6	59.8%
o/w State	4,745.6	100.0%	543.2	-	-	-	0.1	0.0%	0.1	1.8	0.0%	-	-	0.1	99.1%
o/w Institutions	368.9	100.0%	-170.0	-	-	-	0.1	0.0%	0.1	0.1	0.0%	-	-	0.1	96.3%
NLB-G w/o N Banka	**16,379.6**	**95.0%**	**1,741.6**	**558.9**	**3.2%**	**26.5**	**304.7**	**1.8%**	**-66.8**	**85.5**	**0.5%**	**39.8**	**7.1%**	**183.6**	**60.3%**
o/w Corporate	5,394.7	90.6%	869.1	377.3	6.3%	-34.9	183.7	3.1%	-58.0	53.6	1.0%	26.8	7.1%	108.2	58.9%
o/w Retail	6,077.4	95.3%	706.3	181.6	2.8%	61.4	120.9	1.9%	-8.8	30.1	0.5%	13.0	7.2%	75.3	62.3%
o/w State	4,538.6	100.0%	336.2	-	-	-	0.1	0.0%	0.1	1.8	0.0%	-	-	0.1	99.1%
o/w Institutions	368.9	100.0%	-170.0	-	-	-	-	-	-	0.1	0.0%	-	-	-	-

Figure 51: NLB Group Corporate and Retail loan portfolio (valued at amortised cost) by stages



The majority of the Group's loan portfolio is classified as Stage 1 (94.9%), the remaining portfolio as Stage 2 (3.4%), and Stage 3 and FVTPL (1.8%). The portfolio quality remains very stable, with increasing Stage 1 exposures and a relatively low percentage of NPLs. The percentage of the Stage 1 loan portfolio remains almost at the same level as at the end of 2021, i.e., at 95.2% in the retail segment, while in the corporate segment, despite the adverse economic conditions, improved to the level of 90.4%, which is a result of cautious lending policy and successful closure of NPL. The volume of Stage 2 exposures increased in the retail segment as a result of the changed macroeconomic conditions and improved Early Warning System (EWS) in the subsidiary banks, nevertheless the increase remains relatively low compared to the entire portfolio volume.

The Russia – Ukraine conflict did not have a meaningful impact on the bank portfolio quality. The government adopted intervention laws that contributed to a mitigation of fluctuations in energy prices for end users while large energy consumers in the corporate segments set different strategies to eliminate any material impact. The bank is closely monitoring any clients whose activity may be affected by the current situation on the energy and commodity prices.

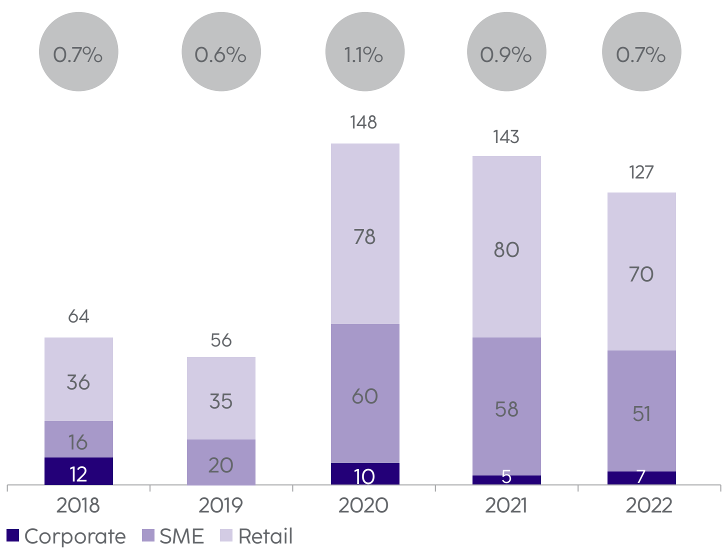
New NPLs formation and NPL management

In March 2022, the Bank acquired N Banka, their NPE were included in the Group portfolio based on fair value. In 2022, NPL formation amounted to EUR 127 million or 0.7% of the total loan portfolio. Nevertheless, the total amount of NPL decreased during 2022.

During the year, the Group reviewed IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to adequately reflect the current circumstances and applied necessary adjustments. Notably, the cost of risk remained at a relatively low level, more specifically due to further positive development in NPL collection in the whole region.

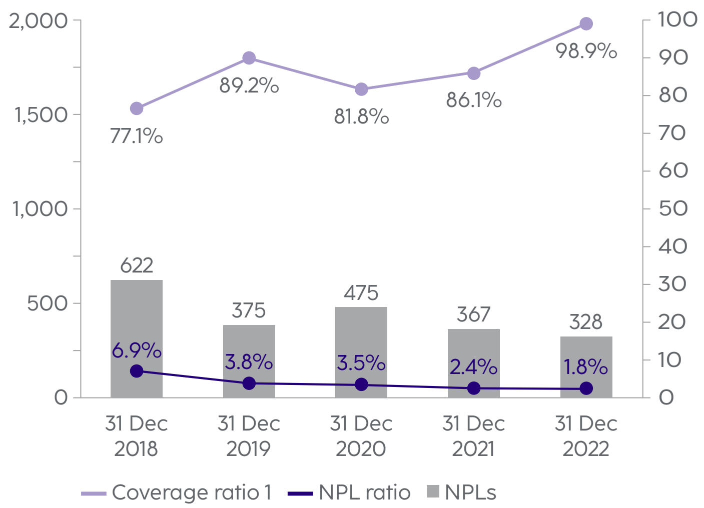
Figure 52: NLB Group gross NPL formation (in EUR millions)

Formation / gross loans (stock)



Precisely set targets 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 the use of other active NPL management tools, such as foreclosure of collateral, the sale of claims, and pledged assets. In 2022, the multi-year declining trend of the non-performing credit portfolio stock continued, mostly due to repayments, cured clients, and the collection, and sale of claims. The non-performing credit portfolio stock in the Group decreased at the end of 2022 in comparison with the end of 2021 to EUR 328.3 million (the end of 2021: EUR 367.4 million). The combined result of contraction in the non-performing credit portfolio stock and credit growth of a higher quality portfolio led to 1.8% of NPLs, while the internationally more comparable NPE ratio, based on the EBA methodology, stood at 1.3%. The Group's indicator gross NPL ratio, defined by the EBA, is equal to 2.4%.

Figure 53: NLB Group NPL, NPL ratio and Coverage ratio 1(i) (in EUR millions)



(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 98.9%. Furthermore, the Group's NPL coverage ratio 2 (coverage of gross NPLs with impairments for NPL) stands at 57.1%, which is well above the EU average as published by the EBA (44.1% for Q3 2022). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years. NPL coverage indicators were influenced by the special treatment of NPLs from the acquired entities. NPLs of NLB Komercijalna Banka, Beograd and N Banka 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 2022 in NLB Komercijalna Banka, Beograd and NLB Banka, Podgorica, which merged with Komercijalna Banka, Podgorica in November 2021, and N Banka.

Table 34: NPL, NPL ratio(i) and Coverage ratio by NLB Group members

in EUR millions

NLB Group member	NPL 31 Dec 2022	% NPL 31 Dec 2022	NPL CR 1 31 Dec 2022	NPL CR 2 31 Dec 2022
NLB, Ljubljana	111.2	1.1%	86.1%	58.1%
NLB Banka, Skopje	54.5	3.6%	116.9%	70.9%
NLB Banka, Banja Luka	8.3	1.1%	211.3%	60.7%
NLB Banka, Sarajevo	17.0	2.3%	122.6%	87.7%
NLB Banka, Prishtina	15.7	1.7%	232.8%	87.7%
NLB Banka, Podgorica	32.6	4.6%	62.1%	45.1%
NLB Komercijalna Banka, Beograd	32.5	1.0%	110.4%	34.5%
N Banka, Ljubljana	23.6	1.9%	67.3%	16.2%
Total NLB Group banks	**295.4**	**1.6%**	**102.7%**	**56.4%**
Total NLB Group	**328.3**	**1.8%**	**98.9%**	**57.1%**

(i) By internal definition

Contents

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. At the corporate loans, government and corporate guarantees are also common types of collateral. In retail loans, the other most frequent types of loan collateral are loan insurances by insurance companies and guarantors.

The Group follows the ECB guidelines to banks on NPLs with regard 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 the statistical approach always updated downwards, never upwards. Only if the individual appraisal shows a higher value of collateral, the upward 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.

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.

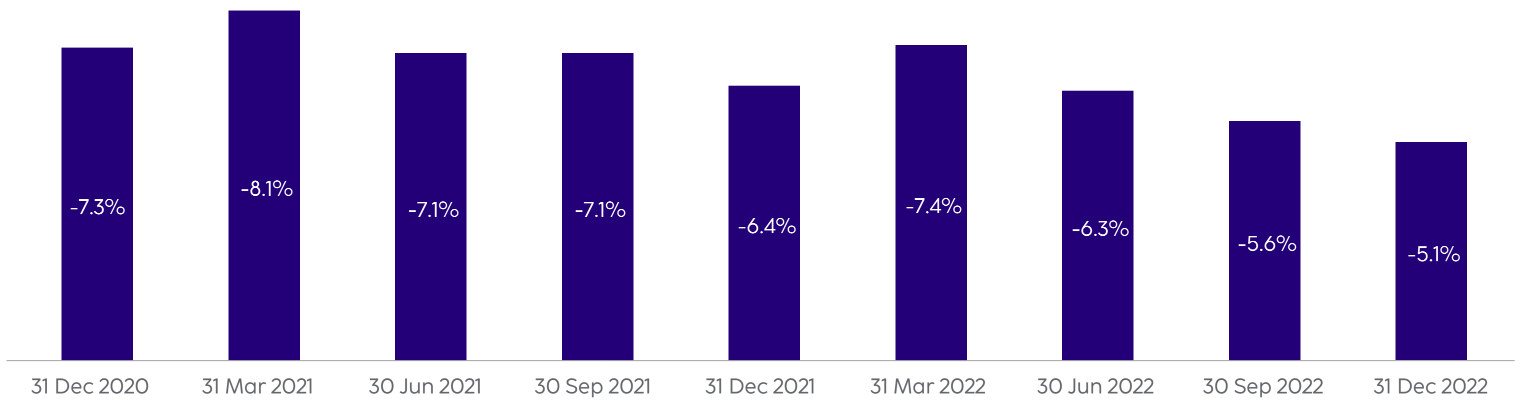
The Group carries its main business activities in euros, and the subsidiary banks, in addition to their domestic currencies, also operate in euros, which is the reporting currency of the Group. The Group's net open FX position from transactional risk is low, and at 1.1% of capital. Regarding structural 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 exposure to interest rate risk is moderate and derives mostly from the banking book positions. Bonds and loans with a fixed interest rate contribute the most to the interest rate risk exposure in terms of the Economic Value of Equity (EVE) indicator. In contrast, exposure is managed with core deposits which present the most important and material element of the interest rate risk management. To a lesser extent, the Group uses also plain vanilla derivatives for hedging the risk.

The exposure to interest rate risk remains modest, within the risk appetite limits. For NLB Group, the worst-case regulatory scenario is in the case of a parallel shock of IR by + 200 bps. From the EVE perspective, the estimated capital sensitivity in the case of a parallel shock is + 200 bps equals -5.1% of the Group's T1 capital.

Figure 54: NLB Group's EVE evolution



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 a scenario analysis referring to the potential high severity, low frequency events, and modelling data on loss events. For modelling, the Bank uses the gamma distribution technique which proved to be the most suitable. From an economic perspective, the aim is to assure the necessary capital for materially important risks which could happen extremely rarely. Consequently, data on realised loss events are used with a confidence interval of 99.9%. Moreover, some add-ons are added for specific current and significant risks. In a normative view, a 90% confidence level is used for more plausible, but still severe events, which would be absorbed through P&L.

Apart from losses that are already included in the loss event database, the Bank could also experience one-off and unpredictable extreme events. The list of such potential events is updated yearly, based on current risks in the Bank's environment or past realised events in the banking industry. For those possible and topical events, scenario analyses are prepared by the Bank's experts. In 2022, 13 such scenarios were defined. The results show that the biggest loss could derive from the following potential events: external fraud events, major earthquake, legal risk, and cyber-attack. For these scenarios, existent controls were additionally revised, while for identifying potential deficiencies, mitigation measures were defined.

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 of improving the existing internal controls and enabling on-time reactions.

The Group supports proactive discussion of operational risks on all hierarchical levels. Every employee has the possibility to report loss events. The biggest/most important operational risks are escalated in a short-time period and discussed at the Operational Risk Committee sessions, while implementation of the mitigation measures is closely monitored.

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 the main sustainability elements into its business model. The NLB Group Sustainability Committee oversees the integration of ESG factors into the NLB Group 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.

ESG risks do not represent a new risk category, but rather one of the risk drivers of the existing type of risks, such as credit, liquidity, market, and operational risk. The Group integrates and manages them within the established risk management framework in the areas of credit, liquidity, market, and operational risk. The management of ESG risks follows ECB and EBA guidelines, following the 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 made significant progress in the process of obtaining relevant ESG-related data from its clients, being the prerequisite for adequate decision-making and the corresponding proactive management of ESG risks. For the purpose of calculating credit portfolio GHG emissions, several important activities started in 2022. For larger corporate clients, we initiated direct Scope 1 & 2 & 3 data-gathering processes, whereas for the SME and micro segments, we developed our own proxies in cooperation with an external expert. In residential mortgages, the most important input for GHG calculation are the buildings' energy performance certificates. By end of 2022, we formed the emission calculation for the Slovenian market, whereas in the Region this process will continue and will be developed in 2023. Besides the emissions, the Group collected, analysed, and used different relevant historical data for physical risk and publicly available climate change studies relevant for its region.

The Group conducts a materiality assessment, as part of its overall risk identification process, to determine the level of transitional and physical risk to which the Group is exposed. In this process, identification of environmental risk factors, relevant transmission channels, and their materiality and impact to the Group's financial performance in the short- and long-term period are assessed. From the perspective of physical risk, the most relevant natural disasters are drought and floods, while hail and windstorm are also frequent, but less material. Despite this, we can expect that its impact will increase in the long run if no adequate policy changes are implemented in a timely manner. Chronic risk is not determined as material risk. Transition risks already arise in the short term due to determination of the EU to reduce carbon emissions, according to its ambitious net zero strategy by 2050. With implementation of the Net Zero Strategy of NLB Group in 2023, it is expected that its impacts will gradually diminish in the long run. Nevertheless, the Group assessed them more materially than physical risk.

In recent years, the Bank signed Framework Agreements with the EBRD, such as the Contract of Guarantees with MIGA, and committed to the UN Principles of Responsible Banking. Consequently, the Group established a 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 is incorporated into the Group's overall credit approval process and the related credit portfolio management. Sustainable financing is implemented in accordance with the Group's ESMS. In addition to addressing ESG risks in all relevant stages of the credit-granting process, relevant ESG criteria were also considered in the collateral evaluation process.

In the process of the transaction approval, collecting ESG data at the KYC stage was established. A regulatory compliance check represents a next important step that includes verification that a client is adhering to the applicable laws, regulations, and standards. If the transaction is classified with a high E&S risk, a strict deviation management process is in place that ensures further enhanced risk assessment. During a project's lifetime, ESG risk monitoring is established to assess the impact of each risk, as well as the creation of a strategy for their mitigation. With that, is the Group ensures that the risks are being adequately addressed and that any changes or newly emerged risks are identified and addressed promptly.

The Group is analysing and monitoring its credit portfolio by using heat maps. For the purpose of heat maps, the Group aggregates single risks by using predefined weights for the determination of a final risk score. Such an approach enables different views over the Group's corporate portfolio from physical and transition risk perspectives. With regard to physical risk, some negative historical events in the past years in the Region were observed on the public infrastructure and agriculture, but they were reimbursed to a large extent by the government or insurances. Consequently, there were no material impacts on Group's portfolio quality or liquidity. 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. Based on industry segmentation of portfolio and corresponding emissions, the Group has a relatively low exposure to emission-intensive sectors in its corporate client's business. More exposed industries represent energy, transportation, industry, and agriculture, though the exposure to the clients with high emissions in these branches is rather limited. As part of its strategy, the Group does not finance companies that extract fossil fuels or operate coal-fired power plants.

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 the 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). As such, BCM is carried out to protect lives, goods, and reputation. Business continuity plans included relevant ESG risks. They are prepared to be used in the event of natural disasters, IT disasters, and the undesired effects of the environment to mitigate their consequences.

In 2021, the Group established an internal ESG stress-testing concept to identify the most relevant financial vulnerabilities stemming from transitional and physical climate risks, which will be further enhanced by considering disposable ESG-related data. The results of the climate stress tests showed no material impacts on the Group's capital and liquidity positions.

As a systemically important institution, the Group was included into the 2022 ECB Climate Stress test exercise, which consisted of three modules. The exercise was conducted in the first half of 2022, and the aggregate results were published in July 2022. By performing this exercise, the ECB assessed how banks were prepared for dealing with financial and economic shocks stemming from climate risk. The Group's overall results were within the range of average peer results.

NLB obtained in 2022 for the first time an ESG Risk Rating. The assigned rating reflects a low risk of experiencing material financial impacts from ESG factors.

Further information on risk management is available in the Note 6 of the financial part of the report, Pillar 3 Disclosures and the NLB Group Sustainability Report 2022.

Proactive Risk Management

in 2022

14 bps

low level of cost of risk on Group level

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 is also actively pursuing its technology transformation programme. In line with the upgraded IT strategy introduced in 2020, the IT team delivered on its timelines and started the programme of consolidating core banking systems. The IT Security, IT Infrastructure, and IT Governance made significant progress in the consolidation on the group level. The Bank also rolled out additional group business solutions like the contact centre, new product origination platform, launched the new digital banking platform for the internal pilot in Slovenia. Komercijalna Banka was fully integrated within group's IT and infrastructure simplification and streamlining, and is on schedule with three datacentres consolidated in 2022. Due to the increase in general cyber security risks, special focus, extra resources, and investments were made to raise the overall level of cyber security resilience.

More than

1.5 million

digital users in the Group

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 a very high level of 99.96% (2021: 99.98%), and the share of unplanned interruptions is very low, 0.04% (2021: 0.02%). In 2022, the number of days without system/service interruptions was at 81.1 % (2021: 83.6%). Harmonised Service Level Agreements (SLA) are in place with users of the information system, which the Bank managed to fulfil to a very high degree. High IT operational performance was also recorded by the Group members (between 99.87% and 99.99%).

Main IT initiatives

Transformation

The main focus is 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 partner with business, and as a result was more efficient and effective. Specifically, a Group IT domain concept was introduced, which promotes shared teams and IT solutions across the Group. The Group's competence centre in Serbia was transferred from the Bank to the separated IT service company called 'NLB DigIt.'

Change of delivery approach

The team managed to reach important achievements in the following new strategic directions in terms of solution delivery. They managed to migrate a new call centre solution in Slovenia and BiH, a new product origination platform in N. Macedonia and Kosovo, and delivered a new Digital Banking platform to the pilot mode in Slovenia. The team also continued to pursue a reduction in the dependency on the mainframe, and migrated the next set of applications from the mainframe to distributed systems. After the N Banka acquisition, the IT team focused on onboarding N Banka IT to the Group and preparing an integration plan and strategy.

Core systems consolidation

IT followed the core banking system strategy and successfully started the consolidation of core banking systems. Due to the N Banka integration in Slovenia, the programme course was adjusted and the N Banka consolidation strategy is now in line with the target core banking system.

Enterprise and application architecture

Enterprise and application architecture is focused on two key areas. The first is the focus on the Group solution, and the majority of new solution selections are performed as a Group standard with related Group roadmaps. New Group solutions were selected in the areas of a digital web portal and Customer Relationship Management.

The other is the setup of a standardised enterprise architecture management system for which a market standard tool was procured to enable simpler application portfolio management, managing of risk related to software obsolescence, and IT risk and support in defining transformation paths.

Group-wide capabilities extended

Group-wide capabilities were significantly extended and the Group competence centre in Belgrade, Serbia was transferred to a separate IT service company called 'NLB DigIt.' In the last two years, this team has grown from 15 to 80 employees. The datacentres consolidation programme has started, with the successful consolidation of three datacentres in Serbia and BiH.

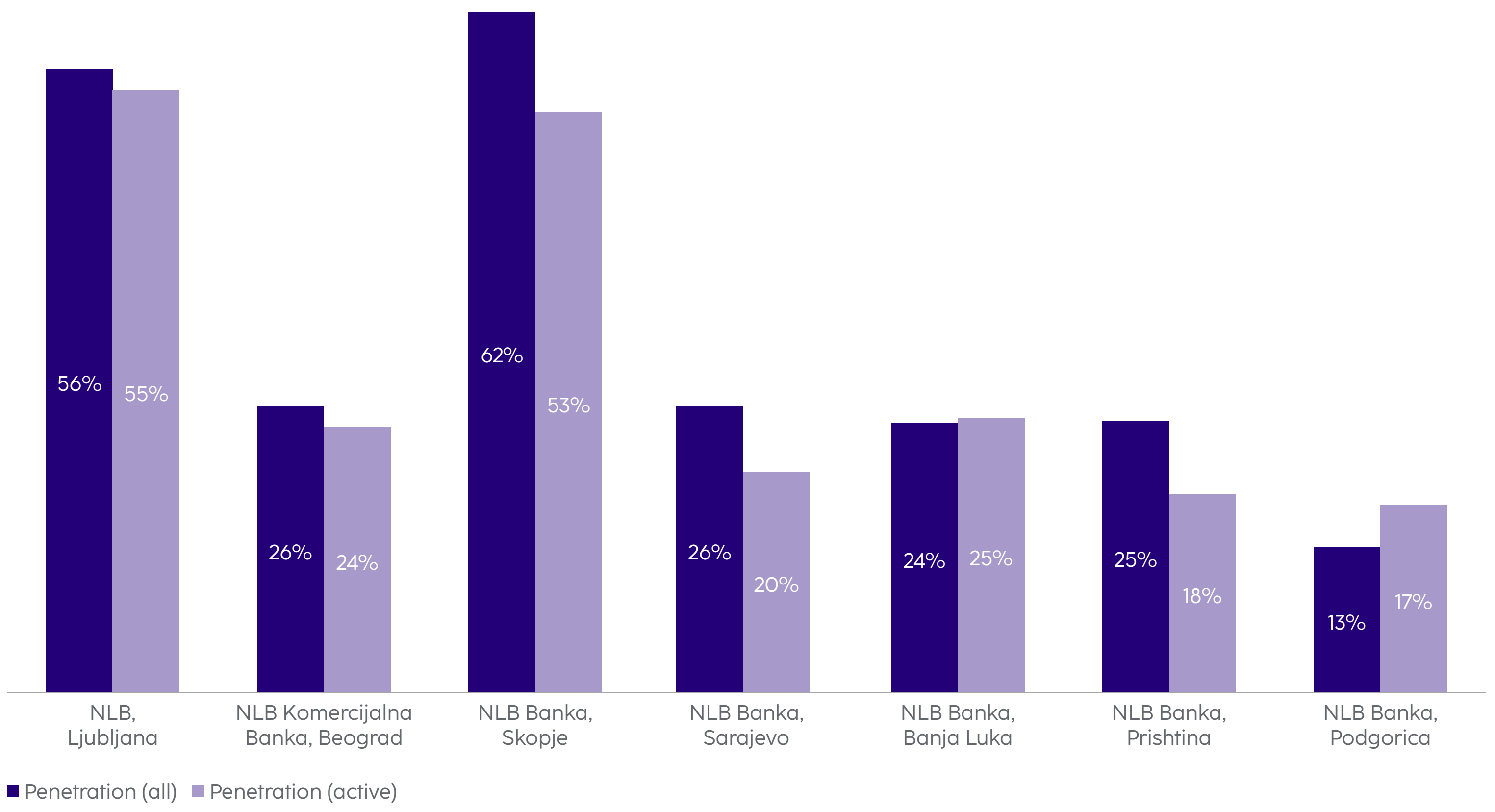
Data management

The Bank continues to implement 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.

Digital penetration

Digitalization focus is on using the available, ever changing information technology tools, in order to increase the efficiency

Figure 55: Digital penetration of the Group's banks as at 31 December 2022



99.96%

the availability in NLB

of the Group through more innovative, personalized, accurate and prompt service to the clients. High growth in smart phone penetration, that they use anyhow on daily basis, creates the opportunity to move more customers to alternative distribution channels. The Group strives to a wide range of 24/7 digital solutions to come closer to clients and offering them anchor products and the most accessible and personalized digital services. Main target is digital penetration of active customers with goal of 55% of clients to be active on digital channels by 2025.

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, the cloud, and customer relationship management (CRM), consolidating the Group's infrastructure, simplifying core systems, and to achieve superior client experience in terms of quality, innovation, reliability, and security.

IT Strategy 2020-2024

At the end of the 2020, an upgraded 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 a 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 fewer manual tasks;
- ensure the necessary development capacity – hire right talents with the digital skills and who are forward-looking 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.

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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, also regularly discussed at the Bank's Information Security Steering Committee, Operational Risk Committee, and Management Board meetings. During 2022, the Group increased its capacity in terms of human resources by hiring specialists in different domains, and additional improvements were made in vulnerability management where all Group members have a unified solution and configuration. The team has the ability to perform on-demand scans and can stay abreast of global trends and the most recently published vulnerabilities. This provides a more proactive approach to the whole vulnerability remediation process in the Group. A Cloud Web Application Firewall was introduced to the Group, and in all Banks the migration process was initiated. The goal is to have all publicly available applications under the same security tool and monitoring. The biggest achievement in the Group Cyber security team comes from the fact that almost all Bank members in 2022 had individual on-demand requests for different penetration testing services. More information about cyber security is available in the chapter Regulatory Environment.

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 provide 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 also tests 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. In addition to a regular phishing simulation, the Group Cyber Security team has implemented their own phishing platform and successfully conducted simulation in NLB Sarajevo as a pilot for all other Members. Regular, controlled, simulations impact employee's awareness on the highest level.

Strengthening the team and extra investments in

cyber security

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In 2022, **NLB Banka, Skopje** confirmed its position as a systemically significant bank with high market share. We achieved positive business results and announced a new chapter in our operations – an investment in an associated company NLB Lease&Go, Skopje.

Numerous awards and recognitions confirmed **better footprints we created** and successful operation of our bank, for example, Best Bank in Macedonia for 2021 by the renowned magazine EMEA Finance; five awards in the annual ranking of the magazine Finance Central Europe; three recognitions from the Visa Center for a bank that shows outstanding results, not only in North Macedonia, but also in the whole South-Eastern Europe, and the recognition as the Bank of the Year from the renowned international financial magazine The Banker for the 11th year in a row.

Pictured: NLB Banka, Skopje employees

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. All the while also firmly trying to establish itself as a 'Top employer' on the workforce market.

Employee Headcount

Number of employees

The Group continues with the optimisation of processes and right-sizing its staffing level. Due to the acquisition of N Banka, the number of employees rose to 8,475, but has downsized throughout the year to reach 8,228 by the end of 2022.

Work from home

The Group continuously enables employees, whose presence on the Group's premises is not essential to the business process, to work from home (remotely) (the Group: 36%, NLB: 59%). With it we are enabling our employees, if they so choose, an option to better balance their work-life balance.

Top Employer

in 2022 for the 7th consecutive year

Table 35: NLB Group headcount by countries

Country	31 Dec 2022	31 Dec 2021	Changes YoY
Slovenia	**2,833 (NLB: 2,418, other: 415)**	**2,619 (NLB: 2,510, other: 109)**	**+214 (NLB: -92, other: +306)**
Serbia	2,614	2,901	-287
North Macedonia	954	877	+77
BiH	971	942	+29
Kosovo	467	463	+4
Montenegro	380	374	+6
Germany	1	1	0
Switzerland	2	2	0
Croatia	6	6	0
Group Total	**8,228**	**8,185**	**+43**

Striving to remain a 'Top Employer'

'Top Employer'

The Group continues strengthening its Human Resources (HR) practises based on feedback from reputable institutions and benchmarks with best-in-class HR practises. In 2022 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 to ensure 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. After measuring our organisational culture, the activities are aimed at improving it towards more constructive behavioural styles that will support the direction that NLB is heading in the future. Focus groups on three main areas were done throughout the Group at the end of 2021, through which improvement initiatives were defined. In 2022, we also defined renewed NLB values that were defined through workshops by employees from all levels and throughout the Group, and launched with several implementation initiatives. A leadership 360 feedback measurement and assessment, and individual development planning aimed towards improving organizational culture were implemented.

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. In line with this we had two major activities this year:

- M/I and L/I 360 feedbacks on culture impact - all B and B1 were provided individual feedback and coaching sessions to set up development plans.
- An in-depth Leadership assessment (Boyden Assessment) was done across the Group. Based on results, development plans and journey in line with the strategy and culture improvement, will be done in the following years.

Succession
To ensure the leadership succession pipeline, we are identifying potential successors in all Group members.

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. This year the topics of change management, technological trends, communication and data storytelling and visualization were in focus along with individual development activities of talents.

Mobility
We adopted a Mobility policy in all Group members to accelerate and promote mobility within the Group. Virtual teams were established and few job rotations and permanent reassignments were realised inside the Group this year.

Retention
We revised our retention strategies and policies across the Group to better address present and future challenges to better cope with demanding workforce market.

8,228

employees in the Group family

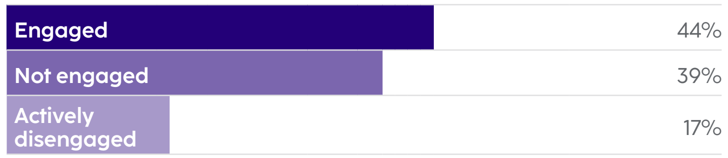
Developing NLB Employer Brand
To attract top talent throughout the region, the Group has identified the need to develop the Employer Brand actively. The Group has done internal and external surveys, interviews with stakeholders and multiple focus groups to identify the relevant employer value proposition. Based on this development, an employee value proposition and communication materials were prepared.

Also, we have implemented a Group-wide focus on cooperation with universities, to establish a connection with potential future employees and to raise the awareness of Group as an attractive employer.

Employment – Data science hackathon
The strategic direction of the Bank defines the employment of new profiles needed on a Group level. In line with that, the Group continued with the organisation of external and internal NLB Hackathons. This year, we had two hackathons on the subject of Data Science to find internal and external talents from our 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 2022, a total of 73% of employees participated in the survey.

Figure 56: NLB Group Employee Engagement 2022



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Prepared to Tackle Future Challenges

Various training activities to embrace changes

The Group strives for the high-quality standards of a modern learning organisation.

Due to the rapidly changing environment, we expanded our offer of trainings to support new relevant topics (such as Change management, Data analytics, Digital literacy, ESG, M&A, etc.), that are changing our business and environment. Our aim is to make trainings more accessible and on demand with a wide variety of online content, while also still providing quality in-class trainings and workshops, internally or externally.

Trainings, e-learning

The majority of training hours in the Group are provided through internal trainings (37 %) and internal e-learning programmes (37 %), while external trainings (18 %) and Udemy for business (8 %) are also utilised.

Online learning with access to 7,000+ courses

In 2022, Udemy for Business was activated across the Group to a substantial number of employees, enabling them access to 7000+ English trainings. The aim is to empower employees over their own development and give them opportunities to upskill or reskill, at anytime, anywhere, to better prepare themselves for upcoming challenges.

Well-being & Health

Creating a work environment

The Group is always committed to offering knowledge on healthy habits, promotes activities that enhance the good health and satisfaction of employees, and strives to create a healthy work environment that enables quality interpersonal relationships and work-life balance.

Because of this, we are also the owner of a family-friendly certificate.

Promoting healthy habits and new health and safety measures

The Group organised Health trainings focused on stress management, healthy habits, mental health, mindfulness, personal energy, and communication. Between May and November, the Bank also had a Tour de NLB Group, a steps-counting activity through a mobile app, with which employees were encouraged to walk more for a good cause.

The 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 job position for which the employee has concluded a contract of employment.
Variable part	Depends on the employee's performance.
	Employees are assessed and awarded: - quarterly or half-yearly compensation, and - 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.

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

On 19 October 2022, an amended Remuneration Policy of members of the Supervisory Board of NLB and members of the Management Board of NLB was adopted by the Supervisory Board of NLB. On 12 December 2022, the Remuneration Policy was submitted to the General Assembly of NLB for voting. The voting on the General Assembly is a consultative nature. Members of the Supervisory Board may receive remuneration that is compliant with the relevant resolutions of the Bank's General Meeting.

On average

36 %

of the Group's employees worked from home

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 the remuneration for each member of the Management Board is awarded and paid in the form of cash if the amount of the variable part does not exceed EUR 50,000 and is not higher than one-third of his/her total remuneration for the respective business year. The variable part of the remuneration for each member of the Management Board is awarded and paid in the form of cash and in financial instruments if the amount of the variable part exceeds EUR 50,000 and is higher than one-third of his/her total remuneration for the respective business year.

At least 50% of the variable part of the salary of the Management Board member awarded for an individual business year shall be deferred for a period of at least five years starting on the day of payment of the non-deferred part of the variable part of the salary.

Remuneration policy for employees in NLB and in the Group

In 'Remuneration Policy for Employees in the Group,' the basic framework of principles for rewarding employees in the Group are presented. The remuneration policy defines fixed and variable remuneration, the goal-setting system and performance criteria (Key Performance Indicators (KPIs)), and sets out the conditions for the allocation and payment of the variable part of remuneration, including deferral, malus, retention, and claw back of the variable part of remuneration for identified employees, and severance pays and compensation for the non-competition period for identified employees and pension benefits for all employees.

Diversity Policy

Framework

The Diversity Policy sets the framework for the Bank's commitments to diversity in relation to representation on the Management Body, and senior management on certain aspects where specific goals and implementation of these goals related to gender structure, age structure, professional competencies, skills and experience, continuity of composition of the management body and senior management, international experience, personal integrity, and geographical provenance are defined.

Objectives

- Cover an adequately wide range of knowledge, skills, and expert experience of its members, and are 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;
- 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;
- Diversity as regards international experience;
- Continuity of composition of the management body and senior management;
- The highest expectations relating to personal integrity and diversity with regard to geographical provenance.

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

Table 36: Diversity - review of management bodies and senior management

	Supervisory Board of NLB		Management Board of NLB		Senior Management of NLB	
	2022	Plan for 2023	2022	Plan for 2023	2022	Plan for 2023
Wide range of knowledge, skills and professional experience	High	High	High	High	High	High
International experience of the members in different areas	Medium High	Medium High	Medium High	Medium High	Medium High	Medium High
Continuity of composition of the management body	High	High	High	High	High	High
Personal integrity	High	High	High	High	High	High
Geographical provenance	Medium High	Medium High	Medium High	Medium High	Low	Low
Age structure	20-30 = 0	0	20-30 = 0	0	20-30 = 0	0
	30-40 = 0	0	30-40 = 0	0	30-40 = 3	1
	40-50 = 1	2	40-50 = 3	2	40-50 = 20	18
	50-60 = 7	5	50-60 = 3	4	50-60 = 13	16
	60+ = 2	5	60+ = 0	0	60+ = 1	2
Share of women	30%	42%	16.7%	16.7%	41%	45%

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Corporate Governance

Corporate governance of the Bank is based on legislation of the RoS, particularly (but not exclusively) the provisions of the 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 prudent remuneration, and the relevant EU regulations regarding sustainability issues and other relevant RoS and EU regulations.

Apart from binding legal framework, the Bank also follows the Slovenian Corporate Governance Code for Listed Companies (valid since 1 January 2022). In 2022, substantive changes were made to the mentioned Code. It applies to the Bank for the 2022 financial year. The Code defines the governance, management, and leadership principles based on the 'comply or explain' principle of companies listed on the Ljubljana Stock Exchange. Deviations from the recommendations of the mentioned Code are published in the NLB Group Annual Report in the chapter Corporate Governance Statement of NLB. The mentioned statement is prepared according to Article 70 (paragraph 5) of the Companies Act (ZGD-1). The mentioned statement is also published on the Bank's webpage, as well as on the webpage of the Ljubljana Stock Exchange – SEOnet.

Rules and Procedures

Corporate governance of the Bank includes the processes through which Bank objectives are set and pursued (directed and controlled). Lately, it is becoming an efficient way to channel investor-driven initiatives related to sustainability. The principles of corporate governance identify the distribution of rights and responsibilities among different stakeholders in the Bank (Management and Supervisory Board, shareholders, investors, creditors, auditor, 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 d.d.

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). Shareholders exercise their rights at General Meetings of Shareholders.

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 (February 2023), is drawn up jointly by the Management Board and the Supervisory Board of the Bank. In this policy, the Management and Supervisory Board publicly discloses commitments to shareholders, clients, creditors, employees, and other stakeholders as a whole, and explains how the Bank is managed and supervised, as well as adopts a decision on which corporate governance code the Bank follows (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, 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. Operating with integrity and responsibility is a key element of the Group's corporate culture. The Code 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 (https://www.nlb.si/code-of-conduct).

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 the chapter Sustainability
- In separately published NLB Group Sustainability Report 2022 published on the Bank's webpage
- In the chapter Risk Management, subchapter Incorporating ESG Risks
- In the chapter Statement of Management of Risk
- In a separate report on Pillar 3 Disclosures ESG Risks are disclosed
- in Note 6 of the financial part of the report

Social (S):

- In the chapter Human Resources
- In the diversity and remuneration chapters in a separate report on Pillar 3 Disclosures according to Basel Standards
- In the Remuneration policy which is public disclosed on the Bank's webpage.

Governance (G):

- In this chapter of the report
- In the chapter Corporate Governance Statement of NLB and on the Bank's webpage and on the webpage of the Ljubljana Stock Exchange

The 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 (representatives of capital), remuneration of members of the Supervisory and Management Boards, and authorisation regarding the characteristics of the issue of securities.

There were two General Meetings of Shareholders in 2022. Shareholders of NLB gathered at the 38th General Meeting on 20 June 2022. Due to changes brought by the COVID-19 pandemic, the General Meeting was hybrid, as it was held live and online. At the General Meeting, shareholders acknowledged the adopted NLB Group 2021 Annual Report, the Report of the Supervisory Board of NLB on the Results of the Examination of the NLB Group Annual Report 2021, the Report on Renumerations for the Business Year 2021, and the Additional information to the Report on Remuneration for the Business Year 2021 based on SSH's Baselines. The shareholders also decided on the allocation of distributable profit for 2021 and granted a discharge from liability to the Management Board and Supervisory Board of NLB for the previous year.

The shareholders decided on the allocation of distributable profit for 2021. The distributable profit of the Bank as at 31 December 2021 was EUR 458,266,602.05. Shareholders decided that the part of the distributable profit in total amount of EUR 50 million shall be paid out to the shareholders as a dividend, which amounts to EUR 2.50 gross per share (the first tranche).

The General Meeting of NLB also took note of various reports and voted on the proposal regarding the amendments and supplements to the Articles of Association of NLB, appointed the auditing company KPMG Slovenija, d.o.o. as the auditor of NLB for the financial years 2023–2026 and adopted the Policy on the provision of diversity of the management body and senior management.

The 39th General Meeting of NLB Shareholders held on 12 December 2022 confirmed on additional allocation of distributable profit for 2021, more precisely on the second tranche of dividend payments, the payment of additional dividends at EUR 2.50 per share, making a total dividend pay-out in 2022 of EUR 100 million. The remaining part of the NLB's distributable profit will remain undistributed and represents retained earnings.

At the General Meeting, NLB 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, and took note of the termination of the term of office of two NLB Supervisory Board members - workers' representatives, namely:
- due to statement of Janja Žabjek Dolinšek made on 26 May 2022 regarding her termination of the function of a member of the Supervisory Board of NLB, because she was leaving NLB, her term of office was terminated on 8 July 2022, as the Works Council recalled her,
- that NLB Works Council on 12 September 2022 passed a decision on the recall of Bojana Šteblaj from the function of a member of the Supervisory Board of NLB, workers' representative, based on which her term of office in the Supervisory Board of NLB terminated on 12 September 2022.

More information on the work of the General Meeting of the Shareholders activities is available in the chapter Corporate Governance Statement of NLB, on the Bank's website and the website of the Ljubljana Stock Exchange (SEOnet).

The Supervisory Board

In accordance with the 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 at 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.

As at 31 December 2022:

Number of members:

10 (8 are representatives of capital, while 2 are representatives of workers)[i]

Diversity:

3 out of 10 members were female (30 %)[i]

(i) During 2022 also two additional female members were representatives of workers, more information below.

There were two changes in the composition of the Supervisory Board in 2022. Janja Žabjek Dolinšek on 26 May 2022 made a statement regarding her termination of the function of a member of the Supervisory Board of NLB–workers' representative, based on which her term of office terminated on 8 July 2022. The NLB Works Council on 12 September 2022 passed a decision on the recall of Bojana Šteblaj from the function of a member of the Supervisory Board of NLB–workers' representative, based on which her term of office terminated on 12 September 2022. The General Meeting of NLB, on its session dated 12 December 2022, took note of the termination of term of office of two members of the Supervisory Board of NLB–workers' representatives.

As at 31 December 2022, 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
- Aroma Global 3 Ltd.–Chairman of the Supervisory Board

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 (until 14 March 2022)
- Kyrgyz Investment and Credit Bank CISC–Member of the Board of Directors
- Nepi Rockcastle N.V. – Lead Independent Non-Executive Director

Shrenik Dhirajlal Davda, MBA, LLB
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:
- PJSC Ukrgasbank–Independent Member of the Supervisory Board
- IPSO, UK–Lay Member of the Board (since 8 March 2022)

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 pic Ukraine (UK)–Chairman
- Berry Palmer & Lyle Ltd. (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, Vienna–Member of the Management Board (until June 2022)

Representative of Employees

Tadeja Žbontar Rems, M.Sc.
Member
Term of office: 2021–2025
Link to CV

Membership in NLB Supervisory Board committees:
- Operations and IT 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

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

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:

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

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	**Sergeja Kočar**, Member	**Sergeja Kočar**, Member	**Primož Karpe**, Member
	David Eric Simon, Member	**Bojana Šteblaj**, Member (until 12 September 2022)	**Bojana Šteblaj**, Member (until 12 September 2022)	**Tadeja Žbontar Rems**, Member
	Gregor Rok Kastelic, Member			**Janja Žabjek Dolinšek**, Member (until 8 July 2022)

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 mentioned 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 to a five-year term of office and may be reappointed or dismissed early in accordance with the law and Articles of Association.

As at 31 December 2022:

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

On 20 January 2022, the Supervisory Board appointed Hedvika Usenik, Antonio Argir, and Andrej Lasič as three new members of the Management Board. They assumed their functions on 28 April 2022, after receiving approval from the regulator. They all come from NLB or the Group, have extensive experience and a proven value-creating track record. Upon extension, the Management Board of the Bank consists of Blaž Brodnjak as President & CEO, Archibald Kremser as CFO, Andreas Burkhardt as CRO, as well as Hedvika Usenik as Chief Marketing Officer (CMO), responsible for Retail Banking and Private Banking, Andrej Lasič as CMO, responsible for Corporate and Investment Banking, and Antonio Argir, responsible for Group governance, payments, and innovations.

As at 31 December 2022, the composition of the Management Board was as follows:

Blaž Brodnjak
CEO
Term of office: 2012–2016, 2016–2021, renewed term 2021–2026 (CEO since 2016)

Link to CV

Other important functions and achievements:
- More than 22 years of experience at managerial positions on all levels of international banking groups.
- Named 'Manager of the Year 2022' by Managers' Association of Slovenia
- 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
- Human Resources and Organisation Development
- Internal Audit
- Compliance and Integrity

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:
- NLB 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 – present)

Andreas Burkhardt
CRO
Term of office: 2013–2016, 2016–2021, renewed term 2021–2026

Link to CV

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

Direct responsibility:
- Global Risk
- Credit Risk – Corporate
- Credit Risk – 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 Supervisory Board:
- NLB Lease&Go, Ljubljana
- NLB Bank, Banja Luka
- NLB Bank, Sarajevo

Archibald Kremser
CFO
Term of office: 2013–2016, 2016–2021, renewed term 2021–2026

Link to CV

Other important functions and achievements:
- More than 22 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 and Administration
- Controlling
- Financial Markets
- Group Real Estate Management
- IT Architecture
- IT Delivery
- Data Management
- IT Governance
- IT Infrastructure
- IT Security
- Procurement

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

Antonio Argir
Responsible for Group governance, payments and innovations
Term of office: 2022–2027

Link to CV

Other important functions and achievements:
- Under the management of Antonio Argir, NLB Banka Skopje marked exceptional growth in all segments of its operations and perceived as the most innovative bank on the market, a significant increase in the profitability of the bank, and share price increased fivefold.
- Vice President of the Economic Chamber of North Macedonia (2018 – present)
- Member of the Assembly of the Macedonian Banking Association (2018 – 2021)

Direct responsibility:
- Group Steering
- Cash Processing
- Payment Processing
- Card Operations, ATM business and payment services

Membership in management or supervisory bodies of related or unrelated companies:
- Vice President:
- Economic Chamber of North Macedonia
- Member of the Supervisory Board:
- NLB Lease&Go, Ljubljana

Andrej Lasič
CMO (responsible for Corporate and Investment Banking)
Term of office: 2022–2027

Link to CV

Other important functions and achievements:
- Over 25 years of experience in corporate and investment banking in international banking groups
- President of the Supervisory Board of N Banka (2022 – present)
- Member of the Supervisory Board, NLB Bank, Sarajevo (2021 – present)
- Member of the Supervisory Board, NLB Lease&Go, Ljubljana (2020 – present)

Direct responsibility:
- Capital Structure Advisory and Cross Border Financing
- Large Corporates
- Small and Mid-Corporates
- Trade Finance Services
- Investment Banking and Custody

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Supervisory Board:
- N Banka
- Member of the Board of Directors:
- NLB Bank, Sarajevo

Hedvika Usenik
CMO (responsible for Retail Banking and Private Banking)
Term of office: 2022–2027

Link to CV

Other important functions and achievements:
- Over 20 years of experience in international banking groups, thereof more than 16 years of managerial experience
- President of Supervisory Board of NLB Skladi (2021 – present)
- Member of Supervisory Board of NLB Banka, Banja Luka (2021 – present)
- Member of Supervisory Board of NLB Banka, Skopje and NLB Banka, Prishtina (2019 – 2021)

Direct responsibility:
- Private Banking
- Call Centre 24/7
- Distribution Network
- Sales Development and Management

Membership in management or supervisory bodies of related or unrelated companies:
- Chairman of the Supervisory Board:
- NLB Skladi
- Member of the Board of Directors:
- NLB Bank, Banja Luka

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

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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
Chairman: CRO	Chairman: CFO	Chairman: CRO	Chairman: CEO
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
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, and 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 Risk Committee	The Group Real Estate Management Committee	The Sales Committee	Private Individual Credit Committee
Chairman: CRO	Chairman: CFO	Chairman: CMO (responsible for Corporate and Investment Banking)	Chairman: Director of Credit Risk – Retail
Number of members: 12	Number of members: 3	Number of members: 13	Number of members: 5
The Risk Committee monitors and periodically reviews matters related to risk and commercial risk and prepares materials for the Management Board to take decisions. As a rule, committee meetings are convened quarterly.	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	NLB Group Non-Performing Assets Divestment Committee	NLB Group Sustainability Committee
Chairman: CRO	Chairman: Director of Workout and Legal Support	Chairman: CEO
Number of members: 7	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 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.

Well-functioning Corporate Governance in the Group is of special importance as several new companies were added to the Group in 2022:
- N Banka, Ljubljana,
- NLB DigIT, Beograd,
- NLB Lease&Go, Skopje,
- NLB Lease&Go Leasing, Beograd.

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";
  - Management Board of NLB for NLB Group, NLB Group Leadership meetings, NLB Group ALCO meetings, CMO/CFO/CIO calls, 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.

The 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.

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 Group's Code of Conduct provides guidance and principles of expected behaviour regarding ethical conduct and requires 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 on NLB 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.

Prevention of Money Laundering and Terrorism Financing and Financial Sanctions Compliance

The Bank complies with national regulations on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), including the 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. The Bank regularly updates and enhances the governance in line with directions set by the BoS. Through the system of performing risk assessment, regular reporting, and

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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.

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/CFT indicators, the AML function 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.

Concerning the changed geopolitical environment related to the Russian aggression in Ukraine, the Bank regularly monitors and manages all newly introduced financial sanctions stemming from all relevant regimes.

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 2022, including assessment of information security at 41 outsourcing providers. Special obligatory e-trainings in the field of information security and social engineering were prepared for all employees and executed as part of prevention measures in this area.

In second half of 2022, the Bank detected increase in cyber fraud attempts of the Bank clients. This prompted the Group to respond by implementing additional controls mechanisms to counter client abuse risk.

New information security approaches were introduced across the Group, that improved the visibility and autonomy of each local Chief Information Security Officer (CISO) office in core subsidiaries. The focus was on awareness regarding local responsibility for information security management in accordance with the subsidiaries 'executive management risk appetite, organization's ability to build defences, and local regulatory compliance.

The Bank is also a member of the only global cyber intelligence sharing community solely focused on financial services. All local CISO offices have access to intelligence exchange platform and cyber resilience resources to anticipate, mitigate, and respond to cyber threats.

To manage cyber risks, the Group is working on critical intelligence access, strategies to address crisis events, and building trusted network of relationships. In 2022, the Group implemented cyber-attack incident response exercise and participated at the European Cross-Border Exercise. The exercise explored how financial institutions may coordinate across borders with peers, public sector partners, supporting service providers, and other major stakeholders to mitigate the impacts of major incidents.

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 adopted in 2022 and is in the process of implementation in the Bank's operations.

Prevention

Based on the assessment of compliance risks, so-called 'Enterprise Compliance Risk Assessment (ECRA),' 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/CFT, Information Security, Physical Security, and other relevant topics related to everyday work were prepared. For

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issued opinions, recommendations, and guidelines on compliance and integrity topics

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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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cases investigated

Fraud prevention and investigation

The Group has a unified system in place for the prevention and investigation of suspected misconduct, which allows anyone, both internal and external stakeholders, to report potential misconduct through several different communication channels, including anonymously. Protection of the informant is comprehensively governed. The Bank uses various measures to ensure the total protection of the informant from any retaliation she/he could endure due to well-intended reporting of a suspicion of harmful conduct. All reports received are handled centrally by a specialised team according to pre-established internal procedures, and appropriate reporting mechanisms to management bodies are in place. Significant attention is devoted to employee awareness-raising and training for both all employees and specific target groups according to the identified risks.

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.

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 governance framework and cyber security – emerging risk, anti-money laundry, management of repossessed assets, central vault – cash handling, ILAAP, project financing, lending processes (loans to retail – housing and mortgages loans, loans to small and medium corporates), IT governance, IT risk management, operational risk management – risk appetite and key risk indicators, cash management in branches, and others.

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planned and extraordinary audits conducted in the Bank

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 2022, Internal Audit completed 69 audits, out of which 66 audits were planned and covered various areas of operation of the Bank and the Group. 21 of these assignments were branch inspections, 2 audits were conducted as joint audits with a local auditor and one quality review in a banking subsidiary. In addition, Internal Audit initiated and completed 3 new audits and was involved in several strategic projects as advisor. Six planned audits were postponed due to objective reasons. The majority of the recommendations given in 2022 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.

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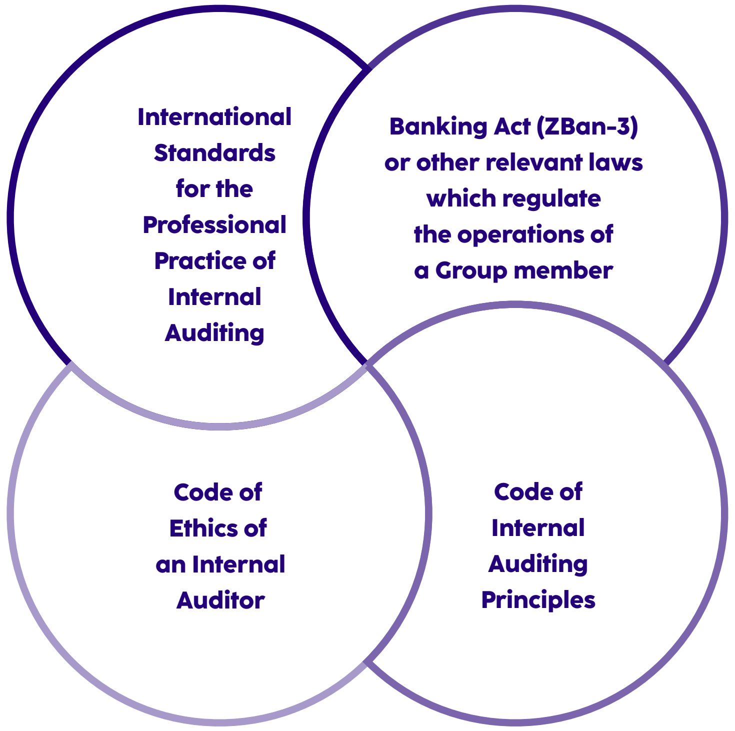
Internal Audit experts

The highest standards were followed

In 2022 external quality review of internal audit function was performed and confirmed that Internal Audit and other internal audit services in the Group operate in accordance with the:



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Corporate Governance Statements

The Statement of Management's Responsibility

In accordance with the provisions of Article 134 (2nd paragraph) of the Market and Financial Instruments Act,[15] the Management Board hereby confirms the statements made in this business report, which are in accordance with the attached financial statements as at 31 December 2022, 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 2022.

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 their description of the key types of risks and Group companies included in the consolidation that are exposed as a whole.

Ljubljana, 12 April 2023

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

15 ZTFI-1, Official Gazette 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,[16] (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 standardised 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
6. other services or transactions:
    - 6.1 intermediation in financial leasing
    - 6.2 sale and purchase of investments in gold

Authorisation to perform banking services is published on the official webpage of the BoS.

16 Official Gazette of the RoS, No. 92/21 with amendments.

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Corporate Governance Statement of NLB

Pursuant to Article 70, paragraph 5, of the Companies Act (ZGD-1)[17] NLB hereby gives the following Corporate Governance Statement of NLB as a part of the Business Report of the NLB Group Annual Report 2022. The main function of this statement is the prompt informing of investors on the coherence of the Bank's corporate governance system.

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 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.[18] In 2022, the Bank analysed changes made with a renewed version of the Slovenian Corporate Governance Code for Listed Companies, as it will be the first used for preparation of the Corporate Governance Statement of NLB for the business year 2022.

Compliance with the Slovenian Corporate Governance Code for Listed Companies is explained in this statement on 'comply or explain basis,' in which the Bank provides an 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 the financial year, which also corresponds to the beginning and the end of the calendar year (from 1 January until 31 December).

17 The Companies Law (ZGD- 1; Official Gazette of the RoS, No. 65/09 and consecutive changes).
18 November 2020 and February 2023.

The Corporate Governance Statement of NLB is included in the Business Report of the NLB Group Annual Report and is also published as a separate report on the Bank's website under the chapter on Corporate Governance, as well as on the website of the Ljubljana Stock Exchange.

NLB strives to increase the level of its business transparency and informs the shareholders and other expert community in line with the Guidelines on Disclosure for Listed Companies (Ljubljana Stock Exchange, 18 December 2020) on electronic communications system of the Ljubljana Stock Exchange and in line with Rules and Regulations 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.

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 webpage.

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 2022 is described, as well as in the Sustainability chapter of this annual report, and the NLB Group Sustainability Report 2022. 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 published on the NLB's website. Information on the Diversity Policy and Remuneration Policy and ESG risks is also described in the Pillar 3 Disclosures according to Basel standards.

2. COMPLIANCE WITH THE SLOVENIAN CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES

The Bank does not follow or partially implement or adhere to different, in most cases stricter, banking regulations with regard to the following recommendations:

Recommendation 7: The Bank's strategic document and the overall framework for managing sustainable development is the publicly disclosed NLB Group Sustainability Framework. The Comprehensive Sustainability Policy of NLB and NLB Group will be adopted in 2023. The bank also started activities to develop the NLB Group Net Zero Business Strategy in line with UNEP FI – Net Zero Banking Alliance (NZBA) guidance and methodology to decarbonize its portfolios. The Net Zero Business Strategy will be adopted by the end of 2023, and Net Zero portfolio targets will be publicly announced.

Recommendation 7.1: Guidelines for identifying and acting on the bank's sustainability priorities are presented in the NLB Group Sustainability Report. As a signatory to the UNEP FI PRB[19], the Bank has undertaken an impact analysis with the aim of aligning the Bank's strategy and practices with the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement. The analysis includes a materiality analysis (identification of key ESG issues that could affect the performance of the company and its stakeholders), the context of the Bank's business, and the specificities of the region in which the Bank operates.

Recommendation 7.2: The NLB Group Sustainability Framework has been adopted by the Bank's Management Board.

Recommendation 7.4: Human rights issues, human health and environmental protection, fundamental labour rights, the prevention of discrimination and inequalities and the promotion and advancement of equal opportunities, consumer rights, fiscal responsibility, and the prevention of corruption and other illegal practices are included in the Human Rights Policy in the NLB Group.

19 UNEFI PRB - United Nations Environment Programme Finance Initiative Principles for Responsible Banking.

Recommendation 12.1: In assessing a candidate's eligibility as a Supervisory Board member, statutory criteria are applied, however, it is not necessary for candidates to 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 the banking legislature, including the wide range of knowledge, skills, and experience.

Recommendation 13.1: In 2022, Supervisory Board members did not inform each other of the content of the statements of independence at one of the meetings of the Supervisory Board. However, starting in 2023 such good practice will be put in place.

Recommendation no. 14.2: The currently valid Rules of Procedure of the Supervisory Board of NLB (Rules) are prepared according to strict rules governing banks. They do not include the list of all types of transactions for which the Management Board needs prior approval of the Supervisory Board, as this provision is included in the Articles of Association of NLB. Changes to the mentioned Rules that will be adopted in Q1 2023 will also list all tasks of the Supervisory Board. The currently mentioned Rules also do not include the Supervisory Board's evaluation, education, and training of the members of the Supervisory Board. However, the renewed Rules will also address those issues. The Rules of Procedure of the Supervisory Board of NLB also do not include provisions on the Agreement on access to the archives after expiration of the term of office of the members of the Supervisory Board, as access to the archives after expiration of the term of office is determined by the provisions of the Rules of Procedure of the Supervisory Board of NLB and not a special agreement.

Recommendation no. 14.3: 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. Competent organisational units of the Bank take care that timely information is provided to the Supervisory Board.

Recommendation 14.6: Access to the archives after expiration of the term of office of the members of the Supervisory Board is determined by the Rules of Procedure of the Supervisory Board of NLB. Members of the Supervisory Board do not sign a special agreement on access to the archives upon taking the position.

Recommendation 17.6: Decisions discussed at the meeting are always available to members of the Supervisory Board in the bank's information system. As soon as it is possible, but no later than three working days after the meeting of the Supervisory Board, the Secretariat prepares copies of the decisions adopted at the meetings of the Supervisory Board and forwards them to the proposer and all recipients listed in each decision. An employee of the Secretariat, who is present at the meeting, approves the amendments to the resolutions and thereby confirms the consistency of the content of the resolutions adopted at the meeting.

Recommendation 19.1: In 2022, 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.[20] The voting on mentioned policy by the General Meeting of shareholders was of a consultative nature.

Recommendation 20: Minutes of the Supervisory Board are not taken only by the Secretary of the Supervisory Board, but also by certain employees of the Secretariat who are present at the meeting.

Recommendations 23.4 and **23.5:** In 2022, NLB did not award or 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 awarding and payment of variable remuneration in ordinary or preference shares of NLB, or share linked instruments, or equivalent non-cash instruments NLB complies with the Banking Act (ZBan-3).[21] 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 is different from recommendation 23.5, which provides 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 comprise in Instruments. On 19 October 2022, the Supervisory Board of the Bank adopted a new (i.e., version 2 of the) Remuneration Policy for the Members of the Supervisory Board of NLB. and the Members of the Management Board of NLB, which was also approved by the General Meeting of shareholders of the Bank on 12 December 2022. Voting on this policy by the General Meeting of shareholders was of a consultative nature.

Recommendation 26.6: The Bank maintains a list of transactions with related persons according to Banking Act (ZBan-3). A list of transactions with related persons is submitted to the Supervisory Board by special demand.

Recommendation 30.4: NLB draws up its financial calendar, which is published on the Banks' website and includes the date of the Annual General Meeting. However, it doesn't provide information on the dividend payment date which is announced in the publication of the Agenda and Proposed Resolutions to be passed at the Annual General Meeting. The dividend payment date is determined based on KDD Operations Rules (Central Securities Clearing Corporation).

Recommendation 32.7: 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 the Bank's website, as well as on the webpage of the Ljubljana Stock Exchange.

20 Adopted by the Supervisory Board on 15 October 2021 and confirmed by the General Meeting of shareholders on 16 December 2021, changes were adopted by the Supervisory Board on 19 October 2022 and confirmed by the General Meeting on 12 December 2022.

21 Banking Act (ZBan-3; Official Gazette of the RS, No 92/21 and 123/21).

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 amendments, together with all applicable delegated acts, the 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 others, the Bank's obligation to set up, maintain appropriate internal control, and risk management systems. Due to the above, NLB has developed a steady and reliable internal governance system encompassing the following:

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

The policy entitled, 'Internal Control System' defines a system of internal controls as set of rules, procedures, and organisational structures. 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 the process or measure is effective for that purpose.

The mentioned 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);
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; and
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. An 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 the 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 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 a 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.

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 risk management function represents an important part of the 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 management function is performed by the Global Risk function. In accordance with the competences, authorisations, and responsibilities, Global Risk is represented by its General Manager. Global Risk is in functional and organisational terms separate from other functions where business decisions are adopted and where a 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.

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, and is subject to an appropriate upward and downward flow of information. The competence line Risk Management in NLB, encompassing several professional areas, is 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.

In the 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.'

c) The Compliance Function, Information Security Function, and the 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;

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- 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 an Integrity and Compliance Policy of NLB and NLB Group, which regulates the method and scope of the activities of the compliance function in the Bank. Supervision over the 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 the compliance area (including information security, personal data protection, and AML/CTF functions), which additionally ensures the 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 the head of Group AML are ensured full independence through equal reporting lines as the director of Compliance and Integrity and have direct access and a 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, and as well is based on the Group standards for the compliance and integrity area.

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 at the General Meeting of shareholders of the Bank for the financial years 2018 to 2022.

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 2022).

Shareholder	Number of shares	Percentage of shares	Nature of ownership
RoS	5,000,001	25.00	Shares
EBRD[i]	/	>5 and <10	GDRs
Schroders plc[i]	/	>5 and <10	GDRs

(i) In the form of GDRs.

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

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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
Articles of Association define that 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 twelve 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)

No authorisation exists which would authorise the members of the management to issue or purchase own shares of the Bank.

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

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, the pre-emptive right to subscribe for new shares in the 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.

According to Article 296 of the Companies Act, NLB informs shareholders of 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 2022. Shareholders of NLB gathered at the 38th General Meeting on 20 June 2022. At the General Meeting, shareholders acknowledged the adopted NLB Group 2021 Annual Report, the Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2021, the Report on renumerations for the business year 2021, and the Additional information to the Report on remuneration for the business year 2021 based on SSH's Baselines. The shareholders also decided on the allocation of distributable profit for 2021 and granted a discharge from liability to the Management Board and Supervisory Board of NLB for the previous year.

The shareholders decided on the allocation of distributable profit for 2021. The distributable profit of the Bank as at 31 December 2021 was EUR 458,266,602.05. Shareholders decided that the part of the distributable profit in total amount of EUR 50 million shall be paid out to the shareholders as a dividend, which amounts to EUR 2.50 gross per share (the first tranche).

The General Meeting of NLB also took note on various reports and voted on the proposal regarding the amendments and supplements to the Articles of Association of NLB, appointed the auditing company KPMG Slovenija, d.o.o. as the auditor of NLB for the financial years 2023-2026, and adopted the Policy on the provision of diversity of the management body and senior management.

The 39th General Meeting of NLB Shareholders held on 12 December 2022 confirmed on additional allocation of distributable profit for 2021, more precisely on the second tranche of dividend payments, the payment of additional dividends at EUR 2.50 per share, making a total dividend pay-out in 2022 EUR 100 million; The remaining part of the NLB's distributable profit will remain undistributed and represents retained earnings.

At the General Meeting, the NLB 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 and took note of the termination of the term of office of two NLB Supervisory Board members - workers' representatives, namely:

- due to the statement of Janja Žabjek Dolinšek made on 26 May 2022 regarding her termination of the function of a member of the Supervisory Board of NLB, workers' representative, her term of office was terminated on 8 July 2022;
- that NLB Works Council on 12 September 2022 passed a decision on the recall of Bojana Šteblaj from the function of a member of the Supervisory Board of NLB, workers' representative, based on which her term of office in the Supervisory Board of NLB terminated on 12 September 2022.

6. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODY AND ITS COMMITTEES

6.1. The Management Board

At the beginning of 2022, the Management Board of the Bank consisted of Blaž Brodnjak, CEO, Archibald Kremser, CFO, Andreas Burkhardt, CRO. Due to new challenges brought by the Group expansion (the acquisition of Komercijalna Banka, intensive digitalisation, and the emphasis on top quality user experience, as well as a commitment to sustainable operations and development) the Supervisory Board on 20 January 2022 appointed Hedvika Usenik, Antonio Argir, and Andrej Lasič as three new members of the Management Board. They assumed their functions on 28 April 2022, upon receiving approval from the regulator. They all come from NLB or the Group, and have extensive experience and a proven value-creating track record.

With the mentioned extension, the Management Board of the Bank consists of six members, namely: Blaž Brodnjak as President & CEO, Archibald Kremser as Chief Financial Officer (CFO), Andreas Burkhardt as Chief Risk Officer (CRO), as well as Hedvika Usenik as Chief Marketing Officer (CMO) - responsible for Retail Banking and Private Banking, Antonio Argir who is responsible for Group governance, payments, and innovations, and Andrej Lasič as CMO -responsible for Corporate and Investment Banking.

Work of the Management Board

In 2022, the Management Board continued to work on the implementation of the NLB Group Strategy and the ESG factors' inclusion in the NLB Group business model. Even though the tragic war in Ukraine had significant influence on prices, consumer behaviour, and consequentially volatile capital markets, in 2022 the Group delivered remarkable business results. They enabled the Bank to pay out a distributable profit for 2021 in the form of dividends in the total amount of EUR 100 million, thereby reaffirming NLB Group's stable and successful business operations and strong capital position. The dividends were paid in two instalments, more specifically in the amount of EUR 50 million in June 2022 and in the amount of EUR 50 million in December 2022.

The Bank reached important business milestones – such as the acquisition of Sberbank banka, Ljubljana in March 2022 (later renamed to N Banka) and the merger of two Serbian banking subsidiaries (NLB Banka, Beograd and Komercijalna Banka, Beograd, completed by the end of April 2022). After launching the Lease&Go company in Ljubljana in 2020, strategic activities of the Group were further enhanced by establishing leasing companies in North Macedonia and in Serbia. The Group will continue growing prudently and increasing its market shares, above all, however, we will focus on providing our clients with innovative solutions and an ever-improving user experience, 24/7/365. The work of the Management Board was not merely on the business performance, but also with its' ability to quickly adapt to ever more complex business challenges and opportunities within the financial industry. In this sense, another important milestone the Group achieved, was founding the NLB DigIT company in Belgrade. The company is dedicated to finding and designing IT solutions for the entire Group, to leverage the accumulated know-how and deploy the underlying common tech solutions across the Group's markets.

In June 2022, NLB officially joined the Net-Zero Banking Alliance (NZBA), the UN-convened alliance of banks worldwide, committed to aligning their lending and investment portfolios with net-zero emissions by 2050 or sooner, as set by the most ambitious targets of the Paris Climate Agreement. The Management Board is deeply aware of the banks' vital role in fighting climate change by supporting the global transition of the real economy towards net-zero, which is why we not only strive to reinforce, accelerate, and support the implementation of decarbonisation, but also want to lead by example. Besides environmental issues, the Management Board is equally active about addressing social and governance topics, we advocate equal opportunities, as well as independent and professional corporate governance. To that extent, the Management Board was extremely proud of receiving very good first ESG rating in December 2022 assessed by Sustainalytics.

Detailed information on the composition of the Management Board can be found in Appendix C.1 of this statement.

6.2. The Supervisory Board

At the beginning of 2022, the Supervisory Board of NLB consisted of 12 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, Islam Osama Zekry, David Eric Simon, Gregor Rok Kastelic, and Verica Trstenjak), and four were representatives of employees (Sergeja Kočar, Bojana Šteblaj, Janja Žabjek Dolinšek, and Tadeja Žbontar Rems as a member of the Supervisory Board of the NLB – the representative of the workers).

Due to the statement of Janja Žabjek Dolinšek made on 26 May 2022 regarding her termination of the function, because she was leaving NLB, her term of office was terminated on 8 July 2022- as the NLB Works Council recalled her. The Works Council passed a decision on 12 September 2022 on the recall of Bojana Šteblaj from the function, based on which her term of office as a member of the Supervisory Board – Workers' Representative was terminated on 12 September 2022. The General Meeting of shareholders took note of the resignations of members of the Supervisory Board – Workers' Representative in its session dated 12 December 2022.

Statement of Independence of the Members of the Supervisory Board

In accordance with Article 16 of the Articles of Association of 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.

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 as 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.

Work of the Supervisory Board

In 2022, the Supervisory Board met at eight 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 Progress Update; NLB Payments Strategy update;
- Annual NLB Group Report for 2021; E&Y report after the final audit of 2021 financial statements; Report of the Supervisory Board of NLB on the Results of Examining the Annual NLB Group Report for 2021; Corporate Governance Statement of NLB; Risk Management Statement; Annual Report of Internal Audit for 2021; Comprehensive Opinion of the Internal Audit for 2021; and Review of the remuneration report by an external auditor;
- Proposals to convene the General Meeting of shareholders for 20 June 2022 and 12 December 2022;
- Proposed appointment of three new members of the Management Board of the NLB; Nomination of candidates for members of the Supervisory Board;
- Collective F&P assessment suitability of the members of the Management Board and the Supervisory Board; Supervisory Board self-assessment; Audit Committee Self-assessment 2021; Achievements of the goals of the Management Board in 2021 and proposed goals for 2023;
- Proposed goals of the NLB Group; Annual assessment of the identified staff; Awarding of variable pay to the Management Board members and heads of control functions; Development plan for three new members of the Management Board; Training for the members of the Supervisory Board in 2022; Reappointment of the Internal Audit Director;
- Selection of statutory auditor for financial years from 2023 onwards;
- Periodic reports on the status of information security in NLB and the NLB Group; Annual Report for the 2021 ECRA – general risk assessment regarding integrity, and compliance operations at NLB and the Group level;
- NLB Group Financial Plan 2023 and financial projections 2024–2026; Interim Reports on the NLB Group Operations; Financial Calendar 2024;
- Regular risk reports for NLB and NLB Group; Information on Pillar III Disclosures for 2021; NLB Group Recovery Plan for 2022; Report on the Top 50 groups of clients by exposure in the NLB Group, Top 20 restructurings; Reputation Risk Management;
- Internal Audit's Annual Report for 2021; Internal Audit Plan (2023 & long-term plan), Action Plan for Compliance & Integrity for 2023; Regular periodic reports on Internal Audit; Compliance and Security, and on Information Security in NLB;
- Report of the progress and implementation of the sustainability factors in the NLB Group; Report on the progress in the implementation of sustainability factors in the NLB Group;
- Reports on the documents received from the BoS and the ECB and reports on implementation of deficiencies; ECB and on the implementation of the requirements; ECB review and evaluation process (SREP);
- Review of the Diversity Policy; Changes to the Remuneration Policy of the Members of Supervisory Board of NLB and the Management Board of NLB; Remuneration Policy for Employees of NLB and NLB Group – annual review; Annual Review of the Diversity Policy; Amendment of the Policy to assess the suitability of the Management and Supervisory Board members;

- IT integration plan for N Banka; Implementation of IT Strategy; Status of IT – periodic Reports; Information on the achievement of goals for 2022 in the area of Information Technology in the Group;
- Acquisition of the Sberbank banka; Merger of N Banka (former Sberbank banka) to NLB; merger of Serbian banks; Information on Project Afina; Foundation of a new IT company in Serbia; Management of the largest exposures to clients in restructuring procedures; write-offs of claims, approvals of transactions with persons in special relations with the Bank; Prior consent to legal transaction with MIGA, Prior consent for borrowing of NLB in the form of Senior Preferred notes; Large exposures, Approvals of transaction with persons in special relation with the bank; Sale of receivables, Merger of companies in Serbia, Information on loan agreements in Swiss Francs, etc.

Composition of the Supervisory Board members is described in the Appendix C.2 of this statement.

6.3. The Supervisory Board Committees

All five Committees of 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 Committees of the Supervisory Board of NLB.

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 of operations, and external audit, and as well monitors the implementation of regulatory measures.

At the end of 2022, 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 (C2 below).

There were six regular, one extraordinary, and three correspondence sessions of the Audit Committee in 2022. The following is a summary of key topics considered by the Audit Committee:

- NLB Group 2021 Annual Report, Key Performance Indicators; Comprehensive Opinion of Internal Audit for 2021; Internal Audit Annual Report for 2021;Corporate Governance Statement of NLB; Statement on Management of Risk of the NLB, The NLB Group Sustainability Report for 2021; Annual Report for the 2021 ECRA – general risk assessment regarding integrity and compliance operations at NLB and NLB Group; Audit planning for 2022 financial statements; Confirmation of the services of the auditor to perform services to review the report on remuneration;
- 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; Assessment of the NLB Group identified employees in control functions for 2021; Approval of the payment of deferred variable part for Directors in control functions;
- Audit Plan 2022, Internal Audit Plan (2023 & long-term), Action Plan for Compliance and Integrity for 2023; Initiation of procurement process for selection of statutory auditor; Selection of statutory auditor for 2023 onwards; Reappointment of the Internal Audit Director;
- 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; Report on the court proceedings exceeding EUR 0.5 million;
- Self-assessment of the Audit Committee for 2021.

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 2022, 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, and David Eric Simon (members). Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C2 below).

There were five regular and one extraordinary sessions of the Risk Committee in 2022. Following is a summary of key topics considered by the Risk Committee:

- Statement of Management of Risk of the NLB;
- Regular quarterly risk reports of NLB and the NLB Group; Pillar III Disclosures of the NLB Group for 2021 and Acknowledgement of quarterly Pillar III Disclosures;
- Risk Management Strategy of the NLB Group; Risk Appetite of the NLB Group;
- Internal liquidity adequacy process (ILAAP), The Internal Capital Adequacy Assessment Process (ICAAP) in NLB Group;
- NLB Group Recovery plan for 2022;
- Top exposure to corporate client in NLB and NLB Group; NLB Group Non-Performing Exposure and Foreclosed Assets Strategy for the period 2022-2024;
- 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
- Information of the assessment of the NLB Group and NLB results and identified employees in control function for the year 2021; Approval of the payment of the deferred variable part of the salary for the Director of the Global Risk;
- Acquisition of Sberbank banka, Ljubljana; Proposals for the issuance of prior consent of the Supervisory Board of NLB for a legal transaction based on Banking Act (ZBan-3); prior consent to conclude legal deal with MIGA, consents to early

- repayments; approval of overdraft on business account of a client and final write-offs of receivables over 1 million EUR;
- Legal framework of sanctions; War between Russia and Ukraine – credit risk assessment; Analysis of scenarios in Serbia;
- Report on the material court proceedings for NLB and the 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 2022, the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Verica Trstenjak, Sergeja Kočar (members). Membership of Bojana Šteblaj was terminated on 12 September 2022. Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C2 below).

There were six regular sessions of the Nomination Committee in 2022. The following is a summary of key topics considered by the Nomination Committee:
- Annual review of attendance of educational events and knowledge obtained by in individual Supervisory Board member;
- Development Plan for Three New Members of the Management Board;
- Amendment of the Policy on the provision of diversity of the management body and senior management; Amendment of the Policy to assess the suitability of the Management and Supervisory Board members; Annual Review of the Diversity Policy;

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 2022, the composition of the committee was as follows: Gregor Rok Kastelic (Chairman), Mark William Lane Richards (Deputy Chairman), Shrenik Dhirajlal Davda and Sergeja Kočar (members). Membership of Bojana Šteblaj was terminated on 12 September 2022. Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C2 below).

There were six regular and three correspondence sessions of the Remuneration Committee in 2022. The following is a summary of key topics considered by the Remuneration Committee:
- Proposed goals of the Group for 2022 for the members of the Management Board of the NLB;
- Confirmation of financial goals of the NLB Group, financial goals of NLB and goals for each member of the Management Board of NLB for 2022; Confirmation of the assessment of the Group and NLB results and identified employees in control function for the year 2021; Annual self-assessment of identified staff in accordance with the Remuneration Policy;
- Awarding of variable pay to the Management Board members for financial years 2019 and 2020 in instruments;
- Proposal for the introduction of an instrument for the allocation of part of variable remuneration to employees performing special work; Awarding and payment of the variable pay for 2021 for members of the Management Board and payment of the deferred part of the variable pay for 2018 for members of the Management Board and employees performing special work in the control function;
- Proposal for aligning and proposal for signing employment contracts with the members of the Management Board of NLB;
- Report on the implementation of the NLB remuneration policy to the Group members;
- Report on remunerations – audit report;
- Amendment of the contract of members of the Management Board;

6.3.5. The Operations and IT Committee of the Supervisory Board of NLB

The Committee monitors and prepares 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 KPIs 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 2022, the composition of the committee was as follows: Mark William Lane Richards (Chairman), Islam Osama Zekry (Deputy Chairman), Andreas Klingen, Primož Karpe, and Tadeja Žbontar Rems (members). The membership of Janja Žabjek Dolinšek was terminated on 8 July 2022. Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (C2 below).

There were five sessions of the Operations and IT Committee 2022. The Operations and IT Committee acknowledged itself with:
- IT Strategy - progress report on strategic initiatives other than BIT and OMNI;
- Key performance indicators in IT; Review of IT KPIs and interim Goals & Objectives; Report on process metrics;
- Information on the achievement of goals for 2022 in the area of Information Technology in the Group;
- New NLB Group target IT operating model;
- Payment IT strategy update; Payment transactions – analysis of process of optimisation;
- BIT project rollout; OMNI project; Web project readiness assessment;
- Procurement in 2021 and future plans;
- Software-defined mainframe;
- IT integration plan of N Bank.

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7. DESCRIPTION POLICY ON THE PROVISION OF DIVERSITY OF THE MANAGEMENT BODY AND SENIOR MANAGEMENT

The 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, and was amended in June 2022 according to EBA Guidelines on assessing the suitability of members of the management body and holders of key functions, amendments to the Slovenian Corporate Governance Code, and EBA Guidelines on Internal Governance.

The Diversity policy was amended in a way that in addition to already existing goals (gender structure, age structure, professional competences skills and experience, international experience) new goals have been added (continuity in the composition of the body, personal integrity, and geographical provenance). Regarding gender, the Bank has set a quantitative goal by defining a period for achieving this goal. NLB respects and follows the initiative 40/33/2026 of the Slovenian Directors' Association for voluntary achievement of the goal of sexual diversity by the end of 2026: 40% for members of supervisory boards and a total of 33% for members of supervisory boards and management boards of the underrepresented sex in listed companies and state-owned companies.

The Diversity policy sets out the targets to be pursued in terms of representation on the supervisory board, management board, and senior management according to different diversity goals in order the management body is composed in such a way that, as a whole has the knowledge, skills, and experience necessary for an in-depth understanding of the Bank's strategy and challenges and the risks to which it is exposed. The policy is annually reviewed by the Nomination Committee of the Supervisory Board.

The Bank implements the principles of the Diversity policy through other policies and procedures, namely the Policy on the selection of suitable candidates for members of the Supervisory Board, and the Policy on the selection of suitable candidates for members of the Management Board, as well as the procedures of the Nomination Committee of the Supervisory Board.

In order to achieve the objectives of this diversity policy, one of the measures that influences the selection process is also: if two candidates for the position of a member of the Management Board or a member of the Supervisory Board meet all the required tender criteria and at the same time the target gender representation is not achieved in a certain body, the candidate of the underrepresented sex shall be selected.

Implementation and the results achieved by the diversity policy during the reporting period:

a) The Supervisory Board

It is estimated that the goals for 2022 were achieved, as the members of the Supervisory Board as a whole covers an adequately wide range of knowledge, skills, and professional experience of its members, and is composed with regard to the following criteria: experience, reputation, management of potential conflicts of interest, independence, available time, and collective suitability.

Also, the Supervisory Board has a suitable ratio between the existing and the new members, considering when appointing new members to the Supervisory Board the ratio between existing and new members is not below 70%. The members of the Supervisory Board have a high level of personal integrity, a suitable share of members of the Supervisory Board have international experience, and have suitable geographical experience as set in the plan for the year 2022.

Regarding the gender structure, the goal for the members of the Supervisory Board has not been achieved since the plan set up for the year 2022 assumed a 42% share of women on the Supervisory Board, but taking into account two resignations by Supervisory Board members (employee representatives), the proportion of women dropped down to 30%. In order to increase the proportion of women on the Supervisory Board, it is suggested that all stakeholders endeavour to form an appropriate group of candidates in the recruitment process, taking into account appropriate representation of the less represented gender.

Regarding the age structure of the Supervisory Board, it is also considered appropriate, according to the plan set up for 2022, as members of the Supervisory Board are represented in the age groups from 40 to 60+.

b) The Management Board

We estimate that the goals for 2022 have been achieved, as members of the Management Board as a whole meet the high level of requirements related to the set goals, namely age structure, gender structure, professional competencies, skills and experience, and requirements related to relevant international experience in various fields, personal integrity, and geographical provenance.

With the extension of the members of the Management Board in 2022, also the gender structure meets the expectations due to the share of women increasing to 16.7%, or one woman.

In 2022, regarding the age structure, with additional members being elected to the Management Board, the representation in the age group of 51 to 60 increased (from 0 to 3) and stayed at the same level of 3 members in the age group for 41 – 50.

c) Senior Management

For 2022, 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. It is also estimated that the share of 41% of women in senior management is appropriate.

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.

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.

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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 no changes occurred between the end of accounting period up to the publication of this statement.

Ljubljana, 12 April 2023

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

Table 37: Composition of Management in financial year 2022 (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[i]	6 July 2026	Slovene	1974	MBA	Banking/Finance	Banks' Association of Slovenia, AmCham Slovenia, Handball Federation of Slovenia, Cedevita Olimpija
Antonio Argir	Member	Responsible for Group governance, payments and innovations	28 April 2022	28 April 2027	Macedonian	1975	MBA	Banking/Finance	Economic Chamber of North Macedonia
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	
Andrej Lasič	Member	CMO (responsible for Corporate and Investment Banking)	28 April 2022	28 April 2027	Slovene	1970	Bachelor's degree	Banking/Finance	
Hedvika Usenik	Member	CMO (responsible for Retail Banking and Private Banking)	28 April 2022	28 April 2027	Slovene	1972	MBA	Banking/Finance	

(i) Member of the Management Board since 2012.

Table 38: Composition of Supervisory Board and Committees in financial year 2022 (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	8/8	male	Slovenian	1970	MSc	Banking/ Finance	YES	YES	Angler d.o.o, Aroma Global 3 Ltd.
Andreas Klingen	Deputy Chairman	22 June 2015	2023	Representative of the company's capital structure	8/8	male	German	1964	University Degree	Banking/ Finance	YES	NO	Kyrgyz Investment, Credit Bank CISC, Credit Bank of Moscow(i), Nepi Rockcastle N.V.
David Eric Simon	Member	4 August 2016	2024	Representative of the company's capital structure	8/8	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.
Mark William Lane Richards	Member	10 June 2019	2023	Representative of the company's capital structure	8/8	male	British	1966	MSc	Banking/ Finance	YES	NO	BPL Global (Lloyds of London insurance Broker), Sheffield Haworth Ltd, Vencap International pic Ukraine (UK)
Shrenik Dhirajlal Davda	Member	10 June 2019	2023	Representative of the company's capital structure	8/8	male	British	1960	MBA, LLB	Finance	YES	NO	PJSC Ukrgasbank, IPSO, UK(ii)
Gregor Rok Kastelic	Member	10 June 2019	2023	Representative of the company's capital structure	8/8	male	Slovenian	1968	MSc	Banking/ Finance	YES	NO	
Verica Trstenjak	Member	15 June 2020	2024	Representative of the company's capital structure	8/8	female	Slovenian	1962	PhD	Law	YES	NO	EU Agency for Fundamental Rights, Vienna(iii)
Sergeja Kočar	Member	17 June 2020	2024	Representative of the company's employees	8/8	female	Slovenian	1968	MSc	Management	YES	NO	
Bojana Šteblaj	Member	17 June 2020	12 September 2022	Representative of the company's employees	4/6	female	Slovenian	1962	MSc	Management	YES	NO	
Janja Žabjek Dolinšek	Member	20 November 2020	8 July 2022	Representative of the company's employees	5/5	female	Slovenian	1957	MSc	IT	YES	NO	
Tadeja Žbontar Rems	Member	22 January 2021	2025	Representative of the company's employees	5/5	female	Slovenian	1968	MSc	IT	YES	NO	
Islam Osama Zekry	Member	14 June 2021	2025	Representative of the company's capital structure	7/8	male	Egyptian	1977	PhD	IT	YES	NO	CIB Housing association, Egypt, Egyptian AI Council (Ministry of Communication and Information Technology)

(i) Until 14 March 2022.
(ii) Since 8 March 2022.
(iii) Until June 2022.

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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)(i)
Shrenik Dhirajlal Davda	Remuneration Committee	28 June 2019	2023	Member	6/6
Gregor Rok Kastelic	Remuneration Committee	28 June 2019	2023	Member/Chairman	6/6
Mark William Lane Richards	Remuneration Committee	26 June 2020	2024	Deputy Chairman	6/6
Bojana Šteblaj	Remuneration Committee	8 April 2021	12 September 2022	Member	3/3
Sergeja Kočar	Remuneration Committee	26 June 2020	2024	Member	6/6
Primož Karpe	Nomination Committee	15 April 2016	2024	Chairman	6/6
Andreas Klingen	Nomination Committee	19 February 2016	2023	Deputy Chairman	6/6
Verica Trstenjak	Nomination Committee	26 June 2020	2024	Member	6/6
Sergeja Kočar	Nomination Committee	26 June 2020	2024	Member	6/6
Bojana Šteblaj	Nomination Committee	8 April 2021	12 September 2022	Member	2/4
David Eric Simon	Audit Committee	7 April 2016	2024	Chairman	6/6
Primož Karpe	Audit Committee	15 April 2016	2024	Member	6/6
Shrenik Dhirajlal Davda	Audit Committee	28 June 2019	2023	Member/Deputy Chairman	6/6
Gregor Rok Kastelic	Audit Committee	28 June 2019	2023	Member	5/6
Andreas Klingen	Risk Committee	19 February 2016	2023	Chairman	6/6
Shrenik Dhirajlal Davda	Risk Committee	8 July 2021	2025	Deputy Chairman	6/6
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	5/6
Mark William Lane Richards	Operational and IT Committee	28 June 2019	2023	Chairman	5/5
Andreas Klingen	Operational and IT Committee	28 June 2019	2023	Member	5/5
Primož Karpe	Operational and IT Committee	15 April 2016	2024	Member	5/5
Tadeja Žbontar Rems	Operational and IT Committee	8 April 2021	2025	Member	5/5
Janja Žabjek Dolinšek	Operational and IT Committee	8 April 2021	8 July 2022	Member	3/3
Islam Osama Zekry	Operational and IT Committee	8 July 2021	2025	Deputy Chairman	4/5

(i) There were also extraordinary sessions of the committees that are not reflected in this table.

External member in committees (audit, nominal, income committee, etc.) - The Banking Act (ZBan-3) 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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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 RS, no. 73/15 and 115/2021), Regulation (EU) 575/2013, article 435 (Risk Management Objectives and Policies), point (e) and (f), as well as the 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 NLB 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 and risk strategy of the Group. The business and operating environment relevant for the Group's operations is changing with trends such as sustainability, social responsibility, governance, changing customer behaviours, emerging new technologies and competitors, as well as increasing new regulatory requirements. Respectively, risk management is continuously adapting with the 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 is reflected in lower SREP requirement in recent years. Robust and comprehensive Risk Management framework is defined and organised with regards to the Group's business and risk profile, based on a forward-looking perspective to meet internally set strategic objectives and all external requirements. The proactive risk management and control system is primarily based on 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 main 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 risk management framework, namely the 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 Group operates is still lacking. Nevertheless, the Group made significant progress in the process of obtaining relevant ESG-related data from its clients, as it is a 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, the approaches and methodologies of monitoring, measuring, mitigating and managing all types of risk at different relevant levels. Moreover, main strategic risk guidelines are consistently integrated into the regular business strategy review, budgeting process, and other strategic decisions, whereby informed decision-making is assured. The Group regularly monitors 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 timely response when necessary.
The stress-testing framework includes all material types of risk, as well those related to ESG, and various 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 liquidity in this forward-looking perspective. As such, it is embedded into Group's Risk management system, namely Risk appetite, ICAAP, ILAAP, and 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 ECB.

The Group is one of the largest Slovenian banking and financial groups, and it has an important presence in the SEE region. In accordance with its strategic orientations, the Group intends to be 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 its banking book portfolio, interest rate risk in its banking book, operational risk, liquidity risk, market risk, and other non-financial risks. ESG risks do not represent a new risk category, but rather one of risk drivers of the existing type of risks, such as credit, liquidity, market, and operational risks. The Group integrates and manages them within the established risk management framework. Regular risk identification and their assessment is performed within the 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 NLB 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, the 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's limited exposure to credit spread risk, arises 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 the 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. The risk appetite for operational risks is low to moderate, with a focus on mitigation actions for important risks, and key risk indicators serving as an early warning system. The conclusion of transactions in derivative financial instruments at NLB is primarily limited to serving customers and hedging the Bank's own positions. In the area of currency risk, the Group thus pursues the goals of low to moderate exposure. Based on the environmental and climate risk assessment, the impact of these risks is estimated as low, except for transition risk in the area of credit, which is assessed as low to medium. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impact on the Group's operations.

The main NLB Group Risk Appetite Statement objectives are following:

- preservation of regulatory capital adequacy;
- preservation of internal capital adequacy;
- fulfilment of 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, limited Stage 2 exposures, sustainable industry and individual 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 exposure to ESG risks;
- sustainable tolerance to net losses from operational risk.

During 2022, sustainable ESG financing in accordance with Environmental and Social Management System (ESMS) was partly integrated in the Group's Risk appetite statement. Additional key risk indicators and targets in the area of ESG are going to be addressed based in ongoing activities related to the Net Zero Banking Alliance commitment, signed by the Group.

Values of the most important risk appetite indicators of the Group as at the end of 2022, reflecting interconnection between strategic business orientations, risk strategy and targeted risk appetite profile, were following:

- Total capital ratio 19.2%,
- Tier 1 ratio 15.7%,
- CET1 ratio 15.1%,
- Leverage ratio 9.1%,
- Cost of risk 14 bps,
- NPE ratio (EBA definition) 1.3%,
- NPL coverage ratio (EBA definition) 58.1%,
- LTD 65.3%,
- Liquidity Coverage Ratio (LCR) 220.3%,
- Net stable funding ratio (NSFR) 183.0%,
- Interest rate risk (EVE) (of 200 bps) -5.1% of capital,
- Transactional FX risk 1.1% of capital,
- No new financing of coal mining and coal-fired electricity generation (0 EUR),
- Net losses from operational risk 0.7% of capital requirement for operational risk.

In 2022, the war in Ukraine did not have a meaningful impact on the quality of the credit portfolio, nor on the liquidity of the Group. The Group's direct and indirect exposures toward Russia and Ukraine are quite limited. In the light of increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made the necessary adjustments. The most affected industries or segments are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage. The liquidity position of the Group remains very robust. Even if a highly unfavourable liquidity scenario would materialise, the Group holds sufficient level of high-quality liquidity reserves.

Consequently, the Group concluded 2022 as self-funded, with strong liquidity, and a solid capital position, demonstrating the Group's financial resilience. The acquired N Banka has a business model quite similar to that of NLB, so there were no major changes in the Group's risk profile in 2022. 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.

The Condensed Statement of the management of risk is also published on the Bank 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, 12 April 2023

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Hedvika Usenik	**Andrej Lasič**	**Archibald Kremser**	**Andreas Burkhardt**	**Antonio Argir**	**Blaž Brodnjak**
Member	Member	Member	Member	Member	Chief executive officer

Statement on Non-financial Operation

In accordance with Article 56 and in conjunction with Article 70c of the Companies Act, the Bank has prepared a Consolidated Statement on Non-Financial Operation as a separate report, called the NLB Group Sustainability Report 2022.

The consolidated report enables interested parties to understand the material dimensions of the NLB Group's development, performance, and position and the impact of its activities and includes the following non-financial information, which are disclosed in the NLB Group Sustainability Report 2022:

- The NLB Group's business model is presented in Chapters NLB Group at a Glance and Sustainability Strategy.
- Policy description and results on environmental, social, and human resources matters are described in Chapters Sustainable Operations and Sustainable Finance and Risk Management.
- Policy description and results on respect for human rights are described in Chapter Respecting Human Rights.
- Policy description and results on anti-corruption and anti-bribery matters are covered in Chapter Fighting Against Corruption and Bribery.
- The main risks regarding the aforementioned issues are listed in Chapters Sustainable Operations and Sustainable Finance and Risk Management.
- Key non-financial performance indicators that are important for specific activities are described in the NLB Group Sustainability Report 2022 and summarised in Appendix 1.

In addition to the aforementioned information, the report discloses information based on the following legal bases, requirements, recommendations, and reporting frameworks:

- EU Taxonomy: Regulation (EU) 2020/852 establishing a framework for the promotion of sustainable investments and the delegated acts adopted under this Regulation;
- Requirements and recommendations of regulatory authorities: BoS, Securities Market Agency (SMA);
- the United Nations Principles for Responsible Banking (UN-PRB);
- ECB Guide on Climate and Environmental Risks;
- the European Commission's Guidelines on Non-Financial Reporting;
- the recommendations of the Task force on Climate Related Financial Disclosures (TCFD) - in line with the requirements and recommendations of the Financial Conduct Authority (FCA); and
- the Global Reporting Initiative (GRI) Sustainability Reporting Standards.

The NLB Group Sustainability Report 2022 is published on the Bank's website, on the Ljubljana Stock Exchange's SEOnet system, on the websites of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES), and on the London Stock Exchange (LSE), at the same time in the NLB Group Annual Report 2022.

The NLB Group's Consolidated Annual Report 2022 is thus in line with the requirements of the Companies Act (ZGD-1), which requires public interest entities with an average number of employees exceeding 500 on the balance sheet cut-off date to include a Statement on Non-Financial Operation in their business report.

Ljubljana, 12 April 2023

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

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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 in 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 2022) 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, exceed 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 (s)he is not entitled to exercise voting rights from these shares at his/her sole discretion, while at the same time committing to the Bank, (s)he will not exercise voting rights on the basis of the instructions of an individual third party for whose account (s)he has acquired the shares if, together with the instructions for voting, (s)he does not receive a written guarantee from the person that this person has shares on his/her 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

NLB does not have an employee share scheme. In accordance with the relevant remuneration policies, (when required by ZBan-3) a part of variable remuneration of NLB's Identified Staff shall consist of NLB shares, or NLB share-linked instruments or equivalent non-cash instruments (the instrument used is determined by the Supervisory Board). So far, NLB has not used own shares for this purpose. It currently uses NLB share-linked instruments. More information will be available in the Report of the Remunerations for the Business Year 2022.

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, if 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 not be entitled to any compensation for early discontinuation of the term of office, unless otherwise decided by the Supervisory Board."

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2. Number of shares held by members of the Supervisory Board and Management Board

Table 39: Number of shares held by members of the Supervisory Board and Management Board

	Shares held as at 31 Dec 2022	
Name of member of Supervisory Board	**Number**	**%**
Primož Karpe	1,286	0.006%
Andreas Klingen	1,298	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	190	0.001%
Tadeja Žbontar Rems	—	—
Name of member of Management Board	**Number**	**%**
Blaž Brodnjak	1,700	0.009%
Archibald Kremser	791	0.004%
Andreas Burkhardt	800	0.004%
Andrej Lasič	325	0.002%
Hedvika Usenik	450	0.002%
Antonio Argir	620	0.003%

(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 to its listed shares.

4. Dividend taxation

Withholding tax

In 2022 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: 25%
- Intermediaries: 25%
- 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%. 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 (FURS).

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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NLB Group's unique geographical footprint became even more pronounced by the merger of two Serbian banks of the Group into **NLB Komercijalna Banka, Beograd** in April 2022. The first chapter in its history was marked by results that exceeded all plans and predictions – dynamic growth, increased share in the banking sector, and enviable net profit. The bank remained a reliable support for citizens in solving important life issues, defended its position as the absolute market leader in agricultural loans, and confirmed that the economy recognizes it as a strategically important partner.

We **created better footprints** and with strong support of the National Bank of Serbia implemented numerous measures that preserved the life standard of citizens and operations of business entities. Most importantly, however, we managed to justify the trust of almost a million clients and the entire community in which we operate.

Pictured: NLB Komercijalna Banka, Beograd employees

Events After the End of the 2022 Financial Year

Rating upgrade

On 7 February 2023 Moody's upgraded NLB to A3 from Baa1.

USA regional banks & Credit Suisse turmoil

In March 2023, the collapse of two regional banks in the USA, Silicon Valley Bank and Signature Bank, prompted investors globally to scour for weak spots in the financial system, resulting in an emergence of stress in the banking sector and a turmoil in the capital markets. Developments in the USA had impacts also in Europe and put European banks under stress as well. Credit Suisse had been heavily impacted by the collapse in confidence as the demise of regional banks in the USA had spread fear about weaker institutions at time of increasing interest rates undermining value of some financial assets. To increase confidence in the banking sector, Swiss financial regulators engineered an emergency rescue plan for Credit Suisse in the form of UBS Group AG buying Credit Suisse. As of 31 March 2023, the Group has only small exposure to Credit Suisse, deriving mainly from limited investment in bonds.

Since the beginning of the bank stress and market turmoil, the financial institutions' credit spreads widening and overall risk-free rates decrease were observed, which is currently positively impacting the Group's FVOCI positions (other comprehensive income in relation to valuation of debt securities, net of related deferred tax in the first quarter of 2023 was positive in the amount of EUR 24 million). From a capital management point of view, most of FVOCI cumulative negative valuations (except a smaller part which was as of 31 December 2022 carved out by temporary treatment of sovereign debt introduced by COVID-19 related "quick fix" – see Note 5.23.) have already been accommodated in the Group's capital ratios and thus going forward are rather supportive in terms of capital levels as those exposures mature and new investments are made only with short duration (i.e. low valuation risks).

With regard to debt securities measured at amortised cost, the difference between the carrying amount and fair values as of 31 March 2023 is negative in the amount of EUR 152 million. These differences are not reflected in the capital ratio given the Group's intention to hold them to maturity and collect cash flows from payments of interest and principal – thus these differences will not be materialised and also diminish eventually to zero over the lifetime of the book (duration on average: 3.75 years).

With regard to the liquidity management neither of these portfolios are intended to be used given the Group's and NLB's very high cash balances (EUR 5,306 million at the Group level and EUR 3,478 million at NLB level as of 31 March 2023). Even in extreme circumstances the portfolios could be used to large extent to raise funds from the central bank using securities as collateral without selling the asset – by that also not realising any losses. At the year-end, the total amount of HQLA amounts to EUR 6,028 million at the Group level. Finally, the amount of non-insured retail deposits at the Group level is very low, around 20%.

From a liquidity point of view, no material deviations from the normal intra-monthly deposit dynamics were identified at the NLB Group level as a result of the turmoil.

Reconciliation of Financial Statements in Business and Financial Part of the Report

Table 40: Income Statement of NLB Group for the annual period ended 31 December 2022

Business report	in EUR millions	Financial report	in EUR thousands	Notes
Net interest income	504.9	Interest and similar income	569,776	4.1.
		Interest and similar expenses	(64,854)	4.1.
Net fee and commission income	273.4	Fee and commission income	381,599	4.3.
		Fee and commission expenses	(108,249)	4.3.
Dividend income	0.2	Dividend income	242	4.2.
Net income from financial transactions	36.6	Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	866	4.4.
		Gains less losses from financial assets and liabilities held for trading	33,451	4.5.
		Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	90	4.6.
		Gains less losses from financial liabilities measured at fair value through profit or loss	286	
		Fair value adjustments in hedge accounting	1,655	5.5.a)
		Foreign exchange translation gains less losses	297	4.7.
		Gains less losses from modification of financial assets	(26)	4.12.
Net other income	(16.6)	Gains less losses on derecognition of non-financial assets	1,861	
		Other net operating income	16,778	4.8.
		Cash contributions to resolution funds and deposit guarantee schemes	(36,144)	4.10.
		Gains less losses from non-current assets held for sale	921	4.15.
Net non-interest income	293.6		293,627	
Total net operating income	**798.5**		**798,549**	
Employee costs	(257.7)	Administrative expenses	(412,886)	4.9.
Other general and administrative expenses	(155.2)			
Depreciation and amortisation	(47.4)	Depreciation and amortisation	(47,390)	4.11.
Total costs	**(460.3)**		**(460,276)**	
Result before impairments and provisions	**338.3**		**338,273**	
Impairments and provisions for credit risk	(17.5)	Provisions for credit losses	(3,050)	4.13.
		Impairment of financial assets	(14,454)	4.14.
Other impairments and provisions	(11.4)	Provisions for other liabilities and charges	(5,932)	4.13.
		Impairment of non-financial assets	(5,433)	4.14.
Impairments and provisions	(28.9)		(28,869)	
Gains less losses from capital investment in subsidiaries, associates, and joint ventures	0.8	Share of profit from investments in associates and joint ventures (accounted for using the equity method)	781	5.12.e)
Negative goodwill	172.9	Negative goodwill	172,878	5.12.b), c)
Result before tax	**483.1**	**Profit before income tax**	**483,063**	
Income tax	(25.2)	Income tax	(25,230)	4.16.
Result of non-controlling interests	11.0	Attributable to non-controlling interests	10,971	
Result after tax	**446.9**	**Attributable to owners of the parent**	**446,862**	

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Table 41: Statement of Financial Position of NLB Group as at 31 December 2022

Business report	in EUR millions	Financial report	in EUR thousands	Notes
ASSETS				
Cash, cash balances at central banks, and other demand deposits at banks	5,271.4	Cash, cash balances at central banks and other demand deposits at banks	5,271,365	5.1.
Loans to banks	223.0	Financial assets measured at amortised cost - loans and advances to banks	222,965	5.6.b)
Net loans to customers	13,073.0	Financial assets measured at amortised cost - loans and advances to customers	13,072,986	5.6.c)
Financial assets	4,877.4		4,877,437	
- Trading book	21.6	Financial assets held for trading	21,588	5.2.a)
- Non-trading book	4,855.8	Non-trading financial assets mandatorily at fair value through profit or loss - part (without loans)	19,031	5.3.a)
		Financial assets measured at fair value through other comprehensive income	2,919,203	5.4.
		Financial assets measured at amortised cost - debt securities	1,917,615	5.6.a)
Investments in subsidiaries, associates, and joint ventures	11.7	Investments in associates and joint ventures	11,677	5.12.e)
Property and equipment	251.3	Property and equipment	251,316	5.8.
Investment property	35.6	Investment property	35,639	5.9.
Intangible assets	58.2	Intangible assets	58,235	5.10.
Other assets	358.6	Financial assets measured at amortised cost - other financial assets	177,823	5.6.d)
		Derivatives - hedge accounting	59,362	5.5.b)
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	(23,767)	5.5.c)
		Current income tax assets	1,696	
		Deferred income tax assets	55,527	5.17.
		Other assets	72,543	5.13.
		Non-current assets held for sale	15,436	5.7.
TOTAL ASSETS	**24,160.2**	**Total assets**	**24,160,240**	
LIABILITIES				
Deposits from customers	20,027.7	Financial liabilities measured at amortised cost - due to customers	20,027,726	5.15.a)
Deposits from banks and central banks	106.4	Financial liabilities measured at amortised cost - deposits from banks and central banks	106,414	5.15.a)
Borrowings	281.1	Financial liabilities measured at amortised cost - borrowings from banks and central banks	198,609	5.15.b)
		Financial liabilities measured at amortised cost - borrowings from other customers	82,482	5.15.b)
Subordinated debt securities	508.8	Financial liabilities measured at amortised cost - debt securities issued	815,990	5.15.c)
Other debt securities in issue	307.2			
Other liabilities	506.7	Financial liabilities held for trading	21,589	5.2.b)
		Financial liabilities measured at fair value through profit or loss	1,796	5.3.b)
		Financial liabilities measured at amortised cost - other financial liabilities	294,463	5.15.d)
		Derivatives - hedge accounting	2,124	5.5.b)
		Provisions	122,652	5.16.
		Current income tax liabilities	12,420	
		Deferred income tax liabilities	2,569	5.17.
		Other liabilities	49,081	5.19.
Equity	2,365.6	Equity and reserves attributable to owners of the parent	2,365,585	
Non-controlling interests	56.7	Non-controlling interests	56,740	
TOTAL LIABILITIES AND EQUITY	**24,160.2**	**Total liabilities and equity**	**24,160,240**	

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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 42: NLB Group cost of risk calculation

in EUR millions

	NLB Group	
	2022	2021
Numerator		
Credit impairments and provisions(i)	17.6	-40.8
Denominator		
Average net loans to customers(ii)	12,256.6	10,080.9
Cost of risk (bps)	**14**	**-41**

(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).

Cost to income ratio (CIR) – Indicator of cost efficiency, calculated as the ratio between the total costs and total net operating income.

Table 43a: NLB Group and NLB CIR calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Total costs	460.3	415.4	293.9	207.9	183.6	180.5
Denominator						
Total net operating income	798.5	666.9	504.5	366.2	361.5	311.7
Cost to income ratio (CIR)	**57.6%**	**62.3%**	**58.3%**	**56.8 %**	**50.8%**	**57.9%**

Table 43b: NLB Group's banking subsidiaries CIR calculation

in EUR millions

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	NLB Komercijalna banka, Beograd		N Banka, Ljubljana
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2021	2022	2021	2022
Numerator														
Total cost	31.8	28.6	17.3	15.2	18.3	16.2	14.3	13.5	20.3	17.4	22.2	109.0	88.0	23.0
Denominator														
Total net operating income	75.9	68.4	38.5	33.2	31.7	28.1	48.4	41.8	37.3	28.1	30.3	192.4	128.7	35.7
Cost to income ratio (CIR)	**41.9%**	**41.8%**	**44.9%**	**45.7%**	**57.8%**	**57.7%**	**29.7%**	**32.4%**	**54.3%**	**61.7%**	**73.1%**	**56.6%**	**68.4%**	**64.3%**

Average cost of funding (quarterly) – Calculated as the ratio between interest expenses annualized and average interest bearing liabilities.

Table 44: Average cost of funding (quarterly)

in EUR millions

	NLB Group			
	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Numerator				
Interest expenses(i)	66.5	48.0	23.8	23.6
Denominator				
Average interest-bearing liabilities(ii)	20,780.7	20,335.2	20,206.8	19,298.6
Average cost of funding (quarterly)	**0.32%**	**0.24%**	**0.12%**	**0.12%**

(i) Interest expenses (quarterly) are annualized, calculated as the sum of interest expenses in the period divided by the number of days in the quarter and multiplied by the number of days in the year. Interest expenses on interest bearing liabilities also include interest income from negative interest rate on financial liabilities.
(ii) NLB internal information. Average interest-bearing liabilities (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).

FVTPL – Financial assets measured mandatorily at fair value through profit or loss (FVTPL) represent the minor part (0.002% December 2022; 0.002% December 2021) 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 millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 1	17,457.5
Denominator	
Total gross loans and advances	18,403.9
IFRS 9 classification into Stage 1	**94.9%**

Table 45b: NLB Group Stage 2 calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 2	618.3
Denominator	
Total gross loans and advances	18,403.9
IFRS 9 classification into Stage 2	**3.4%**

Table 45c: NLB Group Stage 3 calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 3	327.7
Total (FVTPL) non-performing loans	0.4
Denominator	
Total gross loans and advances	18,403.9
IFRS 9 classification into Stage 3	**1.8%**

Table 45d: NLB Group Stage 1 in the Corporate segment calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 1 to Corporates	5,920.1
Denominator	
Total gross loans to Corporates	6,545.6
Corporates - IFRS 9 classification into Stage 1	**90.4%**

Table 45e: NLB Group Stage 2 in the Corporate segment calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 2 to Corporates	425.7
Denominator	
Total gross loans to Corporates	6,545.6
Corporates - IFRS 9 classification into Stage 2	**6.5%**

Table 45f: NLB Group Stage 3 in the Corporate segment calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 3 to Corporates	199.5
Total (FVTPL) non-performing loans	0.4
Denominator	
Total gross loans to Corporates	6,545.6
Corporates - IFRS 9 classification into Stage 3	**3.1%**

Table 45g: NLB Group Stage 1 in the Retail segment calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 1 to Retail	6,423.0
Denominator	
Total gross loans to Retail	6,743.6
Retail - IFRS 9 classification into Stage 1	**95.2%**

Table 45h: NLB Group Stage 2 in the Retail segment calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 2 to Retail	192.6
Denominator	
Total gross loans to Retail	6,743.6
Retail - IFRS 9 classification into Stage 2	**2.9%**

Table 45i: NLB Group Stage 3 in the Retail segment calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Total (AC) loans in Stage 3 to Retail	128.0
Denominator	
Total gross loans to Retail	6,743.6
Retail - IFRS 9 classification into Stage 3	**1.9%**

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 Group and NLB leverage ratio

in EUR millions

	NLB Group			NLB		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Numerator						
Tier I	2,295.7	1,965.6	1,768.1	1,496.7	1,362.7	1,347.0
Denominator						
Total Leverage Ratio exposure measure	25,240.5	19,229.5	22,603.9	14,553.0	10,041.1	13,058.8
Leverage ratio	**9.1%**	**10.2%**	**7.8%**	**10.3%**	**13.6%**	**10.3%**

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(i)

in EUR millions

	NLB Group														NLB		
	31 Dec 2022	**30 Nov 2022**	**31 Oct 2022**	**30 Sep 2022**	**31 Aug 2022**	**31 Jul 2022**	**30 Jun 2022**	**31 May 2022**	**30 Apr 2022**	**31 Mar 2022**	**28 Feb 2022**	**31 Jan 2022**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2020**
Numerator																	
Stock of HQLA	6,028.3	5,836.6	5,505.7	5,772.1	5,577.4	5,612.1	5,325.3	5,712.1	5,636.4	5,690.4	5,524.2	5,545.5	5,367.1	5,003.0	5,046.3	4,698.7	4,323.4
Denominator																	
Net liquidity outflow	2,736.6	2,612.2	2,587.4	2,641.3	2,568.0	2,498.5	2,499.6	2,524.2	2,548.1	2,439.6	2,163.5	2,134.5	2,125.0	1,943.1	1,825.2	1,493.9	1,285.4
LCR	**220.3%**	**223.4%**	**212.8%**	**218.5%**	**217.2%**	**224.6%**	**213.0%**	**226.3%**	**221.2%**	**233.3%**	**255.3%**	**259.8%**	**252.6%**	**257.5%**	**276.5%**	**314.5%**	**336.3%**

(i) Based on the European Commission's Delegated Act on LCR.

Contents

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 millions

	NLB Group			NLB		
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2022	31 Dec 2021	31 Dec 2020
Numerator						
Net loans to customers	13,073.0	10,587.1	9,644.9	6,062.3	5,153.0	4,595.1
Denominator						
Deposits from customers	20,027.7	17,640.8	16,397.2	10,984.4	9,659.6	8,850.8
Net loan to deposit ratio (LTD)	**65.3%**	**60.0%**	**58.8%**	**55.2%**	**53.3%**	**51.9%**

Table 48b: NLB Group's banking subsidiaries LTD calculation

in EUR millions

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	NLB Komercijalna Banka, Beograd		N Banka, Ljubljana
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022
Numerator														
Net loans to customers	1,170.7	1,084.1	523.2	471.1	521.3	453.0	740.8	634.5	532.3	491.6	511.7	2,589.2	1,795.9	939.2
Denominator														
Deposits from customers	1,462.0	1,399.5	796.7	759.9	673.4	593.0	894.2	798.8	692.9	609.8	449.5	3,692.2	3,424.6	898.8
Net loan to deposit ratio (LTD)	**80.1%**	**77.5%**	**65.7%**	**62.0%**	**77.4%**	**76.4%**	**82.8%**	**79.4%**	**76.8%**	**80.6%**	**113.8%**	**70.1%**	**52.4%**	**104.5%**

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[iii]

in EUR millions

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	NLB Komercijalna Banka, Beograd		N Banka, Ljubljana
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2021	2022	2021	2022
Numerator														
Net interest income[i]	53.9	50.4	23.6	20.1	19.5	17.8	39.8	34.5	29.6	22.0	23.4	131.6	88.6	27.8
Denominator														
Average interest-bearing assets[ii]	1,714.0	1,605.3	915.1	844.3	746.3	645.0	978.4	900.6	737.2	550.2	678.3	4,389.0	3,742.6	1,377.0
Net interest margin on interest-bearing assets	**3.1%**	**3.1%**	**2.6%**	**2.4%**	**2.6%**	**2.8%**	**4.1%**	**3.8%**	**4.0%**	**4.0%**	**3.4%**	**3.0%**	**2.4%**	**2.0%**

(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).
N Bank internal information. Average interest-bearing assets for N Bank are calculated as the sum of daily balances in the period (from 1 January to day d – the last day in reporting period) divided by number of days d.
(iii) Data for N Bank internal information.

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 50: NLB Group's net interest margin on the basis of interest-bearing assets calculation

in EUR millions

	NLB Group
	2022
Numerator	
Net interest income[i]	504.9
Denominator	
Average interest-bearing assets[ii]	21,988.4
Net interest margin on interest-bearing assets	**2.30%**

(i) Net interest income is annualized, 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 the Group are calculated as the sum of balance from the previous year end (31 December) and monthly balances of the last day of each month from January to the 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 51: NLB Group net interest margin on the basis of interest-bearing assets calculation (quarterly)

in EUR millions

	NLB Group			
	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Numerator				
Net interest income[i]	602.4	502.7	475.6	437.2
Denominator				
Average interest-bearing assets[ii]	22,730.4	22,155.9	22,045.9	21,087.6
Net interest margin on interest-bearing assets (quarterly)	**2.65%**	**2.27%**	**2.16%**	**2.07%**

(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).

Net interest margin on total assets – Calculated as the ratio between net interest income annualized, and average total assets.

Table 52: NLB Group and NLB net interest margin on total assets calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Net interest income(i)	504.9	409.4	299.6	177.0	139.5	138.9
Denominator						
Average total assets(ii)	22,975.9	20,659.0	15,086.2	13,133.2	11,853.9	10,336.2
Net interest margin on total assets	**2.2%**	**2.0%**	**2.0%**	**1.3%**	**1.2%**	**1.3%**

(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).

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 Finrep18; 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 Finrep18; 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 53: NLB Group and NLB NPE (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	373.6	415.5	513.0	136.0	159.5	235.1
Denominator						
Total on-balance and off-balance exposures in Finrep18	28,133.2	24,328.0	22,042.3	15,512.0	13,869.9	12,223.1
NPE per cent.	**1.3%**	**1.7%**	**2.3%**	**0.9%**	**1.1%**	**1.9%**

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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 54: NLB Group and NLB NPE (EBA def.) (Bos) calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	373.6	415.5	513.0	136.0	159.5	235.1
Denominator						
Total on-balance and off-balance exposures in Finrep18, where carrying amount of FVOCI is increased by value adjustments due to impairments	28,134.7	24,339.2	22,051.0	15,506.3	13,872.1	12,225.5
NPE per cent.	**1.3%**	**1.7%**	**2.3%**	**0.9%**	**1.1%**	**1.9%**

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 55a: NLB NPL calculation

			in EUR millions
	NLB		
	2022	2021	2020
Numerator			
Total Non-Performing Loans	111.2	130.4	208.4
Denominator			
Total gross loans	9,667.2	8,522.5	6,980.8
NPL per cent.	**1.1%**	**1.5%**	**3.0%**

Table 55b: NLB Group NPL calculation

						in EUR millions
	NLB Group					
	2022	2021	2020	2019	2018	2017
Numerator						
Total Non-Performing Loans	328.3	367.4	474.7	374.7	622.3	844.5
Denominator						
Total gross loans	18,403.9	15,541.8	13,686.6	9,793.5	9,017.2	9,130.4
NPL per cent.	**1.8%**	**2.4%**	**3.5%**	**3.8%**	**6.9%**	**9.2%**

Table 55c: NLB Group's banking subsidiaries NPL calculation

														in EUR millions
	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Komercijalna Banka, Beograd		N Banka, Ljubljana	NLB Group's banking subsidiaries
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2022
Numerator														
Total Non-Performing Loans	54.5	59.7	8.3	9.4	17.0	19.0	15.7	15.6	32.6	42.2	32.5	36.3	23.6	295.4
Denominator														
Total gross loans	1,506.5	1,383.8	734.4	734.7	724.2	621.0	940.5	802.0	715.3	602.0	3,390.0	2,610.1	1,218.4	18,174.2
NPL per cent.	**3.6%**	**4.3%**	**1.1%**	**1.3%**	**2.3%**	**3.1%**	**1.7%**	**1.9%**	**4.6%**	**7.0%**	**1.0%**	**1.4%**	**1.9%**	**1.6%**

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 56a: NLB NPL coverage ratio 1 calculation

			in EUR millions
		NLB	
	2022	2021	2020
Numerator			
Loan loss allowances entire loan portfolio	95.7	97.9	158.4
Denominator			
Total Non-Performing Loans	111.2	130.4	208.4
NPL coverage ratio 1 (NPL CR 1)	**86.1%**	**75.1%**	**76.0%**

Table 56b: NLB Group NPL coverage ratio 1 calculation

						in EUR millions
			NLB Group			
	2022	2021	2020	2019	2018	2017
Numerator						
Loan loss allowances entire loan portfolio	324.8	316.5	388.4	334.2	479.6	654.8
Denominator						
Total Non-Performing Loans	328.3	367.4	474.7	374.7	622.3	844.5
NPL coverage ratio 1 (NPL CR 1)	**98.9%**	**86.1%**	**81.8%**	**89.2%**	**77.1%**	**77.5%**

Table 56c: NLB Group's banking subsidiaries NPL coverage ratio 1 calculation

								in EUR millions
	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica	NLB Komercijalna Banka, Beograd	N Banka, Ljubljana	NLB Group's banking subsidiaries
					2022			
Numerator								
Loan loss allowances entire loan portfolio	63.7	17.5	20.8	36.6	20.2	35.9	15.9	303.5
Denominator								
Total Non-Performing Loans	54.5	8.3	17.0	15.7	32.6	32.5	23.6	295.4
NPL coverage ratio 1 (NPL CR 1)	**116.9%**	**211.3%**	**122.6%**	**232.8%**	**62.1%**	**110.4%**	**67.3%**	**102.7%**

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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 on an internal data source, with which the NLB Group monitors the loan portfolio quality.

Table 57a: NLB Group and NLB NPL coverage ratio 2 calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Loan loss allowances non-performing loan portfolio	187.4	212.9	272.1	64.5	79.0	120.7
Denominator						
Total Non-Performing Loans	328.3	367.4	474.7	111.2	130.4	208.4
NPL coverage ratio 2 (NPL CR 2)	**57.1%**	**57.9%**	**57.3%**	**58.1%**	**60.6%**	**57.9%**

Table 57b: NLB Group's banking subsidiaries NPL coverage ratio 2 calculation

in EUR millions

	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica	NLB Komercijalna Banka, Beograd	N Banka, Ljubljana	NLB Group's banking subsidiaries
	2022							
Numerator								
Loan loss allowances non-performing loan portfolio	38.7	5.0	14.9	13.8	14.7	11.2	3.8	166.6
Denominator								
Total Non-Performing Loans	54.5	8.3	17.0	15.7	32.6	32.5	23.6	295.4
NPL coverage ratio 2 (NPL CR 2)	**70.9%**	**60.7%**	**87.7%**	**87.7%**	**45.1%**	**34.5%**	**16.2%**	**56.4%**

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 58: NLB Group and NLB Net NPL ratio calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Net volume of non-performing loans	140.9	154.5	202.7	46.6	51.4	87.8
Denominator						
Total Net Loans	18,079.1	15,225.4	13,298.2	9,571.5	8,424.7	6,822.4
Net NPL ratio per cent. (%Net NPL)	**0.8%**	**1.0%**	**1.5%**	**0.5%**	**0.6%**	**1.3%**

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 59: NLB Group in NLB Received collaterals for NPLs/NPL calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Gross volume of Non-Performing Loans covered by collaterals	200.3	226.6	288.1	64.9	78.2	137.2
Denominator						
Total Non-Performing Loans	328.3	367.4	474.7	111.2	130.4	208.4
Received collaterals for NPLs / NPL	**61.0%**	**61.7%**	**60.7%**	**58.4%**	**60.0%**	**65.8%**

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 60: NLB Group and NLB Gross NPL ratio (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits	337.2	375.1	466.0	111.7	131.2	199.1
Denominator						
Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits	13,796.0	11,128.8	10,340.6	6,610.8	5,498.9	4,958.8
Gross NPL ratio per cent. (% NPL)	**2.4%**	**3.4%**	**4.5%**	**1.7%**	**2.4%**	**4.0%**

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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 61: NLB Group and NLB Gross NPL ratio (EBA def.) (BoS) calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Gross volume of Non-Performing Loans and advances	337.2	375.1	466.0	111.7	131.2	199.1
Denominator						
Gross volume of Loans and advances in Finrep18	18,590.5	15,668.8	13,795.3	9,780.9	8,615.3	7,028.2
Gross NPL ratio per cent. (% NPL)	**1.8%**	**2.4%**	**3.4%**	**1.1%**	**1.5%**	**2.8%**

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 62: NLB Group and NLB NPL coverage ratio (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances(i)	195.9	219.1	265.3	65.0	79.8	110.1
Denominator						
Gross volume of Non-Performing loans and advances(i)	337.2	375.1	466.0	111.7	131.2	199.1
NPL coverage ratio per cent. (% CR)	**58.1%**	**58.4%**	**56.9%**	**58.2%**	**60.8%**	**55.3%**

(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 63: NLB Group and NLB NPL coverage ratio (EBA def.) (BoS) calculation

in EUR millions

	NLB Group			NLB		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances	195.9	219.1	265.3	65.0	79.8	110.1
Denominator						
Gross volume of Non-Performing loans and advances	337.2	375.1	466.0	111.7	131.2	199.1
NPL coverage ratio per cent. (% CR)	**58.1%**	**58.4%**	**56.9%**	**58.2%**	**60.8%**	**55.3%**

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 64: NLB Group and NLB NPL collateral coverage ratio (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Numerator						
Volume of collateral received up to the carrying amount of each loan or advance	30.7	36.7	61.3	6.2	12.2	38.6
Denominator						
Gross volume of collateralized Non-Performing loans and advances	56.1	62.5	144.6	8.2	19.4	88.8
NPL Collateral received / NPL (%)	**54.7%**	**58.8%**	**42.4%**	**75.6%**	**63.1%**	**43.5%**

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 65: NLB Group and NLB NSFR calculation

in EUR millions

	NLB Group			NLB		
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2022	31 Dec 2021	31 Dec 2020
Numerator						
Amount of available stable funding	20,409.1	18,446.7	16,514.6	11,691.2	10,815.8	9,455.7
Denominator						
Amount of required stable funding	11,154.7	9,960.8	9,966.8	6,582.3	6,309.5	5,833.7
NSFR	**183.0%**	**185.2%**	**165.7%**	**177.6%**	**171.4%**	**162.1%**

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 66: NLB Group EVE calculation

in EUR thousands

	NLB Group								
	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
Numerator									
Interest risk in banking book – EVE	-110,452.4	-115,458.9	-129,345.0	-141,035.8	-126,650.6	-135,133.4	-134,172.8	-140,567.2	-128,370.1
Denominator									
Equity (Tier I)	2,166,333.0	2,065,707.0	2,048,380.0	1,906,112.0	1,972,485.0	1,903,800.0	1,879,365.0	1,734,545.0	1,765,000.0
EVE as % of Equity	**-5.1%**	**-5.6%**	**-6.3%**	**-7.4%**	**-6.4%**	**-7.1%**	**-7.1%**	**-8.1%**	**-7.3%**

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Operational business margin (OBM) – Calculated as the ratio between operational business net income annualized and average assets.

Table 67: NLB Group and NLB OBM calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Operational business net income(i)	820.0	678.1	490.3	326.8	274.3	257.7
Denominator						
Average total assets(ii)	22,975.9	20,659.0	15,086.2	13,147.5	11,876.0	10,336.3
OBM (cumulative)	**3.6%**	**3.3%**	**3.2%**	**2.5%**	**2.3%**	**2.5%**

(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 68: NLB Group OBM (quarterly) calculation

in EUR millions

	NLB Group			
	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Numerator				
Operational business net income(i)	917.9	834.0	795.1	730.7
Denominator				
Average total assets(ii)	23,740.9	23,185.2	23,050.6	22,006.7
OBM (quarterly)	**3.87%**	**3.60%**	**3.45%**	**3.32%**

(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 (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).

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 69: NLB Group and NLB ROE b.t. calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Result before tax(i)	483.1	261.4	277.9	164.1	211.5	113.9
Denominator						
Average total equity(ii)	2,344.4	2,222.8	1,808.1	1,558.3	1,507.2	1,384.6
ROE b.t.	**20.6%**	**11.8%**	**15.4%**	**10.5%**	**14.0%**	**8.2%**

(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 70a: NLB Group and NLB ROE a.t. calculation

in EUR millions

	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Result after tax(i)	446.9	236.4	269.7	159.6	208.4	114.0
Denominator						
Average equity(ii)	2,248.7	2,069.9	1,751.2	1,558.3	1,507.2	1,384.6
ROE a.t.	**19.9%**	**11.4%**	**15.4%**	**10.2%**	**13.8%**	**8.2%**

(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 70b: NLB Group (w/o negative goodwill) ROE a.t. calculation

in EUR millions

NLB Group (w/o NGW)	
	2022
Numerator	
Result after tax(i)	274.0
Denominator	
Average equity(ii)	2,248.7
ROE a.t.	**12.2%**

(i)(ii) Please refer to the notes under Table 70a.

Table 70c: NLB Group's banking subsidiaries ROE a.t. calculation

in EUR millions

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	NLB Komercijalna Banka, Beograd	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2021	2022	2021
Numerator													
Result after tax(i)	37.9	39.0	19.3	18.2	11.4	10.0	32.4	24.4	16.6	10.1	4.3	68.2	34.8
Denominator													
Average equity(ii)	252.9	245.4	95.3	106.7	91.5	93.5	111.1	108.9	99.5	76.5	77.4	713.0	630.2
ROE a.t.	**15.0%**	**15.9%**	**20.2%**	**17.0%**	**12.5%**	**10.7%**	**29.2%**	**22.4%**	**16.7%**	**13.1%**	**5.5%**	**9.6%**	**5.5%**

(i)(ii) Please refer to the notes under Table 70a.

Contents

Return on equity after tax (ROE a.t.) normalized(iii)– Calculated as the ratio between result after tax annualized and average risk adjusted capital.

Table 71: NLB Group ROE a.t. normalized calculation

	in EUR millions
	NLB Group
	2022
Numerator	
Result after tax(i)	274.0
Denominator	
Average risk adjusted capital(ii)	1,759.8
ROE a.t.	**15.6%**

(i) Result after tax is annualized, calculated as a 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 risk adjusted capital is calculated as a sum of Risk Weighted Assets (RWA) balance as at the end of the previous year end (31 December) and monthly Risk Weighted Assets (RWA) balances of the last day of each month from January to month t divided by (t+1), multiplied by Tier 1 regulatory capital requirement and decreased by minority shareholder capital.
(iii) Result a.t. w/o negative goodwill divided by Average risk adjusted capital. Average risk adjusted capital calculated as Tier 1 requirement of average Risk Weighted Assets (RWA) reduced for minority shareholder capital contribution.

Return on assets (ROA b.t.) – Calculated as the ratio between result before tax annualized and average total assets.

Table 72: NLB Group and NLB ROA b.t. calculation

						in EUR millions
	NLB Group			NLB		
	2022	2021	2020	2022	2021	2020
Numerator						
Result before tax(i)	483.1	261.4	277.9	164.1	211.5	113.9
Denominator						
Average total assets(ii)	22,975.9	20,659.0	15,086.2	13,147.5	11,876.0	10,336.3
ROA b.t.	**2.1%**	**1.3%**	**1.8%**	**1.2%**	**1.8%**	**1.1%**

(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 are 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).*

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Return on assets (ROA a.t.) – Calculated as the ratio between result after tax annualized and average total assets.

Table 73a: NLB Group and NLB ROA a.t. calculation

in EUR millions

	NLB Group			NLB		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Numerator						
Result after tax(i)	446.9	236.4	269.7	159.6	208.4	114.0
Denominator						
Average total assets(ii)	22,975.9	20,659.0	15,086.2	13,147.5	11,876.0	10,336.3
ROA a.t.	**1.9%**	**1.1%**	**1.8%**	**1.2%**	**1.8%**	**1.1%**

(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 are 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 73b: NLB Group's banking subsidiaries ROA a.t. calculation

in EUR millions

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	NLB Komercijalna Banka, Beograd	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2021**	**2022**	**2021**
Numerator													
Result after tax(i)	37.9	39.0	19.3	18.2	11.4	10.0	32.4	24.4	16.6	10.1	4.3	68.2	34.8
Denominator													
Average total assets(ii)	1,771.1	1,658.6	948.7	874.5	777.6	673.5	987.1	906.0	795.2	593.5	696.3	4,668.8	4,029.4
ROA a.t.	**2.1%**	**2.4%**	**2.0%**	**2.1%**	**1.5%**	**1.5%**	**3.3%**	**2.7%**	**2.1%**	**1.7%**	**0.6%**	**1.5%**	**0.9%**

(i)(ii) Please refer to the notes under Table 73a.

Total capital ratio (TCR) – TCR is the own funds of the institution expressed as a percentage of the total risk exposure amount.

Table 74a: NLB Group and NLB TCR calculation

						in EUR millions
	NLB Group			NLB		
	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2022	31 Dec 2021	31 Dec 2020
Numerator						
Total capital (Own funds)	2,806.4	2,252.5	2,065.5	2,004.2	1,647.3	1,631.6
Denominator						
Total risk exposure Amount (Total RWA)	14,653.1	12,667.4	12,421.0	7,832.7	6,708.5	6,028.8
Total capital ratio	**19.2%**	**17.8%**	**16.6%**	**25.6%**	**24.6%**	**27.1%**

Table 74b: NLB Group's banking subsidiaries TCR calculation

														in EUR millions
	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Banka, Beograd	NLB Komercijalna Banka, Beograd		N Banka, Ljubljana
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022
Numerator														
Total capital	251.4	243.6	81.4	77.1	80.4	75.0	117.5	112.3	77.0	70.0	87.7	620.9	555.8	188.3
Denominator														
Total risk exposure Amount (Total RWA)	1,384.8	1,354.4	508.3	456.7	488.1	445.0	746.0	647.9	419.6	429.3	456.3	2,521.5	1,946.7	877.9
Total capital ratio	**18.2%**	**18.0%**	**16.0%**	**16.9%**	**16.5%**	**16.9%**	**15.7%**	**17.3%**	**18.4%**	**16.3%**	**19.2%**	**24.6%**	**28.6%**	**21.4%**

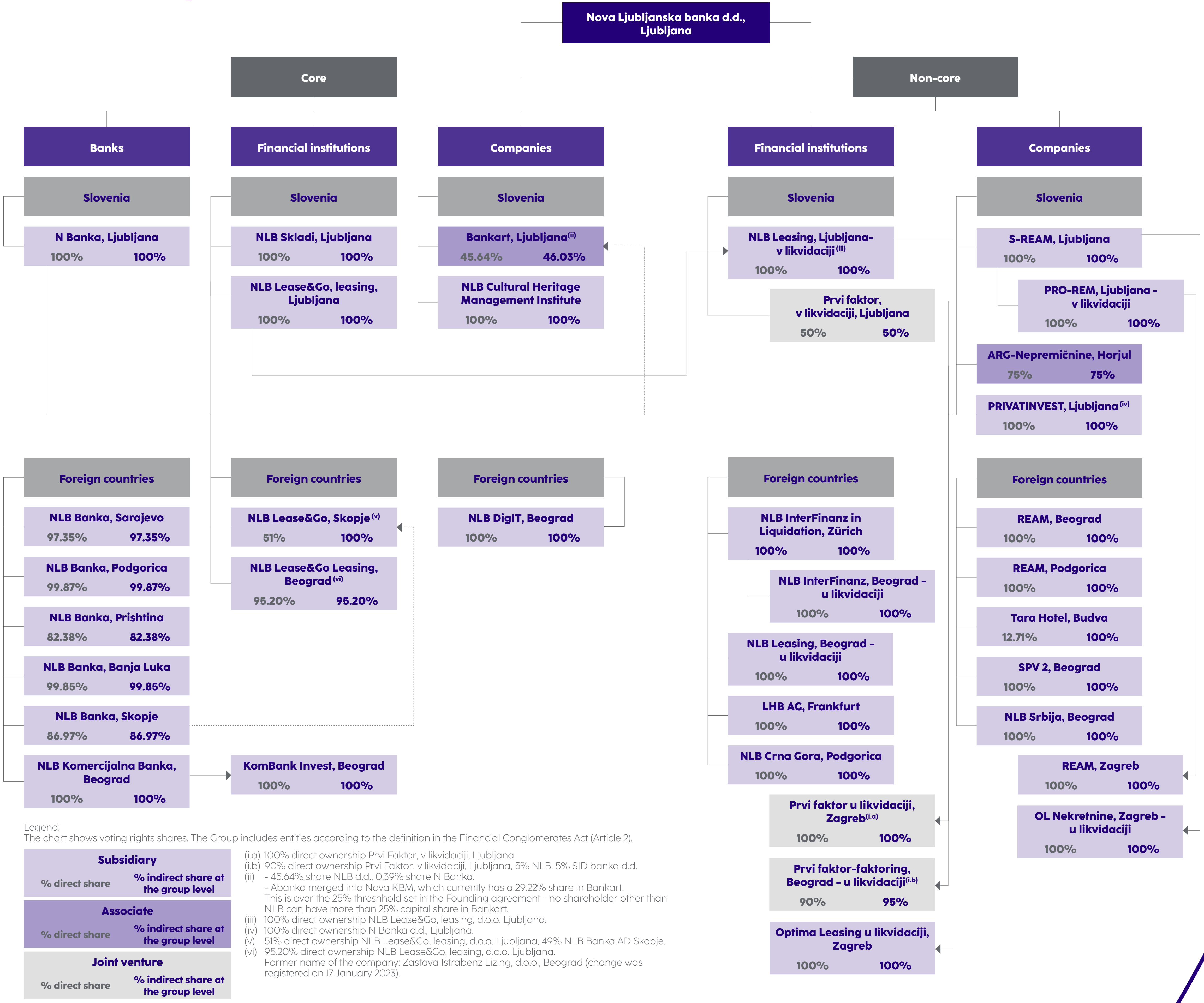
Big stories don't write themselves. In NLB they are written by experts, visionaries, and caring mentors – in **NLB** we write them together, mindful of our business decisions and actions, and of the **footprints we create**.

Despite the precarious circumstances, the shadow of war in Europe, the resulting energy crisis, and the economic slowdown, 2022 was the best year in the history of our Bank and Group. We reached many important milestones and through responsible environmental and societal actions once again confirmed our commitment and contribution to a better quality of life in South-Eastern Europe, our home region. We are proud that our efforts and our progress in the field of sustainability were recognized by our first ESG Risk Rating.

The results give us confidence to pursue future growth ambitions. We will continue to create added value for our shareholders, live up to the expectations of our clients and the public, as well as seize all opportunities in front of us.

Pictured: NLB employees

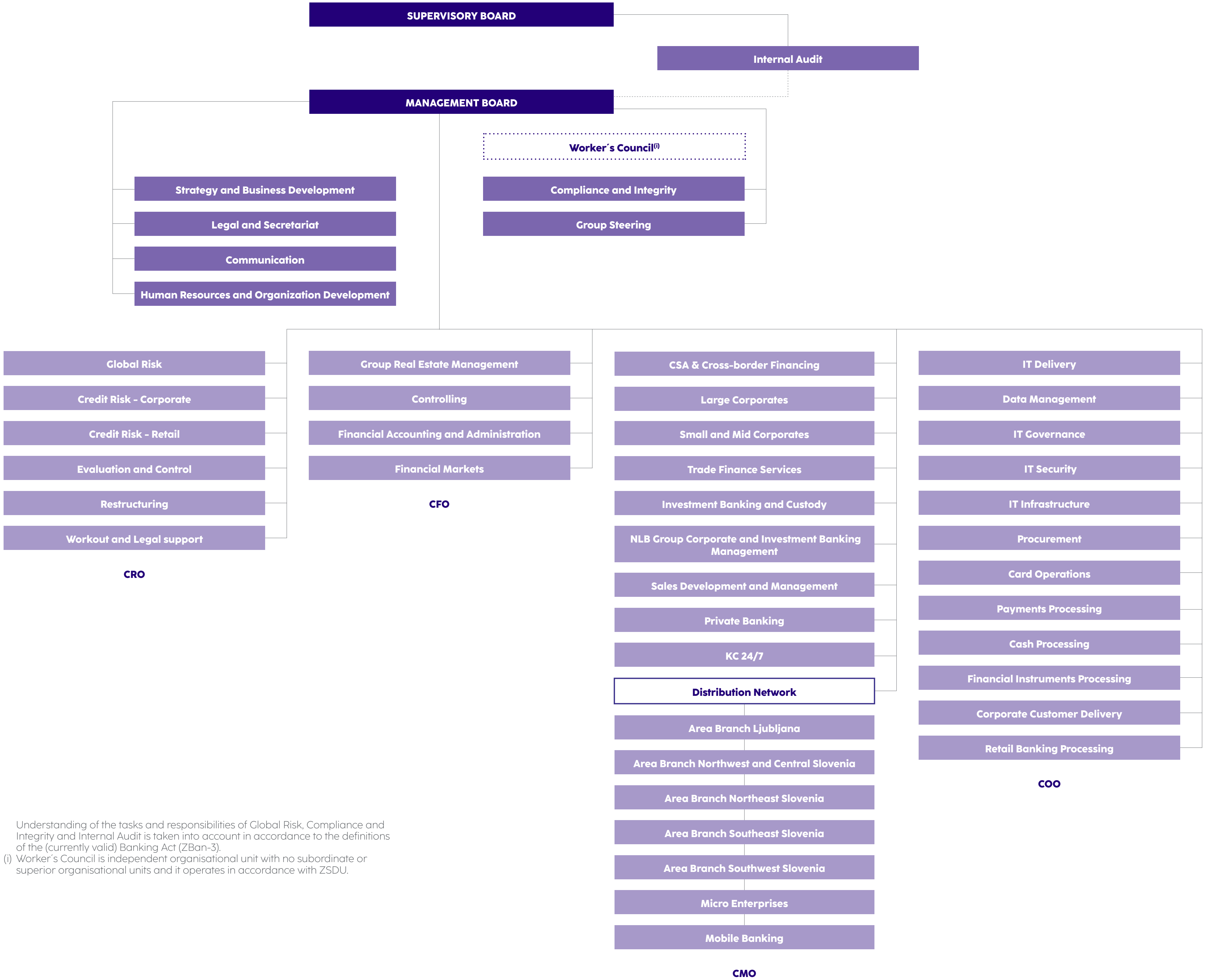
NLB Group Chart



(i.a) 100% direct ownership Prvi Faktor, v likvidaciji, Ljubljana.
(i.b) 90% direct ownership Prvi Faktor, v likvidaciji, Ljubljana, 5% NLB, 5% SID banka d.d.
(ii) - 45.64% share NLB d.d., 0.39% share N Banka.
- 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) 100% direct ownership NLB Lease&Go, leasing, d.o.o. Ljubljana.
(iv) 100% direct ownership N Banka d.d., Ljubljana.
(v) 51% direct ownership NLB Lease&Go, leasing, d.o.o. Ljubljana, 49% NLB Banka AD Skopje.
(vi) 95.20% direct ownership NLB Lease&Go, leasing, d.o.o. Ljubljana. Former name of the company: Zastava Istrabenz Lizing, d.o.o., Beograd (change was registered on 17 January 2023).

Contents

Organisational Structure of NLB



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).

(i) Worker´s Council is independent organisational unit with no subordinate or superior organisational units and it operates in accordance with ZSDU.

FINANCIAL REPORT

Contents

Independent auditor’s report

Building a better
working world

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 (together “the Group”), which comprise the separate and consolidated statement of financial position as at December 31 2022, 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 2022 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.

Credit risk and impairment of loans and advances to customers including the impact of the conflict in Ukraine and the uncertain macroeconomic environment

The carrying amount of loans and advances to customers at amortized cost amounts to EUR 6.1 billion (or 43% of total assets) of the Bank and EUR 13.1 billion (or 54% of total assets) of the Group as of 31 December 2022. As of 31 December 2022, total credit impairment allowances of the Bank amounted to EUR 93 million and of the Group to EUR 324 million.	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.
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. In 2022, the assessment of credit impairment was made more complex as a result of the conflict in Ukraine and the increasingly uncertain macroeconomic environment (increasing interest rates, energy prices and inflation). The Bank’s Stage 3 gross balance of loans and advances to customers was EUR 108 million as of 31 December 2022 (Group: EUR 301 million) and total provisions were EUR 64 million (Group: EUR 190 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 6.0 billion (Group: EUR 12.9 billion) as of 31 December 2022 and total credit impairment allowances were EUR 29 million (Group: EUR 137 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.	For 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. Furthermore, we assessed how the Bank and Group incorporated uncertainty related to the conflict in Ukraine and in the macroeconomic environment (increasing interest rates, energy prices and inflation) in the parameters used for the calculation of collective impairments. Our Credit risk specialists reviewed forward looking information (FLI) and input parameters used and assessed whether the uncertainty related to the macroeconomic situation was adequately reflected in the PD.. 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 for products generating significant income using the Bank's pricing tables.

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.

Identification and measurement of the fair value of the assets acquired and liabilities assumed with respect to the acquisition of N-Banka d.d, Ljubljana

On 1 March 2022, the Bank completed the acquisition of N-Banka d.d., Ljubljana for an acquisition price of EUR 5.1 million.

As described in Note 5.12 b) Acquisition of N Banka d.d., Ljubljana, the purchase price allocation was determined during the period, as a result of which EUR 172.8 million in negative goodwill (Bargain purchase), was recognized in the income statement. Note 5.12 b) Acquisition of N Banka d.d., Ljubljana also provides details of the accounting methods applied to the business combinations.

As part of our audit of the separate and consolidated financial statements we have performed the following procedures:

We have examined the relevant legal documents pertaining to the acquisition of N-Banka d.d., Ljubljana with a view to identifying the specific clauses impacting the determination and recognition of the purchase price and the negative goodwill.

We obtained, read and understood the corporate resolutions and administrative authorizations. We have performed audit procedures to obtain evidence of the

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We deemed the identification and measurement of fair value of the assets acquired and liabilities assumed N-Banka d.d., Ljubljana to be a key audit matter due to the significance of the transaction, the material impact of the negative goodwill on the current year result, and because it required estimations and judgments from Group management in terms of determining how the purchase price should be allocated to the difference classes of assets acquired and liabilities assumed.

acquisition-date balances which, as provided for in the terms of acquisition. We assessed the criteria used for recognition of the transaction as a business combination and the determination of the acquisition date and the consideration transferred.

We evaluated, with the involvement of valuation experts, the approaches used to determine the fair values of the assets acquired and liabilities assumed, the underlying assumptions and the mathematical accuracy of the calculations made.

We reviewed the qualitative and quantitative information included in the accompanying notes to the consolidated financial statements. We assessed the adequacy of the disclosures included in Note 5.12 b) Acquisition of N Banka d.d., Ljubljana 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 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 and those in charge with governance 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.

Those in charge with governance are responsible for overseeing the Company's and the Group's financial reporting process and to approve the annual report.

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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 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 those in charge with governance 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 those in charge with governance 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 those in charge with governance, 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.

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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 10 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 12 April 2023.

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.

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 2022 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 Annex 1 with regard to regulatory technical standards on the specification of a single electronic reporting format applicable for 2021 (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.

Those in charge of governance 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

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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 behavior. We apply International Standards on Quality Management (ISQM) 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;
- 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 Company and the Group for the financial year ended 31 December 2022, which are included in the annual report, have been prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

Ljubljana, 12 April 2023

Sanja Košir Nikašinović
Director, 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 2022, 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 2022, 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.

The Management Board of NLB

Hedvika Usenik	**Andrej Lasič**	**Archibald Kremser**	**Andreas Burkhardt**	**Antonio Argir**	**Blaž Brodnjak**
Member	Member	Member	Member	Member	Chief executive officer

Income statement for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group 2022	NLB Group 2021	NLB 2022	NLB 2021
Interest income calculated using the effective interest method		561,467	467,500	214,163	170,002
Other interest and similar income		8,309	10,329	7,799	9,183
Interest and similar income	4.1.	569,776	477,829	221,962	179,185
Interest expenses calculated using the effective interest method		(43,785)	(40,460)	(27,373)	(15,297)
Other interest and similar expenses		(21,069)	(28,009)	(17,562)	(24,749)
Interest and similar expenses	4.1.	(64,854)	(68,469)	(44,935)	(40,046)
Net interest income		**504,922**	**409,360**	**177,027**	**139,139**
Dividend income	4.2.	242	223	56,044	79,616
Fee and commission income	4.3.	381,599	332,589	166,440	155,217
Fee and commission expenses	4.3.	(108,249)	(95,413)	(37,291)	(35,623)
Net fee and commission income		**273,350**	**237,176**	**129,149**	**119,594**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	4.4.	866	167	(1,050)	24
Gains less losses from financial assets and liabilities held for trading	4.5.	33,451	21,194	11,332	4,596
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	90	16,838	(1,451)	13,492
Gains less losses from financial liabilities measured at fair value through profit or loss		286	-	163	-
Fair value adjustments in hedge accounting	5.5.a)	1,655	167	1,655	167
Foreign exchange translation gains less losses	4.7.	297	345	(1,588)	700
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	5.12.d)	-	(9,298)	-	-
Gains less losses on derecognition of non-financial assets		1,861	2,681	33	53
Other net operating income	4.8.	16,778	23,221	4,411	13,747
Administrative expenses	4.9.	(412,886)	(368,851)	(190,865)	(166,079)
Cash contributions to resolution funds and deposit guarantee schemes	4.10.	(36,144)	(35,140)	(9,713)	(9,535)
Depreciation and amortisation	4.11.	(47,390)	(46,528)	(17,001)	(17,522)
Gains less losses from modification of financial assets	4.12.	(26)	(263)	-	-
Provisions for credit losses	4.13.	(3,050)	8,504	282	8,028
Provisions for other liabilities and charges	4.13.	(5,932)	(22,670)	(2,325)	(72)
Impairment of financial assets	4.14.	(14,454)	27,331	(14,968)	18,067
Impairment of non-financial assets	4.14.	(5,433)	(4,407)	22,767	7,547
Negative goodwill	5.12.b), c)	172,878	-	-	-
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	5.12.e)	781	1,108	-	-
Gains less losses from non-current assets held for sale	4.15.	921	248	168	(94)
Profit before income tax		**483,063**	**261,406**	**164,070**	**211,468**
Income tax	4.16.	(25,230)	(13,538)	(4,468)	(3,047)
Profit for the year		**457,833**	**247,868**	**159,602**	**208,421**
Attributable to owners of the parent		446,862	236,404	159,602	208,421
Attributable to non-controlling interests		10,971	11,464	-	-
Earnings per share/diluted earnings per share (in EUR per share)	4.17.	22.3	11.8	8.0	10.4

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	2022	2021	2022	2021
Net profit for the year after tax		457,833	247,868	159,602	208,421
Other comprehensive income after tax		(149,677)	(30,168)	(90,445)	(15,281)
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans	5.16.c)	4,031	(1,377)	2,048	(115)
Fair value changes of equity instruments measured at fair value through other comprehensive income	5.4.c)	(2,383)	3,072	(1,925)	(383)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		121	(30)	-	-
Income tax relating to components of other comprehensive income	5.18.	17	(1)	80	94
Items that have been or may be reclassified subsequently to income statement					
Foreign currency translation		596	611	-	-
Translation gains/(losses) taken to equity		596	611	-	-
Debt instruments measured at fair value through other comprehensive income		(163,055)	(37,394)	(92,030)	(17,359)
Valuation gains/(losses) taken to equity	5.4.c)	(168,593)	(40,081)	(98,172)	(17,187)
Transferred to income statement	4.4., 4.14.	5,538	2,687	6,142	(172)
Income tax relating to components of other comprehensive income	5.18.	10,996	4,951	1,382	2,482
Total comprehensive income for the year after tax		308,156	217,700	69,157	193,140
Attributable to owners of the parent		297,936	207,854	69,157	193,140
Attributable to non-controlling interests		10,220	9,846	-	-

The notes are an integral part of these financial statements.

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Statement of financial position as at 31 December

in EUR thousands

		NLB Group		NLB	
	Notes	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	5,271,365	5,005,052	3,339,024	3,250,437
Financial assets held for trading	5.2.a)	21,588	7,678	21,692	7,682
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	19,031	21,161	15,411	12,360
Financial assets measured at fair value through other comprehensive income	5.4.	2,919,203	3,461,860	1,334,061	1,585,751
Financial assets measured at amortised cost					
- debt securities	5.6.a)	1,917,615	1,717,626	1,597,448	1,436,424
- loans and advances to banks	5.6.b)	222,965	140,683	350,625	199,287
- loans and advances to customers	5.6.c)	13,072,986	10,587,121	6,054,413	5,145,153
- other financial assets	5.6.d)	177,823	122,229	114,399	92,404
Derivatives - hedge accounting	5.5.b)	59,362	568	59,362	568
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5.5.c)	(23,767)	7,082	(23,767)	7,082
Investments in subsidiaries	5.12.a)	-	-	904,040	781,540
Investments in associates and joint ventures	5.12.e)	11,677	11,525	4,571	4,483
Tangible assets					
Property and equipment	5.8.	251,316	247,014	78,592	86,122
Investment property	5.9.	35,639	47,624	6,753	9,181
Intangible assets	5.10.	58,235	59,076	30,425	29,453
Current income tax assets		1,696	3,948	-	3,761
Deferred income tax assets	5.17.	55,527	38,977	34,888	31,902
Other assets	5.13.	72,543	91,221	13,161	11,853
Non-current assets held for sale	5.7.	15,436	7,051	4,235	4,089
Total assets		**24,160,240**	**21,577,496**	**13,939,333**	**12,699,532**
Financial liabilities held for trading	5.2.b)	21,589	7,585	22,150	7,602
Financial liabilities measured at fair value through profit or loss	5.3.b)	1,796	-	2,514	352
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.15.a)	106,414	71,828	212,656	109,329
- borrowings from banks and central banks	5.15.b)	198,609	858,531	57,292	873,479
- due to customers	5.15.a)	20,027,726	17,640,809	10,984,411	9,659,605
- borrowings from other customers	5.15.b)	82,482	74,051	216	406
- debt securities issued	5.15.c)	815,990	288,519	815,990	288,519
- other financial liabilities	5.15.d)	294,463	206,878	164,567	102,527
Derivatives - hedge accounting	5.5.b)	2,124	35,377	2,124	35,377
Provisions	5.16.	122,652	119,404	45,216	49,363
Current income tax liabilities		12,420	5,878	3,940	-
Deferred income tax liabilities	5.17.	2,569	3,045	-	-
Other liabilities	5.19.	49,081	49,468	25,387	21,039
Total liabilities		**21,737,915**	**19,361,373**	**12,336,463**	**11,147,598**
Equity and reserves attributable to owners of the parent					
Share capital	5.20.	200,000	200,000	200,000	200,000
Share premium	5.22.a)	871,378	871,378	871,378	871,378
Other equity instruments	5.21.	84,184	-	84,184	-
Accumulated other comprehensive income	5.22.b)	(160,588)	(10,552)	(81,677)	8,768
Profit reserves	5.22.a)	13,522	13,522	13,522	13,522
Retained earnings		1,357,089	1,004,385	515,463	458,266
		2,365,585	**2,078,733**	**1,602,870**	**1,551,934**
Non-controlling interests		56,740	137,390	-	-
Total equity		**2,422,325**	**2,216,123**	**1,602,870**	**1,551,934**
Total liabilities and equity		**24,160,240**	**21,577,496**	**13,939,333**	**12,699,532**

The notes are an integral part of these financial statements.

The Management Board of NLB has authorised for issue the financial statements and the accompanying notes.

Hedvika Usenik	**Andrej Lasič**	**Archibald Kremser**	**Andreas Burkhardt**	**Antonio Argir**	**Blaž Brodnjak**
Member	Member	Member	Member	Member	Chief executive officer

Ljubljana, 12 April 2023

Statement of changes in equity for the annual period ended 31 December

in EUR thousands

NLB Group	Share capital	Share premium	Other equity instruments	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
				Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Notes	**5.20.**	**5.22.a)**	**5.21.**	**5.22.b)**	**5.22.b)**	**5.22.b)**	**5.22.a)**				
Balance as at 1 January 2022	200,000	871,378	-	11,366	(17,184)	(4,734)	13,522	1,004,385	2,078,733	137,390	2,216,123
- Net profit for the year	-	-	-	-	-	-	-	446,862	446,862	10,971	457,833
- Other comprehensive income	-	-	-	(153,255)	632	3,697	-	-	(148,926)	(751)	(149,677)
Total comprehensive income after tax	-	-	-	(153,255)	632	3,697	-	446,862	297,936	10,220	308,156
Dividend paid	-	-	-	-	-	-	-	(100,000)	(100,000)	(4,568)	(104,568)
Other equity instruments issued	-	-	82,000	-	-	-	-	-	82,000	-	82,000
Transactions with non-controlling interests (note 3.)	-	-	-	(1,020)	67	(140)	-	8,230	7,137	(86,358)	(79,221)
Transfer of fair values reserve	-	-	-	-	-	(17)	-	17	-	-	-
Other	-	-	2,184	-	-	-	-	(2,405)	(221)	56	(165)
Balance as at 31 December 2022	**200,000**	**871,378**	**84,184**	**(142,909)**	**(16,485)**	**(1,194)**	**13,522**	**1,357,089**	**2,365,585**	**56,740**	**2,422,325**

in EUR thousands

NLB Group	Share capital	Share premium	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
			Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Notes	**5.20.**	**5.22.a)**	**5.22.b)**	**5.22.b)**	**5.22.b)**	**5.22.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**

Contents

in EUR thousands

NLB	Share capital	Share premium	Other equity instruments	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
Notes	**5.20.**	**5.22.a)**	**5.21.**	**5.22.b)**	**5.22.b)**	**5.22.a)**	**5.20.**	
Balance as at 1 January 2022	200,000	871,378	-	12,464	(3,696)	13,522	458,266	1,551,934
- Net profit for the year	-	-	-	-	-	-	159,602	159,602
- Other comprehensive income	-	-	-	(92,207)	1,762	-	-	(90,445)
Total comprehensive income after tax	-	-	-	(92,207)	1,762	-	159,602	69,157
Dividends paid	-	-	-	-	-	-	(100,000)	(100,000)
Other equity instruments issued	-	-	82,000	-	-	-	-	82,000
Other	-	-	2,184	-	-	-	(2,405)	(221)
Balance as at 31 December 2022	**200,000**	**871,378**	**84,184**	**(79,743)**	**(1,934)**	**13,522**	**515,463**	**1,602,870**

in EUR thousands

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
Notes	**5.20.**	**5.22.a)**	**5.22.b)**	**5.22.b)**	**5.22.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**

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 2022	NLB Group 2021	NLB 2022	NLB 2021
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		624,528	541,219	247,675	214,866
Interest paid		(50,824)	(69,578)	(30,982)	(43,343)
Dividends received		965	635	75,071	56,606
Fee and commission receipts		382,354	332,575	162,129	152,288
Fee and commission payments		(105,086)	(92,102)	(37,183)	(33,927)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss		3,365	171	1	24
Net gains/(losses) from financial assets and liabilities held for trading		32,799	21,563	12,073	5,404
Payments to employees and suppliers		(428,539)	(382,529)	(186,831)	(170,986)
Other receipts		19,148	27,516	10,159	17,723
Other payments		(43,260)	(51,129)	(11,955)	(16,026)
Income tax (paid)/received		(18,336)	(8,617)	3,635	(1,603)
Cash flows from operating activities before changes in operating assets and liabilities		**417,114**	**319,724**	**243,792**	**181,026**
(Increases)/decreases in operating assets		**(1,002,409)**	**(964,998)**	**(819,088)**	**(469,788)**
Net (increase)/decrease in trading assets		(213)	68,965	(213)	2,471
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		3,357	36,500	(3,048)	35,792
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		349,351	(57,015)	76,653	90,215
Net (increase)/decrease in loans and receivables measured at amortised cost		(1,357,757)	(1,020,944)	(890,003)	(598,138)
Net (increase)/decrease in other assets		2,853	7,496	(2,477)	(128)
Increases/(decreases) in operating liabilities		**468,473**	**2,108,374**	**620,902**	**1,589,861**
Net increase/(decrease) in deposits and borrowings measured at amortised cost		467,966	2,106,985	616,303	1,589,415
Net increase/(decrease) in other liabilities		507	1,389	4,599	446
Net cash flows from operating activities		**(116,822)**	**1,463,100**	**45,606**	**1,301,099**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**211,536**	**495,174**	**138,980**	**478,851**
Proceeds from sale of property, equipment, and investment property		19,675	5,077	2,915	12
Proceeds from sale of subsidiaries, net of cash and cash equivalents	5.12.d)	-	(47,832)	21,130	15,310
Proceeds from non-current assets held for sale		1,081	966	645	791
Proceeds from disposals of debt securities measured at amortised cost		190,780	536,963	114,290	462,738
Payments from investing activities		**(252,726)**	**(832,512)**	**(442,731)**	**(697,976)**
Purchase of property, equipment, and investment property		(26,910)	(23,013)	(5,748)	(9,093)
Purchase of intangible assets		(14,273)	(12,704)	(6,684)	(6,889)
Purchase of subsidiaries, net of cash acquired and increase in subsidiaries' equity	3., 5.12.b), c)	198,241	(24,437)	(120,944)	(40,046)
Increase in associates and joint ventures' equity		**-**	**(2,900)**	**-**	**(2,900)**
Purchase of debt securities measured at amortised cost		(409,784)	(769,458)	(309,355)	(639,048)
Net cash flows from investing activities		**(41,190)**	**(337,338)**	**(303,751)**	**(219,125)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financing activities		**599,338**	**-**	**598,902**	**-**
Issuance of subordinated bonds	5.15.c)	217,873	-	217,873	-
Issuance of Senior Preferred notes	5.15.c)	299,029	-	299,029	-
Issuance of ordinary shares and other equity instruments	5.21.	82,000	-	82,000	-
Other proceeds related to financing activities		436	-	-	-
Payments from financing activities		**(123,628)**	**(100,503)**	**(100,000)**	**(92,200)**
Dividends paid		(104,586)	(100,503)	(100,000)	(92,200)
Purchase of subsidiary's treasury shares		(19,042)	-	-	-
Net cash flows from financing activities		**475,710**	**(100,503)**	**498,902**	**(92,200)**
Effects of exchange rate changes on cash and cash equivalents		6,213	14,640	(1,106)	3,219
Net increase/(decrease) in cash and cash equivalents		**317,698**	**1,025,259**	**240,757**	**989,774**
Cash and cash equivalents at beginning of year		**5,176,311**	**4,136,412**	**3,254,784**	**2,261,791**
Cash and cash equivalents at end of year		**5,500,222**	**5,176,311**	**3,494,435**	**3,254,784**

The notes are an integral part of these financial statements.

					in EUR thousands
		NLB Group		NLB	
	Notes	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	5,272,538	5,005,946	3,339,381	3,250,784
Loans and advances to banks with original maturity up to three months		208,404	142,319	155,054	4,000
Debt securities measured at fair value through other comprehensive income with original maturity up to three months		19,280	28,046	-	-
Total		**5,500,222**	**5,176,311**	**3,494,435**	**3,254,784**

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 2022 and as at 31 December 2021, 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 2.34.

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 Statement of financial position as at 31 December 2021, the line item 'Subordinated liabilities' was renamed to 'Debt securities issued.' In years 2020 and 2021, all issued debt securities were subordinated liabilities, while in 2022 the Bank also issued Senior Preferred notes. All issued debt securities are included in one line item and separately disclosed in note 5.15.c).

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 the 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.

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.e).

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 a 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 the NLB Group level, most POCI exposures relate to the initial recognition of non-performing exposures in the case of a 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, the 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 the 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. The 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 the investment in the 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 the derecognition of a 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 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 2022, the NLB Group made improvements to the SICR (significant increase of credit risk) identification concept by including a watch list for retail clients.

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 a 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 is placed on the watch list.

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 the 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 several 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 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, or 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.

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

During 2022, 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

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baseline scenario presents a common forecast macroeconomic view for all countries that are present in the NLB Group. This scenario is constructed with the purpose to culminate various outlooks into a unified projection of macroeconomic and financial variables for the NLB Group. This is in line with the concept that the bank has a consolidated view on the future of economic development in Southeast Europe (SEE). The IFRS 9 baseline scenario is based on the most recent official and professional forecasters outputs, with additional specific adjustments for individual countries of the NLB Group.

The macroeconomic rationale behind the alternative scenarios is related to a range of plausible drivers on economic development during the next three years. The narrative for the alternative scenarios combines statistical techniques with expert knowledge as a means of concept and outputs validation. The Group developed both alternative scenarios through the lens of possible expected impact on regional economic activity. In general, the mild scenario is a demand-driven optimistic scenario, where limited supply disruption factors and an active role from the central banks help to brighten the economic conditions and economic subjects' confidence. This scenario narrates stronger economic growth, while the severe scenario envisions zero real economic growth for all NLB Group home countries. Namely, the severe scenario is supply-driven pessimistic scenario, where both upside inflation risk and downside growth risk materialize. The bank includes these scenarios in calculating expected credit losses in the context of IFRS 9.

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. 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. For the year 2022, we have initially assigned the scenario probability weights of 10% to the optimistic, 60% to the baseline, and 30% to the pessimistic scenarios.

The monitoring process of the macroeconomic environment revealed that uncertainties remain high in the global economy due to the energy crisis, inflation, and the war in Ukraine. The current economic situation led to sluggish growth projections, persistent inflationary pressures, and interest rate hikes. Increased uncertainty and changes in expectations of macroeconomic development affected forecasts for some economies in the NLB Group. The NLB Group noticed a material decrease in growth projections for Slovenia and Serbia for 2023. Hence, the executive decision was to adjust risk expectations using the scenario's weight. The Bank changed the scenario probability weighting set to 0%–10%–90%, where the severe and baseline scenarios reflect the likelihood of relevant future economic conditions for them. We have derived the likelihood of occurrence for the pessimistic scenario to 90%, whereby the baseline scenario received a weight of 10%. Minor changes were also applied in other countries based on the latest available forecast. These adjustments are adopted to reflect the risk expectations of credit management due to uncertain conditions in the macroeconomic environment. The Bank follows the conservative stance for the LGD parameter due to the particularities of the local market.

Macroeconomic scenarios for explanatory variables, developed for each country in the NLB Group (in %):

	Mild scenario			Baseline scenario			Severe scenario		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Slovenia									
Real GDP	4.7	5.5	4.0	3.5	3.1	2.8	1.5	0.6	1.8
Unemployment rate	4.3	4.2	4.0	4.4	4.4	4.3	4.6	5.6	7.9
Bosnia and Herzegovina									
Real GDP	4.0	4.9	4.6	2.4	2.3	3.0	(0.1)	(0.7)	1.8
Unemployment rate	15.3	15.1	14.4	15.3	15.1	14.4	15.4	15.8	16.4
Montenegro									
Real GDP	6.2	6.9	5.2	4.2	3.9	3.2	1.2	(0.1)	1.7
Unemployment rate	16.1	15.5	14.5	16.1	15.5	14.5	16.2	16.2	16.5
North Macedonia									
Real GDP	4.1	6.0	5.2	2.9	3.6	4.0	(0.1)	0.1	2.5
Unemployment rate	15.0	14.4	13.9	15.2	14.9	14.6	15.5	16.4	19.1
Serbia									
Real GDP	4.8	6.5	5.0	3.6	4.1	3.8	1.6	1.6	2.8
Unemployment rate	9.9	9.2	8.8	10.0	9.4	9.1	10.4	11.5	15.3
Kosovo									
Real GDP	4.4	6.5	5.1	2.8	3.9	3.5	0.3	0.9	2.3
Unemployment rate	23.6	22.6	21.8	23.6	22.6	21.8	23.7	23.3	23.8

Effects of changed risk parameters

The effects of the 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 a 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. When receivables from the client receive restructuring status, the debtor must be classified in the rating grade 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 when exposure is no longer considered as impaired or defaulted, when determined amounts were repaid, when 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, the 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.

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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. Other intangible assets acquired in a business combination (note 5.10.) relate to core deposits and trade name. Their useful life is assessed to be five 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 the 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.

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Right-of-use assets
At the commencement date, NLB Group measures the right-of-use asset at cost. The cost of right-of-use assets consists of the amount of lease liabilities recognised, the 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 (the asset is measured at cost, reduced by any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities) 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 most leases acquired in business combinations, 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 retained earnings. The corresponding interest is recognised directly in retained earnings.

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 and is recognised in the statement of financial position in the line item 'Provisions.' 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 2022 in Slovenia was 19% (2021: 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% (2021: 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 5.25.

Based on the requirements of Slovenian legislation, NLB Group has, in note 5.25., 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 salary, 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-based payment transactions

Cash-settled share-based payment transactions
If certain conditions are met, members of the Management Board and employees performing special work (i.e., those who can significantly impact the risk profile of the Group in the scope of their tasks and activities) receive part of their variable remuneration in the form of financial instruments, whose value is linked to the value of NLB share. Upon expiration of legally prescribed period (up to five years), beneficiaries receive cash payments depending on the value of a NLB share. The first contracts, including share-based payment transactions, were concluded in the second quarter of 2022.

In the statement of financial position, a liability is recognised in line 'Financial liabilities measured at fair value through profit or loss.' Its fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement line 'Gains less losses from financial liabilities measured at fair value through profit or loss.'

Equity-settled share-based payment transactions
NLB Group does not have any equity-settled share-based payment transactions.

2.32. 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 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 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.

2.33. Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the Management Board of the Bank, 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) and N Banka is allocated using a fund transfer pricing method and shown within the 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.

2.34. 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 the 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 escalation of geopolitical tension and a fragile supply. This scenario features a fall in output, growing inflationary pressures, and a sudden increase in interest rates that hampers the debtors' ability to repay.

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 188 million (2021: EUR 177 million), and an increase in the coverage of the credit portfolio by impairments by 1.02 percentage points (2021: 1.14 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.

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 2.3 and 4.0%;
- 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 13.1 and 22.2% (31 December 2021: between 9.66 and 15.88%).

For strategic NLB Group members in 2022 and 2021, there were no indications of impairment for equity investments. In 2022, NLB released previously formed impairment of equity investments in the amount EUR 23,388 thousand and impaired equity investments in non-core members in the amount of EUR 615 thousand (2021: EUR 458 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	
	2022	2021	2022	2021
Actuarial assumptions				
Discount factor	3.1% - 8.3%	0.5% - 4.3%	3.1%	0.6%
Wage growth based on inflation, promotions, and wage growth based on past years of service	2.3% - 14.2%	1.8% - 4.8%	3.0% - 7.0%	2.5% - 3.0%
Other assumptions				
Number of employees eligible for benefits	7,154	7,014	2,369	2,444

A sensitivity analysis of significant actuarial assumptions for post-employment benefit:

31 Dec 2022	NLB Group				NLB			
	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.
Impact on provisions for employee benefits - post-employment benefits (in %)	(4.7)	5.0	5.1	(4.8)	(4.5)	4.8	4.9	(4.7)

31 Dec 2021	NLB Group				NLB			
	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.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)

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	
	2022	2021	2022	2021
Actuarial gains and losses due to changed financial assumptions	4,093	251	1,759	292
Actuarial gains and losses due to changes in demographic assumptions	-	(1,211)	-	151
Actuarial gains and losses due to experience	(62)	(417)	289	(558)
Total actuarial gains and losses for the year	**4,031**	**(1,377)**	**2,048**	**(115)**

The weighted average duration of liabilities in years:

	NLB Group		NLB	
	2022	2021	2022	2021
Post-employment benefit	11.1 - 22.0	9.4 - 19.0	11.1	11.0

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e) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2022 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 five years) would change by 10%, the estimated amount of deferred tax assets would change by approximately EUR 3.4 million (notes 4.16. and 5.17.).

2.35. 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 2022.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2022 that were endorsed by the EU and adopted by NLB Group

- 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.
- 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. There is no impact on NLB Group's and NLB's financial statements.
- 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. There is no impact on NLB Group's and NLB's 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. There is no impact on NLB Group's and NLB's 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. There is no impact on NLB Group's and NLB's financial statements.

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 2022, 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.

- 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.

- 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.

- 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.

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 2024. 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: Non-current Liabilities with Covenants* is effective for annual periods beginning on or after 1 January 2024. The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants. The amendments also responded to stakeholders' concerns about the classification of such a liability as current or non-current. NLB Group and NLB do not expect an impact on their financial statements.

- IFRS 16 (amendment) – *Leases: Lease Liability in a Sale and Leaseback* is effective for annual periods beginning on or after 1 January 2024. The amendments affect only the subsequent measurement of lease liabilities arising from a sale and leaseback transaction with variable lease payments, which occurred from the date of initial application of IFRS 16 and for which the seller-lessee's accounting policy differs from the requirements specified in these amendments. NLB Group and NLB do not expect an impact on their financial statements.

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3. Changes in the composition of the NLB Group

Changes in 2022

Capital changes:

- In March 2022, in accordance with Resolution and Compulsory Winding-Up of Banks Act, NLB became an owner of 100% shares of Sberbank banka d.d., Ljubljana. The purchase price for the bank was EUR 5,109 thousand and was fully paid in cash (note 5.12.b). At the General Meeting of Shareholders of Sberbank banka d.d., Ljubljana, held in April 2022, a decision was made to rename Sberbank banka d.d., Ljubljana to 'N Banka d.d., Ljubljana.'
- In March 2022, Komercijalna banka a.d. Beograd bought 2.90% of all ordinary shares in the amount of EUR 19,047 thousand of treasury shares from dissenting shareholders, which Komercijalna banka a.d. Beograd should dispose of within 12 months of their takeover.
- In April 2022, NLB established IT services company named 'NLB DigIT d.o.o., Beograd.'
- In May 2022, NLB acquired an additional 442,799 ordinary shares of NLB Komercijalna banka a.d. Beograd and combined with existing shareholding reached the ownership of 90.2155% of the basic capital and 91.7294% of shares with voting rights. The increase in capital investment was recognised in the amount of EUR 15,715 thousand.
- In July 2022, NLB successfully squeezed out the remaining shareholders of NLB Komercijalna banka a.d. Beograd and thereby became the owner of 100% of this Serbian bank. Prior to the squeeze-out process, NLB owned 90.2155% of share capital and 91.7294% of voting rights. Through the squeeze-out process, NLB acquired 1,528,110 regular shares and 316,260 preferred shares with a total value of EUR 61,865 thousand.
- In September 2022, an increase in share capital in the form of a cash contribution in the amount of EUR 306 thousand in NLB Lease&Go, leasing, d.o.o., Ljubljana for the purpose of achieving NLB Group's leasing strategy.
- In September 2022, NLB Lease&Go, leasing, d.o.o., Ljubljana (51%) and NLB Banka a.d., Skopje (49%) established financial company named 'NLB Liz&Go d.o.o. Skopje.' In December 2022, the company was renamed to 'NLB Lease&Go d.o.o. Skopje.'
- In November 2022, NLB Lease&Go, leasing, d.o.o., Ljubljana became an owner of 95.20% of financial company 'Zastava Istrabenz Lizing, d.o.o., Beograd.' The purchase price for the company was EUR 1,036 thousand and was fully paid in cash (note 5.12.c). In January 2023, the company was renamed to 'NLB Lease&Go leasing d.o.o. Beograd.'
- In December 2022, an increase in share capital in the form of a cash contribution in the amount of EUR 2,100 thousand in NLB Lease&Go, leasing, d.o.o., Ljubljana for the purpose of achieving NLB Group's leasing strategy.
- In December 2022, an increase in share capital in the form of a cash contribution in the amount of EUR 21,130 thousand in S-REAM d.o.o., Ljubljana for the purpose of consolidation of real estate companies in Slovenia.

Other changes:

- After obtaining all regulatory licenses, as well as by registering the merger with the Business Registers Agency, the integration process of Komercijalna banka a.d. Beograd and NLB Banka a.d., Beograd, was successfully completed. From 30 April 2022, the bank operates under the new name NLB Komercijalna banka a.d. Beograd. Based on the merger of NLB Banka a.d., Beograd to Komercijalna banka a.d. Beograd as the acquirer, NLB Komercijalna Banka a.d. Beograd is its universal legal successor.
- In November 2022, NLB Komercijalna banka a.d. Beograd sold its 23.97% ownership interest in NLB Banka a.d., Podgorica to NLB.
- In December 2022, NLB sold its 100% ownership interest in PRO-REM d.o.o., Ljubljana – v likvidaciji to S-REAM d.o.o., Ljubljana.

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, the 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.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

	NLB Group		NLB	in EUR thousands
	2022	2021	2022	2021
Interest and similar income				
Interest income calculated using the effective interest method	561,467	467,500	214,163	170,002
Financial assets measured at fair value through other comprehensive income	38,840	40,347	11,215	11,733
Securities measured at amortised cost	16,791	14,049	11,431	10,150
Deposits with banks and central banks	12,067	239	10,868	101
Loans and advances to banks measured at amortised cost	3,770	416	6,106	3,937
Loans and advances to customers at amortised cost	489,999	412,449	174,543	144,081
Other interest and similar income	8,309	10,329	7,799	9,183
Financial assets held for trading	3,732	4,757	3,352	4,455
Non-trading financial assets mandatorily at fair value through profit or loss	48	780	166	744
Negative interest	3,966	3,980	3,718	3,981
Derivatives - hedge accounting	559	-	559	-
Other	4	812	4	3
Total	**569,776**	**477,829**	**221,962**	**179,185**
Interest and similar expenses				
Interest expenses calculated using the effective interest method	43,785	40,460	27,373	15,297
Deposits from banks and central banks	795	865	692	6
Borrowings from banks and central banks	1,236	1,797	617	1,647
Due to customers	19,464	25,575	5,116	3,067
Borrowings from other customers	939	1,205	-	-
Subordinated liabilities	12,737	10,548	12,737	10,548
Debt securities issued	8,183	-	8,183	-
Lease liabilities (note 5.11.a)	431	470	28	29
Other interest and similar expenses	21,069	28,009	17,562	24,749
Derivatives - hedge accounting	7,468	10,279	7,468	10,279
Negative interest	9,301	12,711	6,793	9,845
Financial liabilities held for trading	3,497	4,222	3,144	4,222
Interest expenses on defined employee benefits (note 2.30., 5.16.c)	374	202	144	48
Other	429	595	13	355
Total	**64,854**	**68,469**	**44,935**	**40,046**
Net interest income	**504,922**	**409,360**	**177,027**	**139,139**

The item 'Negative interest' classified under the line item 'Other interest and similar income' mainly includes the interest from targeted longer-term refinancing operations (TLTRO) in the amount of EUR 3,902 thousand for NLB Group (2021: EUR 3,979 thousand) and EUR 3,677 thousand for NLB (2021: EUR 3,979 thousand) (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 8,746 thousand for NLB Group (2021: EUR 11,692 thousand), and EUR 6,238 thousand for NLB (2021: EUR 8,826 thousand). It also includes interest from deposits with financial organisations in the amount of EUR 186 thousand for NLB Group and NLB (2021: EUR 336 thousand), and interest from securities with a negative yield in the amount of EUR 369 thousand for NLB Group and NLB (2021: EUR 683 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.

4.2. Dividend income

	NLB Group		NLB	in EUR thousands
	2022	2021	2022	2021
Financial assets measured at fair value through other comprehensive income	173	184	-	-
- related to investments held at the end of reporting period	173	184	-	-
Investments in subsidiaries	-	-	55,244	79,136
Investments in associates and joint ventures	-	-	754	441
Non-trading financial assets mandatorily at fair value through profit or loss	69	39	46	39
Total	**242**	**223**	**56,044**	**79,616**

4.3. Fee and commission income and expenses

a) Fee and commission income and expenses relating to activities of NLB Group and NLB

	NLB Group		NLB	in EUR thousands
	2022	2021	2022	2021
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	113,358	93,644	44,476	38,389
Customer transaction accounts	89,277	90,212	52,120	57,147
Other fee and commission income				
Payments	94,035	77,248	24,005	22,751
Investment funds	29,640	27,095	9,034	8,694
Guarantees	16,417	13,918	8,418	7,831
Agency of insurance products	10,511	8,642	7,973	7,010
Other services	17,336	10,445	11,019	4,484
Total	**370,574**	**321,204**	**157,045**	**146,306**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	78,291	67,860	28,390	27,952
Other fee and commission expenses				
Payments	13,812	11,567	1,148	917
Insurance for holders of personal accounts and gold cards	1,335	3,650	841	1,015
Investment banking	4,036	3,468	944	664
Guarantees	1,713	1,026	1,580	957
Other services	5,594	4,535	917	808
Total	**104,781**	**92,106**	**33,820**	**32,313**
Net fee and commission income related to banking activities	**265,793**	**229,098**	**123,225**	**113,993**

b) Fee and commission income and expenses relating to fiduciary activities

				in EUR thousands
	NLB Group		NLB	
	2022	2021	2022	2021
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,928	1,942	1,657	1,655
Management of financial instruments portfolio	1,601	2,118	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	143	264	143	264
Custody and similar services	5,150	5,290	5,426	5,247
Management of clients' account of non-materialised securities	1,696	1,595	1,696	1,595
Safe-keeping of clients' financial instruments	34	26	-	-
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	473	150	473	150
Total	**11,025**	**11,385**	**9,395**	**8,911**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	3,374	3,188	3,377	3,191
Fee and commission related to stock exchange and similar organisations	94	119	94	119
Total	**3,468**	**3,307**	**3,471**	**3,310**
Net fee income related to fiduciary activities	**7,557**	**8,078**	**5,924**	**5,601**
Total fee and commission income	**381,599**	**332,589**	**166,440**	**155,217**
Total fee and commission expenses	**108,249**	**95,413**	**37,291**	**35,623**
Total a) and b)	**273,350**	**237,176**	**129,149**	**119,594**

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	
	2022	2021	2022	2021
Debt instruments measured at fair value through other comprehensive income				
- gains	96	171	-	24
- losses	(1,764)	(4)	(316)	-
Debt instruments measured at amortised cost				
- gains	3,269	-	1	-
- losses	(735)	-	(735)	-
Total	**866**	**167**	**(1,050)**	**24**

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4.5. Gains less losses from financial assets and liabilities held for trading

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Foreign exchange trading				
- gains	43,213	28,160	19,388	10,799
- losses	(13,988)	(7,114)	(11,465)	(5,795)
Debt instruments				
- gains	237	776	195	460
- losses	(175)	(616)	(175)	(571)
Derivatives				
- currency	3,636	(199)	2,768	(484)
- interest rate	512	749	605	749
- securities	16	(562)	16	(562)
Total	**33,451**	**21,194**	**11,332**	**4,596**

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	
	2022	2021	2022	2021
Equity securities				
- gains	3,481	2,208	2,699	1,157
- losses	(3,162)	(1,049)	(1,925)	(855)
Debt securities				
- gains	70	5	-	-
- losses	(299)	(63)	-	-
Loans and advances to customers				
- gains	-	15,737	(2,225)	13,190
Total	**90**	**16,838**	**(1,451)**	**13,492**

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 the 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.).

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4.7. Foreign exchange translation gains less losses

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Financial assets and liabilities not measured as at fair value through profit or loss	(95)	359	(1,980)	714
Financial assets measured at fair value through profit or loss	(11)	37	(11)	37
Other	403	(51)	403	(51)
Total	**297**	**345**	**(1,588)**	**700**

4.8. Other net operating income

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Other operating income				
Income from non-banking services	6,952	6,528	6,367	5,884
- cash transportation	3,327	3,241	3,383	3,250
- operating leases of movable property	1,252	1,074	475	471
- IT services	254	426	1,020	1,098
- other	2,119	1,787	1,489	1,065
Rental income from investment property	2,912	3,558	459	567
Revaluation of investment property to fair value (note 5.9.)	3,766	4,447	85	411
Sale of investment property	2,450	778	393	-
Other operating income	7,366	14,335	2,912	10,633
Total	**23,446**	**29,646**	**10,216**	**17,495**
Other operating expenses				
Expenses related to issued service guarantees	451	453	451	453
Revaluation of investment property to fair value (note 5.9.)	674	858	1	105
Other operating expenses	5,543	5,114	5,353	3,190
Total	**6,668**	**6,425**	**5,805**	**3,748**
Other net operating income	**16,778**	**23,221**	**4,411**	**13,747**

Other operating expenses mainly include expenses associated with donations, penalties and damages, and licences.

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.

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4.9. Administrative expenses

				in EUR thousands
	NLB Group		NLB	
	2022	2021	2022	2021
Employee costs				
Gross salaries, compensations, and other short-term benefits	230,277	205,821	104,278	94,433
Defined contribution scheme	16,343	15,065	7,217	6,891
Social security contributions	11,404	10,363	6,002	5,715
Defined benefit expenses (note 5.16.c)	(365)	73	(207)	(59)
Post-employment benefits	(82)	126	(38)	(27)
Other employee benefits	(283)	(53)	(169)	(32)
Total	**257,659**	**231,322**	**117,290**	**106,980**
Other general and administrative expenses				
Material	6,091	5,806	1,529	1,521
Services	47,053	40,193	24,748	17,896
Intellectual services	20,393	16,504	9,932	5,468
Costs of supervision	5,422	4,628	3,325	2,493
Costs of other services	21,238	19,061	11,491	9,935
Tax expenses	4,096	7,584	956	932
Membership fees and similar	833	823	322	307
Business travel	1,230	502	326	129
Marketing	15,340	11,407	7,916	5,641
Buildings and equipment	33,092	27,085	15,230	11,676
Electricity	10,212	5,960	5,740	2,357
Rents and leases	2,079	1,928	273	283
Maintainance costs	8,846	7,450	4,335	4,347
Costs of security	6,181	6,015	1,935	1,821
Insurance for tangible assets	689	851	156	166
Other costs related to buildings and equipment	5,085	4,881	2,791	2,702
Technology	32,735	30,599	16,349	15,107
Maintainance of software and hardware	15,792	12,949	6,140	6,053
Licences	9,725	9,895	6,760	6,332
Data assets and subscription costs	3,022	2,518	1,876	1,655
Other technology costs	4,196	5,237	1,573	1,067
Communications	11,146	11,377	4,423	4,770
Postal services	4,043	4,859	2,612	2,935
Telecommunication and internet	4,717	4,131	649	669
Other communication costs	2,386	2,387	1,162	1,166
Other general and administrative costs	3,611	2,153	1,776	1,120
Total	**155,227**	**137,529**	**73,575**	**59,099**
Total administrative expenses	**412,886**	**368,851**	**190,865**	**166,079**
Number of employees	8,228	8,185	2,418	2,510

Costs of other services include costs for cash transport, administrative legal costs, other insurances and session fees to the members of the Supervisory Board.

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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	
	2022	2021	2022	2021
External audit services				
Audit of annual report	750	679	275	232
Other non-audit services	412	195	287	153
Total	**1,162**	**874**	**562**	**385**

Additionally, to the services included in the table above, the statutory auditor in 2022 performed also some services related to the issuance of bonds in the amount of EUR 151 thousand (2021: EUR 325 thousand).

4.10. Cash contributions to resolution funds and deposit guarantee schemes

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Cash contributions to deposit guarantee schemes	33,884	33,148	7,614	7,543
Cash contributions to resolution funds	2,260	1,992	2,099	1,992
Total	**36,144**	**35,140**	**9,713**	**9,535**

4.11. Depreciation and amortisation

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Amortisation of intangible assets (note 5.10.)	15,757	16,211	5,769	6,022
Depreciation of property and equipment:				
- own property and equipment (note 5.8.b)	22,941	21,607	10,260	10,610
- right-of-use assets (note 5.11.a)	8,692	8,710	972	890
Total	**47,390**	**46,528**	**17,001**	**17,522**

4.12. Gains less losses from modification of financial assets

in EUR thousands

	2022				2021			
NLB Group	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
Financial assets modified during the period								
Amortised cost before modification	1,046	1,361	698	3,105	15,569	5,259	4,435	25,263
Net modification gains/(losses)	(56)	5	25	(26)	(48)	(12)	(203)	(263)

in EUR thousands

NLB Group	31 Dec 2022	31 Dec 2021
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

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4.13. Provisions

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Guarantees and commitments (note 5.16.b)	3,050	(8,504)	(282)	(8,028)
Restructuring provisions (note 5.16.d)	10,325	14,797	-	-
Provisions for legal risks (note 5.16.e)	1,645	7,873	125	72
Other provisions (note 5.16.f)	(6,038)	-	2,200	-
Total	**8,982**	**14,166**	**2,043**	**(7,956)**

4.14. Impairment charge

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(6,600)	117	10	89
Loans and advances to banks measured at amortised cost (note 5.14.a)	67	57	34	27
Loans and advances to individuals measured at amortised cost (note 5.14.a)	17,140	13,414	13,523	6,830
Loans and advances to other customers measured at amortised cost (note 5.14.a)	(2,629)	(44,639)	(4,744)	(24,840)
Debt securities measured at fair value through other comprehensive income (note 5.14.b)	3,870	2,854	5,826	(148)
Debt securities measured at amortised cost (note 5.14.b)	474	(383)	161	(17)
Other financial assets measured at amortised cost (note 5.14.a)	2,132	1,249	158	(8)
Total impairment of financial assets	**14,454**	**(27,331)**	**14,968**	**(18,067)**
Impairment of investments in subsidiaries, associates and joint ventures				
Investments in subsidiaries	-	-	(22,685)	(7,522)
Investments in associates and joint ventures	-	-	(88)	79
Total	**-**	**-**	**(22,773)**	**(7,443)**
Impairment of other assets				
Property and equipment (note 5.8.)	1,620	216	-	-
Intangible assets (note 5.10.)	-	936	-	-
Other assets	3,813	3,255	6	(104)
Total	**5,433**	**4,407**	**6**	**(104)**
Total impairment of non-financial assets	**5,433**	**4,407**	**(22,767)**	**(7,547)**
Total impairment	**19,887**	**(22,924)**	**(7,799)**	**(25,614)**

Impairment of financial assets in 2022 includes EUR 8,900 thousand of 12-month expected credit losses for Stage 1 financial assets, acquired through a business combination (note 5.12.b). Of that, EUR 8,894 thousand relates to financial assets measured at amortised cost, EUR 5 thousand to financial assets measured at fair value through other comprehensive income, and EUR 1 thousand to cash balances at central banks and other demand deposits at banks.

Impairment of debt securities measured at fair value through other comprehensive income in 2022 relates mainly to impairment of Russian sovereign debt, which was sold in February 2023 (note 5.4.).

In 2022, NLB impaired equity investment in non-core subsidiary in amount of EUR 615 thousand. The release of impairments relates to equity investments in subsidiaries and an associate in total amount of EUR 23,388 thousand.

In 2021, NLB impaired equity investments in non-core subsidiaries and an associate in total amount of EUR 458 thousand. The release of impairments in amount of EUR 7,901 thousand relates to sale of non-core subsidiary (note 3.).

4.15. Gains less losses from non-current assets held for sale

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Gains less losses from property and equipment	921	248	168	(94)
Total	**921**	**248**	**168**	**(94)**

4.16. Income tax

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Current income tax	26,753	16,961	5,992	3,159
Deferred income tax (note 5.17.)	(1,523)	(3,423)	(1,524)	(112)
Total	**25,230**	**13,538**	**4,468**	**3,047**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Profit before tax	483,063	261,406	164,070	211,468
Tax calculated at prescribed rate of 19%	91,782	49,667	31,173	40,179
Income not assessable for tax purposes	(45,791)	(12,685)	(10,387)	(14,900)
Expenses not deductible for tax purposes	7,246	6,510	1,488	1,160
Effect of unrecognised deferred tax assets on impairments of subsidiaries and associates	(7,518)	(32,036)	(11,818)	(36,446)
Tax reliefs	(4,132)	(463)	(2,792)	-
Effect of unrecognised deferred tax assets on tax losses	(12,963)	10,675	(4,641)	9,886
Effects of different tax rates in other countries	(4,535)	(11,345)	-	-
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	1,617	3,156	1,617	3,156
Adjustment to tax in respect of prior periods	(282)	50	-	3
Other	(194)	9	(172)	9
Total	**25,230**	**13,538**	**4,468**	**3,047**

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 ranges from 9 to 32%.

A tax rate of 19% was applied in Slovenia in 2022 (2021: 19%).

Non-taxable income of NLB relates mostly to dividends. Non-taxable dividend income in 2022 amounts to EUR 53,242 thousand (2021: EUR 75,635 thousand).

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.

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.

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 the 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 2022, calculated as a ratio of the tax expenses and profit before tax is 5.2% (2021: 5.2%). The effective tax rate for NLB is 2.7% (2021: 1.4%).

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 bonds and other issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2022	2021	2022	2021
Net profit attributable to the owners of the parent (in EUR thousands)	446,862	236,404	159,602	208,421
Weighted average number of ordinary shares (in thousands)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	22.3	11.8	8.0	10.4
Diluted earnings per share (in EUR per share)	22.3	11.8	8.0	10.4

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Balances and obligatory reserves with central banks	4,536,526	4,133,104	3,104,442	2,982,576
Cash	489,197	509,596	180,483	178,045
Demand deposits at banks	246,815	363,246	54,456	90,163
	5,272,538	**5,005,946**	**3,339,381**	**3,250,784**
Allowance for impairment	(1,173)	(894)	(357)	(347)
Total	**5,271,365**	**5,005,052**	**3,339,024**	**3,250,437**

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.

5.2. Financial instruments held for trading

a) Financial assets held for trading

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Derivatives, excluding hedging instruments				
Swap contracts	16,169	6,665	16,274	6,675
- currency swaps	743	438	849	448
- interest rate swaps	15,426	6,227	15,425	6,227
Options	2,312	54	2,312	54
- interest rate options	2,295	53	2,295	53
- securities options	17	1	17	1
Forward contracts	2,904	959	2,903	953
- currency forward	2,904	959	2,903	953
Total derivatives	**21,385**	**7,678**	**21,489**	**7,682**
Securities				
Treasury bills	203	-	203	-
Total securities	**203**	**-**	**203**	**-**
Total	**21,588**	**7,678**	**21,692**	**7,682**
- quoted securities	203	-	203	-
of these debt instruments	*203*	-	*203*	-

The notional amounts of derivative financial instruments are disclosed in note 5.24.b).

b) Financial liabilities held for trading

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Derivatives, excluding hedging instruments				
Swap contracts	15,903	6,609	16,535	6,626
- currency swaps	1,550	716	1,963	733
- interest rate swaps	14,353	5,893	14,572	5,893
Options	2,800	53	2,742	53
- interest rate options	2,800	53	2,742	53
Forward contracts	2,886	923	2,873	923
- currency forward	2,886	923	2,873	923
Total	**21,589**	**7,585**	**22,150**	**7,602**

The notional amounts of derivative financial instruments are disclosed in note 5.24.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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Assets				
Shares	5,579	4,472	5,211	4,472
Investment funds	10,336	12,428	2,308	-
Bonds	3,116	4,261	-	-
Loans and advances to companies	-	-	7,892	7,888
Total	**19,031**	**21,161**	**15,411**	**12,360**
- quoted securities	3,484	4,261	-	-
of these equity instruments	368	-	-	-
of these debt instruments	3,116	4,261	-	-
- unquoted securities	15,547	16,900	7,519	4,472
of these equity instruments	15,547	16,900	7,519	4,472

As at 31 December 2022, the value of assets received by taking possession of collateral and included in financial assets mandatorily at fair value through profit or loss by NLB Group amounted to EUR 368 thousand. As at 31 December 2022 and as at 31 December 2021, NLB did not have any assets received by taking possession of collateral and included in financial assets mandatorily at fair value through profit or loss (note 6.1.l).

b) Financial liabilities measured at fair value through profit or loss

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Liabilities				
Loans and advances to companies	-	-	1,786	352
Other financial liabilities (note 2.31.)	1,796	-	728	-
Total	**1,796**	**-**	**2,514**	**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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Bonds	2,506,224	3,191,280	1,196,760	1,526,237
- governments	1,895,891	2,416,739	586,427	766,688
- Republic of Slovenia	269,853	314,929	199,224	270,423
- other EU members	271,464	406,315	253,346	331,676
- Republic of Serbia	898,531	1,196,724	3,913	5,021
- other non-EU members	456,043	498,771	129,944	159,568
- banks	578,552	739,935	578,552	724,943
- other issuers	31,781	34,606	31,781	34,606
Shares	22,285	22,109	269	219
National Resolution Fund	58,122	44,490	42,515	44,490
Treasury bills	310,748	166,412	94,517	14,805
- Republic of Slovenia	52,723	6,475	32,908	-
- other EU members	170,382	125,980	10,888	14,805
- other non-EU members	87,643	33,957	50,721	-
Commercial bills	21,824	37,569	-	-
Total	**2,919,203**	**3,461,860**	**1,334,061**	**1,585,751**
of these debt securities	2,838,796	3,395,261	1,291,277	1,541,042
of these equity securities	80,407	66,599	42,784	44,709
Allowance for impairment (note 5.14.b)	(15,876)	(12,016)	(8,799)	(3,001)
- quoted securities	2,612,330	3,205,277	1,291,277	1,541,042
of these debt instruments	2,593,533	3,204,745	1,291,277	1,541,042
of these equity instruments	18,797	532	-	-
- unquoted securities	306,873	256,583	42,784	44,709
of these debt instruments	245,263	190,516	-	-
of these equity instruments	61,610	66,067	42,784	44,709

As at 31 December 2022, bonds at the NLB Group and NLB level include Russian government bonds maturing in September 2023, with a notional amount of USD 8,000 thousand (EUR 7,500 thousand). Their fair value as at 31 December 2022 is assessed to be EUR 2,026 thousand (31 December 2021: EUR 7,531 thousand), while the impairment for these bonds amounts to EUR 5,979 thousand (31 December 2021: EUR 19 thousand). In February 2023, NLB sold these bonds and released impairments in the amount of EUR 4,299 thousand.

As at 31 December 2021, NLB Group and NLB also held Russian government bonds with a notional amount of USD 14,000 thousand, which was fully repaid in May 2022.

NLB Group and NLB do not have any other direct exposures towards Russia.

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).

b) Movements of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	2022		2021		2022		2021	
	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities
Balance as at 1 January	3,395,261	66,599	3,446,491	67,799	1,541,042	44,709	1,671,204	45,147
Effects of translation of foreign operations to presentation currency	1,358	30	1,194	31	-	-	-	-
Acquisition of subsidiaries (note 5.12.b)	53,223	16,164	-	-	-	-	-	-
Additions	1,699,839	-	1,455,823	-	290,245	-	219,733	-
Derecognition	(2,141,377)	-	(1,468,240)	(4,297)	(414,666)	-	(338,929)	(55)
Net interest income	38,471	-	40,310	-	10,846	-	11,696	-
Exchange differences on monetary assets	3,104	-	8,367	-	4,484	-	8,452	-
Changes in fair values	(211,083)	(2,386)	(52,085)	3,066	(140,674)	(1,925)	(31,114)	(383)
Disposal of subsidiary (note 5.12.d)	-	-	(36,599)	-	-	-	-	-
Balance as at 31 December	**2,838,796**	**80,407**	**3,395,261**	**66,599**	**1,291,277**	**42,784**	**1,541,042**	**44,709**

As at 31 December 2022, and as at 31 December 2021, 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. The realised gain in year 2021 was transferred to 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			
	2022		2021		2022		2021	
	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities
Balance as at 1 January	7,481	3,257	39,924	3,726	12,365	99	27,242	452
Effects of translation of foreign operations to presentation currency	(12)	3	(7)	6	-	-	-	-
Disposal of subsidiaries (note 5.12.d)								
- valuation and impairment	-	-	(1,916)	-	-	-	-	-
- deferred income tax (note 5.17.)	-	-	193	-	-	-	-	-
Net gains/(losses) from changes in fair value	(168,581)	(2,386)	(38,158)	3,066	(98,172)	(1,925)	(17,187)	(383)
Gains/losses transferred to net profit on disposal (note 4.4.)	1,668	-	(167)	-	316	-	(24)	-
Impairment (note 4.14.)	3,870	-	2,854	-	5,826	-	(148)	-
Transfer of gains/losses to retained earnings (note 5.4.b)	-	-	-	(3,362)	-	-	-	(53)
Deferred income tax (note 5.17.)	10,996	458	4,758	(179)	1,382	366	2,482	83
Balance as at 31 December	**(144,578)**	**1,332**	**7,481**	**3,257**	**(78,283)**	**(1,460)**	**12,365**	**99**

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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 (i.e., 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	2022	2021
Fair value hedge	**1,655**	**167**
Net effects from hedging instruments	89,894	26,406
- interest rate swap for micro hedge	57,981	19,547
- interest rate swap for macro hedge	31,913	6,859
Net effects from hedged items	(88,239)	(26,239)
- loans measured at amortised cost - micro hedge	(57)	(105)
- bonds measured at amortised cost - micro hedge	(14,834)	(5,443)
- bonds measured at fair value through OCI - micro hedge	(42,499)	(13,929)
- loans measured at amortised cost- macro hedge	(30,849)	(6,762)

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 2022 and 2021, 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 5.22.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 2022	644,132	59,362	2,124
31 Dec 2021	572,455	568	35,377

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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

NLB Group and NLB	2022 Carrying amount of hedged items	2022 Accumulated amount of FV adjustments on the hedged item	2021 Carrying amount of hedged items	2021 Accumulated amount of FV adjustments on the hedged item
Micro fair value hedges	**371,431**	**(33,923)**	**479,574**	**23,783**
Fixed rate corporate loans measured at AC	573	3	1,662	60
Fixed rate bonds measured at AC	108,979	(6,721)	117,368	8,426
Fixed rate bonds measured at FVOCI	261,879	(27,205)	360,544	15,297
Macro fair value hedges	**153,594**	**(23,767)**	**145,638**	**7,082**
Fixed rate retail loans	153,594	(23,767)	145,638	7,082

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 in the past few years 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 *(possible)* discontinuation

Due to the 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 also expected to include fallback provisions 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 finished 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.

The table below indicates the notional 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.

in EUR thousands

NLB Group and NLB	2022 Notional amount (in EUR thousands)	2022 Weighted average maturity (years)	2021 Notional amount (in EUR thousands)	2021 Weighted average maturity (years)
Interest rate swaps				
EURIBOR (3 months)	280,981	10.01	186,472	4.23
EURIBOR (6 months)	355,651	6.06	371,866	7.00
USD LIBOR (6 months)	7,500	0.71	14,117	0.98

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 2022, derivatives with remaining maturity of five or more years amount to EUR 295,580 thousand (31 December 2021: EUR 272,730 thousand).

5.6. Financial assets measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Debt securities	1,917,615	1,717,626	1,597,448	1,436,424
Loans and advances to banks	222,965	140,683	350,625	199,287
Loans and advances to customers	13,072,986	10,587,121	6,054,413	5,145,153
Other financial assets	177,823	122,229	114,399	92,404
Total	**15,391,389**	**12,567,659**	**8,116,885**	**6,873,268**

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Governments	1,486,496	1,317,248	1,184,601	1,041,787
Companies	84,979	79,852	64,913	72,632
Banks	323,944	295,653	323,944	295,653
Financial organisations	25,980	28,178	25,980	28,178
	1,921,399	**1,720,931**	**1,599,438**	**1,438,250**
Allowance for impairment (note 5.14.b)	(3,784)	(3,305)	(1,990)	(1,826)
Total	**1,917,615**	**1,717,626**	**1,597,448**	**1,436,424**

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b) Loans and advances to banks

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Loans	782	10,200	127,717	117,490
Time deposits	118,241	130,602	221,271	81,900
Reverse sale and repurchase agreements	102,358	-	-	-
Purchased receivables	1,853	79	1,853	79
	223,234	**140,881**	**350,841**	**199,469**
Allowance for impairment (note 5.14.a)	(269)	(198)	(216)	(182)
Total	**222,965**	**140,683**	**350,625**	**199,287**

c) Loans and advances to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Loans	12,626,259	10,310,300	5,873,443	5,006,871
Overdrafts	425,135	352,018	208,499	174,063
Finance lease receivables (note 5.11.b)	193,948	108,715	-	-
Credit card business	148,870	129,330	64,460	59,305
Called guarantees	2,772	2,731	1,423	1,333
	13,396,984	**10,903,094**	**6,147,825**	**5,241,572**
Allowance for impairment (note 5.14.a)	(323,998)	(315,973)	(93,412)	(96,419)
Total	**13,072,986**	**10,587,121**	**6,054,413**	**5,145,153**

Analysis of loans and advances to customers by sector

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Governments	303,443	281,010	124,736	143,864
Financial organisations	116,078	141,709	286,504	226,144
Companies	6,031,795	4,645,112	2,606,674	2,118,210
Individuals	6,621,670	5,519,290	3,036,499	2,656,935
Total	**13,072,986**	**10,587,121**	**6,054,413**	**5,145,153**

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d) Other financial assets

Analysis by type of other financial assets

	NLB Group		NLB	in EUR thousands
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Receivables in the course of settlement and other temporary accounts	36,712	40,436	19,370	23,945
Credit card receivables	41,364	22,670	30,544	15,270
Debtors	8,516	8,227	2,710	1,311
Fees and commissions	8,737	7,303	2,359	3,041
Receivables to brokerage firms and others for the sale of securities and custody services	31,587	613	31,081	610
Accrued income	3,390	1,715	3,413	1,690
Dividends	-	-	-	20,493
Prepayments	2,563	1,526	-	-
Other financial assets	53,988	45,965	25,935	27,197
	186,857	**128,455**	**115,412**	**93,557**
Allowance for impairment (note 5.14.a)	(9,034)	(6,226)	(1,013)	(1,153)
Total	**177,823**	**122,229**	**114,399**	**92,404**

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 in the amount of EUR 23,464 thousand (31 December 2021: EUR 22,192 thousand) relate to a receivable recognised in accordance with the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (note 5.16.a). The remaining balance includes claims for securities and trust services, claims arising from re-invoicing costs and claims to pension funds for early retirement payments.

Analysis of other financial assets by sector

	NLB Group		NLB	in EUR thousands
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Banks	38,362	33,325	11,918	34,131
Government	78,285	43,432	55,708	23,769
Financial organisations	23,644	15,979	17,578	12,818
Companies	6,368	5,994	670	647
Individuals	31,164	23,499	28,525	21,039
Total	**177,823**	**122,229**	**114,399**	**92,404**

e) Movement of called non-financial guarantees

	NLB Group		NLB	in EUR thousands
	2022	2021	2022	2021
Balance as at 1 January	717	1,838	420	440
Effects of translation of foreign operations to presentation currency	1	(1)	-	-
Called guarantees	891	1,541	82	1,207
Paid guarantees	(1,087)	(1,904)	(287)	(470)
Write-offs	(125)	(757)	(125)	(757)
Balance as at 31 December	**397**	**717**	**90**	**420**

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 2022, 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 651 thousand (31 December 2021: EUR 699 thousand). As at 31 December 2022, and as at 31 December 2021, 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	
	2022	2021	2022	2021
Balance as at 1 January	7,051	8,658	4,089	4,454
Effects of translation of foreign operations to presentation currency	9	3	-	-
Additions	-	97	-	-
Transfer from/(to) property and equipment (note 5.8.)	8,226	605	617	518
Transfer from/(to) other assets	-	20	-	-
Transfer from/(to) investment property (note 5.9.)	-	(22)	-	-
Disposals	(637)	(1,952)	(532)	(547)
Valuation	787	(358)	61	(336)
Balance as at 31 December	**15,436**	**7,051**	**4,235**	**4,089**

5.8. Property and equipment

a) Analysis by type

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Own property and equipment	228,944	223,593	75,262	82,905
Right-of-use assets (note 5.11.)	22,372	23,421	3,330	3,217
Total	**251,316**	**247,014**	**78,592**	**86,122**

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 2022	346,858	80,131	94,729	5,609	527,327	195,852	43,899	46,143	3,519	289,413
Effects of translation of foreign operations to presentation currency	39	13	3	-	55	-	-	-	-	-
Acquisition of subsidiaries (note 5.12.b) c)	4,552	818	1,154	-	6,524					
Additions	8,118	13,508	10,767	4,262	36,655	1,448	3,072	1,420	271	6,211
Disposals	(1,242)	(9,595)	(11,550)	(567)	(22,954)	-	(4,791)	(3,780)	(68)	(8,639)
Reversal of impairment (note 4.14.)	79	-	-	-	79	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(1,358)	-	(28)	-	(1,386)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(9,794)	-	-	-	(9,794)	(1,615)	-	-	-	(1,615)
Balance as at 31 December 2022	**347,252**	**84,875**	**95,075**	**9,304**	**536,506**	**195,685**	**42,180**	**43,783**	**3,722**	**285,370**
Depreciation and impairment										
Balance as at 1 January 2022	172,160	53,833	74,415	3,326	303,734	135,514	30,087	37,782	3,125	206,508
Effects of translation of foreign operations to presentation currency	(3)	7	4	-	8	-	-	-	-	-
Disposals	(1,109)	(9,608)	(8,084)	(134)	(18,935)	-	(4,713)	(904)	(45)	(5,662)
Depreciation (note 4.11.)	7,030	9,108	5,979	824	22,941	3,748	4,245	2,013	254	10,260
Impairment (note 4.14.)	1,699	-	-	-	1,699	-	-	-	-	-
Transfer to/from investment property (note 5.9.)	(313)	-	(4)	-	(317)	-	-	-	-	-
Transfer to/from non-current assets held for sale (note 5.7.)	(1,568)	-	-	-	(1,568)	(998)	-	-	-	(998)
Balance as at 31 December 2022	**177,896**	**53,340**	**72,310**	**4,016**	**307,562**	**138,264**	**29,619**	**38,891**	**3,334**	**210,108**
Net carrying value										
Balance as at 31 December 2022	**169,356**	**31,535**	**22,765**	**5,288**	**228,944**	**57,421**	**12,561**	**4,892**	**388**	**75,262**
Balance as at 1 January 2022	**174,698**	**26,298**	**20,314**	**2,283**	**223,593**	**60,338**	**13,812**	**8,361**	**394**	**82,905**

As at 31 December 2022, the value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 11,962 thousand (31 December 2021: EUR 13,559 thousand). As at 31 December 2022 NLB did not have any assets received by taking possession of collateral and included in property and equipment (31 December 2021: EUR 7 thousand) (note 6.1.l).

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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**

5.9. Investment property

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Balance as at 1 January	47,624	54,842	9,181	8,300
Effects of translation of foreign operations to presentation currency	22	19	-	-
Acquisition of subsidiaries (note 5.12. b) c)	766	-	-	-
Additions	70	-	-	-
Disposals	(17,004)	(4,075)	(2,512)	-
Transfer from/(to) property and equipment (note 5.8.)	1,069	(7,053)	-	340
Transfer from/(to) non-current assets held for sale (note 5.7.)	-	22	-	-
Transfer from/(to) other assets	-	1,397	-	137
Net valuation to fair value (note 4.8.)	3,092	3,589	84	306
Disposals of subsidiaries (note 5.12.d)	-	(1,215)	-	-
Other	-	98	-	98
Balance as at 31 December	**35,639**	**47,624**	**6,753**	**9,181**

As at 31 December 2022, the value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 25,326 thousand (31 December 2021: EUR 36,009 thousand), and in NLB amounted to EUR 1,901 thousand (31 December 2021: EUR 4,176 thousand) (note 6.1.l).

Operating expenses arising from investment properties:

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Leased to others	2,496	1,103	355	291
Not leased to others	564	231	300	183
Total	**3,060**	**1,334**	**655**	**474**

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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 2022	245,607	13,211	32,336	291,154	201,028
Effects of translation of foreign operations to presentation currency	(7)	16	-	9	-
Acquisition of subsidiaries (note 5.12.b), c)	1,444	-	-	1,444	-
Additions	14,170	-	-	14,170	6,741
Disposals	(535)	-	-	(535)	-
Write-offs	(995)	-	-	(995)	-
Balance as at 31 December 2022	**259,684**	**13,227**	**32,336**	**305,247**	**207,769**
Amortisation and impairment					
Balance as at 1 January 2022	198,997	4,274	28,807	232,078	171,575
Effects of translation of foreign operations to presentation currency	(8)	8	-	-	-
Amortisation (note 4.11.)	12,655	3,102	-	15,757	5,769
Write-offs	(823)	-	-	(823)	-
Balance as at 31 December 2022	**210,821**	**7,384**	**28,807**	**247,012**	**177,344**
Net carrying value					
Balance as at 31 December 2022	**48,863**	**5,843**	**3,529**	**58,235**	**30,425**
Balance as at 1 January 2022	**46,610**	**8,937**	**3,529**	**59,076**	**29,453**

Other intangible assets represent additionally identified intangible assets in a business combination, namely core deposits and trade name.

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.d)	(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.d)	(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**

5.11. Leases

a) NLB Group as a lessee

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Right-of-use assets				
Land and buildings	19,567	19,545	2,241	2,244
Vehicles	130	390	1,089	960
Furniture and equipment	2,675	3,486	-	13
Total	**22,372**	**23,421**	**3,330**	**3,217**
Lease liabilities	**23,840**	**24,324**	**3,349**	**3,256**

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 2022 in NLB Group amounted to EUR 6,411 thousand (2021: EUR 10,172 thousand), and in NLB EUR 1,751 thousand (2021: EUR 1,245 thousand).

The income statement shows the following amounts relating to leases:

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Depreciation of right-of-use assets (note 4.11.)				
Land and buildings	7,092	7,159	511	465
Vehicles	276	444	448	410
Furniture and equipment	1,324	1,107	13	15
Total	**8,692**	**8,710**	**972**	**890**

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Interest expenses on lease liabilities (note 4.1.)	(431)	(470)	(28)	(29)
Expenses relating to short-term leases (included in administrative expenses)	(855)	(606)	(158)	(179)
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	(1,129)	(1,050)	(185)	(157)
Income from sub-leasing right-of-use assets (included in other operating income)	77	108	-	-

The total cash outflow for leases in 2022 in NLB Group was EUR 8,547 thousand (2021: EUR 9,397 thousand), and in NLB EUR 1,001 thousand (2021: EUR 933 thousand).

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 the measurement of the liability in accordance with planning projections. Normally, a lease term of five 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.

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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 a lease term of 12 months or less, and equipment with low value. For these leases, NLB Group applies the short-term lease and the lease of low-value assets recognition exemptions. Lease payments on short-term leases and leases of low-value assets are recognised as 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 a 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 the lessee under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or a rate. The investment properties generally have lease terms between 2 to 10 years. Some contracts are made for an indefinite period.

As at 31 December 2022, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 726 thousand (as at 31 December 2021 EUR 436 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	**2022**	**2021**
Less than one year	70,629	36,465
One to two years	46,515	25,723
Two to three years	39,899	21,276
Three to four years	29,423	16,435
Four to five years	17,422	10,375
More than five years	13,878	8,604
Total undiscounted lease receivable	**217,766**	**118,878**
Unearned finance income	(23,818)	(10,163)
Net investment in the lease	**193,948**	**108,715**

During 2022, NLB Group recognised interest income on lease receivables in the amount of EUR 6,607 thousand (2021: EUR 3,452 thousand).

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**	
	2022	**2021**	**2022**	**2021**
Less than one year	2,580	2,757	345	375
One to two years	1,657	1,396	343	348
Two to three years	1,028	817	340	346
Three to four years	694	597	315	342
Four to five years	488	430	315	301
More than five years	1,314	1,211	1,224	1,029
Total	**7,761**	**7,208**	**2,882**	**2,741**

NLB Group realised rental income arising from: investment properties in the amount of EUR 2,912 thousand (2021: EUR 3,558 thousand); and movable property in the amount of EUR 1,252 thousand (2021: EUR 1,074 thousand). NLB realised rental income arising from: investment properties in the amount of EUR 459 thousand (2021: EUR 567 thousand); and movable property in the amount of EUR 475 thousand (2021: EUR 471 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 2022	31 Dec 2021
Banks	813,362	696,538
Other financial organisations	32,126	29,720
Enterprises	58,552	55,282
Total	**904,040**	**781,540**

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2022:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2022	Profit/(loss) for 2022	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	265,844	37,874	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	106,937	16,613	99.87	99.87	99.87	99.87
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	96,237	19,281	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	113,844	32,402	82.38	82.38	82.38	82.38
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	90,608	11,436	97.34	97.35	97.34	97.35
NLB Komercijalna banka a.d. Beograd	Banking	Serbia	737,972	66,014	100	100	100	100
KomBank Invest a.d. Beograd	Finance	Serbia	1,203	(148)	-	-	100	100
N Banka d.d., Ljubljana	Banking	Slovenia	186,423	11,085	100	100	100	100
Privatinvest d.o.o., Ljubljana	Real estate	Slovenia	123	(99)	-	-	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	12,598	8,404	100	100	100	100
NLB Lease&Go, leasing, d.o.o., Ljubljana	Finance	Slovenia	19,578	810	100	100	100	100
NLB Lease&Go, d.o.o. Skopje**	Finance	North Macedonia	529	(68)	-	-	100	100
NLB Lease&Go leasing d.o.o. Beograd	Finance	Serbia	766	(390)	-	-	95.20	95.20
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	3,414	2,601	100	100	100	100
NLB DigIT d.o.o., Beograd	IT services	Serbia	2,368	(36)	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana - v likvidaciji*	Finance	Slovenia	16,936	366	-	-	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Croatia	821	(434)	-	-	100	100
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Serbia	5,899	(91)	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	13,546	(3,255)	12.71	12.71	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	1,767	71	100	100	100	100
REAM d.o.o., Beograd - Novi Beograd	Real estate	Serbia	1,758	(90)	100	100	100	100
SPV 2 d.o.o., Beograd - Novi Beograd	Real estate	Serbia	867	35	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	23,141	(184)	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	994	66	-	-	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	19,974	162	-	-	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,467	153	-	-	100	100
NLB Srbija d.o.o., Beograd	Real estate	Serbia	31,591	(709)	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Finance	Montenegro	3,295	165	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	10,029	(2,213)	100	100	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Serbia	4	1	-	-	100	100
LHB AG, Frankfurt	Finance	Germany	1,086	(646)	100	100	100	100

*100% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana.
**51% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana and 49% ownership of NLB Banka a.d., Skopje.

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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., 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
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Serbia	5,985	40	100	100	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 - Novi Beograd	Real estate	Serbia	1,844	(217)	100	100	100	100
SPV 2 d.o.o., Beograd - Novi 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.

Changes in ownership interest in the subsidiaries of NLB Group in 2022 and 2021 are presented in note 3.

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Data of subsidiaries with significant non-controlling interests, before intercompany eliminations:

in EUR thousands

	NLB Banka, Skopje		NLB Banka, Prishtina		NLB Komercijalna banka, Beograd
	2022	2021	2022	2021	2021
Non-controlling interest in equity in %	13.03	13.03	17.62	17.62	13.30
Non-controlling interest's voting rights in %	13.03	13.03	17.62	17.62	11.72
Income statement and statement of comprehensive income					
Revenues	94,624	87,864	58,296	51,509	156,710
Profit/(loss) for the year	**37,874**	**39,000**	**32,402**	**24,436**	**34,818**
Attributable to non-controlling interest	4,935	5,082	5,710	4,306	4,631
Other comprehensive income	(5,071)	(759)	(309)	(311)	(10,117)
Total comprehensive income	**32,803**	**38,241**	**32,093**	**24,125**	**24,701**
Attributable to non-controlling interest	4,274	4,983	5,656	4,252	3,285
Paid dividends to non-controlling interest	1,332	3,222	3,014	4,160	-
Statement of financial position					
Current assets	826,723	719,846	563,629	446,182	1,859,605
Non-current assets	1,020,798	1,050,742	520,009	484,363	2,305,644
Current liabilities	1,404,491	1,335,444	806,646	756,702	3,266,253
Non-current liabilities	177,186	191,877	163,148	74,987	264,353
Equity	**265,844**	**243,267**	**113,844**	**98,856**	**634,643**
Attributable to non-controlling interest	34,639	31,698	20,063	17,421	84,408

Data for NLB Komercijalna banka, Beograd is presented only for year 2021, as during the year 2022 NLB became 100% owner of the subsidiary (note 3.).

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b) Acquisition of N 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, which became an owner of 100% of the bank's shares as at 1 March 2022. At the date of acquisition, the acquired bank had one 100% owned subsidiary, company Privatinvest d.o.o., whose assets consist only of repossessed real estate. It also had an investment into Bankart d.o.o., Ljubljana, which is in individual financial statements of the acquired bank accounted for as financial asset measured at fair value through other comprehensive income, while on the level of NLB Group it is an associate.

In April 2022, Sberbank banka d.d., Ljubljana was renamed to N Banka d.d., Ljubljana.

The purchase price for the bank was EUR 5,109 thousand and was fully paid in cash. There are no contingent consideration arrangements. At the acquisition date, cash in acquired entities amounted to EUR 265,062 thousand, therefore the net inflow of cash amounted to EUR 259,953 thousand (included in the 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	265,062
Financial assets held for trading	4,788
Non-trading financial assets mandatorily at fair value through profit or loss	332
Financial assets measured at fair value through other comprehensive income	69,387
Financial assets measured at amortised cost	
- debt securities	12,819
- loans and advances to banks	2,489
- loans and advances to customers	1,148,615
- other financial assets	3,465
Investments in associates and joint ventures	11
Tangible assets	
Property and equipment	10,905
- own property and equipment (note 5.8.b)	4,518
- right-of-use assets	6,387
Investment property	464
Intangible assets	1,424
Current income tax assets	46
Deferred income tax assets	4,481
Other assets	2,169
Total assets	**1,526,457**
Financial liabilities held for trading	4,698
Financial liabilities measured at amortised cost	
- deposits from banks and central banks	24,937
- borrowings from banks and central banks	190,008
- due to customers	1,072,411
- other financial liabilities	30,155
Provisions	21,896
Current income tax liabilities	2,249
Other liabilities	2,184
Total liabilities	**1,348,538**
Net identifiable assets acquired	177,919
Consideration given	5,109
Bargain purchase (negative goodwill)	**172,810**

NLB owns 100% of N Banka, therefore no non-controlling interests were recognised as a result of acquisition.

The acquisition of N Banka resulted in a gain from a bargain purchase (negative goodwill) in the amount of EUR 172,810 thousand, which is recognised in the income statement under the line item 'Negative goodwill.' Current market conditions, when banks are generally valued below their net book values, usually result in recognition of a gain from a bargain purchase, which is in the case of N Banka even higher than it would be as a result of an orderly transaction, since the bank was acquired in the process of resolution. Negative goodwill is not taxable.

As a result of the acquisition, NLB Group's off-balance sheet liabilities increased by EUR 277,772 thousand:

	in EUR thousands
Guarantees	136,309
- financial	41,615
- non-financial	94,694
Commitments to extend credit	138,749
Letters of credit	2,714
Total	**277,772**

Since the bank was acquired within a very short timeframe in the process of resolution, acquisition-related costs were immaterial.

NLB obtained all the necessary information for measuring fair values, therefore no amounts 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 N Banka individual financial statements, by reducing future cash flows accordingly. Also prepayment risk was estimated for consumer and mortgage loans. The discount rates used for fair value measurement of loans were based on the publicly available interest rates published by Bank of Slovenia, that represent market rates and are thus considered the most appropriate. Discount rates differ based on product type, client segment, maturity and currency.
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 15%.
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.
Liabilities acquired	**Valuation technique**
Deposits	*Discounted cash flow approach:* Aggregated future cash flows were discounted by applying market interest rates for term deposits. As a discount rate, average market rates on the deposits, published by Bank of Slovenia, were used.

The fair value of acquired loans and advances to customers is EUR 1,148,615 thousand, of which EUR 1,127,261 thousand relates to performing portfolio and EUR 21,354 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 1,135,072 thousand and for this exposure 12-month expected credit losses in the amount of EUR 8,552 thousand were recognised through the income statement. The gross contractual amount for non-performing loans and advances to customers is EUR 49,641 thousand, and it is expected that approximately EUR 23 million of the contractual cash flows will not be collected.

Immediately after acquisition, 12-month expected credit losses for Stage 1 financial assets in the amount of EUR 8,900 thousand and attributable deferred taxes in the amount of EUR 1,691 thousand were recognised. Additionally, EUR 39,657 thousand of revenue, EUR 18,294 thousand of gain after tax, and EUR 2,650 thousand of other comprehensive loss were recognised in NLB Group financial statements since the acquisition date. Had the acquisition occurred on 1 January 2022, management estimates that the consolidated revenue (excluding negative goodwill) would have been approximately EUR 960 million, and the consolidated profit for the year (excluding negative goodwill) approximately EUR 265 million. The exact result is difficult to determine due to the changed circumstances during the year, especially the impact of the war in Ukraine.

c) Acquisition of NLB Lease&Go leasing d.o.o. Beograd
In November 2022, NLB Lease&Go, leasing, d.o.o., Ljubljana became an owner of 95.20% of financial company Zastava Istrabenz Lizing, d.o.o., Beograd.

In January 2023, Zastava Istrabenz Lizing, d.o.o., Beograd was renamed to NLB Lease&Go leasing d.o.o. Beograd.

The purchase price for the company was EUR 1,036 thousand and was fully paid in cash. There are no contingent consideration arrangements. At the acquisition date, cash in acquired entity amounted to EUR 117 thousand, therefore the net outflow of cash amounted to EUR 919 thousand (included in the 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	117
Financial assets measured at amortised cost	
- loans and advances to banks	171
- loans and advances to customers	913
- other financial assets	5
Tangible assets	
Property and equipment	137
- own property and equipment (note 5.8.b)	137
Investment property	302
Intangible assets	20
Current income tax assets	5
Other assets	2
Total assets	**1,672**
Financial liabilities measured at amortised cost	
- borrowings from other customers	490
- other financial liabilities	7
Provisions	7
Other liabilities	8
Total liabilities	**512**
Net identifiable assets acquired (100%)	**1,160**
Less: non-controling interests	56
Net assets acquired (NLB Group share)	**1,104**
Consideration given	1,036
Bargain purchase (negative goodwill)	**68**

NLB Group recognises non-controlling interests in NLB Lease&Go leasing d.o.o. Beograd at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The acquisition of NLB Lease&Go leasing d.o.o. Beograd resulted in a gain from a bargain purchase (negative goodwill) in the amount of EUR 68 thousand, which is recognised in the income statement under the line item 'Negative goodwill.' Negative goodwill is not taxable.

d) 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 subsidiary 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 the sale of Komercijalna banka a.d. Banja Luka is included in the segment 'Strategic Foreign Markets.'

e) Analysis by type of investment in associates and joint ventures

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Carrying amount of the NLB Group's interest				
Other financial organisations	11,677	11,525	4,282	4,282
Enterprises	-	-	289	201
Total	**11,677**	**11,525**	**4,571**	**4,483**

NLB Group's associates

2022 in %

			NLB Group		NLB	
	Nature of Business	Country of Incorporation	Shareholding	Voting rights	Shareholding	Voting rights
Bankart d.o.o., Ljubljana	Card processing	Slovenia	46.03	46.03	45.64	45.64
ARG - Nepremičnine d.o.o., Horjul	Real estate	Slovenia	75.00	75.00	75.00	75.00

2021 in %

			NLB Group		NLB	
	Nature of Business	Country of Incorporation	Shareholding	Voting rights	Shareholding	Voting rights
Bankart d.o.o., Ljubljana	Card processing	Slovenia	45.64	45.64	45.64	45.64
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

	2022	2021
Carrying amount of the NLB Group's interest	**11,677**	**11,525**
NLB Group's share of:		
- Profit for the year	781	1,108
- Other comprehensive income	121	(30)
- Total comprehensive income	**902**	**1,078**

NLB Group's interest in an associate was in previous years reduced to zero, consequently NLB Group did not recognise a share of profit in the amount of EUR 94 thousand in 2022 (2021: EUR 88 thousand). The cumulative unrecognised share of losses of an associate as at 31 December 2022 amounted to EUR 2,083 thousand (31 December 2021: EUR 2,176 thousand).

NLB Group's joint ventures

				in %
			2022	2021
	Nature of Business	Country of Incorporation	Voting rights	Voting rights
Prvi Faktor Group, Ljubljana	Finance	Slovenia	50	50

NLB Group's interest in a joint venture was in previous years reduced to zero, consequently NLB Group did not recognise a share of profit in the amount of EUR 429 thousand in 2022 (2021: EUR 435 thousand). The cumulative unrecognised share of losses of a joint venture as at 31 December 2022 amounted to EUR 14,396 thousand (31 December 2021: EUR 14,825 thousand).

f) Movements of investments in associates

		in EUR thousands
NLB Group	**2022**	**2021**
Balance as at 1 January	11,525	7,988
Acquisition of subsidiaries (note 5.12.b)	11	-
Increase in capital share	-	2,900
Share of result before tax	827	1,339
Share of tax	(46)	(231)
Net gains/(losses) recognised in other comprehensive income	121	(30)
Dividends received	(761)	(441)
Balance as at 31 December	**11,677**	**11,525**

5.13. Other assets

				in EUR thousands
	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Assets, received as collateral (note 6.1.l)	51,586	75,450	3,170	4,827
Deferred expenses	12,200	10,046	6,929	6,202
Inventories	4,961	2,173	2,324	42
Claim for taxes and other dues	1,509	1,826	417	621
Prepayments	2,287	1,726	321	161
Total	**72,543**	**91,221**	**13,161**	**11,853**

Assets, received as collateral on NLB Group in the amount of EUR 50,913 thousand (31 December 2021: EUR 74,717 thousand), and on NLB in the amount of EUR 3,170 thousand (31 December 2021: EUR 4,827 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 2022	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	Balance as at 31 Dec 2022	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	198	1	-	(46)	-	5	3	161	-
Loans and advances to individuals	18,336	(6)	19,708	(12,932)	(239)	6,521	(3)	31,385	-
Loans and advances to other customers	50,961	6	(4,026)	18,487	(1)	(5,585)	(2)	59,840	-
Other financial assets	476	1	(263)	911	(72)	20	173	1,246	-
Lifetime ECL not credit-impaired									
Loans and advances to individuals	7,398	(4)	(12,893)	16,206	(18)	3,897	(4)	14,582	-
Loans and advances to other customers	26,624	2	2,175	2,943	(1)	(493)	(20)	31,230	-
Other financial assets	36	(1)	13	1	(26)	12	3	38	-
Lifetime ECL credit-impaired									
Loans and advances to banks	-	-	-	108	-	-	-	108	-
Loans and advances to individuals	76,047	4	(6,815)	28,969	(21,199)	(751)	(448)	75,807	8,213
Loans and advances to other customers	136,607	626	1,851	(9,912)	(27,759)	144	9,597	111,154	24,770
Other financial assets	5,714	(3)	250	1,556	(1,136)	(22)	1,391	7,750	346
Of which: Purchased or originated credit-impaired									
Loans and advances to individuals	(157)	1	-	24	(219)	-	(148)	(499)	1,537
Loans and advances to other customers	613	(2)	-	(11,136)	(244)	-	7,635	(3,134)	3,546
Other financial assets	(608)	-	-	(1,034)	-	-	1,827	185	12

Column Increases/(Decreases) also includes 12-month expected credit losses recognised at acquisition of N Banka in the amount of EUR 187 thousand for Loans and advances to banks, in the amount of EUR 8,552 thousand for Loans and advances to customers, and in the amount of EUR 95 thousand for Other financial assets (notes 4.14. and 5.12.b).

Other movements relate mainly to income from repayments of non-performing exposures in NLB Komercijalna banka and N Banka, which were at acquisition recognised at fair value, without a corresponding allowance for the impairment and to expenses due to initial recognition of non-performing exposure at fair value in NLB.

Contents

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)**	-

Other movements relate mainly to income from repayments of non-performing exposures in Komercijalna banka, which were at acquisition recognised at fair value, without a corresponding allowance for the impairment and to expenses due to initial recognition of non-performing exposure at fair value in NLB.

in EUR thousands

NLB	Balance as at 1 Jan 2022	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022	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	182	-	34	-	-	-	**216**	-
Loans and advances to individuals	3,503	7,665	(6,686)	(238)	1,916	1	**6,161**	-
Loans and advances to other customers	10,101	833	5,358	(1)	(1,440)	29	**14,880**	-
Other financial assets	62	16	95	(17)	46	1	**203**	-
Lifetime ECL not credit-impaired								
Loans and advances to individuals	2,421	(6,808)	8,313	(15)	3,474	-	**7,385**	-
Loans and advances to other customers	1,787	1,192	(2,277)	(1)	100	(1)	**800**	-
Other financial assets	1	-	2	(1)	-	-	**2**	-
Lifetime ECL credit-impaired								
Loans and advances to individuals	31,497	(857)	9,321	(5,761)	(279)	365	**34,286**	2,536
Loans and advances to other customers	47,110	(2,025)	3,922	(11,178)	(94)	(7,835)	**29,900**	10,313
Other financial assets	1,090	(16)	225	(491)	-	-	**808**	210
Of which: Purchased or originated credit-impaired								
Loans and advances to other customers	838	-	4,801	-	-	(5,001)	**638**	-
Other financial assets	6	-	(5)	-	-	-	**1**	-

Other movements relate mainly to expenses due to initial recognition of non-performing exposure at fair value.

Contents

in EUR thousands

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**	-

Other movements relate mainly to expenses due to initial recognition of non-performing exposure at fair value.

The contractual amount outstanding on financial assets that were written off during the year ending 31 December 2022 and that are still subject to enforcement activity for NLB Group amounted to EUR 29,654 thousand (31 December 2021: EUR 76,252 thousand), and for NLB amounted to EUR 9,949 thousand (31 December 2021: EUR 8,136 thousand), of which EUR 1,730 thousand in NLB Group (31 December 2021: EUR 2,251 thousand) and EUR 1,140 thousand in NLB (31 December 2021: EUR 1,265 thousand) represents interest receivables that have not been recognised in the income statement prior to the write-off.

b) Movements in allowance for the impairment of debt securities

in EUR thousands

NLB Group	Balance as at 1 Jan 2022	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 2022
Notes				**4.14.**	**4.14.**		**5.4.a), 5.6.a)**
12-month expected credit losses							
Debt securities measured at amortised cost	3,253	(2)	-	158	104	6	**3,519**
Debt securities measured at fair value through other comprehensive income	11,148	5	(25)	(2,049)	(67)	17	**9,029**
Lifetime ECL not credit-impaired							
Debt securities measured at amortised cost	52	1	-	271	(59)	-	**265**
Debt securities measured at fair value through other comprehensive income	70	-	(803)	739	12	52	**70**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	-	828	5,235	-	(84)	**6,777**

Column Increases/(Decreases) includes also 12-month expected credit losses recognised at the acquisition of N Banka in the amount of EUR 60 thousand for Debt securities measured at amortised cost, and in the amount of EUR 5 thousand for Debt securities measured at fair value through other comprehensive income (notes 4.14. and 5.12.b).

Impairment of debt securities measured at fair value through other comprehensive income relates mainly to impairment of Russian sovereign debt (note 5.4.).

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.**			**5.4.a), 5.6.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	Balance as at 1 Jan 2022	Transfers	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022
Notes			**4.14.**	**4.14.**		**5.4.a), 5.6.a)**
12-month expected credit losses						
Debt securities measured at amortised cost	1,826	-	119	42	3	**1,990**
Debt securities measured at fair value through other comprehensive income	2,203	(25)	(192)	32	4	**2,022**
Lifetime ECL not credit-impaired						
Debt securities measured at fair value through other comprehensive income	-	(803)	751	-	52	**-**
Lifetime ECL credit-impaired						
Debt securities measured at fair value through other comprehensive income	798	828	5,235	-	(84)	**6,777**

Impairment of debt securities measured at fair value through other comprehensive income relates mainly to impairment of Russian sovereign debt (note 5.4.).

in EUR thousands

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
Notes		**4.14.**	**4.14.**		**5.4.a), 5.6.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**

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	
	2022		2021	2022	2021
	12-month expected credit losses	Lifetime ECL credit-impaired	12-month expected credit losses	12-month expected credit losses	12-month expected credit losses
Balance as at 1 January	140,881	-	197,146	199,469	158,475
Effects of translation of foreign operations to presentation currency	74	-	(7)	-	-
Acquisition of subsidiaries (note 5.12.b), c)	2,660	-	-	-	-
Decreases/Increases	75,516	-	(61,245)	150,644	41,094
Exchange differences on monetary assets	4,103	-	4,987	728	(100)
Transfer	(108)	108	-	-	-
Balance as at 31 December	**223,126**	**108**	**140,881**	**350,841**	**199,469**

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 2022	5,372,551	120,235	128,285	5,621,071	2,570,925	66,035	57,396	2,694,356
Effects of translation of foreign operations to presentation currency	672	(12)	8	668	-	-	-	-
Acquisition of subsidiaries (note 5.12.b)	411,068	-	6,583	417,651	-	-	-	-
Transfers	(106,876)	78,073	28,803	-	(46,023)	35,084	10,939	-
Increases/(Decreases)	746,532	(8,179)	(12,059)	726,294	396,545	596	(2,932)	394,209
Write-offs	(239)	(18)	(21,199)	(21,456)	(238)	(15)	(5,761)	(6,014)
Exchange differences on monetary assets	(746)	34	12	(700)	1,698	44	38	1,780
Modification losses (note 4.12.)	(85)	(12)	13	(84)	-	-	-	-
Balance as at 31 December 2022	**6,422,877**	**190,121**	**130,446**	**6,743,444**	**2,922,907**	**101,744**	**59,680**	**3,084,331**

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 year 2022, the loss allowance for loans and advances to individuals increased by EUR 19,993 thousand at the NLB Group level, while at the NLB level it increased by EUR 10,411 thousand. The main reasons for this increase are changed risk parameters, which increased loss allowance by EUR 9,667 thousand at the NLB Group level, and by EUR 5,111 thousand at NLB level and an increase of the gross carrying amount. At the NLB Group level, the gross carrying amount increased by EUR 1,122,373 thousand, mainly due to increased exposure and the acquisition of subsidiaries, while at the NLB level it increased by EUR 389,975 thousand.

Acquisition of subsidiaries (note 5.12.b) contributed EUR 417,651 thousand to the gross carrying amount of loans and advances to individuals on the NLB Group level.

In year 2021, the loss allowance for loans and advances to individuals increased by EUR 7,281 thousand at the NLB Group level, while at the 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 the risk parameters, which increased loss allowance for Stage 3 loans and advances to individuals in the amount of EUR 7,868 thousand at the NLB Group level and EUR 7,566 thousand at 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 2022	4,630,485	412,184	239,354	5,282,023	2,351,275	123,304	72,637	2,547,216
Effects of translation of foreign operations to presentation currency	1,189	87	893	2,169	-	-	-	-
Acquisition of subsidiaries (note 5.12.b), c)	716,577	-	15,300	731,877	-	-	-	-
Transfers	(154,654)	123,967	30,687	-	34,662	(37,337)	2,675	-
Increases/(Decreases)	835,299	(112,477)	(56,944)	665,878	572,648	(34,158)	(13,056)	525,434
Write-offs	(1)	(1)	(27,759)	(27,761)	(1)	(1)	(11,178)	(11,180)
Exchange differences on monetary assets	(639)	(106)	41	(704)	1,871	98	55	2,024
Modification losses (note 4.12.)	29	17	12	58	-	-	-	-
Balance as at 31 December 2022	**6,028,285**	**423,671**	**201,584**	**6,653,540**	**2,960,455**	**51,906**	**51,133**	**3,063,494**

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 year 2022, the gross carrying amount of loans and advances to other customers increased by EUR 1,371,517 thousand at the NLB Group level and EUR 516,278 thousand at the NLB level, mostly in Stage 1 due to the acquisition of subsidiaries and the increased exposure. Regardless of that, the loss allowance decreased for EUR 11,968 thousand at the NLB Group level and EUR 12,631 thousand at the NLB level, mainly in Stage 3. The main reason for the decrease were write-offs in the amount of EUR 27,761 thousand at the NLB Group level and EUR 11,180 thousand at the NLB level.

In year 2021, the gross carrying amount of loans and advances to other customers increased by EUR 317,476 thousand at the NLB Group level and EUR 251,615 thousand at the NLB level, mostly in Stage 1 due to the increased exposure. Regardless of that, the loss allowance decreased (for EUR 63,588 thousand at the NLB Group level and EUR 50,195 thousand), with main reasons being write-offs (EUR 66,771 thousand at the NLB Group level and EUR 33,273 thousand at the NLB level) and changes in the risk parameters (a decrease of loss allowance at the NLB Group level for EUR 4,611 thousand and at the NLB level for EUR 7,365 thousand).

Movement of gross carrying amount of other financial assets

The gross carrying amount of other financial assets in year 2022 increased (for EUR 58,402 thousand at the NLB Group level and EUR 21,855 thousand at the NLB level), with the majority of this increase relating to credit card receivables and receivables for the sale of securities. As these receivables are by their nature short-term, they did not contribute significantly to the increase of the loss allowance. Therefore the loss allowance for other financial assets in year 2022 on the NLB Group level increased only by EUR 2,808 thousand, while at the NLB level it decreased by EUR 140 thousand. The main reason for this moderate increase at the NLB Group level and decrease on the NLB level are write-offs (EUR 1,234 thousand at the NLB Group level and EUR 509 thousand at the NLB level).

The loss allowance for other financial assets in year 2021 on the NLB Group level moved in line with the gross carrying amount and increased by EUR 673 thousand. At the NLB level, the gross carrying amount increased by EUR 37,724 thousand, but most of this increase relates to receivables with a 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 the main reason being write-offs in the amount of EUR 292 thousand.

Movement of gross carrying amount of debt securities measured at amortised cost

in EUR thousands

	NLB Group				NLB	
	2022		2021		2022	2021
	12-month expected credit losses	Lifetime ECL not credit - impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	12-month expected credit losses	12-month expected credit losses
Balance as at 1 January	1,713,711	7,220	1,506,772	-	1,438,250	1,279,721
Effects of translation of foreign operations to presentation currency	(187)	9	74	11	-	-
Acquisition of subsidiaries (note 5.12.b)	12,819	-	-	-	-	-
Additions	411,723		769,067	-	310,394	639,735
Derecognition	(226,884)	-	(564,041)	-	(146,939)	(486,630)
Net interest income	16,792	-	13,144	-	11,431	9,504
Exchange differences on monetary assets	1,030	-	1,348	-	1,136	1,364
Other	(14,834)	-	(5,444)	-	(14,834)	(5,444)
Transfers	-	-	(7,209)	7,209	-	-
Balance as at 31 December	**1,914,170**	**7,229**	**1,713,711**	**7,220**	**1,599,438**	**1,438,250**

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 2022	3,396,101	184	798	3,397,083	1,526,972	-	798	1,527,770
Effects of translation of foreign operations to presentation currency	1,370	-	-	1,370	-	-	-	-
Acquisition of subsidiaries (note 5.12.b)	53,223	-	-	53,223	-	-	-	-
Additions	1,699,839	-	-	1,699,839	290,245	-	-	290,245
Derecognition	(2,171,808)	(13,750)	-	(2,185,558)	(443,781)	(13,731)	-	(457,512)
Net interest income	38,554	38	(121)	38,471	10,929	38	(121)	10,846
Exchange differences on monetary assets	2,054	973	77	3,104	3,434	973	77	4,484
Transfers	(20,303)	12,720	7,583	-	(20,303)	12,720	7,583	-
Balance as at 31 December 2022	**2,999,030**	**165**	**8,337**	**3,007,532**	**1,367,496**	**-**	**8,337**	**1,375,833**

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 subsidiary	(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**

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Deposits from banks and central banks	106,414	71,828	212,656	109,329
Borrowings from banks and central banks	198,609	858,531	57,292	873,479
Due to customers	20,027,726	17,640,809	10,984,411	9,659,605
Borrowings from other customers	82,482	74,051	216	406
Debt securities issued	815,990	288,519	815,990	288,519
Other financial liabilities	294,463	206,878	164,567	102,527
Total	**21,525,684**	**19,140,616**	**12,235,132**	**11,033,865**

a) Deposits from banks and central banks and amounts due to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Deposit on demand				
- banks and central banks	86,892	56,427	193,523	94,323
- other customers	17,386,022	15,319,112	10,268,908	8,982,546
- governments	421,770	401,295	151,251	109,228
- financial organisations	306,836	303,858	254,948	265,900
- companies	4,374,028	3,653,713	2,241,793	1,870,118
- individuals	12,283,388	10,960,246	7,620,916	6,737,300
Other deposits				
- banks and central banks	19,522	15,401	19,133	15,006
- other customers	2,641,704	2,321,697	715,503	677,059
- governments	91,662	95,062	42,049	34,801
- financial organisations	237,758	125,310	95,637	71,582
- companies	646,944	380,815	282,560	229,093
- individuals	1,665,340	1,720,510	295,257	341,583
Total	**20,134,140**	**17,712,637**	**11,197,067**	**9,768,934**

b) Borrowings from banks and central banks and other customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Loans				
- banks and central banks	198,609	858,531	57,292	873,479
- other customers	82,482	74,051	216	406
- governments	21,535	20,607	-	-
- financial organisations	60,731	52,958	-	-
- companies	216	486	216	406
Total	**281,091**	**932,582**	**57,508**	**873,885**

As at 31 December 2022, NLB Group and NLB had EUR 96,878 thousand in undrawn borrowings (31 December 2021: EUR 94,115 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. The carrying amount of the loan as at 31 December 2021 amounted to EUR 746,021 thousand. The loan was early repaid in June 2022.

In December 2021, N Banka participated in ECB TLTRO III.10 operation and had drawn a credit tranche of EUR 93,000 thousand for three years. In December 2022, N Banka early repaid a part of the loan in the amount of EUR 30,000 thousand. The carrying amount of the loan as at 31 December 2022 amounts to EUR 62,755 thousand (EUR 92,850 as at the acquisition date).

NLB Group accounts for these loans according to the requirements of IFRS 9 and recognises interest income by applying the expected effective interest rate (note 4.1.). The expected effective interest rate was estimated based on the expectation of achieving a lending performance threshold, and in the case of NLB, also expected early repayment was taken into account. As the lending performance threshold was achieved in both banks, there were no changes in estimates of payments due to the revised assessment of meeting the eligibility criteria. NLB Group does not consider these loans as loans at below-market rate of interest, as these targeted longer-term refinancing operations were available to all banks under the same conditions.

c) Debt securities issued

in EUR thousands

NLB Group and NLB				31 Dec 2022		31 Dec 2021	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated bonds							
	EUR	06.05.2029	4.20% to 06.05.2024, thereafter 5Y MS + 4.159% p.a.	45,941	45,000	45,903	45,000
	EUR	19.11.2029	3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a.	119,677	120,000	119,577	120,000
	EUR	05.02.2030	3.40% to 05.02.2025, thereafter 5Y MS + 3.658% p.a.	123,106	120,000	123,039	120,000
	EUR	28.11.2032	10.75% to 28.11.2027, thereafter 5Y MS + 8.298% p.a.	220,054	225,000	-	-
Total Subordinated bonds				**508,778**	**510,000**	**288,519**	**285,000**
Senior Preferred notes							
	EUR	19.07.2025	6% to 19.07.2024, thereafter 1Y MS + 4.835% p.a.	307,212	300,000	-	-
Total Senior Preferred notes				**307,212**	**300,000**	**-**	**-**
Total Debt securities issued				**815,990**	**810,000**	**288,519**	**285,000**

All issued subordinated bonds represent non-convertible Tier 2 instruments (note 5.23.). 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 debt securities issued

in EUR thousands

NLB Group and NLB	Subordinated bonds		Senior Preferred notes	
	2022	2021	2022	2021
Balance as at 1 January	288,519	288,321	-	-
Cash flow items:	207,523	(10,350)	299,029	-
- new issued	217,873	-	299,029	-
- repayment of interest	(10,350)	(10,350)	-	-
Non-Cash flow items:	12,736	10,548	8,183	-
- accrued interest	12,736	10,548	8,183	-
Balance as at 31 December	**508,778**	**288,519**	**307,212**	**-**

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d) Other financial liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Items in the course of settlement	70,232	57,934	16,281	5,940
Debit or credit card payables	72,148	27,325	54,920	24,638
Suppliers	19,608	17,514	13,455	12,049
Lease liabilities (note 5.11.a)	23,840	24,324	3,349	3,256
Accrued expenses	33,574	25,852	15,898	12,909
Fees and commissions	751	1,609	633	1,504
Liabilities to brokerage firms and others for securities purchase and custody services	224	297	205	202
Other financial liabilities	74,086	52,023	59,826	42,029
Total	**294,463**	**206,878**	**164,567**	**102,527**

Other financial liabilities in the amount of EUR 24,788 thousand (31 December 2021: EUR 23,495 thousand) relate to a liability recognised in accordance with the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (note 5.16.a). The remaining balance includes also liabilities to insurance companies, liabilities for received EIB financial initiatives, received warranties, and obligations for the purchase of securities.

5.16. Provisions

a) Analysis by type of provisions

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Provisions for guarantees and commitments (note 5.24.a)	37,609	33,441	20,299	20,560
Stage 1	18,826	12,912	8,156	3,909
Stage 2	1,953	1,640	378	141
Stage 3	16,830	18,889	11,765	16,510
Employee benefit provisions	18,026	21,447	11,876	14,206
Restructuring provisions	21,036	19,217	7,288	11,131
Provisions for legal risks	43,209	45,288	3,584	3,466
Other provisions	2,772	11	2,169	-
Total	**122,652**	**119,404**	**45,216**	**49,363**

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.

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Legal risks

Provisions for legal risks are formed based on expectations regarding the probable outcome of legal disputes. As at 31 December 2022, NLB Group was involved in 41 (31 December 2021: 38) legal disputes with material claims against Group members in the total amount of EUR 462,564 thousand, excluding accrued interest (31 December 2021: EUR 404,001 thousand). As at 31 December 2022, NLB was involved in 17 (31 December 2021: 16) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 219,847 thousand (31 December 2021: EUR 180,077 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 173.4 million (as per 31 December 2022). 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 an 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.

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.

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 are included within other financial assets (note 5.6.d) and other financial liabilities (note 5.15.d).

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), which stipulated that all loan agreements denominated in Swiss francs 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, are subjected to 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 and any overpayment on such loans by the relevant borrowers shall be subject to default interest to be paid by the lender.

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, and on 17 November 2022 it adopted a decision to abrogate the CHF Law. The decision of the Constitutional Court of the Republic of Slovenia on abrogation of the CHF Law was published in the Official Gazette on 16 December 2022.

b) Provisions for guarantees and commitments

Movements in provisions for guarantees and commitments

in EUR thousands

NLB Group	Balance as at 1 Jan 2022	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 2022
Notes			**5.12.b)**		**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses								
Guarantees and commitments	12,912	2	921	740	1,468	2,765	18	**18,826**
Lifetime ECL not credit-impaired								
Guarantees and commitments	1,640	(1)	-	(55)	291	76	2	**1,953**
Lifetime ECL credit-impaired								
Guarantees and commitments	18,889	(1)	180	(685)	(1,462)	(88)	(3)	**16,830**
Of which: Purchased or originated credit-impaired								
Guarantees and commitments	4,344	-	180	(11)	(444)	-	26	**4,095**

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.**		**5.12.d)**	**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	Balance as at 1 Jan 2022	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022
Notes			**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses						
Guarantees and commitments	3,909	570	(229)	3,910	(4)	8,156
Lifetime ECL not credit-impaired						
Guarantees and commitments	141	60	192	(15)	-	378
Lifetime ECL credit-impaired						
Guarantees and commitments	16,510	(630)	(4,146)	6	25	11,765
Of which: Purchased or originated credit-impaired						
Guarantees and commitments	4,041	(11)	(1,179)	-	25	2,876

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in EUR thousands

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
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**

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 2022	3,027,971	97,536	38,998	3,164,505	1,913,572	49,102	26,903	1,989,577
Effects of translation of foreign operations to presentation currency	541	24	4	569	-	-	-	-
Acquisition of subsidiaries (note 5.12.b)	277,325	-	447	277,772	-	-	-	-
Increases/(Decreases)	543,028	(14,927)	(18,212)	509,889	477,730	(8,465)	(11,491)	457,774
Foreign exchange differences	703	16	6	725	631	16	6	653
Transfers	(6,275)	621	5,654	-	5,809	(5,410)	(399)	-
Balance as at 31 December 2022	**3,843,293**	**83,270**	**26,897**	**3,953,460**	**2,397,742**	**35,243**	**15,019**	**2,448,004**

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**

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c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Balance as at 1 January	19,227	18,162	12,781	12,695
Effects of translation of foreign operations to presentation currency	2	-	-	-
Acquisition of subsidiaries (note 5.12.b), c)	1,393	-	-	-
Disposal of subsidiaries (note 5.12.d)	-	(83)	-	-
Additional provisions (note 4.9.)	1,046	1,957	635	723
Provisions released (note 4.9.)	(1,128)	(1,831)	(673)	(750)
Interest expenses (note 4.1.)	335	177	130	43
Utilised during year (payments)	(823)	(532)	(153)	(45)
Actuarial gains and losses	(4,031)	1,377	(2,048)	115
Balance as at 31 December	**16,021**	**19,227**	**10,672**	**12,781**

Other employee benefits

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Balance as at 1 January	2,220	2,545	1,425	1,525
Acquisition of subsidiaries (note 5.12.b)	167	-	-	-
Additional provisions (note 4.9.)	275	222	90	100
Provisions released (note 4.9.)	(558)	(275)	(259)	(132)
Interest expenses (note 4.1.)	39	25	14	5
Utilised during year	(138)	(297)	(66)	(73)
Balance as at 31 December	**2,005**	**2,220**	**1,204**	**1,425**

Other employee benefits include NLB Group's obligations for jubilee long-service benefits.

d) Movements in restructuring provisions

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Balance as at 1 January	19,217	15,565	11,131	15,354
Effects of translation of foreign operations to presentation currency	10	11	-	-
Additional provisions (note 4.13.)	10,335	14,797	-	-
Provisions released (note 4.13.)	(10)	-	-	-
Utilised during year	(8,516)	(11,156)	(3,843)	(4,223)
Balance as at 31 December	**21,036**	**19,217**	**7,288**	**11,131**

Additional restructuring provisions recognised during the year 2022 relate mainly to N Banka and NLB Komercijalna banka and are based on reorganisation plans in both banks.

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e) Movements in provisions for legal risks

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Balance as at 1 January	45,288	46,602	3,466	5,673
Effects of translation of foreign operations to presentation currency	54	40	-	-
Acquisition of subsidiaries (note 5.12.b)	1,790	-	-	-
Additional provisions (note 4.13.)	7,595	16,632	125	1,881
Provisions released (note 4.13.)	(5,950)	(8,759)	-	(1,809)
Utilised during year	(5,568)	(9,227)	(7)	(2,279)
Balance as at 31 December	**43,209**	**45,288**	**3,584**	**3,466**

f) Movements in other provisions

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Balance as at 1 January	11	11	-	-
Acquisition of subsidiaries (note 5.12.b)	17,452	-	-	-
Additional provisions (note 4.13.)	2,372	-	2,200	-
Provisions released (note 4.13.)	(8,410)	-	-	-
Utilised during year	(106)	-	(31)	-
Other	(8,547)	-	-	-
Balance as at 31 December	**2,772**	**11**	**2,169**	**-**

At acquisition of N Banka on 1 March 2022, other provisions increased for EUR 17,452 thousand, which represents the assessed fair value of contingent liabilities of N Banka as at the acquisition date. During March 2022, some unfavourable events, which were taken into account already at assessing initial fair values realised, therefore EUR 8,547 thousand of provisions were used to decrease the amount of related receivables, mainly for unsettled derivative transactions. Additionally, the amount of other provisions significantly decreased in December 2022 (for EUR 8,400 thousand), when possible obligation ceased to exist.

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5.17. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Deferred income tax assets				
Valuation of financial instruments and capital investments	48,415	33,002	38,028	31,696
Impairment of financial assets	9,480	5,879	2,050	917
Provisions for liabilities and charges	9,899	10,128	1,819	2,660
Depreciation and valuation of non-financial assets	4,737	3,505	109	112
Fair value adjustments of financial assets measured at amortised cost	2,046	320	-	-
Unpaid dividends	-	3,876	-	3,876
Tax losses	-	253	-	-
Tax reliefs	-	945	-	-
Other	141	62	-	-
Total deferred income tax assets	**74,718**	**57,970**	**42,006**	**39,261**
Deferred income tax liabilities				
Valuation of financial instruments	8,375	12,026	5,283	6,620
Depreciation and valuation of non-financial assets	1,641	1,374	163	169
Impairment of financial assets	5,501	3,960	1,672	570
Fair value adjustments of financial assets measured at amortised cost	5,366	3,338	-	-
Other	877	1,340	-	-
Total deferred income tax liabilities	**21,760**	**22,038**	**7,118**	**7,359**
Net deferred income tax assets	**55,527**	**38,977**	**34,888**	**31,902**
Net deferred income tax liabilities	**(2,569)**	**(3,045)**	**-**	**-**

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Included in the income statement	**1,523**	**3,423**	**1,524**	**112**
- valuation of financial instruments and capital investments	6,416	(1,024)	4,819	(3,241)
- impairment of financial assets	2,934	2,260	1,133	(30)
- provisions for liabilities and charges	(1,718)	1,453	(555)	(489)
- depreciation and valuation of non-financial assets	962	(338)	3	(4)
- tax losses	(253)	253	-	-
- unpaid dividends	(3,876)	3,876	(3,876)	3,876
- tax reliefs	(945)	(234)	-	-
- fair value adjustments of financial assets measured at amortised cost	(2,540)	(3,413)	-	-
- other	543	590	-	-
Included in other comprehensive income	**11,013**	**4,950**	**1,462**	**2,576**
- valuation and impairment of financial assets measured at fair value through other comprehensive income	11,454	4,772	1,748	2,565
- actuarial assumptions and experience	(441)	178	(286)	11
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

NLB	31 Dec 2022 Temporary difference	31 Dec 2022 Non-recognised deferred tax assets	31 Dec 2021 Temporary difference	31 Dec 2021 Non-recognised deferred tax assets
Tax loss	950,469	180,589	974,902	185,231
Tax reliefs	-	-	4,329	823
Impairments and valuation of capital investments and financial instruments	116,913	22,213	73,359	13,938

Tax loss on which NLB did not recognise deferred tax assets, as at 31 December 2022 amounts to EUR 950,469 thousand (31 December 2021: 974,902 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 282,092 thousand as at 31 December 2022 (31 December 2021: EUR 315,531 thousand).

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 2021	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 subsidiaries	-	-	(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**
Effects of translation of foreign operations to presentation currency	6	2	3	7	-	-	-	-	-	18
(Charged)/credited to profit and loss	(1,718)	4,837	1,229	3,583	(3,876)	(253)	(945)	(516)	79	2,420
(Charged)/credited to other comprehensive income	(441)	10,270	-	-	-	-	-	-	-	9,829
Acquisition of subsidiaries (note 5.12.b)	1,924	304	-	11	-	-	-	2,242	-	4,481
Balance as at 31 December 2022	**9,899**	**48,415**	**4,737**	**9,480**	**-**	**-**	**-**	**2,046**	**141**	**74,718**

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
						in EUR thousands
Balance as at 1 January 2021	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**
(Charged)/credited to profit and loss	(555)	4,688	(3)	1,133	(3,876)	1,387
(Charged)/credited to other comprehensive income	(286)	1,644	-	-	-	1,358
Balance as at 31 December 2022	**1,819**	**38,028**	**109**	**2,050**	**-**	**42,006**

Deferred income tax liabilities

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
						in EUR thousands
Balance as at 1 January 2021	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 subsidiaries	-	-	-	(4)	(50)	(54)
Balance as at 31 December 2021	**3,960**	**12,026**	**1,374**	**1,340**	**3,338**	**22,038**
Effects of translation of foreign operations to presentation currency	-	4	-	1	4	9
Charged/(credited) to profit and loss	649	(1,579)	267	(464)	2,024	897
Charged/(credited)to other comprehensive income	892	(2,076)	-	-	-	(1,184)
Balance as at 31 December 2022	**5,501**	**8,375**	**1,641**	**877**	**5,366**	**21,760**

NLB	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
				in EUR thousands
Balance as at 1 January 2021	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**
Charged/(credited) to profit and loss	-	(131)	(6)	(137)
Charged/(credited) to other comprehensive income	1,102	(1,206)	-	(104)
Balance as at 31 December 2022	**1,672**	**5,283**	**163**	**7,118**

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5.18. Income tax relating to components of other comprehensive income

in EUR thousands

2022	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	4,031	(441)	3,590	2,048	(286)	1,762
Financial assets measured at fair value through other comprehensive income	(165,438)	11,454	(153,984)	(93,955)	1,748	(92,207)
Share of associates and joint ventures	121	-	121	-	-	-
Total	**(161,286)**	**11,013**	**(150,273)**	**(91,907)**	**1,462**	**(90,445)**

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)**

5.19. Other liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Accrued salaries	21,948	18,615	14,014	9,050
Unused annual leave	6,886	6,032	2,569	2,425
Deferred income	11,177	11,374	4,749	5,257
Taxes payable	5,724	9,450	4,023	3,999
Payments received in advance	3,346	3,997	32	308
Total	**49,081**	**49,468**	**25,387**	**21,039**

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5.20. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change in 2022. 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 2022, 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 2022 was EUR 114.1 (31 December 2021: EUR 103.9), and on a solo level was EUR 75.9 (31 December 2021: EUR 77.6). 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 2022 amounts to EUR 515,463 thousand (31 December 2021: EUR 458,266 thousand) and consists of NLB net profit for 2022 in the amount of EUR 159,602 thousand (2021: EUR 208,421 thousand), and retained earnings from previous years in the amount of EUR 358,267 thousand reduced for the interests and direct issue costs of subordinated bonds issued in the year 2022, which are considered instruments of additional basic capital in the amount of EUR 2,405 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, the Group's risk appetite, the target capital adequacy at the 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 the 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 2022, NLB paid dividends for previous year in the amount of EUR 5.0 per share (2021: EUR 4.61 per share), which decreased retained earnings for EUR 100,000 thousand (2021: EUR 92,200 thousand).

As at 31 December 2022 and 31 December 2021, 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. Other equity instruments issued

On 23 September 2022, NLB issued subordinated notes intended to qualify as Additional Tier 1 Instruments in the aggregate nominal amount of EUR 82 million. The notes have no scheduled maturity date. The issuer has the option for early redemption of the notes in the period between 23 September 2027 and 23 March 2028, and on each distribution payment date after 23 March 2028. Until 23 March 2028, the interest on the principal of the notes will accrue at the interest rate of 9.721% per annum, and for each subsequent 5-year period, will accrue at the applicable interest rate, which shall be reset prior to the commencement of each such period (5Y MS + 7.20% per annum). The coupon payments are discretionary and non-cumulative. The notes terms provide for a temporary write-down in the event that the Common Equity Tier 1 ratio of NLB Group and/or NLB drop(s) below 5.125%. The issue price was equal to 100% of the nominal amount of the notes. The ISIN code of the notes is SI0022104275. The carrying amount as of 31 December 2022 is EUR 84,184 thousand.

5.22. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2022 and 31 December 2021 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 2022 and 31 December 2021, profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2022, NLB recorded a net profit in the amount of EUR 159,602 thousand (2021: net profit EUR 208,421 thousand) which is included in the retained earnings as at 31 December 2022.

b) Accumulated other comprehensive income

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Financial assets measured at fair value through other comprehensive income - debt securities	(143,954)	8,540	(78,283)	12,365
Financial assets measured at fair value through other comprehensive income - equity securities	1,045	2,826	(1,460)	99
Actuarial defined benefit pension plans	(1,948)	(5,488)	(1,934)	(3,696)
Foreign currency translation	(16,485)	(17,184)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Total	**(160,588)**	**(10,552)**	**(81,677)**	**8,768**

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5.23. Capital adequacy ratios

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
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	908,965	767,152	355,861	249,845
Profit eligible - from current year	334,297	135,968	49,602	39,613
Accumulated other comprehensive income	(98,470)	(10,091)	(50,527)	8,768
Other reserves	13,522	13,522	13,522	13,522
Minority interest	26,806	27,905	-	-
Prudential filters: Additional Valuation Adjustments (AVA)	(2,981)	(3,498)	(1,385)	(1,606)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(41,351)	(39,116)	(23,675)	(18,829)
(-) Insufficient coverage for non-performing exposures	(418)	(90)	(80)	(10)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,208,219**	**1,959,601**	**1,414,696**	**1,362,681**
Capital instruments eligible as AT1 Capital	82,000	-	82,000	-
Minority interest	5,481	5,950	-	-
Additional Tier 1 capital	**87,481**	**5,950**	**82,000**	**-**
TIER 1 CAPITAL	**2,295,700**	**1,965,551**	**1,496,696**	**1,362,681**
Capital instruments and subordinated loans eligible as Tier 2 capital	507,516	284,595	507,516	284,595
Minority interest	3,159	2,344	-	-
TIER 2 CAPITAL	**510,675**	**286,939**	**507,516**	**284,595**
TOTAL CAPITAL	**2,806,375**	**2,252,490**	**2,004,212**	**1,647,276**
RWA for credit risk	11,797,851	10,205,172	6,356,959	5,411,433
RWA for market risks	1,359,476	1,206,363	776,963	698,463
RWA for credit valuation adjustment risk	85,600	11,850	86,138	11,850
RWA for operational risk	1,410,132	1,244,023	612,654	586,781
TOTAL RISK EXPOSURE AMOUNT (RWA)	**14,653,059**	**12,667,408**	**7,832,714**	**6,708,527**
Common Equity Tier 1 Ratio	15.1%	15.5%	18.1%	20.3%
Tier 1 Ratio	15.7%	15.5%	19.1%	20.3%
Total Capital Ratio	**19.2%**	**17.8%**	**25.6%**	**24.6%**

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).

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NLB's overall capital requirement on the consolidated level:

SREP requirement		2022	2021	2020
	CET1	4.5%	4.5%	4.5%
Pillar 1 (P1R)	AT1	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%
	CET1	1.46%	1.55%	1.55%
Pillar 2 (P2R)	Tier 1	1.95%	2.06%	2.06%
	Total Capital	2.60%	2.75%	2.75%
	CET1	5.96%	6.05%	6.05%
Total SREP Capital Requirement (TSCR)	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%
	CET1	9.46%	9.55%	9.55%
Overall capital requirement (OCR) = MDA threshold	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%
	CET1	10.46%	10.55%	10.55%
OCR + P2G	Tier 1	12.45%	12.56%	12.56%
	Total Capital	15.10%	15.25%	15.25%

In 2022, the Overall Capital Requirement (OCR) for the Group was 14.10%, consisting of:

- 10.60% TSCR (8.00% Pillar 1 Requirement and 2.60% Pillar 2 Requirement); and
- 3.50% CBR (2.50% Capital Conservation Buffer, 1.00% O-SII Buffer[22] and 0.00% Countercyclical Buffer).

P2G amounts to 1.0% of CET1. The Pillar 2 Requirement for 2023 decreased by 0.2 p.p. to 2.40%, as a result of better overall SREP assessment.

On 29 April 2022, the Bank of Slovenia issued a new Regulation on determining the requirement to maintain a systemic risk buffer for banks and savings banks, which is with 1 January 2023 introducing the systemic risk buffer rates for the sectoral exposures:

- 1.00% for all retail exposures to natural persons secured by residential real estate,
- 0.50% for all other exposures to natural persons.

Additionally, in December 2022 the Bank of Slovenia announced that due to growing uncertainties in the economic environment and systemic risks is raising the countercyclical buffer for exposures to the Republic of Slovenia from 0% to the level of 0.5% of the total risk exposure amount, valid from December 2023 onwards.

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.

As at 31 December 2022, NLB Group capital ratios on a consolidated basis stand at:

- 15.1% CET1 ratio,
- 15.7% Tier 1 ratio,
- 19.2% 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

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

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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 2022, the Total capital ratio for the Group stood at 19.2% (or a 1.4 p.p. increase compared to 31 December 2021), and the CET1 ratio stood at 15.1% (a 0.4 p.p. decrease compared to 31 December 2021). The higher total capital adequacy derives from higher capital (EUR 553,9 million compared to 31 December 2021), which compensated the increase of the RWA (EUR 1,985.7 million compared to 31 December 2021). The Group increased the capital with the inclusion of negative goodwill from the acquisition of N Banka in retained earnings (EUR 172.8 million), a partial inclusion of 2022 profit (EUR 161.5 million), additional Tier 1 notes issued in September (EUR 82 million) and additional Tier 2 notes issued in November (EUR 222.9 million). In accordance with the CRR 'Quick fix' from June 2020, the temporary treatment of FVOCI for sovereign securities was implemented by the Group in September 2022, which increased the capital by EUR 61.6 million (i.e., accumulated other comprehensive income amounted EUR -98.5 million instead of EUR -160.1 million). This temporary measure ceased to apply as of 1 January 2023.

The capital calculation does not include a part of the 2022 result in the amount of EUR 110 million which is envisaged to be paid as the dividend distribution in 2023. Therefore, there will be no effect on the capital once the dividends in this amount are paid.

In 2022, the RWA of NLB Group for credit risk increased by EUR 1,592.7 million, where EUR 747.1 million of the increase relates to the acquisition of N Banka (at the acquisition date the contribution of N Banka to NLB Group was EUR 858.9 million). The remaining part of RWA increase in the amount of EUR 845.6 million was mainly the consequence of ramping up lending activity in all NLB Group banks, the most in NLB and NLB Komercijalna banka. RWA growth was partially mitigated by CRR-eligible real estate collaterals from Bosnia and Herzegovina, Serbia, and North Macedonia. Higher RWA for high-risk exposures was the result of higher project finance exposure. Furthermore, RWA decrease was observed for liquidity assets mainly due to maturity of some non-EU sovereign bonds (mainly Serbia, Kosovo and Russia). The lower exposure to institutions also resulted in RWA reduction, the most in NLB Komercijalna banka, banks from Bosnia and Herzegovina, NLB and NLB Banka Skopje. At the same time, lower exposure to covered bonds in NLB also reduced RWA. The repayments, as well as the upgrade of some clients, additional impairments and provisions recognised, and the package sale of NPLs from Serbia contributed to a lower RWA for the exposures in default.

The increase in RWAs for market risks and CVA (Credit Value Adjustments) in the amount of EUR 226.9 million compared to 31 December 2021 is the result of higher RWA for FX risk in the amount of EUR 139.4 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks), higher RWA for CVA risk in the amount of EUR 73.8 million (a consequence of an adjustment of calculating exposure in the CVA calculation due to the change of a methodology from a mark to market method to the OEM (original exposure method), and due to the conclusion of longer term and the higher size of derivatives by NLB) and the higher RWA for TDI risk in the amount of EUR 13.7 million (a consequence of new derivatives businesses).

The increase in the RWA for operational risks (EUR 166.1 million compared to 31 December 2021) 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 reasons for the increase were a generally higher income base in most Group members, and the acquisition of N Banka in March 2022.

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.

5.24. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Short-term guarantees	407,967	258,975	176,535	112,758
- financial	220,786	139,732	96,473	63,188
- non-financial	187,181	119,243	80,062	49,570
Long-term guarantees	1,103,341	977,759	613,061	614,343
- financial	427,743	393,901	230,318	226,747
- non-financial	675,598	583,858	382,743	387,596
Loan commitments	2,388,468	1,878,988	1,635,498	1,259,489
Letters of credit	35,029	35,615	13,204	1,950
Other	18,655	13,167	9,706	1,037
	3,953,460	**3,164,504**	**2,448,004**	**1,989,577**
Provisions (note 5.16.b)	(37,609)	(33,441)	(20,299)	(20,560)
Total	**3,915,851**	**3,131,063**	**2,427,705**	**1,969,017**

Fee income from issued non-financial guarantees amounted to EUR 7,535 thousand (2021: EUR 7,578 thousand) in NLB Group, and to EUR 4,574 thousand (2021: EUR 4,547 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 a 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 2022, these items at the NLB Group level amount to EUR 657,232 thousand (31 December 2021: EUR 372,403 thousand), and at the NLB level EUR 316,977 thousand (31 December 2021: EUR 302,063 thousand).

b) Analysis of derivative financial instruments by notional amounts

in EUR thousands

	NLB Group				NLB			
	31 Dec 2022		31 Dec 2021		31 Dec 2022		31 Dec 2021	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	257,015	1,111,946	99,349	1,284,832	359,978	1,111,690	109,137	1,284,832
- currency swaps	256,820	-	99,349	16,844	359,587	-	109,137	16,844
- interest rate swaps	195	1,111,946	-	1,267,988	391	1,111,690	-	1,267,988
Options	72	60,626	9,880	30,945	72	60,626	9,880	30,945
- interest rate options	72	46,963	-	30,945	72	46,963	-	30,945
- securities options	-	13,663	9,880	-	-	13,663	9,880	-
Forward contracts	54,660	11,720	38,825	26,921	54,384	11,720	37,511	26,921
- currency forward	54,660	11,720	38,825	26,921	54,384	11,720	37,511	26,921
Total	**311,747**	**1,184,292**	**148,054**	**1,342,698**	**414,434**	**1,184,036**	**156,528**	**1,342,698**
	1,496,039		**1,490,752**		**1,598,470**		**1,499,226**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 644,132 thousand (31 December 2021: EUR 572,455 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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Capital commitments for purchase of:				
- property and equipment	1,651	1,696	1,496	1,623
- intangible assets	5,246	4,243	5,206	4,094
Total	**6,897**	**5,939**	**6,702**	**5,717**

5.25. 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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Fiduciary activities	26,935,868	26,670,696	24,990,075	24,806,894
Settlement and other services	1,247,360	1,079,548	1,156,361	977,197
Total	**28,183,228**	**27,750,244**	**26,146,436**	**25,784,091**

Fiduciary activities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Assets				
Clearing or transaction account claims for client assets	**26,886,137**	**26,601,809**	**24,950,876**	**24,741,052**
- from financial instruments	26,866,494	26,554,920	24,931,891	24,694,275
- receipt, processing, and execution of orders	10,004,881	10,085,409	9,166,585	9,346,002
- management of financial instruments portfolio	509,000	588,761	-	-
- custody services	16,352,613	15,880,750	15,765,306	15,348,273
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	891	180	233	68
- to other settlement systems and institutions for bought financial instrument (debtors)	18,752	46,709	18,752	46,709
Clients' money	**49,731**	**69,897**	**39,199**	**65,842**
- at settlement account for client assets	22,037	50,114	22,037	46,059
- at bank transaction accounts	27,694	19,783	17,162	19,783
Liabilities				
Clearing or transaction liabilities for client assets	**26,935,868**	**26,670,696**	**24,990,075**	**24,806,894**
- to client from cash and financial instruments	26,931,466	26,659,703	24,986,135	24,797,057
- receipt, processing, and execution of orders	10,024,193	10,110,124	9,185,897	9,371,707
- management of financial instruments portfolio	519,728	591,772	-	-
- custody services	16,387,545	15,957,807	15,800,238	15,425,350
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	444	134	444	134
- to other settlement systems and institutions for bought financial instrument (creditors)	3,540	10,472	3,078	9,316
- to bank or settlement bank account for fees and costs, etc.	418	387	418	387

Fee income for funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	2022	2021	2022	2021
Fiduciary activities (note 4.3.b)	11,025	11,385	9,395	8,911
Settlement and other services	1,372	1,567	1,363	1,552
Total	**12,397**	**12,952**	**10,758**	**10,463**

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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, 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 the 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 one of risk drivers of the existing types of risks, such as credit, liquidity, market 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. Based on environmental and climate risk assessment impact of these risks is estimated as low, except for transition risk in the area of credit which is assessed as low to medium. The availability of ESG data in the region where NLB Group operates is still lacking. Nevertheless, the Group made a large progress in the process of obtaining relevant ESG related data from its clients, being 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. The Group established an internal ESG stress-testing concept to identify most relevant financial vulnerabilities stemming from climate risk, which will be further enhanced by considering disposable ESG-related data. 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), the Regulation on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, the EBA Guidelines on internal governance, the EBA Guidelines on the assessment of the suitability of members of the management body, and key function holders, as well as the EBA Guidelines on remuneration practices. Several layers of management 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 six 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, 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 also set 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 (three lines of defence concept). The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and the Operational Risk Committee) and Management Board, 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, and consider 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, ESG, and non-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.

The Group has established a strong and robust data governance program that aligns with the goals and objectives of the Group's risk management function. NLB Group data governance and data quality framework consists of identifying risks, developing policies and controls on data confidentiality, integrity, accuracy, and availability, and by executing the second line of defence controls by an independent validation unit under the responsibility of Group Data Governance Officer. This framework covers agreed service level standards for both in-house and outsourced data-related processes.

e) Main emphasis of risk management in 2022

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 sustainability, social responsibility, governance, changing customer behaviours, emerging new technologies and competitors, as well as 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.

In 2022, the war in Ukraine did not have a meaningful impact on the quality of the credit portfolio, nor on the liquidity of the Group. The Group's direct and indirect exposures toward Russia and Ukraine are quite limited. In the light of increasing energy prices, inflationary pressures, and a forecast of a decrease in economic growth, the Group has thoroughly analysed potential impacts on its credit portfolio and made necessary adjustments. The most affected industries or segments are carefully monitored with the intention to detect any additional significant increase in credit risk at a very early stage. The liquidity position of the Group remains very robust. Even if a highly unfavourable liquidity scenario would materialise, the Group holds a sufficient level of high-quality liquidity reserves.

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, 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. As a systemically important institution, the Group was included into 2022 ECB Climate Stress test exercise. The exercise was conducted in the first half of 2022 and aggregate results were published in July 2022.

The management of ESG risks follows ECB and EBA guidelines with a tendency of their comprehensive integration into all relevant processes. It addresses the Group's overall credit approval process and related credit portfolio management. Sustainable ESG financing in accordance with Environmental and Social Management System is integrated into the Group's Risk Appetite Statement. As part of its strategy, the Group does not finance companies that extract fossil fuels or operate coal-fired power plants. The availability of ESG data in the region where NLB Group operates is still lacking. Nevertheless, the Group made a large progress in the process of obtaining relevant ESG-related data from its clients, being prerequisite for adequate decision-making and corresponding proactive management of ESG risks.

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.

Beside default risk, the portfolio management is also focused on monitoring single name and industry concentration, migration risk, and FX lending risk. Increasing emphasis is also placed on stress tests that forecast the effects of adverse 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, 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 backtested 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 Policy 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 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 the 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 has made material progress in this respect in 2022 and has ambitious plans for the following year.

b) Main emphasis in 2022

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 was observed in the Corporate, as well as in the Retail segment in 2022. In the circumstances of growing EURIBOR, there was certain transfer to fixed interest rates, especially in the housing loans market, which led to increased new production and the general increase in the volume of retail exposures. In the Corporate segment, the Bank seized opportunities to finance some of the top corporate clients in the region while keeping the focus on SME as its key segment. 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.

In 2022, 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 2022, the share of non-performing exposure by EBA methodology in NLB Group was 1.3% (1.7% at the end of 2021). Moreover, the coverage ratio remains high at 57.1%, which is well above the EU average published by the EBA (44.1% in 3Q 2022).

c) Maximum exposure to credit risk

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Cash, cash balances at central banks, and other demand deposits at banks	5,271,365	5,005,052	3,339,024	3,250,437
Financial assets held for trading	21,588	7,678	21,692	7,682
Non-trading financial assets mandatorily at fair value through profit or loss	3,116	4,261	7,892	7,888
Financial assets at fair value through other comprehensive income	2,838,796	3,395,261	1,291,277	1,541,042
Financial assets at amortised cost				
Debt securities	1,917,615	1,717,626	1,597,448	1,436,424
Loans to governments	303,443	281,010	124,736	143,864
Loans to banks	222,965	140,683	350,625	199,287
Loans to financial organisations	116,078	141,709	286,504	226,144
Loans to individuals	6,621,670	5,519,290	3,036,499	2,656,935
Loans to companies	6,031,795	4,645,112	2,606,674	2,118,210
Other financial assets	177,823	122,229	114,399	92,404
Derivatives - hedge accounting	59,362	568	59,362	568
Total net financial assets	**23,585,616**	**20,980,479**	**12,836,132**	**11,680,885**
Guarantees	1,511,308	1,236,734	789,596	727,101
Financial guarantees	648,529	533,633	326,791	289,935
Non-financial guarantees	862,779	703,101	462,805	437,166
Loan commitments	2,388,468	1,878,988	1,635,498	1,259,489
Other potential liabilities	53,684	48,782	22,910	2,987
Total contingent liabilities	**3,953,460**	**3,164,504**	**2,448,004**	**1,989,577**
Total maximum exposure to credit risk	**27,539,076**	**24,144,983**	**15,284,136**	**13,670,462**

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 2022	NLB Group				NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral		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	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	32,322	135,480	19,235	5,607	16,518	50,403	8,876	3,311
Loans to other customers	69,180	426,805	19,227	22,607	17,154	93,719	4,077	2,130
Other financial assets	104	7,301	1,374	46	2	379	22	7
Total	**101,606**	**569,586**	**39,836**	**28,260**	**33,674**	**144,501**	**12,975**	**5,448**

in EUR thousands

31 Dec 2021	NLB Group				NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral		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	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	17,785	49,518	8,114	3,924
Loans to other customers	79,120	446,308	23,364	23,694	21,490	117,862	4,037	4,478
Other financial assets	127	6,661	2,098	32	6	408	22	5
Total	**111,619**	**575,174**	**44,180**	**31,371**	**39,281**	**167,788**	**12,173**	**8,407**

e) Collateral from loans mandatorily at fair value through profit or loss

in EUR thousands

NLB	31 Dec 2022				31 Dec 2021			
	Fully/over collateralised loans		Loans not or not fully covered with collateral		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	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	4,345	4,699	3,547	2,000	4,198	4,500	3,690	2,050

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. The 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 and equity securities: bonds and shares 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.

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 Group 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 Group 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 rating of the issuer, the securities' liquidity, maturity and 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 2022	**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	1,388,564	-	-	-	1,388,564	1,318,134	-	-	-	1,318,134
B	525,606	-	-	-	525,606	281,304	-	-	-	281,304
C	-	7,229	-	-	7,229	-	-	-	-	-
Loss allowance	(3,519)	(265)	-	-	(3,784)	(1,990)	-	-	-	(1,990)
Carrying amount	1,910,651	6,964	-	-	1,917,615	1,597,448	-	-	-	1,597,448
Loans and advances to banks at amortised cost										
A	87,422	-	-	-	87,422	350,138	-	-	-	350,138
B	135,704	-	-	-	135,704	703	-	-	-	703
C	-	-	-	-	-	-	-	-	-	-
D and E	-	-	108	-	108	-	-	-	-	-
Loss allowance	(161)	-	(108)	-	(269)	(216)	-	-	-	(216)
Carrying amount	222,965	-	-	-	222,965	350,625	-	-	-	350,625
Loans and advances to individuals at amortised cost										
A	6,327,508	82,441	-	772	6,410,721	2,915,578	37,725	-	-	2,953,303
B	80,749	40,465	-	50	121,264	7,329	29,299	-	-	36,628
C	14,620	67,215	-	1,514	83,349	-	34,720	-	-	34,720
D and E	-	-	122,350	5,760	128,110	-	-	59,680	-	59,680
Loss allowance	(31,385)	(14,582)	(76,306)	499	(121,774)	(6,161)	(7,385)	(34,286)	-	(47,832)
Carrying amount	6,391,492	175,539	46,044	8,595	6,621,670	2,916,746	94,359	25,394	-	3,036,499
Loans and advances to other customers at amortised cost										
A	1,366,495	1,405	-	-	1,367,900	1,007,159	91	-	-	1,007,250
B	4,508,706	146,749	-	15	4,655,470	1,907,775	23,418	-	-	1,931,193
C	153,084	275,517	-	1,898	430,499	45,521	28,397	-	2	73,920
D and E	-	-	178,206	21,465	199,671	-	-	47,824	3,307	51,131
Loss allowance	(59,840)	(31,230)	(114,288)	3,134	(202,224)	(14,880)	(800)	(29,262)	(638)	(45,580)
Carrying amount	5,968,445	392,441	63,918	26,512	6,451,316	2,945,575	51,106	18,562	2,671	3,017,914
Other financial assets at amortised cost										
A	138,353	57	-	-	138,410	102,414	2	-	-	102,416
B	37,103	169	-	-	37,272	11,362	19	-	-	11,381
C	1,370	577	-	-	1,947	759	23	-	-	782
D and E	-	-	7,940	1,288	9,228	-	-	832	1	833
Loss allowance	(1,246)	(38)	(7,565)	(185)	(9,034)	(203)	(2)	(807)	(1)	(1,013)
Carrying amount	175,580	765	375	1,103	177,823	114,332	42	25	-	114,399
Debt instruments at fair value through other comprehensive income										
A	1,453,671	-	-	-	1,453,671	1,159,704	-	-	-	1,159,704
B	1,545,358	-	-	-	1,545,358	207,791	-	-	-	207,791
C	-	165	-	-	165	-	-	-	-	-
D and E	-	-	8,338	-	8,338	-	-	8,338	-	8,338
Loss allowance	(9,029)	(70)	(6,777)	-	(15,876)	(2,022)	-	(6,777)	-	(8,799)
Contingent liabilities										
A	1,500,489	6,657	-	34	1,507,180	1,118,801	4,426	-	-	1,123,227
B	2,294,429	38,878	-	318	2,333,625	1,256,792	17,906	-	101	1,274,799
C	48,375	37,735	-	88	86,198	22,149	12,911	-	25	35,085
D and E	-	-	20,134	6,323	26,457	-	-	11,575	3,318	14,893
Loss allowance	(18,826)	(1,953)	(12,735)	(4,095)	(37,609)	(8,156)	(378)	(8,889)	(2,876)	(20,299)
Carrying amount	3,824,467	81,317	7,399	2,668	3,915,851	2,389,586	34,865	2,686	568	2,427,705

in EUR thousands

31 Dec 2021	NLB Group 12-month expected credit losses	NLB Group Lifetime ECL not credit - impaired	NLB Group Lifetime ECL credit-impaired	NLB Group Purchased credit-impaired financial assets	NLB Group Total	NLB 12-month expected credit losses	NLB Lifetime ECL not credit - impaired	NLB Lifetime ECL credit-impaired	NLB Purchased credit-impaired financial assets	NLB 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

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 2022	**All forborne exposures**				**Impairment, provisions and value adjustments**		**Collateral and financial guarantees received on forborne exposures**
	Gross carrying amount	**Performing**	**Non - performing**		**Performing forborne exposures**	**Non-performing forborne exposures**	
			Impaired	**Defaulted**			
Loans and advances (including at amortised cost and fair value)	**272,193**	**117,808**	**154,441**	**154,385**	**(9,929)**	**(79,535)**	**121,376**
Governments	840	604	236	236	(12)	(234)	-
Other financial organisations	1,526	201	1,325	1,325	(6)	(1,325)	-
Non-financial organisations	207,417	89,871	117,602	117,546	(7,267)	(61,900)	87,245
Households	62,410	27,132	35,278	35,278	(2,644)	(16,076)	34,131
Debt instruments other than held for trading	**272,193**	**117,808**	**154,441**	**154,385**	**(9,929)**	**(79,535)**	**121,376**
Loan commitments given	**1,392**	**743**	**649**	**649**	**(2)**	**(209)**	**740**
Total exposures with forbearance measures	**273,585**	**118,551**	**155,090**	**155,034**	**(9,931)**	**(79,744)**	**122,116**

in EUR thousands

NLB Group							
31 Dec 2021	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
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							
31 Dec 2022	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
Loans and advances (including at amortised cost and fair value)	**84,638**	**16,694**	**68,000**	**67,944**	**(1,628)**	**(37,260)**	**38,474**
Other financial organisations	1,526	201	1,325	1,325	(6)	(1,325)	-
Non-financial organisations	42,414	3,521	38,949	38,893	(40)	(22,935)	19,073
Households	40,698	12,972	27,726	27,726	(1,582)	(13,000)	19,401
Debt instruments other than held for trading	**84,638**	**16,694**	**68,000**	**67,944**	**(1,628)**	**(37,260)**	**38,474**
Loan commitments given	**687**	**41**	**646**	**646**	**(2)**	**(207)**	**416**
Total exposures with forbearance measures	**85,325**	**16,735**	**68,646**	**68,590**	**(1,630)**	**(37,467)**	**38,890**

in EUR thousands

NLB							
31 Dec 2021	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
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**

Forborne exposures of debt instruments by periods of forbearance

				in EUR thousands
	NLB Group			
31 Dec 2022	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	2,930	45,452	4,714	54,783
Non-performing exposures	4,343	3,472	13,351	53,684
Total exposures with forbearance measures	**7,273**	**48,924**	**18,065**	**108,467**
31 Dec 2021				
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**

				in EUR thousands
	NLB			
31 Dec 2022	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	2,063	608	1,864	10,531
Non-performing exposures	1,939	1,261	7,300	20,184
Total exposures with forbearance measures	**4,002**	**1,869**	**9,164**	**30,715**
31 Dec 2021				
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**

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 2022	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
	Net value		Net value	
Nature of assets				
Equity securities mandatorily measured at fair value through profit or loss (note 5.3.a)	368	-	-	-
Investment property (note 5.9.)	25,326	36,009	1,901	4,176
Property and equipment (note 5.8.)	11,962	13,559	-	7
Investments in subsidiaries and associates	-	-	2,049	2,333
Real estates (note 5.13.)	50,913	74,717	3,170	4,827
Other assets (note 5.13.)	673	733	-	-
Non-current assets held for sale (note 5.7.)	651	699	-	-
Total	**89,893**	**125,717**	**7,120**	**11,343**

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m) Analysis of loans and advances by industry sectors

in EUR thousands

NLB Group	31 Dec 2022				31 Dec 2021			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	223,234	(269)	222,965	1.65	140,881	(198)	140,683	1.30
Finance	235,737	(2,579)	233,158	1.73	90,538	(2,851)	87,687	0.81
Electricity, gas, and water	601,556	(10,704)	590,852	4.39	361,520	(5,392)	356,128	3.28
Construction industry	547,251	(27,686)	519,565	3.86	420,173	(29,459)	390,714	3.60
Heavy industry	1,415,304	(25,553)	1,389,751	10.31	1,059,774	(30,352)	1,029,422	9.49
Education	13,246	(1,313)	11,933	0.09	12,888	(1,358)	11,530	0.11
Agriculture, forestry, and fishing	98,813	(3,063)	95,750	0.71	91,735	(3,530)	88,205	0.81
Public sector	285,495	(4,737)	280,758	2.08	231,488	(5,269)	226,219	2.08
Individuals	6,743,441	(121,771)	6,621,670	49.14	5,621,071	(101,781)	5,519,290	50.87
Mining	53,854	(2,747)	51,107	0.38	49,936	(1,604)	48,332	0.45
Entrepreneurs	389,376	(9,162)	380,214	2.82	341,670	(7,554)	334,116	3.08
Services	809,891	(41,343)	768,548	5.70	778,569	(34,587)	743,982	6.86
Transport and communications	920,149	(19,476)	900,673	6.68	798,822	(25,902)	772,920	7.12
Trade industry	1,239,161	(53,113)	1,186,048	8.80	1,008,369	(64,364)	944,005	8.70
Health care and social security	43,710	(751)	42,959	0.32	36,541	(1,970)	34,571	0.32
Other financial assets	186,857	(9,034)	177,823	1.32	128,455	(6,226)	122,229	1.13
Total	**13,807,075**	**(333,301)**	**13,473,774**	**100.00**	**11,172,430**	**(322,397)**	**10,850,033**	**100.00**

in EUR thousands

NLB	31 Dec 2022				31 Dec 2021			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	350,841	(216)	350,625	5.37	199,469	(182)	199,287	3.66
Finance	383,781	(3,167)	380,614	5.83	169,679	(3,109)	166,570	3.06
Electricity, gas, and water	371,356	(1,467)	369,889	5.67	228,423	(724)	227,699	4.18
Construction industry	150,715	(9,714)	141,001	2.16	71,989	(9,870)	62,119	1.14
Heavy industry	688,517	(6,161)	682,356	10.45	583,658	(6,747)	576,911	10.60
Education	3,529	(19)	3,510	0.05	4,045	(27)	4,018	0.07
Agriculture, forestry, and fishing	15,432	(70)	15,362	0.24	13,073	(100)	12,973	0.24
Public sector	104,303	(1,176)	103,127	1.58	94,176	(974)	93,202	1.71
Individuals	3,084,331	(47,832)	3,036,499	46.52	2,694,356	(37,421)	2,656,935	48.80
Mining	23,736	(185)	23,551	0.36	22,316	(514)	21,802	0.40
Entrepreneurs	64,471	(1,722)	62,749	0.96	54,600	(1,942)	52,658	0.97
Services	342,882	(12,336)	330,546	5.06	482,176	(11,421)	470,755	8.65
Transport and communications	589,152	(3,155)	585,997	8.98	556,786	(5,459)	551,327	10.13
Trade industry	308,724	(6,143)	302,581	4.64	248,823	(16,492)	232,331	4.27
Health care and social security	24,788	(265)	24,523	0.38	25,360	(1,619)	23,741	0.44
Other financial assets	115,412	(1,013)	114,399	1.75	93,557	(1,153)	92,404	1.70
Total	**6,621,970**	**(94,641)**	**6,527,329**	**100.00**	**5,542,486**	**(97,754)**	**5,444,732**	**100.00**

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n) Analysis of net loans and advances by geographical sectors

in EUR thousands

	NLB Group		NLB	
Country	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
Slovenia	6,704,603	4,861,968	5,824,477	4,856,305
Other European Union members	274,795	249,772	180,842	156,425
Serbia	2,790,892	2,320,491	184,530	136,696
Other countries	3,703,484	3,417,802	337,480	295,306
Total	**13,473,774**	**10,850,033**	**6,527,329**	**5,444,732**

As at 31 December 2022, Other countries include direct exposure to Russia in the amount of EUR 284 thousand (31 December 2021: EUR 94 thousand) at the NLB Group level and EUR 4 thousand (31 December 2021: EUR 84 thousand) at the NLB level. Direct exposure to Ukraine amounts to EUR 21 thousand (31 December 2021: EUR 4 thousand) at the NLB Group level and EUR 1 thousand (31 December 2021: EUR 2 thousand) at the NLB level.

o) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousands

31 Dec 2022	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	360,623	-	331,539	-	2,450	347,976	-	241,095	2,449
Other members of European Union	1,214,523	-	951,992	2,267	36,606	1,184,663	-	774,380	36,606
- Austria	96,349	-	79,119	-	-	96,349	-	51,193	-
- Belgium	129,217	-	94,088	-	11,397	129,217	-	55,622	11,397
- Bulgaria	41,233	-	3,029	-	-	41,233	-	3,029	-
- Czech Republic	12,901	-	-	-	-	12,901	-	-	-
- Cyprus	10,187	-	1,553	-	-	10,187	-	1,553	-
- Denmark	5,975	-	13,333	-	-	5,975	-	13,333	-
- Finland	57,440	-	114,292	-	-	57,440	-	84,477	-
- France	184,831	-	169,157	-	10,087	179,844	-	137,668	10,087
- Germany	139,370	-	105,082	-	10,447	114,497	-	70,207	10,447
- Greece	-	-	10,888	-	-	-	-	10,888	-
- Hungary	37,346	-	5,260	-	-	37,346	-	5,260	-
- Ireland	53,384	-	31,592	-	-	53,384	-	29,525	-
- Italy	37,472	-	13,544	99	-	37,472	-	13,544	-
- Latvia	15,507	-	-	-	-	15,507	-	-	-
- Lithuania	16,798	-	-	-	-	16,798	-	-	-
- Luxembourg	91,588	-	27,256	-	-	91,588	-	27,256	-
- Netherlands	57,523	-	112,907	2,168	4,675	57,523	-	99,933	4,675
- Poland	19,772	-	17,691	-	-	19,772	-	17,691	-
- Portugal	46,750	-	16,440	-	-	46,750	-	16,440	-
- Romania	37,802	-	4,827	-	-	37,802	-	4,827	-
- Slovakia	31,523	-	31,592	-	-	31,523	-	31,592	-
- Spain	55,076	-	39,097	-	-	55,076	-	39,097	-
- Sweden	24,753	-	61,245	-	-	24,753	-	61,245	-
- Other	11,726	-	-	-	-	11,726	-	-	-
United States of America	25,966	-	62,170	849	-	4,690	-	11,859	-
Other countries	316,503	203	1,493,095	-	41,691	60,119	203	263,943	41,796
- Bosnia and Herzegovina	7,648	-	177,746	-	-	4,056	-	2,905	-
- Kosovo	-	-	58,034	-	17	-	-	-	17
- Montenegro	40,672	-	20,949	-	-	6,780	-	2,819	-
- North Macedonia	189,383	-	134,268	-	5	15,260	-	54,590	31
- Serbia	25,490	-	898,531	-	-	-	-	3,913	79
- Albania	-	-	25,866	-	-	-	-	25,866	-
- Canada	3,007	-	21,147	-	-	3,007	-	21,147	-
- Great Britain	-	-	54,178	-	41,669	-	-	54,178	41,669
- Iceland	7,746	-	7,892	-	-	7,746	-	7,892	-
- Israel	-	-	9,053	-	-	-	-	9,053	-
- Kazakhstan	-	-	12,970	-	-	-	-	12,970	-
- Norway	16,186	-	11,206	-	-	16,186	-	11,206	-
- Russia	-	-	2,026	-	-	-	-	2,026	-
- Switzerland	19,287	203	54,572	-	-	-	203	50,721	-
- Other	7,084	-	4,657	-	-	7,084	-	4,657	-
Total	**1,917,615**	**203**	**2,838,796**	**3,116**	**80,747**	**1,597,448**	**203**	**1,291,277**	**80,851**

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 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.

p) Internal rating of derivatives counterparties

in %

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
A	88.90	74.08	90.18	74.25
B	11.10	25.69	9.82	25.53
C	0.00	0.03	0.00	0.03
D and E	0.00	0.19	0.00	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 financial instruments in NLB Group's and NLB's portfolio that represent subordinated liabilities for the issuer

in EUR thousands

31 Dec 2022	NLB Group					NLB				
Internal rating	A	B	C	D	Total	A	B	C	D	Total
Financial assets measured at fair value through other comprehensive income	28,014	-	-	-	28,014	28,014	-	-	-	28,014
Financial assets measured at amortised cost										
- debt securities	2,612	-	-	-	2,612	2,612	-	-	-	2,612
- loans and advances to banks	-	-	-	-	-	84,713	-	-	-	84,713
- loans and advances to customers	-	-	-	-	-	-	-	6,613	-	6,613
Total	**30,626**	**-**	**-**	**-**	**30,626**	**115,339**	**-**	**6,613**	**-**	**121,952**

in EUR thousands

31 Dec 2021	NLB Group					NLB				
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**

s) Presentation of net financial instruments by measurement category

in EUR thousands

31 Dec 2022	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
			NLB Group				
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	5,271,365	-	-	5,271,365
Securities	203	19,031	2,919,203	1,917,615	-	-	4,856,052
- Bonds	-	3,116	2,506,224	1,917,615	-	-	4,426,955
- Shares	-	5,579	80,407	-	-	-	85,986
- Commercial bills	-	-	21,824	-	-	-	21,824
- Treasury bills	203	-	310,748	-	-	-	310,951
- Investment funds	-	10,336	-	-	-	-	10,336
Derivatives	21,385	-	-	-	-	59,362	80,747
Loans and receivables	-	-	-	13,102,729	193,222	-	13,295,951
- Loans to governments	-	-	-	303,086	357	-	303,443
- Loans to banks	-	-	-	222,965	-	-	222,965
- Loans to financial organisations	-	-	-	116,046	32	-	116,078
- Loans to individuals	-	-	-	6,550,704	70,966	-	6,621,670
- Loans to other customers	-	-	-	5,909,928	121,867	-	6,031,795
Other financial assets	-	-	-	177,823	-	-	177,823
Total financial assets	**21,588**	**19,031**	**2,919,203**	**20,469,532**	**193,222**	**59,362**	**23,681,938**

in EUR thousands

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
			NLB Group				
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	3,191,280	1,707,960	-	-	4,903,501
- Shares	-	4,472	66,599	-	-	-	71,071
- Commercial bills	-	-	37,569	-	-	-	37,569
- Treasury bills	-	-	166,412	9,666	-	-	176,078
- 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

31 Dec 2022	NLB 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	-	-	-	3,339,024	-	3,339,024
Securities	203	7,519	1,334,061	1,597,448	-	2,939,231
- Bonds	-	-	1,196,760	1,597,448	-	2,794,208
- Shares	-	5,211	42,784	-	-	47,995
- Treasury bills	203	-	94,517	-	-	94,720
- Investment funds	-	2,308	-	-	-	2,308
Derivatives	21,489	-	-	-	59,362	80,851
Loans and receivables	-	7,892	-	6,405,038	-	6,412,930
- Loans to governments	-	-	-	124,736	-	124,736
- Loans to banks	-	-	-	350,625	-	350,625
- Loans to financial organisations	-	-	-	286,504	-	286,504
- Loans to individuals	-	-	-	3,036,499	-	3,036,499
- Loans to other customers	-	7,892	-	2,606,674	-	2,614,566
Other financial assets	-	-	-	114,399	-	114,399
Total financial assets	**21,692**	**15,411**	**1,334,061**	**11,455,909**	**59,362**	**12,886,435**

in EUR thousands

31 Dec 2021	NLB 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**

As at 31 December 2022 and 31 December 2021, 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 Group 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, backtesting, 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 interest income and economic value of equity 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 an 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 2022	**EUR**	**RSD**	**USD**	**CHF**	**Other**	**Total**
Financial assets						
Cash, cash balances at central banks, and other demand deposits at banks	4,371,725	275,809	46,277	78,264	499,290	5,271,365
Financial assets held for trading	21,385	-	-	203	-	21,588
Non-trading financial assets mandatorily at fair value through profit or loss	8,704	5,116	5,211	-	-	19,031
Financial assets measured at fair value through other comprehensive income	1,977,055	627,667	157,859	54,572	102,050	2,919,203
Financial assets measured at amortised cost						
- debt securities	1,677,506	6,964	49,088	19,287	164,770	1,917,615
- loans and advances to banks	82,041	102,510	20,582	3,047	14,785	222,965
- loans and advances to customers	10,952,838	804,520	20,791	53,759	1,241,078	13,072,986
- other financial assets	108,884	12,280	23,935	44	32,680	177,823
Derivatives - hedge accounting	59,362	-	-	-	-	59,362
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(23,767)	-	-	-	-	(23,767)
Total financial assets	**19,235,733**	**1,834,866**	**323,743**	**209,176**	**2,054,653**	**23,658,171**
Financial liabilities						
Financial liabilities held for trading	21,580	9	-	-	-	21,589
Financial liabilities measured at fair value through profit or loss	1,157	155	-	-	484	1,796
Derivatives - hedge accounting	2,124	-	-	-	-	2,124
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	84,104	1,539	2,604	5,788	12,379	106,414
- borrowings from banks and central banks	184,920	-	13,689	-	-	198,609
- due to customers	16,639,644	1,156,350	370,113	201,228	1,660,391	20,027,726
- borrowings from other customers	82,266	-	216	-	-	82,482
- debt securities issued	815,990	-	-	-	-	815,990
- other financial liabilities	207,887	30,372	29,698	1,933	24,573	294,463
Total financial liabilities	**18,039,672**	**1,188,425**	**416,320**	**208,949**	**1,697,827**	**21,551,193**
Net on-balance sheet financial position	**1,196,061**	**646,441**	**(92,577)**	**227**	**356,826**	**2,106,978**
Derivative financial instruments	(75,897)	42,632	82,411	(2,031)	51,477	98,592
Net financial position	**1,120,164**	**689,073**	**(10,166)**	**(1,804)**	**408,303**	**2,205,570**
31 Dec 2021						
Total financial assets	**16,625,162**	**1,886,101**	**365,955**	**213,497**	**1,980,345**	**21,071,060**
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**

in EUR thousands

31 Dec 2022	EUR	RSD	NLB USD	CHF	Other	Total
Financial assets						
Cash, cash balances at central banks, and other demand deposits at banks	3,282,376	471	9,315	11,672	35,190	3,339,024
Financial assets held for trading	21,489	-	-	203	-	21,692
Non-trading financial assets mandatorily at fair value through profit or loss	10,200	-	5,211	-	-	15,411
Financial assets measured at fair value through other comprehensive income	1,215,923	-	51,641	50,721	15,776	1,334,061
Financial assets measured at amortised cost						
- debt securities	1,566,474	-	27,812	-	3,162	1,597,448
- loans and advances to banks	326,513	-	-	16,776	7,336	350,625
- loans and advances to customers	6,002,314	-	14,902	36,418	779	6,054,413
- other financial assets	91,777	3	22,000	1	618	114,399
Derivatives - hedge accounting	59,362	-	-	-	-	59,362
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(23,767)	-	-	-	-	(23,767)
Total financial assets	**12,552,661**	**474**	**130,881**	**115,791**	**62,861**	**12,862,668**
Financial liabilities						
Financial liabilities held for trading	22,150	-	-	-	-	22,150
Financial liabilities measured at fair value through profit or loss	2,514	-	-	-	-	2,514
Derivatives - hedge accounting	2,124	-	-	-	-	2,124
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	172,334	102	11,423	8,397	20,400	212,656
- borrowings from banks and central banks	43,603	-	13,689	-	-	57,292
- due to customers	10,707,852	2	147,439	77,583	51,535	10,984,411
- borrowings from other customers	-	-	216	-	-	216
- debt securities issued	815,990	-	-	-	-	815,990
- other financial liabilities	138,753	-	24,009	265	1,540	164,567
Total financial liabilities	**11,905,320**	**104**	**196,776**	**86,245**	**73,475**	**12,261,920**
Net on-balance sheet financial position	**647,341**	**370**	**(65,895)**	**29,546**	**(10,614)**	**600,748**
Derivative financial instruments	(79,626)	-	65,535	(29,451)	24,326	(19,216)
Net financial position	**567,715**	**370**	**(360)**	**95**	**13,712**	**581,532**
31 Dec 2021						
Total financial assets	**11,383,613**	**1,219**	**164,554**	**83,457**	**104,305**	**11,737,148**
Total financial liabilities	**10,759,098**	**18**	**194,704**	**57,960**	**65,416**	**11,077,196**
Net on-balance sheet financial 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**

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b) FX sensitivity analysis

	NLB Group and NLB	
Scenarios	31 Dec 2022	31 Dec 2021
USD	+/-9.27%	+/-5.74%
CHF	+/-7.88%	+/-4.23%
CZK	+/-5.70%	+/-4.55%
RSD	+/-0.40%	+/-0.35%
MKD	+/-1.62%	+/-1.34%
JPY	+/-12.35%	+/-5.66%
AUD	+/-9.91%	+/-6.77%
HUF	+/-13.43%	+/-6.53%
HRK	+/-0.98%	+/-1.38%
BAM	+/-0 %	+/-0%

in EUR thousands

	NLB Group		NLB	
31 Dec 2022	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	(333)	-	(482)	423
CHF	(662)	463	7	-
CZK	(2)	-	1	-
RSD	11	3,167	1	-
MKD	1	4,518	1	-
Other	251	48	144	-
Effects on comprehensive income	**(734)**	**8,196**	**(328)**	**423**
Depreciation of				
USD	277	-	400	(351)
CHF	565	(396)	(6)	-
CZK	2	-	(1)	-
RSD	(11)	(3,142)	(1)	-
MKD	(1)	(4,375)	(1)	-
Other	(203)	(48)	(121)	-
Effects on comprehensive income	**629**	**(7,961)**	**270**	**(351)**

Contents

				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)**

The effect on the other comprehensive income statement of NLB Group has increased due to the higher translation positions in MKD and RSD currencies and due to the higher 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 approach. 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.

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 2022	NLB Group			
Currency	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 Years
EUR	(2,061,940)	1,461,068	1,389,104	667,013
RSD	338,852	213,972	52,070	2
MKD	192,033	13,086	17,792	10,070
Other	(131,316)	73,414	52,832	6,652

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 2022	NLB			
Currency	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 Years
EUR	(1,871,890)	1,050,116	1,023,946	550,833
Other	(81,512)	29,436	395	7,189

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

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Net interest income sensitivity	43,713	18,520	21,393	6,668
Net interest income sensitivity - as % of Equity	2.02%	0.94%	1.48%	0.49%

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.

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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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Interest risk in banking book - EVE	122,276	126,651	82,714	84,130
Interest risk in banking book - EVE as % of Equity	5.60%	6.42%	5.72%	6.14%

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. The origin of each risk is determined as being internal, external, or a combination of internal and external (internal shock, meaning it originates within the bank, or external shock; meaning it comes from outside the bank - e.g., a major macroeconomic event, physical or transition event, ESG rating downgrade). Based on the identified material risks, key liquidity risk drivers are defined. 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 reserve, 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;
- to ensure that climate-related and environmental risks which could have a material impact on net cash outflows or liquidity reserves, are incorporate into liquidity risk management and liquidity reserves calibration.

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.

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 reserves 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.

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The structure of liquidity reserves is shown in the following table.

in EUR thousands

	NLB Group		NLB	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Liquidity reserves				
Cash, cash balances at central banks*	3,918,043	3,567,873	3,180,523	3,068,123
Trading book securities	203	-	203	-
Banking book securities	4,665,913	4,615,374	2,831,685	2,479,952
ECB eligible loans	624,278	80,043	624,278	80,043
Total available liquidity reserves	**9,208,437**	**8,263,290**	**6,636,689**	**5,628,118**
Encumbered liquidity reserves	**125,556**	**874,827**	**57,041**	**874,827**

*above reserve requirement

As at 31 December 2022, 81.0% (31 December 2021: 79.8%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 9.1% (31 December 2021: 10.0%) 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.

b) Encumbered/unencumbered assets

in EUR thousands

	NLB Group				NLB			
31 Dec 2022	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered ecurities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	1,109,016	-	3,673,152	-	112,804	-	3,045,737	-
Equity instruments	742	742	95,580	95,580	-	-	50,303	50,303
Debt securities	77,522	74,992	4,682,208	4,516,292	57,041	54,510	2,831,887	2,679,423
Loans and advances other than loans on demand	27,000	-	13,446,808	-	11,413	-	6,515,916	-
Other assets	-	-	1,048,212	-	-	-	1,314,232	-
Total	**1,214,280**		**22,945,960**		**181,258**		**13,758,075**	

in EUR thousands

	NLB Group				NLB			
31 Dec 2021	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered ecurities	Carrying amount of unencumbered assets	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**	

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 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Equity instruments	262,947	242,682	239,405	203,620
Loans and advances other than loans on demand	167,431	140,751	16,867	20,245
Other assets	12,876,402	9,839,848	4,721,729	4,120,940
Total	**13,306,780**	**10,223,281**	**4,978,001**	**4,344,805**

d) Source of encumbrance

in EUR thousands

	NLB Group				NLB			
	31 Dec 2022		31 Dec 2021		31 Dec 2022		31 Dec 2021	
	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	3,238	13,753	42,292	53,744	9,607	20,051	42,292	53,744
Deposits	62,755	65,048	746,021	835,066	13,001	12,971	790,505	877,641
Other sources of encumbrance	2,901	1,135,479	3,698	1,122,179	-	148,235	-	132,010
Total	**68,894**	**1,214,280**	**792,011**	**2,010,989**	**22,608**	**181,257**	**832,797**	**1,063,395**

As at 31 December 2022, 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 1,214 million (31 December 2021: EUR 2,011 million), relating to the deposit guarantee scheme and to targeted longer-term refinancing operations (TLTRO) which is held only by the N Banka.

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 2022	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	-	-	-	1,796	-	1,796
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	85,924	101	164	20,598	-	106,787
- borrowings from banks and central banks	1,386	2,067	5,809	129,289	63,074	201,625
- due to customers	17,972,715	301,188	958,293	819,684	17,148	20,069,028
- borrowings from other customers	651	1,413	6,247	35,338	41,846	85,495
- debt securities issued	-	4,427	52,572	473,176	646,795	1,176,970
- other financial liabilities	200,302	8,979	22,610	61,190	1,382	294,463
Credit risk related commitments	1,025,323	191,162	863,679	572,505	438,012	3,090,681
Non-financial guarantees	238,213	65,243	155,752	323,300	80,271	862,779
Total	**19,524,514**	**574,580**	**2,065,126**	**2,436,876**	**1,288,528**	**25,889,624**
Total financial assets	**6,989,609**	**985,475**	**3,601,095**	**8,665,468**	**5,776,769**	**26,018,416**

in EUR thousands

31 Dec 2021	NLB Group 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
- debt securities issued	-	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

31 Dec 2022	NLB 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	-	-	-	728	1,786	2,514
Financial liabilities measured at amortised cost						-
- deposits from banks and central banks	193,526	-	-	19,441	-	212,967
- borrowings from banks and central banks	13,086	681	-	45,052	-	58,819
- due to customers	10,604,437	60,516	119,935	208,066	3,417	10,996,371
- borrowings from other customers	1	-	-	215	-	216
- debt securities issued	-	4,427	52,572	473,176	646,795	1,176,970
- other financial liabilities	122,875	4,891	6,494	29,915	392	164,567
Credit risk related commitments	536,542	140,256	618,940	396,200	293,261	1,985,199
Non-financial guarantees	23,682	52,473	106,608	243,618	36,424	462,805
Total	**11,494,149**	**263,244**	**904,549**	**1,416,411**	**982,075**	**15,060,428**
Total financial assets	**4,036,868**	**402,218**	**1,570,138**	**4,643,031**	**3,344,409**	**13,996,664**

in EUR thousands

31 Dec 2021	NLB 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
- debt securities issued	-	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**

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.

f) An analysis of the statement of financial position by residual contractual maturity

in EUR thousands

	NLB Group					
31 Dec 2022	**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	5,271,365	-	-	-	-	5,271,365
Financial assets held for trading	21,385	203	-	-	-	21,588
Non-trading financial assets mandatorily at fair value through profit or loss	6,028	-	-	-	13,003	19,031
Financial assets measured at fair value through other comprehensive income	581,522	167,836	365,650	1,525,431	278,764	2,919,203
Financial assets measured at amortised cost						
- debt securities	20,627	90,756	208,048	927,083	671,101	1,917,615
- loans and advances to banks	216,239	752	4,460	1,512	2	222,965
- loans and advances to customers	589,494	602,256	2,650,299	5,110,381	4,120,556	13,072,986
- other financial assets	145,171	5,804	3,100	23,699	49	177,823
Derivatives - hedge accounting	59,362	-	-	-	-	59,362
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	(166)	(2,770)	(20,831)	(23,767)
Non-current assets held for sale	-	-	15,436	-	-	15,436
Property and equipment	-	-	-	29,482	221,834	251,316
Investment property	-	-	-	31,399	4,240	35,639
Intangible assets	-	-	-	13,797	44,438	58,235
Investments in associates and joint ventures	-	-	-	-	11,677	11,677
Current income tax assets	-	-	1,696	-	-	1,696
Deferred income tax assets	-	-	4,610	35,781	15,136	55,527
Other assets	13,618	8,614	14,012	36,129	170	72,543
Total assets	**6,924,811**	**876,221**	**3,267,145**	**7,731,924**	**5,360,139**	**24,160,240**
Financial liabilities held for trading	21,589	-	-	-	-	21,589
Financial liabilities measured at fair value through profit or loss	-	-	-	1,796	-	1,796
Derivatives - hedge accounting	2,124	-	-	-	-	2,124
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	85,864	101	164	20,285	-	106,414
- borrowings from banks and central banks	1,334	1,807	5,551	126,867	63,050	198,609
- due to customers	17,971,630	298,609	943,776	797,893	15,818	20,027,726
- borrowings from other customers	616	1,335	5,667	33,086	41,778	82,482
- debt securities issued	-	3,689	12,198	299,026	501,077	815,990
- other financial liabilities	196,862	8,548	19,697	44,890	626	270,623
- lease liabilities	3,440	431	2,913	16,300	756	23,840
Provisions	15,173	1,434	30,812	73,879	1,354	122,652
Current income tax liabilities	3,610	506	8,304	-	-	12,420
Deferred income tax liabilities	-	-	-	2,569	-	2,569
Other liabilities	30,797	1,311	2,788	10,409	3,776	49,081
Total liabilities	**18,333,039**	**317,771**	**1,031,870**	**1,427,000**	**628,235**	**21,737,915**
Credit risk related commitments	1,025,323	191,162	863,679	572,505	438,012	3,090,681
Non-financial guarantees	238,213	65,243	155,752	323,300	80,271	862,779
Total liabilities and credit-related commitments	**19,596,575**	**574,176**	**2,051,301**	**2,322,805**	**1,146,518**	**25,691,375**

Contents

in EUR thousands

31 Dec 2021	NLB Group 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
- debt securities issued	-	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

31 Dec 2022	NLB 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	3,339,024	-	-	-	-	3,339,024
Financial assets held for trading	21,489	203	-	-	-	21,692
Non-trading financial assets mandatorily at fair value through profit or loss	552	80	143	6,806	7,830	15,411
Financial assets measured at fair value through other comprehensive income	65,845	103,900	203,422	792,812	168,082	1,334,061
Financial assets measured at amortised cost						
- debt securities	20,601	28,445	131,802	790,360	626,240	1,597,448
- loans and advances to banks	112,181	55,033	34,255	76,880	72,276	350,625
- loans and advances to customers	315,265	185,007	1,043,235	2,417,414	2,093,492	6,054,413
- other financial assets	90,598	375	89	23,320	17	114,399
Derivatives - hedge accounting	59,362	-	-	-	-	59,362
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-	(166)	(2,770)	(20,831)	(23,767)
Non-current assets held for sale	-	-	4,235	-	-	4,235
Property and equipment	-	-	-	15,054	63,538	78,592
Investment property	-	-	-	6,753	-	6,753
Intangible assets	-	-	-	5,661	24,764	30,425
Investments in subsidiaries, associates and joint ventures	-	-	7,663	36,865	864,083	908,611
Deferred income tax assets	-	-	-	34,888	-	34,888
Other assets	417	-	5,494	7,250	-	13,161
Total assets	**4,025,334**	**373,043**	**1,430,172**	**4,211,293**	**3,899,491**	**13,939,333**
Financial liabilities held for trading	22,150	-	-	-	-	22,150
Financial liabilities measured at fair value through profit or loss	-	-	-	728	1,786	2,514
Derivatives - hedge accounting	2,124	-	-	-	-	2,124
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	193,526	-	-	19,130	-	212,656
- borrowings from banks and central banks	13,086	517	-	43,689	-	57,292
- due to customers	10,604,203	59,717	116,014	201,162	3,315	10,984,411
- borrowings from other customers	1	-	-	215	-	216
- debt securities issued	-	3,689	12,198	299,026	501,077	815,990
- other financial liabilities	122,793	4,736	5,830	27,859	-	161,218
- lease liabilities	82	155	664	2,056	392	3,349
Provisions	360	756	16,665	27,435	-	45,216
Current income tax liabilities	-	-	3,940	-	-	3,940
Other liabilities	14,496	181	1,052	5,922	3,736	25,387
Total liabilities	**10,972,821**	**69,751**	**156,363**	**627,222**	**510,306**	**12,336,463**
Credit risk related commitments	536,542	140,256	618,940	396,200	293,261	1,985,199
Non-financial guarantees	23,682	52,473	106,608	243,618	36,424	462,805
Total liabilities and credit-related commitments	**11,533,045**	**262,480**	**881,911**	**1,267,040**	**839,991**	**14,784,467**

Investments in subsidiaries with expected residual maturity between 3 months and 1 year include investment in N Banka in the amount 5,109 EUR thousands, which is expected to be merged with NLB during the year 2023.

						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
- debt securities issued	-	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**

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 2022	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	(31,846)	(22,128)	(5,856)	(6,475)	-	(66,305)
- Inflow	31,895	22,136	5,863	6,487	-	66,381
- Swaps						
- Outflow	(194,674)	(52,726)	(10,042)	-	-	(257,442)
- Inflow	193,719	53,098	9,996	-	-	256,813
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(819)	(2,100)	(10,699)	(105,839)	(24,177)	(143,634)
- Inflow	816	2,560	19,982	76,356	44,616	144,330
- Caps and floors						
- Outflow	(14)	(36)	(667)	(16,104)	(8,632)	(25,453)
- Inflow	45	30	850	1,468	15	2,408
Total outflow	**(227,353)**	**(76,990)**	**(27,264)**	**(128,418)**	**(32,809)**	**(492,834)**
Total inflow	**226,475**	**77,824**	**36,691**	**84,311**	**44,631**	**469,932**

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

31 Dec 2022	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
	NLB					
Foreign exchange derivatives						
- Forwards						
- Outflow	(31,557)	(22,128)	(5,856)	(6,475)	-	(66,016)
- Inflow	31,618	22,136	5,863	6,487	-	66,104
- Swaps						
- Outflow	(249,950)	(110,588)	-	-	-	(360,538)
- Inflow	248,993	110,595	-	-	-	359,588
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(844)	(2,027)	(12,366)	(41,180)	(22,621)	(79,038)
- Inflow	819	2,567	20,349	77,243	44,616	145,594
- Caps and floors						
- Outflow	(50)	(55)	(919)	(1,824)	(41)	(2,889)
- Inflow	45	30	850	1,468	15	2,408
Total outflow	**(282,401)**	**(134,798)**	**(19,141)**	**(49,479)**	**(22,662)**	**(508,481)**
Total inflow	**281,475**	**135,328**	**27,062**	**85,198**	**44,631**	**573,694**

in EUR thousands

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					
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**

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 Group 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 2022 was significantly lower than in the previous year and 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. For the later key risk indicators (KRIs) have been also 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 based on 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 2022, Business Continuity Management was upgraded System according to external influence – we added list of all critical employees and their deputies for all Organizational Units.

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 Organizational Unit Plans (merged office buildings and HR plans) and IT plans are checked. The best indicator of the adequacy of the business continuity plans is testing. In 2022, NLB tested evacuation, Manual Procedures, backup locations and IT. No major deviations were identified.

In NLB Group, know-how and methodologies are transferred to the members. 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. All preventive and response measures with regard to business continuity are regularly sent to the members with the purpose to help and act in the uniform way. Besides, workshops are performed to present development of Business Continuity Management System to all the NLB Group members to be more resilient in all relevant 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.

c) Management of other types of non-financial risks – 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, gold, 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 2022	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	203	21,368	17	21,588	203	21,472	17	21,692
Debt instruments	203	-	-	203	203	-	-	203
Derivatives	-	21,368	17	21,385	-	21,472	17	21,489
Derivatives - hedge accounting	-	59,362	-	59,362	-	59,362	-	59,362
Financial assets measured at fair value through other comprehensive income	1,746,405	1,169,306	3,492	2,919,203	1,282,584	49,182	2,295	1,334,061
Debt instruments	1,745,896	1,090,664	2,236	2,838,796	1,282,584	6,667	2,026	1,291,277
Equity instruments	509	78,642	1,256	80,407	-	42,515	269	42,784
Non-trading financial assets mandatorily at fair value through profit and loss	11,512	-	7,519	19,031	-	7,892	7,519	15,411
Debt instruments	3,116	-	-	3,116	-	-	-	-
Equity instruments	8,396	-	7,519	15,915	-	-	7,519	7,519
Loans	-	-	-	-	-	7,892	-	7,892
Financial liabilities								
Financial instruments held for trading	-	21,589	-	21,589	-	22,150	-	22,150
Derivatives	-	21,589	-	21,589	-	22,150	-	22,150
Derivatives - hedge accounting	-	2,124	-	2,124	-	2,124	-	2,124
Financial liabilities measured at fair value through profit or loss	-	1,796	-	1,796	-	2,514	-	2,514
Non-financial assets								
Investment properties	-	12,192	23,447	35,639	-	6,753	-	6,753
Non-current assets held for sale	-	15,436	-	15,436	-	4,235	-	4,235
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	-	-	30,636	30,636	-	-	-	-
Recoverable amount of investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	3,301	3,301

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

Contents

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.

Fair value hierarchy	Equities	Equity stake	Gold	Funds	Debt securities	Loans	Derivatives		
							Equities	Currency	Interest
1	market value from exchange market		market value from spot 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)				

Due to technical default of Russia in June 2022, there is no more active market for Russian bonds. Consequently, NLB Group and NLB transferred Russian bonds with notional amount of USD 8 million from Level 1 to 3. Fair value at the date of transfer was EUR 1,812 thousand. As of 31 December 2022, the bond is evaluated according to three scenarios; 100% repayment at maturity taking into account the required yield of the bond in the market at the time of default, 100% repayment after four years from maturity taking into account the required yield of NPL on emerging markets, and no repayment. Each scenario represents a third of the probability of an event occurring.

For 2021, 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;
- non-performing loans measured at fair value, which according to IFRS 9 do not pass the 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; and
- Russian bonds due to technical default in June 2022.

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: 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

NLB Group	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
	Derivatives	Debt instruments	Equity instruments	Equity instruments	Loans and other financial assets	
Balance as at 1 January 2021	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**
Effects of translation of foreign operations to presentation currency	-	-	(2)	-	-	(2)
Acquisition of subsidiaries	-	-	12	-	-	12
Valuation:						
- through profit or loss	16	-	-	477	-	493
- recognised in other comprehensive income	-	239	110	-	-	349
Foreign exchange differences	-	(25)	-	262	-	237
Increases	-	-	-	2,873	-	2,873
Decreases	-	(141)	-	(565)	-	(706)
Transfers to Level 3	-	1,812	-	-	-	1,812
Balance as at 31 December 2022	**17**	**2,236**	**1,256**	**7,519**	**-**	**11,028**

in EUR thousands

NLB	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
	Derivatives	Debt instruments	Equity instruments	Equity instruments	Loans and other financial assets	
Balance as at 1 January 2021	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**
Valuation:						
- through profit or loss	16	-	-	477	-	493
- recognised in other comprehensive income	-	239	50	-	-	289
Foreign exchange differences	-	(25)	-	262	-	237
Increases	-	-	-	2,873	-	2,873
Decreases	-	-	-	(565)	-	(565)
Transfers to Level 3	-	1,812	-	-	-	1,812
Balance as at 31 December 2022	**17**	**2,026**	**269**	**7,519**	**-**	**9,831**

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.'

In 2022 and in 2021, 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
2022	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	16	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	-	477
Foreign exchange translation gains less losses	-	(25)	-	262
Item of Other comprehensive income				
Financial assets measured at fair value through other comprehensive income	-	239	110	-

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
2021	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**
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	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
2022	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	16	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	-	477
Foreign exchange translation gains less losses	-	(25)	-	262
Item of Other comprehensive income				
Financial assets measured at fair value through other comprehensive income	-	239	50	-

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
2021	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	-	-	-	-
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	-	-	-	(56)
Foreign exchange translation gains less losses	-	-	-	357

Movements of non-financial assets at Level 3

in EUR thousands	NLB Group	
Investment property	**2022**	**2021**
Balance as at 1 January	27,642	32,210
Effects of translation of foreign operations to presentation currency	22	19
Acquisition of subsidiaries (note 5.12.c)	302	-
Additions	3	-
Disposals	(7,578)	(502)
Transfer from/(to) property and equipment	434	(7,568)
Transfer from/(to) non-current assets held for sale	-	22
Transfer from/(to) other assets	-	1,260
Net valuation to fair value	2,622	3,416
Disposal of subsidiary (note 5.12.d)	-	(1,215)
Balance as at 31 December	**23,447**	**27,642**

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 2022		31 Dec 2021		31 Dec 2022		31 Dec 2021	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	1,917,615	1,749,169	1,717,626	1,745,225	1,597,448	1,442,453	1,436,424	1,461,185
- loans and advances to banks	222,965	223,077	140,683	140,843	350,625	362,422	199,287	204,743
- loans and advances to customers	13,072,986	12,883,859	10,587,121	10,751,051	6,054,413	5,965,468	5,145,153	5,235,839
- other financial assets	177,823	177,823	122,229	122,229	114,399	114,399	92,404	92,404
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	106,414	106,627	71,828	69,720	212,656	212,880	109,329	109,522
- borrowings from banks and central banks	198,609	193,774	858,531	849,834	57,292	52,897	873,479	863,970
- due to customers	20,027,726	20,031,938	17,640,809	17,658,686	10,984,411	10,989,255	9,659,605	9,664,607
- borrowings from other customers	82,482	80,684	74,051	73,744	216	216	406	406
- debt securities issued	815,990	788,892	288,519	292,130	815,990	788,892	288,519	292,130
- other financial liabilities	294,463	294,463	206,878	206,878	164,567	164,567	102,527	102,527

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 2022	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	1,476,615	265,325	7,229	1,749,169	1,350,003	92,450	-	1,442,453
- loans and advances to banks	-	223,077	-	223,077	-	362,422	-	362,422
- loans and advances to customers	-	12,883,859	-	12,883,859	-	5,965,468	-	5,965,468
- other financial assets	-	177,823	-	177,823	-	114,399	-	114,399
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	106,627	-	106,627	-	212,880	-	212,880
- borrowings from banks and central banks	-	193,774	-	193,774	-	52,897	-	52,897
- due to customers	-	20,031,938	-	20,031,938	-	10,989,255	-	10,989,255
- borrowings from other customers	-	80,684	-	80,684	-	216	-	216
- debt securities issued	748,958	39,934	-	788,892	748,958	39,934	-	788,892
- other financial liabilities	-	294,463	-	294,463	-	164,567	-	164,567

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
- debt securities issued	245,700	46,430	-	292,130	245,700	46,430	-	292,130
- other financial liabilities	-	206,878	-	206,878	-	102,527	-	102,527

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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 2022	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	80,724	3,053	72,204	5,467
Derivatives - liabilities	17,482	3,053	1,959	12,470

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			
31 Dec 2022	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	80,834	3,133	72,204	5,497
Derivatives - liabilities	24,273	3,133	8,251	12,889

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

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

	NLB Group							
2022	**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	211,474	105,198	427,519	46,601	4,697	10,024		805,513
Net income from external customers	227,590	121,042	429,999	5,558	4,426	9,934	-	798,549
Intersegment net income	(16,116)	(15,844)	(2,480)	41,043	271	90	-	6,964
Net interest income	104,809	52,930	298,042	47,304	267	1,570	-	504,922
Net interest income from external customers	125,541	71,832	303,349	2,169	453	1,578	-	504,922
Intersegment net interest income	(20,732)	(18,902)	(5,307)	45,135	(186)	(8)	-	-
Administrative expenses	(132,893)	(60,471)	(199,593)	(8,812)	(12,109)	(7,309)	-	(421,187)
Depreciation and amortisation	(11,149)	(4,629)	(28,538)	(618)	(498)	(621)	-	(46,053)
Reportable segment profit/(loss) before impairment and provision charge	67,432	40,098	199,388	37,171	(7,910)	2,094	-	338,273
Other net gains/(losses) from equity investments in subsidiaries, associates and joint ventures	781	-	-	-	-	-	-	781
Negative goodwill	-	-	68	-	-	172,810	-	172,878
Impairment and provisions charge	(21,435)	12,156	(12,325)	(3,363)	(829)	(3,073)	-	(28,869)
Profit/(loss) before income tax	46,778	52,254	187,131	33,808	(8,739)	171,831	-	483,063
Owners of the parent	46,778	52,254	176,160	33,808	(8,739)	171,831	-	472,092
Non-controlling interests	-	-	10,971	-	-	-	-	10,971
Income tax	-	-	-	-	-	-	(25,230)	(25,230)
Profit for the year								**446,862**
Reportable segment assets	3,665,110	3,372,047	10,179,396	6,514,047	61,563	356,400	-	24,148,563
Investments in associates and joint ventures	11,677	-	-	-	-	-	-	11,677
Reportable segment liabilities	9,108,497	2,777,001	8,539,025	1,118,681	3,754	190,957	-	21,737,915
Additions to non-current assets	10,717	6,088	29,042	261	99	4,688	-	50,895

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

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 and N Banka are divided into several segments. Interest income and expenses are reallocated 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 Ljubljana 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 micro companies (NLB and N Banka), asset management (NLB Skladi), and part of subsidiary NLB Lease&Go Ljubljana 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 in NLB and N Banka, and part of the subsidiary NLB Lease&Go Ljubljana that includes operations with corporate clients.
- 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 well as investment company KomBank Invest, Beograd, NLB DigIT, Beograd, NLB Lease&Go Skopje and NLB Lease&Go leasing Belgrade. Komercijalna banka, Banja Luka was sold outside the NLB Group on 9 December 2021; its operations till that date are included in the result of the segment for the year 2021.
- Financial Markets in Slovenia include treasury activities and trading in financial instruments, while they also present the results of asset and liabilities management (ALM) in both NLB and N Banka.
- Other accounts in NLB and N Banka for the categories whose operating results cannot be allocated to specific segments, including negative goodwill from acquisition of N Banka NLB Lease&Go leasing Belgrade, as well as the subsidiaries NLB Cultural Heritage Management Institute and Privatinvest.

Non-Core Members include the operations of non-core NLB Group members, namely REAM and leasing entities in liquidation, NLB Srbija, and NLB Crna Gora. NLB Leasing Ljubljana was sold to the strategic company NLB Lease&Go Ljubljana 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 NLB 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	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Slovenia	445,749	352,053	367,121	301,021	288,563	137,857	(9,719)	(5,043)
South East Europe	505,855	458,571	431,267	365,649	194,764	121,301	(15,487)	(8,462)
Bosnia and Herzegovina	84,065	83,087	71,205	52,735	33,475	15,236	(2,635)	(2,213)
Croatia	23	5	473	207	(170)	(181)	(45)	(1)
Kosovo	58,297	51,512	49,251	42,595	35,922	27,056	(3,693)	(2,787)
Montenegro	49,528	43,983	38,251	34,756	15,436	6,508	(1,838)	(1,484)
North Macedonia	94,660	87,936	78,369	70,157	41,807	43,277	(3,795)	(4,054)
Serbia	219,282	192,048	193,718	165,199	68,294	29,405	(3,481)	2,077
Western Europe	13	17	161	249	(264)	2,248	(24)	(33)
Germany	-	1	58	499	(647)	488	-	-
Switzerland	13	16	103	(250)	383	1,760	(24)	(33)
Total	**951,617**	**810,641**	**798,549**	**666,919**	**483,063**	**261,406**	**(25,230)**	**(13,538)**

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.

in EUR thousands

	Non-current assets		Total assets		Number of employees	
NLB Group	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
Slovenia	152,037	150,829	13,935,167	11,716,270	2,833	2,619
South East Europe	204,802	214,380	10,216,136	9,845,128	5,392	5,563
Bosnia and Herzegovina	35,550	34,782	1,799,877	1,596,370	971	942
Croatia	377	383	3,557	4,025	6	6
Kosovo	14,289	14,988	1,082,474	930,383	467	463
Montenegro	17,416	18,328	825,400	775,238	380	374
North Macedonia	36,348	37,384	1,832,477	1,758,269	954	877
Serbia	100,822	108,515	4,672,351	4,780,843	2,614	2,901
Western Europe	28	30	8,937	16,098	3	3
Germany	28	30	691	971	1	1
Switzerland	-	-	8,246	15,127	2	2
Total	**356,867**	**365,239**	**24,160,240**	**21,577,496**	**8,228**	**8,185**

Contents

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals:

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Slovenia	523,774	448,559	431,187	387,692	191,900	225,706	(9,153)	(5,252)
South East Europe	507,243	459,405	429,307	374,776	199,981	146,496	(15,952)	(8,940)
Bosnia and Herzegovina	84,107	83,275	70,211	67,806	33,352	30,895	(2,635)	(2,213)
Croatia	128	3	617	274	(170)	(181)	(45)	(1)
Kosovo	58,296	51,509	48,391	41,833	36,095	27,223	(3,693)	(2,787)
Montenegro	49,738	43,978	37,822	35,417	18,374	7,969	(1,838)	(1,484)
North Macedonia	94,624	87,864	75,882	68,429	41,601	43,054	(3,795)	(4,054)
Serbia	220,350	192,776	196,384	161,017	70,729	37,536	(3,946)	1,599
Western Europe	25	19	(12)	86	(2,835)	2,247	(24)	(33)
Germany	1	1	54	493	(646)	489	-	-
Switzerland	24	18	(66)	(407)	(2,189)	1,758	(24)	(33)
Total	**1,031,042**	**907,983**	**860,482**	**762,554**	**389,046**	**374,449**	**(25,129)**	**(14,225)**

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	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	
	2022	2021	2022	2021	2022	2021	2022	2021
Loans issued								
Balance at 1 January	2,097	2,284	415	444	532	-	60	305
Increase	1,526	1,041	324	228	8	891	76	55
Decrease	(1,450)	(1,228)	(270)	(257)	(540)	(359)	(82)	(300)
Balance at 31 December	**2,173**	**2,097**	**469**	**415**	**-**	**532**	**54**	**60**
Interest income	41	39	10	7	-	6	-	4
Deposits received								
Balance at 1 January	2,170	1,610	718	956	590	136	505	323
Increase	2,938	2,048	634	595	6,413	1,625	398	321
Decrease	(2,552)	(1,488)	(426)	(833)	(6,785)	(1,171)	(555)	(139)
Balance at 31 December	**2,556**	**2,170**	**926**	**718**	**218**	**590**	**348**	**505**
Interest expenses	(7)	(4)	-	-	-	-	(2)	(1)
Other financial liabilities	**2**	**3**	**-**	**1**	**3**	**14**	**-**	**-**
Other financial liabilities measured at fair value through profit or loss (note 2.31.)	**801**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other operating liabilities	**6,559**	**2,265**	**-**	**-**	**-**	**-**	**-**	**-**
Guarantees issued and loan commitments	**237**	**215**	**70**	**72**	**-**	**194**	**17**	**23**
Fee income	19	12	7	6	66	83	2	2
Other income	17	13	-	-	-	-	-	-
Other expenses	-	-	-	-	(382)	(78)	-	-

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	
	2022	2021	2022	2021	2022	2021	2022	2021
Loans issued								
Balance at 1 January	2,097	2,284	415	444	532	-	60	305
Increase	1,480	1,041	324	228	8	891	76	55
Decrease	(1,405)	(1,228)	(270)	(257)	(540)	(359)	(82)	(300)
Balance at 31 December	**2,172**	**2,097**	**469**	**415**	**-**	**532**	**54**	**60**
Interest income	41	39	10	7	-	6	-	4
Deposits received								
Balance at 1 January	2,170	1,610	718	956	590	136	505	323
Increase	2,643	2,048	634	595	6,413	1,625	398	321
Decrease	(2,277)	(1,488)	(426)	(833)	(6,785)	(1,171)	(555)	(139)
Balance at 31 December	**2,536**	**2,170**	**926**	**718**	**218**	**590**	**348**	**505**
Interest expenses	(7)	(4)	-	-	-	-	(2)	(1)
Other financial liabilities	**2**	**3**	**-**	**1**	**3**	**14**	**-**	**-**
Other financial liabilities measured at fair value through profit or loss (note 2.31.)	**728**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other operating liabilities	**6,539**	**2,265**	**-**	**-**	**-**	**-**	**-**	**-**
Guarantees issued and loan commitments	**223**	**215**	**70**	**72**	**-**	**194**	**17**	**23**
Fee income	18	12	7	6	66	83	2	2
Other income	17	13	-	-	-	-	-	-
Other expenses	-	-	-	-	(382)	(78)	-	-

in EUR thousands

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 2022, NLB d.d. in accordance with the EBA Guidelines on sound remuneration policies under Directive 2013/36/EU, 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 and in accordance with Commission Delegated regulation (EU) 2021/923, 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 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	
	2022	2021	2022	2021	2022	2021
Short-term benefits	2,282	1,589	6,148	5,480	696	705
Cost refunds	6	4	98	83	74	26
Long-term bonuses:						
- severance pay	-	385	-	5	-	-
- other benefits	7	5	77	70	-	-
- variable part of payments	276	394	1,425	2,898	-	-
Total	**2,571**	**2,377**	**7,748**	**8,536**	**770**	**731**

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		2022	2021
Blaž Brodnjak	Short-term benefits:		
01.12.2012	- gross salary and holiday allowance	542,370	441,770
	- benefits and other short-term bonuses	6,908	2,310
	Costs refunds	1,318	1,302
	Long-term bonuses:		
	- other benefits	1,912	1,410
	- variable part of payments	95,214	130,211
	Total	**647,722**	**577,003**
Andreas Burkhardt	Short-term benefits:		
18.09.2013	- gross salary and holiday allowance	486,438	405,092
	- benefits and other short-term bonuses	33,588	32,672
	Costs refunds	1,243	1,290
	Long-term bonuses:		
	- other benefits	1,452	1,410
	- variable part of payments	89,132	122,919
	Total	**611,853**	**563,383**
Archibald Kremser	Short-term benefits:		
31.07.2013	- gross salary and holiday allowance	517,370	420,809
	- benefits and other short-term bonuses	39,220	34,117
	Costs refunds	1,302	1,249
	Long-term bonuses:		
	- other benefits	1,452	1,410
	- variable part of payments	91,870	126,044
	Total	**651,214**	**583,629**
Antonio Argir	Short-term benefits:		
28.04.2022	- gross salary and holiday allowance	205,291	-
	- benefits and other short-term bonuses	30,077	-
	Costs refunds	796	-
	Long-term bonuses:		
	- other benefits	859	-
	- variable part of payments	-	-
	Total	**237,023**	**-**
Andrej Lasič	Short-term benefits:		
28.04.2022	- gross salary and holiday allowance	205,292	-
	- benefits and other short-term bonuses	4,216	-
	Costs refunds	796	-
	Long-term bonuses:		
	- other benefits	859	-
	- variable part of payments	-	-
	Total	**211,163**	**-**
Hedvika Usenik	Short-term benefits:		
28.04.2022	- gross salary and holiday allowance	205,292	-
	- benefits and other short-term bonuses	5,512	-
	Costs refunds	782	-
	Long-term bonuses:		
	- other benefits	859	-
	- variable part of payments	-	-
	Total	**212,445**	**-**
Petr Brunclík	Short-term benefits:		
18.05.2020 - 30.06.2021	- gross salary and holiday allowance	-	221,963
	- benefits and other short-term bonuses	-	30,092
	Costs refunds	-	476
	Long-term bonuses:		
	- severance payments	-	385,000
	- other benefits	-	705
	- variable part of payments	-	14,633
	Total	**-**	**652,869**

Contents

Payments to individual members of the Supervisory Board

in EUR

Member		2022	2021
Primož Karpe	Session fees	-	-
11.02.2016	Annual compensation	96,000	96,000
	Other bonuses - benefit	382	447
	Costs refunds	10,952	4,629
Andreas Klingen	Session fees	-	-
22.06.2015	Annual compensation	90,000	90,000
	Other bonuses - benefit	382	447
	Costs refunds	7,360	4,947
David Eric Simon	Session fees	-	-
04.08.2016	Annual compensation	81,000	81,000
	Other bonuses - benefit	382	447
	Costs refunds	7,931	5,251
Gregor Rok Kastelic	Session fees	-	-
10.06.2019	Annual compensation	81,000	81,000
	Other bonuses - benefit	382	447
	Costs refunds	9,340	758
Shrenik Dhirajlal Davda	Session fees	-	-
10.06.2019	Annual compensation	72,000	72,000
	Other bonuses - benefit	382	447
	Costs refunds	8,767	2,367
Mark William Lane Richards	Session fees	-	-
10.06.2019	Annual compensation	81,000	81,000
	Other bonuses - benefit	382	447
	Costs refunds	9,493	2,643
Verica Trstenjak	Session fees	-	-
15.06.2020	Annual compensation	66,000	65,790
	Other bonuses - benefit	382	447
	Costs refunds	1,473	-
Sergeja Kočar	Session fees	-	-
17.06.2020	Annual compensation	8,327	11,856
	Other bonuses - benefit	382	447
	Costs refunds	1,183	-
Islam Osama Bahgat Zekry	Session fees	-	-
14.06.2021	Annual compensation	72,000	38,608
	Other bonuses - benefit	382	447
	Costs refunds	17,622	5,705
Tadeja Žbontar Rems	Session fees	-	-
22.01.2021	Annual compensation	31,215	26,656
	Other bonuses - benefit	382	447
	Costs refunds	185	-
Bojana Šteblaj	Session fees	-	-
17.06.2020 - 12.09.2022	Annual compensation	12,014	15,655
	Other bonuses - benefit	-	447
	Costs refunds	-	-
Janja Žabjek Dolinšek	Session fees	-	-
20.11.2020 - 08.07.2022	Annual compensation	1,473	6,839
	Other bonuses - benefit	-	447
	Costs refunds	32	-
Peter Groznik	Session fees	-	-
08.09.2017 - 14.06.2021	Annual compensation	-	32,800
	Other bonuses - benefit	-	-
	Costs refunds	-	-

Related-party transactions with subsidiaries, associates and joint ventures

in EUR thousands

NLB Group	Associates		Joint ventures	
	2022	2021	2022	2021
Loans issued				
Balance at 1 January	1,011	1,106	201	851
Acquisition of subsidiaries	77	-	-	-
Increase	145	89	2	7
Decrease	(176)	(184)	(2)	(657)
Balance at 31 December	**1,057**	**1,011**	**201**	**201**
Interest income	39	38	3	4
Impairment	(8)	26	2	69
Deposits received				
Balance at 1 January	7,967	3,973	3,492	3,434
Effects of translation of foreign operations to presentation currency	-	-	3	3
Increase	5,982	7,610	1,073	7,706
Decrease	(8,574)	(3,616)	(1,497)	(7,651)
Balance at 31 December	**5,375**	**7,967**	**3,071**	**3,492**
Interest expenses	-	-	(46)	(59)
Other financial assets	**7**	**20**	**-**	**-**
Other financial liabilities	**1,116**	**1,148**	**1**	**1**
Guarantees issued and loan commitments	**2,034**	**2,032**	**-**	**-**
Income/(expenses) provisions for guaranties and commitments	(1)	-	-	-
Fee income	69	38	-	1
Fee expenses	(12,894)	(13,583)	-	-
Other income	92	162	5	2
Other expenses	(571)	(726)	-	-

NLB	Subsidiaries		Associates		Joint ventures	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Loans issued						
Balance at 1 January	250,303	169,176	1,011	1,106	201	851
Increase	536,279	170,308	145	89	2	7
Decrease	(448,682)	(89,181)	(174)	(184)	(2)	(657)
Balance at 31 December	**337,900**	**250,303**	**982**	**1,011**	**201**	**201**
of which at amortised cost	328,641	241,840	982	1,011	201	201
of which at fair value through profit or loss	9,259	8,463	-	-	-	-
Interest income	7,461	4,906	39	38	3	4
Impairment	(645)	1,075	27	26	2	69
Valuation	(2,225)	(558)	-	-	-	-
Deposits						
Balance at 1 January	83,948	69,386	-	-	-	-
Increase	2,171,418	433,380	-	-	-	-
Decrease	(2,031,874)	(418,818)	-	-	-	-
Balance at 31 December	**223,492**	**83,948**	**-**	**-**	**-**	**-**
Interest income	940	3	-	-	-	-
Interest expenses	(5)	-	-	-	-	-
Impairment	(18)	2	-	-	-	-
Loans received						
Balance at 1 January	44,484	-	-	-	-	-
Increase	13,001	44,484	-	-	-	-
Decrease	(44,484)	-	-	-	-	-
Balance at 31 December	**13,001**	**44,484**	**-**	**-**	**-**	**-**
Interest income	9	1	-	-	-	-
Interest expenses	(2)	-	-	-	-	-
Deposits received						
Balance at 1 January	68,372	19,415	7,967	3,973	27	284
Increase	23,967,799	7,558,162	5,982	7,610	82	213
Decrease	(23,870,393)	(7,509,205)	(8,574)	(3,616)	(69)	(470)
Balance at 31 December	**165,778**	**68,372**	**5,375**	**7,967**	**40**	**27**
Interest expenses	(465)	(2)	-	-	-	-
Derivatives						
Fair value	(6,681)	(7)	-	-	-	-
Contractual amount	113,711	9,789	-	-	-	-
Interest income	312	-	-	-	-	-
Interest expenses	(181)	-	-	-	-	-
Other financial assets	**2,514**	**25,491**	**7**	**20**	**-**	**-**
Impairment	5	(8)	-	-	-	-
Other financial liabilities	**2,710**	**1,860**	**972**	**1,001**	**-**	**-**
Guarantees issued and loan commitments	**46,366**	**34,016**	**2,034**	**2,032**	**-**	**-**
Income/(expenses) provisions for guaranties and commitments	(85)	584	(1)	-	-	-
Received loan commitments and financial guarantees	**10,983**	**14,541**	**-**	**-**	**-**	**-**
Fee income	10,200	9,720	69	38	-	1
Fee expenses	(280)	(21)	(9,964)	(10,782)	-	-
Other income	1,543	1,078	92	162	2	2
Other expenses	(5,864)	(2,133)	(559)	(708)	-	-
Gains less losses from financial assets and liabilities held for trading	(7,132)	(298)	-	-	-	-

in EUR thousands

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	
	2022	2021	2022	2021
Loans issued				
Balance at 1 January	20,534	23,219	20,534	23,219
Increase	3,708	13,199	3,708	13,199
Decrease	(6,647)	(15,884)	(6,647)	(15,884)
Balance at 31 December	**17,595**	**20,534**	**17,595**	**20,534**
Interest income	713	713	713	713
Investments in securities				
Balance at 1 January	534,522	691,868	483,656	597,123
Exchange difference on opening balance	36	-	-	-
Acquisition of subsidiaries	151,047	-	-	-
Increase	672,692	1,247,211	553,823	947,581
Decrease	(746,698)	(1,392,356)	(521,066)	(1,049,482)
Valuation	(47,312)	(12,201)	(43,024)	(11,566)
Balance at 31 December	**564,287**	**534,522**	**473,389**	**483,656**
Interest income	5,816	6,021	5,844	6,389
Interest expenses	-	(652)	-	(652)
Other financial assets	**31,141**	**659**	**31,141**	**659**
Other financial liabilities	**2**	**4**	**2**	**4**
Guarantees issued and loan commitments	**1,194**	**1,184**	**1,194**	**1,184**
Fee income	350	309	350	309
Fee expenses	(28)	(27)	(28)	(27)
Other income	257	212	257	212
Other expenses	(3)	(5)	(3)	(5)
Gains less losses from financial assets and liabilities held for trading	(66)	(158)	(66)	(158)

Contents

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.

in EUR thousands

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2022	2021	2022	2021
Guarantees issued and loan commitments	188,000	70,000	3	1

in EUR thousands

NLB Group and NLB	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2022	2021	2022	2021
Loans	565,330	507,159	10	7
Debt securities measured at amortised cost	64,913	72,633	1	1
Borrowings, deposits and business accounts	108,606	184,267	3	3
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	
	2022	2021
Interest income from loans	5,130	3,141
Fees and commissions income	777	241
Interest income from debt securities measured at amortised cost and net valuation effects from hedge accounting	(4,940)	(990)
Interest expenses from borrowings, deposits, and business accounts	(99)	(213)

9. Events after the reporting date

USA regional banks & Credit Suisse turmoil

In March 2023, two regional banks in the USA, Silicon Valley Bank and Signature Bank collapsed. Developments in the USA also had impacts in Europe and put European banks under stress. Credit Suisse was impacted by the collapse in confidence as the demise of regional banks in the USA. To increase confidence in the banking sector, Swiss financial regulators engineered an emergency rescue plan for Credit Suisse resulting in the UBS Group AG buying Credit Suisse. As of 31 March 2023, the NLB Group has only a small exposure to Credit Suisse, deriving mainly from limited investment in bonds.

From a capital management point of view, most of the cumulative negative valuations of FVOCI securities (except for a smaller part which as of 31 December 2022 was carved out by the temporary treatment of sovereign debt introduced by COVID-19 related 'quick-fix' – see Note 5.23.) have already been reflected in the NLB Group's capital ratios and thus going forward are rather supportive in terms of capital levels as those exposures mature and new investments are made only with a short duration (i.e. low valuation risks).

From a liquidity point of view, no material deviations from the normal intra-monthly deposit dynamics were identified at the NLB Group level as a result of the turmoil.

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Andreas Burkhardt, CRO
Archibald Kremser, CFO
Andrej Lasič, CMO (responsible for Corporate and Investment Banking)[24]
Hedvika Usenik, CMO (responsible for Retail Banking and Private Banking)[25]

Slovenian network

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Area Branch Northwest and Central Slovenia
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1230 Domžale, Slovenia
Tel: +386 1 724 55 01

Area Branch East Slovenia[26]
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Tel: +386 2 234 45 20

Area Branch Northeast Slovenia[27]
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3320 Velenje, Slovenia
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23 Since 28 April 2022.
24 Since 28 April 2022.
25 Since 28 April 2022.
26 From 1 January 2023, new area branch.
27 From 1 January 2023, relocated.

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8000 Novo mesto, Slovenia
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Area Branch Southwest Slovenia
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28 From 1 January 2023, reorganized.

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Savinjsko-Koroška region
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Dolenjsko-Posavska region[29]
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29 From 1 January 2023, new business centre.

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30 Until 18 December 2022.

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31 From 3 June 2022.

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32 From 16 February 2023 new President of the Management Board Luka Podlogar.

33 Until 31 December 2022.
34 From 1 January 2023.

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Matic Kermavnar, Director

35 Until 31 December 2022.

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Marko Čelebić, Director

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
AT1	Additional Tier 1 capital
BCM	Business Continuity Management
BIA	Business Impact Analysis
BiH	Bosnia and Herzegovina
BMR	Benchmarks Regulation
BoS	Bank of Slovenia
bps	Basis Points
BPV	Basis Point Value
CB	Central Bank
CBR	Combined Buffer Requirement
CCF	Credit Conversion Factor
CEE	Central Eastern Europe
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 capital
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
CoR	Cost of Risk
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
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
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
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
RWA	Risk Weighted Assets
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
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SSM	Single Supervisory Mechanism
TCR	Total Capital Ratio
TDI	Traded Debt Instruments
The Group	NLB Group
TLTRO	Targeted Longer-Term Refinancing Operations
TREA	Total Risk exposure Amount
TSCR	Total SREP Capital Requirement
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
ZPPDFT-2	Prevention of Money Laundering and Terrorist Financing Act
ZPPDFT-2A	Act Amending the Prevention of Money Laundering and Terrorist Financing 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
ZVPot-1	Consumer Protection Act

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