Creating better footprints.

NLB Group Pillar III Disclosures H1 2023

Contents

1. Key highlights
(Article 447 of CRR)

Table 1 – EU KM Key metrics template

		30.06.2023	31.03.2023	31.12.2022	30.09.2022	30.06.2022
		a	b	c	d	e
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	2,181,381	2,166,912	2,208,219	2,076,606	2,043,477
2	Tier 1 capital	2,269,153	2,254,574	2,295,700	2,082,130	2,048,928
3	Total capital	2,780,111	2,765,244	2,806,375	2,369,623	2,336,205
	Risk-weighted exposure amounts					
4	Total risk exposure amount (TREA)	14,838,352	14,622,299	14,653,059	14,283,739	14,172,549
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	14.70%	14.82%	15.07%	14.54%	14.42%
6	Tier 1 ratio	15.29%	15.42%	15.67%	14.58%	14.46%
7	Total capital ratio	18.74%	18.91%	19.15%	16.59%	16.48%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.40%	2.40%	2.60%	2.60%	2.60%
EU 7b	of which: to be made up of CET1 capital	1.35%	1.35%	1.46%	1.46%	1.46%
EU 7c	of which: to be made up of Tier 1 capital	1.80%	1.80%	1.95%	1.95%	1.95%
EU 7d	Total SREP own funds requirements	10.40%	10.40%	10.60%	10.60%	10.60%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50%	2.50%	2.50%	2.50%	2.50%
9	Institution specific countercyclical capital buffer	0.01%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer	0.10%	0.10%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	1.25%	1.25%	1.00%	1.00%	1.00%
11	Combined buffer requirement	3.86%	3.85%	3.50%	3.50%	3.50%
EU 11a	Overall capital requirements	14.26%	14.25%	14.10%	14.10%	14.10%
12	CET1 available after meeting the total SREP own funds requirements	793,995	799,727	822,040	725,364	702,754
	Leverage ratio					
13	Total exposure measure	25,778,410	25,105,562	25,240,506	24,509,522	23,711,555
14	Leverage ratio	8.80%	8.98%	9.10%	8.50%	8.64%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	3.00%	3.00%	3.00%	3.00%	3.00%
EU 14e	Overall leverage ratio requirement	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	5,916,414	5,774,965	5,647,162	5,526,560	5,445,021
EU 16a	Cash outflows - Total weighted value	3,128,451	3,099,033	3,008,960	2,871,465	2,737,213
EU 16b	Cash inflows - Total weighted value	505,154	500,673	512,851	521,447	545,620
16	Total net cash outflows	2,623,297	2,598,360	2,496,109	2,350,018	2,191,593
17	Liquidity coverage ratio	225.52%	222.21%	227.15%	236.85%	250.65%
	Net Stable Funding Ratio					
18	Total available stable funding	20,870,086	20,217,758	20,409,092	19,628,877	19,031,012
19	Total required stable funding	11,368,668	11,109,114	11,154,678	11,010,637	10,835,911
20	NSFR ratio	183.58%	181.99%	182.96%	178.27%	175.63%

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

Figure 1: Total capital (in EUR millions)

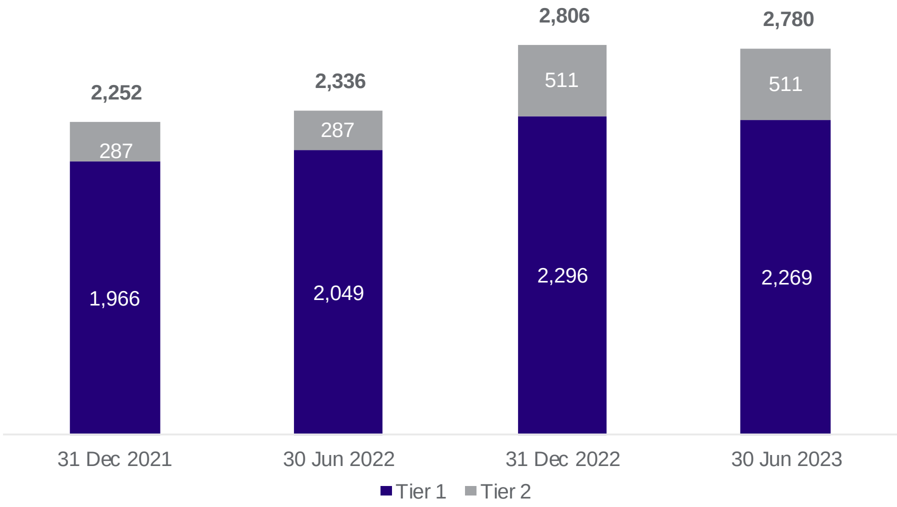


Figure 2: Total capital and capital ratio evolution YtD

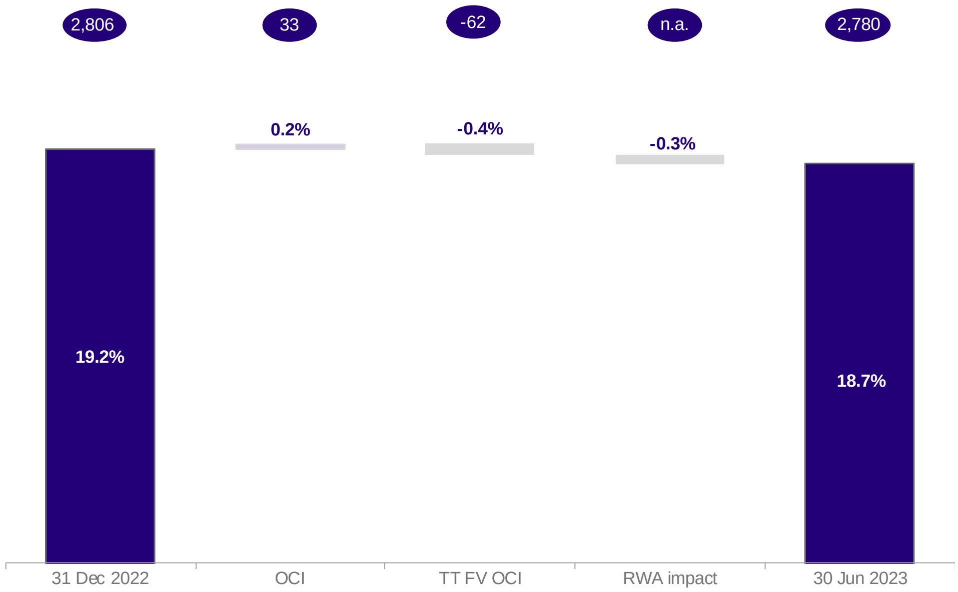
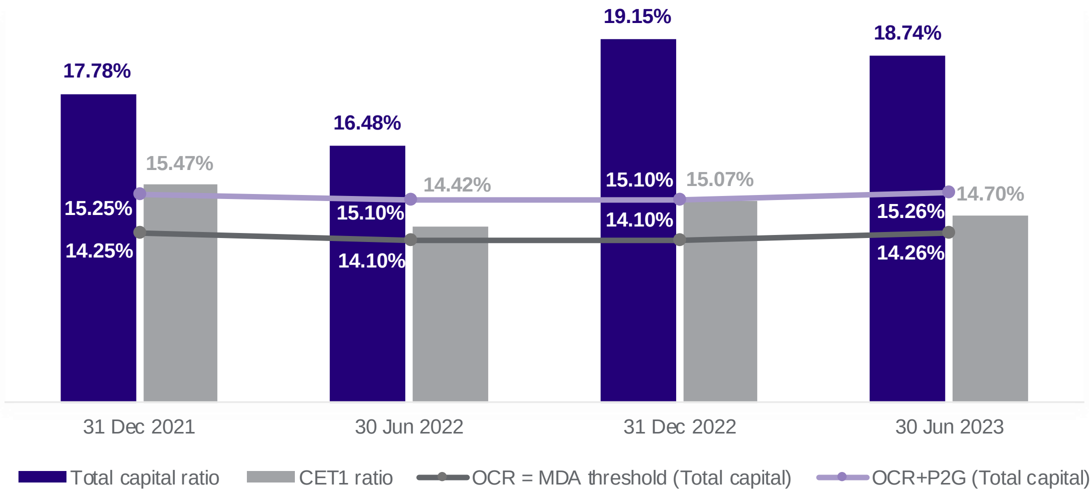


Figure 3: Capital ratios and regulatory thresholds (in %)



2. Introduction

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

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

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

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

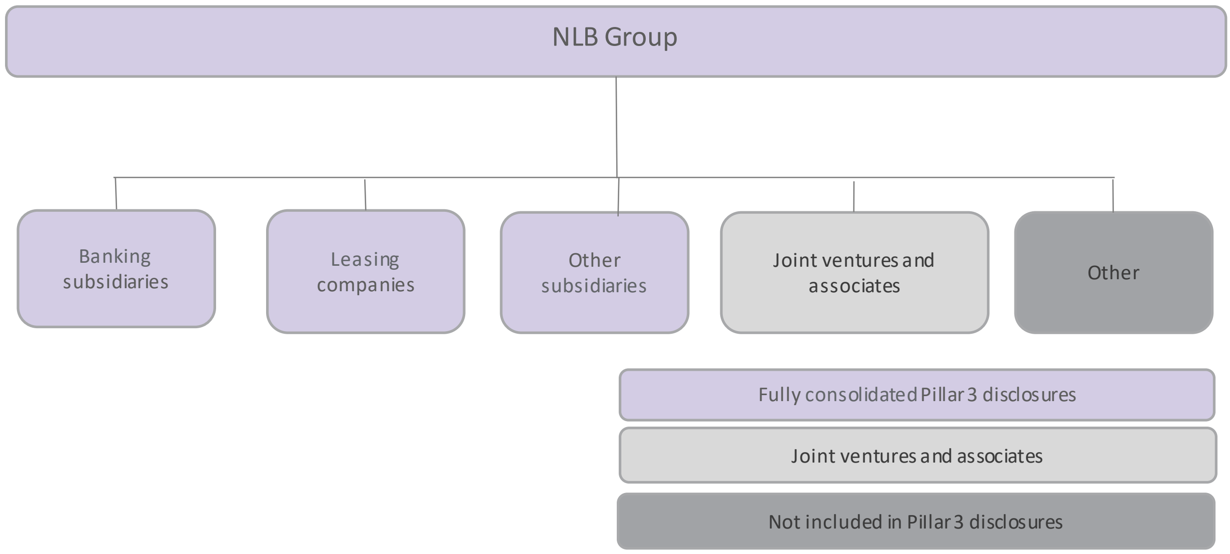
CRD V and EBA guidelines require the NLB Group (hereinafter: 'the Group') to disclose information at least on an annual basis. To ensure the effective communication of Group's business and risk profile, the Group also pays particular attention to the possible need to provide information more frequently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

It should be noted that while some quantitative information in this document is based on financial data contained in the NLB Group Interim Report H1 2023, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the NLB Group Interim Report H1 2023. Some details of the key differences between the Group's accounting and regulatory exposures are presented in Table 2 – EU CC2.

3. Scope of application

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

Figure 4: NLB Group scheme



The consolidation for *accounting purposes* comprises all:

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

In contrast to the accounting consolidation, the *regulatory consolidation* includes only (in accordance with the definitions under Article 4 of CRR) credit institutions, financial institutions, ancillary service undertakings, and asset management companies.

The difference between accounting consolidation and regulatory consolidation as at 30 June 2023 represents:

- the company operating in the area of other activities NLB Zavod za upravljanje kulturne dediščine (ZUKD – the NLB Cultural Heritage Management Institute), and
- the IT services company NLB DigIT, Beograd,

which are not included in regulatory consolidation, in accordance with Article 4 of CRR. Companies from the Prvi Faktor Group are excluded from the regulatory consolidation (that would otherwise require the proportional consolidation method, in accordance with CRD) due to immateriality in accordance with CRR. In the accounting consolidation, the net assets of the Prvi Faktor Group using the equity method amount to zero.

Table EU CC2 represents the main differences between the basis of consolidation and carrying values as reported in published financial statements in the NLB Group Interim Report H1 2023, and under the scope of regulatory consolidation.

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

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to rows in CC1
		30.06.2023	30.06.2023	
		a	b	c
Assets - ***Breakdown by asset clases according to the balance sheet in the published financial statements***				
1	Cash, cash balances at central banks and other demand deposits at banks	5,760,414	5,760,410	
2	Financial assets held for trading	21,148	21,148	
3	Non-trading financial assets mandatorily at fair value through profit or loss	19,673	19,673	
4	Financial assets measured at fair value through other comprehensive income	2,366,805	2,366,805	72
5	Financial assets measured at amortised cost			
6	- debt securities	2,146,087	2,146,087	72
7	- loans and advances to banks	304,745	304,745	
8	- loans and advances to customers	13,431,757	13,431,757	
9	- other financial assets	139,293	139,462	
10	Derivatives - hedge accounting	56,314	56,314	
11	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(21,641)	(21,641)	
12	Investments in subsidiaries	-	2,406	
13	Investments in associates and joint ventures	12,278	12,278	73
14	Tangible assets			
15	Property and equipment	254,288	251,141	
16	Investment property	34,505	34,505	
17	Intangible assets	56,127	56,106	
18	Goodwill	3,529	3,529	8
19	Other intangible assets	52,598	52,577	8
20	Current income tax assets	75	73	
21	Deferred income tax assets	50,266	50,266	75
22	that rely on future profitability and arise from temporary differences	50,266	50,266	75
23	Other assets	60,996	60,740	
24	Non-current assets held for sale	8,328	8,328	
25	**Total assets**	**24,701,458**	**24,700,603**	
Liabilities - ***Breakdown by liability clases according to the balance sheet in the published financial statements***				
26	Financial liabilities held for trading	18,818	18,818	
27	Financial liabilities measured at fair value through profit or loss	4,052	4,052	
28	Financial liabilities measured at amortised cost			
29	- deposits from banks and central banks	107,410	107,410	
30	- borrowings from banks and central banks	129,985	129,985	
31	- due to customers	19,924,864	19,925,345	
32	- borrowings from other customers	90,054	90,054	
33	- debt securities issued	1,334,490	1,334,490	46
34	- other financial liabilities	254,591	256,960	
35	Derivatives - hedge accounting	624	624	
36	Provisions	110,153	110,143	
37	Current income tax liabilities	19,828	19,828	
38	Deferred income tax liabilities	2,287	2,287	
39	Other liabilities	58,973	58,775	
40	**Total liabilities**	**22,056,129**	**22,058,771**	
Shareholders' Equity				
41	Share capital	200,000	200,000	1
42	Share premium	871,378	871,378	1
43	Other equity instruments	88,136	88,136	31
44	Accumulated other comprehensive income	(127,856)	(127,402)	3
45	Profit reserves	13,522	13,522	3
46	**Retained earnings**	**1,540,903**	**1,536,952**	**2**
		2,586,083	**2,582,586**	
47	Non-controlling interests	59,246	59,246	5; 34; 48
48	**Total shareholders' equity**	**2,645,329**	**2,641,832**	
49	**Total liabilities and shareholders' equity**	**24,701,458**	**24,700,603**	

4. Capital and capital requirements

4.1. Capital adequacy

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

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

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

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

Table 3 – Capital requirements and buffers

		30.06.2023	2022	2021
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	1.35%	1.46%	1.55%
	Tier 1	1.80%	1.95%	2.06%
	Total Capital	2.40%	2.60%	2.75%
Total SREP Capital requirement (TSCR)	CET1	5.85%	5.96%	6.05%
	Tier 1	7.80%	7.95%	8.06%
	Total Capital	10.40%	10.60%	10.75%
Conservation buffer	CET1	2.50%	2.5%	2.5%
O-SII buffer	CET1	1.25%	1.0%	1.0%
Systemic risk buffer	CET1	0.10%	0.0%	0.0%
Countercyclical buffer	CET1	0.01%	0.0%	0.0%
Combined buffer requirement (CBR)	CET1	3.86%	3.5%	3.5%
Overall capital requirement (OCR) = MDA threshold	CET1	9.71%	9.46%	9.55%
	Tier 1	11.66%	11.45%	11.56%
	Total Capital	14.26%	14.10%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.71%	10.46%	10.55%
	Tier 1	12.66%	12.45%	12.56%
	Total Capital	15.26%	15.10%	15.25%

The Overall Capital Requirement (OCR) for the Group was 14.26%, consisting of:

- 10.40% total SREP capital requirement (TSCR) (8.00% Pillar 1 Requirement (P1R) and 2.40% Pillar 2 Requirement P2R)); and
- 3.86% Combined Buffer Requirement (CBR) (2.50% Capital Conservation Buffer, 1.25% O-SII Buffer, 0.10% Systemic Risk Buffer and 0.01% Countercyclical Buffer).

Pillar 2 Guidance remains at 1.00% and should be comprised entirely of CET1 capital.

Changes that came into effect on 1 January 2023:

- The Pillar 2 Requirement for 2023 decreased by 0.2 p.p. to 2.40%, as a result of a better overall Supervisory Review and Evaluation Process (SREP) assessment.
- The Capital Buffer for Other Systemically Important Institutions (O-SII) increased by 0.25 p.p. to 1.25%.
- A new BoS regulation, introduced the systemic risk buffer rates for the sectoral exposures in the Republic of Slovenia: 1.0% for all retail exposures to natural persons, secured by residential real estate and 0.5% for all other exposures to natural persons, resulted in 0.10% Systemic Risk Buffer in H1 2023.

In December 2022, the BoS announced that due to growing uncertainties in the economic environment and systemic risks, the countercyclical buffer for credit exposures in the Republic of Slovenia is increased from 0% to the level of 0.5% of the total risk exposure amount. Banks have to meet the requirement by 31 December 2023. The Countercyclical Buffer calculated at Group level on 30 June 2023 was 0.01%.

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

Table 4 – Capital adequacy:

	30.06.2023	31.12.2022
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	1,239,376	908,965
Current result	-	334,297
Accumulated other comprehensive income	(127,402)	(98,470)
Other reserves	13,522	13,522
Minority interest	27,911	26,806
Prudential filters: Additional Valuation Adjustments (AVA)	(2,426)	(2,981)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(37,153)	(41,351)
(-) Insufficient coverage for non-performing exposures	(296)	(418)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,181,381**	**2,208,219**
Capital instruments eligible as AT1 Capital	82,000	82,000
Minority interest	5,772	5,481
Additional Tier 1 capital	**87,772**	**87,481**
TIER 1 CAPITAL	**2,269,153**	**2,295,700**
Capital instruments and subordinated loans eligible as T2 capital	507,516	507,516
Minority interest	3,442	3,159
Tier 2 capital	**510,958**	**510,675**
TOTAL CAPITAL	**2,780,111**	**2,806,375**
Risk exposure amount for credit risk	11,971,594	11,797,851
Risk exposure amount for market risks	1,367,001	1,359,476
Risk exposure amount for CVA	89,625	85,600
Risk exposure amount for operational risk	1,410,132	1,410,132
TOTAL RISK EXPOSURE AMOUNT (RWA)	**14,838,352**	**14,653,059**
Common Equity Tier 1 Ratio	14.7%	15.1%
Tier 1 Ratio	15.3%	15.7%
Total Capital Ratio	**18.7%**	**19.2%**

As at 30 June 2023, the total capital ratio (TCR) for the Group stood at 18.7%, and the CET1 ratio for the Group stood at 14.7%, both decreased by 0.4 p.p. YtD due to lower total capital and higher RWA. Although the overall revaluation adjustments in H1 2023 were positive in the amount of EUR 32.7 million, the total capital decreased by EUR 26.3 million YtD since the temporary treatment of fair value through other comprehensive income (FVOCI) valuations for sovereign securities with the positive effect of EUR 61.7 million as at 31 December 2022 ceased to apply in January 2023.

The total capital does not include a part of the 2022 result in the amount of EUR 55 million, which is still envisaged to be paid as dividend in 2023 (EUR 55 million were paid as dividend in June). Therefore, there will be no effect on the capital once dividends are paid.

The drivers behind the differences between the RWAs in H1 2023 are explained in Chapter 4.3 Risk weighted exposure amounts in the Table 6 – EU OV1 – Overview of risk weighted exposure amounts.

4.2. Detailed presentation of capital elements

(Article 437 a of CRR)

The table below shows in detail the elements of the calculation of the capital of the Group at the end of June 2023. A summarised substantive presentation of the elements relevant for the Group is given in Chapter 4.1. Capital adequacy.

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

Table 5 – EU CC1 – Composition of regulatory own funds

	30.06.2023	**Amounts**	**Source based on reference numbers (CC2 column b)**
		a	b
Common equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,071,378	41 + 42
	of which: ordinary shares	1,071,378	41 + 42
2	Retained earnings	1,239,376	part of 46
3	Accumulated other comprehensive income (and other reserves)	(113,880)	part of 44 + 45
5	Minority interest (amount allowed in consolidated CET1)	27,911	part of 47
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,224,785**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,426)	
8	Intangible assets (net of related tax liability) (negative amount)	(40,682)	18 + part of 19
27a	Other regulatory adjustments	(296)	
27a1	Deduction item related to insufficient coverage for non-performing exposures	(296)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(43,404)**	
29	**Common Equity Tier 1 (CET1) capital**	**2,181,381**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	82,000	
31	of which: classified as equity under applicable accounting standards	82,000	part of 43
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	5,772	part of 47
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**87,772**	
44	**Additional Tier 1 (AT1) capital**	**87,772**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**2,269,153**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	507,516	part of 33
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	3,442	part of 47
51	**Tier 2 (T2) capital before regulatory adjustments**	**510,958**	
58	**Tier 2 (T2) capital**	**510,958**	
59	**Total capital (TC = T1 + T2)**	**2,780,111**	
60	**Total risk exposure amount**	**14,838,352**	
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital ratio	14.70%	
62	Tier 1 capital ratio	15.29%	
63	**Total capital ratio**	**18.74%**	
64	Institution CET1 overall capital requirements	9.71%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.01%	
67	of which: systemic risk buffer requirement	0.10%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	8.70%	
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	64,854	part of 4 and part of 6
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	12,278	part of 13
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	50,266	22

4.3. Risk weighted exposure amounts

(Article 438 d of CRR)

The Group uses the following approaches to calculate Pillar 1 risk weighted exposure amounts on a consolidated basis:

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

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

Table 6 shows the detailed composition of the risk weighted exposure amounts of the Group at the end of June 2023, at the end of March 2023, and at the end of 2022; as well as composition of own fund (capital) requirements at the end of June 2023.

Table 6 – EU OV1 – Overview of risk weighted exposure amounts

		Total risk exposure amounts (TREA)			Total own funds requirement
		30.06.2023	31.03.2023	31.12.2022	30.06.2023
		a	b	b-1	c
1	**Credit risk (excluding CCR)**	**11,759,978**	**11,533,670**	**11,570,861**	**940,798**
2	of which the standardised approach	11,759,978	11,533,670	11,570,861	940,798
6	**Counterparty credit risk - CCR**	**144,881**	**153,017**	**144,580**	**11,590**
7	of which the standardised approach	55,256	62,492	58,980	4,420
EU 8b	of which credit valuation adjustment - CVA	89,625	90,525	85,600	7,170
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,367,001**	**1,363,625**	**1,359,476**	**109,360**
21	of which the standardised approach	1,367,001	1,363,625	1,359,476	109,360
23	**Operational risk**	**1,410,132**	**1,410,132**	**1,410,132**	**112,811**
EU 23a	of which basic indicator approach	1,410,132	1,410,132	1,410,132	112,811
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**156,360**	**161,855**	**168,010**	**12,509**
29	**Total**	**14,838,352**	**14,622,299**	**14,653,059**	**1,187,068**

In H1 2023, the RWA for Credit risk increased by EUR 173.7 million (lines 2, 7, and 24 in Table 6), mainly due to ramping up lending activity in all the Group banks except in N Banka and higher project finance exposures. On the other hand, RWA decreased due to lower liquidity assets, mainly in Komercijalna Banka Beograd (maturity of several Serbian bonds and MIGA guarantee for assets at central banks). Repayments and higher impairments and provisions resulted in the RWA reduction for non-performing exposures.

The increase in RWAs for market risks and Credit Value Adjustments (CVA) in the amount of EUR 11.6 million YtD (lines EU 8b and 21 in Table 6) was the result of a new position RWA for Equity risk in the amount of EUR 16.2 million, lower RWA for FX risk in the amount of EUR 12.3 million, higher RWA for CVA risk in the amount of EUR 3.2 million, and higher RWA for Traded debt instruments risk in the amount of EUR 4.0 million (primarily due to new IRS derivatives).

4.4. 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
- Litigation risks

The sharp rebound from the covid recession has turned in the prospective stagflation in 2023. As a result of rising inflation, high interest rates, weaker external demand and increased macroeconomic uncertainty, subdued economic growth or its gradual slowdown is expected. The Group's region is still expected to grow moderately, though relatively high inflationary pressures and other uncertainties might suggest a further slowdown, namely in private consumption and investment growth.

Credit risk usually considerably increases in times of economic slowdown. The Group has thoroughly analysed and adjusted the potential impact on the credit portfolio in light of anticipated inflationary pressures and expected decrease in economic growth. Lending growth in the corporate and retail segments is expected to remain relatively moderate, especially in such circumstances. Regarding the credit portfolio quality, the Group carefully monitors the potentially most affected segments to detect any significant increase in credit risk at a very early stage. The aforementioned adverse developments could affect 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 credit portfolio quality or the corresponding impairments to 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 considerable volatility in the financial markets, particularly shifts in credit spreads, rising interest rates and foreign exchange rate fluctuations. The Group is closely monitoring its major bond portfolio positions, mostly sovereigns, and carefully manages them also by incorporating adequate early warning systems to limit the potential sensitivity of regulatory capital.

So far, no material movements have been observed regarding the Group's major FX positions. Current developments, market observations, and potential mitigations are closely monitored and discussed. While the Group monitors its liquidity, interest rate, credit spread, FX position and corresponding trends, their impacts on the Group positions, any significant and unanticipated movements on the markets or a variety of factors, such as competitive pressures, consumer 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 adequate management. However, these measures may not always fully prevent potential adverse effects.

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

The SEE region is the Group's most significant geographic area of operations outside the RoS, and the economic conditions in this region are, therefore, crucial 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 2023, the Group reviewed the IFRS 9 provisioning by testing a set of relevant macroeconomic scenarios to reflect the current circumstances and their future impacts accurately. The Group established multiple scenarios (i.e., baseline, optimistic and severe) for the Expected Credit Losses (ECL) calculation, aiming to create a unified projection of macroeconomic and financial variables for the Group, aligned with the Bank's consolidated view of the future of economic development in the SEE. The Group formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of the IFRS 9. These IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of the 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 baseline scenario presents a common forecast macroeconomic view for all countries of the Group. This scenario is based on recent official and professional forecasts, with specific adjustments for individual countries of the Group. Key characteristics include no additional supply shocks, decreasing inflation due to increased ECB key rate and quantitative tightening, a slightly less tight labour market, GDP growth supported by declining interest rates and positive expectations, regional containment of political tensions, and limited spill over effects of financial system issues on the real economy.
The alternative scenarios are based on plausible drivers of economic development for the next three years. The optimistic scenario is supply- and demand-driven, with a mild winter and sufficient energy supplies easing price pressures in the euro area. China's decision to abandon strict covid restrictions supports the euro area exports, stimulating demand. Lower inflation leads to an optimistic financial market outlook, and the first year shows positive growth expectations, followed by additional ECB support and moderated growth potential in the following two years.

The severe, supply- and demand-driven scenario depicts sluggish economic growth due to lower consumer purchasing power, geopolitical disruption, and elevated inflation. The Group home countries experience near-zero real economic growth, leading to substantial upward shocks in financial markets. Political tensions persist, causing supply disruptions, and inflation remains higher than expected, resulting in increased long-term inflation expectations. GDP growth remains low as the ECB implements a restrictive monetary policy. Despite a slow increase in the unemployment rate, many industries still face a tight labour market. The financial system stabilises, allowing the ECB to focus on taming inflation. The Bank considers these scenarios in calculating expected credit losses in the context of the IFRS 9.

On this basis, the Group revised scenario weights in H1 2023 and assigned weights of 20%-60%-20% (alternative scenarios receiving 20% each, and the baseline scenario 60%), with minor changes in some entities to reflect the likelihood of relevant future economic conditions in their environment.

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. 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 the Group might use are determined by various internal policies and applied when necessary. Moreover, the selection and application of mitigation measures follow 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.

With regards to litigation risk, in recent years, and even more so in recent months, we have seen a shift in case law that is, in general, more favourable to consumers, including in relation to CHF litigations. The current litigations against the Bank related to CHF are not material, but we are closely monitoring developments.

4.5. Capital buffers – Countercyclical buffer

(Article 440 of CRR)

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

For the last quarter of 2022, the Bank of Slovenia raised the countercyclical capital buffer for exposures to the Republic of Slovenia from 0% to the level of 0.5% of the total risk exposure amount. However, the Bank has 12 months to meet the requirement by 31 December 2023. Thus, the buffer value for exposures in Slovenia as of 30 June 2023 remains at 0%. To define the buffer rate, the Bank of Slovenia followed the methodology of the BCBS, ESRB, and the credit cycle assessment for Slovenia. The buffer rates applicable to exposure in other countries of the European Economic Area are those defined on the ESRB website, refreshed quarterly, while the buffer rate applying to credit exposures to countries not listed on that page nor prescribed by the Bank of Slovenia or a competent authority of that country is 0%. Countercyclical capital rates have generally been set at 0%, except for the Czech Republic, Denmark and Norway which had, as of 30 June 2023, a countercyclical capital rate of 2.5 %, Iceland and Sweden had 2 %, Bulgaria 1.5%, Estonia, Netherlands, Slovakia, United Kingdom, Hong Kong, and Australia had 1%, Germany 0.75%, France, Croatia, Ireland, Luxembourg and Romania had rates of 0.5%.

Table 7 – Amount of bank-specific countercyclical capital buffer

30.06.2023	
Total risk exposure amount	14,838,352
Institution specific countercyclical buffer rate	0.0105%
Institution specific countercyclical buffer requirement	1,559

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

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

Table 8 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

30.06.2023	General credit exposures	Own funds requirements		Risk-weighted exposure amounts	Own funds requirement weights (%)	Counter-cyclical capital buffer rate (%)
	Exposure value under the SA	Relevant credit risk exposures - Credit risk	Total			
Country	a	g	j	k	l	m
Slovenia	6,973,010	396,525	396,525	4,956,563	48.98%	-
Serbia	2,831,818	161,956	161,956	2,024,450	19.56%	-
North Macedonia	1,251,739	75,348	75,348	941,850	9.59%	-
Bosnia and Herzegovina	1,139,387	69,860	69,860	873,250	8.32%	-
Kosovo	827,721	51,107	51,107	638,838	5.99%	-
Montenegro	578,599	36,572	36,572	457,150	4.88%	-
Luxembourg	59,878	4,784	4,784	59,800	0.61%	0.50%
France	40,665	3,243	3,243	40,538	0.41%	0.50%
Austria	40,091	3,107	3,107	38,838	0.39%	-
Netherlands	39,278	3,130	3,130	39,125	0.38%	1.00%
United States	33,085	2,641	2,641	33,013	0.29%	-
Belgium	24,411	1,919	1,919	23,988	0.25%	-
Ireland	10,179	814	814	10,175	0.10%	0.50%
Germany	8,498	588	588	7,350	0.10%	0.75%
Croatia	7,495	743	743	9,288	0.08%	0.50%
Switzerland	3,770	260	260	3,250	0.03%	-
United Kingdom	891	57	57	713	0.01%	1.00%
Italy	824	36	36	450	0.00%	-
Spain	516	19	19	238	0.00%	-
Malta	421	20	20	250	0.00%	-
Sweden	415	22	22	275	0.00%	2.00%
Czech Republic	390	23	23	288	0.00%	2.50%
Russian Federation	283	9	9	113	0.00%	-
China	240	14	14	175	0.00%	-
United Arab Emirates	211	10	10	125	0.00%	-
Cyprus	143	8	8	100	0.00%	-
Australia	138	5	5	63	0.00%	1.00%
Saudi Arabia	110	3	3	38	0.00%	-
Latvia	92	6	6	75	0.00%	-
Bulgaria	63	4	4	50	0.00%	1.50%
Slovakia	62	5	5	63	0.00%	1.00%
Hungary	59	4	4	50	0.00%	-
Poland	46	4	4	50	0.00%	-
Mauritius	43	2	2	25	0.00%	-
Brazil	38	2	2	25	0.00%	-
Albania	37	2	2	25	0.00%	-
Lithuania	24	1	1	13	0.00%	-
Norway	23	1	1	13	0.00%	2.50%
Canada	15	1	1	13	0.00%	-
Kenya	10	1	1	13	0.00%	-
Turkey	9	1	1	13	0.00%	-
Ukraine	8	-	-	-	0.00%	-
Other	48	1	1	13	0.00%	-
Total	**13,874,783**	**812,858**	**812,858**	**10,160,725**	**100.00%**	**-**

4.6. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amendment of two regulations to address the impact of COVID-19 pandemic on the economy in order to maximise the capacity of credit institutions to lend and absorb losses related to the pandemic.

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

- Modification of the calculation of the leverage ratio to exclude central bank reserves;
- Extension of the provisions of ECL accounting under the IFRS 9 from 2018–2022 to 2020–2024;
- Temporary treatment of public debt issued in the currency of another Member State;
- Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic;
- Extension of the preferential treatment regarding provisioning requirements to exposures guaranteed by the public sector for seven years. The preferential treatment is usually available only for NPLs, guaranteed by official export credit agencies.

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

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

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

The Group implemented:

- Changes in the SME-supporting factor;
- Temporary treatment of public debt issued in the currency of another Member State;
- Exempt prudently valued software assets from CET1 calculations;
- Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (the measure ceased to apply in January 2023);
- Modification of the calculation of the leverage ratio to exclude central bank reserves.

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

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

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

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

5. Credit risk

5.1. Credit risk quality

(Article 442 c and g of CRR)

Table 9 – EU CR1-A – Maturity of exposures

	30.06.2023	Net exposure value				
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
		a	b	c	d	f
1	Loans and advances	9,833	2,245,967	3,989,229	7,630,935	13,875,964
2	Debt securities	-	1,136,065	2,422,386	881,135	4,439,586
3	**Total**	**9,833**	**3,382,032**	**6,411,615**	**8,512,070**	**18,315,550**

	31.12.2022	Net exposure value				
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
		a	b	c	d	f
1	Loans and advances	11,976	2,134,695	3,738,105	7,589,029	13,473,805
2	Debt securities	-	1,338,871	2,536,749	890,627	4,766,248
3	**Total**	**11,976**	**3,473,566**	**6,274,854**	**8,479,657**	**18,240,052**

At the end of H1 2023, 46.5% of net on-balance exposure has remaining maturity of “Over 5 years,” followed by the “1 year to 5 years” category with 35.0%, and the “Up to 1 year” category with 18.5%. In the last year, the highest increase was noticed in the “1 year to 5 years” category.

Table 10 – EU CQ7 – Collateral obtained by taking possession and execution processes

	30.06.2023	Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		a	b
1	Property, plant, and equipment (PP&E)	13,361	(1,504)
2	Other than PP&E	63,336	(11,248)
3	Residential immovable property	6,824	(1,421)
4	Commercial immovable property	55,488	(9,435)
5	Movable property (auto, shipping, etc.)	1,024	(392)
8	**Total**	**76,697**	**(12,752)**

5.2. Non-performing and forborne exposures

(Article 442 c, e, and f of CRR)

The Group uses a unified definition of past due and default exposures that is aligned with Article 178 of CRR. The Defaulted clients are rated D, DF, or E based on the Bank’s internal rating system, which includes clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. All facilities of the same private individual client obtain a common rating grade.

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

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

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

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

Table 11 – EU CQ4 – Quality of non-performing exposures by geography

	30.06.2023	Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing				
	Exposures	Total	Total	Of which defaulted			
		a	b	c	e	f	g
1	**On-balance-sheet**	**18,770,864**	**323,017**	**323,017**	**(339,100)**		**(51)**
2	Slovenia	7,540,181	120,039	120,039	(104,464)		-
3	Serbia	3,827,841	38,529	38,529	(44,930)		(44)
4	North Macedonia	1,608,019	52,660	52,660	(63,029)		-
5	Bosnia and Herzegovina	1,327,743	21,531	21,531	(38,304)		(7)
6	Kosovo	934,861	22,362	22,362	(39,771)		-
7	Montenegro	673,402	51,319	51,319	(33,724)		-
8	Other countries	2,858,817	16,577	16,577	(14,878)		-
9	**Off-balance-sheet**	**4,685,058**	**21,358**	**21,358**		**(30,399)**	
10	Slovenia	2,928,333	14,057	14,057		(17,483)	
11	Serbia	967,168	3,391	3,391		(4,098)	
12	North Macedonia	204,175	2,263	2,263		(3,818)	
13	Bosnia and Herzegovina	283,572	71	71		(2,886)	
14	Kosovo	95,462	237	237		(738)	
15	Montenegro	127,716	1,339	1,339		(1,311)	
16	Other countries	78,632	-	-		(65)	
17	**Total**	**23,455,922**	**344,375**	**344,375**	**(339,100)**	**(30,399)**	**(51)**

Table 12 – EU CR2 – Changes in the stock of non-performing loans and advances

	30.06.2023	Gross carrying amount
1	**Initial stock of non-performing loans and advances**	**337,221**
2	Inflows to non-performing portfolios	74,519
3	Outflows from non-performing portfolios	(89,521)
4	Outflows due to write-offs	(16,038)
5	Outflow due to other situations	(73,483)
6	**Final stock of non-performing loans and advances**	**322,219**

Table 13 – EU CR1 – Performing and non-performing exposures and related provisions

	30.06.2023	Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Accumu-lated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			On performing exposures	On non-performing exposures
		Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 3	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 3			
		a	b	c	d	f	g	h	i	j	l	m	n	o
005	Cash balances at central banks and other demand deposits	5,306,884	5,306,884	-	-	-	(1,211)	(1,211)	-	-	-	-	474,014	-
010	**Loans and advances**	**13,879,543**	**13,244,309**	**633,373**	**322,219**	**295,994**	**(122,679)**	**(81,876)**	**(49,119)**	**(203,119)**	**(199,262)**	**(5,822)**	**6,486,831**	**95,775**
020	Central banks	164,133	164,133	-	-	-	(117)	(117)	-	-	-	-	-	-
030	General governments	396,684	395,017	1,666	792	792	(3,204)	(3,067)	(137)	(761)	(761)	-	12,815	-
040	Credit institutions	173,349	173,346	3	138	138	(429)	(429)	-	(135)	(137)	-	325	-
050	Other financial corporations	135,631	135,367	264	1,652	1,652	(885)	(883)	(2)	(1,651)	(1,651)	(1,341)	16,669	-
060	Non-financial corporations	5,753,134	5,374,533	378,563	184,218	163,485	(54,432)	(38,885)	(23,099)	(113,763)	(110,251)	(4,481)	2,818,864	63,855
070	Of which SMEs	3,635,957	3,357,662	278,257	174,261	156,593	(43,693)	(28,381)	(15,357)	(108,415)	(105,240)	(4,358)	2,099,014	63,263
080	Households	7,256,612	7,001,913	252,877	135,419	129,927	(63,612)	(38,495)	(25,881)	(86,809)	(86,462)	-	3,638,158	31,920
090	**Debt securities**	**4,567,299**	**4,550,478**	**13,708**	**798**	**798**	**(12,555)**	**(11,594)**	**(961)**	**(798)**	**(798)**	**-**	**153,530**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	3,416,285	3,411,001	5,186	-	-	(10,311)	(10,030)	(281)	-	-	-	-	-
120	Credit institutions	1,000,459	999,165	1,294	-	-	(1,029)	(1,028)	(1)	-	-	-	84,442	-
130	Other financial corporations	55,437	55,437	-	798	798	(266)	(266)	-	(798)	(798)	-	-	-
140	Non-financial corporations	95,118	84,875	7,228	-	-	(949)	(270)	(679)	-	-	-	69,088	-
150	**Off-balance-sheet exposures**	**4,663,700**	**4,548,111**	**115,418**	**21,358**	**16,304**	**(16,834)**	**(14,377)**	**(2,456)**	**(13,565)**	**(10,401)**		**715,004**	**2,397**
160	Central banks	116	116	-	-	-	-	-	-	-	-		-	-
170	General governments	167,591	167,529	52	216	65	(407)	(404)	(2)	(163)	(13)		112,370	1
180	Credit institutions	85,322	82,691	2,631	-	-	(83)	(64)	(19)	-	-		4,376	-
190	Other financial corporations	12,662	12,588	74	26	26	(24)	(24)	-	(4)	(4)		912	8
200	Non-financial corporations	3,606,448	3,514,771	91,563	18,393	13,576	(12,717)	(10,676)	(2,041)	(12,407)	(9,424)		568,872	2,018
210	Households	791,561	770,416	21,098	2,723	2,637	(3,603)	(3,209)	(394)	(991)	(960)		28,474	370
220	**Total**	**28,417,426**	**27,649,782**	**762,499**	**344,375**	**313,096**	**(153,279)**	**(109,058)**	**(52,536)**	**(217,482)**	**(210,461)**	**(5,822)**	**7,829,379**	**98,172**

Table 14 –EU CQ1 – Credit quality of forborne exposures

30.06.2023		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Total	Of which defaulted	Of which impaired				
		a	b	c	d	e	f	g	h
1	**Loans and advances**	**113,226**	**144,426**	**144,426**	**144,375**	**(9,844)**	**(85,961)**	**103,259**	**52,586**
3	General governments	503	221	221	221	(47)	(221)	-	-
5	Other financial corporations	0	1,331	1,331	1,331	-	(1,331)	-	-
6	Non-financial corporations	83,985	110,236	110,236	110,185	(6,422)	(67,996)	71,876	39,600
7	Households	28,738	32,638	32,638	32,638	(3,375)	(16,413)	31,383	12,986
9	Loan commitments given	312	347	348	348	(1)	(325)	171	2
10	**Total**	**113,538**	**144,773**	**144,774**	**144,723**	**(9,845)**	**(86,286)**	**103,430**	**52,588**

Table 15 – EU CQ5 – Credit quality of loans and advances to non-financial corporations by industry

30.06.2023		Gross carrying amount / nominal amount		Accumu-lated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Total	Of which defaulted		
		a	c	e	f
1	Agriculture, forestry and fishing	100,167	3,429	(3,084)	-
2	Mining and quarrying	48,220	310	(2,407)	-
3	Manufacturing	1,448,802	23,227	(26,743)	(7)
4	Electricity, gas, steam and air conditioning supply	531,723	762	(9,649)	-
5	Water supply	60,987	1,923	(2,102)	-
6	Construction	599,222	23,495	(24,704)	-
7	Wholesale and retail trade	1,297,776	40,932	(43,556)	-
8	Transport and storage	604,127	16,587	(7,525)	-
9	Accommodation and food service activities	196,653	41,544	(17,412)	-
10	Information and communication	289,776	3,571	(6,607)	-
11	Financial and insurance actvities	69,333	17	(347)	-
12	Real estate activities	317,205	11,358	(7,245)	-
13	Professional, scientific and technical activities	185,992	7,556	(9,276)	-
14	Administrative and support service activities	101,862	1,611	(1,803)	(44)
15	Public administration and defense, compulsory social security	4,587	21	(80)	-
16	Education	9,219	1,790	(1,149)	-
17	Human health services and social work activities	42,594	905	(526)	-
18	Arts, entertainment and recreation	17,599	4,126	(2,768)	-
19	Other services	11,508	1,054	(1,161)	-
20	**Total**	**5,937,352**	**184,218**	**(168,144)**	**(51)**

5.3. Mitigation techniques

(Article 453 f of CRR)

Table 16 – EU CR3 – CRM techniques – Overview

30.06.2023		Unsecured carrying amount	Secured carrying amount		
			Total	of which secured by collateral	of which secured by financial guarantees
		a	b	c	d
1	Loans and advances	12,926,040	6,582,606	6,187,646	394,960
2	Debt securities	4,414,567	153,530	-	153,530
3	**Total**	**17,340,607**	**6,736,136**	**6,187,646**	**548,490**
4	of which non-performing exposures	227,242	95,775	95,390	385
5	of which defaulted	227,242	95,775	95,390	385

At the end of June 2023, the secured part of the portfolio represents 28.0% of the total portfolio. However, it has to be considered that such a low share is due to strict rules applied to the eligible collateral in the standardised approach.

5.4. Credit risk – standardised approach

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

Table 17 – EU CR4 – standardised approach – Credit risk exposure and CRM effects

	30.06.2023	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
	Exposure classes	a	b	c	d	e	f
1	Central governments or central banks	8,737,756	27,373	8,708,426	57,312	949,613	10.83%
2	Regional government or local authorities	238,665	20,545	238,665	4,120	98,115	40.41%
3	Public sector entities	155,033	11,623	146,856	1,980	52,780	35.46%
4	Multilateral development banks	116,036	-	590,049	-	-	-
5	International organisations	22,764	-	22,764	-	-	-
6	Institutions	876,555	242,848	889,688	176,462	318,474	29.87%
7	Corporates	3,913,760	2,058,850	3,578,647	438,542	3,629,897	90.36%
8	Retail	5,964,871	2,119,871	5,895,445	423,961	4,463,576	70.63%
9	Secured by mortgages on immovable property	2,726,314	97,784	2,726,314	17,524	1,025,531	37.38%
10	Exposures in default	113,155	7,830	112,621	1,802	132,092	115.44%
11	Exposures associated with particularly high risk	479,831	242,986	442,800	48,383	736,775	150.00%
12	Covered bonds	241,993	-	241,993	-	30,396	12.56%
14	Collective investment undertakings	69,547	-	69,547	-	21,933	31.54%
15	Equity	79,851	-	79,851	-	98,252	123.04%
16	Other items	874,989	3,350	867,453	1,674	414,161	47.65%
17	**Total**	**24,611,119**	**4,833,061**	**24,611,119**	**1,171,760**	**11,971,594**	**46.43%**

The table presents exposures before CRM and CCF, exposure post-CCF and -CRM and RWA for all customer segments. In H1 2023, the increase of exposures was noticed in the Retail and Corporate segments and in the Secured by mortgages on immovable property segment, which aligns with the findings in other disclosure tables. The last column shows RWA density or the average risk weight for each client segment. The average weight slightly decreased from 46.69% in 2022 to 46.38% in H1 2023.

	31.12.2022	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
	Exposure classes	a	b	c	d	e	f
1	Central governments or central banks	8,483,204	84,732	8,655,698	55,486	1,109,246	12.73%
2	Regional government or local authorities	233,347	11,897	233,347	2,391	101,203	42.93%
3	Public sector entities	162,558	7,767	153,103	1,476	57,902	37.46%
4	Multilateral development banks	116,646	-	519,146	-	-	-
5	International organisations	22,768	-	22,768	-	-	-
6	Institutions	824,502	240,720	835,254	176,174	292,046	28.87%
7	Corporates	3,866,970	1,996,448	3,410,106	496,713	3,520,296	90.11%
8	Retail	5,854,449	2,052,929	5,780,975	400,620	4,370,993	70.71%
9	Secured by mortgages on immovable property	2,613,781	101,017	2,613,781	19,272	987,734	37.51%
10	Exposures in default	135,608	11,292	134,807	2,896	156,431	113.60%
11	Exposures associated with particularly high risk	418,344	238,183	380,711	47,574	642,427	150.00%
12	Covered bonds	276,721	-	276,721	-	31,476	11.37%
14	Collective investment undertakings	68,457	-	68,457	-	17,900	26.15%
15	Equity	72,585	-	72,585	-	90,100	124.13%
16	Other items	913,940	3,070	906,428	1,484	420,099	46.27%
17	**Total**	**24,063,879**	**4,748,054**	**24,063,888**	**1,204,087**	**11,797,853**	**46.69%**

Table 18 – EU CR5 – Standardised Approach

	30.06.2023	Risk weight											Total	of which unrated
		0%	4%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
	Exposure classes	a	c	d	e	f	g	i	j	k	l	o	q	r
1	Central governments or central banks	7,659,768	72,957	127,489	50,282	-	13,269	-	791,707	-	50,266	-	8,765,738	8,765,738
2	Regional government or local authorities	62,902	-	-	102,211	-	-	-	77,673	-	-	-	242,786	242,786
3	Public sector entities	78,919	-	-	171	-	34,001	-	35,745	-	-	-	148,836	148,836
4	Multilateral development banks	590,049	-	-	-	-	-	-	-	-	-	-	590,049	590,049
5	International organisations	22,764	-	-	-	-	-	-	-	-	-	-	22,764	22,764
6	Institutions	-	-	-	768,213	-	293,896	-	4,041	-	-	-	1,066,150	337,856
7	Corporates	-	-	-	-	-	-	-	4,017,189	-	-	-	4,017,189	4,017,189
8	Retail	-	-	-	-	-	-	6,319,406	-	-	-	-	6,319,406	6,319,406
9	Secured by mortgages on immovable property	-	-	-	-	2,045,280	615,612	80,102	2,844	-	-	-	2,743,838	2,743,838
10	Exposures in default	-	-	-	-	-	-	-	79,085	35,338	-	-	114,423	114,423
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	491,183	-	-	491,183	491,183
12	Covered bonds	-	-	197,637	38,484	-	5,872	-	-	-	-	-	241,993	100,335
14	Collective investment undertakings	-	-	-	-	-	-	-	10,703	-	-	58,844	69,547	69,547
15	Equity	-	-	-	-	-	-	-	67,584	-	12,267	-	79,851	79,851
16	Other items	447,432	-	-	9,418	-	-	-	412,274	2	-	-	869,126	869,114
17	**Total**	**8,861,834**	**72,957**	**325,127**	**968,778**	**2,045,280**	**962,650**	**6,399,508**	**5,498,844**	**526,523**	**62,534**	**58,844**	**25,782,879**	**24,912,914**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), 35% for Secured by real estate exposure and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures, whose provision coverage does not exceed 20%. A risk weight of 250% is used for deferred tax assets and capital investments in subject in the financial sector where the Group possesses more than 10%. In H1 2023, the highest increase was noticed on the 35% and 75% weight in the Secured with mortgage and Retail exposure segments.

31.12.2022		Risk weight										Total	of which unrated
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
	Exposure classes	a	d	e	f	g	i	j	k	l	o	q	r
1	Central governments or central banks	7,642,470	-	44,920	-	13,336	-	954,931	-	55,527	-	8,711,184	8,357,192
2	Regional government or local authorities	55,756	-	98,473	-	-	-	81,509	-	-	-	235,738	214,324
3	Public sector entities	74,442	-	145	-	44,239	-	35,754	-	-	-	154,580	87,606
4	Multilateral development banks	519,146	-	-	-	-	-	-	-	-	-	519,146	484,957
5	International organisations	22,768	-	-	-	-	-	-	-	-	-	22,768	24,981
6	Institutions	-	-	757,716	-	226,361	-	27,351	-	-	-	1,011,428	365,705
7	Corporates	-	-	-	-	-	-	3,906,819	-	-	-	3,906,819	3,053,639
8	Retail	-	-	-	-	-	6,181,596	-	-	-	-	6,181,596	5,884,151
9	Secured by mortgages on immovable property	-	-	-	1,942,058	591,609	96,334	3,054	-	-	-	2,633,054	1,256,446
10	Exposures in default	-	-	-	-	-	-	100,248	37,455	-	-	137,703	147,495
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	428,285	-	-	428,285	295,028
12	Covered bonds	-	238,682	38,039	-	-	-	-	-	-	-	276,721	135,951
14	Collective investment undertakings	-	-	-	-	-	-	10,290	-	-	58,167	68,457	56,918
15	Equity	-	-	-	-	-	-	60,908	-	11,677	-	72,585	71,223
16	Other items	472,462	-	19,177	-	-	-	416,263	-	-	-	907,903	952,131
17	**Total**	**8,787,045**	**238,682**	**958,470**	**1,942,058**	**875,545**	**6,277,929**	**5,597,126**	**465,740**	**67,204**	**58,167**	**25,267,966**	**21,387,748**

6. Exposure to counterparty credit risk

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

Table 19 – EU CCR1 – Analysis of CCR exposure by approach

	30.06.2023	Replace-ment cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
		a	b	c	d	e	f	g	h
EU-1	EU - Original Exposure Method (for derivatives)	35,530	34,981		1.4	98,715	98,715	98,715	40,857
EU-2	EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*Of which securities financing transactions netting sets*			-		-	-	-	-
2b	*Of which derivatives and long settlement transactions netting sets*			-		-	-	-	-
2c	*Of which from contractual cross-product netting sets*			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					**98,715**	**98,715**	**98,715**	**40,857**

Table 20 - EU CCR2 – Transactions subject to own funds requirements for CVA risk

	30.06.2023	Exposure value	RWEA
		a	b
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	86,203	89,625
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**86,203**	**89,625**

Table 21 – EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weights

	30.06.2023	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l
1	Central governments or central banks	7,646,855	-	72,957	127,489	50,282	13,269	-	-	791,712	8	53,321	8,755,893
2	Regional government or local authorities	62,902	-	-	-	102,211	-	-	-	77,700	4	-	242,816
3	Public sector entities	78,919	-	-	-	171	34,001	-	-	35,750	290	-	149,130
4	Multilateral development banks	590,049	-	-	-	-	-	-	-	-	-	-	590,049
5	International organisations	22,764	-	-	-	-	-	-	-	-	-	-	22,764
6	Institutions	-	-	-	197,637	806,697	299,768	-	-	32,300	3	12,729	1,349,133
7	Corporates	-	-	-	-	-	100,246	-	15,955	2,136,239	35,067	-	2,287,508
8	Retail	12,913	-	-	-	-	515,366	-	6,383,552	2,025,373	491,150	2,100,609	11,528,962
9	Institutions and corporates with a short-term credit assessment												-
10	Other items	447,432	-	-	-	9,418	-	-	-	399,771	2	-	856,623
11	**Total**	**8,861,834**	**-**	**72,957**	**325,127**	**968,778**	**962,650**	**-**	**6,399,507**	**5,498,844**	**526,523**	**2,166,658**	**25,782,879**

The exposure values post-CRM and post-CCR in each specific risk-weight class are distributed based on the standardised approach rules. The 0% weight prevails in the Central Government segment, 20% and 50% for the Institutions (depending on ECAI rating and residual maturity of the exposure), and 75% in the Retail segment, while 100% is applied to all other segments. The 150% weight is only applied to high-risk exposures and those default exposures whose provision coverage does not exceed 20%. In comparison with the end of 2022, the highest increase was noticed on the 35% and 75% weight in the Secured with mortgage and Retail exposure segments.

	31.12.2022	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l
1	Central governments or central banks	7,629,050	-	-	-	44,920	13,336	-	-	956,962	9	53,173	8,697,450
2	Regional government or local authorities	55,756	-	-	-	98,473	-	-	-	81,511	0	-	235,740
3	Public sector entities	74,442	-	-	-	145	44,672	-	-	35,760	17	-	155,035
4	Multilateral development banks	519,146	-	-	-	-	-	-	-	-	-	-	519,146
5	International organisations	22,768	-	-	-	-	-	-	-	-	-	-	22,768
6	Institutions	-	-	-	238,682	795,756	226,361	-	-	52,690	2	17,955	1,331,445
7	Corporates	-	-	-	-	-	85,957	-	21,444	2,019,190	27,465	24	2,154,079
8	Retail	13,420	-	-	-	-	505,219	-	6,256,485	2,047,281	438,248	1,996,277	11,256,930
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	472,471	-	-	-	19,177	-	-	0	403,733	-	-	895,382
11	**Total**	**8,787,054**	**-**	**-**	**238,682**	**958,470**	**875,545**	**-**	**6,277,929**	**5,597,126**	**465,740**	**2,067,429**	**25,267,975**

7. Exposure to market risk

(Article 445 of CRR)

Table 22 – EU MR1 – Market risk under the standardised approach

		30.06.2023
		RWEAs
		a
	Outright products	
1	Interest rate risk (general and specific)	18,463
2	Equity risk (general and specific)	16,213
3	Foreign exchange risk	1,332,325
9	**Total**	**1,367,001**

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

(Article 448(1) a and b of CRR)

Table 23 – EU IRRBB1 – Interest rate risks of non-trading book activities

Supervisory shock scenarios	Changes of the economic value of equity		Changes of the net interest income	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022
	a	b	c	d
Parallel up	-1.53%	-4.82%	5.96%	6.51%
Parallel down	-0.78%	5.24%	-7.08%	-7.50%
Steepener	5.00%	4.47%		
Flattener	-0.87%	-1.90%		
Short rates up	-1.00%	-2.86%		
Short rates down	0.74%	-1.01%		

In the first quarter of 2023, the Bank implemented new model for core deposits and equity replication. This contributed to lower EVE on the Bank and the Group level.

9. Liquidity

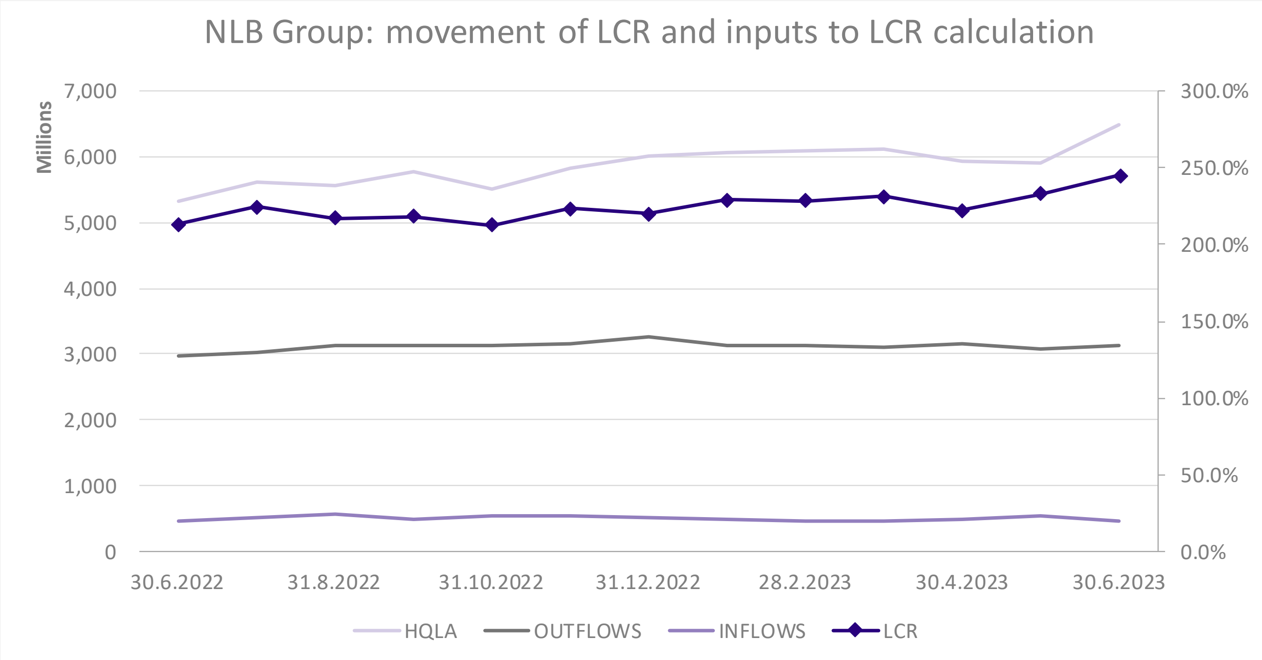
(Article 451a (2) and (3) of CRR)

Liquidity coverage ratio

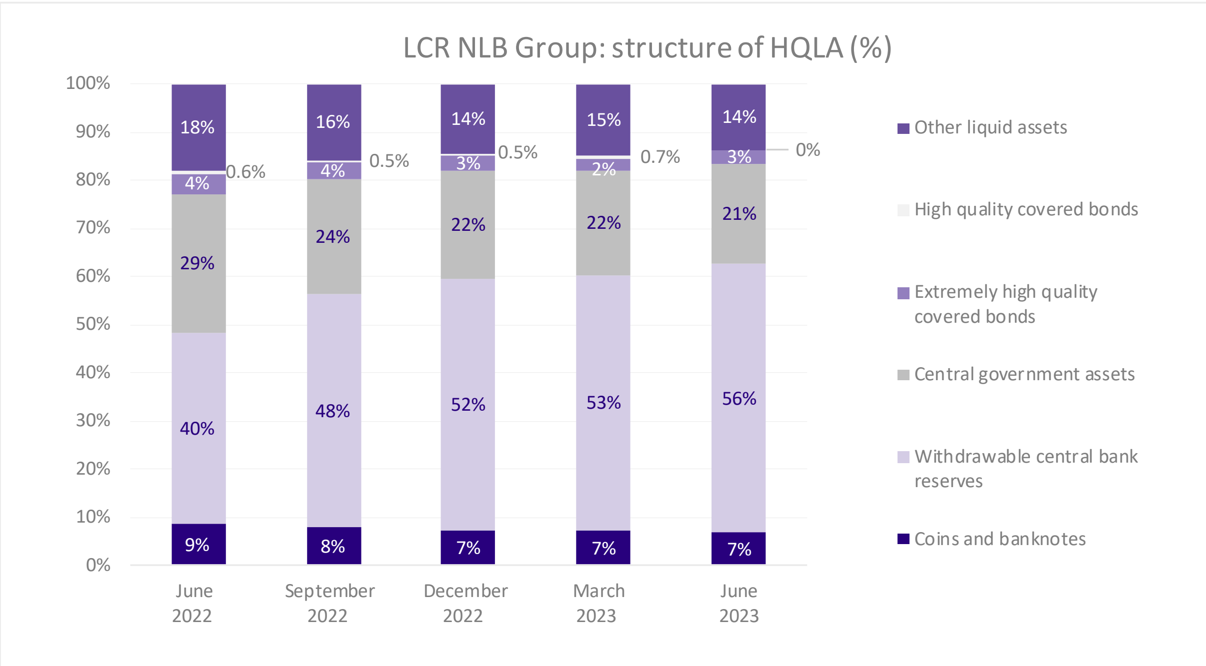
The Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In the last twelve months (30.06.2022 – 30.06.2023), the LCR of the Group ranged between 213% and 245% (245% as at 30 June 2023). The surplus of HQLA is at a very high level in the Group, ranging between EUR 5.33 billion and EUR 6.51 billion in the last twelve months (EUR 6.51 billion as at 30 June 2023).

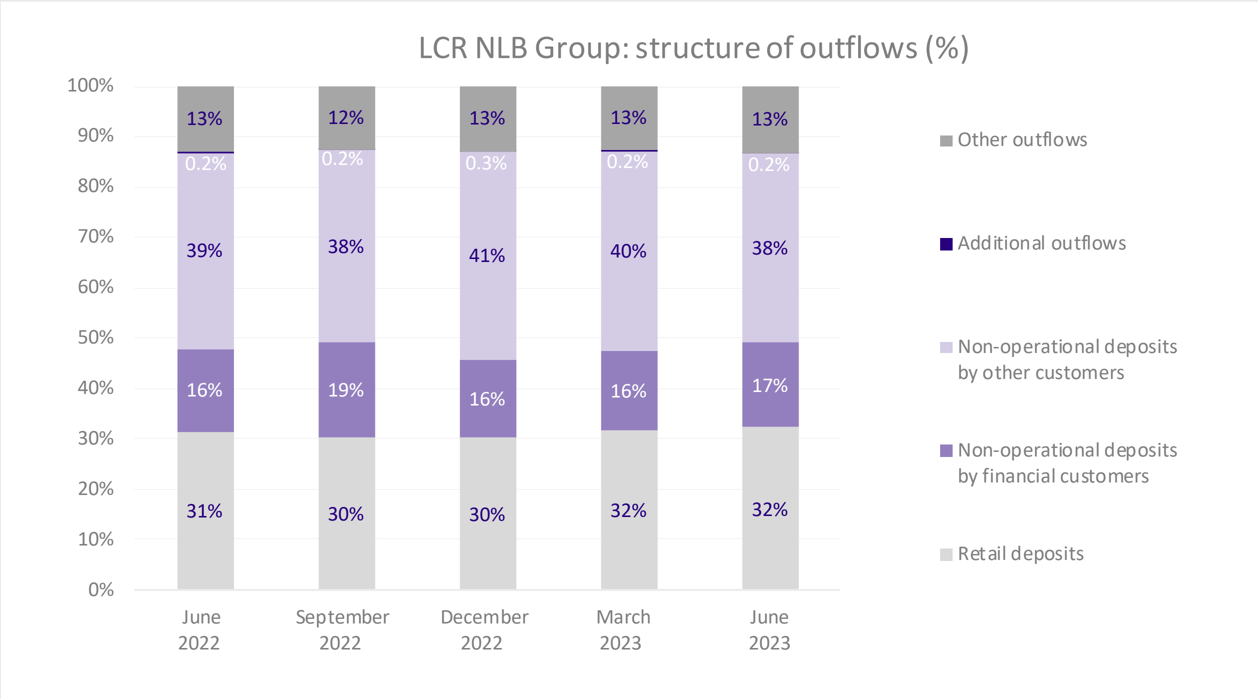
In the first quarter of the 2023, LCR followed relatively stable trend with a slight increase in the second quarter due to higher amount of HQLA (mostly from CB reserves) and generally lower amount of net liquidity outflow. The June increase of HQLA arises mainly from issuance of green senior preferred bonds in the amount of EUR 500 million.

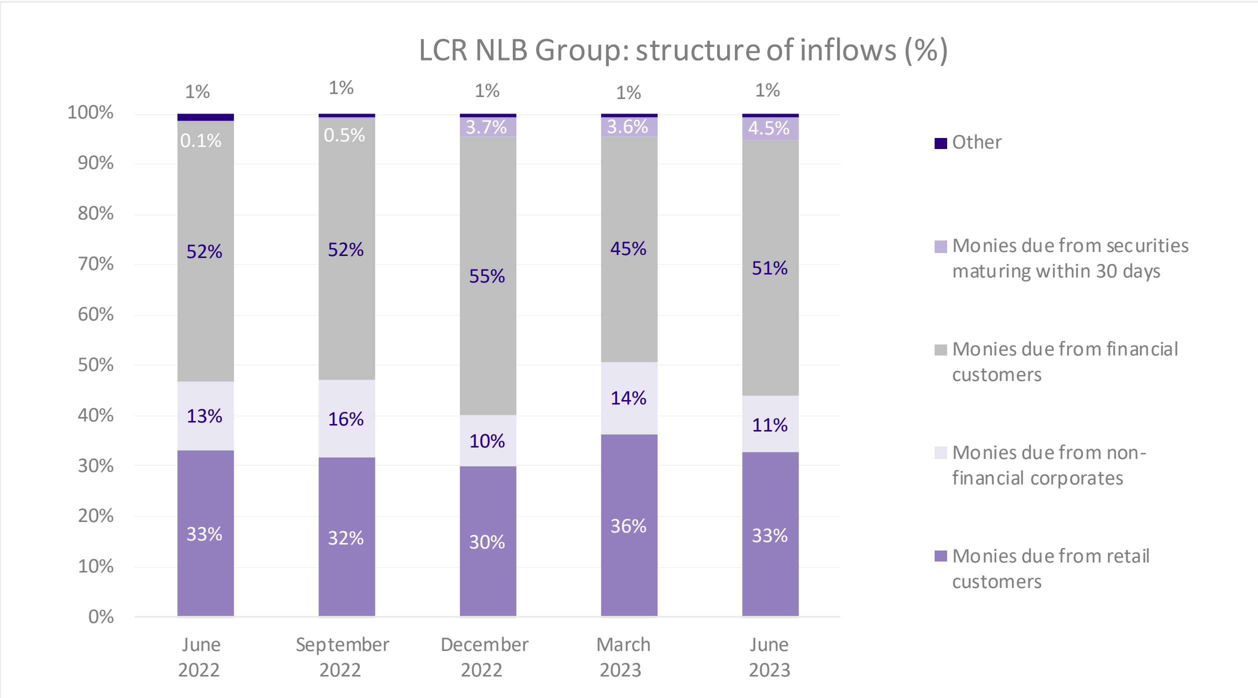
One of the specific rules for calculating consolidated LCR on the Group level is that, from each subsidiary (banking member) only HQLA in the amount of its net liquidity outflows in specific currency is included in the calculation of consolidated LCR.



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







Concentration of funding and liquidity sources

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

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

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

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

On the Group level, at the end of June 2023, the top 30 counterparties provided 3.5% of the total liabilities, mostly in retail, while the top 30 counterparties in the Bank provided 3.7% of the total liabilities.

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

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

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

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

In the Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because the Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of the Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is in Serbian dinar (RSD). As of 30 June 2023, the aggregate liabilities in RSD represented 5.63% of total liabilities of the Group, therefore, RSD qualified as a significant currency.

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

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

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

Table 24 – LIQ1 – Quantitative information of LCR, data in EUR millions

EU 1a	Quarter ending on	Total unweighted value (average)				Total weighted value (average)			
		30.06.2023	31.03.2023	31.12.2022	30.09.2022	30.06.2023	31.03.2023	31.12.2022	30.09.2022
		a	b	c	d	e	f	g	h
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)					5,916	5,775	5,647	5,527
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	15,806	15,619	15,360	15,066	973	954	931	906
3	*Stable deposits*	11,762	11,640	11,464	11,241	588	582	573	562
4	*Less stable deposits*	3,275	3,182	3,062	2,945	385	372	357	344
5	Unsecured wholesale funding	3,599	3,557	3,393	3,162	1,745	1,718	1,645	1,539
7	*Non-operational deposits (all counterparties)*	3,597	3,556	3,392	3,161	1,743	1,717	1,644	1,538
8	*Unsecured debt*	2	1	1	1	2	1	1	1
10	Additional requirements	2,322	2,259	2,175	2,088	198	206	215	227
11	*Outflows related to derivative exposures and other collateral requirements*	7	19	37	58	7	19	37	58
13	*Credit and liquidity facilities*	2,315	2,240	2,138	2,030	191	186	178	169
14	Other contractual funding obligations	231	244	248	235	125	135	135	119
15	Other contingent funding obligations	1,527	1,499	1,451	1,381	87	86	84	80
16	**TOTAL CASH OUTFLOWS**					**3,128**	**3,099**	**3,009**	**2,871**
Cash-inflows									
18	Inflows from fully performing exposures	740	737	745	744	488	486	500	510
19	Other cash inflows	17	15	12	12	17	15	12	12
20	**TOTAL CASH INFLOWS**	**757**	**752**	**757**	**755**	**505**	**501**	**513**	**521**
EU-20c	***Inflows subject to 75% cap***	**757**	**752**	**757**	**755**	**505**	**501**	**513**	**521**
TOTAL ADJUSTED VALUE									
21	**LIQUIDITY BUFFER**					**5,916**	**5,775**	**5,647**	**5,527**
22	**TOTAL NET CASH OUTFLOWS**					**2,623**	**2,598**	**2,496**	**2,350**
23	**LIQUIDITY COVERAGE RATIO**					**225.52%**	**222.21%**	**227.15%**	**236.85%**

Table 25 – LIQ2 – Net Stable Funding Ratio

	30.06.2023	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		a	b	c	d	e
Available stable funding (ASF) Items						
1	**Capital items and instruments**	**-**	**-**	**-**	**2,777,831**	**2,777,831**
2	*Own funds*	-	-	-	2,777,831	2,777,831
4	**Retail deposits**		**15,333,929**	**345,895**	**505,084**	**15,230,542**
5	*Stable deposits*		12,059,016	213,290	235,861	11,894,553
6	*Less stable deposits*		3,274,913	132,605	269,223	3,335,989
7	**Wholesale funding:**		**3,375,140**	**195,190**	**1,312,069**	**2,861,305**
9	*Other wholesale funding*		3,375,140	195,190	1,312,069	2,861,305
11	**Other liabilities:**	**19,441**	**835,447**	**338**	**239**	**408**
12	*NSFR derivative liabilities*	19,441				
13	*All other liabilities and capital instruments not included in the above categories*		835,447	338	239	408
14	**Total available stable funding (ASF)**					**20,870,086**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**108,957**
17	**Performing loans and securities:**		**2,628,059**	**1,628,734**	**10,349,494**	**10,339,458**
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,683,372	1,093,767	4,707,203	9,410,855
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		30,318	17,064	237,059	1,616,616
22	*Performing residential mortgages, of which:*		483,008	423,873	4,751,239	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		50,312	55,639	2,132,094	-
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		461,679	111,094	891,052	928,603
26	**Other assets:**		**415,770**	**15,841**	**414,724**	**710,138**
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*				9,436	8,021
29	*NSFR derivative assets*				76,529	76,529
30	*NSFR derivative liabilities before deduction of variation margin posted*				1,189	59
31	*All other assets not included in the above categories*		328,616	15,841	414,724	625,529
32	**Off-balance sheet items**		**3,900,652**	**-**	**-**	**210,120**
33	**Total RSF**					**11,368,673**
34	**Net Stable Funding Ratio**					**183.58%**

10. ESG risks

(Article 449 (a) of CRR)

10.1. Environmental risk

10.1.1. Business strategy and processes

a. An institution's business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on institution's business environment, business model, strategy, and financial planning

The Group is committed to implementation of environmental, as well as social and governance factors in its business model, in accordance with relevant regulation, and the following strategic frameworks, systems, policies and commitments:

- **NLB Group Sustainability Framework**, which is a comprehensive strategic guidance to manage environmental, social and governance considerations, and is binding for all core members of the Group (parent bank NLB and 7 subsidiary banks) in the region.
- **UN Principles of Responsible Banking (UN PRB)**, which the Group has committed to by becoming an UNEP FI member in 2020. Through the Principles, the Bank and its Group members take decisive action to align its core strategy, decision-making, lending, and investment with the UN Sustainable Development Goals.
- **Environmental and Social Policy, set out by European Bank for Reconstruction and Development**. The policy promotes environmentally sound and sustainable development and sets out performance requirements to which joining banks should adhere to. In this respect, the Group operates in accordance with performance requirements 2 (Labour and Working Conditions), 4 (Health, Safety and Security), and 9 (Financial Intermediaries).
- **Environmental and Social Management System (ESMS)**, which was established in 2021 as part of a comprehensive management system within the Group. It is developed with the aim to improve the Group's environmental and social (E&S) risk management capacity and to reduce credit and liability risks arising from environmental and social issues. The implementation of the ESMS is a part of signed agreements with the Bank's shareholder EBRD and with the MIGA, which brought contractual obligations to the Group related to the implementation of sustainability requirements.
- **UNEP FI Net Zero Banking Alliance (NZBA)**, which aims to harmonise credit and investment portfolios by reaching net zero emissions by 2050 or earlier. The Group became the signatory of NZBA in May 2022, and the next key milestone with regards to sustainability implementation is the development of a comprehensive NLB Group Net Zero Business Strategy with the aim to set clear portfolio decarbonisation targets. The process started in 2022, and the strategy is planned to be fully implemented in 2023.
- The Group is also intensively preparing to implement the Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS) and the forthcoming **EU Corporate Sustainability Due Diligence Directive.**

Key environmental considerations integrated within each pillar of NLB Group's Sustainability Framework are as follows:

Sustainable operations:
- managing the Group's direct environmental impacts,
- measurement, management, and reporting of the Group's direct – operational environmental impact (Scope 1, Scope 2, and Scope 3) in line with recognised international standards and initiatives,
- implementation of measures to reduce the Group's operational environmental footprint,
- implementation of the environmental elements in the procurement process, including responsible procurement and supply chain management in terms of mitigation of environmental risks.

Sustainable finance:
- development of the Group Net Zero Business Strategy, which aims to harmonise lending and investment portfolios with reaching net zero emissions by 2050 or earlier;
- integration of environmental, factors (as part of broader ESG) framework, relevant standards, and criteria into the Group's business and investment decisions;
- supporting the United Nations Sustainable Development Goals (UN SDGs) through financing and investing activities, new products, and services;

- managing climate-related and other environmental risks as well as searching for business opportunities emerging from the transition to a low-carbon, more inclusive, and circular economy;
- supporting clients in their business transformation to low carbon operations, and reorienting capital flows towards green transition by sustainability-related financing and products for private individuals, micro, SMEs, and corporate clients,
- establishment of Bank's Green Bond Framework and issuance of the green senior preferred notes in the amount of EUR 500 million in June 2023. With raised funds the Group may finance or refinance existing or future project-specific loans support projects in the field of renewable energy, energy efficiency, green buildings, clean transport, sustainable water and wastewater management and pollution prevention and control. Proceeds from the bonds will be allocated within 36 months from the issuance date. This is the first bond from a Slovenian issuer to align on a best-efforts basis with both the EU Taxonomy technical screening criteria and minimum social safeguards which confirms substantial contribution to EU environmental goals – mainly to climate change mitigation.

Contribution to society:
- managing donations, sponsorships, partnerships, and projects that address environmental considerations,
- aligning CSR activities United Nations Sustainable Development Goals (UN SDGs);
- raising awareness about environmental considerations among employees and other key stakeholders.

Further insights:

- Full list of sustainable economic activities (environmental and social ones) promoted by the Group is described in NLB Group Sustainability Framework (page 15), available on the Bank's webpage https://www.nlb-sustainability;
- For more information on strategic approach to environmental considerations in general please refer to NLB Group Sustainability Framework (page 9), available on the Bank's webpage https://www.nlb-sustainability;
- For more information on carbon footprint and other environmental considerations, please refer to NLB Group Sustainability Report 2022, Chapter NLB Group's Operational Environmental Impact; available on the Bank's webpage https://www.nlb-sustainability;
- For more information on human resource management, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Employees, available on the Bank's webpage https://www.nlb-sustainability;
- For more information on key client-related practices, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Clients, available on the Bank's webpage https://www.nlb-sustainability;
- For more information on CSR activities, please refer to NLB Group Sustainability Report 2022, Chapter Contribution to Society, available on the Bank's webpage https://www.nlb-sustainability.

b. Objectives, targets and limits to assess and address environmental risk in the short-, medium-, and long-terms, and performance assessment against these objectives, targets, and limits, including forward-looking information in the design of business strategy and processes

The Group conducts 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. Though we can expect that its impact will increase in the long run, namely if no adequate policy changes will be implemented in a timely manner. Chronic risk is not determined as material risk. Transition risks arise already on the short term due to determination of EU to reduce the 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 material than physical risk. In 2022, the Bank was assessed by Sustainalytics and obtained an ESG Risk Rating for the first time. The assigned rating (17.7) reflects a low risk of experiencing material financial impacts from ESG factors.

In 2020, the Group also performed an impact analysis in accordance with UN PRB framework and set out three key impact areas: (1) Climate, (2) Resource efficiency and security, and (3) Inclusive and healthy economies, as well as objectives and targets against these areas, as described in the table below.[1] The first and the second areas address environmental considerations, while the latter addresses social considerations, and so it is described in the Social Risks section.

In June 2022, UNEP FI delivered its second response report on implementing the Responsible Banking Principles, highlighting positive aspects of implementing the principles, developments in climate change and promoting the sustainable culture. In line with the recommendations, the Group will continue to set priority and concrete objectives in its impact areas. Performance data will be disclosed on Y2Y basis and will be available in NLB Group Sustainability Report and Pillar III Report for 2023.

Table 26: Key impact areas, objectives, targets, performance, and outlook

Impact area	Objectives and targets	Performance assessment as at 31 December 2022	Outlook
Climate			
New sustainable corporate financing in NLB Group (by 2030)*	EUR 785 million	EUR 166.9 million	On track. Group will continue to support clients in their green transition by fine tuning products with consideration of future legislation and technical development, as well as by providing them timely and relevant information about possible solutions for reducing their environmental footprint.
Electric energy used in NLB Group from zero-carbon sources (by 2030)	75%	70%	On track. In NLB and NLB Komercijalna banka Beograd 100% of electric energy used in NLB Group is already from zero-carbon sources, whereas on the Group level 70% of zero-carbon electricity was used.
Resource efficiency and security			
Number of paper prints in NLB Group's operations (by 2025 vs. the baseline year 2019)	50%	43%	On track. NLB Group will continue to take measures to further reduce printing.

* A green lending classification' refers to the internal methodology of NLB Group, which refers to EBRD, MIGA, and EU Taxonomy Frameworks. If a loan is mapped to either of these frameworks, it is currently considered as a green loan. To ensure a robust and standardised overview of green lending, this methodology will be fully aligned with CSRD, ESRS, and EU Taxonomy within regulatory timeframes.

c. Current investment activities and (future) investment targets towards environmental objectives and EU Taxonomy-aligned activities

Net Zero Business Strategy

The Group is committed to support and finance transition to a low-carbon economy. Quantitative environmental objectives in this regard have not been set yet due to the unavailability of emission and other environmental data of our counterparties, i.e., clients. Nevertheless, in 2022, the Group executed several activities for the purpose of calculation of credit portfolio GHG emissions and started the process of setting out a clear decarbonisation strategy and objectives.

In May 2022, the Group joined the UNEP FI Net Zero Banking Alliance (NZBA), which aims to harmonise lending and investment portfolios with reaching net zero emissions by 2050 or earlier. During 2023, the Group will develop a comprehensive Net Zero Business Strategy with the aim of setting clear portfolios' decarbonisation targets by November 2023.

For calculation and additional information on financed emissions please refer to Chapter 10.4 Credit quality of exposures.

EU Taxonomy

The Group continues with the implementation of EU Taxonomy in its sustainable financing. A report on EU Taxonomy alignment, i.e., the extent to which the Groups operations contribute to activities that qualify as environmentally

[1] *Key impact areas, objectives and targets were defined within 2021 NLB Group impact analysis. Altogether 13 impact areas along business lines were identified. This was followed by the Group analysis of the Group portfolio, a materiality analysis, and country needs. Based on these analyses, the Group prioritised three key impact areas and announced four key targets.*

sustainable according to the technical screening criteria laid out in the EU Taxonomy Regulation, will be disclosed in the Group's yearly reporting in 2024. [2]

One of key focus is also raising awareness of the importance and relevance of the EU Taxonomy in banking and business sector. The Group will further strengthen active engagement by helping businesses, cooperating with other peer banks, and focusing on the further integration of EU Taxonomy.

Further insight:

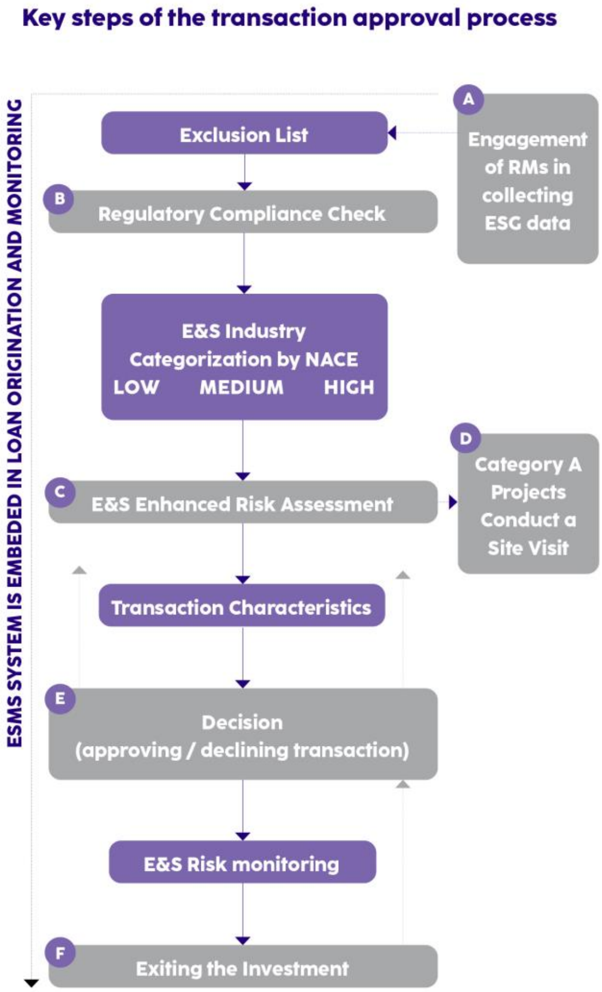
- For calculation and additional information on EU Taxonomy please refer to 2022 NLB Group's Sustainability Report, Chapter EU Taxonomy Disclosures, available on the Bank's webpage https://www.nlb-sustainability.

d. Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks

The Group established Environmental and Social Management System (ESMS), which is the mechanism for environmental and social screening of current or potential financing applications against the Multilateral Investment Guarantee Agency's (MIGA) and the European Bank for Reconstruction and Development (EBRD) Exclusion List, as well as applicable environmental and social laws. Through ESMS, environmental and social risks are integrated in the Group's Risk Appetite Statement, and the management of these risks addresses the Group's overall credit approval process and related credit portfolio management.

ESG risks are addressed in all relevant stages of the credit-granting process, and in the collateral evaluation process.

Clearly defined steps of ESG risk management in the Group are summarised and illustrated in the following scheme:



[2] In accordance with EU Taxonomy Regulation banks that are subject to the Non-Financial Reporting Directive (NFRD) are required to report from 2024 in their yearly non-financial statements on their alignment with the EU Taxonomy.

Key steps of the transaction approval process:

- Collecting ESG data is embedded in KYC (know your client) rules and procedures.
- After ensuring that the transaction is not included on the exclusion list, a Regulatory compliance check is performed, which verifies that client is adhering to the applicable laws, regulations, and standards, including environmental and health and safety regulations, planning permissions, operating licences and permits.
- If the transaction is classified with high environmental or social 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 and create a strategy for their mitigation. By that it is ensured that the risks are being adequately addressed and that any changes or newly emerged risks are identified and addressed promptly.
- If the client fails to comply with the investment's ESG requirements, the Group assess the situation and determines the best course of action. This could include exiting the investment or taking steps to mitigate the risk of non-compliance. Potential financial losses or legal consequences are considered, as well as any potential reputational damage. The Group also took into consideration our overall ESG strategy and how exiting the investment may affect our ability to meet our ESG goals.
- In residential mortgages the most important input for GHG calculation are the buildings' energy performance certificates (EPC). Therefore, for new lending the Bank gathers energy performance certificates (EPC-s) for real estate in collateral in all cases when energy performance certificate is mandatory according to Slovenian law. Owners of buildings which do not sell or rent out their properties, do not need an EPC. For Back book the Bank relies on actual data from public EPC registry and modelled EPC-s. For modelled EPC-s in Slovenia external provider modelled missing EPC-s based on public EPC registry data and information from national building registry. Activities for collecting additional official and modelled energy performance certificates (EPC-s) in the whole Group are underway.

In the context of environmental risk management of our counterparties, the Bank uses a questionnaire, which was developed in cooperation with the Bank Association of Slovenia. The questionnaire is part of the ESMS due diligence process for clients with the exposure above EUR 10 million and E&S classification as high risk. Within the process clients have to clarify environmental aspects of their operations in the following key areas: set up of environmental policies, assessment of GHG emissions and related measures to reduce them, mitigation of environmental risks, EU – taxonomy related data.

The credit ratings of clients that are materially important to the Group and the issuing of credit risk opinions are centralised via the Credit Committee of the Bank. 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 the Bank gives their opinion. E&S enhanced risk assessment in the Group is performed for following transactions:

- Project finance or corporate loan where tenor is at least 36 months and relates to project with total value above EUR 10 million,
- Corporate loan with a tenor of at least 36 months and with client's exposure above EUR 10 million,
- Financing applications relating to secondary market transactions or syndicated loans where the participation of the Bank is below 25% of the total loan value.

10.1.2. Governance

e. Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of environmental risk management covering relevant transmission channels

The Group regularly monitors and strengthens existing mechanisms and activities for responsible governance and oversight of ESG risk, including environmental ones. The first comprehensive internal audit in this area was conducted and followed by an action plan to strengthen the governance further. The Group is an ambassador of the Chapter Zero initiative as well, which enables members of the Supervisory and Management Boards of the Group's members to strengthen their competencies to adequately address climate change in the Group's business model.

The Group has implemented a comprehensive sustainability governance framework (top-down and bottom up). As the highest governance bodies, the Management Board and the Supervisory Board are responsible for managing and supervising the implementation of environmental factors and risk (considerations) management framework, respectively. In 2022, both governance bodies addressed (discussed and/or made resolutions) several ESG - related topics (including environmental), within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key topics include (but not limited to) the Group's net-zero business strategy, operational carbon footprint measurement and related measures to reduce environmental impact.

Responsibility for managing the Group's impact is efficiently delegated across management and business lines. Apart from the Management and the Supervisory Boards, all other governance bodies (Supervisory Board committees, collective decision making and advisory bodies to the Management Board) tackle the ESG risks sustainability in their respective area of work and responsibilities, including climate-related, other environmental and social risks and other ESG criteria.

Respective organisations units, which are responsible for specific environmental risk area, are responsible for setting out an environmental risks framework, risks identification, measurement, and monitoring, organising trainings and establishing a mechanism to address violations. They are also responsible for developing and updating the internal acts, as well as steering their implementation in the Group's operation.

There are several committees in place (as described in section (g)), who assist and advise in the environmental risk management process, as well as to execute individual tasks within powers of the Management Board. Identifying risks and opportunities that arise also from social issues (in addition to environmental and governance risks), supporting and accelerating integration of social factors in the Group are among key responsibilities of each committee. When appropriate, according to internal rules and procedures, social risks are considered also at respective Supervisory Board's Committees.

In addition, environmental risks are monitored through the Group's internal control system on three levels: the first level (all business units), second (risk management and compliance) and third level controls (internal audit). In case of identification of environmental risks that could affect the Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

Further insight:

- Further explanations are available in sections (f) and (g) in environmental risk qualitative disclosures.
- For additional information on responsibilities of the management body please refer to NLB Group Sustainability Report 2022, section Governance, available on the Bank's webpage https://www.nlb-sustainability.

f. Management body's integration of short-, medium- and long-term effects of environmental factors and risks, organisational structure both within business lines and internal control functions

Organizational structure related to management of environmental factors and risks is described in section (e).

Internal controls are established at all levels of the Bank's organisational structure, especially at the levels of commercial, control, and support functions, and all financial services of the Bank. In its daily business, the Bank uses the internal document Internal Control System in the Bank, which lays down the internal control system and the responsibilities for its establishment, continuous operation, and improvement.

The Bank has adopted the internal document entitled Internal control system (ICS), which is a set of rules, procedures, and organisational structures aimed at:

- ensuring the efficient and consistent implementation of the Bank's strategies and operations,
- ensuring efficient and consistent processes and procedures in the Bank,
- protecting the value of the Bank's assets,
- ensuring the reliability and integrity of accounting and management data and information,
- ensuring the operations and activities of the Bank in accordance with all applicable rules and regulations.

The appropriateness of the internal control mechanisms is defined based on the independence, quality, and applicability of:

- the rules and controls of performance of organisational, business and work processes of the Bank (internal controls), and
- the internal control functions and departments (internal control functions).

The internal control system in the Group is implemented on several levels, that are first, second and third level controls, which also implies also for climate-related topics and broader sustainability agenda. The internal control system is designed to ensure that a process or other measure is in place for each key risk to effectively reduce or manage that risk, and that the process or measure is effective for this purpose.

1st line of defence

First-level (or line) controls are designed to ensure the proper implementation of business activities, i.e., the Bank's operations. Supervision in each individual business area is carried out by the competent OU, which is responsible for the implementation of procedures according to the Rules on Authorisations and Signing.

All business and non-business units represent the first line of defence, having primary responsibility for day-to-day risk management in climate related and other ESG issues. This applies especially to frontline employees in corporate, retail, and financial markets, whose main responsibilities are:

- Conducting activities with clients within the established ESMS framework, accountable for identifying and managing climate related and other ESG risks;
- Obtaining relevant information on sustainability profile of the client (aspirations, needs, decarbonisation plans etc.), identifying new opportunities in the commercial strategy, while adhering to internal acts;
- Informing clients about new sustainable banking products development via internal notifications, dedicated internal pages, manuals, and educational meetings;
- Providing clear directions with regards to the new products and processes;
- Understanding and identifying potential climate-related and other sustainability risks;
- Participating in awareness activities or trainings in climate related and other ESG topics.

In addition to frontline staff, employees in back offices also have a responsibility to identify sustainability related risks and opportunities, to discuss or report them to their supervisors, and to take part in awareness activities or trainings.

2nd line of defence

Second-level controls are divided between internal control functions; risk management and business compliance; the latter carry out independent controls and supervision over the operation of the first line of defence.

The risk management function defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring and management in the area of ESG regulatory framework and climate-related risks. Its mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole Group.

The business compliance function sees to the supervision of the correct implementation and ensuring compliance (line controls) with the regulatory framework, its consistent interpretation at the Group level, as well as to identifying, assessing, preventing, and monitoring overall risks to compliance and integrity in the Bank. Among the responsibilities of the Compliance function is providing consultancy services to individual units about the applicable laws, directives, standards and regulations, and guidance and support in assuring compliance, as well as to identifying, assessing, preventing, and monitoring overall risks to compliance and integrity in the Group. All of the following also apply to the ESG regulatory framework and climate-related risks:

- The management of changes in the legal environment comprises also of the climate related and other ESG risks among others (according to the internal act Rules on the management of changes in the legal environment). Compliance is included and is monitoring developments in the regulatory area, communicating these to relevant units (e.g., newsletters on regulatory changes) and is included in the general sustainability activities to have proper oversight over the implementation activities in this area. The status of implementation of legal changes or adjustments to the Bank's operations is regularly reported, but no less than quarterly, to the Management Board

- and separately to the Supervisory Board and, where appropriate, to the Risk Management function and other operational units.
- Compliance is actively involved in the ad hoc sustainability working groups, the Sustainability Committee, and it regularly cooperates with the Sustainable development unit as well. Furthermore, as a part of compliance monitoring Compliance review of processes/areas, ESG in credit process and EU taxonomy is included in the Work Plan of Compliance and Integrity for year 2023.

3rd line of defence

The third level of controls is performed by the internal audit function, which assesses and regularly checks the completeness, functionality, and adequacy of the internal control system. Internal audit is completely independent of both the first line and the second-level control functions. Sustainability / ESG is part of the Audit processes (a comprehensive overview of all activities in the Bank, subject to internal audit) and is included in the regular annual risk analysis. The first comprehensive Group-level audit review was initiated in 2000 and concluded in 2023. The Audit Report provided findings, recommendations, and an audit opinion, and the implementation of recommendations is being monitored.

Further insight:

- For more information on Incorporation of ESG risks in the credit approval process and corresponding governance please refer to section (d)

g. Integration of measures to manage environmental factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body covering relevant transmission channels

Committees

To assist and advise in this process, as well as to execute individual tasks within powers of the Management Board, there are several committees in place:

- A Sustainability Committee is an advisory body, which tackles risks and opportunities, related to climate and other sustainability issues.
- All management topics, including sustainability, are discussed, and approved at six collective decision-making bodies: the Corporate Credit Committee, the Assets and Liabilities Management Committee of NLB Group, the NLB Operational Risk Committee, the NLB Group Real Estate Management Committee, the Sales Committee, and the Risk Committee.
- Respective Management Board members are supported by directors (B-1 level) in three decision-making bodies: the Committee for New and Existing Products, the Committee for Business IT Architecture, and the Data Management Committee.

Committees support the Management Board in fulfilling the responsibilities in managing respective areas. Identifying risks and opportunities that arise from environmental, social and governance issues; supporting and accelerating integration of ESG factors in the Group are among key responsibilities of each committee.

In accordance with the provisions of the Articles of Association of the Bank, the Supervisory Board also appoints committees which function as consultative bodies of the Supervisory Board of the Bank discussing the proposed materials and proposed resolutions of the Management Board of the Bank in individual areas, intended for discussion at the meetings of the Bank's Supervisory Board. At the time of publishing this report, the Supervisory Board of the Bank had five Committees, which also address sustainability topics: The Audit Committee, The Risk Committee, The Nomination Committee, The Remuneration Committee, The Operations and IT Committee.

Sustainability Committee

The Sustainability Committee acts primarily as an advisory body of the Management Board of the Bank, when needed. Any eventual decisions made at the Committee, are further confirmed by the Management Board of the Bank through a correspondence session. The Committee conveys minimum quarterly, with *ad-hoc* meetings, when needed.

The Committee is consisted of 20 members, its chairman is the Chief Executive Officer of the Bank, and the Deputy Chairman of the Committee is the General Manager of Strategy and Business Development. Sustainability

Committee's membership is drawn from senior officials across all areas of the Bank. In addition, Management Board members of the Group members, ESG Coordinators and ESMS Officers of the Group are permanently invited to the meetings.

The Committee oversees the integration of the ESG factors to the Bank and the Group members business model in a focused and coordinated way across the company and issues opinions, recommendations, initiatives and takes relevant decisions when needed. The Committee discusses, develops, and approves sustainability strategies, policies, initiatives, methodologies, KPIs and other relevant procedures, has the influence over sustainability-related strategic objectives and monitors its development and realisation. In case of deviations from the targets, the Sustainability Committee proposes corrective actions.

The Committee takes notes of:

- all key activities of Sustainability department as central coordination team, and monitors the sustainability integration;
- the implementation of sustainability activities, including, but not limited to regulatory requirements, contractual obligations, investors' needs, the Bank's ESMS, ESG-related KPIs, and sustainability commitments, which influence the ESG performance of the Group;
- the development of new sustainable financing products and portfolio development (areas: consumer, business, corporate);
- the status of sustainable investments, sustainable loan portfolio, and the general status of sustainability in the Group.

Sustainable Development Unit
In 2022, the Bank upgraded the former organisational setting and established a designated organizational unit Sustainable Development within Strategy and Business Development Division. In this manner, sustainability is coordinated through the central coordination team in the Bank, which reports directly to CEO of the Bank, who regularly reports to the Management and Supervisory Board.

The Sustainable Development unit makes proposals related to the Sustainability Framework, drives and oversees the implementation of sustainability-related roadmap, measures the results, and reports on the status. It also prepares the NLB Group Sustainability Report, and ensures its compliance with applicable regulations, as well as integration of relevant reporting frameworks (GRI, TCFD). It also ensures coordination of other ESG-related agendas, such as Principles for Responsible Banking - UNEP FI, EBRD, and MIGA environmental and social performance standards and requirements. In collaboration with all the relevant functions of the Bank, the Sustainable Development unit is also a guardian of the NLB Group Net Zero Business Strategy project.

Sustainability governance in the Group members
To accelerate awareness and to effectively integrate sustainability group-wide, each Group member has appointed a representative (a specialist or a middle manager), who is responsible for active collaboration with the Sustainable Development unit, for managing and executing the sustainability initiatives locally and to report to their local Management Boards.

The Group has a certain level of standardization of the Group-wide coordination approach around sustainability, by appointment of designated ESMS officers and ESG coordinators. The process of further standardisation of procedures and processes in the Group is underway and will be completed in 2023.

As a rule, sustainability-related policies are adopted at first in the parent bank NLB, whereas the Group members are responsible for adapting and implementing them into their operations, within three months after the adoption in the. The Sustainability Development unit regularly performs training sessions for the Group members and advises them on policy implementation and other current topics. ESG members regularly report about key achievements and issues on a day-to-day basis, key topics are also reported to the Sustainability Committee or escalated to the Management Board or Supervisory Board, if appropriate. To enhance the clarity and efficiency of sustainability rules Group wide, ESG Group Standards are in process of preparation and are planned to be implemented in 2023.

Sustainability *ad-hoc* groups
Strategic and agile approach to sustainability governance and organisation is realised also through ad hoc working groups. These groups are being set up to address and resolve various sustainability topics, and involve different internal and external stakeholders, given the nature of the topic.

h. Lines of reporting and frequency of reporting relating to environmental risk

Environmental risks are regularly discussed and reported at all sessions of governance bodies, as well as through daily operations, in accordance with internal rules and procedures. Sessions of committees (listed in section (g) above) are convened according to the plan of meetings, regularly and frequently. Majority of them are held once a week, some of them monthly or every two or three months. Ad hoc meetings are convened in case certain issues need to be addressed urgently. Internal control functions have access to the Supervisory Board in the manner stipulated by the banking regulations. They regularly (quarterly) report to the Supervisory Board about their work.

i. Alignment of the remuneration policy with institution's environmental risk-related objectives

The target-setting, performance evaluation and remuneration framework for the highest governance bodies, and other identified employees who can significantly impact the risk profile of the Bank and/or the Group in the scope of their tasks and activities, is set out in the Remuneration policy for members of the Supervisory Board and Management Board of the Bank and in Remuneration Policy for Employees in the Bank and in the Group (hereinafter: the remuneration policies) [3]. Based on the Group guidelines the principles of the remuneration policy were also implemented in the Group members.

Both remuneration policies provide clear guidelines for prudent remuneration to have responsible, fair and transparent remuneration mechanisms, forming the basis for developing business with the objective of creating and protecting value for all stakeholders. The proposal for the remuneration policies is approved by the Management Board and the Remuneration Committee and adopted by the Supervisory Board.

As part of the performance evaluation process, the Group put a special attention to the achievement of environmental, social and governance goals. Given sustainability roadmap of the Group, Management Board members and other identified employees (those who can significantly impact the risk profile of the Bank and/or the Group in the scope of their tasks and activities) are committed to achieve targets, which are set out in their respective areas. In 2023, concrete targets have been included in their performance plans, and were part of the Management Board members' individual assessments, as follows:

- Bank's CEO: 10% weighting
- Other Members of Bank's Management Board: from 5 to 20% weighting.

Further insight:
- To explore more about the remuneration please refer to Sustainability Report, Chapter Remuneration and integration of ESG goals, available on the Bank's webpage https://www.nlb-sustainability.

10.1.3. Risk management

j. Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework

The Group conducts materiality assessment, as part of its overall risk identification process, based on ECB, EBA, BIS, UNEP FI, EBRD and other relevant guidelines. Besides, the Group uses all disposable climate and environmental data and studies available for its region (namely provided by different relevant state institutions) to determine the level of environmental 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 is assessed.

[3] In 2022, the second edition of the Remuneration policy for members of the Supervisory Board and Management Board of NLB was adopted by the Supervisory Board of the Bank and approved by the General Meeting of Shareholders of the Bank, whereby the vote on this resolution is of a consultative nature. Employee Remuneration Policy of NLB and NLB Group was adopted by the Supervisory Board of the Bank in 2021.

k. **Definitions, methodologies, and international standards on which the environmental risk management framework is based**

The management of ESG risks in the Group follows ECB and EBA guidelines, with the tendency of their comprehensive integration into all relevant processes. In addition, the Bank is a signatory of the Framework Agreements with the EBRD, the Contract of Guarantees with MIGA, the UN PRB, and the UN NZBA.

l. **Processes to identify, measure, and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels**

In the Group, environmental risks are considered as climate risk and other environmental risk. Transition risk and physical risk are subcategories of climate risk. Both categories are then further divided into even more subcategories, as presented in the table below. In first step the risk drivers relevant for Slovenia and other countries where the Group is present, are identified. In addition, the Group considers exposure to other environmental risks, such as biodiversity risk, waste disposal and pollution. The Group analyses how such risks can impact its clients and bank itself and defines transmission channels. Furthermore, the Group assesses how other factors (sources of variability) which determine the likelihood or the size of the impact, so called amplifiers, mitigants and geographical heterogeneity impact its operations. In the last step the materiality of the impact is assessed. These analyses were performed on proxy data for CO2 emissions and energy consumption, historical data for physical risk, expert judgement supported by publicly available climate change studies.

Table 27 – Following environmental risk drivers were consider when conducting materiality study:

Climate Risk		
Transition risk		Climate Policy changes
		Technological changes
		Behavioural changes (investor and consumer sentiment)
Physical risk	Acute Physical risk:	
		Floods
		Drought
		Heat waves
		Windstorm
		Wildfires
		Hail
		Freezing rain
		Landslide
	Chronic Physical risk:	
		Temperature changes
		Reduced water availability
		Biodiversity loss
Other environmental risk		
		Waste disposal
		Nature conservation incl. biodiversity loss
		Pollution

Notes:

- Though for the impact analysis the Group decided to use a bit different approach to classification of transition risk which relies more on risk factor pathways as described by UNEP-FI. Though the main drivers of the risk are still policy, technological and behavioural changes, UNEP-FI methodology relays on its impact to cost, capital expenditures, and revenues.
- Methodology for assessment of environmental risks should be treated (due to its complexity, lack of good quality micro level data, comparability between institutions, cross-country comparability, and comparability of different risk categories) as expert based one, though it can be still subject to changes due to the aforementioned reasons.

Each of the identified physical risk factors is assessed from a probability and impact perspective. The methodology used has been developed internally. It relies on all available climate and environmental data (including insurance companies' loss statics), studies available for its region (namely, provided by different relevant state institutions), and expert judgement. While the probability of a severe physical risk event is evaluated based on the location of the exposure, the impact of such an event relies more on the industry (segment) of the client. Probability and impact scores are then combined into a vulnerability score.

To identify physical risk factors, the Group is using a 5-level risk assessment scale:

1-Low	2- Moderately Low	3-Moderate	4-Moderately High	5-High

For residential mortgages, the Group assesses flood risk by using flood maps, which means that the exact flood risk level is determined based on the micro location of the real estate. From the physical risk perspective, in the short to medium term, the Group does not classify any exposure as high risk. However, assuming worst-case scenarios in climate change, certain exposures (such as agriculture in some regions) are also classified as high physical risk in the long term.

Transition risk factors are assessed based on the UNEP-FI methodology, which is industry based. The methodology was elaborated by the Group to a more granular level and is combined with actual or proxy emissions data. Here, too, the Group uses the same 5 level scale as described above. For residential mortgages, the Group assesses transition risk by using energy performance certificate (EPC) scores, energy consumption and CO2 emissions, which are derived from the EPC. From the transition risk perspective, the highest risk is expected in the medium term, although due to the favourable composition of the Bank's portfolio, only limited exposure is classified as high risk.

Impacts of environmental risks and key mitigation activities on the Group's business model

In the process of risk identification relevant transmission channels and their materiality and impact to the Group's financial performance in the short- and long-term period are assessed.

Table 28: Impacts of climate-related risks and key mitigation activities

Transition risk impact	• Transition risks arise already in the short term due to determination of EU to reduce the carbon emissions according to its ambitious net zero strategy by 2050. • With implementation of NLB Group Net zero strategy of in 2023, it is expected that its impacts will gradually diminish in the long run. Nevertheless, the Group assessed them more material than physical risk. This can already be observed through higher energy and emission costs. There are certain industries which are directly or indirectly related to fossil fuels and such industries are considered riskier. • The level of transition risk does not depend only on the industry itself but also on the companies themselves (ESG awareness, strategy, efficiency, etc.) and their location (outside EU there is lower regulation). • On a 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. There is some exposure in more emissions intensive industries, such as energy, transportation, industry, and agriculture. However, the exposure to the clients with high emissions is rather limited. As part of its strategy, the Group does not finance companies that extract fossil fuels or operate coal-fired power plants. In residential mortgages the most important input for GHG calculation are the buildings' energy performance certificates.
Physical risk impact	• The most relevant natural disasters are drought and floods, while hail and windstorm are also frequent but less material. Still, we can expect that its impact will increase in the long run, especially if no adequate policy changes will be implemented in a timely manner. Other events are not material for the region and the Group's business model. • A model for assessing flood risk based on national (Slovenian) flood risk zones was developed – determining flood risk on the actual location of the real estate in collateral; a model for the other Group countries is in development. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined. • Based on the analysed data, floods and drought do cause material losses, but they do not have a material effect on the Group's portfolio. • Chronic physical risks in Slovenia are assessed as not material to the Bank's collateral exposure. • Some past losses in the region were observed in public infrastructure and agriculture, but such losses were to a large extent reimbursed by the government (impact on sovereign debt). Further on, as supported by insurance statistics, many losses caused by physical risk are covered by insurance which also limits the impact of these risks on the Bank's performance. • The Group's credit portfolio is well diversified (from the industry and location

	perspectives) which reduces the impact of such events. Stress tests performed on the real estate portfolio reveal that some losses could occur due to physical risk, though with no significant impact on the Group's performance.
Other environmental risks impact	• Exposure to other environmental risks is not material in the short run, though their long-term potential impacts are taken into consideration. • The Group is also using the EBRD methodology to assess also other environmental risks such as waste disposal, nature conservation incl. biodiversity loss and pollution. The 3-level scale (low, medium, and high risk), as defined by the EBRD is used. In addition, the Group is exploring possibilities to perform more granular and individual assessments where needed. From this perspective, only a small proportion of the Bank's portfolio is classified as high risk.

m. Activities, commitments, and exposures contributing to mitigate environmental risks

Please refer to section (l), where this topic is described.

n. Implementation of tools for identification, measurement, and management of environmental 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. Thus, sustainable finance integrates ESG criteria into the Group's business and investment decisions. 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 risk. The Group integrates and manages them within the established risk management framework in the area of credit, liquidity, market, and operational risk. The management of ESG risks follows ECB and EBA guidelines with tendency of their comprehensive integration into all relevant processes.

Credit risk management

The management of ESG risks addresses 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.

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 determination of final risk score. Such approach enables different views over the Group's corporate portfolio from physical and transition risk perspective. With regards 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 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. 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. In residential mortgages, the most important input for GHG calculation are the buildings' EPCs.

Collateral management

Climate related and environmental risks are implemented in collateral valuations process. For new lending the Bank gathers energy performance certificates (EPC's) for real estate in collateral in all cases when EPC is mandatory according to Slovenian law. Owners of buildings which do not sell or rent out their properties, do not need an EPC. For Back book the Bank relies on actual data from public EPC registry and modelled EPC-s. All missing EPCs in the Bank and the Group portfolio were modelled based on available characteristics of real estate in collateral (specifically for each country) so the Bank will have official or modelled energy performance data for each collateral. Data for are gathered, modelling of EPCs for the Group is in progress.

A model for assessing flood risk, based on national (Slovenian) flood risk zones was developed – determining flood risk on the actual location of the real estate in collateral; a model for other NLB Group countries is in development. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined. Based on the analysed data, floods and drought do cause material losses, but they do not have a material effect on the Group's portfolio. Other physical risks in Slovenia are assessed as not material to the Bank's collateral exposure.

Operational and reputation risks

The Group carefully considers potential reputation and liability risks which could arise from sustainable financing of its clients. Special attention is given to the approval of new products and monitoring of fulfilment of relevant criteria by the clients. Additional key risk indicators have been addressed, servicing as an early warning system in the area of ESG risks. Besides, physical risks, as part of ESG risks in the area of operational risk, are addressed in the Group's business continuity management (BCM). Business continuity plans include 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. Additionally, ESG risk screening in the supply chain is part of the Group's supplier selection and regular assessment process.

o. Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile

The Group established an internal ESG stress testing concept to identify the most relevant financial vulnerabilities stemming from transitional and physical climate risk, which will be further enhanced by considering additional disposable ESG-related data. The results of climate stress tests showed no material impacts on the Group's capital and liquidity position. More information on Stress testing framework in the Group is available in section 5.1. General information on risk management, objectives, and policies, Stress testing.

As a systemically important institution, the Group was included into 2022 ECB Climate Stress test exercise, consisting of three modules. The exercise was conducted in the first half of 2022 and aggregate results were published in July 2022. By performing this exercise 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.

p. Data availability, quality and accuracy, and efforts to improve these aspects

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 a prerequisite for adequate decision-making and corresponding proactive management of ESG risks. For the purpose of calculating the credit portfolio GHG emissions several important activities started in 2022. For larger corporate clients the Group initiated direct Scope 1 & 2 & 3 data gathering processes, whereas for the SME and micro segments, the Group developed their 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, the Group formed the emission calculation for the Slovenian market, whereas in the Region this process will continue and will be developed in 2023. Besides emissions, the Group collected, analysed, and used different relevant historical data for physical risk and publicly available climate change studies relevant for its region.

q. A description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits

The Group has established implementation of tools for identification and management of environmental and social risks, as well as early warning systems and escalation process at different levels:

- Prohibited, Restricted, and Normal activities are defined in Lending Policy for Non-Financial Companies in the Bank and the Group. In the policy, a special chapter is devoted to addressing the economic activities with categories such as prohibited, restricted, and normal activities. In 2023, the Group has expanded the list of prohibited activities to better align with the Environmental and Social Policy of the European Bank for Reconstruction and Development (EBRD).
- The NLB Group Lending Policy was upgraded with the Exclusion List from EBRD Environmental and Social Policy (2014) and MIGA Environmental and Social Exclusion List (signed with the Group members) to which the Bank must strictly adhere to. Incident reporting procedure sets out the rules of environmental and social incidents reporting to EBRD and MIGA. As a rule, in addition to governance bodies of the Group members, these financial Institutions must be promptly notified of any environmental or social incident or accident related to the client or the project, which has, or is likely to have, a significant adverse business effect.
- Established thresholds for Environmental & Social Extended Due Diligence to identify and assess the E&S impacts and issues (ecological obligations and risks, labour, working conditions, health, safety, cultural heritage etc.) associated with transactions.

- Established thresholds for Assessment of Environmental & Social Factors within Financial Analysis for understanding E&S standards on Environmental and Social Sustainability and introduction to Environmental and Social Management System (ESMS).

The implemented Environmental and Social Management System (ESMS) applies to transactions with the greatest potential for significant negative environmental and social impacts. According to ESMS, ESG risk management is considered on three levels:

- having a low impact on the environment and having the potential to replace high-impact activities (e.g., renewable energy),
- reducing impact form other activities,
- making a positive environmental contribution.

The Environmental and Social Transaction Categorisation methodology uses the aforementioned contributions to rank transactions in three levels:

- High activity risk: The client's business activities may give rise to significant or long-term environmental and social risks and impacts. These may require more specialised risk assessment, and the client may not have the technical or financial means to manage them.
- Medium activity risk: The client's business activities have limited environmental and social risks and impacts, and these are capable of being readily prevented or mitigated through technically and financially feasible measures.
- Low activity risk: The client's business activities have minor/few environmental and social risks and impacts associated with them.

Table 29 – Combination of EBRD environmental classification and Taxonomy at 30.06.2023

Segment	Credit portfolio exposure*	EBRD Environmental view		
		Low	Medium	High
Central government	3,674,305	3,669,221	-	5,083
Institutions	1,130,370	1,130,370	-	-
Companies	7,091,528	3,632,516	2,283,018	1,175,994
Private persons	6,973,657	6,973,657	-	-
Total	**18,869,860**	**15,405,765**	**2,283,018**	**1,181,077**
Percentage		**82%**	**12%**	**6%**

* Shows Gross exposure to credit portfolio valued at amortized cost or fair value through P&L.

During the year 2023, sustainable ESG financing in accordance with the Environmental and Social Management System (ESMS) was partly integrated in the Group's Risk appetite statement. Additional key risk indicators and targets in the ESG area are going to be addressed based on ongoing activities related to the Net Zero Banking Alliance commitment, signed by the Group. On that basis the Group is actively developing a comprehensive Net Zero Business Strategy with the aim to set clear portfolios' decarbonization targets.

r. Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework

Please refer to sections (l) and (n), where this topic is described.

10.2. Social risks

10.2.1. Business strategy and processes

a. Adjustment of the institution’s business strategy to integrate social factors and risks taking into account the impact of social risk on the institution’s business environment, business model, strategy, and financial planning

In the Group, social considerations (factors and risks) are integrated in the business model, strategy, and financial planning within overall ESG considerations and in accordance with relevant regulations, the NLB Group Sustainability Framework, UN PRB, the Environmental and Social Policy set out by EBRD, ESMS, and UNEP FI NZBA requirements. A detailed description of these frameworks, policies, systems, and commitments is included in environmental risk qualitative disclosures, as they refer also to social risk management.

Apart from managing environmental considerations (described in Table 29), management of social considerations (factors and risks) is also an important part of the Group’s Sustainability Framework. Key social considerations integrated within each pillar of the Sustainability Framework are as follows:

Sustainable operations:
- implementation of human rights management system in business processes;
- responsibility to employees: capabilities development, talent retention and development, diversity inclusion, health and safety, ensuring employees’ wellbeing;
- responsibility to clients: actively engaging with clients, responsible marketing;
- implementation of the social elements in the procurement process, including responsible procurement and supply chain management in terms of mitigation of social risks.

Sustainable finance:
- integrating social factors (as part of broader ESG factors) in regulatory framework, relevant standards, and criteria into the Group’s business and investment decisions;
- supporting the United Nations Sustainable Development Goals (UN SDGs) through financing and investing activities, new products and services, especially in respect of SDG3 (ensure healthy lives and promote well-being for all at all ages), SDG 7 (ensure access to affordable, reliable, sustainable, and modern energy for all), and SDG 8 (promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all);
- managing social risks in credit process as well as searching for business opportunities emerging from social considerations in economy and society.

Contribution to society:
- managing donations, sponsorships, partnerships, and projects that address social considerations,
- raising awareness about social considerations among employees and other key stakeholders.

Further insight:
- For more information on strategic approach to social considerations in general please refer to NLB Group Sustainability Framework (pages 6, 8), available on the Bank’s webpage https://www.nlb-sustainability.
- A full list of sustainable economic activities (environmental and social ones) promoted by the Group is described in NLB Group Sustainability Framework (page 15), available on the Bank’s webpage https://www.nlb-sustainability.
- For more information on human resource management, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Employees, available on the Bank’s webpage https://www.nlb-sustainability.
- For more information on key client-related practices, please refer to NLB Group Sustainability Report 2022, Chapter Responsibility to Clients, available on the Bank’s webpage https://www.nlb-sustainability.
- For more information on CSR activities, please refer to NLB Group Sustainability Report 2022, Chapter Contribution to Society, available on the Bank’s webpage https://www.nlb-sustainability.

b. Objectives, targets, and limits to assess and address social risk in short-term, medium-term and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes

By the impact analysis that the Group executed within UN PRB framework, a key objective and target related to the third Impact area, i.e., Inclusive and healthy economies where defined, as presented in the Table 30. Performance data will be disclosed on Y2Y basis and will be available in NLB Group Sustainability Report and Pillar III Report for 2023 (in April 2024).

Table 30 – Key impact area, objective and target in 2022

Impact area	Objectives and targets	Performance assessment as of 31 december 2022	Outlook
Inclusive and healthy economies			
The share of active digitally-active customers in NLB Group (by 2025) *	55%	40.1%	On track. NLB Group will continue with measures and providing solutions, aimed at further digital penetration.

* The target was set in 2021 before the merger of NLB Banka Beograd with Komercijalna banka Beograd in April 2022, now operated under NLB Komercijalna banka Beograd, and the acquisition of N banka in March 2022. The effect of the merger and the subsequent changes in the customer base had an unpredictable impact on the number of active digital users, and such data would most likely not have been accurate or reliable.

The Group will further develop processes and policies in order to assess, address, and manage relevant social risks that emerge from both environmental and social changes, and will embed them in the business model, governance and credit process with clients.

c. Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce socially harmful activities

Clients' strategies to mitigate socially harmful activities and other social risks, are included in the screening (due diligence) process within the Group's ESMS. To learn more about the ESMS and screening process, please refer to chapter 10.1. Environmental risk, section d), as the described process with new or existing counterparties also applies to social risks.

The Group's social impacts, including human rights considerations (either as an employer or a business partner) as well as of our counterparties, are outlined in the Group's policies and other internal acts.

Several internal policies have been adopted and upgraded to increase embeddedness of social risks in the Bank's operation and their mitigation, namely:

- Key internal act is the **NLB Group Sustainability framework**, which laid the foundations for three pillars of sustainability: sustainable finance, sustainable operations, and contribution to society. The goal of this strategic, Group-wide initiative is to ensure sustainable financial performance of the Bank by considering social and environmental risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system.
- **Policy Environmental and Social Transaction Policy Framework** in the Bank and the Group is one of several risk management systems we operate, comprising policies and processes to give us better understanding into our customers' activities, help address issues of concern, minimise risks, and manage stakeholder expectations. The objectives of this Policy are to set out how the Group will assess and manage environmental and social risks and impacts associated with the transactions and promote good environmental and social management practices in the client's transactions.
- **NLB Group Corporate Social and Environmental Responsibility Policy**, which defines basic areas of sustainable operations of the Group members, including key sponsorships and donations areas. In addition to taking care of our employees, the key pillars of the Group's socially responsible behaviour are promoting entrepreneurship, financial literacy and mentoring, support for world-class and youth sports, humanitarianism, and the protection of cultural heritage.
- **Policy on Respect for Human Rights in NLB and NLB Group** was adopted by the Management Board in 2023. Human Rights considerations are implemented in business processes at the following levels: Employee's relations, Customer relations, banking products and services, Suppliers, Relations with other stakeholders. In

this respect, the Bank progressively introduces the following measures or activities in its internal processes (recruitment, investment approval, supplier relations, etc.):
  - preparation of policies and procedures as well as internal control mechanisms to prevent human rights violations;
  - regular training of employees and training of target groups on human rights;
  - conducting due diligence and taking appropriate measures to manage human rights risks;
  - inclusion of special conditions on minimum expectations regarding respect for human rights in contracts and/or general conditions with third parties (customers, business partners, suppliers);
  - ensuring the availability of channels for (anonymous) reporting of alleged abusive practices;
  - implementing procedures and mechanisms to address suspicious or harmful conduct and take corrective action, and implementing measures to protect whistleblowers (internal and external) and prevent retaliation;
  - engaging with key stakeholders, including customers, investors, external business partners and civil society, to promote progress in respecting human rights in business.
- **Standard Procurement in the Members of the NLB Group**, the purpose of which is to ensure a uniform and transparent Procurement procedure (including the minimum principles of ethical, social, and environmental conduct that the Group expects from all its suppliers) of goods and services needed for performing the business activities in line with standards of conduct required by the NLB Group Code of Conduct, as well as other group-wide Group policies and procedures that are required to be uniformly applied within the Group (taking into account, where relevant, any local specifics and deviations, which are always prealigned with the Bank in line with Group governance processes).

Further insight:
- For additional information please refer to NLB Group Sustainability Report 2022, chapters Sustainability Strategy, Sustainable Finance and Risk Management, Respecting Human Rights, Responsible Procurement and supply chain management, available on the Bank's webpage https://www.nlb-sustainability.

10.2.2. Governance

d. Responsibilities of the management body for setting the risk framework, supervising, and managing the implementation of the objectives, strategy, and policies in the context of social risk management: (i)Activities towards the community and society, (ii) Employee relationships and labour standards, (iii) Customer protection and product responsibility (iv) Human rights

The Group has implemented a comprehensive sustainability governance framework (top-down and bottom up), which is described in Governance section of Environmental risk qualitative disclosures, whereas the description also refers to social risk.

As the highest governance bodies, the Management Board and the Supervisory Board are responsible for managing and supervising the implementation of social factors and risk (considerations) management framework, respectively. In 2022, both governance bodies addressed (discussed and/or made resolutions) several ESG-related topics (including social), within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key topics included (but not limited to) were social risk management (within risk management strategy), diversity, human rights, and human resources considerations.

In the context of social risk management of our counterparties, the Bank has started to implement a questionnaire (developed in cooperation with the Bank Association of Slovenia). The questionnaire is part of the ESMS due diligence process for clients with the exposure above EUR 10 million and E&S classification as high risk. Within the process, clients have to clarify whether the company put in place policies relating to the social aspects of operations in the following areas:

- Impact on community/society:
  - description of a company's programmes to support local communities;
- Employee relations/labour standards and human rights:
  - description whether the company has a collective agreement for basic worker rights and does it provide to its employees additional benefits/bonuses (supplementary pension or health insurance, jubilee benefits, sports activities . . .);

    - description of mechanisms in place for making anonymous complaints regarding irregularities (whistleblowing) and for dealing with irregularities/infringements in the company by the employees;
- Customer protection and product responsibility:
    - explanation whether a company performs supply chain due diligence also for the purpose of compliance with ESG criteria, cooperates with business partners substantially exposed to the risk of human rights, and have demand that all its suppliers duly observe the same social standards as it itself observes;
- Human rights:
    - explanation whether a company has put in place policies relating to the social aspects of operations in the areas of human rights, equal opportunities / non-discriminatory practice, encouragement of staff diversity, provision of health and safety at work, child labour and illegal work prevention, ethical business conduct;
    - explanation whether a company has subscribed to any global, i.e., regional, sectoral commitments in the area of social impacts (e.g., membership of sectoral initiatives).

Additionally, ESG risk screening in the supply chain is part of the Group's supplier selection and regular assessment process. Among others the supplier is required to disclose whether it respects/considers social factors such as respect of human rights, free choice of employment, prohibition of child labour, prohibition of undeclared work, prohibition of discrimination, right to adequate pay, right to adequate working time, right to trade unions, the right to human personality and dignity, the right to health and safety, and the right to diversity.

The Group will further develop processes and policies in order to improve mitigating social risks in its internal operations, as well as in relations with counterparties.

e. Integration of measures to manage social factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body

Respective organisations units, which are responsible for specific social area, are responsible for setting out a social risk framework, risk identification, measurement, and monitoring, organising trainings, and establishing a mechanism to address violations. They are also responsible for developing and updating the internal acts, as well as steering their implementation in the Group's operation. There are several committees in place, who assist and advise in the social risk management process, as well as to execute individual tasks within powers of the Management Board.

Identifying risks and opportunities that also arise from social issues (in addition to environmental and governance risks), supporting and accelerating integration of social factors in the Group are among key responsibilities of each committee. When appropriate, according to internal rules and procedures, social risks are considered also at respective Supervisory Board's Committees.

In addition, social risks are monitored through the Group's internal control system on three levels: the first level (all business units), second (risk management and compliance), and third level controls (internal audit). In the case of identification of social risks that could affect the Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

Further insights:
- Additional information on internal governance arrangements is disclosed in detail in the NLB Group Sustainability Report 2022, chapter Governance, available on the Bank's webpage https://www.nlb-sustainability.

f. Lines of reporting and frequency of reporting relating to social risk

Social risks are regularly discussed and reported at all sessions of governance bodies, as well as through daily operations, in accordance with internal rules and procedures. Sessions of the Group's committees are convened according to the plan of meetings, regularly and frequently. The majority of them are held once a week, some of them monthly or every two or three months. *Ad hoc* meetings are convened in case certain issues need to be addressed urgently. Internal control functions have access to the Supervisory Board in the manner stipulated by the banking regulations. They regularly (quarterly) report to the Supervisory Board about their work.

The Group has also established Environmental & Social Incident Reporting, which sets out the procedure of environmental and social incidents reporting to EBRD and MIGA. As a rule, in addition to governance bodies of the

Group member these financial Institutions must be promptly notified of any environmental incident or accident related to the client or the project, which has, or is likely to have, a significant adverse business effect.

g. Alignment of the remuneration policy in line with institution's social risk-related objectives

Remuneration Policy for the Members of the Supervisory Board of the Bank and the Members of the Management Board of the Bank, addresses social risks within overarching ESG risks, as described in chapter (i) in qualitative disclosures on environmental risk. In this respect, social risks are a part of the performance evaluation process.

Further insights:

- To explore more about the remuneration and social-risk objectives please refer to and NLB Group Sustainability Report 2022, Chapter Remuneration and integration of ESG goals, available on the Bank's webpage https://www.nlb-sustainability.
- The Employee Remuneration Policy of NLB and NLB Group is disclosed in more detail in the 2022 NLB Group Annual Report, section Human Resources Management, as well as in 2022 Pillar III Disclosures, Chapter Remuneration Policy.
- Full Remuneration Policy for the Members of the Supervisory Board of the Bank is published on the Bank's webpage: nlb.si-corporate-governance.

10.2.3. Risk management

h. Definitions, methodologies, and international standards on which the social risk management framework is based

The Group considers social factors and risks as those related to the rights, well-being, and interests of our employees, other stakeholders, and communities. These considerations include (but not limited to) factors such as (in)equality, health, inclusiveness, labour relations, workplace health and safety, human capital, and communities. In this respect, the Group's social risk management framework considers national and international regulations, methodologies, and standards in all aforementioned areas. Among these, the Group is focused and also follows ECB and EBA guidelines with tendency of their comprehensive integration into all relevant processes.

The risk management function defines rules about the risk appetite, risk strategy, other risk policies and guidelines, risk monitoring and management in the area of ESG regulatory framework and related its risks mandate (including social) is to provide and increased focus on holistic risk management and cross-risk oversight to further enhance risk steering and mitigation within the whole Group.

In accordance with the Group Risk Strategy and Lending guidelines the Group is willing to finance clients which adequately consider social responsibility in their business model and strategy, as defined in the Environmental and Social Credit Policy Framework. For certain clients above the defined threshold, additional ESG screening activities is being performed as defined in the Framework. In addition, series of rules in the area of social risk for existing and new suppliers are established to continue business relationships.

Social factors and risks are addressed also in the Policy on Respect for Human Rights. The policy contains the commitment of the Bank and the Group to respect human rights in accordance with all the highest international standards, including but not limited to the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Guidelines, Performance Standards 2 (Labour and Working Conditions), 4 (Health, Safety and Security), and 9 (Financial Intermediaries) as per EBRD Environmental and Social Policy (https://www.ebrd.com/environmental-and-social-policy.pdf), and the OECD Guidelines. At the national level, expectations of economic operators are regulated by the National Action Plan of the Republic of Slovenia for the Respect of Human Rights in Business.

Other relevant policies related to social risk management are described in Business and Strategy, section (c) of social risk qualitative disclosures.

Further insights:

- To explore more about employee relationships and labour standards, human rights, and social risk management in credit process, please refer to NLB Group Sustainability Report 2022, sections Responsibility to Employees, Respecting human rights, Sustainable Finance and Risk Management, respectively, available on the Bank's webpage https://www.nlb-sustainability.

- The full list of sustainable economic activities (environmental and social ones) promoted by the Group is described in NLB Group Sustainability Framework (page 15), available on the Bank's webpage https://www.nlb-sustainability.

i. Processes to identify, measure, and monitor activities and exposures (and collateral where applicable) sensitive to social risk, covering relevant transmission channels

j. Activities, commitments, and assets contributing to mitigate social risk

k. Implementation of tools for identification and management of social risk

Processes, activities to identify, measure, and monitor social risk within credit process, as well as implementation tools for identifications and management of social risks are described in the Group's ESMS and screening process. For detailed information on screening process, please refer to chapter 14.1. Environmental risk, section (d), as the described process with new or existing counterparties also applies to social risks. These processes are also defined in detail in other internal policies, that govern specific social-related risks.

In this context, the Group regularly monitors fulfilment of non-financing activities that are not supported by the Group (exclusion list) due to negative social impact. To mitigate social risk, ESMS system includes Regulatory Compliance Check, by which the client is checked for legal compliance and a contractual clause is included in the loan agreements that specify that the client operates and complies with all applicable Slovenian and EU regulations applicable to the client (borrower) and its business, including social regulations (in addition to environmental).

Key topics that are subject to screening are:

- the equality of people,
- non-discriminatory regulation,
- the possibility of advancement of the individual and social groups,
- and cultural heritage.

In addition, the Group has also established implementation of tools for mitigation of social risks that are related to the Group's operations, as well as early warning systems and escalation process at different levels:

- monitoring the stakeholders' perceptions and opinions, by surveys and other research tools;
- monitoring the public opinion, issues and trends that might evolve in social risk;
- setting out the mechanisms that enable internal or external stakeholders to raise complaints and concerns (such as grievance, whistleblowing mechanisms, contact centres, publicly accessible e-mail addresses, internal process for communicating critical concerns, etc.);
- setting out efficient processes to manage social risks in all respective business areas;
- addressing social risks in business continuity plans (BCP).

l. Description of setting limits to social risk and cases to trigger escalation and exclusion in the case of breaching these limits

Please refer to section (q) of environmental qualitative disclosures, as described procedure applies also for social risks.

m. Description of the link (transmission channels) between social risks with credit risk, liquidity and funding risk, market risk, operational risk, and reputational risk in the risk management framework

Please refer to sections (i), (j) and (k), where this topic is described.

10.3. Governance risk

10.3.1. Governance and Risk Management

a. The institution's integration in their governance arrangements governance performance of the counterparty, including committees of the highest governance body, committees responsible for decision-making on economic, environmental, and social topics

The management of governance considerations (factors and risks) is also an important part of the NLB Group's Sustainability Framework. Key governance considerations integrated within each pillar of the Sustainability Framework are as follows:

Sustainable operations:

- managing our direct environmental and social impacts while ensuring ethical and efficient operations,
- mitigating governance risks in the Group's operations internally and externally (counterparties, suppliers . . .).

Sustainable finance:

- integrating governance factors as part of broader ESG regulatory framework, relevant standards, and criteria into the Group's business and investment decisions,
- managing governance risks emerging from the green transition.

Contribution to society:

- managing donations, sponsorships, partnerships, and projects in accordance with high governance standards,
- aligning CSR activities United Nations Sustainable Development Goals (UN SDGs).

The Group has implemented a comprehensive sustainability governance framework (top-down and bottom up). As the highest management and governance bodies, the Management Board and the Supervisory Board are responsible for managing and supervising the implementation of governance considerations (factors and risk) management framework, respectively. In the first half of 2023, both boards addressed (discussed and/or made resolutions) several ESG-related (including governance) considerations, within their respective area of responsibility, whether stand-alone or in connection with broader strategic topics. Key governance topics addressed were related to KPIs and plans, reporting, remuneration and performance assessment, and diversity.

Respective organisations units, which are responsible for specific governance area, are responsible for setting out a governance risks framework, risks identification, measurement, and monitoring, organising trainings and establishing a mechanism to address violations. They are also responsible for developing and updating the internal acts, as well as steering their implementation in the Group's operation. There are several committees in place, who assist and advise in the governance risk management process, as well as to execute individual tasks within powers of the Management Board.

Identifying risks and opportunities that arise also from governance issues (in addition to environmental and social risks), supporting and accelerating integration of governance factors in the Group are among key responsibilities of each committee. When appropriate, according to internal rules and procedures, governance risks are considered also at respective Supervisory Board's Committees.

In addition, governance risks are monitored through the Group's internal control system on three levels: the first level (all business units), second (risk management and compliance), and third level controls (internal audit). In the case of identification of governance risks that could affect the Groups business model, operations or performance, such case is escalated according to internal rules and procedures.

The Bank strives for transparency of operations which allows the recipients of information to correctly assess the position, operations, risks, and management of the Group. Transparency of operations by ensuring quality disclosures, frequency of information delivery, and accessibility of publications is one of the most important building blocks of the Group's governance.

b. Institution's accounting of the counterparty's highest governance body's role in non-financial reporting

Activities to engage and monitor client's management on governance risks (in addition to environmental and social risks) is set out in the Environmental and Social Transaction Policy Framework in the Bank and the Group. The activities include assessment of:

- commitment to managing E&S issues relevant to the business,
- presence of effective systems to manage E&S issues, including accountability,
- past record of regulatory breaches, fines, lawsuits, negative media, or stakeholder protests/complaints that demonstrate how well the client has been managing E&S issues,
- past track record through an online search of publicly available information such as media reports, social media, and nongovernmental organisation websites.

In this respect, during environmental and social screening of a client the role of its Management Board and/or Supervisory Board is assessed. This is done by reviewing their statement on non-financial reporting (if it is included in counterparty's annual report) and within a questionnaire during the extended overview, which includes a specific question on the commitment level of senior management to E&S Issues.

c. Institution's integration in governance arrangements of the governance performance of their counterparties

Clients' strategies to mitigate governance risks and governance performance are included in the screening (due diligence) process within the Group's ESMS. For more information on the ESMS and screening process, please refer to chapter 10.1., section d), as the described process with new or existing counterparties also applies to governance risks. The Group is continuously upgrading activities in order to rectify managing counterparties' governance risks.

In particular, to monitor counterparty's governance performance, the Bank has started to implement a questionnaire (developed in cooperation with the Bank Association of Slovenia). The questionnaire is part of the ESMS due diligence process for clients with the exposure above EUR 10 million and E&S classification as high risk, and is used to assess counterparty's arrangements as follows:

- Ethical aspects of governance (including anti-corruption and bribery considerations, related measures, trainings, and education, avoiding conflict of interest),
- Strategy and risk management (including business continuity plan, protection of personal data),
- Diversity in Management and Supervisory Boards,
- Transparency of the customer's reporting on past emissions performance across all relevant scopes.

Further insight:
- For overview of sustainability-related governance, please refer to NLB Group Sustainability Report 2022, Chapter Sustainability Governance, available on the Bank's webpage https://www.nlb-sustainability,
- For detailed risk management and ESMS description please refer to NLB Group Sustainability Report 2022, Chapter Sustainable finance, and Risk Management, available on the Bank's webpage https://www.nlb-sustainability.

10.4. Credit quality of exposures

This template provides information on exposures to nonfinancial companies operating in sectors that significantly contribute to climate change, including, among other things, information on the credit quality of the exposures and on financed emissions.

The perimeter includes exposures in the banking book, including loans and advances, debt securities and equity instruments to non-financial corporations, other than those held for trading.

The availability of ESG data (and Financed emissions data among others) in the region where the Group operates is still lacking. Nevertheless, the Group made a large progress in the process of obtaining relevant ESG related data from its clients. The development of models to obtain proxies for all local markets other than Slovenia is underway and will be further complemented by the end of 2023.

For a limited number of clients in countries where the Group operates, the Bank was able to obtain actual Scope 1 and Scope 2 emission data. For the remaining portfolio proxies were used. Financed emission proxies were prepared for different client sectors, also depending on the client size. Proxies for Slovenia and all other countries excluding strategic foreign markets were calculated using relevant emission data and applied to client income. Scope 3 is not included in financed emissions as this type of data is not mandatory for all client cases under PCAF standard on national level; methodology agreed within the banks in Slovenia (Guidance on financed emissions adopted by Slovene Banking Association, based on PCAF standard).

Calculation of financed emissions is as follows:

$$\text{Financed emissions} = \sum_i \text{Attribution factor}_i \times \text{Emissions}_i \quad \text{(with i = borrower or investee)}$$

$$\downarrow$$

$$\frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}$$

Attribution factor is calculated as Gross carrying amount / (short term + long term financial debt + equity) -> on balance sheet data as at 31 December 2021.

Table 31 – Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions, and residual maturity

in EUR million

	Sector/subsector 30.06.2023	a	b	d	e
		Gross carrying amount			
		Total	Of which exposures towards companies excluded from EU Paris-aligned Benchmarks**	Of which stage 2 exposures	Of which non-performing exposures
1	**Exposures towards sectors that highly contribute to climate change***	5,283	244	334	164
2	A - Agriculture, forestry and fishing	100	-	4	3
3	B - Mining and quarrying	48	11	16	-
4	*B.05 - Mining of coal and lignite*	2	2	2	-
5	*B.06 - Extraction of crude petroleum and natural gas*	9	9	9	-
6	*B.07 - Mining of metal ores*	-	-	-	-
7	*B.08 - Other mining and quarrying*	37	-	5	-
8	*B.09 - Mining support service activities*	-	-	-	-
9	C - Manufacturing	1,448	-	89	23
10	*C.10 - Manufacture of food products*	191	-	26	5
11	*C.11 - Manufacture of beverages*	34	-	6	-
12	*C.12 - Manufacture of tobacco products*	16	-	-	-
13	*C.13 - Manufacture of textiles*	13	-	5	-
14	*C.14 - Manufacture of wearing apparel*	8	-	-	-
15	*C.15 - Manufacture of leather and related products*	6	-	1	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	45	-	5	5
17	*C.17 - Manufacture of paper and paperboard*	34	-	1	-
18	*C.18 - Printing and reproduction of recorded media*	37	-	2	1
19	*C.19 - Manufacture of coke and refined petroleum products*	0	-	-	-
20	*C.20 - Production of chemicals and chemical products*	30	-	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	26	-	1	-
22	*C.22 - Manufacture of rubber products*	82	-	2	1
23	*C.23 - Manufacture of other non-metallic mineral products*	101	-	7	2
24	*C.24 - Manufacture of basic metals*	145	-	1	-
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	193	-	12	-
26	*C.26 - Manufacture of computer, electronic and optical products*	38	-	2	-
27	*C.27 - Manufacture of electrical equipment*	197	-	-	2
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	82	-	9	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	84	-	3	2
30	*C.30 - Manufacture of other transport equipment*	5	-	-	-
31	*C.31 - Manufacture of furniture*	32	-	1	2
32	*C.32 - Other manufacturing*	33	-	5	2
33	*C.33 - Repair and installation of machinery and equipment*	16	-	-	-
34	D - Electricity, gas, steam and air conditioning supply	534	73	72	1
35	*D35.1 - Electric power generation, transmission and distribution*	229	-	1	-
36	*D35.11 - Production of electricity*	191	7	69	1
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	67	67	-	-
38	*D35.3 - Steam and air conditioning supply*	48	-	2	-
39	E - Water supply; sewerage, waste management and remediation activities	61	-	1	2
40	F - Construction	607	-	37	24
41	*F.41 - Construction of buildings*	431	-	26	15
42	*F.42 - Civil engineering*	77	-	2	6
43	*F.43 - Specialised construction activities*	98	-	9	2
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,298	156	65	41
45	H - Transportation and storage	673	3	18	17
46	*H.49 - Land transport and transport via pipelines*	222	3	9	16
47	*H.50 - Water transport*	1	-	-	-
48	*H.51 - Air transport*	2	-	-	-
49	*H.52 - Warehousing and support activities for transportation*	430	-	9	-
50	*H.53 - Postal and courier activities*	19	-	-	-
51	I - Accommodation and food service activities	197	-	26	42
52	L - Real estate activities	317	-	6	11
53	**Exposures towards sectors other than those that highly contribute to climate change***	749	-	52	21
54	K - Financial and insurance activities	71	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	678	-	52	21
56	TOTAL	6,032	244	386	184

* In accordance with the Commission delegated regulation EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006

** In accordance with Article 12(1) points (d) to (g) and Article 12(2) of Regulation (EU) 2020/1818

in EUR million

	Sector/subsector 30.06.2023	f Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions Total	g Of which Stage 2 exposures	h Of which non-performing exposures
1	**Exposures towards sectors that highly contribute to climate change**	(145)	(12)	(100)
2	A - Agriculture, forestry and fishing	(3)	-	(2)
3	B - Mining and quarrying	(2)	(2)	-
4	*B.05 - Mining of coal and lignite*	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	(1)	(1)	-
6	*B.07 - Mining of metal ores*	-	-	-
7	*B.08 - Other mining and quarrying*	(1)	(1)	-
8	*B.09 - Mining support service activities*	-	-	-
9	C - Manufacturing	(27)	(5)	(14)
10	*C.10 - Manufacture of food products*	(6)	(1)	(4)
11	*C.11 - Manufacture of beverages*	(1)	-	-
12	*C.12 - Manufacture of tobacco products*	-	-	-
13	*C.13 - Manufacture of textiles*	-	-	-
14	*C.14 - Manufacture of wearing apparel*	-	-	-
15	*C.15 - Manufacture of leather and related products*	-	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	(3)	-	(3)
17	*C.17 - Manufacture of paper and paperboard*	-	-	-
18	*C.18 - Printing and reproduction of recorded media*	(1)	-	-
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-
20	*C.20 - Production of chemicals and chemical products*	-	-	-
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	-	-	-
22	*C.22 - Manufacture of rubber products*	(1)	-	(1)
23	*C.23 - Manufacture of other non-metallic mineral products*	(3)	(1)	(2)
24	*C.24 - Manufacture of basic metals*	(1)	-	-
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	(2)	(1)	-
26	*C.26 - Manufacture of computer, electronic and optical products*	-	-	-
27	*C.27 - Manufacture of electrical equipment*	(3)	-	(2)
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	(1)	-	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	(1)	-	-
30	*C.30 - Manufacture of other transport equipment*	-	-	-
31	*C.31 - Manufacture of furniture*	(1)	-	(1)
32	*C.32 - Other manufacturing*	(1)	-	(1)
33	*C.33 - Repair and installation of machinery and equipment*	-	-	-
34	D - Electricity, gas, steam and air conditioning supply	(10)	(6)	-
35	*D35.1 - Electric power generation, transmission and distribution*	(1)	-	-
36	*D35.11 - Production of electricity*	(8)	(6)	-
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	-	-	-
38	*D35.3 - Steam and air conditioning supply*	(1)	-	-
39	E - Water supply; sewerage, waste management and remediation activities	(2)	-	(2)
40	F - Construction	(25)	(3)	(19)
41	*F.41 - Construction of buildings*	(18)	(2)	(13)
42	*F.42 - Civil engineering*	(5)	-	(4)
43	*F.43 - Specialised construction activities*	(3)	-	(2)
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	(44)	(3)	(32)
45	H - Transportation and storage	(8)	7	(12)
46	*H.49 - Land transport and transport via pipelines*	(13)	-	(12)
47	*H.50 - Water transport*	-	-	-
48	*H.51 - Air transport*	7	8	-
49	*H.52 - Warehousing and support activities for transportation*	(2)	(1)	-
50	*H.53 - Postal and courier activities*	-	-	-
51	I - Accommodation and food service activities	(17)	(1)	(15)
52	L - Real estate activities	(7)	-	(5)
53	**Exposures towards sectors other than those that highly contribute to climate change**	(24)	(4)	(14)
54	K - Financial and insurance activities	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	(24)	(4)	(14)
56	TOTAL	(169)	(16)	(114)

in EUR million

	Sector/subsector 30.06.2023	i GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)	j Of which Scope 3 financed emissions	k GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting
1	**Exposures towards sectors that highly contribute to climate change**	1,425,379	-	15%
2	A - Agriculture, forestry and fishing	348,153	-	-
3	B - Mining and quarrying	17,640	-	39%
4	*B.05 - Mining of coal and lignite*	5,196	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	5,408	-	100%
6	*B.07 - Mining of metal ores*	-	-	-
7	*B.08 - Other mining and quarrying*	7,022	-	25%
8	*B.09 - Mining support service activities*	14	-	-
9	C - Manufacturing	417,485	-	23%
10	*C.10 - Manufacture of food products*	37,212	-	10%
11	*C.11 - Manufacture of beverages*	6,029	-	-
12	*C.12 - Manufacture of tobacco products*	1,218	-	-
13	*C.13 - Manufacture of textiles*	6,797	-	13%
14	*C.14 - Manufacture of wearing apparel*	680	-	-
15	*C.15 - Manufacture of leather and related products*	792	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	6,869	-	-
17	*C.17 - Manufacture of paper and paperboard*	14,507	-	-
18	*C.18 - Printing and reproduction of recorded media*	2,577	-	-
19	*C.19 - Manufacture of coke and refined petroleum products*	223	-	-
20	*C.20 - Production of chemicals and chemical products*	14,091	-	13%
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	4,041	-	4%
22	*C.22 - Manufacture of rubber products*	17,832	-	26%
23	*C.23 - Manufacture of other non-metallic mineral products*	82,454	-	35%
24	*C.24 - Manufacture of basic metals*	149,668	-	33%
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	27,813	-	17%
26	*C.26 - Manufacture of computer, electronic and optical products*	1,397	-	-
27	*C.27 - Manufacture of electrical equipment*	26,993	-	58%
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	7,258	-	-
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	4,347	-	60%
30	*C.30 - Manufacture of other transport equipment*	340	-	-
31	*C.31 - Manufacture of furniture*	2,564	-	-
32	*C.32 - Other manufacturing*	1,407	-	-
33	*C.33 - Repair and installation of machinery and equipment*	376	-	-
34	D - Electricity, gas, steam and air conditioning supply	195,587	-	36%
35	*D35.1 - Electric power generation, transmission and distribution*	85,597	-	49%
36	*D35.11 - Production of electricity*	19,686	-	19%
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	1,805	-	-
38	*D35.3 - Steam and air conditioning supply*	88,499	-	92%
39	E - Water supply; sewerage, waste management and remediation activities	64,395	-	-
40	F - Construction	20,509	-	14%
41	*F.41 - Construction of buildings*	11,256	-	16%
42	*F.42 - Civil engineering*	5,588	-	15%
43	*F.43 - Specialised construction activities*	3,665	-	1%
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	110,429	-	8%
45	H - Transportation and storage	218,733	-	9%
46	*H.49 - Land transport and transport via pipelines*	173,309	-	1%
47	*H.50 - Water transport*	68	-	-
48	*H.51 - Air transport*	35,068	-	-
49	*H.52 - Warehousing and support activities for transportation*	8,962	-	13%
50	*H.53 - Postal and courier activities*	1,326	-	-
51	I - Accommodation and food service activities	22,969	-	-
52	L - Real estate activities	9,479	-	23%
53	**Exposures towards sectors other than those that highly contribute to climate change**	45,543	-	8%
54	K - Financial and insurance activities	719	-	28%
55	Exposures to other sectors (NACE codes J, M - U)	44,824	-	6%
56	TOTAL	1,470,922	-	15%

		l	m	n	o	p
	Sector/subsector					
	30.06.2023	**<= 5 years**	**> 5 year <= 10 years**	**> 10 year <= 20 years**	**> 20 years**	**Average weighted maturity**
1	**Exposures towards sectors that highly contribute to climate change**	3,477	1,472	275	59	4.0
2	A - Agriculture, forestry and fishing	74	21	5	-	3.2
3	B - Mining and quarrying	23	10	15	-	6.7
4	*B.05 - Mining of coal and lignite*	-	2	-	-	5.8
5	*B.06 - Extraction of crude petroleum and natural gas*	9	-	-	-	2.5
6	*B.07 - Mining of metal ores*	-	-	-	-	-
7	*B.08 - Other mining and quarrying*	14	8	15	-	7.8
8	*B.09 - Mining support service activities*	-	-	-	-	-
9	C - Manufacturing	1,048	387	7	5	3.2
10	*C.10 - Manufacture of food products*	147	42	2	-	3.0
11	*C.11 - Manufacture of beverages*	26	8	-	-	3.2
12	*C.12 - Manufacture of tobacco products*	15	-	-	-	0.6
13	*C.13 - Manufacture of textiles*	12	1	-	-	2.6
14	*C.14 - Manufacture of wearing apparel*	6	1	-	-	2.7
15	*C.15 - Manufacture of leather and related products*	5	1	-	-	2.1
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	34	11	-	-	3.4
17	*C.17 - Manufacture of paper and paperboard*	27	7	-	-	3.1
18	*C.18 - Printing and reproduction of recorded media*	27	9	1	-	3.6
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	-	-	1.0
20	*C.20 - Production of chemicals and chemical products*	17	13	-	-	4.9
21	*C.21 - Manufacture of pharmaceutical products and pharmaceutical preparations*	26	-	-	-	2.4
22	*C.22 - Manufacture of rubber products*	63	18	-	1	3.1
23	*C.23 - Manufacture of other non-metallic mineral products*	51	50	-	-	4.1
24	*C.24 - Manufacture of basic metals*	85	58	-	2	3.3
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	121	71	-	1	3.9
26	*C.26 - Manufacture of computer, electronic and optical products*	36	2	-	-	1.5
27	*C.27 - Manufacture of electrical equipment*	173	24	-	-	2.2
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	67	15	-	-	2.5
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	65	19	-	-	4.1
30	*C.30 - Manufacture of other transport equipment*	5	-	-	-	3.3
31	*C.31 - Manufacture of furniture*	23	9	-	-	3.4
32	*C.32 - Other manufacturing*	8	22	3	-	6.3
33	*C.33 - Repair and installation of machinery and equipment*	10	6	-	-	3.6
34	D - Electricity, gas, steam and air conditioning supply	191	207	94	42	7.7
35	*D35.1 - Electric power generation, transmission and distribution*	43	94	51	42	9.8
36	*D35.11 - Production of electricity*	78	69	43	-	7.1
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	67	-	-	-	2.6
38	*D35.3 - Steam and air conditioning supply*	4	45	-	-	7.3
39	E - Water supply; sewerage, waste management and remediation activities	46	15	-	-	2.7
40	F - Construction	444	143	17	2	3.2
41	*F.41 - Construction of buildings*	291	122	17	-	3.6
42	*F.42 - Civil engineering*	71	6	-	-	1.8
43	*F.43 - Specialised construction activities*	82	15	-	1	2.7
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	974	304	12	8	2.7
45	H - Transportation and storage	513	158	1	2	3.8
46	*H.49 - Land transport and transport via pipelines*	148	72	-	2	3.2
47	*H.50 - Water transport*	1	-	-	-	2.2
48	*H.51 - Air transport*	2	-	-	-	1.3
49	*H.52 - Warehousing and support activities for transportation*	346	83	1	-	4.1
50	*H.53 - Postal and courier activities*	16	3	-	-	3.5
51	I - Accommodation and food service activities	80	90	26	1	5.3
52	L - Real estate activities	83	136	98	-	7.3
53	**Exposures towards sectors other than those that highly contribute to climate change**	528	202	17	2	4.2
54	K - Financial and insurance activities	15	52	4	-	7.7
55	Exposures to other sectors (NACE codes J, M - U)	513	150	13	2	3.8
56	TOTAL	4,005	1,673	292	62	4.0

in EUR million

10.5. Energy efficiency of the collateral

The purpose of this template is to measure the energy efficiency of the loans collateralised with commercial and residential immovable property and of repossessed real estate collaterals, in terms of their consumption as expressed in kWh/m2 and/or their EPCs.

With the aim of promoting the energy efficiency of buildings, the Energy Performance of Buildings Directive (2010/31/EU) and the Energy Efficiency Directive (2012/27/ EU) introduced EPCs in Europe. Following their entry into force, these certificates are compulsory for the sale and rent of immovable property in the Eurozone.

For new lending in the Bank, we gather energy performance certificates (EPC-s) for real estate in collateral in all cases when energy performance certificate is mandatory according to Slovenian law. Owners of buildings which do not sell or rent out their properties, do not need an EPC. For Back book the Bank relies on actual data from public EPC registry and modelled EPC-s. For modelled EPC-s in Slovenia external provider modelled missing EPC-s based on public EPC registry data and information from national building registry.

Similar exercise is on-going for the Group members. External provider will model EPC proxies based on each country's collateral data. For N banka, the same exercise as for the Bank has been successfully completed. As integration of N banka has not been finished yet, the collateral data are not available at the moment.

Table 32 – Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

in EUR million

	Counterparty sector	Total gross carrying amount amount						
	30.06.2023		Level of energy efficiency (EP score in kWh/m² of collateral)					
		Total	0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500
		a	b	c	d	e	f	g
1	**Total EU area**	2,966	232	547	216	54	9	5
2	Of which Loans collateralised by commercial immovable property	1,075	28	74	61	17	1	-
3	Of which Loans collateralised by residential immovable property	1,879	203	472	154	37	7	5
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	12	1	1	-	-	-	-
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	944	214	490	190	45	5	2
6	**Total non-EU area**	3,066	9	-	-	-	-	-
7	Of which Loans collateralised by commercial immovable property	1,551	-	-	-	-	-	-
8	Of which Loans collateralised by residential immovable property	1,466	-	-	-	-	-	-
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	49	9	-	-	-	-	-
10	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	1	-	-	-	-	-	-

in EUR million

	Counterparty sector 30.06.2023	Total gross carrying amount amount								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
		A	B	C	D	E	F	G	Total	Of which level of energy efficiency* estimated
		h	i	j	k	l	m	n	o	p
1	**Total EU area**	21	61	95	90	42	18	15	2,624	31.8%
2	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-	1,074	16.9%
3	Of which Loans collateralised by residential immovable property	21	61	94	90	41	18	15	1,540	40.6%
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	1	1	1	-	-	10	0.0%
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated									
6	**Total non-EU area**	-	-	-	1	4	-	-	3,061	0.0%
7	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-	1,551	0.0%
8	Of which Loans collateralised by residential immovable property	-	-	-	-	-	-	-	1,466	0.0%
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	1	4	-	-	44	0.0%
10	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated									

* (EP score in kWh/m² of collateral)

10.6. Exposures to top 20 carbon-intensive firms

Table 33 – Template 4: Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms on 30.06.2023

in EUR million

	Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
	a	b	c	d	e
1	9	0.06%	N/A	3	1

*For counterparties among the top 20 carbon emitting companies in the w orld

The objective of this template is to show aggregate exposure to the 20 most carbon-intensive companies globally.

The perimeter includes loans and advances, debt securities, and equity instruments, classified under the accounting portfolios in the banking book, excluding financial assets held for trading and held for sale assets.

As the EBA instructions do not specify which list to use to cover this template, we have decided to use one of the two options mentioned as an example in the EBA's implementing technical standards on prudential disclosures on ESG risks namely the Carbon Majors Database.

Regarding environmentally sustainable (CCM) column, according to the Pillar 3 ESG implementing technical standards, we currently have no knowledge regarding reported company.

10.7. Exposures subject to physical risk

The purpose of this template is to identify exposures subject to acute and chronic physical risk, including exposures collateralised by immovable property, exposures by the business sector and foreclosed assets.

The perimeter includes exposures in the banking book, including loans and advances, debt securities and equity instruments not held-for-trading and not held-for-sale.

The Bank is using internal methodology for assessment of various physical risk events (hazards). Based on the location and industry of the counterpart vulnerability score is assigned to each exposure. 5 level scale is used (low, moderately low, moderate, moderately high, and high). The Group has no exposure assigned to the bucket high risk. However limited exposure arising from acute physical risk is assigned to bucket moderately high risk which the Bank still considers as exposures sensitive to impact from acute climate change events. Moderately high-risk exposure mostly relates to exposures to agriculture, which is vulnerable to drought. Less material are energy production, water supply, sewerage and waste management industries which are sensitive either to drought or floods. Furthermore, there is very limited exposure collateralised by immovable property vulnerable to floods.

For loans collateralized by commercial or residential real-estate a specific model for assessing flood risk based on national (Slovenian) flood risk zones was developed – determining flood risk on the actual location of the real estate in collateral. For all collaterals in our portfolio, flood risk (high, moderate high, moderate, moderate low, low) was determined. Other physical risks in Slovenia are assessed as not material to the Bank collateral exposure. For the Group members similar exercise with the same IT tool is on-going. For each collateral, coordinates will be determined and compared with flood risk map. As per N banka is concerned, when collateral data will be available, the same exercise as per the Bank will be done.

The Group has not identified any exposure sensitive to impact of chronic climate change events.

At the beginning of August, Slovenia was faced with large-scale flooding near all rivers. Affected was mainly infrastructure (local roads and bridges), and in a certain part, also companies and property of natural persons. The Bank itself did not suffer any material damage but may indirectly be affected by the inability of certain companies to operate and natural persons whose employment may be threatened, or their assets may be affected. Overall, the consequences for the Bank are assessed as limited. As a part of risk management, the Bank has been developing a model for assessing flood risk based on flood risk zones and is actively working on further enhancing this model, which will enable an additional reduction of negative impacts of future similar events for the Bank. In addition, the Bank decided to provide the necessary systemic measures for both retail and corporate clients.

Table 34 – Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk

in EUR million

	30.06.2023	Gross carrying amount (Mln EUR)													
			of which exposures sensitive to impact from climate change physical events												
	Slovenia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, North Macedonia	Total	Breakdown by maturity bucket				of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity						Total	of which Stage 2 exposures	Of which non-performing exposures
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
1	A - Agriculture, forestry and fishing	100	56	17	3	-	3	-	76	-	3	2	(2)	-	(1)
2	B - Mining and quarrying	48	-	-	-	-	-	-	-	-	-	-	-	-	-
3	C - Manufacturing	1,425	-	-	-	-	-	-	-	-	-	-	-	-	-
4	D - Electricity, gas, steam and air conditioning supply	528	62	24	34	-	7	-	120	-	69	-	(6)	(6)	-
5	E - Water supply; sewerage, waste management and remediation activities	61	15	1	-	-	2	-	16	-	-	-	-	-	-
6	F - Construction	605	-	-	-	-	-	-	-	-	-	-	-	-	-
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	1,277	-	-	-	-	-	-	-	-	-	-	-	-	-
8	H - Transportation and storage	665	-	-	-	-	-	-	-	-	-	-	-	-	-
9	L - Real estate activities	317	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Loans collateralised by residential immovable property	2,607	-	-	-	-	9	-	1	-	-	-	-	-	-
11	Loans collateralised by commercial immovable property	3,333	-	2	11	5	18	-	18	-	-	-	-	-	-
12	Repossessed colaterals	68	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other relevant sectors	-	-	-	-	-	-	-	-	-	-	-	-	-	-

11. Leverage ratio

(Article 451 of CRR)

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

Table 35 – Leverage ratio

	30.06.2023	31.12.2022
Tier 1 capital	2,269,153	2,295,700
Total leverage exposures	25,778,410	25,240,506
Leverage ratio	**8.80%**	**9.10%**

The leverage ratio of the Group as at 30 June 2023 amounted to 8.80%, which is well above the 3% threshold defined by the BCBS. Since the minimum requirement was exceeded so significantly, the risk of excessive leverage is not material. The Group's business model supports a low leverage risk appetite. In order to assure a limited risk appetite for leverage, The Group follows different indicators to identify reasons for past changes and understands potential future threats. The leverage ratio is also included in an early warning system, as a recovery plan indicator where it has set certain limits for a case of any exceeding's of defined triggers and the defined notification system. The leverage ratio is regularly and quarterly monitored and reported to Capital Management Group, and the Management and Supervisory Board of the Bank. Moreover, the leverage is also integrated in a stress tests framework with the aim to maintain an adequate capital level even in the case of extraordinary circumstances. More specifically, if the leverage ratio also remains stable in such stressed conditions, the risk of a forced decrease in the Bank's assets is low.

The leverage ratio as at 30 June 2023 decreased in comparison with the end of December 2022, by 0.3 p.p. by the higher value of the total leverage exposure in the amount of EUR 538 million and the decrease of the capital by EUR 27 million. The increase in the total leverage exposure was influenced by increase of on-balance exposures at the end of June 2023, which rose by EUR 556 EUR million, especially to sovereigns, exposures to retail, while off-balance sheet exposures decreased by EUR 17 million. Compared to December 2022, derivative exposures decreased by EUR 2 million, nevertheless their share in the total exposure measures is very low.

As at 30 June 2023, the leverage exposure was mainly driven by on-balance sheet exposures (95.4%), and other off-balance sheet exposure (4.2%), the rest was exposure from derivatives which is not significant. Among on-balance sheet exposures, the most significant were exposures treated as sovereigns (35.43%), retail exposures (24.20%), exposures to corporates (15.88%), and 11.06% to exposures secured by mortgages of immovable properties.

Table 36 – LRCom - Leverage ratio common disclosure

		CRR leverage ratio exposures	
		a	b
		30.06.2023	**31.12.2022**
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	24,644,494	24,093,098
6	(Asset amounts deducted in determining Tier 1 capital)	(43,108)	(47,861)
7	**Total on-balance sheet exposures (excluding derivatives, SFTs)**	**24,601,386**	**24,045,237**
Derivative exposures			
EU-9b	Exposure determined under Original Exposure Method	170,711	174,969
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(71,995)	(74,537)
13	**Total derivative exposures**	**98,716**	**100,432**
Securities financing transaction (SFT) exposures			
18	**Total securities financing transaction exposures**	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	4,692,752	4,610,694
20	(Adjustments for conversion to credit equivalent amounts)	(3,614,444)	(3,515,857)
22	**Off-balance sheet exposures**	**1,078,308**	**1,094,837**
Excluded exposures			
EU-22k	**(Total exempted exposures)**	**-**	**-**
Capital and total exposure measure			
23	Tier 1 capital	2,269,153	2,295,700
24	**Total exposure measure**	**25,778,410**	**25,240,506**
Leverage ratio			
25	**Leverage ratio**	**8.80%**	**9.10%**
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans)	8.80%	9.10%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	8.80%	9.10%
26	Regulatory minimum leverage ratio requirement	3.00%	3.00%
27	Leverage ratio buffer requirement (%)	3.00%	3.00%
EU-27a	Overall leverage ratio requirement	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
Disclosure of mean values			
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	25,778,410	25,240,506
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	25,778,410	25,240,506
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.80%	9.10%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.80%	9.10%

Table 37 – EU LR1 – LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

		30.06.2023
		a
1	**Total assets as per published financial statements**	**24,701,458**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(855)
8	Adjustments for derivative financial instruments	22,259
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,078,308
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(2,426)
12	Other adjustments	(20,334)
13	**Total exposure measure**	**25,778,410**

Table 38 – EU LR3 LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)

		30.06.2023
		a
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**24,644,494**
EU-2	Trading book exposures	1,005
EU-3	Banking book exposures, of which:	24,643,489
EU-4	Covered bonds	241,890
EU-5	Exposures treated as sovereigns	8,731,150
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	509,603
EU-7	Institutions	898,951
EU-8	Secured by mortgages of immovable properties	2,726,314
EU-9	Retail exposures	5,964,871
EU-10	Corporate	3,913,501
EU-11	Exposures in default	112,357
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,544,852

12. Appendices

12.1. Appendix 1: MREL requirement

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

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

As at 1 January 2024, the Bank must comply with MREL requirement on a consolidated basis at resolution group level of 30.99% of Total Risk Exposure Amount (TREA) increased by applicable Combined Buffer Requirement (CBR) and 10.39% of the Total Exposure Measure (TEM – leverage exposure). The Bank has to ensure a linear build-up of own funds and eligible liabilities towards MREL requirement and should as at 1 January 2022 ensure its compliance with 25.19% TREA, increased by CBR and 8.03% Leverage exposure.

As of 30 June 2023, the MREL ratio was 39.31% as percentage of TREA compared to an interim requirement of 29.06% of TREA (with CBR). This means the Bank has a MREL surplus of EUR 635 million above its interim MREL requirement. Expressed as percentage of the Leverage exposure, the Bank ratio was 19.30%, while the interim requirement is 10.39% of Leverage exposure.

Table 39 – EU KM2: Key metrics – MREL

	30.06.2023	**Minimum requirement for own funds and eligible liabilities (MREL)**
		a
	Own funds and eligible liabilities, ratios, and components	
1	Own funds and eligible liabilities	3,154,390
EU-1a	Of which own funds and subordinated liabilities	2,195,390
2	Total risk exposure amount of the resolution group (TREA)	8,023,869
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	39.31%
EU-3a	Of which own funds and subordinated liabilities	27.36%
4	Total exposure measure of the resolution group	16,344,914
5	Own funds and eligible liabilities as percentage of the total exposure measure	19.30%
EU-5a	Of which own funds or subordinated liabilities	13.43%
	Minimum requirement for own funds and eligible liabilities (MREL)	
EU-7	MREL requirement expressed as percentage of the total risk exposure amount	30.99%
EU-9	MREL requirement expressed as percentage of the total exposure measure	10.39%

12.2. Appendix 2

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12.3. Appendix 3

Abbreviations

ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
ASF	Available stable funding
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BCM	Business continuity management
BIS	Bank for International Settlements
BoS	Bank of Slovenia
BRRD	Bank Recovery and Resolution Directive
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCM	Climate change mitigation
CCP	Central Counterparty
CCR	Counterparty credit risk
CEO	Chief Executive Officer
CET1	Common equity tier 1 capital
CO2	Carbon dioxide
COVID-19	Coronavirus Disease 2019
CRD	Capital Requirements Directive
CRD V	Capital Requirements Directive and Regulation
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CSR	Corporate Sustainability Reporting
CSRD	Corporate Sustainability Reporting Directive
CTF	Combating the Financing of Terrorism
CVA	Credit valuation adjustment
E&S	Environmental and social
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
ECL	Expected Credit Losses
EEPE	Effective Expected Positive Exposure
EMIR	European Market Infrastructure Regulation
EP	Energy performance
EPC	Energy performance certificat
ESG	Environmental, social and governance
ESMS	Environmental and Social Management System
ESRB	European Systemic Risk Board
ESRS	European Sustainability Reporting Standards
EU	European Union
EVE	Economic Value of Equity
FVOCI	Fair Value Through Other Comprehensive Income
FX	Foreign Exchange
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GMRA	Global Master Repurchase Agreement
GRI	Global reporting Initiative
G-SII	Global systemically important institutions
HQLA	High-quality liquid assets
ICS	Internal control system
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
KPI	Key Performance Indicator
KYC	Know your customer
LCR	Liquidity coverage ratio
LEI	Legal Entity Identifier
LGD	Loss given default
MDA	Maximum Distributable Amount
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MREL	Minimum Requirement for own funds and Eligible Liabilities
NACE	Nomenclature of Economic Activities
NFRD	Non-Financial Reporting Directive
NPL	Non Performing Loans
NSFR	Net Stable Funding Ratio
NZBA	Net Zero Banking Alliance
OCI	Other comprehensive income
OCR	Overall capital requirement
OECD	Organisation for Economic Co-operation and Development
O-SII	Other systemically important institutions
OU	Organisational unit
P2G	Pillar 2 Guidance
P&L	Profit and Loss
P1R	Pillar 2 Requirement
P2R	Pillar 2 Requirement
PD	Probability of default
PFE	Potential Future Exposure
PP&E	Property, plant and equipment
PSE	Public sector entity
RC	Replacement cost
RSF	Required stable funding
RWA	Risk-weighted assets
RWEA	Risk weighted exposure amount
SA	Standardised Approach
SEE	Southeast Europe
SFT	Securities Financing Transactions
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
T1	Tier 1 (capital)
T2	Tier 2 (capital)
TCFD	Task Force on Climate-Related Financial Disclosures
TCR	Total Capital ratio
TEM	Total Exposure Measure
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement
TT	Temporary treatment
UNEP FI	United Nations Environment Programme Finance Initiative
UN PRB	United Nations Principles of Responsible Banking
UN SDG	United Nations Sustainable Development Goals
VaR	Value at risk