Building on advantages of our home court

NLB Group Annual Report 2023

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Report format

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

Forward-looking statements

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

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OVERVIEW

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NLB Group at a Glance

Total assets	Total capital	Total operating income	Number of active clients	Employees	7 banks
EUR **25,942** million	EUR **3,109** million	EUR **1,093** million	more than **2.8** million	**7,982**	with **418** branches

Vision

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

Sustainable banking

- NLB has been a member of the UNEP FI Net-Zero Banking Alliance since May 2022 and published its first NLB Group Net-Zero Disclosure Report in December 2023.
- Sustainalytics ESG Rating: 16.0 (improvement by 1.7 points vs. 2022, top 13% of all banks assessed)
- Reduction of operational carbon footprint 2023 vs. 2022: -7.6%

Our strategic focus

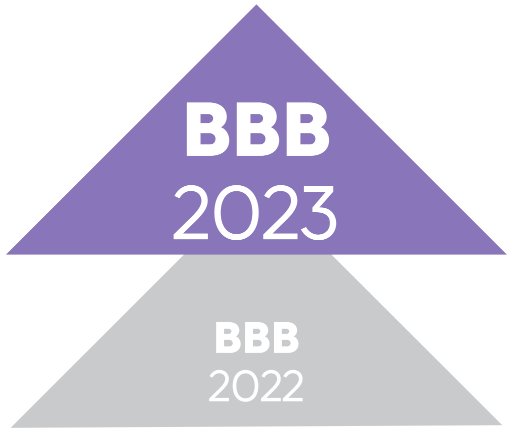
Be a **REGIONAL CHAMPION**

Put **CLIENTS FIRST**

GROW our market position

Monetise **OPPORTUNITIES AND SYNERGIES**

Ratings



Stable investment grade rating
from the S&P Global Ratings. Moody's (unsolicited) long-term Credit rating at A3 with stable outlook.

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Antonio Argir
Member

Peter Andreas Burkhardt
Member

Blaž Brodnjak
Chief executive officer

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

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Statement by the Management Board of NLB

Esteemed Stakeholders,

The most inspiring success stories are never only written by great results, unique measures, or continuous winning streaks. They also consist of stumbles which are overcome by effort, perseverance, and resilience. Of many defeats, born in a dignified way. Of joy and satisfaction, when achieving the almost impossible. And they are, above all, made up of indescribable feelings of belonging, homecoming, and warmth when experiencing this on one's home court. In NLB Group, we do business from our hearts and souls with and for **our home region** – and we live it every day.

With this in mind, we made sure that 2023 was truly **another year to remember** – one in which NLB Group delivered an impressive set of results, yet at the same time continued to take responsible actions and with its strategic focus and business decisions laid the foundations for stable, profitable operations for years to come. All of this was accomplished in addition to our donations and sponsorships to humanitarian, health, cultural, sport, and other pillars of society to continue to create better footprints, and by that improving the quality of life in South-eastern Europe.

In a continuously uncertain operating environment with escalating geopolitical tensions, volatile financial conditions, as well as ever-tightening regulatory requirements, the Group's business model resilience remained one of the key distinguishing factors among the market participants. It provided for recurring solid performance that is characterised by robust revenues, controlled cost evolution, and benign asset quality trends, which when combined enabled NLB Group to reach **EUR 550.7 million of net income after tax**, further strengthening market shares across geographies, client segments, and product lines.

Among our key achievements in 2023, we should highlight the **legal and operational merger of N Banka**. This process was successfully completed in September, within the envisaged timeframe and budget, as yet another indication of the Group's proven capacity to acquire and seamlessly consolidate and integrate businesses. Another very significant milestone for the Group was signing the **sale and purchase agreement for Summit Leasing Slovenia** in November. Subject to regulatory clearances, this transaction will boost NLB Group's ambitions in the strategically important leasing segment, will build on the ambition of the Group to add value for the shareholders, and provide the clients with additional services and solutions. The latter of these ambitions will also be supplemented in the future by expanding the offer of asset management services of the Group, following a **successfully concluded sale and purchase agreement of NLB Skladi to acquire a 100% shareholding in Generali Investments AD Skopje.**

In 2023, the Group continued to focus on **enhancing our customers' user experience**, as well as recognising and **addressing the needs of the economies** in the region. In addition to others, NLB in Slovenia launched the new mobile and web application, "NLB Klik," upgraded the Group's mobile wallet "NLB Pay" with Google Pay, launched the NLB Smart POS solution for micro and small business segments, and continued digging deeper into AI-driven data science. It supported large regional infrastructure projects such as, the Krivača and Selac wind power-plants, the Sava Congress Centre in Belgrade, and others.

The Bank also successfully issued its **first ever, green senior preferred notes**, amounting to EUR 500 million. The four times oversubscribed transaction not only reflected the strong credit and performance of NLB Group, but also demonstrated that NLB has wide access to capital markets, and confirmed our focus on sustainable development. This commitment was additionally reinforced by the **publication of NLB Group's first Net-Zero portfolio targets** that outline our efforts and progress in aligning emissions with the Net-Zero pathways by 2050 or sooner, focusing on key sectors such as power generation, iron and steel, residential mortgages, and commercial real estate. In NLB Group, we firmly support the transition to a low-carbon sustainable economy that will use resources more efficiently. We are committed to making a positive contribution to this both through our operations and our business, thereby creating better footprints.

We believe, however, that a positive contribution to society is also achieved with direct and decisive actions whenever and wherever needed, which we have proven by further generous support to key pillars of the regional society in the form of numerous sponsorships and **donations** that address the most pressing challenges of our societies, and in 2023 cumulatively amount to more than EUR 17 million. In June, the Group contributed over EUR 1.35 million across its operational markets in the home region to support more than 30 associations, with selected recipients covering a variety of societal challenges such as childcare, assistance for socially vulnerable families, support for the elderly, and aid for employees facing constraints due to illness or accidents. Moreover, the Group's quick and effective response was especially evident during the August floods in Slovenia: to eliminate the consequences of which the Bank donated a total of EUR 9.5 million. A total EUR 4 million was allocated to the 20 most-affected municipalities for sustainable reconstruction and investments; a solidarity fund of EUR 0.5 million was established for dozens of NLB's impacted employees; and EUR 5 million was transferred to the budget of the Republic of Slovenia. Furthermore, under the recently adopted reconstruction law, which also imposes a tax on banks' total assets starting on 1 January 2024, NLB will be obliged to pay an additional tax exceeding EUR 30 million annually for the next five years. Combining donations and the respective balance sheet tax, NLB will contribute over EUR 170 million for the recovery alone.

The Group's strong business results in 2023 translated into significant added value for our shareholders. NLB has delivered on its commitment, performing substantial **dividend payments of EUR 110 million in two tranches** in 2023, which was well on the path of fulfilling the ambition of achieving a total capital return through robust cash dividends in a cumulative amount of EUR 500 million between 2022 and the end of 2025. What is more, the business results of 2023 enabled us to **significantly increase our future dividend payments** by committing to at least 40% pay-out ratio of the previous years' profit after tax. In 2024, this translates to EUR 220 million in dividends, representing a 100% uptick from 2023, while at the same time maintaining capacity for organic and/or M&A driven growth. NLB Group constantly monitors market conditions and analyses potential opportunities for meaningful and value accretive acquisitions to further strengthen our position in target markets.

To compliment a strengthened dividend pay-out in December 2023, the Group kicked-off the **new mid-term business strategy defining process**, thereby laying the foundations for successful operations and added value for all its stakeholders in the future. The details of future strategic priorities and ambitions of the Group will be disclosed at the upcoming Investor Day on 9 May 2024, in Ljubljana.

Yet ever stronger confidence of investors, analysts, and markets in the NLB Group has already been reflected in the **improved ratings**. Moody's first upgraded NLB's long-term deposits rating from Baa1 to A3 with a stable outlook, and later upgraded NLB's baseline credit assessment (BCA) and adjusted BCA from ba1 to baa3. Furthermore, the Group received a new ESG Risk Rating of 16.0 by Sustainalytics, thus improving the previous rating by 1.7 points. The improved rating ranks in the top 13 per cent among all banks rated by the firm. All of this was especially noticeable in a year of the fifth anniversary of the NLB shares listing on the Ljubljana Stock Exchange, and of global share certificates at the London Stock Exchange, as well as the NLB stock reaching record valuations. Since the IPO, the share price increased from EUR 51.5 to EUR 85.0 at the end of 2023, bringing investors 65% price return and more than 128% total return (including dividends), bringing annual return in excess of 17%. At the beginning of the year 2024, share price exceeded EUR 100 and thus brought investors in the IPO more than 100% price return. Trading with shares and GDRs has in the past year materially improved, from combined average daily liquidity around EUR 500,000 in 2020 and 2021 to more than EUR 1,000,000 at the beginning of 2024, confirming appreciation of global investor base for the NLB's equity story and consistent strong performance.

All of these accomplishments fuel our motivation to even more enthusiastically address key opportunities that lie ahead. We are fully aware that we can succeed at that only by continuously investing in talent – not the least because of this we have in 2023, for the eighth year in a row, been awarded the renowned **Top Employer certificate** for the best employers, underscoring our focus on their learning and development. We are taking lessons from sports and a sports mindset, as we believe that this spirit is the main ingredient our economies and businesses need to succeed on the global stage. We are finding inspiration in the effort, dedication, successes, and triumphs of athletes and in the dignity with which they recover from setbacks. And we feel a deep sense of pride when we see that our efforts contribute to a better quality of life in our home region. We are, last but not least, building our success on our home court advantage. And we are confident that the best for our NLB Group is yet to come.

Yours truly,

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Peter Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

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Statement by the Chairman of the Supervisory Board of NLB

Primož Karpe
Chairman of NLB Supervisory Board

Dear shareholders, esteemed clients, valued employees and other interested stakeholders,

You will probably agree with the statement that the year 2023 has been transformational from a typical bank shareholder mindset perspective. Banks, in general, have generated record profits following the steepest and fastest rate hike in the eurozone history. Taken as a whole, both 2022 and 2023 have been the years of banks' profitability evolution bonanza, but (and it's worth emphasising that "but") with considerable variation between banks, riding the tailwind. The time has come to talk about value creation that a sustainable banking business model can generate going forward and to consider it with a different mindset.

As the McKinsey annual review of the sector[1] points out, regardless of what happens next, including cycle change and rate spread "normalisation", the banking transition is very real, large, and tangible. And I couldn't agree more; it has been affecting three key banking pillars: the balance sheet, transactions, and distribution. This brings us to the main question: where is our NLB Group on this transition path?

At the Supervisory Board, our mindset strongly supports the Bank's future strategy in a way that unlocks shareholder value. Namely, the banking valuation gap highlights a need for our business model to evolve alongside the three key pillars mentioned above. If the capital markets, on average, expect long-term average ROE of banks will level down or be slightly above (or even below) the cost of equity, where then is this "unlocking factor" that can persuade investors there is indeed a way to a long-term sustainable and highly profitable growth of NLB Group, with less dependency on cycle steering?

Out of the top five revenue pools for the banking sector, carefully underwritten retail and corporate lending remain at the core of our activities. However, the two other "growing revenue pools" are also particularly interesting for the Group going forward: wealth & asset management and payments (of NLB Group members) with all their sub-segments. Unlike balance sheet conditioned growth in lending and deposit-taking (the balance sheet factor), where our commitment to organic and inorganic growth remains intact, wealth and asset management and payments/transactions are off-balance sheet-driven. The two segments also stand out as the largest value creation and total shareholder return generating sub-sectors across the financial institutions' universe over the last decade.

It is easy to notice that the growth of off-balance sheet funds (retail AUM, pension funds money, private debt

1 McKinsey & Co: The Global Banking Annual Review 2023; The Great Banking Transition; October 2023.

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and equity, insurance assets under management) have been surpassing on-balance sheet growth over the last decade as the source of funding for investments in the real economy. Even our core SEE region is not immune to this. And I think NLB Group can hop on this trajectory of growth. Our growth (both geographic and organic) in the asset & wealth management market share proves that, and our adopted payments strategy focus ads further rationale to the above.

Transaction volumes have, over a more extended period, also been moving to non-traditional players and are no longer solely in the domain of banks. Banks have been selling and spinning off operations or acquiring them, in line with their strategies, to either gain scale or rationalize. This includes payment processing companies, wealth and asset managers, etc. Again, NLB Group, with its payment and transaction-focused ambition (coupled with its co-ownership of payment processing) and regional wealth and asset management ambition, can ride this trend.

Finally, the distribution is moving increasingly from omnichannel to mobile-only channels, although that depends on the market characteristics of the retail bank clientele. We have already created an omnichannel experience where branch and contact centre professionals have the tools to support customers at any stage of the sales journey. But, there is a dire need to invest more into the most advanced technology and apply it to segments like credit-risk decisioning in real time, back-end processes that drive clients through self-servicing, and well-designed digital workflows, all backed by logically designed data warehouse architecture. Nevertheless, as we all know, the deeper we dive into the digital world, the stronger our cyber security defences need to be, addressing the plethora of cyber risks all banks are exposed to. Therefore, our cyber security investment focus must always stay at the top of our minds. Since the distribution channels of NLB Group allow for further development, there is ample room and opportunity for improvements in their utilisation, allowing for an even more embedded finance approach.

The demand for embedded finance (embedding financial products into non-financial platforms or vice versa) is also growing. "Traditional" embedded finance ecosystems such as retail and B2C marketplaces (car leasing/mobility being a good example) are consolidating their value propositions, and we want to be part of it. While embedded finance's long-term prospects may look appealing, some already market-proven best practices offer attractive scaling options, for example in insurance and point-of-sale lending. And we are looking to be there as well. While we still cling to multiple distribution channels, removing this silos logic over the mid-term into a more streamlined approach offers us new opportunities for performance improvements.

Hence, if the transition of the banking model is an undisputed fact of the present and the future, your NLB Group is committed to making it happen. Deploying its capital prudently and strictly in line with our RORAC-driven profitability signalling system.

Still, only by relentlessly pursuing excellence will we be able to approach it, enabling ourselves to continue giving back to all our key constituencies to whom we owe all this: to our shareholders, to our employees, to our wider society (in the widest ESG sense) and of course, to our clients.

Yours truly,

Supervisory Board of NLB

Primož Karpe
Chairman

We are building our success on the home court advantage.

NLB, Ljubljana

Market share by total assets	Result after tax	Total assets	Active clients
30.2%	514 (in EUR millions)	16,015 (in EUR millions)	719,708

NLB Lease&Go, Ljubljana

Market share by total assets(ii)	Result after tax	Total assets	Net loans to customers
10.1%	2 (in EUR milliions)	283 (in EUR millions)	257 (in EUR milliions)

NLB Skladi, Ljubljana

Market share by total assets(i)	Result after tax	Assets under management
39.6%	9 (in EUR milliions)	2,360 (in EUR milliions)

NLB Banka, Sarajevo

Market share by total assets	Result after tax	Total assets	Active clients
6.2%	13 (in EUR milliions)	917 (in EUR millions)	133,567

NLB Banka, Podgorica

Market share by total assets	Result after tax	Total assets	Active clients
14.4%	27 (in EUR milliions)	971 (in EUR millions)	93,873

NLB Banka, Banja Luka

Market share by total assets	Result after tax	Total assets	Active clients
20.4%	24 (in EUR milliions)	1,041 (in EUR millions)	210,985

NLB Komercijalna Banka, Beograd

Market share by total assets	Result after tax	Total assets	Active clients
9.9%	132 (in EUR milliions)	5,019 (in EUR millions)	1,060,357

NLB Lease&Go Leasing, Beograd

Market share by total assets	Result after tax	Total assets	Net loans to customers
5.1%	-1 (in EUR milliions)	71 (in EUR millions)	69 (in EUR milliions)

NLB Banka, Prishtina

Market share by total assets	Result after tax	Total assets	Active clients
16.9%	36 (in EUR milliions)	1,230 (in EUR millions)	230,418

NLB Banka, Skopje

Market share by total assets	Result after tax	Total assets	Active clients
15.6%	45 (in EUR milliions)	1,902 (in EUR millions)	407,635

NLB Lease&Go, Skopje

Market share by total assets	Result after tax	Total assets	Net loans to customers
n.a.	-1 (in EUR milliions)	10 (in EUR millions)	9 (in EUR milliions)

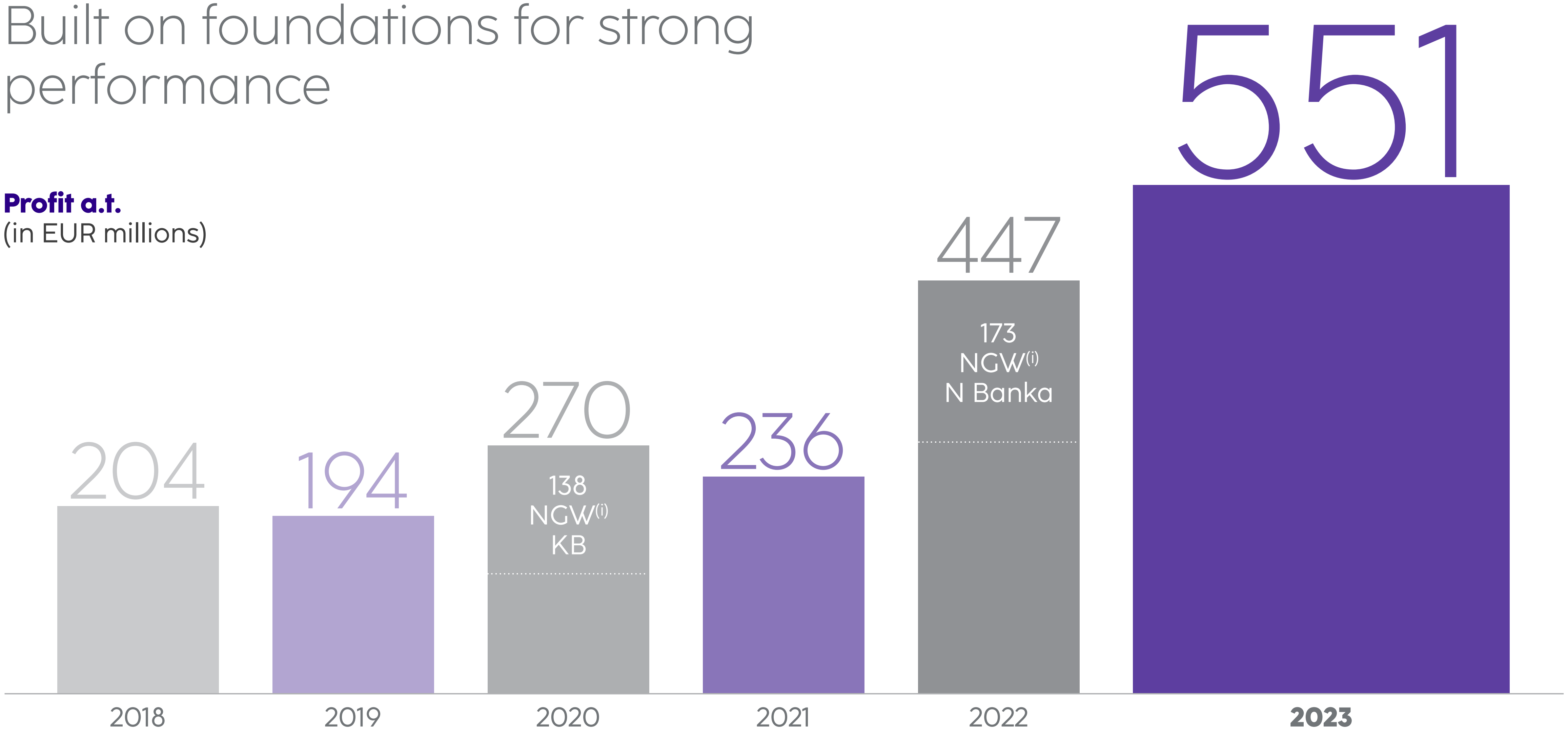
(i) Market share of assets under management (AuM) in mutual funds.
(ii) Market share of leasing portfolio.

For further information on NLB Group subsidiaries, please refer to the chapter Segment Analysis.

Key Highlights

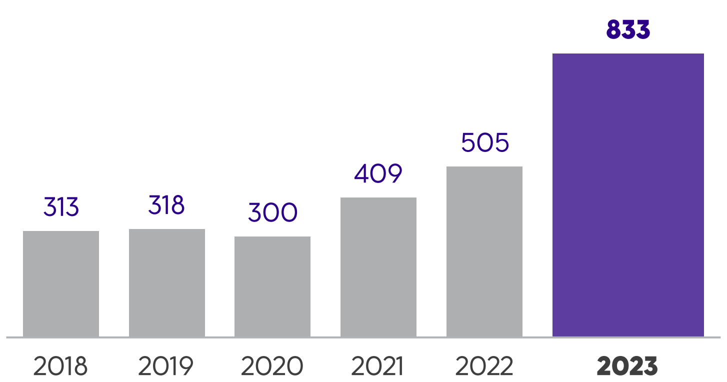
Built on foundations for strong performance

Profit a.t.
(in EUR millions)

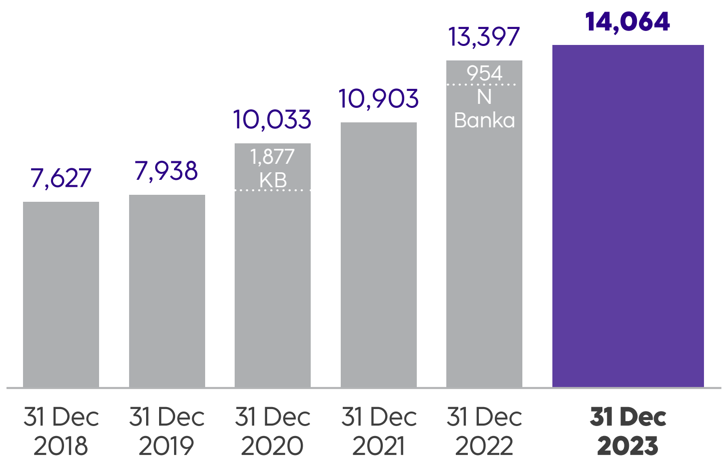


(i) NGW = negative goodwill = gains from bargain purchase

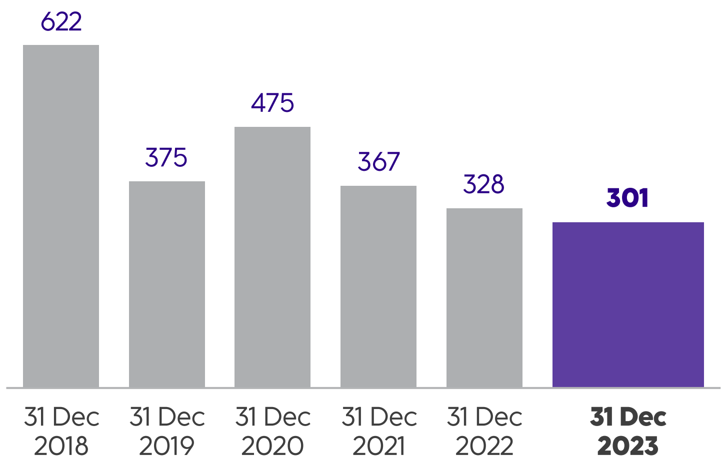
Net interest income



Gross loans to customers



Non-performing loans (NPLs)



Empowering growth through strong capital, delivering significantly higher shareholder returns, underpinned by solid asset quality trends

Capital

TCR

20.3%

vs. 15.5%
requirement (incl. P2G)

Dividend pay-out in 2024

EUR 220 million

which represents a 40% pay-out ratio of the 2023 profit

MREL

MREL ratio

40.2%

vs. 34.99%
requirement

MREL funding (stock)

EUR 1,556 million

MREL funding in 2023:
EUR 540 million

Asset quality

cost of risk

-7 bps

NPL ratio

1.5%

(internal definition)

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Key Performance Indicators

Table 1: Key financial indicators for NLB Group and NLB

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Income statement data (in EUR millions)						
Net interest income	833	505	409	373	177	139
Net non-interest income	260	294	258	266	189	222
Net non-interest income (BoS)	300	503	294	277	199	232
Total costs	−502	−460	−415	−238	−208	−184
Operating costs (BoS)	−541	−496	−451	−249	−218	−193
Result before impairments and provisions[i]	591	338	252	401	158	178
Impairments and provisions	−14	−29	9	78	6	34
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	1	1	1	–	–	–
Result before tax	578	483	261	479	164	211
Result of non-controlling interests	13	11	11	–	–	–
Result after tax	551	447	236	514	160	208
Financial position statement data (in EUR millions)						
Total assets	25,942	24,160	21,577	16,015	13,939	12,700
Gross loans to customers	14,064	13,397	10,903	7,277	6,157	5,250
Impairments and valuations of loans to customer	−329	−324	−316	−121	−95	−97
Net loans to customers	13,735	13,073	10,587	7,156	6,062	5,153
Financial assets	4,804	4,877	5,208	3,016	2,961	3,034
Deposits from customers	20,733	20,028	17,641	11,882	10,984	9,660
Equity	2,883	2,366	2,079	2,249	1,603	1,552
Non-controlling interests	65	57	137	–	–	–
Total off-balance sheet items	6,301	5,449	4,655	5,291	4,046	3,489
Key financial indicators						
a) Capital adequacy						
Total capital ratio	20.3%	19.2%	17.8%	25.2%	25.6%	24.6%
Tier 1 ratio	16.9%	15.7%	15.5%	19.7%	19.1%	20.3%
CET1 ratio	16.4%	15.1%	15.5%	18.8%	18.1%	20.3%
Total RWA (in EUR millions)	15,337	14,653	12,667	9,207	7,833	6,709
RWA / Total assets	59.1%	60.6%	58.7%	57.5%	56.2%	52.8%
b) Asset quality						
NPL coverage ratio 1 (coverage of gross non-performing loans with impairments for all loans)	110.0%	98.9%	86.1%	87.9%	86.1%	75.1%
NPL coverage ratio 2 (coverage of gross non-performing loans with impairments for non-performing loans)	64.6%	57.1%	57.9%	61.2%	58.1%	60.6%
NPL coverage ratio (EBA definition)[ii]	65.6%	58.1%	58.4%	61.4%	58.2%	60.8%
NPL coverage ratio (EBA definition) (BoS)[iii]	65.6%	58.1%	58.4%	61.4%	58.2%	60.8%
NPL volume (in EUR millions)	301	328	367	138	111	130
NPL ratio (internal def.; NPL/ Total loans)	1.5%	1.8%	2.4%	1.2%	1.1%	1.5%
Net NPL ratio (internal def.; net NPL / Total net loans)	0.5%	0.8%	1.0%	0.5%	0.5%	0.6%
NPL ratio (EBA definition)[ii]	2.1%	2.4%	3.4%	1.9%	1.7%	2.4%
NPL ratio (EBA definition) (BoS)[iii]	1.5%	1.8%	2.4%	1.2%	1.1%	1.5%
NPE ratio (EBA definition)	1.1%	1.3%	1.7%	0.9%	0.9%	1.1%
NPE ratio (EBA definition) (BoS)[iv]	1.1%	1.3%	1.7%	0.9%	0.9%	1.1%

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Received collaterals / NPL	58.1%	61.0%	61.7%	58.7%	58.4%	60.0%
NPL Collateral received / NPL (EBA definition)	45.6%	54.7%	58.8%	67.1%	75.6%	63.1%
Credit impairments and provisions / RWA	−0.1%	0.1%	−0.3%	0.0%	0.2%	−0.4%
c) Profitability						
Net interest margin (BoS)(v)	3.4%	2.2%	2.0%	2.5%	1.3%	1.2%
Financial intermediation margin (BoS)	4.6%	4.4%	3.4%	4.4%	2.9%	3.1%
Operational business margin(vi)	4.8%	3.6%	3.3%	3.7%	2.5%	2.3%
ROE b.t.	21.6%	20.6%	11.8%	26.0%	10.5%	14.0%
ROA b.t.	2.3%	2.1%	1.3%	3.3%	1.2%	1.8%
ROE a.t.	21.0%	19.9%	11.4%	27.9%	10.2%	13.8%
ROA a.t.	2.2%	1.9%	1.1%	3.5%	1.2%	1.8%
d) Business costs						
Operating costs / Average total assets (BoS)	2.2%	2.2%	2.2%	1.7%	1.7%	1.6%
CIR	45.9%	57.6%	62.3%	37.3%	56.8%	50.8%
Total costs / RWA	3.3%	3.1%	3.3%	2.6%	2.7%	2.7%
Total costs / Total assets	1.9%	1.9%	1.9%	1.5%	1.5%	1.4%
e) Liquidity						
Liquidity assets / Short-term financial liabilities to non-banking sector	51.9%	48.5%	48.9%	66.5%	61.8%	59.4%
Liquidity assets / Average total assets	41.0%	40.7%	40.2%	51.5%	49.8%	47.4%
Liquidity Coverage Ratio (LCR)	245.7%	220.3%	252.6%	299.7%	276.5%	314.5%
Net stable funding ratio (NSFR)	187.3%	183.0%	185.2%	175.0%	177.6%	171.4%
f) Leverage ratio						
Leverage ratio	9.6%	9.1%	10.2%	10.9%	10.3%	13.6%
g) Other						
Market share in terms of total assets	–	–	–	30.2%	27.6%	26.3%
LTD	66.2%	65.3%	60.0%	60.2%	55.2%	53.3%
Total revenues / RWA	7.1%	5.4%	5.3%	6.9%	4.7%	5.4%
Key indicators per share						
Shareholders(vii)	–	–	–	3,457	3,025	2,571
Shares	–	–	–	20,000,000	20,000,000	20,000,000
The corresponding value of one share (in EUR)	–	–	–	10	10	10
Book value (in EUR)	139.9	114.1	103.9	108.3	75.9	77.6
Branches						
Number of branches	418	440	479	68	71	75
Employees						
Number of employees	7,982	8,228	8,185	2,554	2,418	2,510
International credit ratings	**NLB Rating 2023**	**NLB Rating 2022**	**NLB Rating 2021**	**NLB Outlook 2023**	**NLB Outlook 2022**	**NLB Outlook 2021**
S&P	BBB	BBB	BBB−	Stable	Stable	Stable
Fitch	–	–	–	–	–	–
Moody's(viii)	A3	Baa1	Baa1	Stable	Stable	Stable

Further details on the definition of certain indicators in this table are available in the chapter Alternative Performance Indicators.
(i) The result before impairments and provisions of NLB Group for the year 2022 does not include negative goodwill.
(ii) Loans and advances without loans and advances classified as held for sale, cash balances at central banks, and other demand deposits.
(iii) Loans and advances including cash balances at CBs and other demand deposits.
(iv) The carrying amount of debt instruments measured at fair value through other comprehensive income (FVOCI) is increased by value adjustments due to impairments.
(v) Calculated on the basis of average total assets.
(vi) Calculated as Net income from operational business (NII - Tier 2 expenses + Net fee and commission income + Recurring net income from financial operations)/Average total assets.
(vii) As per share register of Central Securities Clearing Corporation (KDD). The shares are listed on Ljubljana Stock Exchange. The Bank of New York Mellon (the 'GDR Depositary') represented in the share register of KDD as a single holder is not the beneficial owner of shares, it holds shares in its capacity as the depositary for the GDR holders. The GDRs representing shares are issued against the deposit of shares and are listed on London Stock Exchange. Therefore, the number in the share register of KDD does not represent all final beneficial owners of the Bank shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the general meeting of Bank's shareholders or to exercise any voting rights under the deposited shares.
(viii) Unsolicited rating.

Key Events

January
"Top Employer" certificate

February
Moody's rating upgrade

March
Slovenia's Best Private Bank for High Net Worth Individuals

April
Agreement on acquisition of N Banka submitted to the court registry

May
Announcement of MREL requirement

June
Issue of Green Senior Preferred Notes

Dividend payment

August
Donations for those affected by floods in Slovenia

September
N Banka legal & operational merger

October
First Bankarium commemorative banknote

November
Acquisition of Summit Leasing & Generali Investment Skopje

Improved ESG Risk rating

December
Prime Market Share of the Year

Dividend payment

Additional flood relief donations

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January
- **"Top Employer" certificate:** The Top Employers Institute awarded the Bank the prestigious "Top Employer" certificate for the 8th consecutive year.
- **Best Indoor Experience 2023:** Bankarium was awarded the Best Indoor Experience 2023 award in the In Your Pocket Ljubljana competition.

February
- **Rating upgrade:** Credit rating agency Moody's upgraded NLB's long-term deposit rating to A3 from Baa1.

March
- **USA regional banks & Credit Suisse turmoil:** The collapse of two regional banks in the USA, Silicon Valley Bank and Signature Bank, impacted Europe as it put European banks under much stress. Swiss financial regulators engineered an emergency rescue plan for Credit Suisse with the UBS Group AG buying Credit Suisse. As of 31 March 2023, the Group has only a small exposure to Credit Suisse, derived mainly from a limited bond investment. From a liquidity point of view, no material deviations from the normal intra-monthly deposit dynamics were identified at the Group level as a result of the turmoil.
- **Slovenia's Best Private Bank for High Net Worth Individuals:** Euromoney awarded NLB as part of the global private banking awards in 2023.

April
- **Acquisition:** The agreement concluded on 16 November 2022 between the acquiring company NLB and the acquired company N Banka was submitted to the District Court of Ljubljana court registry.

May
- **New MREL requirement:** From 1 January 2024, the MREL requirement to be met by the Bank on a consolidated basis at the resolution group level shall be 30.99% of the Total Risk Exposure Amount, excluding applicable CBR and 10.39% of the Leverage Ratio Exposure.

June
- **Dividend payment:** The Bank paid the dividends (the first tranche) of EUR 55 million, or EUR 2.75 gross per share.
- **New members of the Supervisory Board:** The General Meeting appointed four members, two of whom were members before – Shrenik Dhirajlal Davda and Mark William Lane Richards, and two new members – Cvetka Selšek and André-Marc Prudent-Toccanier, all for four-year terms.
- **Green Senior Preferred Notes:** The Bank debuted in issuing green senior preferred notes amounting to EUR 500 million with a maturity of 4NC3, counting towards meeting the MREL requirement.
- **Donations to various associations, humanitarian organisations and groups:** The Bank donated EUR 1.35 million to more than 30 recipients from the SEE region in the area of childcare, socially vulnerable families, care for the elderly and employees who might be in need due to illness or accident.

August
- **ECB's licence for N Banka merger:** On 3 August 2023, NLB received the authorisation of the ECB for the merger of N Banka.
- **Measures taken regarding the floods in Slovenia:** To help alleviate the effects of the floods that affected a part of Slovenia, the Bank introduced systemic steps, including a donation of EUR 4 million for sustainable reconstruction to the most afflicted municipalities. The Bank also provided solidarity aid to its affected employees. In addition, NLB Banka, Skopje donated EUR 60,000 to the Slovenian Red Cross and other organisations to support flood relief efforts. As a part of risk management, the Bank has been enhancing its existing flood risk assessment model based on flood risk zones to minimise future negative impacts of similar events.

September
- **N Banka legal and operational merger:** On 1 September, the legal and operational merger between N Banka and NLB was successfully completed 18 months after having been acquired by NLB within the envisaged budget and timeframe.

October
- **First Bankarium commemorative banknote:** The Bankarium commemorative banknote was presented to the public.

November
- **Acquisition of Summit Leasing:** The Bank signed SPA for 100% shareholding in Summit Leasing Slovenija and its subsidiaries.
- **Acquisition of Generali Investment AD Skopje:** NLB Skladi signed SPA for acquiring a majority shareholding in Generali Investments AD Skopje.
- **ESG Risk Rating:** The NLB Group significantly improved Sustainalytics ESG Risk Rating to 16.0.

December
- **Dividend payment:** The Bank paid the dividends (the second tranche) of EUR 55 million or EUR 2.75 gross per share.
- **Prime Market Share of the Year:** Ljubljana Stock Exchange awarded NLB Bank for Prime Market Share of the Year.
- **the! Award:** NLB received three awards from the Croatian Public Relations Association: gold for the NLB Investor Day, silver for the NLB Frame of Help and bronze for the communication support of the N Banka acquisition.
- **New SREP requirement:** A new SREP decision for NLB Group under which Pillar 2 Requirement has been reduced from 2.40% to 2.12% while Pillar 2 guidance remains at 1.00%. The new SREP decision shall apply as of 1 January 2024.
- **MREL requirement:** NLB received the decision of the Bank of Slovenia on the MREL requirement. Starting 1 January 2024, NLB must comply with 30.66% TREA (excluding CBR) and 10.69% LRE at the NLB Resolution Group level.
- **Employer Brand Awards Adria 2023:** NLB received two awards at Best Employer Brand Awards Adria 2023: Best Employer Brand – Banking Sector and Integration of Corporate and Employer Brand.
- **Additional donations for flood relief:** NLB donated an additional EUR 5 million to the Budget of the Republic of Slovenia to a particular budget line to raise funds to recover the consequences of the August floods.
- **First NLB Group Net-Zero disclosure report:** The Bank released the first comprehensive overview of efforts and progress to achieve net-zero emissions by 2050 or sooner.

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Shareholder Structure and Market Performance of NLB's Shares and GDRs

Shareholder Structure of NLB

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

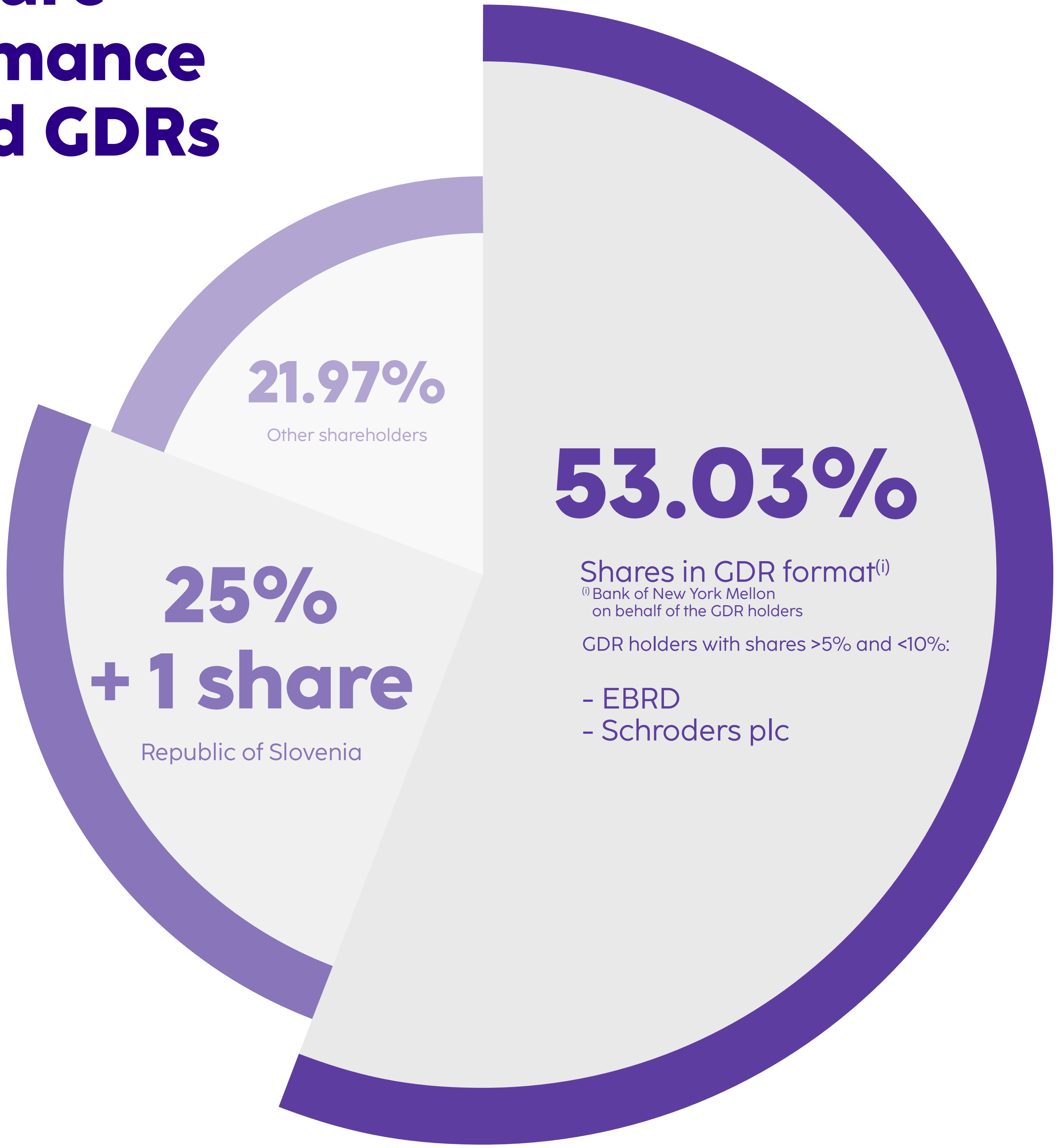

Table 2: NLB's main shareholders as at 31 December 2023(i)

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders(ii)	10,605,146	53.03
of which EBRD(iii)	/	>5 and <10
of which Schroders plc(iii)(iv)	/	>5 and <10
Republic of Slovenia (RoS)	5,000,001	25.00
Other shareholders	4,394,853	21.97
Total	**20,000,000**	**100.00**

(i) This information is sourced from the NLB's shareholders' book that is accessible at the web services of CSD (Central Security Depository, Slovenian: KDD - Centralna klirinško depotna družba) and available to CSD members. The information on major holdings is based on self-declarations by individual holders pursuant to the applicable provisions of Slovenian legislation, which require that the holders of shares in a listed company notify the company whenever their direct and/or indirect holdings pass the set thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, or 75%. The table lists all self-declared major holders whose notifications have been received. In reliance on this obligation vested with the holders of major holdings, the Bank postulates that no other entities nor any natural person hold directly and/or indirectly ten or more percent of the Bank's shares.
(ii) The Bank of New York Mellon holds shares in its capacity as the depositary (the GDR Depositary) for the GDR holders and is not the beneficial owner of such shares. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary, and individual GDR holders do not have any direct right to either attend the shareholders' meeting or exercise any voting rights under the deposited shares.
(iii) The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.
(iv) Further information is available in the chapter Events After the End of the 2023 Financial Year.

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Market Performance of NLB's Shares and GDRs

Rebased to January 2023, the European banking stocks index gained 11%. It started the year positively, only to fall to the lowest in March as investors were probably spooked by the still elevated inflation and increasingly faltering demand (for loans), as the CB hiked rates (10 times) in a historic campaign. The price fluctuated mildly but with a growing trend up until November. Not surprisingly, the index closed the remainder of the year with a strong performance, reaching its highest price at the close of the year after Q3 results indicated a solid and lucrative year for the banks that had net interest income registering high growth. The effect was further enhanced by the fact that the liability side of the balance sheet reacted with a notable lag in scope. Hence, the index gained 11% in 2023, outperforming the European stock index, which was short of achieving 8% in 2023. It similarly fell in value in March and rebounded to a volatile period, ending with the lowest price in November to finish the year strong. It also reached the highest price at the close of the year (bringing forth notable effects of disinflation).

Ljubljana Stock Exchange awarded NLB as Prime Market Share of the Year

Expanded Analyst Coverage of NLB by HSBC and PKO BP, and first credit rating by Bank of America

The SBI index's lowest price was seen at the start of the year. From there it grew to reach the highest price of the year at the end of July only to experience a fall in August. It finished the year with a growing trend, reaching growth north of 18% in the year 2023.

The price of the Bank's stock grew rather steadily until August, from where the price stagnated until mid-November, to finish the year strongly (the price was the highest in mid-December), due to a similar mix of factors as described two paragraphs above. In 2023, the price of the bank's stock grew by 36%, outperforming the SBI index and European STOXX 600 for banks.

Figure 1: NLB share price movements on the Ljubljana Stock Exchange and NLB GDR price movement on the London Stock Exchange (in EUR)

Source: Ljubljana Stock Exchange, Bloomberg.

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NLB Shares and GDRs

Table 3: NLB share information

Share information	31 Dec 2023
Total number of shares issued	20,000,000
Highest closing price (in 2023)	EUR 86.0
Lowest closing price (in 2023)	EUR 62.0
Closing price as at 29 December 2023[i]	EUR 85.0
NLB Group book value per share	EUR 139.9
NLB Group earnings per share (EPS)	EUR 27.5
Price/NLB Group book value (P/B)	0.61
Dividend per share (for the previous business year)	EUR 5.5
Market capitalisation[i]	EUR 1,700,000,000

(i) No market on 30 and 31 December 2023.

Indices

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

Share price growth in 2023 above

36%

The Investor Relations Function

The Bank participated in various forms of engagement, such as investor meetings, calls, conferences, and roadshows to meet the requirements of the Bank's ownership. Transparent communication with investors and analysts allowed for a dialogue on strategic developments, as well as on the financial performance of the Group. The Bank promoted greater awareness and understanding of operating businesses, developments, and events, which influence the performance of the Bank's share price. The performance of the Bank is covered by analysts from EFG Hermes, JP Morgan, Deutsche Bank, Wood & Company, Citi, InterCapital, Raiffeisen Bank International, HSBC, PKO BP, and Ilirika BPH.

Throughout 2023, the Bank participated in more than 10 conferences, organised earnings calls, conducted six non-deal roadshows for equity and for fixed-income investors, and met 160+ investors on 200+ investor interactions. Those meetings covered various topics, including governance (including remuneration), sustainability, digitalisation, strategy, and finance.

In 2023, the Bank received its first credit rating from Bank of America, expanding analysts' coverage beyond equity research and helping the Bank with capital markets activities. Additionally, the analysts from HSBC and PKO BP initiated coverage on the NLB in 2023, leading to 10 covering equity analysts.

EUR 600,000

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

In addition, in December 2023, the Ljubljana Stock Exchange awarded Bank shares (ticker "NLBR") the "Prime Market Share of the Year" accolade.

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

Macroeconomic Environment

In 2023, the growth in the Euro area was weak, as the economic environment was affected by tighter financial conditions, lower aggregate demand, and an insufficient credit supply. Weak foreign demand and receding fiscal support hampered activity. Conflicts in Palestine and the Middle East added to the rise of uncertainty.

The global and European economy

The 2020s are turning into an inactive decade for the global economy as stagnation, loss of purchasing power, depleted savings, and high interest rates plague the growth outlook. The unresolved conflict in Ukraine and additional Israel-Palestinian hostilities since October 2023 have contributed to uncertainty. Freight rates, initially declining since the Suez Canal obstruction in 2021, were under pressure again as alternative routes had to be employed as Houthi attacks blocked the Red Sea trade route. While the global economy is in a better place concerning the recession risk than last year, developing countries still feel the strain of slow growth, deteriorating global trade, expensive borrowing, and very tight financial conditions that are further aggravated by elevated food prices.

The global economy expanded slowly in 2023, predominantly driven by a solid year for the US economy and emerging markets, which were led by China. Private consumption supported by tight labour markets proved to be the growth driver for the world economy. This has been a pleasant surprise despite the CBs' substantial tightening of the monetary policy. US economic growth in 2023 was relatively resilient. Still, the tighter monetary policy has already shown signs of hampered spending, and the unemployment rate rose by 0.4 p.p. within a year, which is a considerable jump in a short amount of time. Credit card debt has already been growing, and retail sales data suggests consumers slowed purchasing in Q4 2023. The personal saving rate has been declining since May and has been low historically. In China, economic activity stabilised after the reopening, despite weakness in the real estate sector towards the year's end, as it represents a noticeable portion of Chinese GDP and could affect the rest of world economies. A trend akin to the Western economies, which is becoming increasingly evident, the increasing debt levels are directly muting China's growth.

In the Euro area, a recession was avoided, but YoY GDP growth was on a clear downward path throughout the year, with marginal growth in Q1 and Q2, and stagnation in Q3 and Q4. The export of goods started the year strong in Q1, but soon soured after that, remaining in contraction for the remainder of the year in YoY terms due to weak external demand. Imports grew initially, but contracted from March to September when they bottomed up, pointing towards a pent-up demand (for foreign goods) and shrinking inventories. HICP inflation started the year in the double-digit territory, nearing the mandated goal by year-end which was driven by the disinflationary momentum. Core inflation, though slower to decrease, followed a similar downward trend. Services prices rose noticeably until August, then started declining due to retreating demand. Food maintained significant pressure on price levels, resisting the disinflationary trend. Energy had a noticeable deflationary effect, especially in the last quarter, primarily due to the base effect. Industrial production lost the previous year's momentum in March and contracted until the final quarter as foreign and domestic demand weakened. The composite PMI contracted after May services PMI outperformed manufacturing PMI. Retail trade as a proxy for demand showed negative momentum (YoY) throughout 2023, and was influenced by higher interest rates and consumer spending cutbacks. ECB's private consumption metric stagnated in the first half of 2023, then experienced a mild uptick in Q3 that was still below the peak in Q3 2022. Negotiated wages and gross disposable income rose, improving for most countries of the Euro area (in the same comparison), suggesting a consumer preference for saving over spending, which was confirmed by the increase in the household saving rate, surpassing the 2022 levels.

1.6%
economic growth in Slovenia in 2023

Moreover, recent ECB data on year-end wage negotiations suggests persistent future high wage pressures with no indication of a peak. Though subdued for most of the year, consumer confidence slightly improved in the closing quarter. However, ESI and its sub-indicators showed signs of bottoming out in the last two months of 2023. The unemployment rate changed slightly in 2023, staying tight in historical comparison.

In 2023, the FED raised its target range from 4.25%–4.50% to 25 bps to 5.25%–5.50% (by four 25 bps hikes) and stayed there from July until the end of the year. Despite December minutes suggesting reduced inflation risks, concerns persisted, especially in housing and non-housing services. The year-end data in labour markets, consumer demand, and the housing market, supported the FED's cautious approach to easing monetary policy. The ECB finished its historic campaign of 10-rate hikes in September 2023, bringing the deposit facility rate to 4.0%. Since then, the ECB has stuck to the "higher for longer" narrative to support its intention to keep the rates there until inflation declines towards the mandated goal. Bond yields dropped in the last quarter, causing a price increase when the ECB was winding down PEPP. At the end of 2023, the ECB urged banks to prepare for more delinquencies, unpaid loans, and elevated liquidity risk. Also, it failed to disclose the quantity and pace of potential cuts in 2024, most

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probably because of tight labour markets and wage growth pressures instilling uncertainty about the "second round effects."

The 2023 was a year of stagnation, slow growth, weak demand and tight labour markets

The risk of the recession has receded compared to a year ago, and inflation has gradually declined in most regions due to lower energy and food prices. Global growth, however, will continue to reflect the impact of monetary policy tightening and elevated rates across advanced economies in 2024, leading to sluggish investment. After contracting noticeably in 2023, global trade growth is expected to pick up, but regional tensions could influence commodity prices. Borrowing costs for countries with poor credit ratings will remain very high. The Euro area GDP should grow at an underwhelming pace in 2024, supported by expected recoveries in industrial sectors, increased consumer spending, wage growth, and lower inflation.

Exports should pick up again as global trade improves. However, slowdowns in the Mediterranean economies and the lagged effects of interest rate hikes will cap the overall upturn. Potential turbulence in the banking and financial sectors and sizeable public debt levels pose risks. Governments should continue to roll back the related support measures to reduce elevated public debts and avoid additional inflationary pressures. The Euro area households, especially those with lower incomes and floating-rate loans, feel the strain of higher interest rates. Although tight labour markets, government support measures, and accumulated savings managed to mitigate household vulnerabilities, low-income earners continue to face pressure on real incomes, consumption, and debt servicing ability. Further challenges may arise if energy prices soar or interest rates continue to remain elevated. Fiscal austerity must be ushered in to manage the elevated debt levels.

The economy in the Group's region

In 2023, growth appeared slow, but still slightly less stagnant than the Euro area and began picking up in Q3. As the year started, the export sector grew; however, as economic growth started receding in the Euro area, the foreign demand subsided quickly, hurting the exporting industry. Double-digit inflation in the first half of the year caused domestic demand for foreign goods to retreat even faster, causing imports to contract. Private consumption remained the main growth driver, picking up in Q3 and maintaining momentum towards the year's end. Inflation started in double-digit territory, but disinflationary trends grabbed hold as the CBs lifted policy rates. Only the Serbian economy persisted with double-digit inflation by June, and growth rates subsided steadily. Food and non-alcoholic beverages drove annual inflation in the first half of 2023. Still, by Q3 of 2023, the item was already experiencing notable disinflationary trends and was surpassed by housing and related costs and leisure and accommodation prices. Industrial production had a solid performance in Q1, but soured afterwards due to a lack of foreign demand, with Montenegro being an outlier with solid Q1 and Q3 prints. Retail sales mostly posted negative growth in annual terms, apart from Bosnia and Herzegovina and Montenegro, which exceeded expectations. An economic sentiment indicator began improving slowly across the region until August, when it experienced a setback but finished the year on a more positive note. Tight labour markets (in historical terms) enabled and supported the growth of economies, with unemployment rates subsiding in 2023, except for the Q3 upticks in Bosnia and Herzegovina, and Slovenia.

In 2023, the average interest rates in Serbia's NFC sector increased as consumer and housing loan rates began subsiding in October. In Montenegro, consumer loans saw the most significant rate increase as NFC and real estate rates were similar or lower in November (compared with January). Likewise, in Kosovo, consumer loans saw rates increase marginally from January to November, as NFC and real estate loans saw rates decrease. In Bosnia and Herzegovina, the average rates in January-November 2023 rose the most in consumer loans, followed by NFC loans – whereas the real estate loans finished the year at the same level they opened. In North Macedonia, during the same period, average interest rates increased the most for real estate loans, followed by consumer and NFC loans, while in Slovenia, interest rates increased the most for NFC loans, followed by real estate loans, while they have decreased marginally during the period for consumer loans.

Slow economic growth, elevated prices and interest rates, and uncertainty about the mid-term developments impacted global foreign direct investment (FDI) flows in 2023. Despite that, some countries in the region reached new FDI records; Serbia, Kosovo, and Bosnia and Herzegovina reported strong FDI flows in 2023, while Slovenia, Montenegro, and North Macedonia reported positive albeit moderated FDI flows. Appetites for regional investments that would decrease global supply chains dependency together with investment potential in the region are supporting FDI factors, where mid-term outlook uncertainties represent the main factors for their eventual transitory moderation.

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A macroeconomic snapshot of NLB Group's region

Growth in **Slovenia** was slow in the first half of 2023 and decreased further in Q3, as it experienced a flood-induced slowdown. The annual decline in goods and services exports (starting after Q1) outpaced Q2's contraction as the floods hit the key auto industry. Moreover, private consumption shifted into contraction, and both public spending and fixed investment expanded less than in Q2. The savings rate declined notably in Q3, as in previous years. However, a significant part of the workforce takes annual leave. That said, the external sector made a net contribution to GDP as imports declined sharply in comparison to exports. Turning to Q4, the available data suggested growth would pick up as the impact of the floods fades amid disaster relief from the EU. In October, industrial output posted the best reading in over a year (which was still rather shabby), while retail trade contracted at a softer YoY pace amid lower inflation, was a good sign for private spending.

GDP growth in **Serbia** picked up throughout the year. It sped up in Q3 thanks to more robust domestic demand, as household consumption, public spending, and fixed investment grew rapidly. On the flip side, exports shrank, reflecting the stagnation of major growth partners. The end of the year should show strong performance driven by domestic demand, as retail sales gathered steam in Q4, while economic sentiment strengthened in the same period, especially in the services sector. On 17 December, the ruling Serbian Progressive Party (SNS) obtained an absolute majority in snap parliamentary elections. That said, opposition parties and international observers denounced the misuse of public resources during the campaign, and made accusations about voter intimidation.

North Macedonia's annual economic growth increased slightly in Q3 from Q2 in a year of slow growth. Despite the positive change, the expenditure breakdown indicates that the economy weakened in general, as a sharper decline in imports drove the improvement. Public spending, total investment, and exports all contracted at sharper rates, while private consumption growth was stable. Inflation persisted in double digits until May and started subsiding after (apart from the hiccup in August). During the last quarter, the economy gathered some steam. Industrial output rebounded annually from Q2's fall, and retail sales declined at a gentler pace in the same period.

2.2%
economic growth in the Group's region in 2023

In **Bosnia and Herzegovina**, the YoY economic growth accelerated in Q3 to the same slow pace of growth already seen in Q1. The improvement was driven by pickups in both public and private spending growth, supported by the disinflationary trend in the period. Investment growth slowed, while exports continued their sharp contraction since Q3 2020. The economy lost momentum towards the year's end as industrial output contracted markedly in annual terms in the last quarter, while retail sales expanded slower than in Q3. Meanwhile, merchandise exports continued to shrink, albeit at a softer rate than in Q3. In mid-December, the EU decided not to open accession negotiations with the country due to a lack of compliance with the membership criteria.

Kosovo's YoY economic growth accelerated in Q3 of 2023, but was still short of the Q1 growth. The improvement was driven by more vigorous private spending thanks to robust remittance inflows and a marked pickup in government expenditures due to rising public wages. In contrast, investment growth slowed, while exports contracted – the available data for Q4 2023 painted a mixed picture. Tourist arrivals lost steam in October. However, merchandise exports fell at a softer rate relative to Q3. In other news, on 1 January, the country joined Europe's open-border Schengen zone, which is also likely to spur outflows of workers to other European countries.

Montenegro's YoY GDP growth cooled slightly in Q3, coming from Q2's expansion. A softer, albeit still-strong increase in exports and a faster expansion in imports weighed on the external sector. Moreover, household spending growth decelerated amid a surprisingly strong disinflationary trend at the end of Q2. That said, both fixed investment and government consumption gained steam. Available data for Q4 2023 is relatively upbeat, as industrial production rose notably annually. Moreover, YoY growth in tourist arrivals outpaced Q3's average increase. That said, merchandise exports plunged YoY in October, while economic sentiment was less optimistic than in Q3.

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The banking system in the Group’s region

In general, 2023 was a year to remember for the banks as the higher interest rates saw margins increase, bringing profitability to levels not seen in a long time. Loan demand remained strong despite higher borrowing rates and tighter monetary policy, whereas banks experienced increased funding costs. At the close of the year, the hiking cycle had already entered its final stage, but market participants already anticipated lower rates in the upcoming period; therefore, interest rates on new loans in the Euro area declined at the close of the year, resulting in an increased amount of renegotiated loans.

Due to rising interest rates, the National Bank of Serbia imposed temporary measures on housing loans, limiting interest for borrowers’ first variable-rate housing loan up to EUR 200,000, secured by a mortgage for the next 15 months, starting with the October instalment. Despite this, household loan appetite remained very robust throughout the region, with Kosovo notably exceeding YoY growth compared to other countries. Corporate loans grew at a slower YoY pace (compared with the previous year), with only Serbia witnessing similar dynamics to the ones in the Euro area and Slovenia, where NFC loans contracted in YoY terms. The global and Euro area’s demand receded, further adding to the effect of higher interest rates. Production companies seemingly decided to deleverage and thus turn to their possible internal sources, such as retained earnings and cash buffers, since corporate lending performed much worse than last year, as it contracted in Slovenia and Serbia – which were hit by supply (tighter credit standards) and demand (higher rates) impediments.

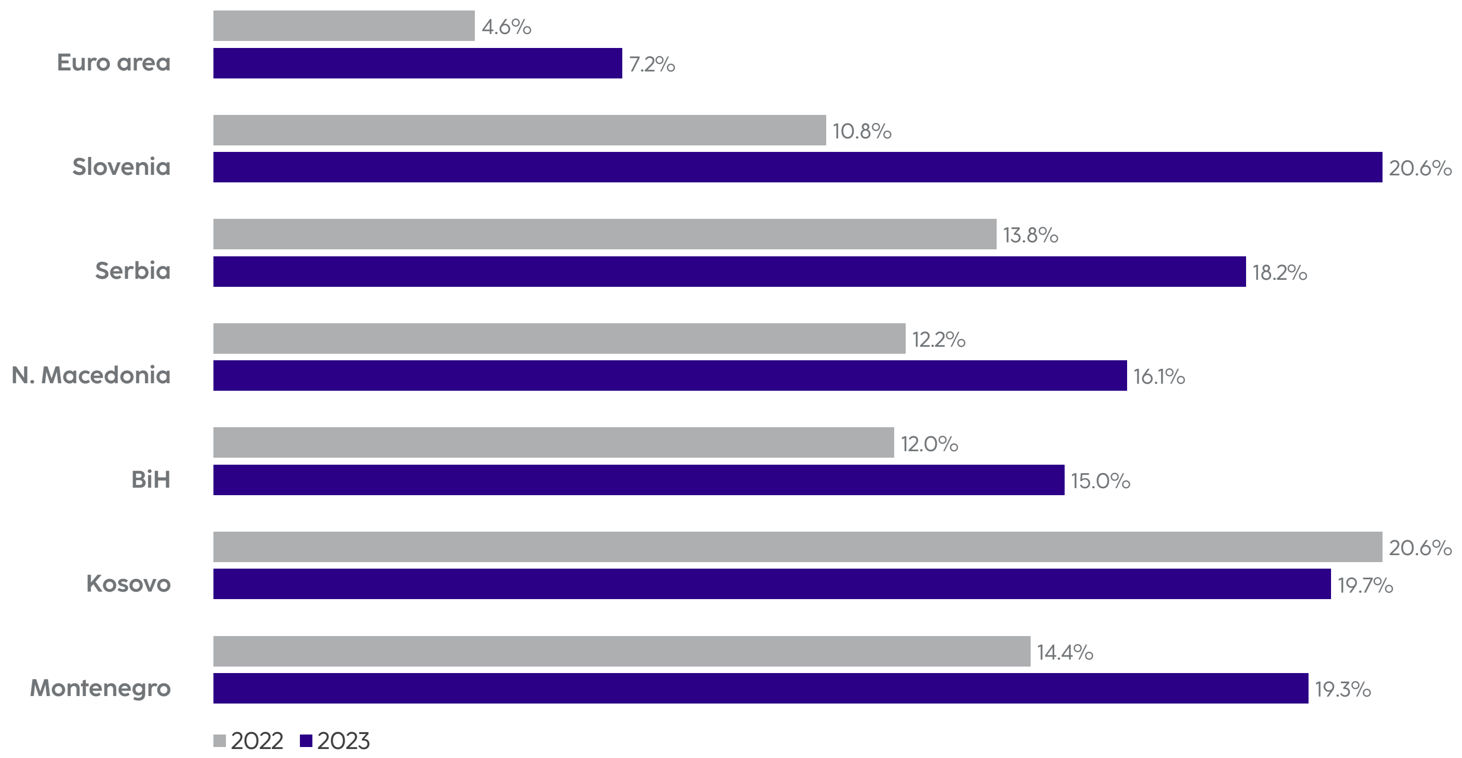
Table 4: Movement of key banking systems indicators in the NLB Group region in 2023

	Corporate loans		Household loans		Corporate deposits		Household deposits		Net interest margin		NPL		CAR	
	in EUR millions	Δ % YoY	in EUR millions	Δ % YoY	in EUR millions	Δ % YoY	in EUR millions	Δ % YoY	2022, in %	2023, in %	in %	Δ pp YoY	in %	Δ pp YoY
Slovenia	9,968	▼ −4.9	12,556	▲ 3.4	10,784	▲ 11.1	26,514	▲ 2.8	1.6	▲ 3.0	1.4	▼ −0.1	19.3[i]	▲ 0.8
Serbia	14,791	▼ −1.7	12,576	▲ 1.0	15,696	▲ 16.2	18,692	▲ 10.0	2.9	▲ 4.0	3.2	▲ 0.2	21.4	▲ 1.2
N. Macedonia	3,460	▲ 3.3	3,730	▲ 6.7	2,625	▲ 13.2	5,671	▲ 7.9	3.1	▲ 4.0[i]	2.8	▼ −0.1	18.1	▲ 0.4
BiH	5,854	▲ 8.1	5,998	▲ 7.8	7,601	▲ 2.9	8,417	▲ 13.6	2.5	▲ 3.3	3.8	▼ −1.1	19.3[i]	▲ 0.1
Kosovo	2,954	▲ 9.8	1,914	▲ 17.3	1,321	▲ 12.4	4,061	▲ 11.3	3.9	▲ 3.2	2.0	▲ 0.0	15.8	▲ 1.0
Montenegro	1,460	▲ 3.3	1,734	▲ 9.2	2,202	▼ −5.2	2,730	▲ 11.1	4.0	▲ 4.7	5.0[i]	▼ −0.9	20.7[i]	▲ 2.3

Source: Statistical offices, CBs, NLB.
Note: Net interest margin calculated on interest-bearing assets. Residential loans and deposits for Montenegro.
(i) Data for Q3 2023.

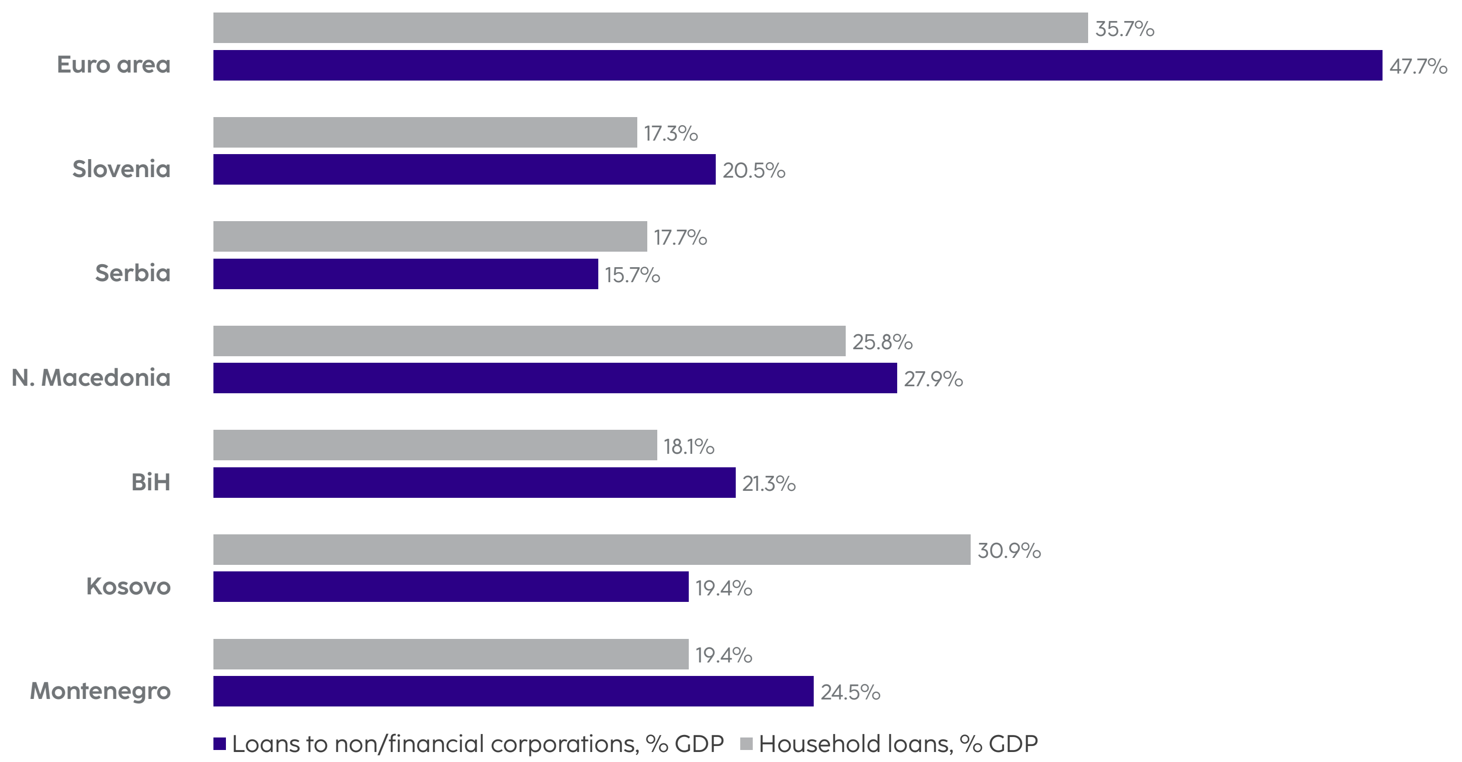
In other countries, the growth was in the lower single-digit range, except in Kosovo, where it was just shy of double-digit (YoY) growth. Corporate deposit growth was in double digits in Serbia, while North Macedonia and Slovenia trailed, with the rest of the countries experiencing growth below the mid-single digit range. The growth of household deposits was least pronounced in Slovenia, and was more notable in Kosovo and North Macedonia, and in double-digit territory in Serbia and Montenegro. The NPLs indicator exhibits some upticks in the region (North Macedonia and Serbia), as well as some marginal movements downwards (Montenegro and Slovenia) with no significant changes occurring despite the notable rise in interest rates, except for Bosnia and Herzegovina where a notable contraction occurred. The net interest income improved throughout the Group's region, reflecting the interest rate hikes by respective central banks, the growth of lending, and price effects. The capital adequacy ratio improved in all Group region countries, mostly Montenegro and Serbia. In contrast, in other countries, it improved to more or less half of that extent, insinuating that the banks in the Group remain solid and well-capitalised.

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



Source: ECB, National CBs.
Note: Return on average equity (ROAE) used for Bosnia and Herzegovina. Data for the Euro area, Bosnia and Herzegovina and North Macedonia are from Q3 2023 and for Serbia is from 30 November 2023.

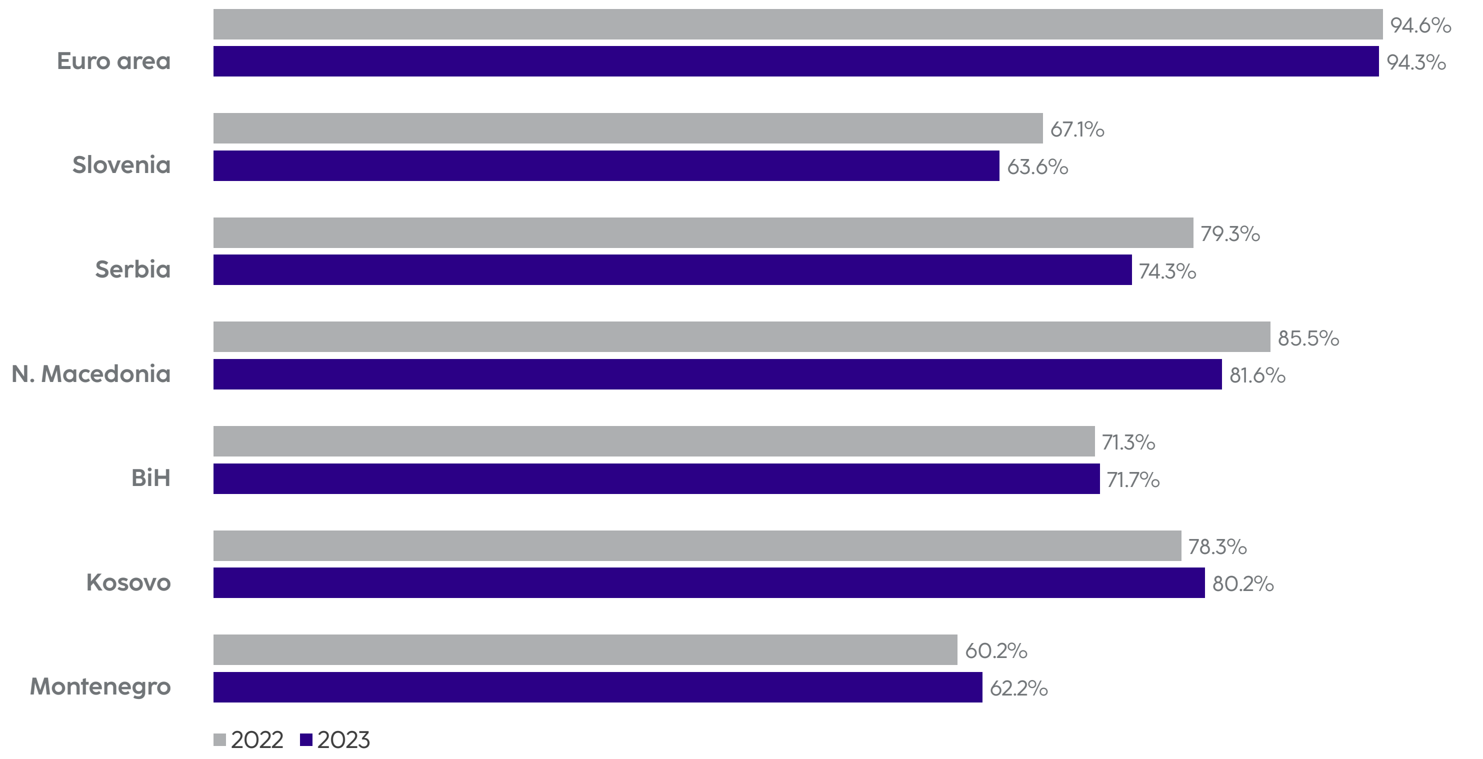
Figure 3: Loans to non-financial corporations and household loans (% GDP) in the Euro area and NLB Group region in 2023



Source: National CBs, National Statistical Offices.
Note: Data for Q3 of 2023, except for the Euro area, Slovenia, and Serbia (year-end). Residential loans for Montenegro.

The LTD ratio decreased in Slovenia, North Macedonia, and Serbia, but improved in Bosnia and Herzegovina, Montenegro, and Kosovo. The banks' profitability in the Group's region has continued to improve in 2023 due to rising interest rates. Still, maintaining the earnings momentum next year will certainly not be impossible. The net interest income increased further in 2023 compared to last year and reached levels not seen in approximately 15 years, as the profitability in the region was astounding, with ROE in double digits territory in all countries of the Group (almost doubled in Slovenia).

Figure 4: LTD ratio in the Euro area and NLB Group region



Source: ECB, National CBs, NLB.
Note: LTD for Serbia is from 30 November 2023, the rest are from 31 December 2023.

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Sport excites us and brings us together.

Slovenian men's national handball team

Adaptability and quick thinking ensure court advantage.

Regulatory Environment

During 2023, 119 changes with material effects on the Bank and the Group were adopted in the EU and Slovenian regulatory environments. The Group strives to be fully compliant with the existing and new requirements. Disclosure of the most relevant changes in legislation and regulation that influence the Group are presented herein.

Regulatory Environment in Slovenia

The Bank is subject to capital adequacy and liquidity rules imposed by the EU (CRR/CRD), which govern the activities in which banks may engage and are designed to maintain the safety and soundness of banks to limit their risk exposure. The CRD V was further transposed into the Banking Act (ZBan-3). In October 2021, the European Commission adopted a further package of a review of the CRR and CRD with the final elements for implementing Basel III in the EU. These final elements were agreed in December 2023, endorsed by the Council and Parliament, and will be implemented in EU law.

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

Due to the constant care about the interests of its customers, especially the protection of their data, the legislation in the field of personal data protection is also essential to the Bank. The Bank strictly adheres to its obligations imposed on it by GDPR in Slovenia and the Group. The new Slovenian Personal Data Protection Act (ZVOP-2) was adopted in December 2022 and is implemented in the Bank's operations.

In the financial markets, there were no significant changes in the regulatory environment in 2023. The Bank complies with MiFIR/MiFID II and EMIR provisions regarding financial market transactions, enhanced investor protection, transparency, and reporting obligations.

The Group also considers and complies with the regulations concerning prevention of money laundering and terrorist financing (AML/CTF), with the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-2), effective in April 2022, replacing the previous law and integrating the provisions of Directive (EU) 2019/1153, Directive (EU) 2019/2177, and Regulation (EU) 2018/1672 into Slovenia's legislation. In addition, an Amendment and supplements to the Act on Prevention of Money Laundering and Terrorist Financing (ZPPDFT-2A) were published in the Slovenian *Official Gazette* in November 2022. The Group regularly monitors and manages all newly introduced financial sanctions from all relevant regimes.

The regulatory environment underwent significant changes in the payment and settlement systems field in 2023. The European Commission proposed a third Payment Services Directive (PSD3) and a new Payment Services Regulation (PSR) to enhance user protection, open banking, enforcement, and unification in the European payments market. The Bank is preparing to meet its obligations under the new legislative framework, which is expected to enter into force by the end of 2026. The Bank meets its obligations under PSD2, the respective regulatory technical standards and the Payment Services, Services for Issuing Electronic Money and Payment Systems Act (ZPlaSSIED). The Bank is committed to providing the best user experience while ensuring compliance with the regulatory requirements in the payment and settlement systems.

In the EU's policy context under the European Green Deal, "sustainable finance" is understood as finance to support economic growth while reducing environmental pressures and considering social and governance aspects. In 2023, the Bank updated its governance of the ESG area by adopting two new internal documents: the Sustainability Policy and Standard – Rulebook on sustainability management. Both documents demonstrate a straightforward top-down and bottom-up process for sustainability governance, including climate change aspects, that extend from individual business units and countries to the management bodies. The Bank also updated other sustainability-related internal documents in various business areas in line with regulatory and other developments. These developments are monitored regularly by the Sustainability Unit, Compliance and Integrity, and within specific business areas, and are promptly implemented in the internal governance framework.

In December 2022, the Digital Operational Resilience Act (DORA) Regulation was published in the EU's *Official Journal* alongside the revised directive on the security of network and information systems (NIS2). The new framework introduces a comprehensive set of rules concerning financial sector firms' information and communications technologies (ICT) and risk management to strengthen their digital operational resilience and prevent and mitigate cyber threats. In 2023, the Bank carried out activities to implement the new regulatory requirements, which will apply from 17 January 2025.

Regulatory Environment in the Group's region

The regulatory environment in the rest of the region where the Group operates was dominated by actions to ensure the stable functioning of financial systems. During 2023, 132 changes with material effects on the Group were adopted in the regulatory environments in the Group's region. It is worth noting that this figure excludes any changes affecting solely NLB d.d.

In **Serbia**, the most significant regulatory changes introduced by the National Bank of Serbia throughout 2023 were related to the facilitation of financing of the citizens, dinarisation of the financial system, including a set of measures and activities aiming to enhance the use of the dinar in Serbia's financial system, further leading to the stabilisation of the prices on the market and related to preserving and strengthening the financial system stability. In that sense, to facilitate the financing of the citizens, the National Bank of Serbia adopted the Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans, introducing a temporary freeze on the variable nominal interest rate. Further, to prescribe measures related to the dinarisation of the financial system and preserving and strengthening its stability, the National Bank of Serbia adopted the Decision on Amendment to the Decision on Capital Adequacy of Banks to increase the exposure in dinars and the Decision on Amendments to the Decision on Banks' Required Reserves with the National Bank of Serbia, introducing changed ratios for calculation of required reserves of the dinars and foreign currency base. In addition, several laws and by-laws regarding tax and accounting, outsourcing of activities and labour law have been adopted.

In **North Macedonia**, the process of harmonisation with the Law on Payment Services and Payment Systems and related by-laws continued during the 2023 year, and several new by-laws from various areas related to this Law were also adopted and are in the process of implementation in the Bank or already implemented. The National Bank of the Republic of North Macedonia adopted several significant acts, such as the Decision on the credit risk management methodology, the Circular for the protection of consumers who use financial services in the banking sector, the Decisions on the amount of the rate of the countercyclical protective layer of the capital for exposures in the Republic of North Macedonia and exposures to other countries, the Decision on the method of implementation of measures to prevent money laundering and terrorist financing, the Decision on foreign exchange office activities, etc. In addition, the Bank continuously undertakes the necessary activities according to the set deadlines.

In the **Federation of Bosnia and Herzegovina**, the most important decision of the regulator in 2023 is related to the expectations of the regulator in the ESG area (Guidelines for Managing Risks Related to Climate Change and Environmental Risks). Implementing the Guidelines is to guide the banking sector in terms of determining, measuring, managing, and controlling climate and environmental risks, publishing data and information related to these risks, and segment integration of environmental sustainability in the Bank's business activities. In June 2023, the Federal Banking Agency adopted the Decision on the conditions and method of submitting customer complaints and the actions of entities of the banking system, which prescribes new terms for provider and user of services (banks and others), as well as definitions of complaints. Changes were made to the local procedure of the client's complaint, and an internal act was aligned with the decision.

Although the Law on Prevention of Money Laundering and Financing of Terrorist Activities has not yet been adopted, the Ministry of Security of Bosnia and Herzegovina made Amendments to the Rulebook on the Implementation of the Law on Prevention of Money Laundering and Financing of Terrorist Activities. The Rulebook prescribes additional indicators of suspicious transactions and clients, including indicators of suspicious transactions of bank employees.

In the **Republic of Srpska**, the local regulator, the Banking Agency of the Republic of Srpska, published numerous decisions that influenced the Bank's internal acts and processes. The most important one is the Decision on minimum standards of recording of banks' lending activities, which provides rules of the minimum standards of documenting during the negotiation phase, loan approval, credit exposure, etc., for the entire time of the establishment and duration of the contract with the client. Next to this decision, the Agency published Guidelines for the management of climate-related risks, representing the first Act in the area of climate regulation. The Guidelines are not obligatory; however, certain expectations of banks are to be accomplished and reported to the Agency by 30 June 2024. Next, the Central Bank of Bosnia and Herzegovina adopted the Decision to amend the Decision on establishing and maintaining mandatory reserves and determining compensation for the amount of reserves, intending to harmonise with the policy of the ECB and mitigate the impact of the increase in the reference interest rate of the ECB on business operations of banks in Bosnia and Herzegovina. Lastly, the National Assembly has adopted the new Family Law, which affects the Bank's product called Children's Deposit. Parents or guardians cannot make payments from the child's deposit without reasonable cause and literal approval from a competent Guardianship Authority.

In **Kosovo**, in 2023, several regulations were adopted by the Central Bank of Kosovo. The Bank's main activities concerned the implementation of the requirements from the Regulation on access to payment accounts with basic services, which determines the conditions for customers' access to payment accounts with basic services as a necessary tool to encourage their participation in the financial market. It is also related to Regulations on bank liquidity risk management, Regulations on reporting of banks, Regulations on the interbank payment system, etc. Furthermore, there have been legal changes and guidelines to follow regarding cyber security, the Law on prevention and protection from violence against women and gender-based updates on rules provided by the Kosovo Deposit Security Fund, instructions regarding the Logs of Personal Data Processing Activities, etc.

In **Montenegro**, the main activities 2023 were dedicated to implementing the Law on Interbank Fees and Special Business Rules Concerning Payment Cards, which apply from 9 January 2024. This Law regulates interbank fees charged when executing payment transactions in Montenegro based on payment cards issued to consumers and special business rules related to issuing or executing payment transactions based on payment cards. Amendments to the Law on Payment Transactions (PSD2) apply from 8 April 2024. The PSD2 regulation in Montenegro relies on and complements the existing EU rules, and it refers to payment services in the internal market. PSD2 expands the scope of payment services and their providers, more clearly defines exceptions, improves cooperation and the exchange of information among participants in the payment traffic, and introduces stricter security requirements for electronic payments. In bancassurance, novelties in the by-laws refer to clients' pre-contractual information, procedures regarding the protection of their rights, and reporting to the regulator. The Bank continued to consistently apply the decisions on introducing international restrictive measures determined by the EU Council's decisions.

BUSINESS REPORT

Strategy

The Group has continued to execute its medium-term strategy, focusing on strengthening its market position in its home region, actively participating in the growth and consolidation of the market, and promoting the ESG agenda. Digitalisation, client centricity, and cost efficiency remain key strategic orientations to deliver the Group's vision. The Group is currently in the process of defining its new Strategy 2030, which is expected to outline the key decisions regarding capital allocation in the future.

Be a regional champion

The Group aims to further strengthen its role as a systemically important financial institution in the SEE region. To achieve this, it strives to become a leader in all its target markets and to have a prominent role in the region's development. The Group believes there is significant value to be unlocked by facilitating further development of the region and increasing its standard of living.

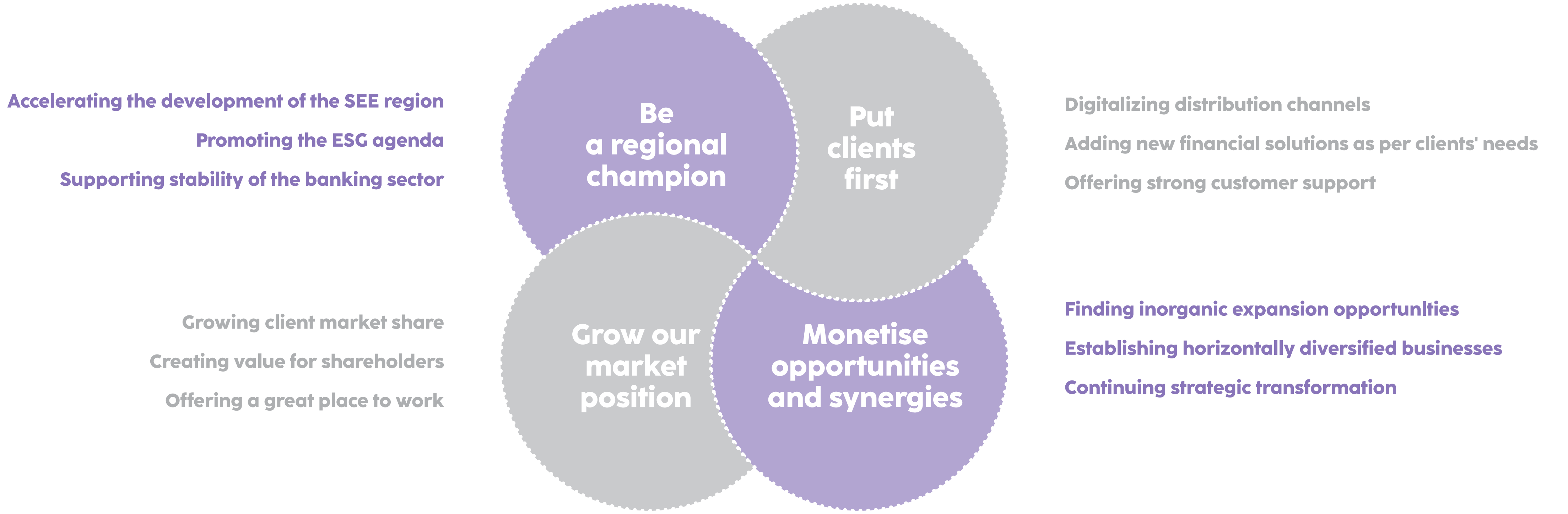
The Group is promoting ambitious environmental, sustainability, and corporate governance agendas. It joined leading peers from the banking industry in collective efforts to reach net-zero emissions by 2050. In 2023, the Group published its first net zero portfolio targets within the NLB Group Net Zero disclosure report. For more information on Net Zero, please refer to the chapter Sustainability.

As one of the most important players in the region's financial system, the Group is carrying its share of responsibility for building a stable banking system. The 2022 acquisition of N Banka is an example of the Group's resolve to commit capital in turbulent times for the benefit of all stakeholders. In 2023, the merger of N Banka was successfully closed with the transfer of all customers and their operations.

Put clients first

The Group is driving its customer-centric agenda by starting with the financial needs of its customers and looking for ways to improve and streamline its products and services to fulfil them to the utmost extent. One way the Group does this is by digitising its distribution channels, allowing clients to access its products and services from anywhere at any time.

The Group is committed to adding innovative financial solutions to address its clients' unmet and new needs.



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By staying on top of the latest trends, needs, and technologies, it will stay competitive and deliver the best possible banking experience. Ensuring strong customer support remains one of the Group's key focuses. It requires that its customer service team is knowledgeable, friendly, and always ready to assist clients with their questions or concerns, wherever they may be.

Digitalisation

The Group continues implementing substantial efforts and resources toward digital distribution channels and operating models. The customers' preference for an increased share of digital business interactions has remained even after normalisation since the COVID-19 pandemic. Effective and safe digital distribution channels require novel operating models and automated processes to minimise response times and costs. One of the results of digitalisation and process optimisation is a reduced amount of printed paper.

The Group will continue to invest in IT infrastructure and its digital capabilities and roles. The focus will be on improving the speed of IT delivery by adopting agile methodology principles, providing and implementing the best online experience for customers in the SEE, and enhancing capabilities for processing data, modelling, and delivering relevant services to clients. One such example is the launch of the new omnichannel solution "NLB Klik", which allows checking and managing personal finances and offers a unified user experience on mobile phones and PCs.

Grow our market position

The Group is working to strengthen its market position as a systemic player in its home region. To do this, the Group is monitoring how well it is creating value for three types of its main stakeholders: shareholders, customers, and employees. Concerning its shareholders, the Group views its decisions through a lens of maximising its return on equity. Concerning its customers, market shares and Net Promoter Scores (NPS) are tracked. An employee engagement metric is measured and analysed in relation to its employees.

The Group regularly engages with its stakeholders in defining what is material to them and the Group. Some of the most important channels for communications with the stakeholders (in addition to the regular publicly available periodic reports, presentations, and webcasts on the Group performance) are, for example, the NLB Group Sustainability Report and the corporate website, along with social media channels.

The Group's employees represent its key resource and are one of its main drivers for creating value. Through the focus on recruitment, management, and continual development of employees, they are given the opportunity to thrive by making the most of their talent and experiences.

Monetise opportunities and synergies

Significant strategic business efforts have been made to achieve business synergies across the Group regarding costs and operational efficiency. The Group believes that these can help offset the adverse economic effects of the rising inflation on the Group's clients. In Slovenia, the Bank has achieved further synergies with the full integration of N Banka in 2023.

The Group monitors market conditions and analyses potential M&A opportunities that could add value to the Bank's shareholders. The Group is fully engaged in re-establishing some key financial services across all its markets, thus diversifying its services horizontally. In the Group Strategy, leasing is one of the strategic activities representing an important part of the Group's business portfolio. Leasing operations in Slovenia (NLB Lease&Go, Ljubljana) are gaining momentum, while new leasing companies were established within the Group in North Macedonia and Serbia in 2022. The Group has further materially enhanced its strategically important position in 2023, announcing the acquisition of Summit Leasing, Slovenia's leading auto finance provider. In addition, NLB Skladi, which offers clients asset management services, concluded an agreement to purchase the majority ownership of Generali Investments AD Skopje, further expanding asset management activities within the Group.

The Group is moving closer to the fintech ecosystem to find new and better ways of solving customers' financial needs. It established a corporate venture team, eNLaB, to build business cooperation with ambitious fintech players to accelerate the Group's efforts in bringing novel use cases and business solutions to the market.

Continuing transformation

The Group follows a comprehensive plan to deliver its mission and financial targets to facilitate continuous transformation in an ever-changing environment. It has identified a series of projects and initiatives and has dedicated resources for implementation. All significant running change efforts are channelled into one overall strategic transformation programme.

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

The transformation programme also focuses on increased operational efficiency, cost management, and the improved utilisation of the Group's capital. Simultaneously, overall operational capabilities are enhanced by improving human capital, optimising IT infrastructure, digitalising internal processes, and leveraging information capital.

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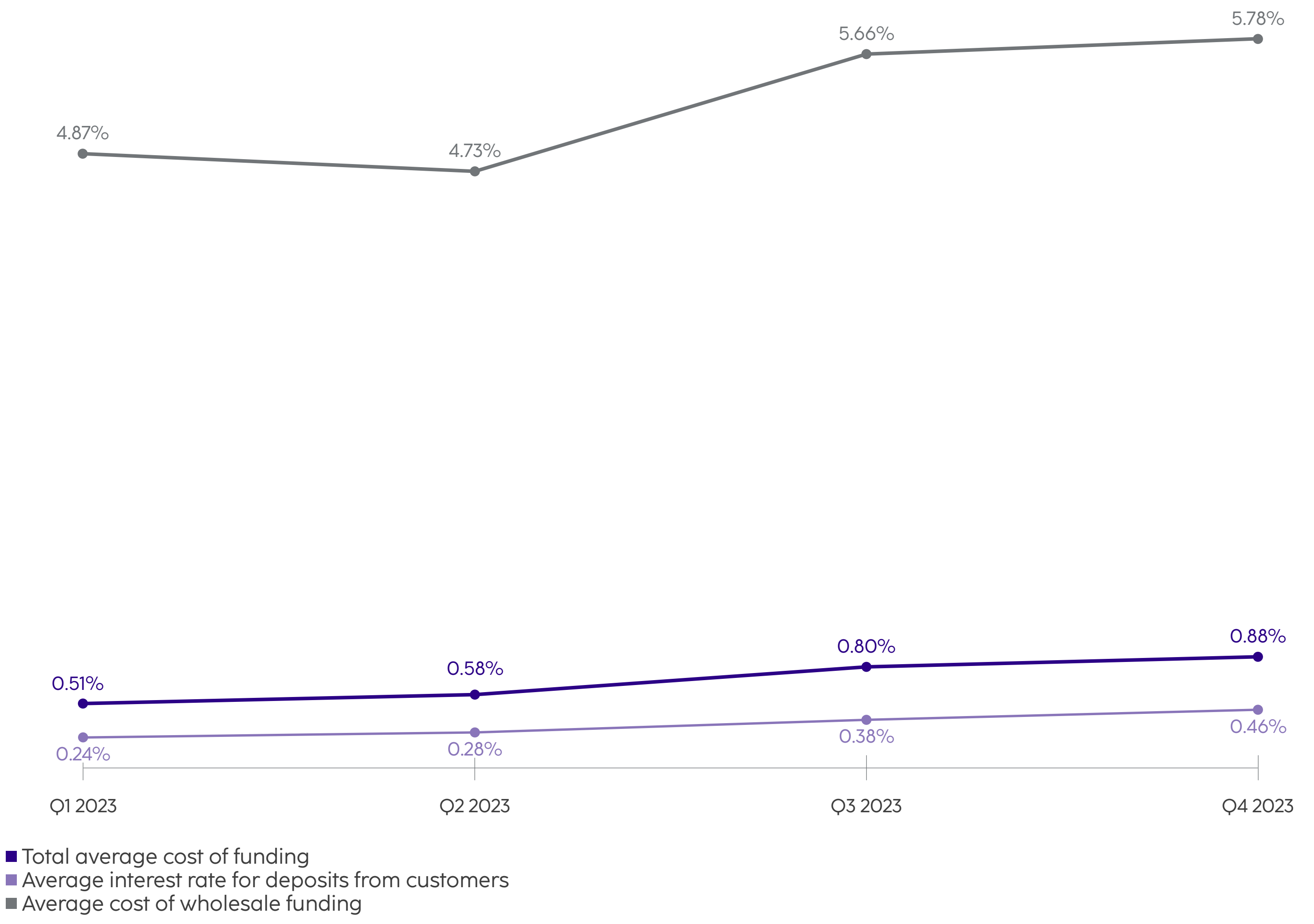
Funding Strategy, Capital, and MREL Compliance

Fostering strong client relationships is vital for maintaining a stable and growing deposit base. At the same time, wholesale funding focuses on meeting MREL requirements and optimising capital, which leads to increased average funding costs. Nonetheless, overall funding cost remains low thanks to a reliable deposit base and the stability of sight deposit pricing, which remains unaffected by market fluctuations.

Figure 5: Average cost of funding (quarterly data)



Deposit strategy

Deposits from customers represent the primary funding source for the Group, and each bank within the Group has established processes that enable prudent strategic deposit management that is aligned with business targets and regulatory requirements. Regularly monitoring deposits and their structure enables timely reactions whenever necessary due to business or regulatory-related reasons. The LTD ratio evolution in recent years, including the disruptive COVID pandemic in 2020, political turbulence in 2022, and high inflation in 2023, was still confined to a healthy liquidity zone below 70%, which proved that the deposit base of the Group is robust, and the liquidity position strong.

A leading Group market position and a responsive client relationship are essential for a stable deposit base. Besides that, proper deposit pricing is pivotal in risk management and business decision-making. The Group's fund pricing is aligned with international standards. The year 2023 further underlined the importance of responsive deposit pricing and active client relationships in highly competitive markets; all Group entities reacted systematically and defended their market positions in line with strategic targets. The deposit beta, which measures the Group's response in deposit pricing from the start of the ECB hiking cycle, was low at 8% in 2023, and is a sign of a stable deposit base.

Group retail deposits represent a majority in the structure and are the most stable funding source, with around 80% insured by the Deposit Guarantee Scheme. Despite the challenging business environment, Group retail deposits recorded an increase in 2023. Sight deposits represent 84% of Group retail deposits, and despite a modest structural decrease related to increased interest rates and expected transformation to term deposits, sight deposits represent a stable funding source. This supports the stable business of the Group in the region, even during volatile times in the wholesale funding markets. Although corporate sector deposits represent a smaller share of the deposit structure of the Group, they are still an important source of liquidity as well. Despite increased price levels, combined with uncertainties related to the economic outlook, the corporate deposit base of the Group became stronger and remains structurally stable.

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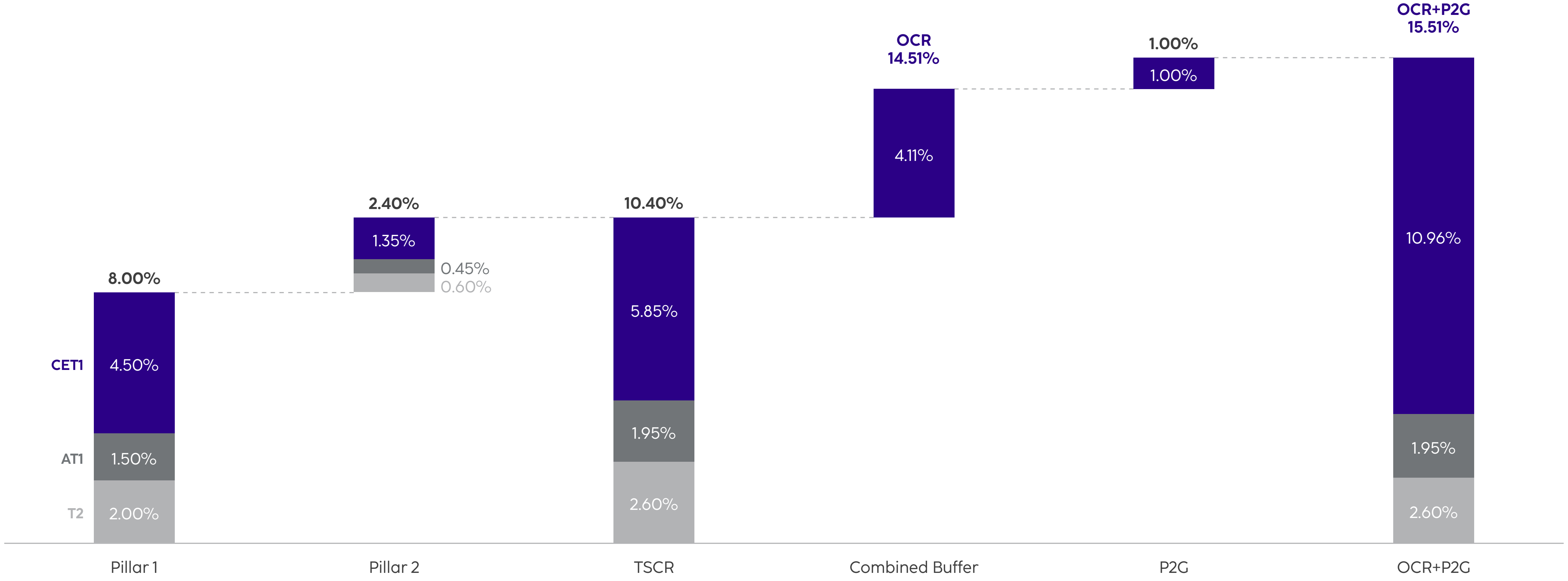
Capital and capital adequacy
Capital requirements

Figure 6: NLB Group capital requirements as at 31 December 2023



As at the end of 2023, the Bank's Overall Capital Requirement (OCR) on a consolidated basis was 14.51%. This requirement has two components:

- The Total SREP Capital Requirement (TSCR) is 10.40%, which includes 8.00% Pillar 1 and 2.40% Pillar 2 Requirements. As at 1 January 2023, the Pillar 2 Requirement decreased by 0.2 p.p. to 2.40% due to a better overall SREP assessment.
- The second component is the Combined Buffer Requirement (CBR), which is 4.11%, and includes a 2.50% Capital Conservation Buffer, a 1.25% O-SII Buffer, a 0.26% Countercyclical Buffer[2] and a 0.10% Systemic risk buffer[3].

In addition to the above requirements, the Pillar 2 Guidance (P2G) is 1.0% of Common Equity Tier 1 (CET1).

Effective from 1 January 2024, NLB has lower capital requirements. On 1 December 2023, NLB received a new SREP decision on a consolidated basis for 2024. As per the decision, the Pillar 2 Requirement decreased by 0.28 p.p. to 2.12%, since the overall SREP assessment improved.

Effective as at 1 January 2025, there will be some changes in the capital buffer rates for Slovenia. The countercyclical capital buffer rate for exposures in Slovenia will increase from 0.5% to 1.0%. At the same time, the sectoral systemic risk buffer for retail exposures to natural persons secured by residential real estate will decrease from 1.0% to 0.5%.

2 The Bank of Slovenia has increased the countercyclical capital buffer for exposures in Slovenia from 0% to 0.5%. The Bank had to meet the required buffer from 31 December 2023 onwards.
3 Starting from 1 January 2023, the Bank of Slovenia has mandated that banks maintain systemic risk buffer rates for sectoral exposures. The required rates are 1.0% for all retail exposures to natural persons secured by residential real estate and 0.5% for all other exposures to natural persons.

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Capital adequacy

As at 31 December 2023, the TCR for the Group stood at 20.3% (or 1.1 p.p. increase YoY), and the CET1 ratio stood at 16.4% (1.3 p.p. increase YoY), – which is well above requirements. The higher total capital adequacy derives from higher c apital (EUR 302.8 million YoY), which compensated for the increase of the RWA (EUR 684.1 million YoY). The Group increased its capital with a partial inclusion of 2023 profit (EUR 327.4 million). Temporary treatment of FVOCI for sovereign securities ceased to apply as at 1 January 2023, which decreased capital by EUR 61.6 million. This effect was compensated with EUR 84.5 million in revaluation adjustments. In December 2023, a deduction item related to deferred taxes appeared in EUR 47.0 million.

Table 5: Capital realisation YoY and surplus of NLB Group

in EUR millions

	31 Dec 2023	31 Dec 2022	Change YoY	Surplus 31 Dec 2023
Common Equity Tier 1 capital	2,509.9	2,208.2	301.7	829.0
Tier 1 capital	2,597.8	2,295.7	302.1	617.8
Total capital	3,109.2	2,806.4	302.8	730.2
Total risk exposure amount (RWA)	15,337.2	14,653.1	684.1	
Common Equity Tier 1 Ratio	16.4%	15.1%	1.3 p.p.	5.4 p.p.
Tier 1 Ratio	16.9%	15.7%	1.3 p.p.	4.0 p.p.
Total Capital Ratio	20.3%	19.2%	1.1 p.p.	4.8 p.p.

Figure 7: NLB Group capital (in EUR millions), realised total capital ratios and regulatory thresholds

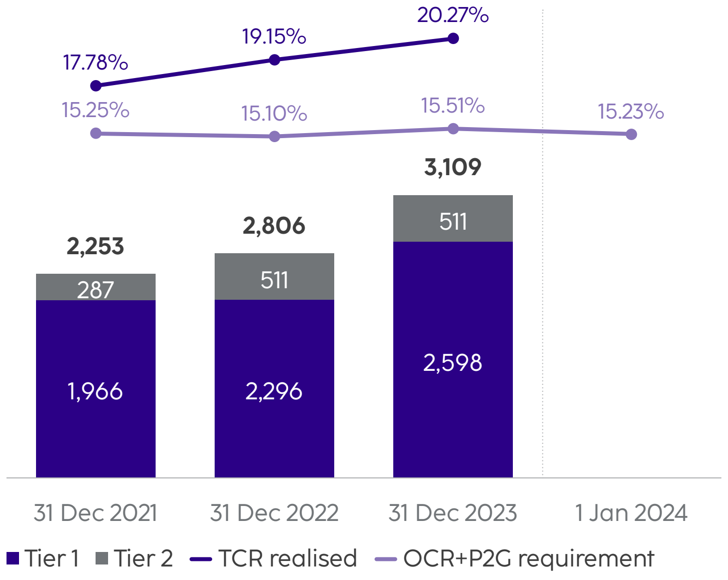


Figure 8: NLB Group CET1 (in EUR millions), realised CET1 ratio and regulatory requirement

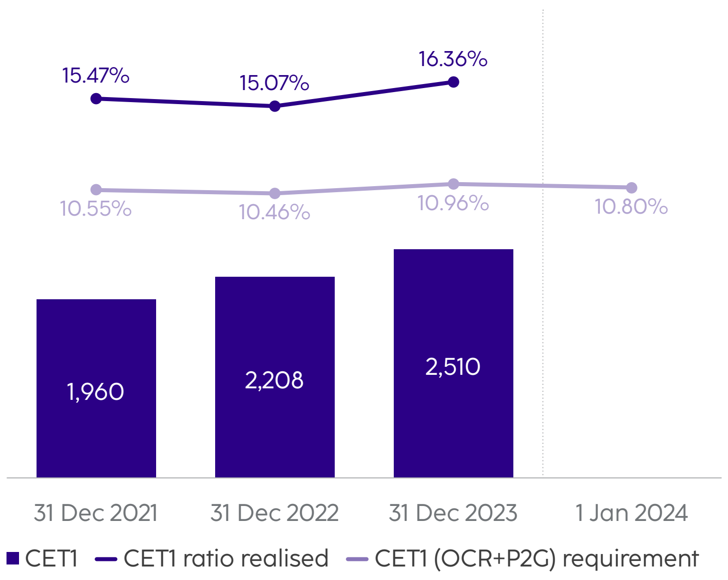
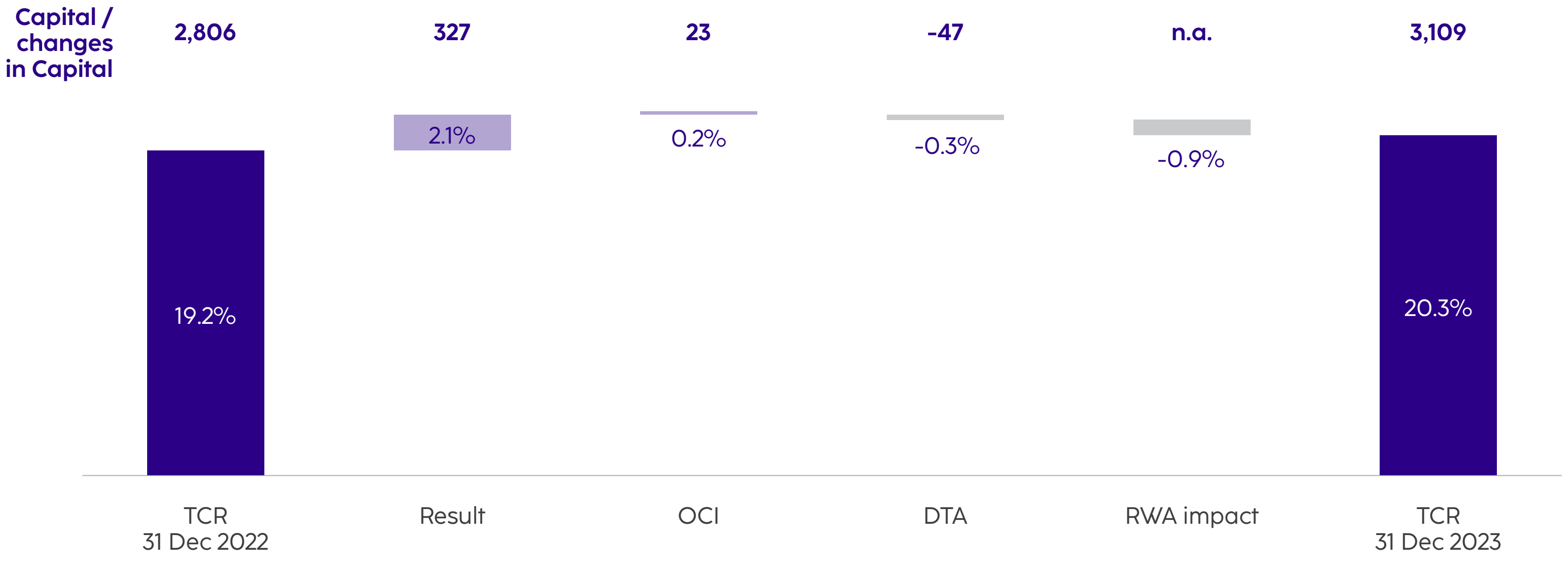


Figure 9: Capital and capital ratios of NLB Group – evolution YoY (in EUR millions)



Dividend payout

The dividend payout in 2023 was split into two tranches. The first instalment of EUR 55.0 million was paid in June 2023, while the second was paid in the same amount of EUR 55.0 million in December 2023, contributing to the 2023 cumulative payout of EUR 110.0 million.

Total risk exposure dynamic

In 2023 (YoY), the RWA of the Group for credit risk increased by EUR 370.3 million, mainly as the consequence of ramping up lending activity in all Group banks, the most in the Bank, NLB Komercijalna Banka, Beograd and NLB Banka Prishtina. Higher RWA for exposures associated with particularly high risk due to new project financing loans given, mainly in the Bank and NLB Komercijalna banka, Beograd, was partially offset by repayments or by withdrawing the high-risk flag after fulfilling the relevant conditions. In contrast, a RWA decrease was observed for liquidity assets, mainly in Komercijalna Banka, Beograd, due to the maturity of some Serbian bonds and higher MIGA guarantee for assets at central banks in foreign currency (EUR). The higher MIGA guarantee also reduced the RWA for exposures dominated in EUR at the central bank in Skopje. Furthermore, RWA also decreased due to the maturity of Macedonian bonds and Bosnian bonds of Republika Srpska. The RWA decline for liquidity assets was partly mitigated by the RWA increase at institutions, mainly in the Bank, due to the purchase of bank bonds, a larger volume of deposits at commercial banks and higher risk weights for institutions from countries outside the EEA that are not on the third-party equivalent list (e.g., the United Kingdom). Repayments, higher impairments and provisions, upgrades, and improved data of real estate collaterals for CRR eligibility resulted in the RWA reduction for non-performing exposures.

Table 6: Total risk exposure for NLB Group

in EUR millions

	31 Dec 2023		31 Dec 2022		Change YoY	
	RWA	RWA Density	RWA	RWA Density		
Total risk exposure amount (RWA)	**15,337.2**		**14,653.1**		**684.1**	**4.7%**
RWA for credit risk	**12,168.1**	**45.3%**	**11,797.9**	**46.7%**	**370.3**	**3.1%**
Central governments or central banks	899.8	9.4%	1,109.2	12.7%	−209.5	−18.9%
Regional governments or local authorities	96.9	37.2%	101.2	42.9%	−4.3	−4.2%
Public sector entities	19.1	19.3%	57.9	37.5%	−38.8	−66.9%
Institutions	369.8	33.6%	292.0	28.9%	77.8	26.6%
Corporates	3,740.4	92.0%	3,520.3	90.1%	220.1	6.3%
Retail	4,606.0	71.0%	4,371.0	70.7%	235.0	5.4%
Secured by mortgages on immovable property	1,067.5	37.5%	987.7	37.5%	79.7	8.1%
Exposures in default	117.4	113.3%	156.4	113.6%	−39.0	−24.9%
Items associated with particularly high risk	671.8	150.0%	642.4	150.0%	29.3	4.6%
Covered bonds	27.8	12.8%	31.5	11.4%	−3.6	−11.6%
Claims in the form of CU	12.9	20.4%	17.9	26.2%	−5.0	−28.1%
Equity exposures	104.4	121.9%	90.1	124.1%	14.3	15.8%
Other items	434.4	48.0%	420.1	46.3%	14.3	3.4%
RWA for market risk + CVA	**1,461.9**		**1,445.1**		**16.8**	**1.2%**
RWA for operational risk	**1,707.1**		**1,410.1**		**297.0**	**21.1%**

The increase in RWAs for market risks and Credit Value Adjustments (CVA) in the amount of EUR 16.8 million YoY was the result of higher RWA for FX risk of EUR 86.6 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks – mostly RSD), lower RWA for CVA risk of EUR 71.4 million (due to a change of calculating exposure value for derivative transactions subject to CRR risk based on OEM method), and higher RWA for TDI risk of EUR 1.2 million (mostly IRS derivatives).

The increase in the RWA for operational risks (EUR 297.0 million YoY) derives from the higher net interests, mainly from the Bank and Komercijalna banka, Beograd, resulting in a higher three-year average of relevant income. There were no significant deviations from previous years in the other components used in the calculations.

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

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Wholesale funding and MREL

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

The Preferred Resolution Strategy (PRS) for NLB Group is based on the Multiple Point of Entry (MPE) strategy. Bail-in at the level of NLB is the primary resolution tool to be applied during the stabilisation phase.

Within NLB Group, seven resolution groups are designated. The resolution group in the Banking Union is headed by NLB and the remaining six resolution groups are headed by the banking subsidiaries located in non-EU countries (Bosnia and Herzegovina, Montenegro, and Serbia, while Kosovo and North Macedonia have not yet implemented MREL legislation).

The NLB Resolution Group consists of NLB as the only banking member and other non-banking members, the latter representing less than 5% in TREA. The entities and their contribution to TREA of the NLB Resolution Group are presented in the table below.

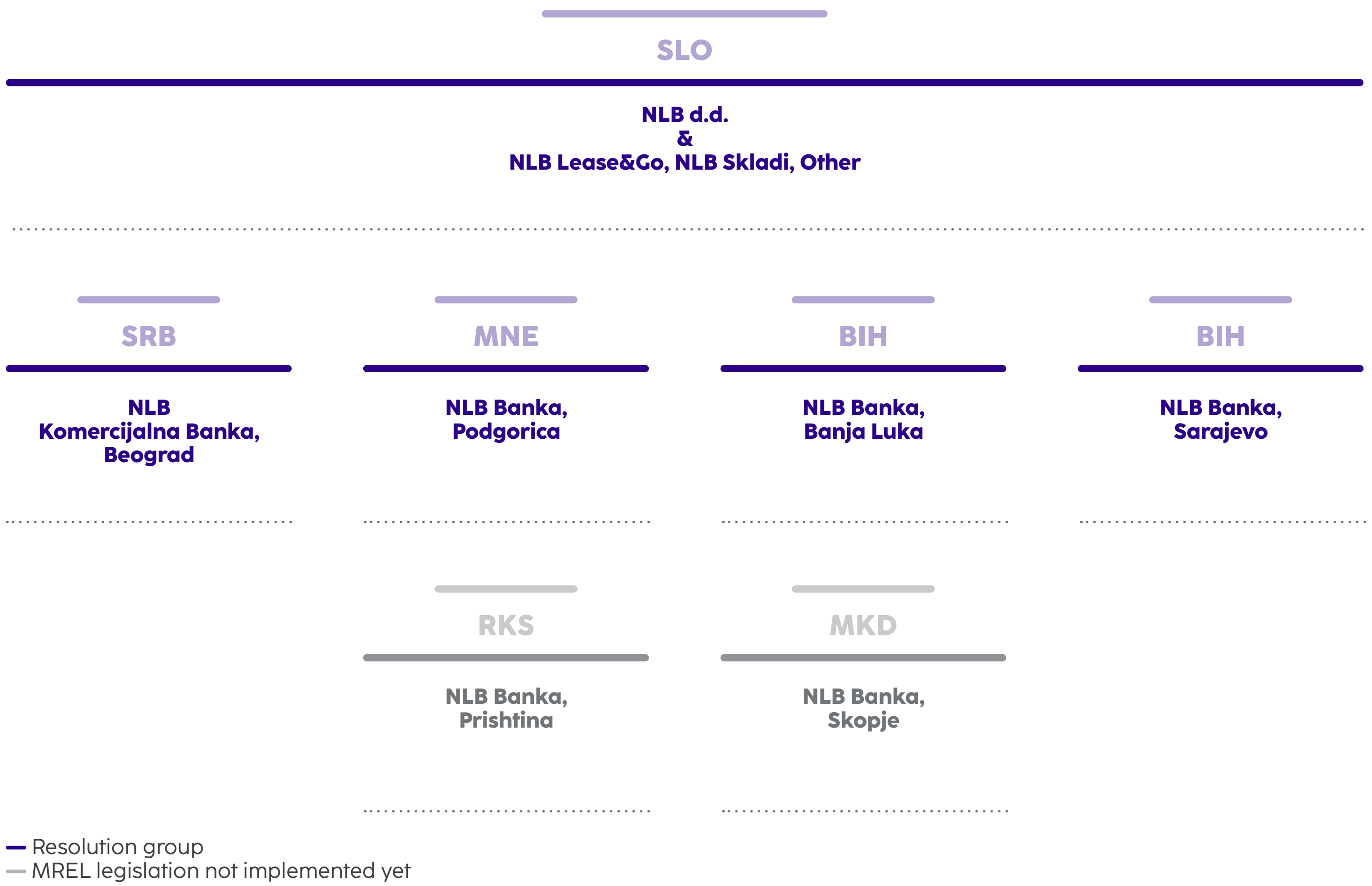
Table 7: Contribution to NLB Resolution Group's TREA

	in EUR millions
Entity	**31 Dec 2023**
NLB d.d.	7,861
NLB Lease&Go, Ljubljana	213
NLB Skladi, Ljubljana	56
Other	124
TREA total	**8,256**

NLB has to ensure a linear build-up of own funds and eligible liabilities towards the MREL requirement applicable as of 1 January 2024, which amounts to:
- 30.66% of TREA + applicable CBR (4.33% on 31 December 2023),
- 10.69% of LRE.

On 31 December 2023, the MREL ratio amounted to 40.24% TREA and 19.94% LRE, which was well above the required level.

Figure 10: Resolution groups within NLB Group



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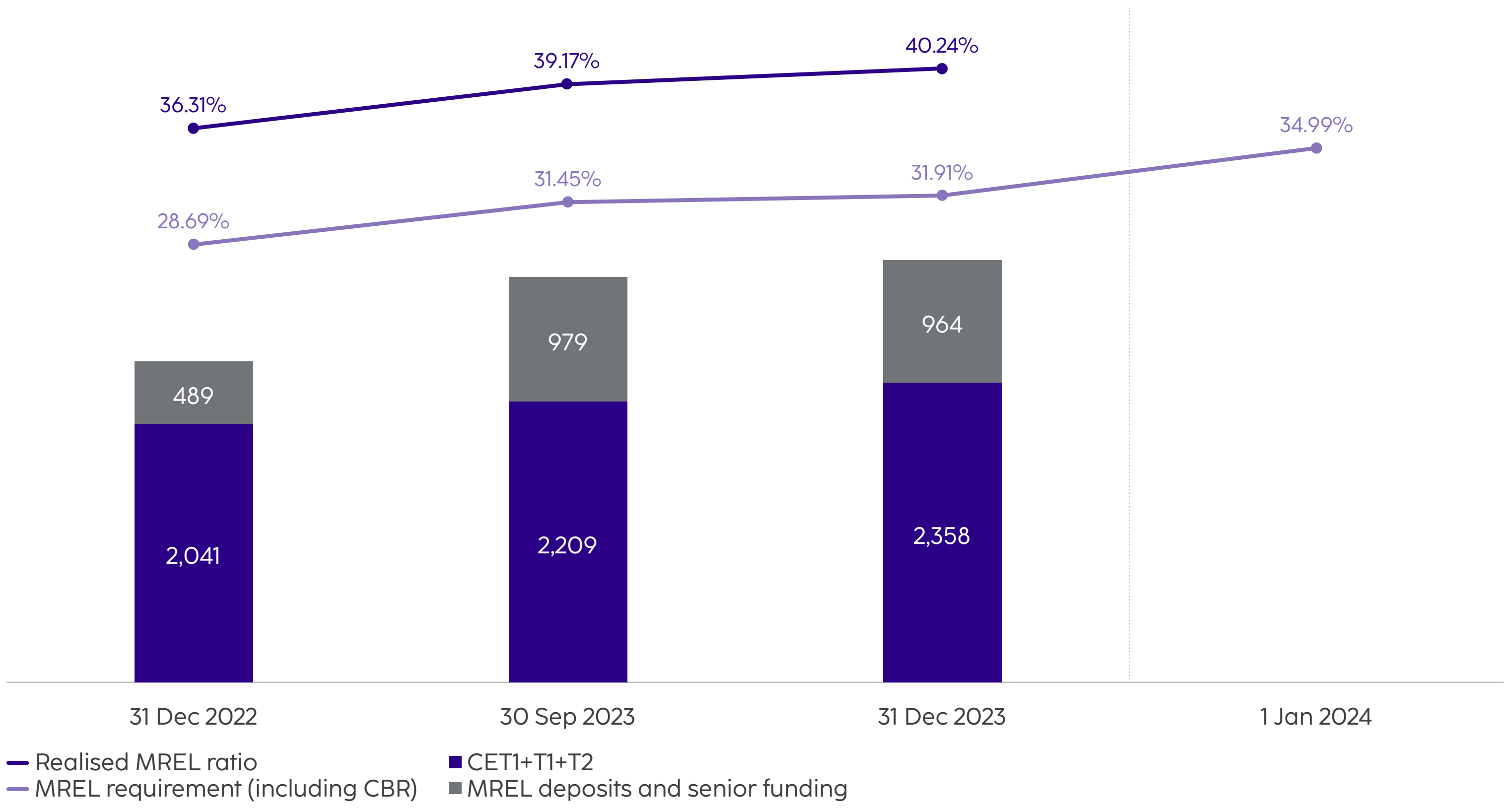
The composition of the own funds and eligible liabilities items by which the Bank met the MREL requirement was as presented in the table below.

Table 8: Composition of the own funds and eligible liabilities of NLB Resolution Group

	in EUR millions
Own funds and eligible liabilities items	**31 Dec 2023**
CET1	1,768
Additional Tier 1 instruments	82
Tier 2 instruments	508
Unsecured and unsubordinated claims arising from debt instruments	964
Total	**3,322**

In June 2023, the Bank issued green senior preferred notes of EUR 500 million to strengthen the MREL buffer, and thus ensured that the Bank could comfortably meet the higher MREL requirement from 1 January 2024 onwards. In addition, the Bank obtained other MREL eligible instruments in a total amount of EUR 40 million.

Figure 11: Evolution of MREL eligible funding (in EUR millions), MREL requirement and realised MREL ratio



SEE banking members in Bosnia and Herzegovina, Serbia, and Montenegro are subject to local MREL requirements. As of 31 December 2023, all banking subsidiaries have secured the necessary eligible funding to meet the SalMREL requirements, set as per Total Liabilities and Own Funds (TLOF) target level.

In 2024, certain MREL regulation changes are expected in the Group countries of operations, and the subsidiary banks are exploring all options to ensure a linear build-up of own funds and eligible liabilities to fulfil the local MREL requirements.

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Risk Factors and Outlook

Risk factors

Risk factors affecting the business outlook are (among others):
- The economy's sensitivity to a potential slowdown in the Euro area or globally
- Potential liquidity outflows
- Widening credit spreads
- Worsened interest rate outlook / Persistence of high inflation
- Energy and commodity price volatility
- Increasing unemployment
- Geopolitical uncertainties
- Potential cyber-attacks
- Litigation risks
- Regulatory, other legislative, and tax measures impacting the banks

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 was experienced. The growth in the Group's region was moderate, though relatively high inflationary pressures and other uncertainties could suggest a further slowdown, namely in private consumption and investment growth.

Credit risk usually increases considerably in times of an economic slowdown. The Group has thoroughly analysed and adjusted the potential impact on the credit portfolio in light of anticipated inflationary pressures and expected decreases in economic growth. Lending growth in the corporate and retail segments remained 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. In August 2023, certain areas in Slovenia were damaged by floods. Their impact on the Bank's credit portfolio quality in the corporate and retail segments was estimated as negligible, and only minor client credit quality deterioration or received collaterals occurred. 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 remain adequate.

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. Geopolitical uncertainties have increased volatility in the financial markets, particularly shifts in credit spreads, rising interest rates, and foreign exchange rate fluctuations. The Group closely monitors its prominent bond portfolio positions, mostly sovereigns, and carefully manages them by incorporating adequate early warning systems to limit the potential sensitivity of regulatory capital.

So far, no material movements regarding the Group's significant FX positions have been observed. 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, and 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, 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 only sometimes entirely prevent possible adverse effects.

With regards to litigation risk, in recent years, and even more so in recent periods, the Bank has seen a shift in case law that is generally more favourable to consumers, e.g. litigation cases related to loan processing fee and loan insurance premium in Serbia and CHF litigations in Slovenia. In the latter case, we have noticed an increase in the number of proceedings against the Bank, which was expected. The current litigations against the Bank referring to CHF are less material, but the Bank is closely monitoring developments.

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 jurisdiction in which it operates, including changes of tax treatment of banking business (e.g. application of VAT on card payments services in Bosnia and Herzegovina) and changes in interpretation of legislation (e.g. introduction of reimbursement of a proportional part of loan costs in case of early repayment of consumer loans in Slovenia).

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 operations and financial condition results. The Group's financial condition could be adversely affected by 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 the 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 an expected forecast macroeconomic view for all the 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 spillover 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, which stimulates 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. Regular yearly revision of IFRS 9 provisioning will be conducted In H1 2024.

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 the 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.

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Outlook

The indicated outlook constitutes forward-looking statements which are subject to several risk factors and are not a guarantee of future financial performance. The NLB Group is pursuing various strategic activities to enhance its business performance. The interest rate outlook is uncertain, given the adaptive monetary policy of the ECB and local central banks to the general economic sentiment.

In Slovenia, the economic growth is forecasted to accelerate in 2024 compared to 2023 thanks to reconstruction efforts, relief funds, cooling inflation, and strengthening export demand from the wider Euro area. Downside risks are a slower-than-expected recovery among key trading partners and potential energy price spikes. Economic growth is seen accelerating in the region (apart from Montenegro), mainly due to better prospects of the major trading partners, disinflation, falling interest rates, and stronger household consumption. The performance of the Euro area, ethno-nationalistic tensions and the wars in Ukraine and Gaza are key factors to watch. The Group's region is expected to grow by 2.2% in 2023 and 2.5% in 2024. While banks have so far largely benefited from higher interest rates in 2023, the uncertain macro-financial conditions may continue to weigh on volume growth going forward in the short term. Loan potential in 2024 should improve, however.

The position of the Group is strong, and the performance throughout all of year 2023 in many of the item lines exceeded the plans and previous guidance. The Group is herewith presenting the guidance for the full year 2024 and 2025. The outlook for 2024 does not include effects from the announced acquisition of Summit Leasing, which is expected to close before the end of 2024 and thus without material effects for 2024. The Group is preparing a new business strategy and vision for 2030 that will, among others, also outline shareholders' returns going forward in line with the improved earnings outlook. The announcement of the key strategic directions for the Group is planned for the Investor Day on 9 May in Ljubljana.

The outlook for 2024 incorporates a reasonable amount of prudence, most notable on the still prevailing market view that interest rates by the end of 2024 will be lowered by some 150 bps. Despite this assumption, the Group is expected to achieve more than EUR 1,100 million in regular income since a comfortable level of net interest income and fee income is still expected due to the growing loan book and fee business stemming from more robust household consumption. The cost to income ratio is expected to stay below 50%, indicating that cost inflation should be reasonably contained. With the mid-single digit loan growth and still solid trends in asset quality expected in all segments and geographies, the cost of risk is expected to be between 20 and 40 bps.

In January 2024, Tier 2 notes in the amount of EUR 300 million and 10NC5 tenor were issued and have already been included in the capital following the ECB approval. In parallel, the Bank conducted a liability management exercise (LME), repurchasing EUR 219.6 million of its two outstanding Tier 2 notes to optimise its capital structure. Moreover, in 2024, the Bank is considering issuing senior preferred notes in benchmark size, subject to market conditions. Both issuances will enable the Bank to meet MREL requirements comfortably.

The operating environment, coupled with an appropriate tactical and strategic positioning of the Group, have led the Group to achieve strong running results. Previously indicated guidance on nominal dividend payment has materialised in increasing dividend payments and, at the same time, meaningful build-up of the capital buffers, allowing for a potential M&A. With this outlook, the Bank is communicating its intention to pay EUR 220 million in dividends in 2024, translating to a 40% pay-out ratio out of 2023 profit after tax. This represents a 100% increase from dividend payments made in 2023 or more than 75% of the so far's guidance for the cumulative payment until the end of 2025. Such capital return will not impede the

Table 9: Movement of key macroeconomic indicators in the Euro area and NLB Group region

	GDP (real growth in %)					Average inflation (in %)					Unemployment rate (in %)				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Euro area	3.4	0.4	0.6	1.5	1.6	8.4	5.4	2.5	2.2	2.0	6.8	6.5	6.7	6.7	6.5
Slovenia	2.5	1.6	1.9	2.5	3.0	9.3	7.2	3.1	2.5	2.2	4.0	3.8	4.2	4.2	4.0
Serbia	2.5	2.5	2.9	3.4	3.4	12.0	12.1	5.8	3.7	3.0	9.6	9.5	9.0	8.8	8.6
N. Macedonia	2.2	1.8	2.6	3.2	3.2	14.1	9.4	4.0	2.6	1.8	14.4	13.1	12.7	12.4	12.2
BiH	4.2	1.6	2.5	3.0	3.0	14.0	6.1	2.9	2.4	1.9	15.4	13.3	12.5	12.0	11.5
Kosovo	4.3	3.3	3.7	4.0	4.0	11.6	4.9	2.8	2.7	2.5	12.6	11.0	10.5	10.0	9.5
Montenegro	6.4	5.1	3.3	3.2	3.3	13.0	8.6	3.8	2.8	2.4	14.7	13.2	13.0	12.7	12.5

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

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Bank's capacity to grow, either organically or through M&A, while, at the same time, avoiding the capital to build excessively.

The outlook for 2025 (i.e., the outlook for the mid-term targets within the final year of the current strategy) will be subject to revision at the upcoming Investor Day in May. On the "as-is" presumption, the guidance for 2025 indicates the continuation of the current trends with stable and growing results for the NLB Group. Increased regular income by EUR 100 million, to around EUR 1,200 million and higher dividend distribution also translates to a one percentage point increase of ROE a.t. (from around 14% to 15%), and ROE normalised expected to exceed 20% (previously around 20%). The intended pay-out ratio for 2025 from the 2024 results exceeds 40%, still retaining up to EUR 4 billion in M&A capacity.

With this guidance on dividends, the Bank will pay cumulative dividends between 2022 and 2024 in the total amount of EUR 430 million, well on the path to delivering EUR 500 million of dividends in the 2022–2025 period.

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

	Last Outlook for 2023	Actual 2023 Performance	Outlook for 2024	Last Outlook for 2025	Revised Outlook for 2025
Regular income	> EUR 1,000 million	EUR 1,108 million	> EUR 1,100 million	~ EUR 1,100 million	~ EUR 1,200 million
CIR	~ 46%	46%	< 50%	< 50%	< 50%
Cost of risk	~ 0 bps	-7 bps	20-40 bps	30-50 bps	30-50 bps
Loan growth	Mid single-digit	5%	Mid single-digit	High single-digit	High single-digit
Dividends	EUR 110 million	EUR 110 million	EUR 220 million (40% of 2023 profit)	EUR 500 million (2022-2025)(i)	More than 40% of 2024 profit(i)
ROE a.t. ROE a.t. normalised(ii)	>15% >20%	21% 29%	~ 15% > 20%	~ 14% ~ 20%	~ 15% > 20%
M&A potential				Tactical M&A capacity of > EUR 4 billion RWA	M&A capacity of up to EUR 4 billion RWA

(i) Future capital returns will be revised during the new 2030 strategy process.
(ii) ROE a.t. normalised = result a.t. divided by the average risk-adjusted capital. An average risk-adjusted capital is calculated as a Tier 1 requirement of average RWA reduced by minority shareholder capital contribution.

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In the efforts, sacrifices, successes, and triumphs of athletes ...

Slovenian ski jumping team

It's not just about the jump you make, but the courage to take that leap in the first place.

Sustainability

As a systemically important regional financial institution, NLB Group aims to actively contribute to the sustainable transformation of the economy and society to a more green, just and inclusive future for the present and future generations. Therefore, the Group has placed sustainability matters and ESG factors at the core of its business strategy and business model.

The Group regularly monitors and strengthens the existing mechanisms, control functions, and activities for responsible governance and oversight in sustainability and ESG. A vital governance milestone was the adoption of a comprehensive Sustainability Policy in December 2023, together with the rulebook for harmonised sustainability management across the Group. The policy demonstrates the commitment to our sustainability mission, which is leading by example, improving quality of life, and contributing to a sustainable economy and society across the Group's three sustainability pillars:

Sustainable Operations	Sustainable Finance	Contribution to Society

These pillars define and deliver forward-looking strategic principles, objectives, key targets and KPIs, initiatives, and action plans across the NLB Group.

NLB, as a parent bank in the Group, is a signatory to the UN Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking and Net Zero Banking Alliance. Thereby, The Group members officially endorse the UN Sustainable Development Goals and take decisive actions to address climate-related risks and opportunities and thus contribute to achieving the 2015 Paris Climate Agreement objective to limit global warming to 1.5°C by mid-century compared to the pre-industrial era.

In December 2023, the first NLB Group Net Zero disclosure report was published, reaffirming our commitment to achieving Net-Zero by setting targets for reducing its financed emissions and maintaining a coal exclusion policy. The report provides a comprehensive overview of our efforts and progress towards transitioning the operational and attributable GHG emissions from lending and investment portfolios to align with pathways consistent with achieving net zero by 2050 or sooner.

NLB Group is committed to the highest standards of corporate governance, compliance, and integrity. The Group's fundamental commitment to responsible business conduct is set out in the NLB Group Code of Conduct. At the same time, specific principles are stipulated in several domain-specific internal documents in accordance with developments in the sustainability area. In 2023, the Group put particular emphasis on implementing the Policy on Respect for Human Rights in its business conduct by setting standards for respect for human rights in its operations and expecting the same standard to be ensured by its clients and suppliers.

Overview of sustainability pillars – key achievements

Sustainable Finance

- NLB Group's portfolio decarbonisation strategy focuses on four key sectors: power generation, iron and steel, residential real estate, and commercial real estate, where the Group has significant emissions and exposure and has set NZBA-aligned targets.
- The Group finances its corporate and retail clients in their sustainable transition and actively engages with them to encourage the development of their own net-zero strategies.
- At the end of 2023, the Group's total new production volume of sustainable financing[4] stood at EUR 287 million, of which EUR 198 million was corporate, and EUR 89 million was retail and micro business. Total outstanding volume of corporate sustainable financing stood at EUR 331 million.
- Based on the Net-Zero Strategy and assessed market potential in the region, the Group set a new commitment in December 2023 to allocate EUR 1.9 billion by 2030 to clients in sustainable transition.
- In June 2023, NLB issued its inaugural senior green bonds in a benchmark nominal value size of EUR 500 million. The proceeds shall be used in line with NLB Green Bond Framework which is aligned with ICMA principles. The first annual allocation and impact report is expected to be published in June.
- Throughout 2023, the Group successfully followed its strategic orientations and annual plans in risk management. Among other improvements, ESG risk management was upgraded and further integrated into NLB Group's overall credit-approval process, Environmental and Social Risk Management System (ESMS), collateral evaluation process and related credit portfolio management. Methodologies in credit rating classification and ESG due diligence were improved, within NLB Group's commitment to the strict limitation of new financing of certain activities, the Lending Policy was amended with a new exclusion list.

16.0
Sustainalytics' ESG Risk Rating

4 Green lending classification refers to the internal methodology of NLB Group, which refers to EBRD, MIGA, Green bond and EU taxonomy frameworks (and NZBA in case of retail green lending). If a loan is mapped to either of these frameworks, it is considered as a green loan.

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Sustainable Operations

- At the Group, sustainable operations mean managing our non-financial operations by being an environmentally responsible institution and ensuring sustainable relations with our stakeholders.
- At the end of 2023, the Group's operational carbon footprint decreased by 7.6% in comparison with the end of 2022. The calculation of operational carbon footprint (Scope 1, Scope 2, Scope 3, limited and without category 15) has been in place since 2019, follows the GHG Protocol, and is annually verified by an external independent institution. In line with the Group's climate-neutral commitment, we started the initiative to reach operational net-zero by 2050 or sooner.
- In 2023, the Group made advancements in implementing ESG factors in the procurement process, such as implementing bidders and suppliers due diligence.
- The Group stayed committed to high standards in all aspects of sustainable client relations, including identifying clients' needs and issues, responsible product development and offering, responsible marketing communications, providing the confidentiality and privacy of client data, as well as cyber- and physical security.
- At the Group, sustainable practices and human resource management are strongly interconnected. In addition to adhering to labour-related regulation, the Group invested in employee development, provided a diverse and inclusive workplace environment, motivational and remuneration mechanisms, increased the number of trainings per employee, promoted health, safety, and well-being, improved employee engagement, and received the award Top Employer for the 8th consecutive year.
- Sustainability training for employees in all hierarchical levels was provided to enhance and further develop their capacity and skills. In total, employees did 7,572 total hours of sustainability-related training, in particular to enhance awareness of ESG risks and their appropriate treatment, as well as to strengthen the employees' client engagement capacity and practices to support the Net-Zero Strategy.
- Two major initiatives were completed further to enhance the sustainable culture among employees in 2023. The renewed e-training on sustainability was launched across the Group in September and completed by all employees. The Group-wide awareness-building Sustainability Festival was executed in October, which actively engaged more than 1,000 employees in several sustainability activities.

Contribution to Society

- The Group actively contributes towards more comprehensive socio-economic development through our corporate social responsibility activities with an overarching focus on education in the communities where it operates.
- In 2023, NLB Group continued to manage CSR activities in such way that each of them contributes to at least one UN SDG[5].
- Among several other initiatives in 2023, the Group also focused on increasing financial and digital literacy and financial inclusion, especially among young people and the elderly. More information is available in the chapter Corporate Social Responsibility.

Outlook

The Group recognises sustainability, particularly climate change, as one of modern society's most significant challenges. The call to drastically change how companies, governments, and individuals – consumers – address sustainability is expected to be intensified in 2024 and onwards. To further improve its environmental and social impacts and maintain high corporate governance standards, the Group will continue to implement initiatives and activities across all three sustainability pillars in accordance with the annual action plans. The main priorities in 2024 are as follows:

- Fortify the implementation of the UN Principles for responsible banking in our business model and upgrade targets in our priority impact areas.
- Further developing and implementing a comprehensive NLB Group climate strategy, including pathways to decarbonise the Group's portfolio and operations by 2050.
- Financing the green transition of the Group corporate and retail clients in line with our net-zero commitment by providing them with sustainable banking, leasing and asset management products.
- Implementing the newly introduced sustainability-related governance framework across the NLB Group.
- Providing CSRD readiness and aligning sustainability disclosures with the forthcoming new directive and European Sustainability Reporting standards ESRS by conducting the new double materiality analysis and further improving and automating the data collecting process. In addition, we will keep integrating other relevant reporting frameworks, such as IFRS S1/S2 (where TCFD was transposed at the end of 2023) and keep following the implications of the Taskforce on Nature-related Financial Disclosures (TNFD) proposal.
- Identifying and mitigating ESG risks and pursuing opportunities stemming from lending or investment portfolios and business relations with key stakeholders, while following ECB and EBA guidelines. .
- Further commitment to building sustainability-related awareness, culture, and capacity in all NLB Group members.
- Exploring possibilities to influence and further strengthen the Group's value chain in terms of sustainable practices.

NLB Group's overall ESG Risk score improved by 1.7 points. This represents low risk and ranks the Group among the top 13 percent of all banks assessed with Sustainalytics

Despite its clear ambition and action to mitigate sustainability risks, the finance sector's role, including the Group, has its limitations. Climate action, as well as positive changes in business and society, necessitate collective efforts. It is imperative for the clients to also take action, while governments should provide the necessary guidance and direction, regulatory environment through dedicated policies to achieve net-zero goals by 2050. Therefore, the NLB Group will continue to engage

5 For a full list of the 17 Goals of the United Nations Sustainable Development, see the UN website.

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stakeholders, build partnerships, and contribute to discussions on further improving sustainability-related regulations and supportive environment.

This section summarises the NLB Group's results and key initiatives in each sustainability pillar For more information, please refer to the NLB Group Sustainability Report 2023.

Corporate Social Responsibility

The Group remains determined to create more sustainable footprints in its home region. The main pillars stay the same, with some awe-inspiring projects. More information is also available in NLB Group Sustainability Report 2023.

Education, financial literacy, and mentoring

In 2023, Bankarium, the pioneering Slovenian Banking Museum founded by NLB in 2021, welcomed 3,854 visitors. Beyond its role as a museum, Bankarium stands as a financial literacy centre, guiding visitors through six stages of personal finance management with interactive digital games, quizzes, and educational resources. It is widely accepted and enjoyed by school groups, through which the Group significantly contributes to knowledge transfer for future generations.

NLB Banka, Podgorica extended its outreach in Montenegro, hosting financial literacy programs in seven schools and facilitating dialogues with youths in four cities. Young people discussed various aspects, from banking to social entrepreneurial initiatives to financial management.

Culture and protection of cultural heritage

The Bank is a great patron of developing Slovenian art and culture. As a responsible owner of an extensive collection of 20th-century art heritage, the Bank exhibits works internationally. The Group launched a new NLB Group Art Programme for visual arts, aiming to support contemporary art in SEE, including investing in acquisitions and commissions of works of art and art projects and design a new art collection called "SEE ART."

Responsibility to the environment

To be responsible for the environment is to care for nature. In response to the degradation of a section of the southern *Trnovski gozd*, a forest located near Nova Gorica, Slovenia, due to recent natural disasters, the Bank's employees planted 2,500 seedlings across approximately one hectare to aid regeneration efforts. Similarly, NLB Banka Banja Luka organised a tree-planting initiative with colleagues from the Bijeljina branch and local partners to prevent soil erosion in flood-prone areas.

By supporting Slovenian beekeeping, which is among the best in the world, NLB endorses the preservation of a rich cultural heritage and the protection of the environment. On the 150th anniversary of the Slovenian Beekeeping Association, NLB enabled the organisation of the 2023 International Young Beekeepers Competition, which took place in Slovenia in the summer. The first competition of this kind in Slovenia was attended by over 150 participants from 30 countries across the globe, marking a significant milestone for Slovenian beekeeping.

Sustainable entrepreneurship

The goal of several "Women in Adria" events that were organised by NLB Banka, Banja Luka throughout Bosnia and Herzegovina was to bring together women managers and women entrepreneurs with the aim of networking and sharing experiences. Through inspiring stories, the goal was to empower each other and point out the positive sides of female togetherness.

NLB Komercijalna Banka organised a traditional Organic contest to encourage organic agriculture in Serbia. This year, 50 innovative projects have applied to the 12th NLB Organic, and the best four have been rewarded with RSD 2.5 million. In addition to the award for the best project in organic agriculture, new categories were women, youths under 40, and the service industry that offers at least one organic product from Serbia.

Supporting youth, female, and disabled sports

NLB takes great pride in its long-standing NLB Youth Sports project in Slovenia. In 2023, the project reached its ninth year, supporting a remarkable 66 sports clubs and 10,000 children. NLB Group's commitment extends beyond Slovenia, as the Bank actively supports youth sports in other markets, with over 2,000 children participating across the Group's region.

Furthermore, NLB Group demonstrates its dedication to inclusivity through the NLB Wheel project, donating two sports wheelchairs specifically for disabled basketball players and giving ongoing support to KHF Istog, one of Kosovo's most successful women's handball clubs.

Philanthropy

NLB Group made a substantial donation totalling EUR 1.35 million across all markets of operations in the home region. Employees proposed and selected recipients for the donation. In response to devastating floods in Slovenia, the Bank donated EUR 9.5 million to help the most affected citizens and municipalities.

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Overview of Financial Performance

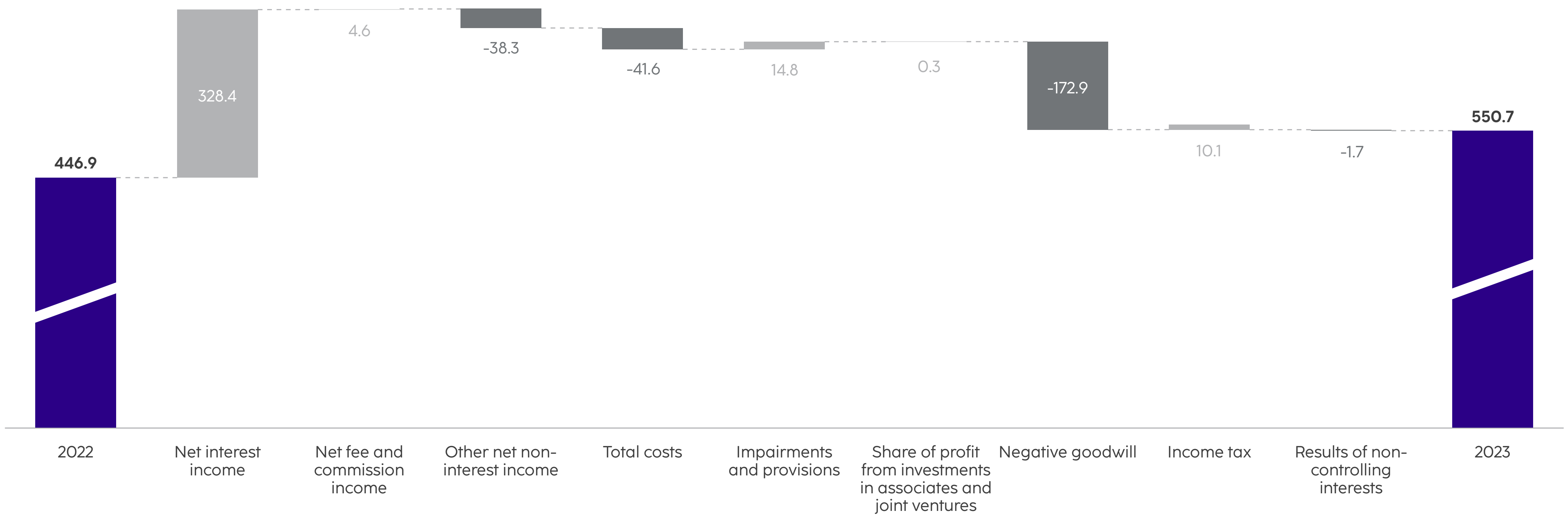
The Group posted a profit after tax of EUR 550.7 million, surpassing the previous year by a remarkable EUR 103.8 million, representing a 23% YoY increase. It is important to highlight that the 2023 result was positively impacted by the booking of deferred tax assets (EUR 61.9 million), and the 2022 result by the negative goodwill from the acquisition of N Banka (EUR 172.8 million).

The following key drivers influenced the Group's performance:

- Despite the challenging rising interest rate environment, the Group experienced a YoY increase of EUR 666.2 million in gross loans to customers, of which EUR 491.9 million went to individuals.
- More attractive pricing, especially for term deposits, caused a EUR 705.0 million increase in the deposit base YoY, of which EUR 511.6 million from individuals and EUR 293.7 million from corporates. A total EUR 100.2 million decrease in the state deposit reflected the high price elasticity of the deposits of the certain large clients in Slovenia.
- A significant 65% YoY increase in net interest income was driven by healthy loan demand and the effects of higher interest rates on loans and central bank balances. The deposit beta (the cumulative change of the average customer deposit interest rate compared with the cumulative change of the average ECB deposit facility rate) in the respective period was 8% on the Group level. Consequently, the annual net interest margin improved by 1.21 p.p. YoY to 3.50%.
- Net fee and commission income benefitted from the favourable impact of economic activity and an upswing in consumer spending across all banking members. Additionally, increased activity in investment funds, bancassurance, and guarantee business contributed

EUR 1,093.3 million
of total net operating income

Figure 12: Profit after tax of NLB Group – evolution YoY (in EUR millions)



EUR 550.7 million

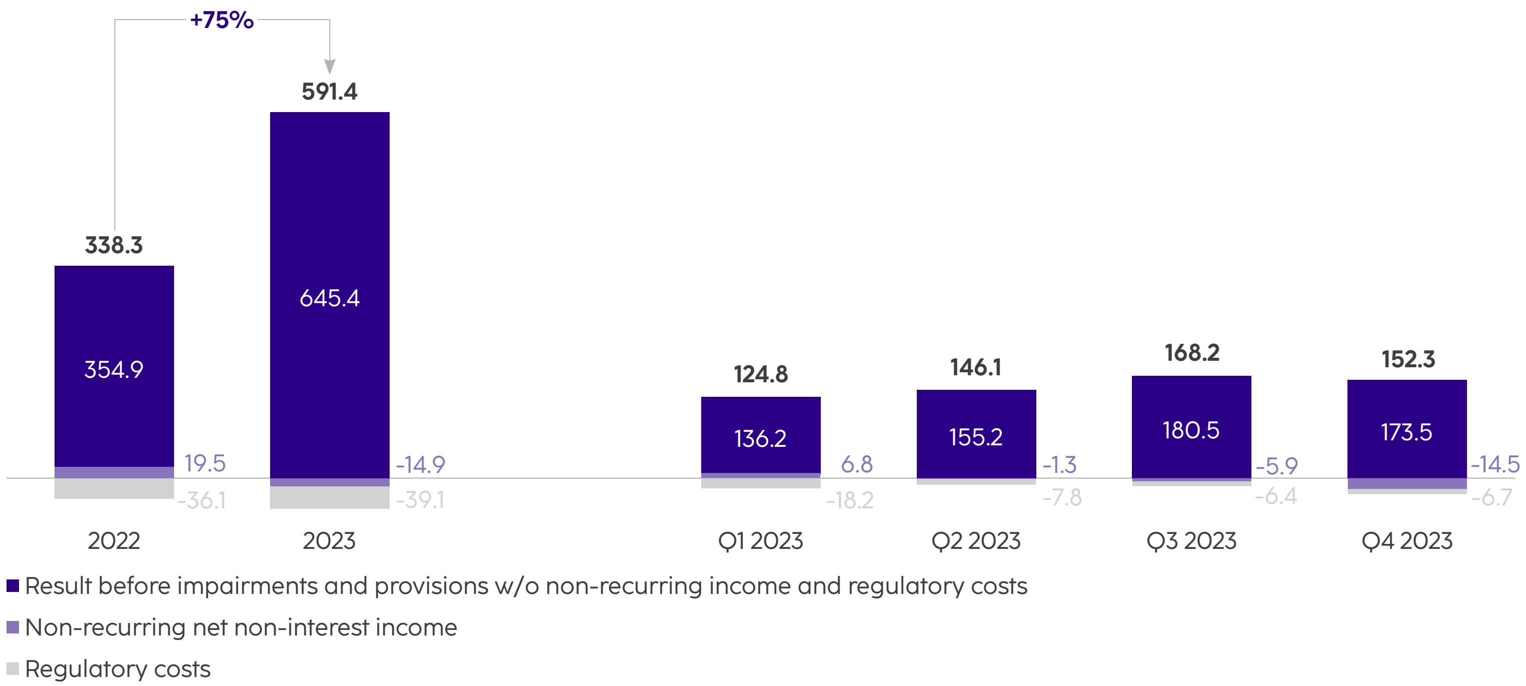
of net profit

positively to fees. The effects of cancelling the high balance deposit fee in the Bank and implementing temporary measures, particularly in Serbia, were therefore effectively mitigated and resulted in a moderate 2% increase of net fee and commission income YoY.

- NLB donated a total amount of EUR 11.5 million, of which EUR 9.0 million was a direct voluntary contribution to the budget and municipalities for flood recovery in Slovenia, the rest being discretionary support payments.
- Total costs witnessed an uptick of EUR 41.6 million or 9% YoY owing to several factors, namely, general inflationary trends within the region, investments into technology enhancements across the Group, the expansion of the leasing and asset management activities, the intensive integration process in Slovenia (EUR 9.2 million of integration costs in 2023), and costs related to the new acquisition.
- The Group net released EUR 11.8 million in impairments and provisions for credit risk, attributed to material repayments of previously written-off receivables and changes in the model, despite new establishments from portfolio development in loans to individuals. Consequently, the cost of risk was negative at -7 bps.
- Other impairments and provisions were net established in the amount of EUR 25.9 million, mainly due to pending fee repayments in the Slovenian banks, HR restructuring provisions in the Bank, and legal provisions.
- Based on substantially increased profit projections for the upcoming five years (2024 onwards) and the higher corporate income tax rate (nominal rates increased from 19% to 22%), the Bank increased the recognised part of the deferred tax assets by EUR 61.9 million (EUR 48.4 million recognised income due to profit projections and EUR 13.5 million due to increase of tax rate). The unrecognised deferred tax assets amount to EUR 127.7 million. Additionally, the deferred tax liability for withholding tax on dividends, which are projected to be paid in the foreseeable future in the amount of EUR 9.6 million, was recorded on NLB Group.
- Enhanced financial performance resulted in ROE a.t. at 21.0%, which was 8.8 p.p. higher YoY (compared to 12.2% in 2022 without the inclusion of negative goodwill).
- A sound financial position was confirmed by a robust Total Capital Ratio (TCR) of 20.3%, which improved by 1 p.p. YoY primarily due to the partial inclusion of 2023 result.
- The multi-year declining trend of the non-performing credit portfolio stock continued, mostly due to repayments, cured clients, and collection. The combination of successful resolution of NPL and credit growth of a high-quality portfolio resulted in the decrease of gross NPL ratio (EBA def.) from 2.4% to 2.1% YoY, and the NPE ratio (EBA def.) by 0.2 p.p. YoY to 1.1%.
- Unencumbered liquidity reserves portfolio amounted to EUR 10,207.1 million (39.6% of total assets).

Recurring profit before impairments and provisions of the Group, totalling EUR 606.3 million, was exceptional in 2023, with EUR 287.6 million or 90% higher YoY. In Q1 2023, the result before impairments and provisions was affected by the accrual of a one-time yearly payment of regulatory costs in Slovenian banks (EUR 2.9 million Single Resolution Fund (SRF) and EUR 8.6 million Deposit Guarantee Scheme (DGS)), in Q3 by EUR 4.0 million in donations to 20 municipalities affected by the floods in Slovenia, in Q4 by EUR 5.0 million in additional donations for the post-flood reconstruction effort, and a EUR 15.3 million modification loss due to interest rate regulation on housing loans in NLB Komercijalna Banka, Beograd.

Figure 13: Result before impairments and provisions of NLB Group (in EUR millions)



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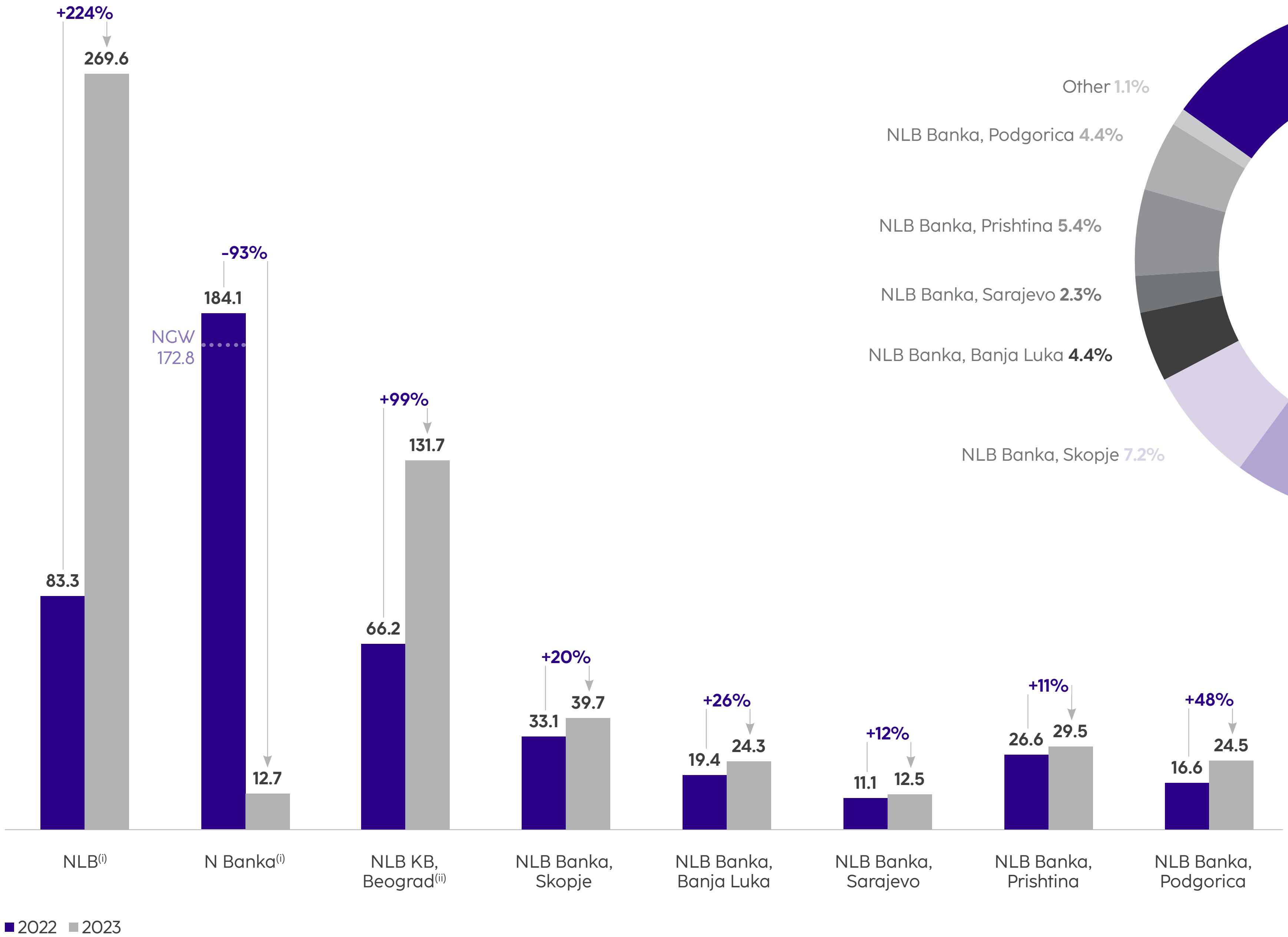
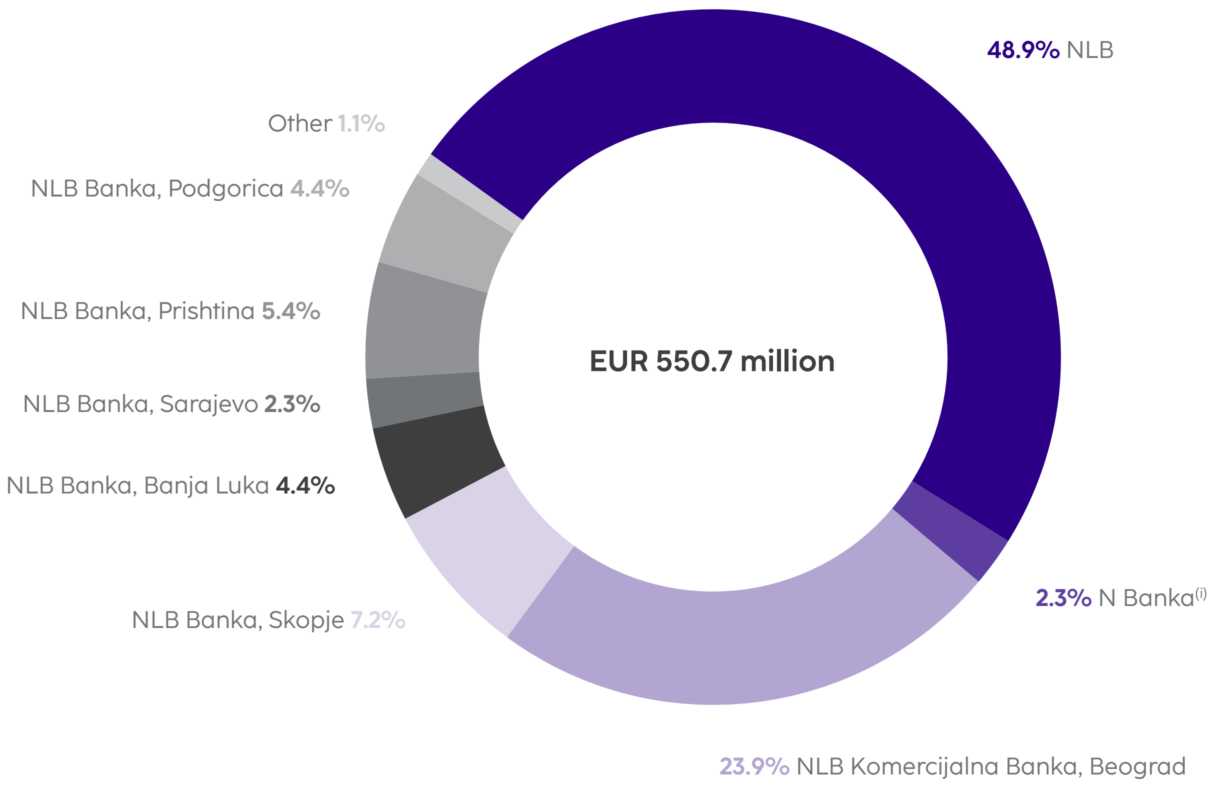
All banks recorded a profit on a standalone basis and positively contributed to the Group's result. The largest contribution of EUR 269.6 million came from NLB, followed by NLB Komercijalna Banka, Beograd, with EUR 131.7 million. The YoY contribution of NLB was notably higher due to elevated net interest income and net released impairment and provisions. The SEE banks contributed 44% to the Group result with growth achieved in all banks. For more information on banks' operations, see the chapters NLB, Ljubljana and Strategic Foreign Markets.

Figure 14: Contribution to Profit after tax by bank member (in EUR millions)





(i) Merger of NLB and N Banka on 1 September 2023.
(ii) Merger of NLB Komercijalna Banka, Beograd and NLB Banka, Beograd on 30 April 2022. The profit of NLB Komercijalna Banka, Beograd in 2022 also includes the profit of NLB Banka, Beograd (EUR 2.2 million).

Income statement

Table 11: Income statement of NLB Group

in EUR millions

	2023	2022	Change YoY		Q4 2023	Q3 2023	Q2 2023	Q1 2023	Change QoQ	
Net interest income	833.3	504.9	328.4	65%	231.9	221.5	201.0	179.0	10.4	5%
Net fee and commission income	278.0	273.4	4.6	2%	72.4	70.9	68.5	66.1	1.4	2%
Dividend income	0.2	0.2	-0.1	-30%	0.0	0.1	0.0	0.0	0.0	-68%
Net income from financial transactions	17.3	36.6	-19.3	-53%	-2.3	4.7	6.0	8.9	-7.0	-
Net other income	-35.4	-16.6	-18.9	-114%	-9.5	-8.0	-5.8	-12.1	-1.5	-18%
Net non-interest income	260.0	293.6	-33.7	-11%	60.6	67.7	68.7	63.0	-7.1	-10%
Total net operating income	**1,093.3**	**798.5**	**294.7**	**37%**	**292.5**	**289.2**	**269.7**	**241.9**	**3.3**	**1%**
Employee costs	-282.2	-257.7	-24.5	-10%	-74.7	-70.0	-70.6	-66.8	-4.7	-7%
Other general and administrative expenses	-170.5	-155.2	-15.2	-10%	-51.8	-38.8	-41.1	-38.7	-12.9	-33%
Depreciation and amortisation	-49.2	-47.4	-1.8	-4%	-13.7	-12.0	-11.8	-11.7	-1.7	-14%
Total costs	-501.9	-460.3	-41.6	-9%	-140.2	-120.9	-123.6	-117.1	-19.3	-16%
Result before impairments and provisions	**591.4**	**338.3**	**253.2**	**75%**	**152.3**	**168.2**	**146.1**	**124.8**	**-15.9**	**-9%**
Impairments and provisions for credit risk	11.8	-17.5	29.3	-	-15.0	-3.1	11.5	18.4	-11.8	-
Other impairments and provisions	-25.9	-11.4	-14.5	-128%	-13.0	-0.7	-6.2	-6.0	-12.4	-
Impairments and provisions	-14.1	-28.9	14.8	51%	-28.0	-3.8	5.4	12.4	-24.2	-
Share of profit from investments in associates and joint ventures	1.1	0.8	0.3	37%	-0.2	0.7	0.3	0.3	-1.0	-
Negative goodwill	0.0	172.9	-172.9	-	0.0	0.0	0.0	0.0	0.0	-
Result before tax	**578.4**	**483.1**	**95.3**	**20%**	**124.0**	**165.1**	**151.8**	**137.5**	**-41.1**	**-25%**
Income tax	-15.1	-25.2	10.1	40%	42.8	-18.0	-25.9	-13.9	60.8	-
Result of non-controlling interests	12.6	11.0	1.7	15%	3.0	2.8	3.3	3.4	0.2	7%
Result after tax	**550.7**	**446.9**	**103.8**	**23%**	**163.8**	**144.2**	**122.6**	**120.1**	**19.5**	**14%**

Net interest income

The Group's net interest income constituted 76% of the Group's total net revenues (2022: 63%) and reached EUR 833.3 million.

A significant increase in the net interest income was recorded in all Group banking members, supported by loan volume growth from healthy demand for loans coupled with prevailing higher interest rates. The growth mainly came from loans to customers, with EUR 253.7 million (EUR 98.3 million allocated to individuals and EUR 155.4 million to corporate and state), and balances at banks and central banks amounting to EUR 127.7 million. At the same time, interest expenses increased due to higher expenses incurred from wholesale funding raised for the minimum requirement for own funds and eligible liabilities (MREL) and capital requirement, as well as higher expenses for customer deposits.

Profitability protection is one of the NLB Group's priorities. Net interest income sensitivity, simulated by 100 bps immediate parallel downward shift in interest rates, yields a net interest income sensitivity of EUR -101 million, mostly driven by the cash and Euribor rate positions. Focus on stabilising net interest income includes on-going increased fixed interest rate loan production, active management of funding mix, liabilities hedging activities, and increasing duration of BB securities portfolio.

Funding cost grew at much lower pace than interest rates on assets and consequently, the Group's annual net interest margin was improved by 1.21 p.p. to 3.50% in 2023. The annual operational business margin was 4.75%, 1.19 p.p. higher YoY, mainly due to the net interest income growth.

Figure 15: Net interest income of NLB Group (in EUR millions)

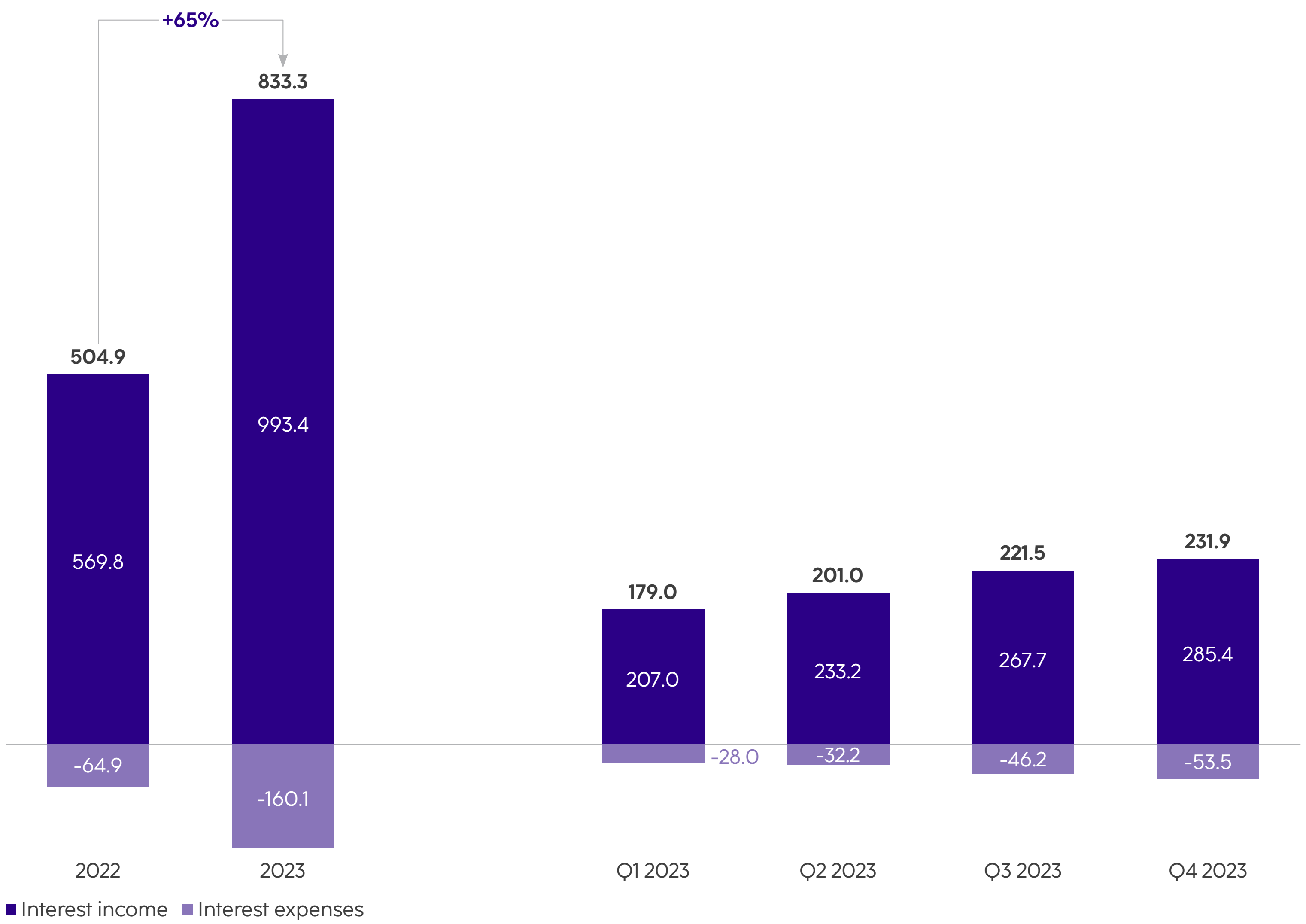
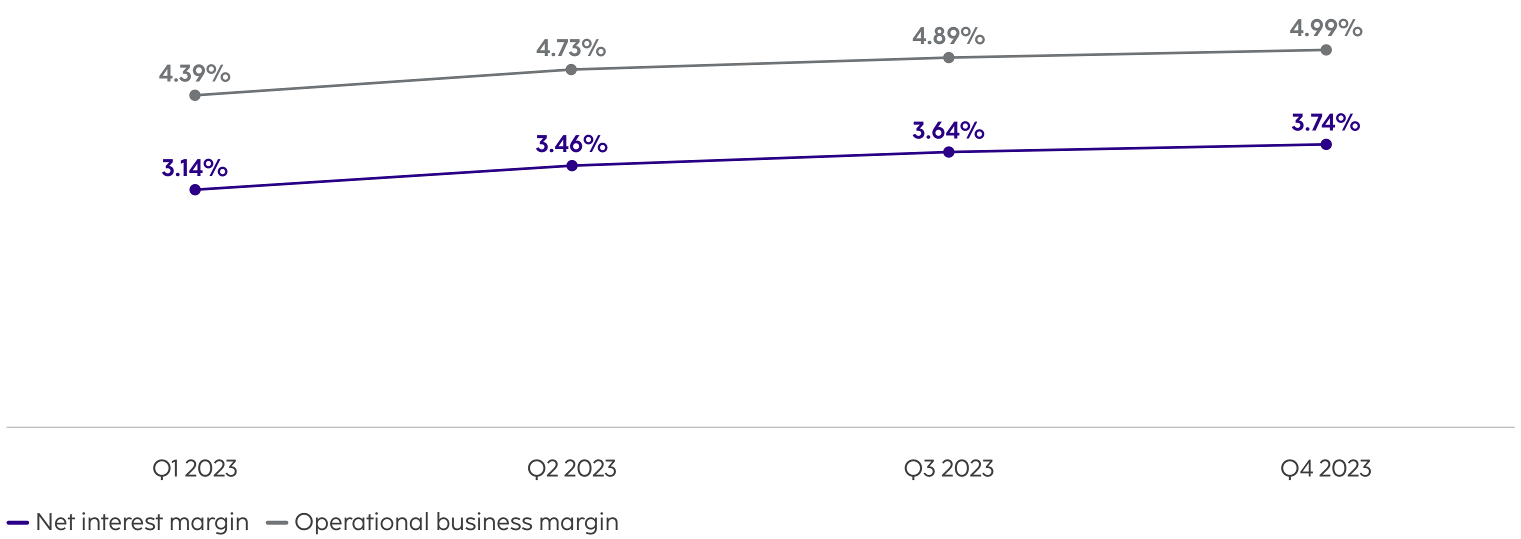


Figure 16: Net interest margin and operational business margin of NLB Group(i) (quarterly data)



(i) Calculated based on average interest-bearing assets.

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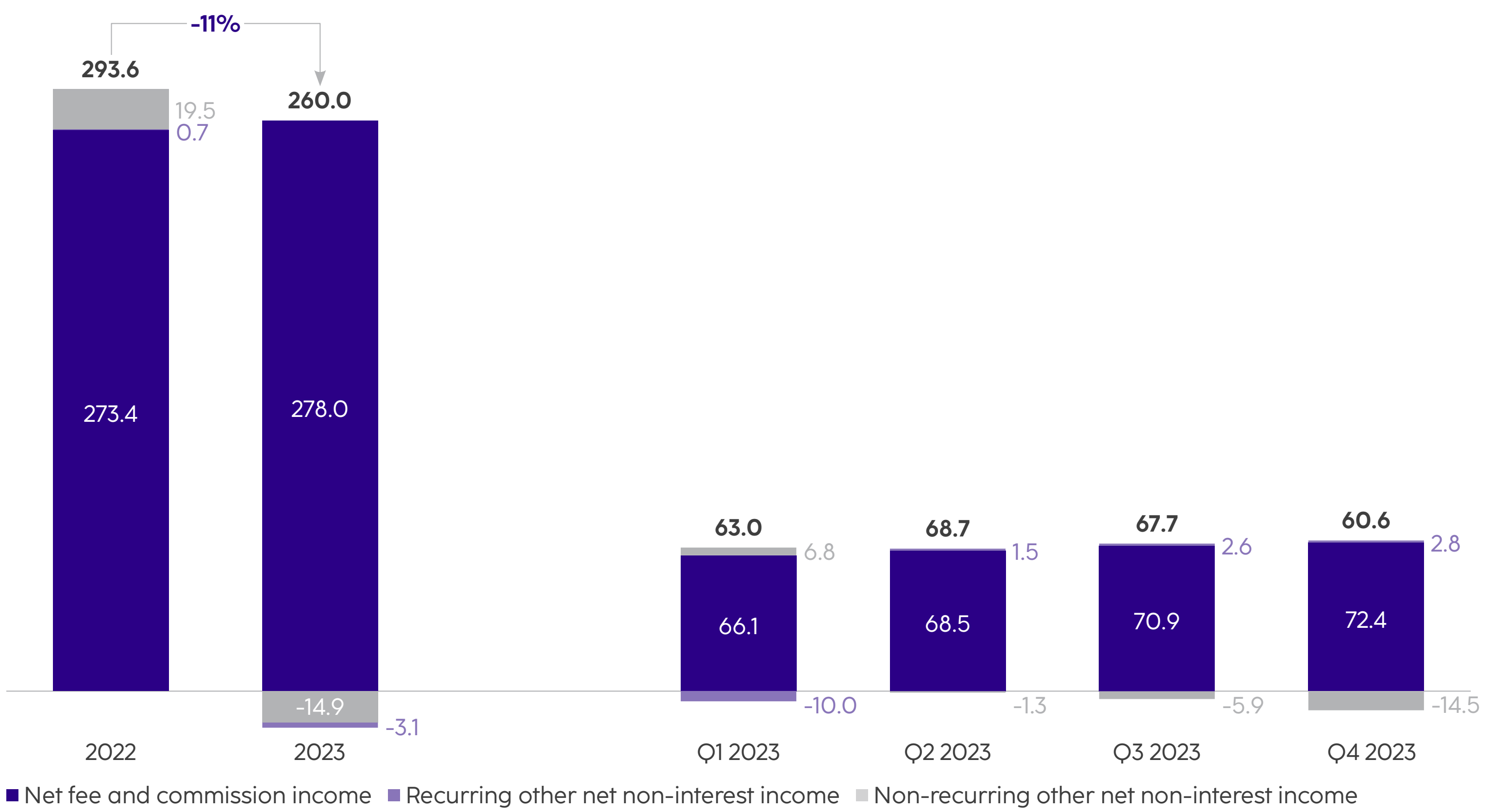
Net non-interest income

The overall YoY decrease in the net non-interest income derives from the negative impact from non-recurring income. In Q1, the gain of EUR 4.2 million was realised from the sale of real estate in Serbia, and in Q3, EUR 4.0 million in donations were paid to 20 municipalities affected by the floods in Slovenia. In Q4, there were EUR 5.0 million additional donations paid for the post-flood reconstruction effort, and a EUR 15.3 million modification loss was recorded for interest rate regulation on housing loans in NLB Komercijalna Banka, Beograd. Additionally, regulatory charges were also higher by EUR 2.9 million YoY due to higher deposit base, mostly occurring in Q1 due to accrual of one-off expenses in Slovenia.

Despite a decline in the net non-interest income, the net fee and commission income – a significant part of it – recorded modest growth. The negative effects of the cancellation of the high balance deposit fee in the Bank and temporary measures for consumer protection, particularly in Serbia, were effectively mitigated with the positive impact of increased economic activity and consumption, leading to higher fees across all banking members. Additional positive influence on fees came from the increased performance of investment funds, bancassurance, and guarantee business.

Figure 17: Net non-interest income of NLB Group (in EUR millions)



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Total costs

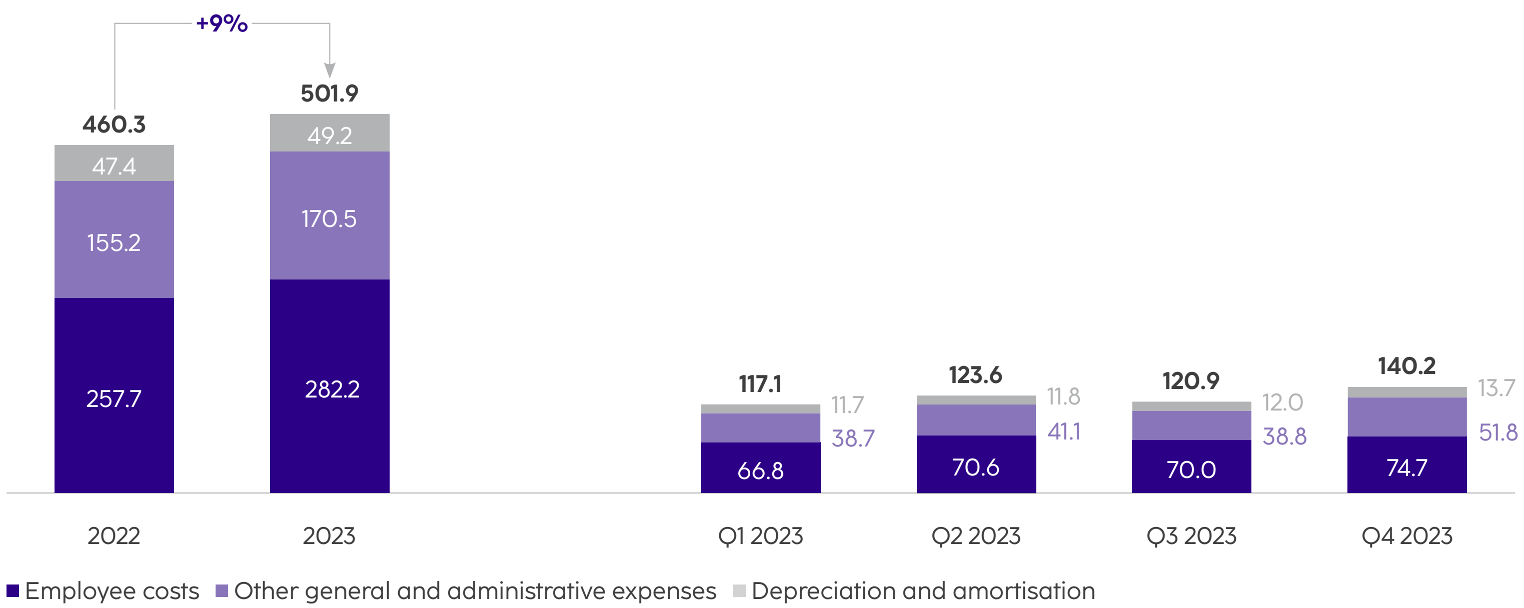
Total costs amounted to EUR 501.9 million and were 9% higher than the previous year. The increase was observed in all banks of the NLB Group, and was primarily driven by a EUR 24.5 million rise in employee costs and a EUR 15.2 million increase in other general and administrative expenses. The escalation in depreciation and amortisation resulted from higher investment activity in the last quarter.

The growth of the other general and administrative expenses can be attributed to the general inflationary trends within the region, investments into technology enhancements across the Group, growth of the leasing and asset management activities, the intensive integration process in Slovenia (EUR 9.2 million integration costs in 2023), and costs related to new acquisition. The Group is undertaking several initiatives (some of them are channel strategy, digitalisation, going paperless, instituting a lean process, and branch network optimisation) to keep costs low. In Q3, some cost optimisation and HR synergies related to the merger of NLB and N Banka were observed. However, owing to prevailing circumstances and current economic situation, characterised by significant inflationary pressures across all cost categories, many of the successful efficiency measures across the Group were nullified.

The costs were increasing throughout the year, with a higher share occurring in the last quarter (28% of total costs, the same as in the previous year) due to year-end employee payments and higher IT and marketing costs (sponsorships).

CIR stood at 45.9%, representing a significant 11.7 p.p. improvement YoY, driven by strong net operating income growth that outpaced the increase in total costs.

Figure 18: Total costs of NLB Group (in EUR millions)



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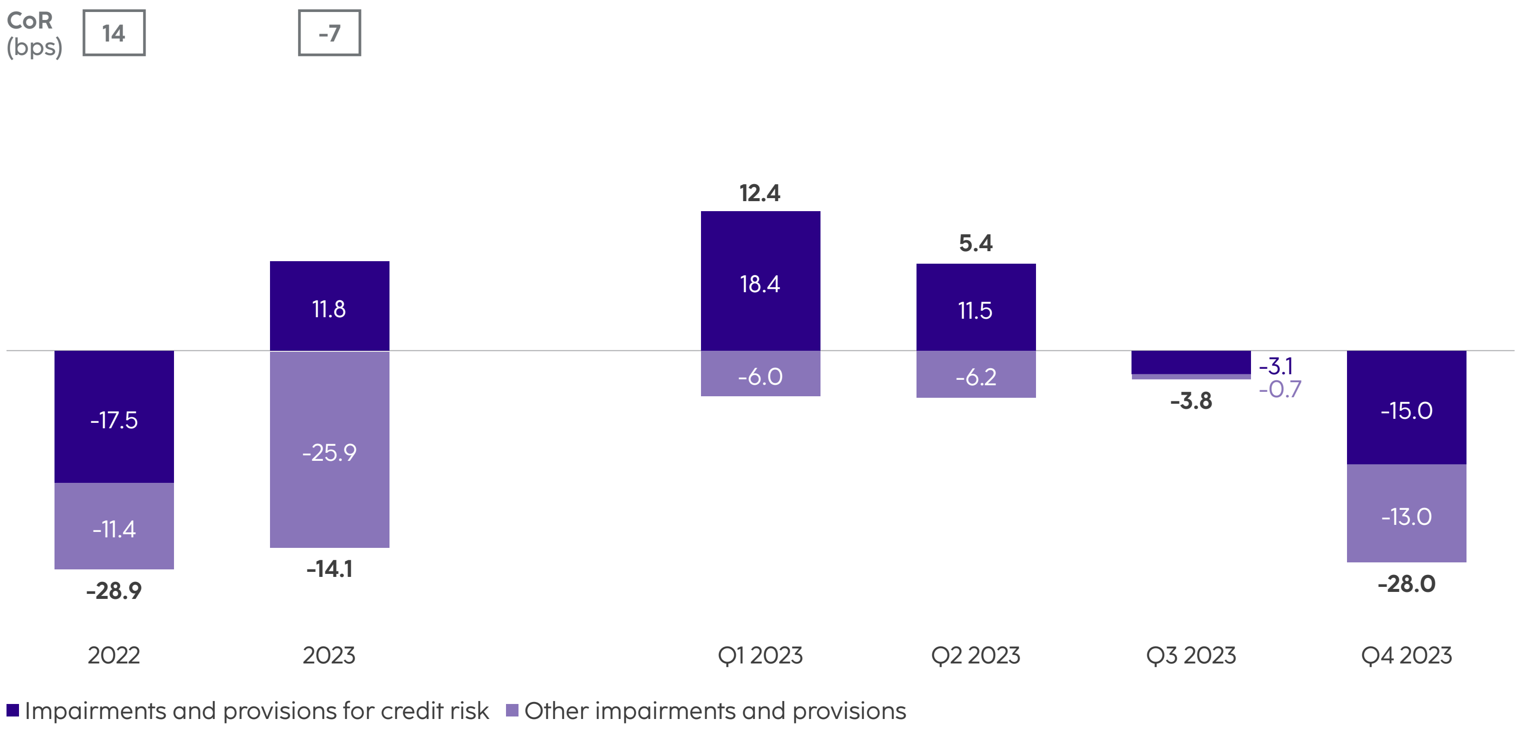
Impairments and provisions

The Group released net impairments and provisions for credit risk in the amount of EUR 11.8 million. The established impairments derived from portfolio development, from new financing and minor portfolio deterioration. In contrast, material repayments of written-off receivables and changes in models contributed to lower total impact and negative cost of risk in the financial year.

Other impairments and provisions were net established in the amount of EUR 25.9 million, mainly due to pending fee repayments in the Slovenian banks and HR restructuring provisions in the Bank.

Figure 19: Impairments and provisions of NLB Group (in EUR millions)



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Corporate income tax and deferred taxes of NLB, Ljubljana

The effective tax rate in 2023 was significantly influenced by several non-recurring items, with the most material impact coming from the increase of deferred tax assets. Based on a highly successful year in 2023 and increased profit projections for the upcoming five years (from 2024 onwards), NLB increased recognised deferred tax assets of EUR 56.7 million in 2023 (EUR 48.4 million recognised in income statement and EUR 8.3 million in other comprehensive income). Deferred taxes were additionally increased for EUR 14.9 million due to a higher corporate income tax rate in the next five years (2024 to 2028), namely EUR 13.5 million income recognised in income statement and EUR 1.4 million in other comprehensive income.

The other factor influencing the effective tax rate of NLB was the non-taxable income, consisting mostly of received dividends and the release of impairments of equity investments in subsidiary banks. In addition, tax losses carry-forward decreased 50% of the taxable base.

The effective tax rate of NLB, excluding deferred tax assets revaluation, non-taxable dividends, and non-taxable reversal of equity investments, amounts to 11% at NLB d.d., on group level 12% (excluding also non-taxable interest from state bonds, according to the local tax legislations). Including voluntary contributions paid in Slovenia to Republic of Slovenia and Slovene municipalities the equivalent rate amounts to 14%.

Based on the Reconstruction, Development and Provision of Financial Resources Act, the tax on balance sheet was introduced for the years 2024-2028 (yearly tax liability is estimated to amount to more than EUR 30 million), and the tax rate for corporate income tax was increased from 19% to 22% for the years 2024 to 2028. From 2024 on, when these two changes will come into effect, the overall contribution rate will be substantially higher and is expected to be slightly less than 20% on NLB Group level until 2028. When both changes expire, and when NLB's tax loss carry forward will be utilised, we expect a regular effective tax/contribution rate of around 15%.

The Minimum Tax Act was adopted in Slovenia in December 2023 based on OECD Pillar 2 Model Rules and related EU Directive. It is expected that the parent company NLB will be liable to pay the top-up tax concerning subsidiaries in non-EU jurisdictions that have a statutory tax rate below 15%. Based on the first estimates for the year 2024, we expect that the tax liability shall not be material.

Table 12: Effective tax and contribution rates

in EUR millions

	NLB	NLB Group
Profit before tax	**479**	**578**
Non-taxable income	**−236**	**0**
Non-taxable dividends received	−138	0
Non-taxable reversal of equity investments	−98	0
Non-taxable interest from state bonds	0	−40
Taxable income	**243**	**538**
Adjustments	−145	−232
Utilization of tax loss carry forward	−115	−117
Other adjustments(i)	−30	−115
Tax base	**98**	**306**
Corporate income tax (at 19%)	**18**	**58**
Withholding tax (mainly dividends) & other	8	8
Recognition and increase of DTAs	−62	−62
Non-recognised deferred tax assets on current loss and other	0	11
Total tax	**−36**	**15**
Regular tax payable (corporate income tax and withholding tax)	**26**	**66**
Effective tax rate for regular tax	**11%**	**12%**
Donations to state and municipalities	9	9
Contribution (regular tax and donations)	**35**	**75**
Overall contribution rate	**14%**	**14%**

(i) Effect of different tax rates in other countries is included in other adjustments.

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Statement of financial position

Table 13: Statement of financial position of NLB Group

in EUR millions

	31 Dec 2023	31 Dec 2022	Change YoY		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
ASSETS								
Cash, cash balances at central banks, and other demand deposits at banks	6,103.6	5,271.4	832.2	16%	6,103.6	5,815.7	5,760.4	5,304.3
Loans to banks	547.6	223.0	324.7	146%	547.6	518.6	304.7	329.1
Net loans to customers	13,734.6	13,073.0	661.6	5%	13,734.6	13,666.1	13,431.8	13,137.7
Gross loans to customers	14,063.6	13,397.3	666.2	5%	14,063.6	13,990.2	13,747.3	13,455.0
- Corporate	6,437.8	6,345.7	92.1	1%	6,437.8	6,526.0	6,454.4	6,269.3
- Individuals	7,235.3	6,743.4	491.9	7%	7,235.3	7,107.2	6,945.8	6,850.7
- State	390.4	308.2	82.3	27%	390.4	357.1	347.1	335.0
Impairments and valuation of loans to customers	−329.0	−324.4	−4.6	−1%	−329.0	−324.2	−315.5	−317.3
Financial assets	4,803.7	4,877.4	−73.8	−2%	4,803.7	4,653.1	4,553.7	4,582.5
- Trading book	15.8	21.6	−5.8	−27%	15.8	25.0	21.1	19.3
- Non-trading book	4,787.9	4,855.8	−68.0	−1%	4,787.9	4,628.1	4,532.6	4,563.3
Investments in subsidiaries, associates, and joint ventures	12.5	11.7	0.8	7%	12.5	13.0	12.3	12.0
Property and equipment	278.0	251.3	26.7	11%	278.0	257.1	254.3	252.1
Investment property	31.1	35.6	−4.5	−13%	31.1	33.1	34.5	35.3
Intangible assets	62.1	58.2	3.9	7%	62.1	55.4	56.1	56.9
Other assets	368.7	358.6	10.1	3%	368.7	266.0	293.6	301.9
TOTAL ASSETS	**25,942.0**	**24,160.2**	**1,781.7**	**7%**	**25,942.0**	**25,278.0**	**24,701.5**	**24,011.8**
LIABILITIES								
Deposits from customers	20,732.7	20,027.7	705.0	4%	20,732.7	20,289.1	19,924.9	19,732.0
- Corporate	5,859.2	5,565.6	293.7	5%	5,859.2	5,676.8	5,363.7	5,331.8
- Individuals	14,460.3	13,948.7	511.6	4%	14,460.3	14,156.7	14,168.6	13,951.7
- State	413.2	513.4	−100.2	−20%	413.2	455.7	392.5	448.5
Deposits from banks and central banks	95.3	106.4	−11.1	−10%	95.3	127.2	107.4	107.4
Borrowings	240.1	281.1	−41.0	−15%	240.1	221.0	220.0	279.9
Subordinated debt securities	509.4	508.8	0.6	0%	509.4	529.0	520.0	513.2
Other debt securities in issue	828.8	307.2	521.6	170%	828.8	810.0	814.5	311.7
Other liabilities	587.6	506.7	80.9	16%	587.6	504.9	469.3	499.6
Equity	2,882.9	2,365.6	517.3	22%	2,882.9	2,734.9	2,586.1	2,507.6
Non-controlling interests	65.1	56.7	8.4	15%	65.1	61.9	59.2	60.3
TOTAL LIABILITIES AND EQUITY	**25,942.0**	**24,160.2**	**1,781.7**	**7%**	**25,942.0**	**25,278.0**	**24,701.5**	**24,011.8**

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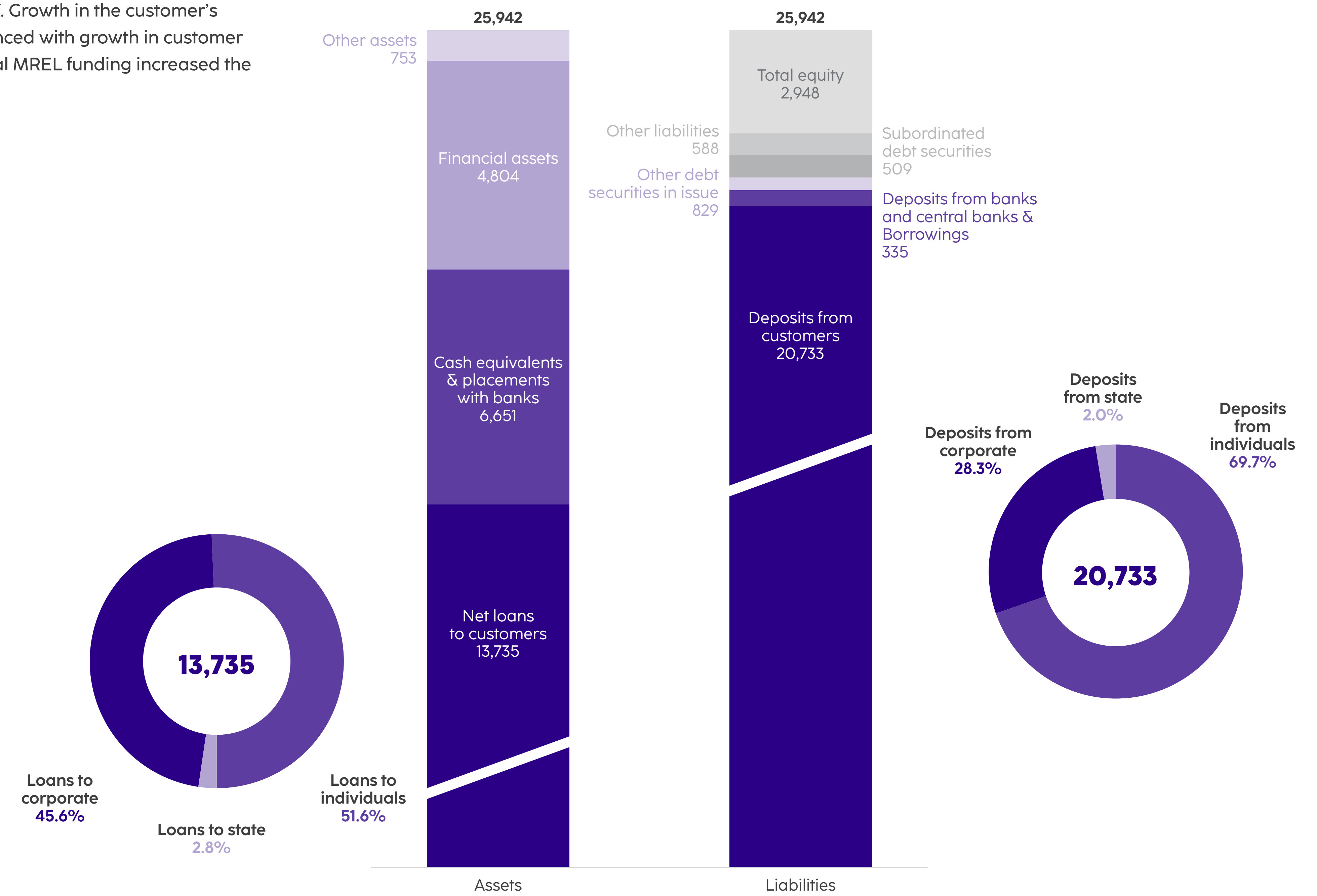
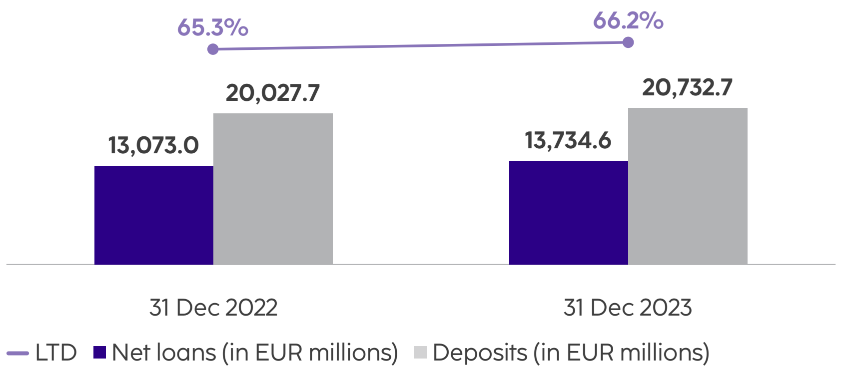
The balance sheet volume of the Group totalled EUR 25,942.0 million at the end of the year and increased by EUR 1,781.7 million YoY. Growth in the customer's loan book was fully financed with growth in customer deposits, while additional MREL funding increased the liquidity reserves.

Figure 20: Balance sheet structure of NLB Group on 31 December 2023 (in EUR millions)



The LTD ratio (net) was 66.2% at the Group level; a 1.0 p.p. YoY increase resulted from higher relative increase of gross loans compared to deposits.

Figure 21: NLB Group's LTD ratio movement



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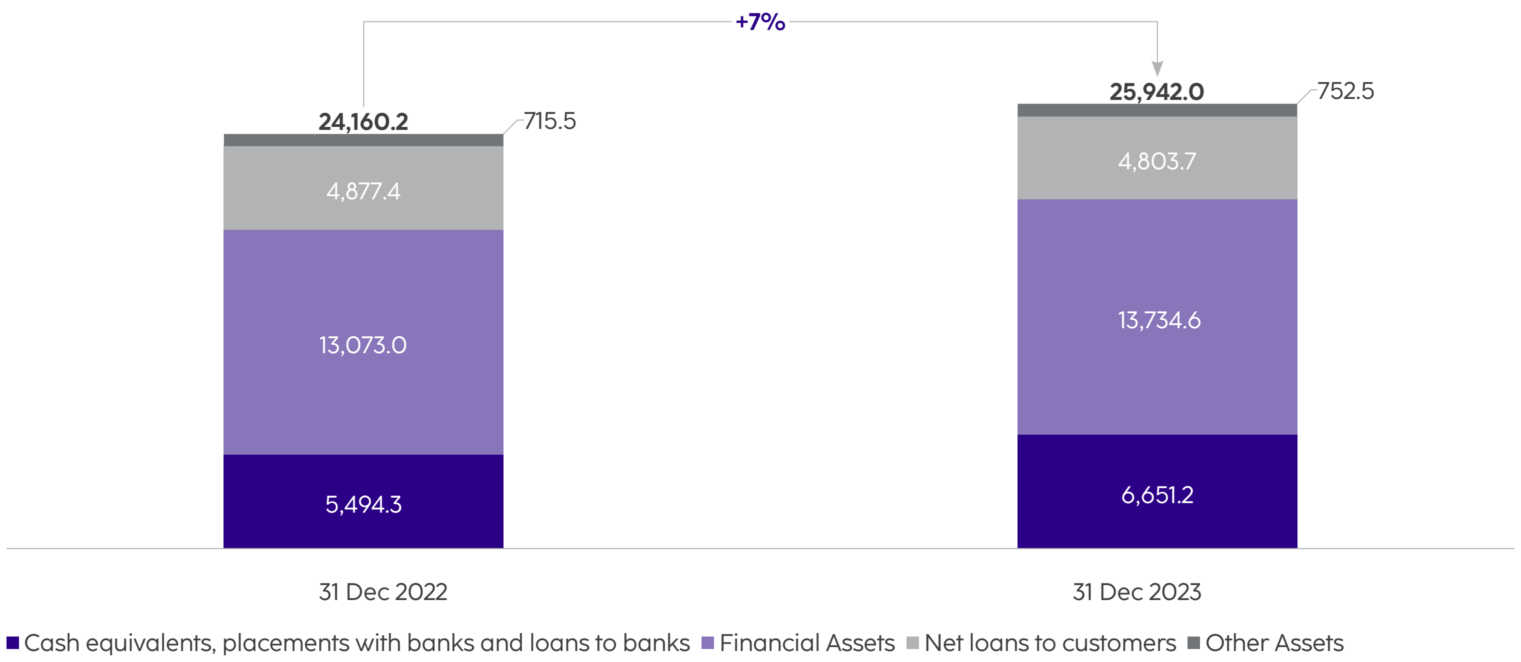
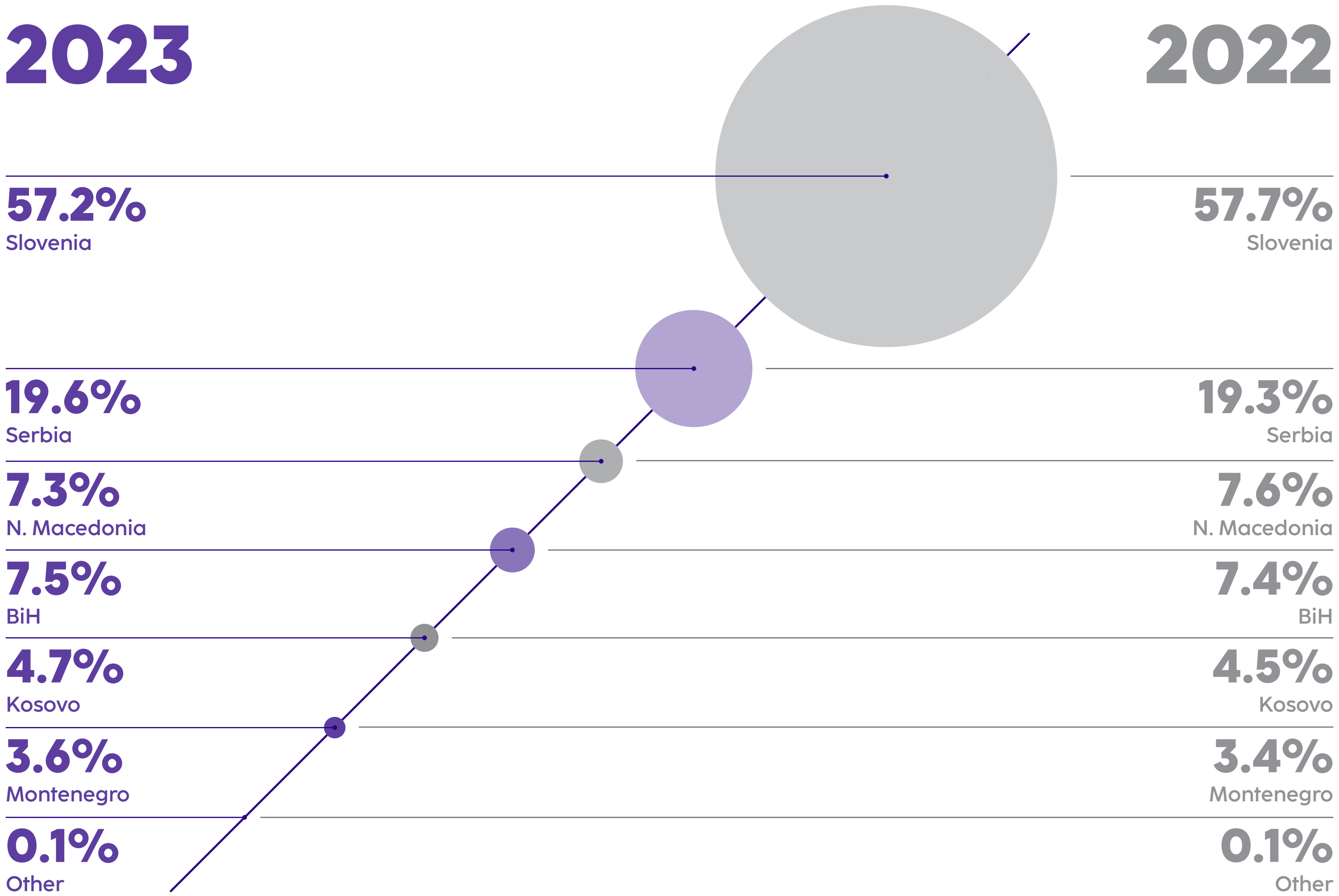
Assets

Figure 22: Total assets of NLB Group – structure (in EUR millions)



The distribution of total assets between countries was similar to the previous year, with 57.2% of the total assets related to the Group members located in Slovenia and 19.6% in Serbia.

Figure 23: Total assets of NLB Group by country (in %)(i)



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

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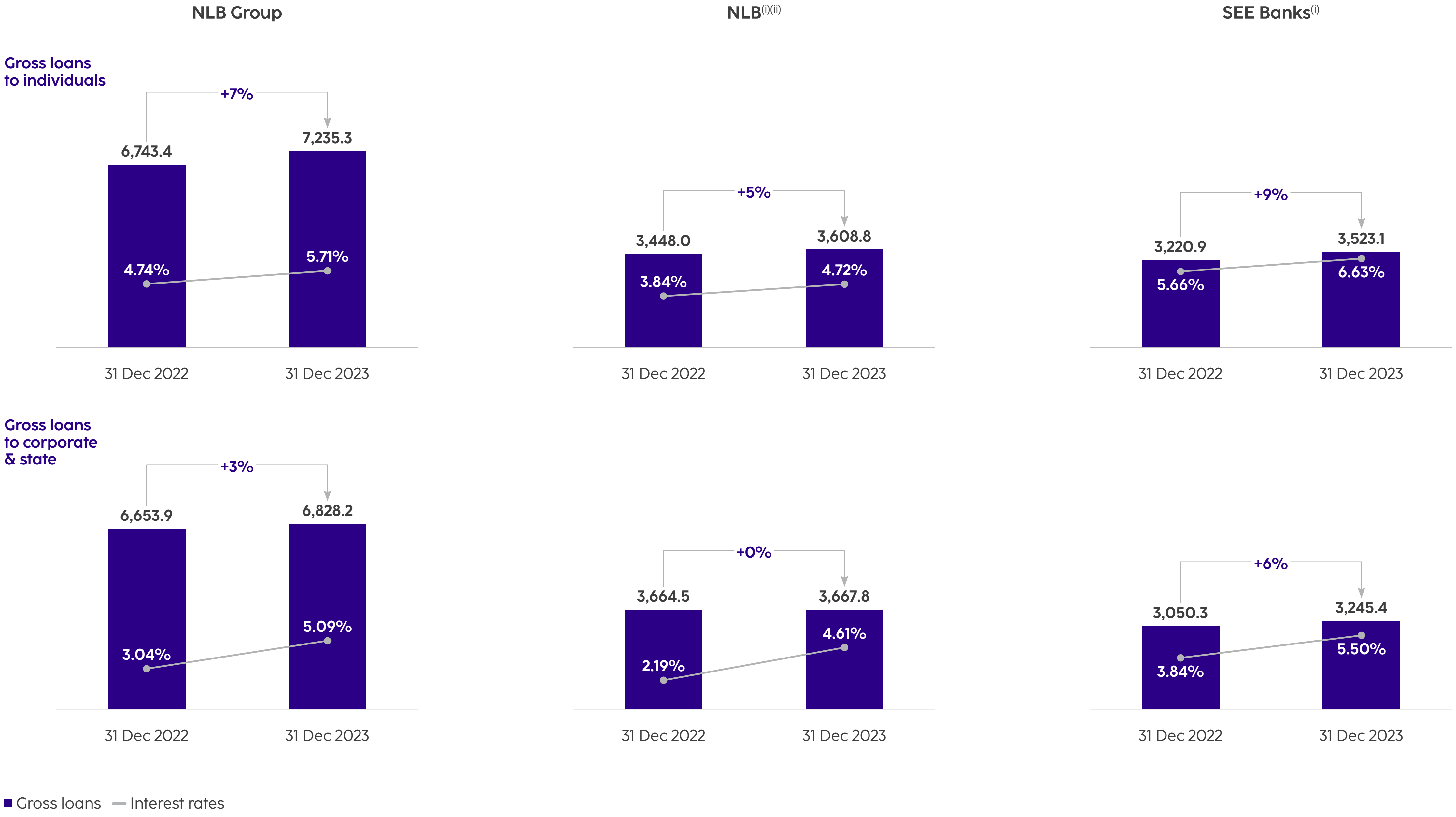
The lending activity continued with stable growth in 2023. The highest increase of 9% was recorded in loans to individuals in the SEE banks, with each Group member bank recording high YoY growth from 5% to 18% in outstanding loan balances. The new production of loans was high, with over EUR 900 million of new consumer loans approved (10% more than in the previous year).

Despite higher interest rates, the solid growth in the volume of loans to individuals was also recorded in Slovenia (NLB and N Banka), with stable new loan production of housing loans in the contractual amount of EUR 393.1 million in 2023 (EUR 749.5 million in 2022). Conversely, the new production of consumer loans improved, with EUR 394.1 million new deals approved in 2023 (EUR 268.3 million in 2022).

Most SEE banks also recorded growth in corporate and state loans, with the highest 11% growth achieved in NLB Komercijalna Banka, Beograd.

Gross loans to corporate and state in Slovenia increased by EUR 3.3 million YoY where in the beginning of 2023, the volume decreased by EUR 120 million due to the repayment of extraordinary liquidity lines for energy companies provided in December 2022. New production was high, with almost EUR 1.3 billion in new loans approved in 2023.

Figure 24: NLB Group gross loans to customers dynamics (in EUR millions)



(i) On a standalone basis.
(ii) Merger of NLB and N Banka on 1 September 2023. Volumes for 2022 for N Banka and NLB, interest rates only for NLB.

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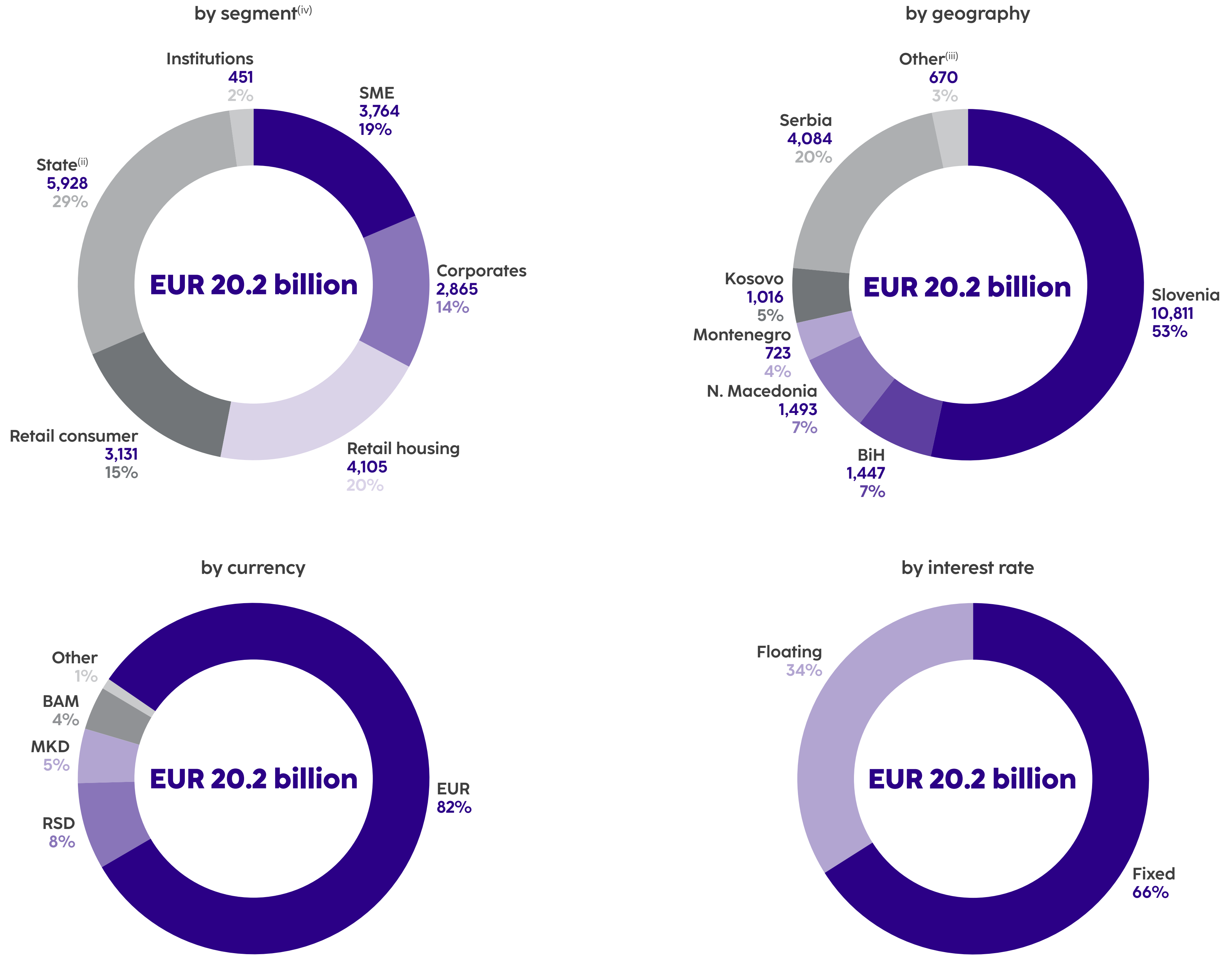
Despite significant portfolio growth in all NLB Group banks in 2023, the loan portfolio remained well-diversified, and there was no large concentration in any specific industry or client segment. In the retail portfolio the volume of housing loans are still prevailing. Most of the loan portfolio refers to the euro currency, while the rest originates from the local currencies of the Group banking members. From interest rate type, almost 66% of the loan portfolio was linked to a fixed interest rate, and the rest mainly to the Euribor reference rate.

Figure 25: Loan portfolio(i) by segment, geography, currency, and interest rate type (in EUR millions)

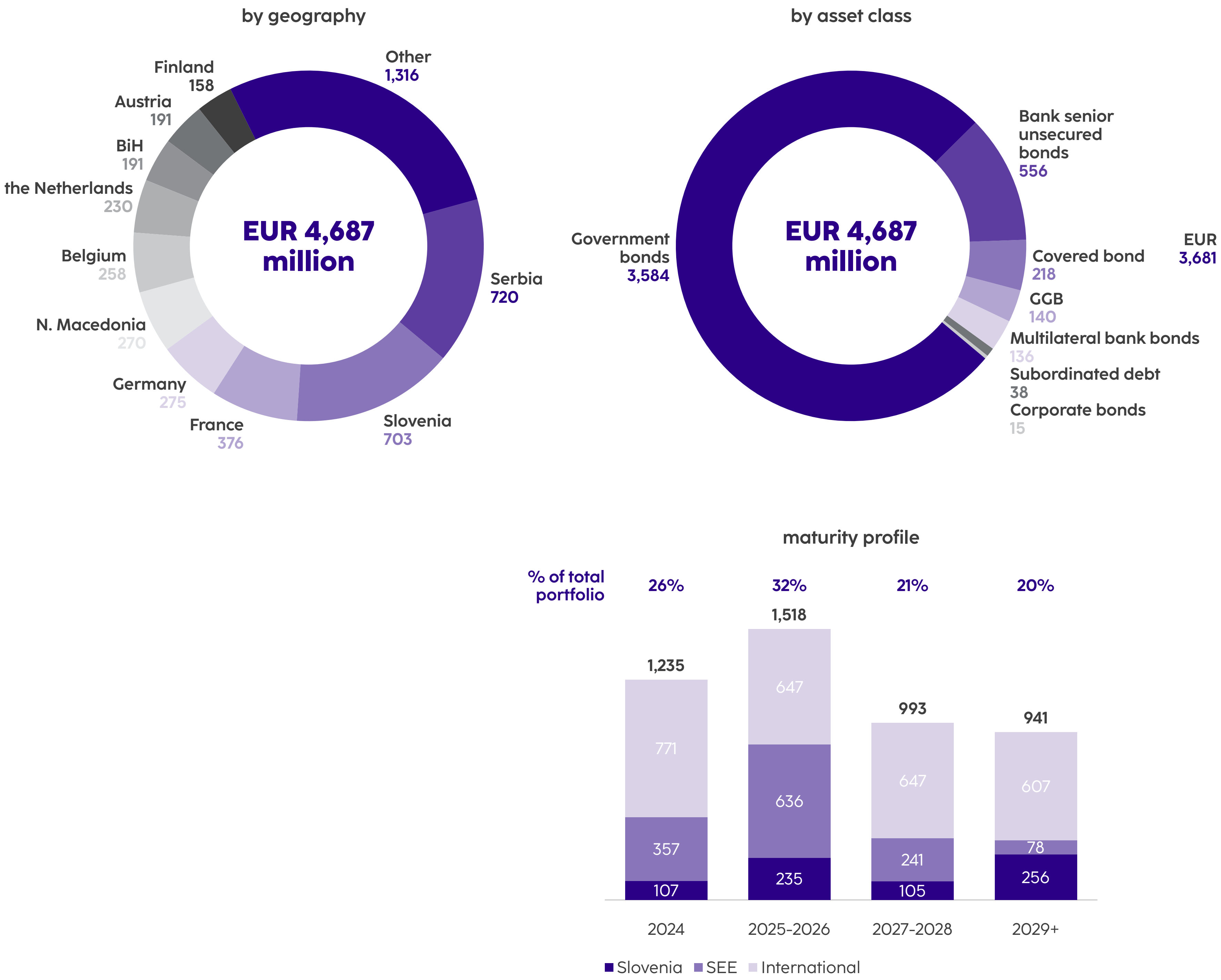


(i) The loan portfolio also includes account balances, required reserves at CBs, and demand deposits at banks.
(ii) State includes exposures to CBs.
(iii) The largest part represents EU members.
(iv) Segmentation following the company size defined in the Companies Act of an individual country in the region.

The banking book debt securities portfolio slightly decreased YoY to EUR 4,687 million (book value), constituting 18.1% of the Group's total assets compared to 19.7% in 2022. The portfolio's average duration at year-end was 2.8 years (2022: 2.7 years), and the average yield was 0.55 p.p. higher in 2023, reaching 1.67%.

Two business models are implemented, dividing the portfolio into securities valued at fair value through other comprehensive income (FVOCI) and securities valued at amortised cost (AC). The FVOCI portfolio at year-end represented 46.2% of the total Group debt securities portfolio, 13.5 p.p. lower YoY, with an average duration of 1.9 years. The negative valuation of FVOCI Group's debt securities portfolio during 2023 amounted to EUR 89 million (the net of hedge accounting effects and related deferred taxes). New FVOCI investments are typically placed at a short duration. In contrast, the AC portfolio at year-end increased to 53.8% of the total Group debt securities portfolio, with an average duration of 3.7 years. Unrealised losses of AC Group's debt securities portfolio during 2023 amounted to EUR 81 million. The ESG portfolio represented 6.5% of the whole portfolio. Additional information is available in the NLB Group Sustainability Report 2023.

Figure 26: Banking book debt securities portfolio by geography, asset class, currency, and maturity profile as at 31 December 2023 (in EUR millions)



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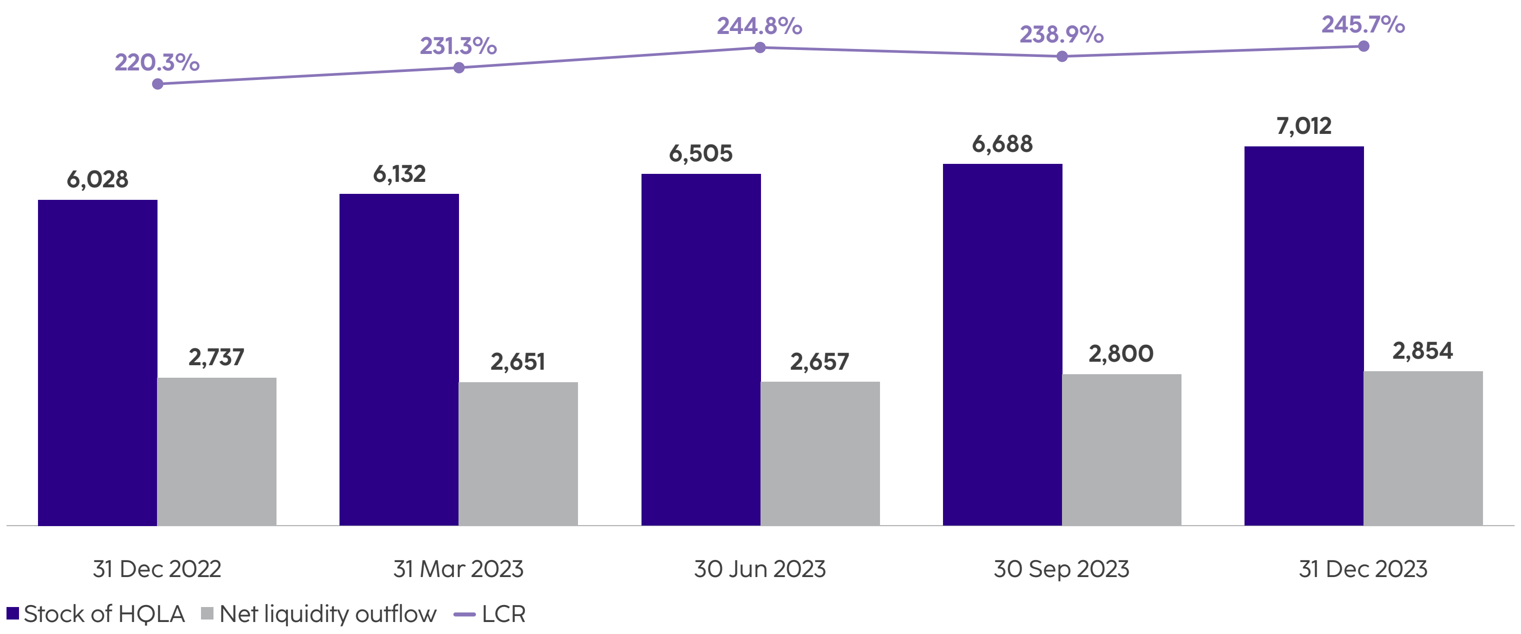
Liquidity position

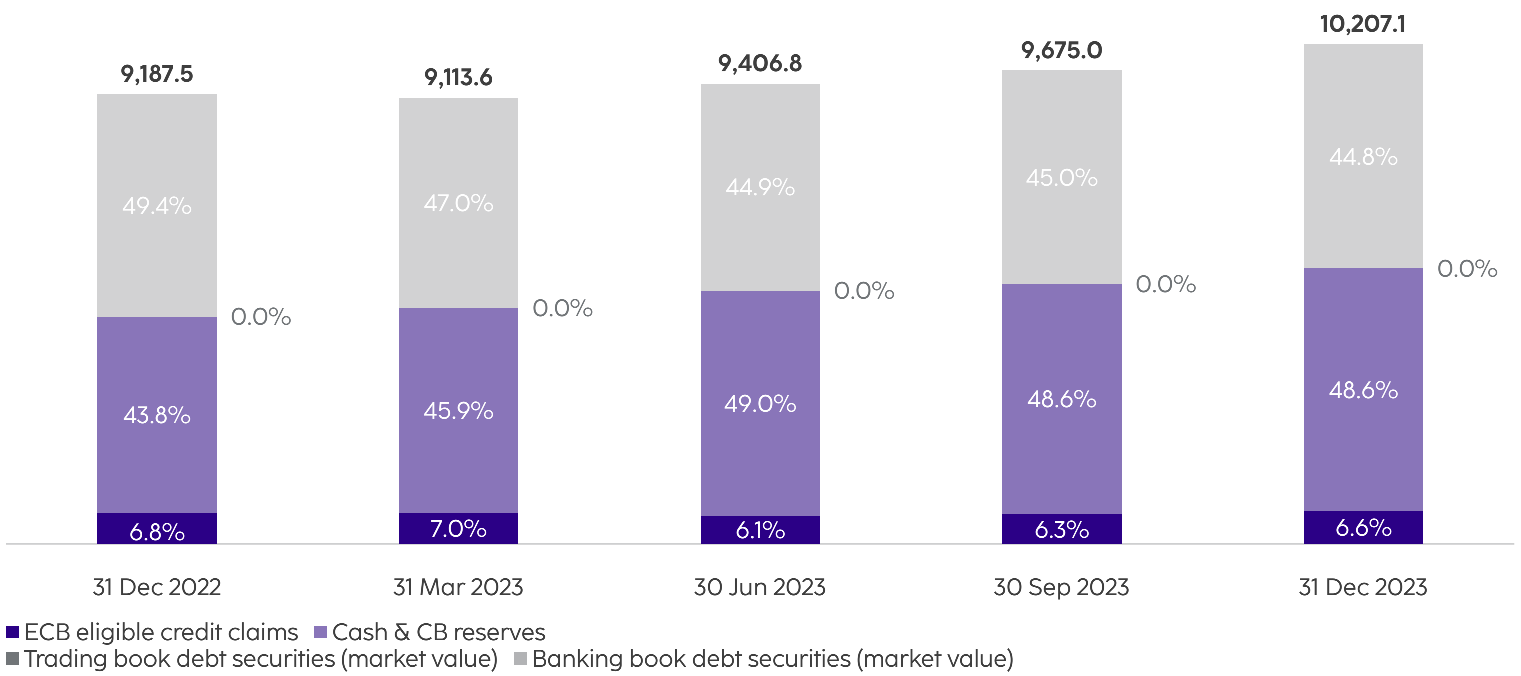
The Group's liquidity remains strong, with a high level of unencumbered liquidity reserves in total assets (39.6%) reflected in the LCR ratio of 245.7%, compared to 220.3% at the end of 2022. The Group holds a comfortable liquidity position, with liquidity ratios well above the risk appetite limit at the Group and individual banking member levels.

Figure 27: LCR quarterly dynamic of NLB Group (in EUR millions)



In 2023, the Group's unencumbered liquidity reserves increased by 11% YoY, comprising of cash, balances with CB without minimum reserve requirement, the debt securities portfolio, and credit claims eligible for CB-secured funding operations. Among others, these liquidity reserves provided the basis for future strategic growth. The growth of unencumbered liquidity reserves in 2023 can largely be attributed to the increase in CB reserves, while values of other categories stayed at similar levels throughout 2023. Encumbered liquidity reserves, used for operational and regulatory purposes, decreased by 66% YoY to EUR 41.5 million (excluding obligatory reserves) and were excluded from the liquidity reserves portfolio.

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



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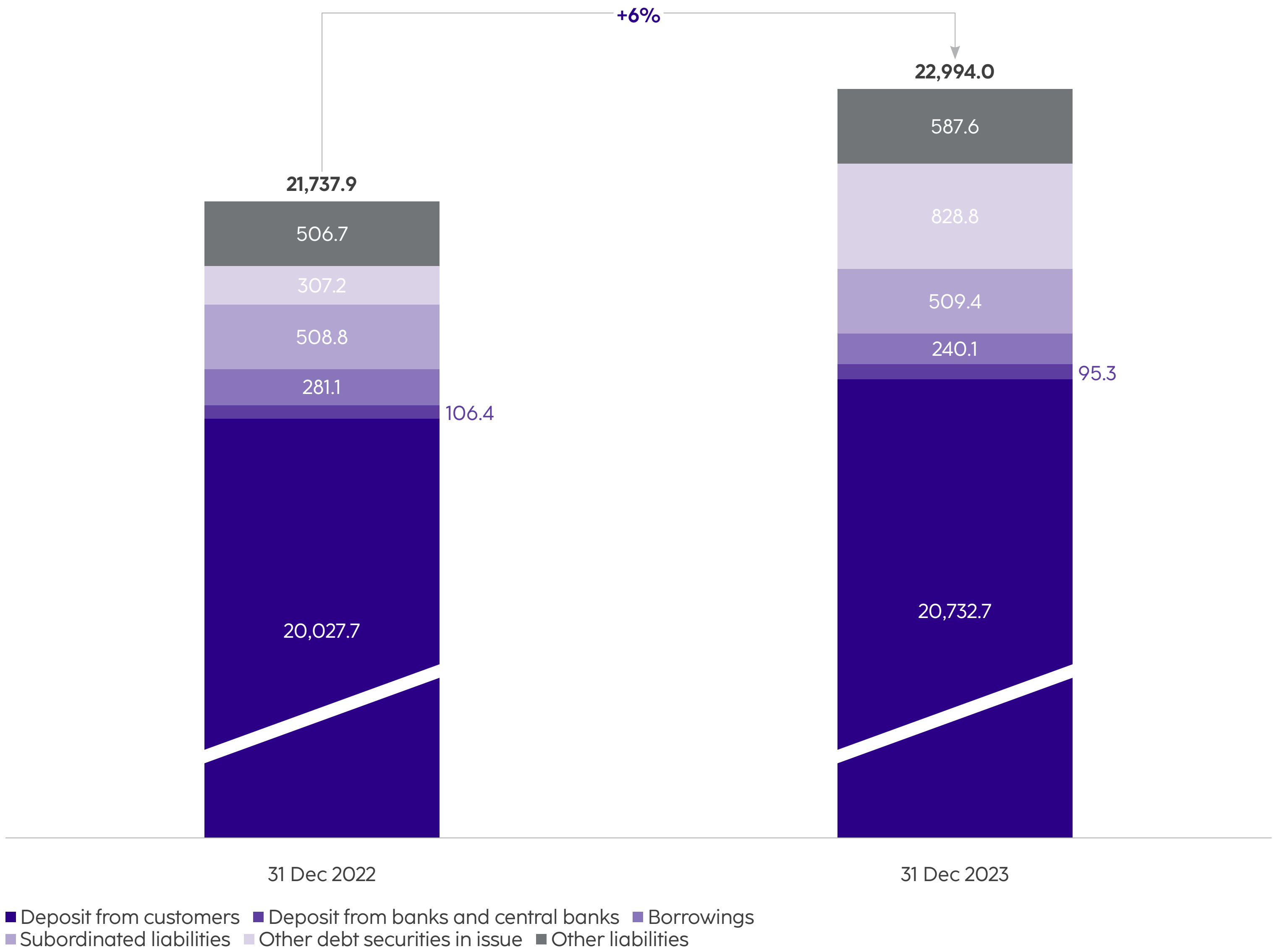
Liabilities

The total liabilities of the Group increased and amounted to EUR 22,994.0 million, with additional EUR 2,948.0 of total equity. The Group's funding base was dominated by customer deposits, accounting for 80%. Sight deposits prevailed; however, due to increased interest rates and attractive offers on term deposits, the share of term deposits increased by 3 p.p. in 2023 and accounted for 16% (13% at the end of 2022). Most customer deposits were from individuals (70%, the same as at the end of 2022).

Figure 29: Total liabilities of NLB Group – structure (in EUR millions)



Deposits from customers increased by 4% YoY. The largest increase of 15% was recorded in the corporate and state deposits in the SEE banks due to the improved economic situation in the region. In the Bank, the corporate and state deposit base decreased due to the high price elasticity of the certain large corporate and state clients.

Deposits from individuals recorded growth in all bank members, 3% in the Bank and 5% in SEE banks. The Bank's share of term and savings accounts increased by 5 p.p. YoY to 48%, with term deposit volume in 2023 increasing by more than EUR 350 million, mainly in the last four months due to an attractive offer on term deposits. For more information on the average cost of funding, please refer to the chapter Funding Strategy, Capital, and MREL Compliance.

Figure 30: NLB Group deposits from customers dynamics (in EUR millions)

(i) On a standalone basis.
(ii) Merger of NLB and N Banka on 1 September 2023. Volumes for 2022 for N Banka and NLB, interest rates only for NLB.

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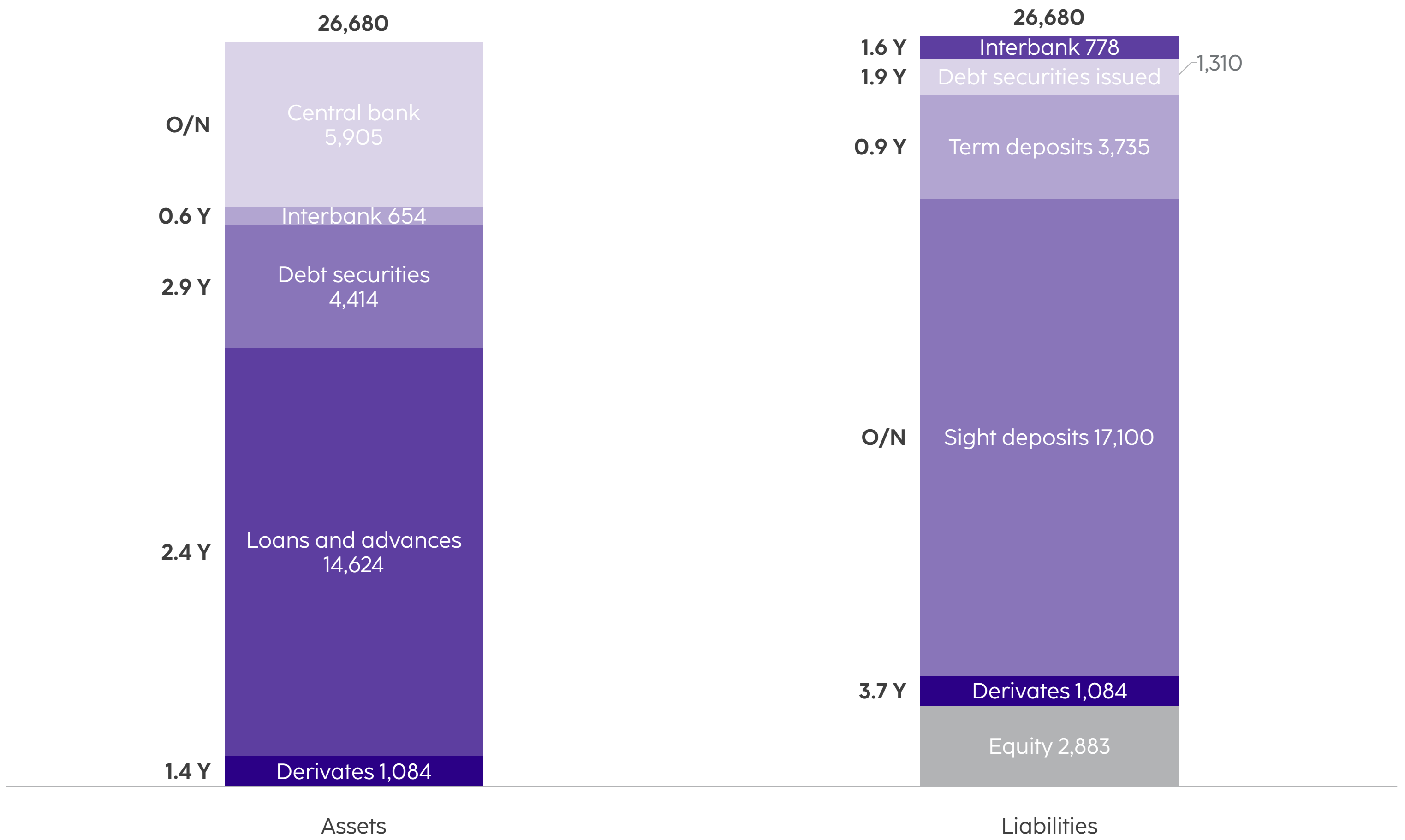
On the assets side, the securities portfolio has a duration of 2.9 years and a loan portfolio of 2.4 years. A large weight in the duration of total assets also has assets with the central bank, which lowers the duration of total assets to 1.9 years. On the liabilities side, the issued securities portfolio has a duration of 1.9 years and a term deposits portfolio of 0.9 year. The largest weight in the duration of total liabilities has a portfolio of sight deposits, which lowers the duration of total liabilities to 0.5 years. Total duration GAP of banking book derivatives is -2.3 years.

Figure 31: Duration overview (balance sheet items in EUR millions)(i)



(i) Included are cash flows and not carring amount.

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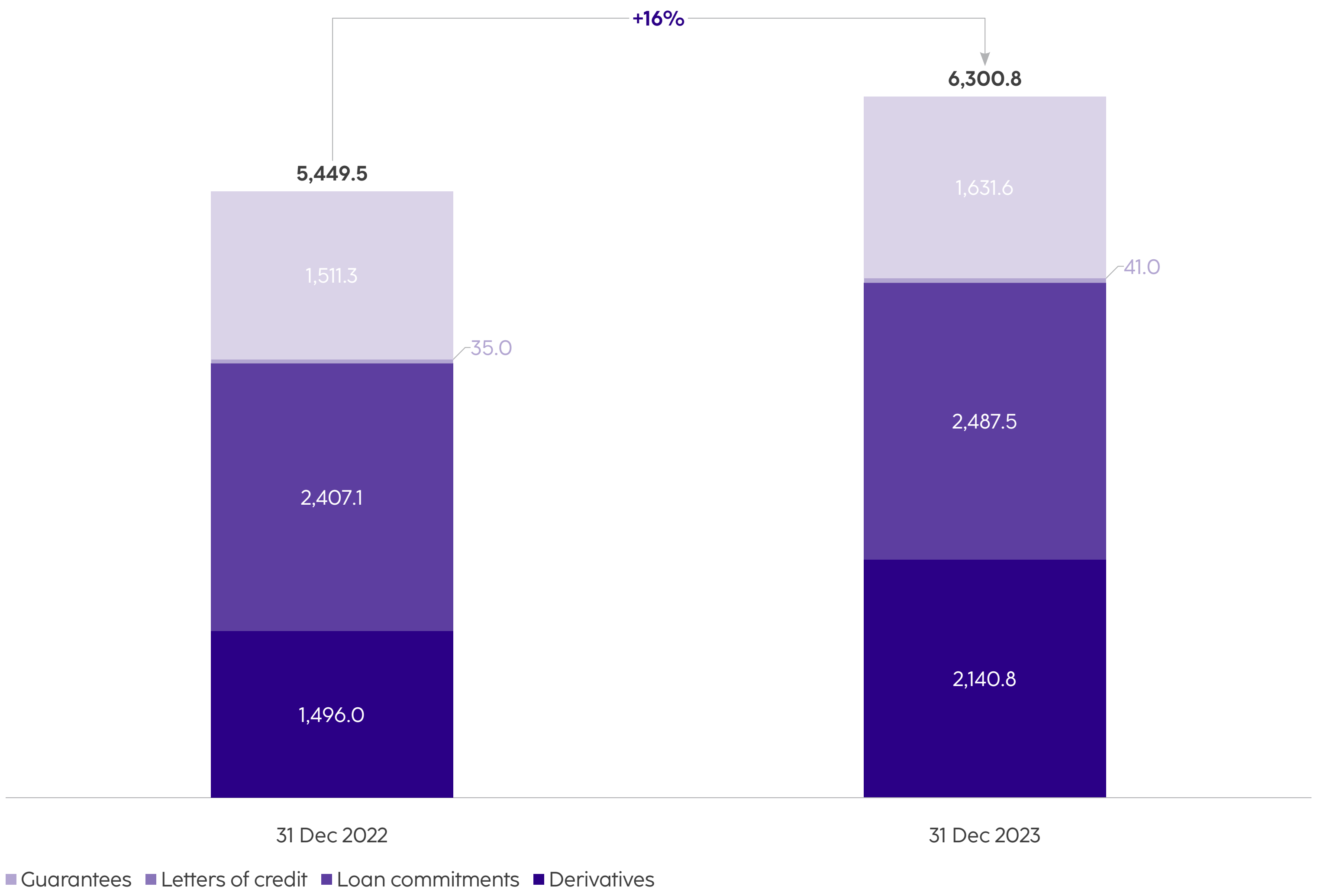
Off-balance sheet items

Off-balance sheet items of the Group amounted to EUR 6,300.8 million and were primarily comprised of guarantees (26%), loan commitments (39%), and derivatives (34%).

Loan commitments were primarily divided between loans (60%), overdrafts (15% retail and 11% corporate), and cards (16%). Most of the Group's derivatives were concluded by the Bank either for hedging the banking book or trading with customers.

The substantial augmentation in derivatives trading volume primarily came from several key factors. Firstly, a significant portion of this increase, totalling EUR 450 million, can be attributed to hedging the senior preferred bond issued in June 2023. Secondly, newly participation from NLB Group members was notable, as they engaged in hedging activities concerning their respective positions in the banking book. Lastly, the consolidation efforts following the merger of N Banka with NLB led to a notable surge, particularly through the novation of existing derivatives contracts.

Figure 32: Off-balance sheet items of NLB Group (in EUR millions)



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Segment Analysis[6]

Core Segments

Retail Banking in Slovenia includes banking with individuals and micro companies (NLB and N Banka), asset management (NLB Skladi), and part of subsidiary NLB Lease&Go, Ljubljana that includes operations with retail clients, as well as the contribution to the result of the associated company Bankart.

Corporate and Investment Banking in Slovenia includes banking with Key Corporate Clients, SMEs, Cross-Border Corporate Financing, Investment Banking and Custody, Restructuring and Workout in NLB and N Banka, and part of the subsidiary NLB Lease&Go, Ljubljana that includes operations with corporate clients.

Financial Markets in Slovenia include treasury activities and trading with financial instruments, while they also present the results of asset and liabilities management (ALM) in both, NLB and N Banka.

Strategic Foreign Markets consist of the operations of strategic Group banks in the strategic markets (Serbia, North Macedonia, Bosnia and Herzegovina, Kosovo, and Montenegro), as well as investment company KomBank Invest, Beograd, NLB DigIT, Beograd, NLB Lease&Go, Skopje and NLB Lease&Go Leasing, Beograd.

Other activities include categories in NLB and N Banka whose operating results cannot be allocated to specific segments, including negative goodwill from acquisition of N Banka and NLB Lease&Go Leasing, Beograd in 2022 as well as subsidiaries NLB Cultural Heritage Management Institute and Privatinvest.

Non-Core Segment

Non-Core Members include the operations of non-core NLB Group members, namely REAM and leasing entities in liquidation, NLB Srbija, and NLB Crna Gora.

Table 14: Segments of NLB Group

	NLB Group	Core Segments					Non-Core Segment
		Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Financial Markets in Slovenia	Strategic Foreign Markets	Other	Non-Core Members
Profit b.t. (in EUR millions)	578	182	87	35	292	−7	−10
Contribution to Group's profit b.t.	100%	31%	15%	6%	50%	−1%	−2%
Total assets (in EUR millions)	25,942	3,791	3,376	7,232	11,059	436	47
% of total assets	100%	15%	13%	28%	43%	2%	0%
CIR	45.9%	41.9%	47.1%	24.5%	46.4%	240.0%	/
Cost of risk (bps)	−7	56	−36	/	−13	/	/

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

6 N Banka is included in the segment analysis for the years 2023 and 2022 as an independent legal entity; in the segment analysis for the year 2023, it is included with the result for the period 1 January – 31 August 2023.

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NLB, Ljubljana

NLB, as Slovenia's largest and systematically important bank, has demonstrated remarkable business resilience in the dynamic economic landscape this year. Bolstered by the successful merger with N Banka in September, the Bank has expanded its footprint, securing a substantial market share, including in both retail and corporate lending. In 2023, NLB achieved a milestone with a record-high profit. The interest rate environment contributed to a considerable increase in net interest income.

Moreover, income from dividends (EUR 145.3 million), the release of impairments of equity investments (EUR 97.8 million), and deferred tax assets (EUR 61.9 million) materially added to the overall result. Demonstrating responsibility as a key player in the market, NLB proactively addressed the aftermath of August's floods in Slovenia. The Bank donated EUR 4.0 million to the 20 affected municipalities and made a one-time payment of EUR 5.0 million to the Reconstruction Fund, showcasing its commitment to corporate social responsibility and community welfare.

EUR 514 million
result a.t.

49%
contribution to NLB Group's result a.t.

30.2%
market share by total assets

Largest
bank in the country (by total assets)

Financial and Business Performance

Table 15: Key performance indicators of NLB(i)

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	372,566	177,027	▲ 110%
Net non-interest income	265,946	189,153	▲ 41%
Total costs	−237,864	−207,866	▼ −14%
Impairments and provisions	78,098	5,756	–
Result before tax	478,746	164,070	▲ 192%
Result after tax	514,287	159,602	–
Financial position statement indicators			
Total assets	16,014,776	13,939,333	▲ 15%
Net loans to customers	7,156,068	6,062,305	▲ 18%
Gross loans to customers	7,276,656	6,157,442	▲ 18%
Deposits from customers	11,881,563	10,984,411	▲ 8%
Equity	2,249,451	1,602,870	▲ 40%
Key financial indicators			
Total capital ratio	25.2%	25.6%	−0.3 p.p.
Net interest margin	2.8%	1.5%	1.3 p.p.
ROE a.t.	27.9%	10.2%	17.7 p.p.
ROA a.t.	3.5%	1.2%	2.3 p.p.
CIR	37.3%	56.8%	−19.5 p.p.
NPL volume	138,004	111,170	24%
NPL ratio (internal def.: NPL/Total loans)	1.2%	1.1%	0.0 p.p.
Market share by total assets	30.2%	27.6%	2.6 p.p.
LTD	60.2%	55.2%	5.0 p.p.

(i) Data on a stand-alone basis as included in the Group's consolidated financial statements. Merger of NLB and N Banka on 1 September 2023.

Table 16: Key performance indicators of N Banka[i]

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	27,822	25,270	▲ 10%
Net non-interest income	5,225	10,453	▼ −50%
Total costs	−16,811	−22,976	▲ 27%
Impairments and provisions	511	925	▼ −45%
Result before tax	16,747	13,672	▲ 22%
Result after tax	13,389	11,085	▲ 21%
Financial position statement indicators			
Total assets		1,293,280	–
Net loans to customers		939,238	–
Gross loans to customers		955,035	–
Deposits from customers		898,768	–
Equity		186,423	–
Key financial indicators			
Total capital ratio		21.4%	−21.4 p.p.
Net interest margin		2.0%	−2.0 p.p.
CIR		64.3%	−64.3 p.p.
NPL volume		23,633	–
NPL ratio (internal def.: NPL/Total loans)		1.9%	−1.9 p.p.
Market share by total assets		2.6%	−2.6 p.p.
LTD		104.5%	−104.5 p.p.

(i) Data on a stand-alone basis as included in the Group's consolidated financial statements. N banka's internal calculation of net interest margin and total capital ratio. Data for 2022 are for the period March-December. Data for 2023 are for the period January-August, merger of NLB and N Banka on 1 September 2023.

Table 17: Capital realisation YoY and surplus of NLB

in EUR millions

	31 Dec 2023	31 Dec 2022	Change YoY	Surplus 31 Dec 2023
Common Equity Tier 1 capital (CET1)	1,734.6	1,414.7	319.9	1,045.9
Tier 1 capital	1,816.6	1,496.7	319.9	989.8
Total capital	2,324.1	2,004.2	319.9	1,313.1
Total risk exposure amount (RWA)	9,207.5	7,832.7	1,374.8	
Common Equity Tier 1 Ratio	18.8%	18.1%	0.8 p.p.	11.4 p.p.
Tier 1 Ratio	19.7%	19.1%	0.6 p.p.	2.9 p.p.
Total Capital Ratio	25.2%	25.6%	−0.3 p.p.	4.2 p.p.

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... as well as the dignified handling of defeats, we find inspiration.

Cedevita Olimpija basketball team

The pursuit of excellence knows no boundaries.

Retail Banking in Slovenia

The Bank has prioritised customers' needs and experience and recently integrated N Banka, thereby strengthening its position as the market leader in retail banking. The Bank offers tailored product and service options to cater to different customer segments, and it is accessible through various channels such as traditional branch offices, a mobile branch on wheels, and an extensive ATM network, ensuring that customers can conveniently reach the Bank anytime, anywhere. The Bank proudly offers clients 24/7 access to its services via the Contact Centre and digital banking and remains committed to delivering the highest standards of excellence in everything it does. The Bank's primary objective is to strive to be the best and most innovative bank, particularly in providing digital services to its customers, leveraging its strategic assets and transforming the sales process to enhance the user experience.

Figure 33: Contribution to NLB Group

31%

Result b.t.

32%

Net interest income

39%

Net non-interest income

Financial and Business Performance

Table 18: Performance of the Retail Banking in Slovenia segment

in EUR millions consolidated

	2023	2022	Change YoY	
Net interest income	264.7	104.8	159.9	▲ 153%
Net interest income from Assets[i]	87.2	95.8	−8.5	▼ −9%
Net interest income from Liabilities[i]	177.5	9.1	168.4	–
Net non-interest income	102.3	106.7	−4.4	▼ −4%
o/w Net fee and commission income	114.1	113.2	0.9	▲ 1%
Total net operating income	**367.0**	**211.5**	**155.5**	**▲ 74%**
Total costs	−153.8	−144.0	−9.8	▼ −7%
Result before impairments and provisions	**213.2**	**67.4**	**145.7**	**–**
Impairments and provisions	−32.6	−21.4	−11.2	▼ −52%
Share of profit from investments in associates and joint ventures	1.1	0.8	0.3	▲ 37%
Result before tax	**181.7**	**46.8**	**134.9**	**–**

	31 Dec 2023	31 Dec 2022	Change YoY	
Net loans to customers	3,694.2	3,586.5	107.7	▲ 3%
Gross loans to customers	3,760.8	3,641.0	119.8	▲ 3%
Housing loans	2,483.5	2,430.8	52.7	▲ 2%
Interest rate on housing loans[ii]	*3.07%*	*2.35%*	*0.72 p.p.*	
Consumer loans	818.5	722.1	96.5	▲ 13%
Interest rate on consumer loans[ii]	*8.14%*	*7.11%*	*1.03 p.p.*	
NLB Lease&Go, Ljubljana	98.2	69.0	29.2	▲ 42%
Other	360.6	419.2	−58.6	▼ −14%
Deposits from customers	9,357.8	9,085.8	272.0	▲ 3%
Interest rate on deposits[ii]	*0.32%*	*0.05%*	*0.27 p.p.*	
Non-performing loans (gross)	77.3	67.7	9.6	▲ 14%

	2023	2022	Change YoY
Cost of risk (in bps)	56	58	−3
CIR	41.9%	68.1%	−26.2 p.p.
Net interest margin[ii]	4.17%	1.70%	2.48 p.p.

(i) Net interest income from assets and liabilities using Fund Transfer Pricing (FTP).
(ii) Net interest margin and interest rates before the merger of NLB and N Banka only for NLB. The segment's net interest margin is calculated as the ratio between annualised net interest income (i) and the sum of average interest-bearing assets and liabilities divided by 2.

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Net interest income experienced a substantial YoY increase, primarily driven by higher volumes and the positive impact of the key ECB interest rate hike on the segment's income from clients' deposits. The average interest rate on deposits increased by 27 bps YoY by providing more attractive offerings on interest rates for term deposits and savings accounts for individuals – which clients perceived positively. Consequently, the deposit base increased by 3% YoY, with a shift towards long-term deposits. The term deposit volume in 2023 increased by over EUR 350 million, particularly in the last four months of 2023. Solid growth in the volume of loans to individuals was also recorded, with stable new loan production of housing loans and higher new production of consumer loans, especially in the second half of the year (EUR 394.1 million new deals were approved in 2023 vs. EUR 268.3 million in 2022). This increase is related to the adjustments of macroprudential restrictions on consumer lending, which changed the minimum creditworthiness amount for consumers.

Net fee and commission income remained stable YoY. The positive impact of increased economic activity and consumption, with an additional positive influence on fees from the increase of investment in funds and bancassurance business, was entirely offset by the cancellation of the high balance deposit fee – which in 2022 amounted to EUR 1.8 million.

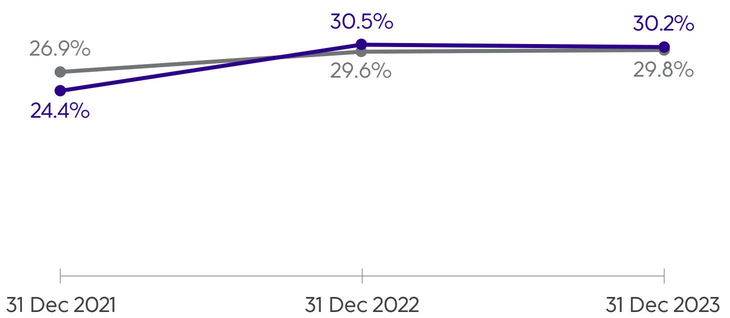
30.2% and 29.8% market share in housing loans and consumer loans

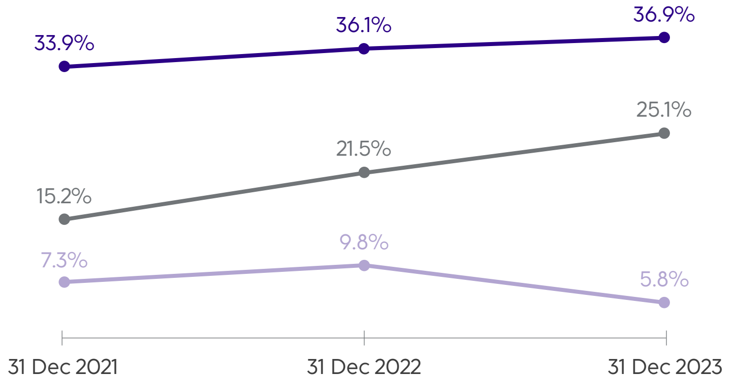
The segment's **total costs** increased YoY due to general inflationary trends within the region, investments into technology enhancements, and the integration process of NLB and N Banka.

Impairments and provisions for credit risk were net established due to the portfolio development, repayments of written-off receivables and changes in models. Other provisions were related to potential liability concerning the pending fee repayments.

The operational merger of N Banka was successfully completed at the beginning of September. With the merger, the Bank again confirmed its systemically important position in the market. The market share in retail lending and deposit-taking stayed at the same level at 29.5% and 33.5%, respectively. The retail part of NLB Lease&Go, Ljubljana, continued growing steadily and recorded a 42.3% portfolio increase YoY.

Figure 34: Market share of net loans to individuals and market share of deposits from individuals





Customer experience is our focus

The Bank's **product and service development** is primarily driven by the requirements and expectations of its clients. In addition, the Bank tailors its offer to suit specific segments and devises processes to support its clients' life situations. The sales approach and the offer are uniquely tailored to each segment, serving as the foundation for the Bank's initiatives and business models. To enhance user experience, the Bank is broadening its spectrum of services to cater to an array of diverse segments.

Successful migration and integration of N Banka clients

In Valicon's Client Satisfaction Survey (CSS), the Customer Satisfaction Index indicator measures long-term relationship with clients. The Net Promoter Score (NPS) indicates transactional satisfaction after a completed service. The Bank's **client satisfaction** remained stable and better than the competition in 2023. Furthermore, clients expressed a higher level of satisfaction with the Bank's advisors. Kindness and competence are valued the most and are the main reasons for high client satisfaction (80 vs. 73 for the competition). The NPS for 2023 shows a stable level of satisfaction with a value of 61 (the benchmark for the financial sector in 2023 is 52 based on SurveyMonkey global benchmark), influenced mostly by the high satisfaction with advisory service.

In the **integration process**, clients of N Banka have switched to NLB services and solutions. In addition, the Bank introduced some of its established good practices and services, such as a revolving card offer and a partnership model, focusing on providing a positive user experience.

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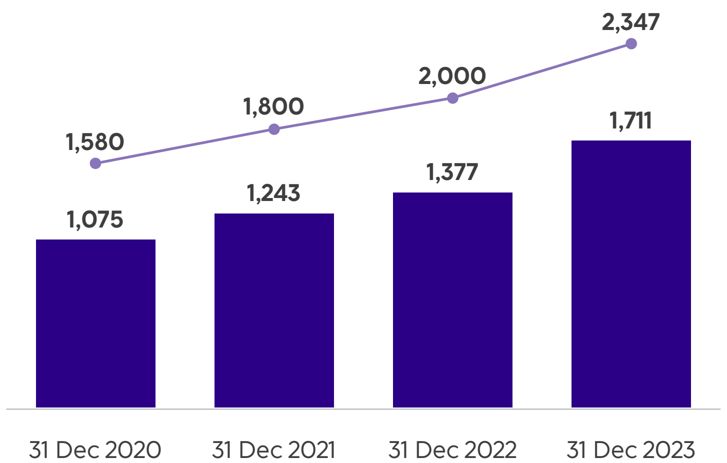
Added value for our clients

Private banking is a leading banking provider for this segment in the market and an integral part of the Bank's offering, showing a substantial 24% YoY growth in assets under management. Also, the client base has expanded notably by 17% YoY to 2,347 clients. Products and services are carefully selected and tailored to meet the unique needs of these clients. The Bank provides comprehensive wealth manage-ment, combining banking and financial products, along with a full spectrum of advisory services. Dedication to providing exceptional service has been recognised by Euromoney, which awarded the Bank's Private Banking segment as Slovenia's Best Private Bank for High Net Worth Individuals in 2023.

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

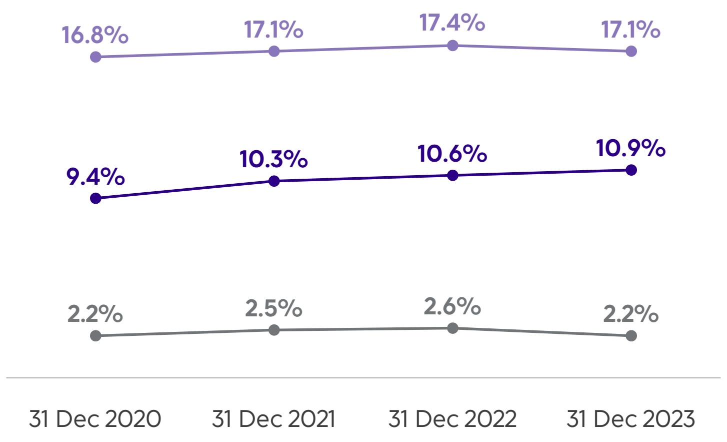


NLB Skladi, Slovenia's largest asset management company, maintains a high market share of 39.6%. Net inflows in 2023 amounted to EUR 171.3 million, accounting for 50.5% of all net inflows in the market. The total assets under management grew by 20% YtD to reach EUR 2,360.3 million, of which EUR 1,896.3 million is from mutual funds and EUR 464.0 million is from the discretionary portfolio.

In cooperation with **NLB Lease&Go, Ljubljana,** the Bank extended its range of financial services to private individuals. Clients can now visit the branch offices for expert advice and high-quality financial services to choose the best leasing solution that is tailored to their needs. The NLB Quick Leasing model covers the digital aspect, enabling simple and quick car financing approval through an E2E digital process.

The Bank is the largest provider of **bancassurance** on the market, with the insurance companies Vita, življenska zavarovalnica, Generali Zavarovalnica, and Zavarovalnica Triglav being its long-term partners. Moreover, **Vita**'s model of exclusive distribution of life and health insurance products again resulted in record business volume for these insurance types. Vita also introduced new health insurance, NLB Vita Diseases, which provides coverage in the event of one or more severe illnesses and further improved its digital footprint within Bank's digital solutions.

Figure 36: Active clients' penetration[i] of ancillary business



(i) Drop in bancassurance product due to migrated N Banka's clients

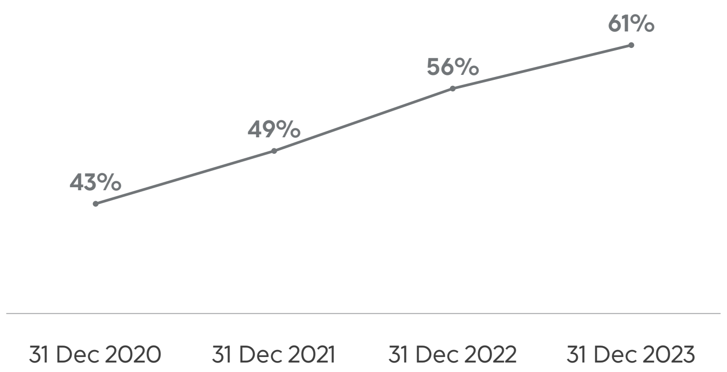
Strong and stable market position in lending, deposits, and asset management

Launch of new digital bank NLB Klik

Approaching clients

Customers' digital activity continues rising, driven entirely by mobile, impacted by customer base demographics. To grow mobile usage even more, the Bank will continue to add a broader range of servicing functionalities to the new omnichannel solution NLB Klik. A more comprehensive range of services will boost higher digital adoption and engagement. With the new solution, the Bank witnessed another boost in active digital users by 14% YoY and active digital penetration by 5.5 p.p. YoY.

Figure 37: Digital penetration(i)



(i) Share of active digital users in # of clients with an active transactional account.

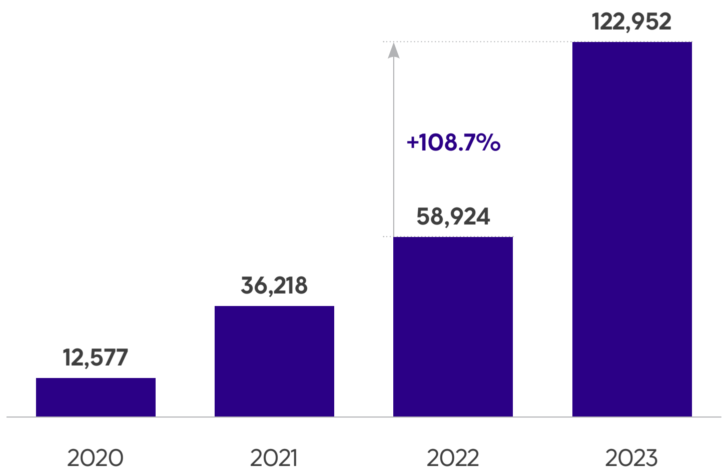
When introducing changes, the **Contact Centre** (CC), the only 24/7 available banking contact point in Slovenia, plays a crucial role for the Bank's clients who need assistance or have inquiries regarding the Bank's products or channels. It is also well-accepted as a virtual bank for contracting new products, as 11% of consumer loans and overdraft sales were completed via the CC in 2023.

The Bank is promoting the advisory role of its **branch offices**, focusing on shifting transactional business to digital and card-based services. The goal of this redirection is to decrease cash-based transactions. With an increasing number of clients using digital banking and 24/7 accessible channels such as CC and ATMs, the Bank is closer to achieving its goal. With one of the largest **ATM** networks in the country, the Bank also upgraded ATMs to be more friendly to blind and visually impaired customers.

The Bank is proactively promoting the digitisation of payments through various activities. The Group's mobile wallet **NLB Pay** was significantly improved to become the digital wallet of choice, with Google Pay being an option for paying, Flik P2P (person-to-person), and e-commerce payments gained significant traction and boosted use and improved various customer journeys. The Bank has also offered the most flexible credit card 3-in-1 feature, offering to customers all relevant financing options on credit cards: charge, revolving, or instalment options.

The implementation of the new Group's mobile POS terminal solution, the **NLB Smart POS**, was well-received by micro-segment, small businesses, and other merchants, enabling them to provide simple, fast, and safe services.

Figure 38: NLB Pay volume of transactions (in EUR thousands)



The Bank has introduced the possibility of returning part of the value of purchases to customers called **NLB Cashback** for card payments. The service, also implemented across the Group, is a novelty in the Slovenian market. The City of Ljubljana has become the first open loop transit city in the region, as the Bank introduced a transit-ready solution for cards acceptance for transit payments.

Top Retail banking institution in Slovenia

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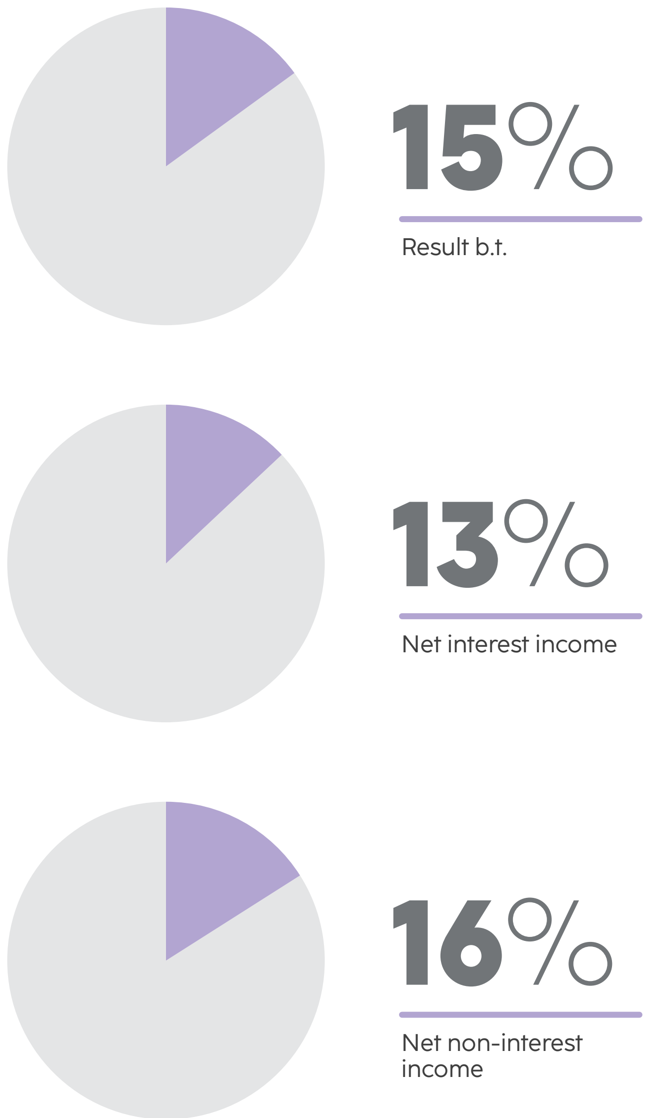
Corporate and Investment Banking in Slovenia

The Bank reaffirmed its position as a leading and systemic player in its home region. It continues to support corporate clients with daily banking and tailor-made comprehensive solutions, including trade finance, corporate finance, and cross-border financing. The Bank also strongly emphasises sustainability in all its operations.

25.7%

market share in loans to customers

Figure 39: Contribution to NLB Group



Financial and Business Performance

Table 19: Performance of the Corporate and Investment Banking in Slovenia segment

in EUR millions consolidated

	2023	2022	Change YoY	
Net interest income	106.5	52.9	53.5	▲ 101%
Net interest income from Assets[i]	62.2	53.7	8.5	▲ 16%
Net interest income from Liabilities[i]	44.3	−0.8	45.1	–
Net non-interest income	42.7	52.3	−9.5	▼ −18%
o/w Net fee and commission income	40.2	43.6	−3.3	▼ −8%
Total net operating income	**149.2**	**105.2**	**44.0**	**▲ 42%**
Total costs	−70.2	−65.1	−5.1	▼ −8%
Result before impairments and provisions	**79.0**	**40.1**	**38.9**	**▲ 97%**
Impairments and provisions	7.9	12.2	−4.2	▼ −35%
Result before tax	**86.9**	**52.3**	**34.6**	**▲ 66%**

	31 Dec 2023	31 Dec 2022	Change YoY	
Net loans to customers	3,360.2	3,370.1	−9.9	0%
Gross loans to customers	3,413.2	3,424.6	−11.3	0%
Corporate	3,306.7	3,311.5	−4.8	0%
Key/SME/Cross-Border Corporates	3,049.5	3,129.9	−80.4	▼ −3%
Interest rate on Key/SME/Cross Border Corporates loans[ii]	*4.54%*	*1.95%*	*2.59 p.p.*	
Investment banking	0.1	0.1	0.0	▲ 8%
Restructuring and Workout	97.7	60.8	36.9	▲ 61%
NLB Lease&Go, Ljubljana	159.4	120.7	38.7	▲ 32%
State	105.6	112.9	−7.3	▼ −6%
Interest rate on State loans[ii]	*5.95%*	*2.59%*	*3.36 p.p.*	
Deposits from customers	2,471.8	2,731.0	−259.1	▼ −9%
Interest rate on deposits[ii]	*0.28%*	*0.07%*	*0.21 p.p.*	
Non-performing loans (gross)	61.8	67.6	−5.8	▼ −9%

	2023	2022	Change YoY
Cost of risk (in bps)	−36	−42	6
CIR	47.1%	61.9%	−14.8 p.p.
Net interest margin[ii]	3.55%	1.80%	1.74 p.p.

(i) Net interest income from assets and liabilities using FTP.
(ii) Net interest margin and interest rates before the merger of NLB and N Banka only for NLB. The segment's net interest margin is calculated as the ratio between annualised net interest income (i) and the sum of average interest-bearing assets and liabilities divided by 2.

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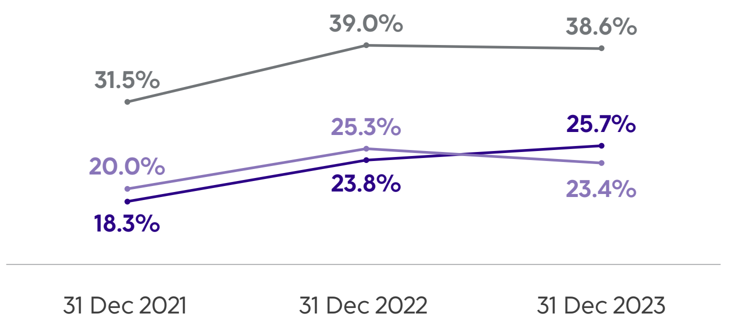
In Corporate and Investment Banking, the Bank continues its long tradition and commitment to sustainable and long-term business relationships. Cooperating with almost 11,000 corporate clients, the business's principal revolves around customer centricity and addressing clients' actual needs. The Bank provides extensive and customised financial solutions to support the broader economy.

NLB is the first choice for corporate clients in Slovenia

In 2023, the Bank successfully organised nine regional events for its corporate clients, with topical themes on ESG: Thinking Entrepreneurially, Acting Sustainably (Taxonomy) and AI: Artificial and Human Intelligence Partnering for Business Success.

In September, the Bank successfully migrated and integrated N Banka's clients.

Figure 40: Market share in Corporate Banking in Slovenia



(i) Change in methodology, received loans are excluded from the calculation.

Similar to the retail segment, the notable YoY rise in **net interest income** was primarily driven by the loan volume and deposit margin. Deposit interest rates, being less sensitive to market rate volatility, earned a higher segment income in a rising market rate environment, considering the short maturity of the deposit base. In contrast, the loan market has become increasingly competitive, and client rates have not increased fully to reflect recent market rate movements, resulting in slight decrease in interest margins on the loan portfolio.

Net fee and commission income decreased YoY due to the cancellation of the high balance deposit fee, which amounted to EUR 5.7 million in 2022, partially offset by higher fees from guarantees (EUR 1.3 million) and payment transactions (EUR 0.6 million).

The segment faced 8% YoY higher **costs** as operating costs increased, stemming from the general inflationary trends within the region, investments into technology enhancements, and the integration process of NLB and N Banka.

Impairments and provisions were net released in the amount of EUR 7.9 million due to the portfolio development and successful workout resolution.

The **volume of gross loans** decreased by EUR 11.3 million YoY, primarily due to EUR 120 million repaid extraordinary liquidity credit lines from the energy sector, which was approved in December 2022, and less predictable business environment influencing corporate clients to be more cautious when taking business decisions and investing in development projects. However, the Bank has been steadily increasing its market share in loans to the current 25.7%.

The **volume of deposits** decreased by 9% YoY, due to the high price elasticity of certain large corporate clients and slight decline in market share. Nevertheless, the Bank kept a solid deposit base, with most clients having house-bank relationships.

Comprehensive solution offering

Sustainable Finance

Corporate Banking continued with successful financing of the green transformation project throughout the region, encompassing the renovations of electricity distribution networks in Slovenia, the construction of a wind farm in the region, energy renovation of larger buildings, and the establishment of electric battery production in Slovenia. The Bank is increasing its share of financing the **green transformation** of Slovenian companies and beyond.

Following the August floods, the Bank has taken immediate measures to support the economy to recover from the consequences of the floods, including a more favourable loan line of EUR 100 million, and a moratorium on the repayment of loan obligations, if required.

Trade finance solutions

In the **trade finance**, the Bank maintains its leading position in the region, with a 38.6% market shares. The guarantee portfolio increased by 29.5% compared to the previous year.

The Bank's guarantees support all major infrastructure projects in Slovenia and the region. Through all types of letters of credit, which are also structured to enable financing, the Bank reduces payment and performance risks for exporters and importers.

A strong focus has been given to purchasing the receivables business, including introducing a reverse factoring product developed in Q4 2022.

Cross-Border Financing

Cross-Border activities have seen substantial development in 2023. Key highlights include EUR 175 million of signed loan facilities in 2023, combined with EUR 435 million in outstanding portfolio, and additionally EUR 100 million in still undisbursed loans by the end of 2023. Most of these financings were intended to support green and sustainable projects (newly signed loans at approx. EUR 50 million) in the home region while supporting other key industries like infrastructure, energy, and real estate.

Outside the home region, activities were concentrated on granting Schuldschein loans to major international investment-grade-rated companies from the Nordics and Western Europe. Additionally, there has been a

38.6%
market share in guarantees and letters of credit

strong emphasis on forming strategic partnerships with key stakeholders (developers, equity/quasi-equity providers, investors, and commercial and development banks), especially in the sustainable finance universe, both regionally and globally.

Successful migration and integration of N Banka clients

Investment banking & Custody

The Bank executed clients' buy and sell orders in the amount of EUR 942.6 million within **brokerage services** in 2023. In dealing with financial instruments, the Bank conducted foreign exchange spot deals amounting to EUR 1,094.8 million, and transactions involving derivatives reached EUR 173.4 million in 2023.

The NLB **trading platform** has been thriving, offering clients the best possible interaction with the Bank for executing financial instrument deals. The services for buying and selling physical gold, introduced last year, have also shown considerable growth and high interest on the clients' side in 2023.

The Bank has been actively involved in the financial advisory business. In addition to the M&A and advisory business, it was engaged in the organisation of syndicated loans (as a sole mandated lead arranger) in the amount of EUR 304 million (NLB participating in financing with EUR 162 million), and organising the bond issuing (as a lead arranger or joint lead arranger) in the nominal amount of EUR 523 million.

32%

annual growth in NLB Lease&Go, Ljubljana corporate portfolio

The Bank remains among the top Slovenian players in **custodian services** for Slovenian and international clients. The total value of assets under custody on domestic and foreign markets has increased throughout the year, amounting to EUR 18.6 billion at the end of the year (31 December 2022: EUR 16.4 billion).

Leasing financing

Intermediary business for NLB Lease&Go, Ljubljana, has also been the focus of the Bank's commercial activities, providing clients with the best possible financing solutions for financing vehicles and equipment. In NLB Lease&Go, Ljubljana, the total volume of new business in 2023 increased by 15% and reached EUR 191.3 million (including short-term financing), which had the effect on increased balance of leasing portfolio at year end of 2023 by EUR 38.7 million or 32% compared to 2022.

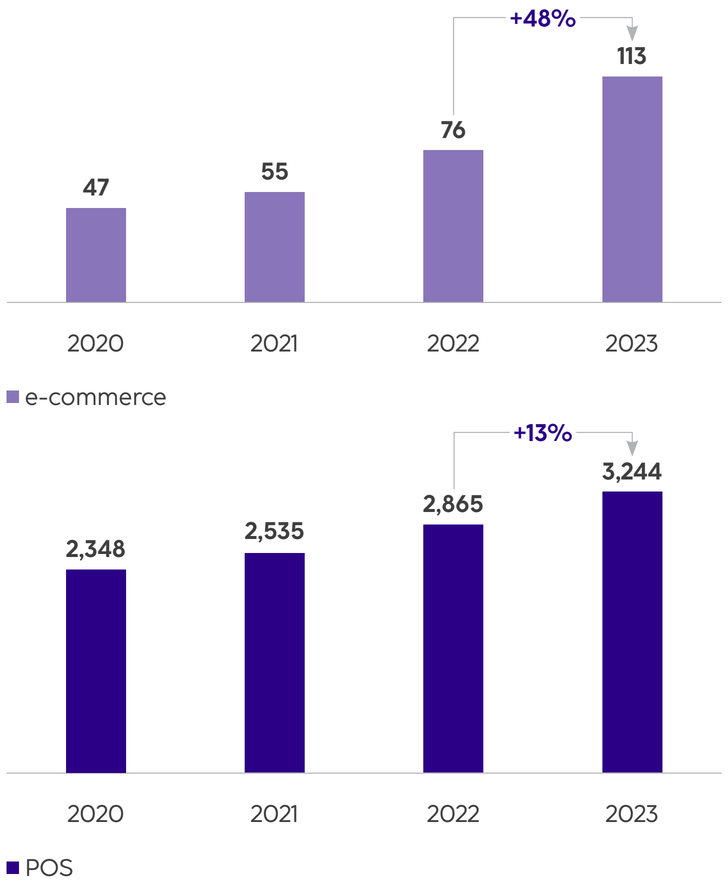
End-to-end leasing applications have gained further validity and usefulness. They have started to be used on the market, mainly through intermediaries – vehicle broker-dealers (partners), which enables a fast and smooth leasing process from start to finish.

Digital payments

In the area of digital payments, the Bank improved its solutions to corporate clients by revamping NLB Pay and incorporating Google Pay, transforming it into a virtual or smart wallet that enables payments. A new payment method for E-commerce merchants, Flik P2eM, was launched. As the first among Slovenian banks, the Bank launched the Group's new mobile POS terminal solution, NLB Smart POS, primarily for the micro-segment and small businesses. With the new app, merchants can transform their smartphones or tablets into mobile POS terminals, offering their clients simple, fast, safe, and contactless payments. In partnership with LPP, the public transportation company in Ljubljana, the Bank has introduced a transit-ready solution for card acceptance for transit payments on city buses in the Slovenian capital.

Strong focus on green eligible projects with 11% in total new business

Figure 41: Transaction volume in acquiring (in EUR millions)



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

Flik P2P enables money transfer among all Slovenian banks' clients, while Flik P2M payments enable purchases on NLB POS terminals and on POS terminals of some other Slovenian banks which have upgraded their POS.

As the first banking group in the SEE, the Group enables services arising from the SWIFT Global Payment Initiative, an international payments service enabling banks to transfer money faster and more safely worldwide. At the same time, it enables full tracking of payment orders and monitoring of related costs.

Financial Markets in Slovenia

The segment is focused on the Group's activities in international financial markets, including treasury operations. This continuous focus was on prudent liquidity reserves management in the changed interest rate environment. In 2023, the Bank issued its first senior preferred green notes of EUR 500 million.

3.7 years
average duration of the banking book debt securities portfolio

Figure 42: Contribution to NLB Group

6%

Result b.t.

5%

Net interest income

Financial and Business[7] Performance

Table 20: Performance of the Financial Markets in Slovenia segment

in EUR millions consolidated

	2023	2022	Change YoY	
Net interest income	37.8	47.3	−9.6	▼ −20%
Net interest income w/o ALM[(i)]	23.1	16.2	6.9	▲ 43%
o/w ALM	14.6	31.1	−16.5	▼ −53%
Net non-interest income	2.7	−0.7	3.4	–
Total net operating income	**40.4**	**46.6**	**−6.2**	**▼ −13%**
Total costs	−9.9	−9.4	−0.5	▼ −5%
Result before impairments and provisions	**30.5**	**37.2**	**−6.6**	**▼ −18%**
Impairments and provisions	4.8	−3.4	8.1	–
Result before tax	**35.3**	**33.8**	**1.5**	**▲ 4%**
	31 Dec 2023	**31 Dec 2022**	**Change YoY**	
Balances with Central banks	4,153.2	3,373.7	779.5	▲ 23%
Banking book securities	2,981.1	2,993.3	−12.3	0%
Interest rate[(ii)]	*1.17%*	*0.74%*	*0.43 p.p.*	
Borrowings	82.8	160.5	−77.7	▼ −48%
Interest rate[(ii)]	*1.66%*	*−0.72%*	*2.38 p.p.*	
Subordinated liabilities (Tier 2)	509.4	508.8	0.6	0%
Interest rate[(ii)]	*6.89%*	*4.16%*	*2.73 p.p.*	
Other debt securities in issue	828.8	307.2	521.6	▲ 170%
Interest rate[(ii)]	*6.56%*	*6.00%*	*0.56 p.p.*	

(i) Net interest income from assets and liabilities using FTP.
(ii) Interest rates only for NLB.

The **net interest income** was EUR 9.6 million lower YoY due to the new bond issuance and further transfer of ALM results to Retail Banking in Slovenia and Corporate and Investment Banking in Slovenia segments, while interest income from banking book improved.

There was an increase in balances with the central bank (EUR 779.5 million YoY). The excess liquidity deriving from issued debt securities was placed at the central bank. Borrowings decreased by EUR 77.7 million YoY because of the prepayment of TLTRO in the amount of EUR 63 million in H1.

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

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The Group's ALM

The Group's ALM process strategically manages the Group's balance sheet concerning the interest rate, currency, and liquidity risk considering the macroeconomic environment and financial markets developments. Monitoring and managing the Group's exposure to market risk is decentralised, with uniform guidelines and limits for each type of risk for individual Group members.

From the interest rate risk perspective, the surplus liquidity position of the Group contributed to further growth of fixed interest rate loans, mostly housing loans, and investments in high-quality debt securities. In terms of funding, the non-banking sector deposits continued to increase, mainly in the form of term deposits. The Group manages its positions and stabilises its interest margin through pricing policy adjustments, whereas to manage interest rate risk exposure, the Group actively adjusts the average duration of liquidity reserves and keeps outstanding "plain vanilla" derivatives. Active profitability management has been supported by a highly disciplined deposit pricing policy, enabling the response to a highly competitive loan market all over the Group's strategic markets.

63%
government securities in the banking book debt securities portfolio

Liquidity management

The Group's liquidity management focuses on ensuring a sufficient level of liquidity reserves to settle all due liabilities, minimising the cost of maintaining liquidity and optimising the structure of liquidity reserves.
The Group has developed a comprehensive liquidity contingency plan (LCP) to ensure an appropriate level of liquidity for different situations, including emergencies and crisis conditions.

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

Capital, liquidity, and interest rate risks management with an active presence on capital markets

Wholesale funding

Wholesale funding activities in the Group aim to achieve diversification, improve structural liquidity and capital position, and fulfil regulatory requirements, especially ensuring compliance with the MREL requirements.

The Bank was active in capital markets, issuing its first green EUR 500 million senior preferred notes with 4NC3 tenor in June for MREL purposes.

NLB Group members were also active in the wholesale market. More specifically, they obtained funding from international financial institutions. NLB Banka, Sarajevo will use its EUR 5 million credit line to meet its MREL requirement.

First issuance of senior preferred notes in green format on international capital markets

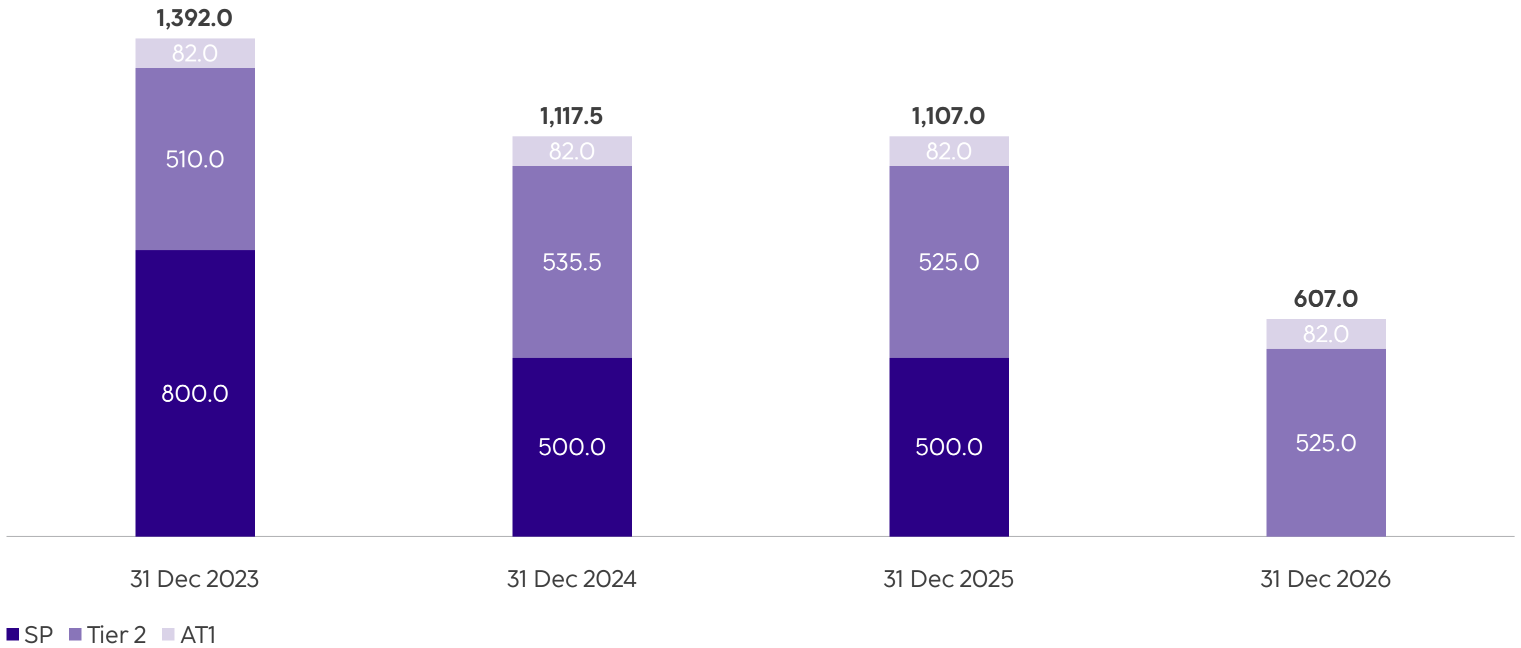
Table 21: Overview of outstanding NLB notes as at 31 December 2023[i]

in EUR millions

Type of bond	ISIN code	Issue Date	Maturity	First call date	Interest Rate	Nominal Value
Senior Preferred	XS2498964209	19 Jul 2022	19 Jul 2025	19 Jul 2024	6.000% p.a.	300
Senior Preferred	XS2641055012	27 Jun 2023	27 Jun 2027	27 Jun 2026	7.125% p.a.	500
					Total SP:	**800**
Tier 2[i]	SI0022103855	6 May 2019	6 May 2029	6 May 2024	4.200% p.a.	45
Tier 2[i]	XS2080776607	19 Nov 2019	19 Nov 2029	19 Nov 2024	3.650% p.a.	120
Tier 2[i]	XS2113139195	5 Feb 2020	5 Feb 2030	5 Feb 2025	3.400% p.a.	120
Tier 2	XS2413677464	28 Nov 2022	28 Nov 2032	28 Nov 2027	10.750% p.a.	225
					Total Tier 2:	**510**
Additional Tier 1	SI0022104275	23 Sep 2022	Perpetual[i]	between 23 Sep 2027 and 23 Mar 2028	9.721% p.a.	82
					Total AT1:	**82**
					Total outstanding:	**1,392**[i]

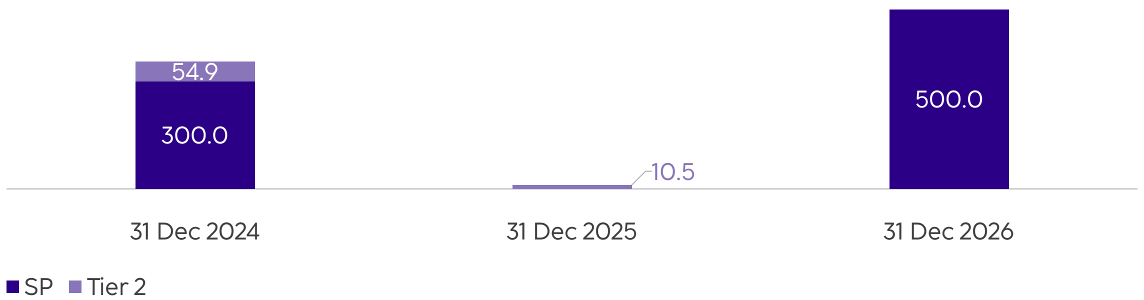
(i) Further information is available in the chapter Events After the End of the 2023 Financial Year.

Figure 43: Volume of outstanding NLB notes (in EUR millions)



Note: Including issued Tier 2 notes of EUR 300 million and repurchase of EUR 219.6 million of two existing Tier 2 notes (both in January 2024). Maturity envisaged on call date.

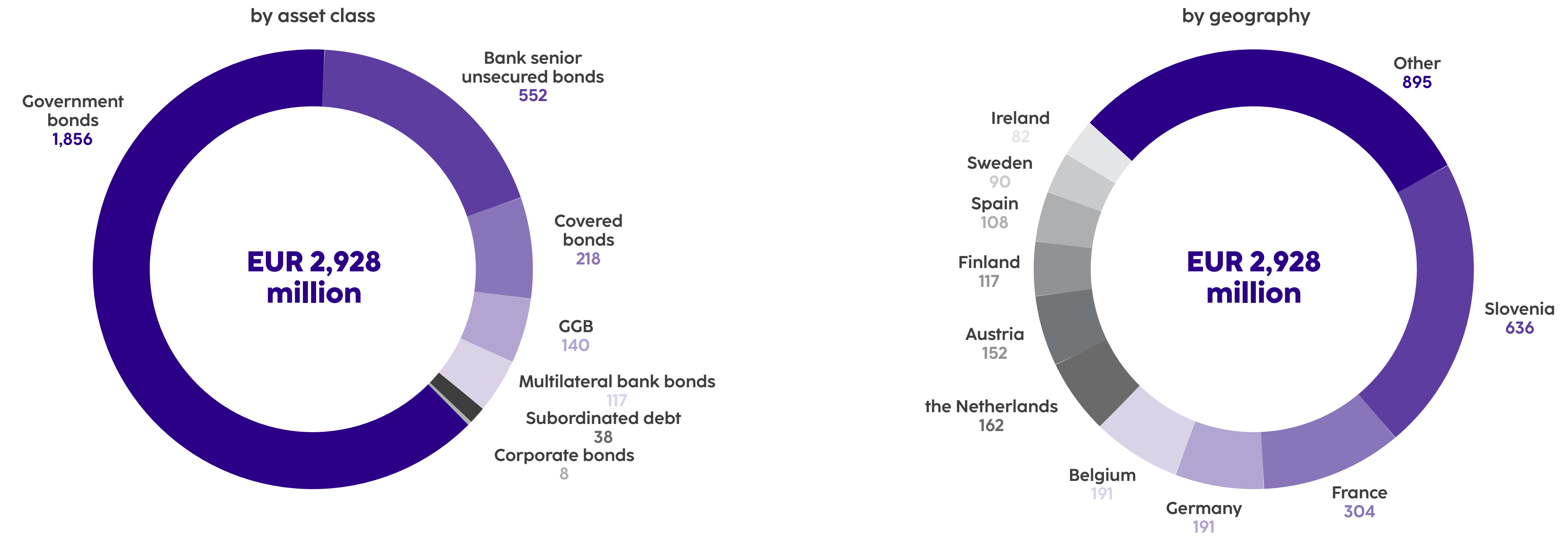
Figure 44: Refinancing needs from matured NLB notes (in EUR millions)



Note: Maturity envisaged on call date.

NLB's banking book debt securities portfolio

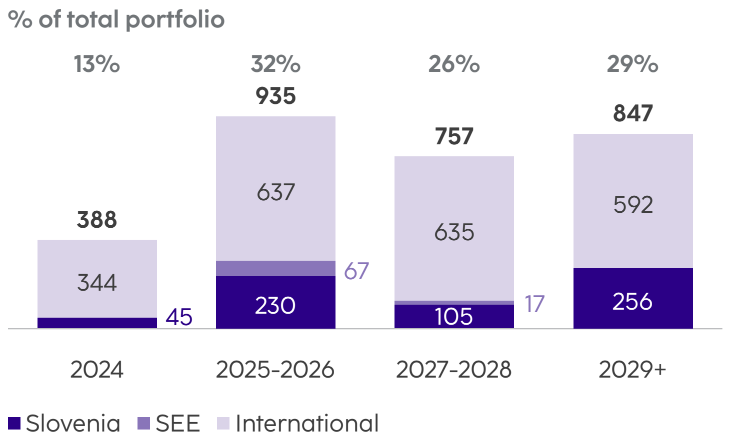
Figure 45: Banking book securities portfolio of NLB by asset class and geography as at 31 December 2023 (in EUR millions)



The purpose of banking book securities is to provide liquidity, stabilise the interest margin, and manage interest rate risk. In 2023, an ongoing goal was to further diversify the Bank's banking book securities portfolio, which at the end of 2023 amounted to EUR 2,928 million, constituting 18.3% of the Bank's total assets. At the year-end, debt securities measured at FVOCI represented 32.9% of the Bank debt securities portfolio, having a duration of 2.7 years, while the duration of the portfolio measured at AC was 4.2 years. The negative valuation of the FVOCI portfolio at year-end amounted to EUR 48 million (net of hedge accounting effects and related deferred taxes), and unrealised losses from securities measured at AC amounted to EUR 77 million.

The average duration of the Bank's banking book debt securities was approximately 3.7 years at year-end, and the average yield on the Bank's banking book debt securities portfolio increased by 0.43 p.p. YoY to 1.17%.

Figure 46: Maturity profile of NLB banking book securities as at 31 December 2023



As of year-end, the Bank is no longer exposed to the Russian Federation. The USD 8 million nominal exposure that would have otherwise matured in September 2023 had been sold at the beginning of February 2023, contributing to the impairment release of EUR 4.2 million.

As the Group actively works on incorporating ESG in its business profile, the portfolio reflects the growing market of ESG bonds. The Bank's debt securities portfolio includes EUR 287 million (or 9.8%) of the ESG debt securities issued by governments, multilateral organisations or financial institutions, of which EUR 132 million were bought in 2023. Additional information is available in the NLB Group Sustainability Report 2023.

Inspiration that can often be transferred to the business environment as well.

Slovenian biathlon and cross-country teams

There's always room for faster times.

Strategic Foreign Markets

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

The core financial part of the Group in the Strategic Foreign Markets segment consists of six banks, one asset management company, a captive IT services company, and two leasing companies. The Group banking subsidiaries are locally firmly entrenched as important financial institutions and market leaders across various business segments and provide a comprehensive range of financial services to retail and corporate clients. All Group subsidiary banks have a stable market position and enjoy a robust reputation. The market share of the banking subsidiaries, measured by total assets, reached or surpassed 10% in five out of six markets.

In 2023, in a rising interest rates environment, the Group banks marked remarkable double-digit growth of gross loans to customers, above the local market average, especially in the retail segment, thereby contributing to the overall economic development of local countries' households and supporting green financing.

In line with the self-funding strategy, the Group banks attracted new depositors (9% YoY growth), adapting to prevailing market conditions, thus ensuring organic growth and keeping optimal balance sheet structure.

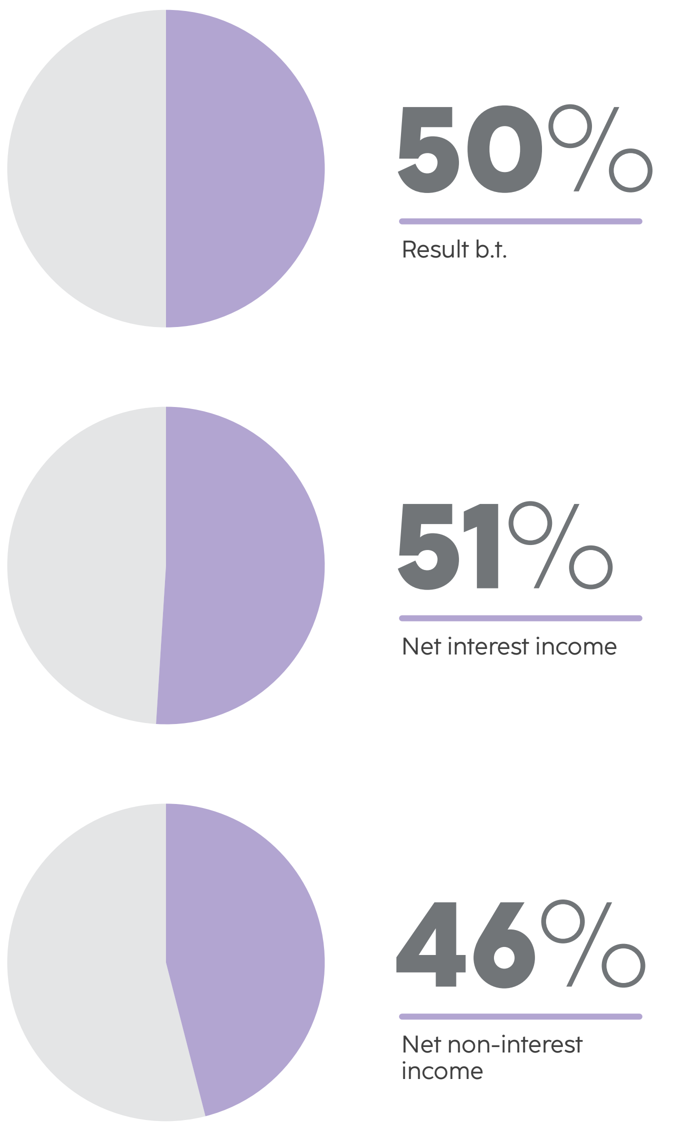
The Group banks' ESG and CSR activities were continuously upgraded by supporting the financial literacy of clients, organising the #FrameOfHelp project for small entrepreneurs, tree planting activities, and many more events, as stated in the Group Sustainability report.

In 2023, the Group banks accelerated their digital transformation by automating processes and offering various digital solutions to clients, thus bringing, first in some markets, various solutions further boosting digital penetration by almost doubling the number of digital users.

For their efforts in digital solutions and green financing, several Group banks received notable awards for their contribution to the local countries of operation.

Leasing operations continued with solid growth, especially in Serbia, by achieving a market share in new production of 11.5%.

Figure 47: Contribution to NLB Group



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

Profit before tax

EUR 291.5 million

56% higher compared to last year

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Financial and Business Performance

Table 22: Results of the Strategic Foreign Markets segment

in EUR millions consolidated

	2023	2022	Change YoY	
Net interest income	423.2	298.0	125.2	▲ 42%
Interest income	472.5	322.8	149.7	▲ 46%
Interest expense	−49.3	−24.8	−24.5	▼ −99%
Net non-interest income	118.4	129.5	−11.1	▼ −9%
o/w Net fee and c ommission income	124.1	118.7	5.4	▲ 5%
Total net operating income	**541.6**	**427.6**	**114.0**	**▲ 27%**
Total costs	−251.2	−228.1	−23.1	▼ −10%
Result before impairments and provisions	**290.4**	**199.4**	**91.0**	**▲ 46%**
Impairments and provisions	1.1	−12.3	13.4	–
Result before tax	**291.5**	**187.1**	**104.4**	**▲ 56%**
o/w Result of minority shareholders	12.6	11.0	1.7	▲ 15%

	31 Dec 2023	31 Dec 2022	Change YoY	
Net loans to customers	6,648.1	6,077.5	570.6	▲ 9%
Gross loans to customers	6,839.8	6,271.4	568.5	▲ 9%
Individuals	3,525.6	3,221.0	304.6	▲ 9%
Interest rate on retail loans	*6.63%*	*5.66%*	*0.97 p.p.*	
Corporate	3,042.9	2,869.0	173.9	▲ 6%
Interest rate on corporate loans	*5.37%*	*3.84%*	*1.53 p.p.*	
State	271.4	181.4	90.0	▲ 50%
Interest rate on state loans	*7.13%*	*3.65%*	*3.48 p.p.*	
Deposits from customers	8,878.3	8,171.2	707.1	▲ 9%
Interest rate on deposits	*0.38%*	*0.17%*	*0.21 p.p.*	
Non-performing loans (gross)	134.0	160.6	−26.7	▼ −17%

	2023	2022	Change YoY
Cost of risk (in bps)	−13	7	−20
CIR	46.4%	53.4%	−7.0 p.p.
Net interest margin	4.19%	3.14%	1.05 p.p.

Amid an increasing interest rate environment, persisting pricing pressures, and regulatory changes and interventions, and despite signs of an economic slowdown, the banking members from the Group continued to grow, which resulted in remarkable 2023 results. Serving various business segments of clients, the banks exhibit solid liquidity and capital.

The **volume of the loans** increased 9% YoY . The most significant increase in gross loans to customers was achieved by NLB Banka, Prishtina (12% YoY), NLB Banka, Sarajevo (10% YoY), NLB Banka, Podgorica (9% YoY) and NLB Komercijalna Banka, Beograd (9% YoY). High performance in new business production continued in the corporate and retail segments as several products and services were upgraded, which included streamlining and modernising their distribution network and improving their digital offering.

NLB **Lease&Go Leasing, Beograd** realised a remarkable growth in new financial leasing financing of EUR 85.3 million YoY by increasing the financial leasing market share in the country's new leasing production to approximately 11.5%.

The higher interest rate environment and economic contraction affected customers' behaviour. The overall confidence remained strong, and the total customer deposit base increased by 9% YoY. The net interest income increased by EUR 125.2 million YoY due to higher volumes and interest rate hikes. All banking members recorded a double-digit increase YoY, with the highest impact in an interest rate increase in NLB Komercijalna Banka, Beograd, of EUR 77.9 million YoY, due to a high portion of the portfolio at the variable interest rates.

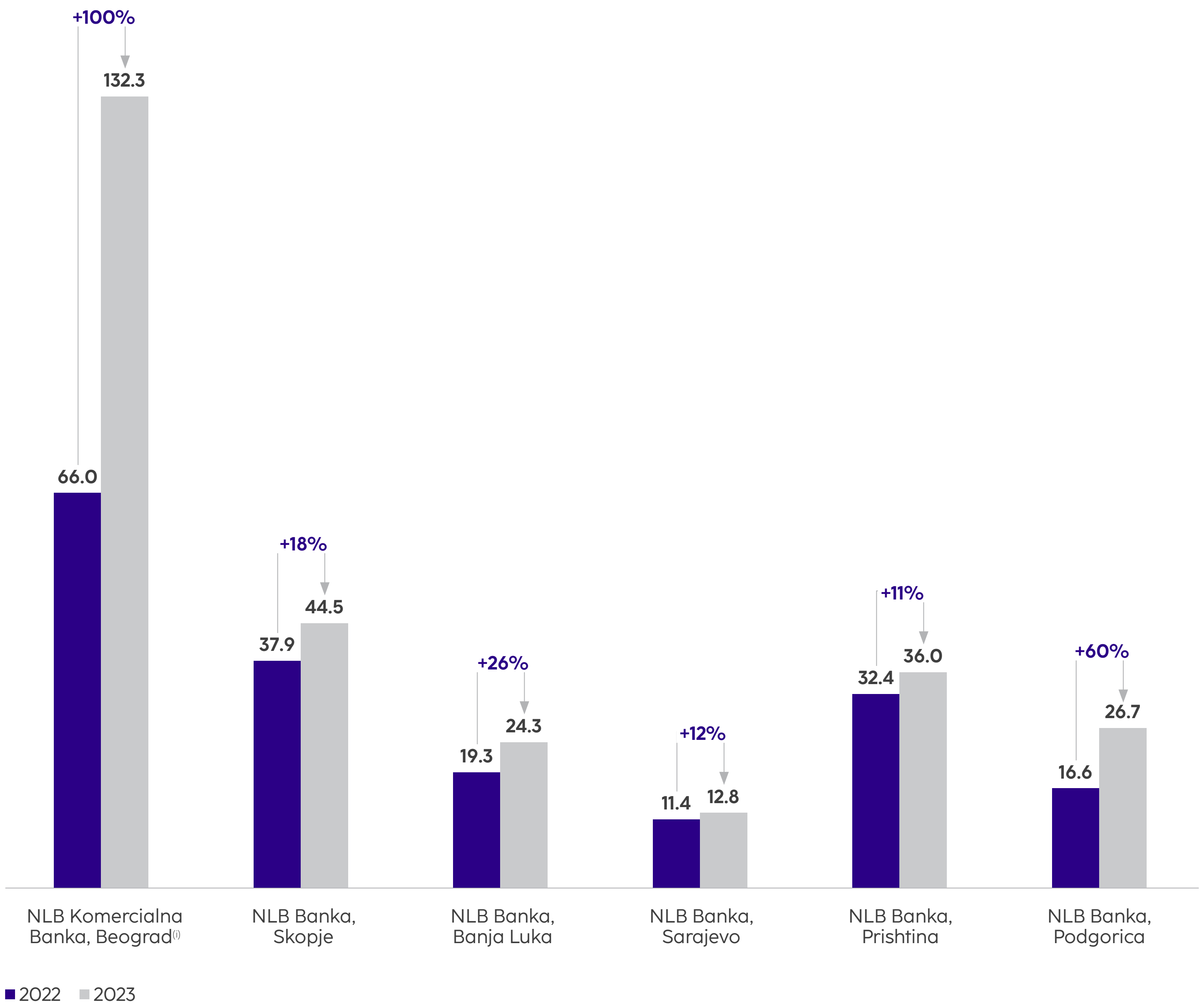
The net fee and commission income increased by EUR 5.4 million due to higher volumes of card business and payments, repricing activities and increased sale of bancassurance products. Nevertheless, the total net non-interest income of the segment decreased by EUR 11.1 million YoY due to a EUR 15.3 million modification loss related to interest rate regulation on housing loans in NLB Komercijalna Banka, Beograd.

Total costs increased by EUR 23.1 million YoY due to higher operating costs resulting from inflationary pressures and increase in leasing activities. However, the CIR of the segment improved to 46.4%.

Impairments and provisions were net released in EUR 1.1 million due to successful NPL resolution.

The banking members as leading financial institutions in the SEE markets, leasing financing is growing

Figure 48: Result after tax of strategic NLB Group banks (in EUR millions)



(i) Merger of NLB Komercijalna Banka, Beograd and NLB Banka, Beograd on 30 April 2022. The profit of NLB Komercijalna Banka, Beograd in 2022 does not include the profit of NLB Banka, Beograd (EUR 2.2 million).

The rising interest rates on the market supported SEE banking members' results, thus showing a net interest margin between 3.03% (NLB Banka, Sarajevo) and 4.75% (NLB Banka, Podgorica).

Retail Banking

Despite the loan squeeze due to increasing interest rates, the banking members realised robust new retail loan production of 9% YoY. The loan portfolio to individuals increased in all banking members. New loan production was still high, significantly outperforming the local markets, especially in consumer loans. The highest increase in loans to individuals was achieved by NLB Banka, Prishtina, and both Bosnian banks with double-digit growth, followed by other banks in the region with the single-digit growth of the loan portfolio.

Moreover, all the banks in the Group increased their market share in consumer lending from 0.1 p.p. to 1.8 p.p. YoY. NLB Banka, Banja Luka achieved an impressive growth of 1.8 p.p. market share YtD, following NLB Komercijalna Banka, Beograd (0.6 p.p.), NLB Banka, Skopje (0.8 p.p.), NLB Banka, Prishtina (0.6 p.p.), and NLB Banka, Sarajevo (0.1 p.p.). In terms of housing loans, NLB Banka, Banja Luka marked a remarkable boost of 1.3 p.p., followed by NLB Komercijalna Banka, Beograd (0.6 p.p.), NLB Banka, Podgorica (0.3 p.p.) and NLB Banka, Skopje (0.3 p.p.).

New production in ESG loans accelerated in 2023 with the offering of various NLB Green Loans through partners – Eco mortgage loans through business partners, Eco home appliance loans, electric and hybrid vehicles, and so forth.

Turbulences in the banking sector at the beginning of the year increased client concerns over their deposits. The Group banks retained customer confidence as the total segment deposits from individuals increased by 5% YoY.

Corporate Banking

The banking members maintained a positive trend in approving new financing and attracting new corporate clients. The portfolio to corporate clients recorded a 6% YoY growth, with the highest growth levels achieved in NLB Komercijalna Banka, Beograd, NLB Banka, Sarajevo and NLB Banka, Prishtina with low-double or high-single digit growth.

The banks continued with sustainable financing by supporting green investments, particularly in solar power plants and energy efficiency.

The SEE banks attracted corporate deposits by boosting corporate balances of the segment by 17% YoY.

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NLB Komercijalna Banka, Beograd

In 2023, the bank achieved remarkable profitability with growth of its net profit by 100%. The bank managed to increase lending activities in all segments significantly and, throughout the year, achieved higher growth than the market while improving the quality of the loan portfolio by embedding it as a leading banking institution in the local market. Despite a considerable drop in housing loan demand in 2023, the bank marked growth over the market. The increased interest rates also served as a important factor of profit growth.

NLB Komercijalna Banka, Beograd started the complete transformation of the business model by introducing an agile, simple, and fast working model, digitalising products and services, and putting a sustainability concept at the centre of business decisions. In 2023, the bank was awarded a digital award for the first time for "Welcome to the Bank of Real Opportunities" for two socially responsible campaigns – "NLB Organic" and "NLB Frame of Help" as well, and the bank became the first certified family-friendly bank in Serbia.

EUR 132 million
result a.t.

24%
contribution to NLB Group's result a.t.

9.9%
market share by total assets

5th
largest bank in the country

Financial and Business Performance

Table 23: Key performance indicators of NLB Komercijalna Banka, Beograd(i)

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	211,296	124,269	▲ 70%
Net non-interest income	49,686	58,805	▼ −16%
Total costs	−113,634	−102,137	▼ −11%
Impairments and provisions	1,933	−11,801	–
Result before tax	149,281	69,136	▲ 116%
Result after tax	132,313	66,014	▲ 100%
Financial position statement indicators			
Total assets	5,019,429	4,670,405	▲ 7%
Net loans to customers	2,811,599	2,589,222	▲ 9%
Gross loans to customers	2,848,543	2,624,735	▲ 9%
Deposits from customers	4,004,112	3,692,213	▲ 8%
Equity	827,575	737,972	▲ 12%
Key financial indicators			
Total capital ratio	27.1%	24.6%	2.5 p.p.
Net interest margin	4.7%	3.0%	1.7 p.p.
ROE a.t.	16.9%	9.6%	7.3 p.p.
ROA a.t.	2.8%	1.5%	1.3 p.p.
CIR	43.5%	56.6%	−13.1 p.p.
NPL volume	22,490	32,519	−31%
NPL ratio (internal def.: NPL/Total loans)	0.6%	1.0%	−0.4 p.p.
Market share by total assets	9.9%	10.0%	−0.1 p.p.
LTD	70.2%	70.1%	0.1 p.p.

(i) Data on a stand-alone basis as included in the Group's consolidated financial statements. In April 2022, NLB Banka, Beograd merged with Komercijalna Banka, Beograd. Key financial indicators (ROE a.t., ROA a.t., CIR and net interest margin) for 2022 calculated for the merged bank.

Retail banking

Despite operating in a challenging environment, the retail segment recorded 5% YoY growth in gross loans over the average market growth, driven mainly by increased volume of consumer loans. The bank continued to gain the growth of the market share of retail loans to 12%.

Significant double-digit growth in consumer loans was marked (10% YoY) by increasing the market share to 10.4%. Despite a decline in demand in the housing segment, growth above the market peers was achieved at 4% YoY, thus boosting the share in the housing segment by 40 bps to 12.7%.

The deposit base increased by 5% YoY. The interest margin in the retail segment was still high, but under intense pressure from competition.

Corporate banking

The corporate segment in 2023 observed a 6% growth in gross loans. The bank aimed to build a strong value proposition for all products and services in the cross and upselling program, which also brought added-value to customers.

The bank participated in green project financing, thus confirming its commitment to the green agenda and ESG targets by supporting the increase of renewable energy in Serbia. The bank also approved several project financings for important real estate developments and sovereign funding for road infrastructure development.

NLB Banka, Skopje

The bank is a leading banking institution in the local market and is identified as a systemically important bank. In 2023, its success was once again confirmed and recognised by receiving several prestigious awards in the fields of banking, outstanding growth in cashless payment systems of the country, and demonstrated humanity and solidarity.

The bank continues to support the country's population and economy. The focus remains on digitalisation, improving digital channels to increase customer digital penetration, improve customer experience, and expand the portfolio of products and services with a particular focus on "green" products, as well as socially responsible projects for caring for their employees and the community in its entirety.

EUR 45 million
result a.t.

7%
contribution to NLB Group's result a.t.

15.6%
market share by total assets

3rd
largest bank in the country

Financial and Business Performance

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

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	65,406	53,932	▲ 21%
Net non-interest income	21,198	21,948	▼ -3%
Total costs	-36,416	-31,778	▼ -15%
Impairments and provisions	-761	-2,434	▲ 69%
Result before tax	49,427	41,668	▲ 19%
Result after tax	44,517	37,874	▲ 18%
Financial position statement indicators			
Total assets	1,902,260	1,847,521	▲ 3%
Net loans to customers	1,216,188	1,170,692	▲ 4%
Gross loans to customers	1,276,133	1,234,343	▲ 3%
Deposits from customers	1,499,509	1,462,015	▲ 3%
Equity	279,987	265,844	▲ 5%
Key financial indicators			
Total capital ratio	18.9%	18.2%	0.7 p.p.
Net interest margin	3.7%	3.1%	0.5 p.p.
ROE a.t.	16.5%	15.0%	1.5 p.p.
ROA a.t.	2.4%	2.1%	0.3 p.p.
CIR	42.0%	41.9%	0.2 p.p.
NPL volume	48,791	54,549	-11%
NPL ratio (internal def.: NPL/Total loans)	3.1%	3.6%	-0.5 p.p.
Market share by total assets	15.6%	16.3%	-0.7 p.p.
LTD	81.1%	80.1%	1.0 p.p.

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

Retail banking

The gross loans experienced significant YoY growth of 10% with the increase in housing (12%) and consumer loans (11%), surpassing the 2023 market growth. The highest amounts of disbursed loans so far in the retail segment led to an increase in the market share to 22.7%.

The deposit base increased by 1.4% YoY. The interest margin in the retail segment was still high, but under intense pressure from competition. The key drivers of income growth were the portfolio increase, foreign payment operations, account management, and bancassurance.

Corporate banking

As of 31 December 2023, the bank had a market share of 12.4% in corporate gross loans. Considering the strategic orientation, NLB Banka, Skopje maintained its interest in credit support for investments in renewable sources and projects to increase energy efficiency, modernisation, and automation of the corporate segment.

The bank increased the portfolio in the segment of long-term financing of highly creditworthy clients, securing a stable portfolio and revenue generation. The bank had a total outstanding balance of EUR 41 million in project financing and almost EUR 30 million outstanding balance of loans approved for investments in renewable sources and energy-efficient investments.

NLB Banka Skopje also supported many export-oriented companies by offering them services and products appropriate for their operation to adapt to emerging market conditions. In response to macroeconomic developments, corporate interest rates were aligned with market conditions throughout the year.

NLB Banka, Banja Luka

In 2023, the bank remained the second most important bank in the Republic of Srpska market, reaffirming its status as a leading bank in retail with an increased market share of 21.7% (increased by 1.6 p.p.). The predominant strength of the bank was its market position in the corporate and retail segments and a solid deposit base. As evidence of a highly successful year, the bank also received several "Golden BAM" awards for the highest ROE, the best CIR, and, for the first time, the award for being the most innovative bank in the market of Bosnia and Herzegovina.

EUR 24 million
result a.t.

4%
contribution to NLB Group's result a.t.

20.4%
market share by total assets

2nd
largest bank in the country

Financial and Business Performance

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

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	32,475	23,594	▲ 38%
Net non-interest income	14,399	14,941	▼ -4%
Total costs	-19,433	-17,293	▼ -12%
Impairments and provisions	-763	-280	▼ -173%
Result before tax	26,678	20,962	▲ 27%
Result after tax	24,269	19,281	▲ 26%
Financial position statement indicators			
Total assets	1,040,630	995,308	▲ 5%
Net loans to customers	556,960	523,238	▲ 6%
Gross loans to customers	575,960	540,533	▲ 7%
Deposits from customers	840,115	796,668	▲ 5%
Equity	107,270	96,237	▲ 11%
Key financial indicators			
Total capital ratio	15.9%	16.0%	-0.1 p.p.
Net interest margin	3.4%	2.6%	0.8 p.p.
ROE a.t.	24.2%	20.2%	4.0 p.p.
ROA a.t.	2.4%	2.0%	0.4 p.p.
CIR	41.5%	44.9%	-3.4 p.p.
NPL volume	5,543	8,272	-33%
NPL ratio (internal def.: NPL/Total loans)	0.7%	1.1%	-0.4 p.p.
Market share by total assets	20.4%	20.1%	0.3 p.p.
LTD	66.3%	65.7%	0.6 p.p.

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

Retail banking

Retail banking recorded excellent double-digit YoY growth in gross loans (13%), while deposits grew by 6% YoY. Consumer loans increased by 19% and housing loans by 7% YoY. The market share in retail loans rose by 1.9 p.p. YoY and reached 22.0%, while the market share in retail deposits was 25.7%. The key drivers of income growth were interest income and income from accounts and payments processing.

The focus remains on further growth of the retail portfolio, with particular emphasis on introducing additional customer services, especially in digitalisation and bancassurance services.

Corporate banking

Corporate banking recorded YoY growth in gross loans (2%) by supporting local companies in short- and long-term projects.

Corporate deposits recorded YoY growth of 12%, which supported the bank's organic growth.

NLB Banka, Sarajevo

In 2023, the bank showed solid performance and remarkable loan growth of 10% by boosting the bank's market share. The predominant strength of the bank was in consumer lending and the development of innovative retail products, largely contributing to the high share of net non-interest income (31% of net fee and commission income in total net operating income). The bank achieved an impressive 31% YoY growth in net interest income, driven by a substantial surge in loan volume and vigilant monitoring of market and interest rate trends.

In 2023, the bank launched new digital products and actively contributed to the country's green financing initiatives. As a result, it received several awards in the local market, namely the Golden BAM award for the "Total ESG Effect" category; awards for the best digital socially responsible campaign, "The Healing Horse" and "Go Green Star"; as well the Visa Awards for "Google Pay Launch" and for First-to-Market with "Tap-to-Phone".

EUR 13 million result a.t.

2% contribution to NLB Group's result a.t.

6.2% market share by total assets

6th largest bank in the Federation of BiH

Financial and Business Performance

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

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	25,490	19,524	▲ 31%
Net non-interest income	11,203	12,152	▼ −8%
Total costs	−19,877	−18,304	▼ −9%
Impairments and provisions	−2,939	−982	▼ −199%
Result before tax	13,877	12,390	▲ 12%
Result after tax	12,819	11,436	▲ 12%
Financial position statement indicators			
Total assets	917,233	838,117	▲ 9%
Net loans to customers	575,560	521,326	▲ 10%
Gross loans to customers	597,715	542,001	▲ 10%
Deposits from customers	749,708	673,402	▲ 11%
Equity	95,980	90,608	▲ 6%
Key financial indicators			
Total capital ratio	17.8%	16.5%	1.3 p.p.
Net interest margin	3.0%	2.6%	0.4 p.p.
ROE a.t.	13.6%	12.5%	1.1 p.p.
ROA a.t.	1.5%	1.5%	0.0 p.p.
CIR	54.2%	57.8%	−3.6 p.p.
NPL volume	15,732	16,986	−7%
NPL ratio (internal def.: NPL/Total loans)	2.0%	2.3%	−0.3 p.p.
Market share by total assets	6.2%	6.0%	0.2 p.p.
LTD	76.8%	77.4%	−0.6 p.p.

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

Retail banking

Retail banking recorded YoY growth in gross loans, reaching 10%, propelled by the expansion of housing and consumer loans. Housing loans experienced a YoY increase by 7%, while the consumer loans portfolio grew by 12% YoY, attributed to heightened demand, various campaigns, and increased employee engagement.

Additionally, the average interest rate in the retail segment rose to 5.63% in 2023 compared to 5.37% in 2022.

Corporate banking

The corporate banking segment achieved YoY growth in gross loans, reaching 10%. The focus was increasing the client loan portfolio by acquiring new creditworthy clients. Also, a positive trend was observed in the volume of the guarantees portfolio. A strong focus is placed on green loans and the implementation of ESG standards as well.

Corporate deposits reached YoY growth of 21%, accompanied by a shift in the maturity structure, with an increasing share of corporate term deposits by 8% YoY.

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NLB Banka, Prishtina

In 2023, the bank kept its leading position in profitability by increasing its net profit by 11%. It ranked the second biggest bank in Kosovo by increasing its total assets by 13% YoY. The bank's predominant strength has been providing a full spectrum of financial services to retail and corporate clients, and being a market leader in innovations in the local banking sector. Net interest income grew by 18% YoY, mainly due to boosting lending activities and optimising investments in securities and the balance sheet.

The bank received the EBRD "Most Active Local Bank in Using TFP Line" award for several consecutive years.

EUR 36 million result a.t.

5% contribution to NLB Group's result a.t.

16.9% market share by total assets

2nd largest bank in the country

Financial and Business Performance

Table 27: Key performance indicators of NLB Banka, Prishtina(i)

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	47,165	39,844	18%
Net non-interest income	8,017	8,547	–6%
Total costs	–15,995	–14,348	–11%
Impairments and provisions	776	2,052	–62%
Result before tax	39,963	36,095	11%
Result after tax	35,968	32,402	11%
Financial position statement indicators			
Total assets	1,229,757	1,083,638	13%
Net loans to customers	831,333	740,775	12%
Gross loans to customers	866,730	777,202	12%
Deposits from customers	1,008,261	894,242	13%
Equity	149,669	113,844	31%
Key financial indicators			
Total capital ratio	15.8%	15.7%	0.1 p.p.
Net interest margin	4.2%	4.1%	0.1 p.p.
ROE a.t.	27.3%	29.2%	–1.9 p.p.
ROA a.t.	3.2%	3.3%	–0.1 p.p.
CIR	29.0%	29.7%	–0.7 p.p.
NPL volume	16,234	15,705	3%
NPL ratio (internal def.: NPL/Total loans)	1.6%	1.7%	–0.1 p.p.
Market share by total assets	16.9%	16.7%	0.2 p.p.
LTD	82.5%	82.8%	–0.4 p.p.

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

Retail banking

In 2023, the bank achieved YoY growth in gross loans (18%) and deposits (8%). The growth in retail was predominately fuelled by heightened loan demand and a further rise in the general consumption pattern. This, in turn, has resulted in an inflation-driven increase in real estate prices. The growth in housing loans reached 16%, and consumer loans showed a substantial 24% YoY increase.

In addition, the bank has signed several partnership agreements with construction and trade companies to finance their products and boost the performance committed by the sales department.

Corporate banking

Corporate banking recorded YoY growth in gross loans of 7%, mainly driven by the disruption of the normal supply chain (external factors) and the cross-selling of products through existing corporate clients, particularly targeting new retail and SME clients. Optimisation of the bank's liquidity structure was highlighted by an 18.5% YoY deposits increase. The key drivers of income growth were working capital loans, credit lines, and overdrafts. Cooperation on the Group level resulted in financing the construction of a major locally recognised project that contributed largely to clean energy production from renewable sources.

NLB Banka, Podgorica

In 2023, the bank maintained the second position within 11 banks in the market and is identified as a systemically important bank. The predominant strength of the bank is seen in housing and consumer loans, where the bank is an important player in the local market.

The Bank received th e recognition »The Best Bank in Montenegro« for the second year in a row, awarded by the world's most influential financial magazine, Euromoney. It also presented the bank with two more valuable awards, declaring it the best ESG and socially responsible bank in Montenegro.

EUR 27 million
result a.t.

4%
contribution to NLB Group's result a.t.

14.4%
market share by total assets

2nd
largest bank in the country

Financial and Business Performance

Table 28: Key performance indicators of NLB Banka, Podgorica[i]

in EUR thousands

	2023	2022	Change YoY
Key performance indicators			
Net interest income	40,335	29,607	▲ 36%
Net non-interest income	8,955	7,720	▲ 16%
Total costs	−20,418	−20,252	▼ −1%
Impairments and provisions	3,238	1,165	▲ 178%
Result before tax	32,110	18,240	▲ 76%
Result after tax	26,658	16,613	▲ 60%
Financial position statement indicators			
Total assets	971,149	851,630	▲ 14%
Net loans to customers	584,526	532,254	▲ 10%
Gross loans to customers	603,349	552,470	▲ 9%
Deposits from customers	798,018	692,872	▲ 15%
Equity	120,390	106,937	▲ 13%
Key financial indicators			
Total capital ratio	19.2%	18.4%	0.8 p.p.
Net interest margin	4.8%	4.0%	0.7 p.p.
ROE a.t.	22.9%	16.7%	6.2 p.p.
ROA a.t.	2.9%	2.1%	0.8 p.p.
CIR	41.4%	54.3%	−12.8 p.p.
NPL volume	24,140	32,610	−26%
NPL ratio (internal def.: NPL/Total loans)	3.2%	4.6%	−1.4 p.p.
Market share by total assets	14.4%	13.3%	1.1 p.p.
LTD	73.2%	76.8%	−3.6 p.p.

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

Retail banking

Retail banking recorded YoY growth in gross loans (10%) and deposits (8%). Consumer loans present 52% of the retail portfolio, while housing loans occupied 48%. Growth in gross loans was recorded by the increase in consumer loans volume by 12% YoY and housing loans by 7% YoY. Consumer loan growth was affected by timely organised and well-executed consumer loan campaigns following increased salaries within state institutions.

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

Corporate banking

The corporate banking segment recorded YoY growth in gross loans (3%) and deposits (26%). The loan portfolio predominantly consisted of large corporates, which increased by 6% YoY. New production of EUR 81.5 million was recorded in all segments — large corporate, state, and SME — by improving the existing portfolio quality.

The Group financed several strategic corporate projects in the country, such as a wind power plant in the amount of EUR 25 million, an electric transmission infrastructure, and a high-end business centre in Montenegro.

The Bank and EBRD signed a contract worth EUR 2 million to lend to the population for energy-efficient residential building investments and reduce costs and CO_2 emissions.

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NLB DigIT, Beograd

The company is the IT hub, supporting the Group members and spearheading digital transformation projects. The company was built on the resource pool of the Group Competence Centre of NLB Banka, Beograd (merged into NLB Komercijalana Banka, Beograd in 2022), and additional external staff onboarding.

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

Leasing and Asset Management operations expansion in SEE

The Group is consolidating its strategically important position in its home SEE region, announcing new acquisitions within leasing and asset management activities. Leasing is one of the strategic activities of the NLB Group. It complements the Bank's lending services and enables retail and corporate clients to choose the option that best addresses their needs, situations, and preferences.

After entering the Slovenian market with NLB Lease&Go, Ljubljana in the spring of 2020, leasing activities gained momentum. New leasing companies were established within the Group in 2022 in North Macedonia and Serbia. With remarkable growth, especially in Serbia, NLB Lease&Go Leasing, Beograd and NLB Lease&Go, Skopje ended the year 2023 with EUR 69.4 million and EUR 9.3 million of net loans to customers, respectively.

In November 2023, the Bank entered into a sale and purchase agreement to acquire a 100% shareholding in SLS HOLDCO, holdinška družba, d.o.o., the parent company of Summit Leasing Slovenija d.o.o., and its subsidiaries, from funds managed by affiliates of Apollo Global Management Inc. and the EBRD.

Meanwhile, the Group and its member company NLB Skladi, which offers clients asset management services, are also writing a new regional story. NLB Skladi, asset management, d.o.o. has recently concluded a purchase agreement with Generali Investments to purchase the majority ownership of the company Generali Investments AD Skopje.

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Non-Core Members

The Non-Core Members segment includes the operations of non-core Group members. The main objective in the non-core segment remains a rigorous wind-down of all non-core portfolios and the consequent reduction of costs. The implementation of the wind-down has been pursued with a variety of measures, including the sales of portfolios (either packages that include portfolios in a single market or entity, as well as packages combining portfolios in different markets and/or entities), sales or liquidation of non-core entities, sales of individual assets, the collection or restructuring of individual assets, and active management of real estate assets.

Financial and Business Performance

Table 29: Results of the Non-Core Members segment

in EUR millions consolidated

	2023	2022	Change YoY	
Net interest income	1.5	0.3	1.3	–
Net non-interest income	−1.7	4.4	−6.1	–
Total net operating income	**−0.1**	**4.7**	**−4.8**	**–**
Total costs	−13.7	−12.6	−1.1	−9%
Result before impairments and provisions	**−13.9**	**−7.9**	**−6.0**	**−75%**
Impairments and provisions	3.7	−0.8	4.6	–
Result before tax	**−10.1**	**−8.7**	**−1.4**	**−16%**

	31 Dec 2023	31 Dec 2022	Change YoY	
Segment assets	**47.1**	**61.5**	**−14.5**	**−24%**
Net loans to customers	10.9	13.8	−2.9	−21%
Gross loans to customers	28.6	35.4	−6.9	−19%
Investment property and property & equipment received for repayment of loans	20.1	39.6	−19.5	−49%
Other assets	16.0	8.1	7.9	97%
Non-performing loans (gross)	27.4	32.3	−4.8	−15%

The wind-down has remained the main objective of the non-core segment in all the non-core portfolios. In line with the divestment strategy, several non-core Group members were liquidated or disinvested, thus the segment's total assets decreased by EUR 14.5 million YoY.

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

Divestment of non-core Group members

A liquidation process is ongoing in all non-core leasing and trade finance subsidiaries and some real estate subsidiaries. The divestment process has been running with thoughtful cost management and well-established collection procedures.

Active management of real estate assets

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

The main task is to ensure value-preserving strategies for the real estate management, respectively, the collateral value of NPL claims by either temporarily repossessing real estate or ensuring a value-preserving divestment process of the real estate or a claim. From 2015 to 2023, real-estate transactions with a total sales value of EUR 290.3 million were executed or supported and directly or indirectly contributed to a EUR 656.4 million NPL reduction, of which EUR 9.9 million in 2023 alone.

In order to achieve efficient, sustainable, environmentally and socially responsible NLB Group operations, as per NLB Group Real Estate strategy, as of 2024, the NLB Real Estate Management companies will be part of the non-financial core Group members.

EUR 6.9 million
reduction of gross loans to customers in 2023

EUR 48.2 million
the total sales value of real-estate transactions executed or supported by the real-estate team in 2023

It is the sporting mentality that our economy and entrepreneurship also need on the global stage.

Slovenian men's national volleyball team

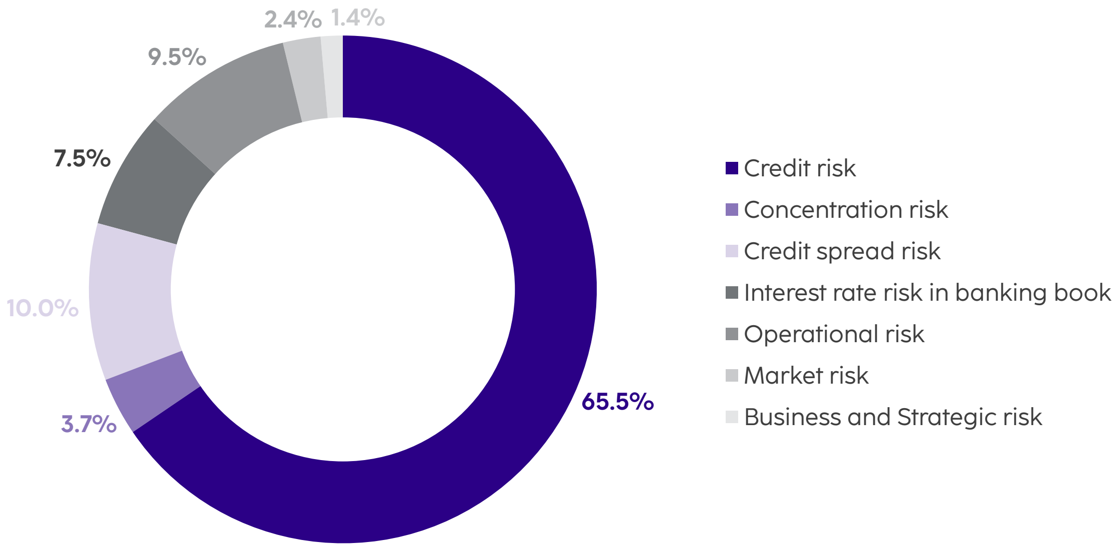
Elevate your game and leave your heart on the court.

Risk Management

The self-funded model, strong liquidity, and a solid capital position continued in 2023, demonstrating the Group's financial resilience. Efficient management of risks and capital is crucial for the Group to sustain long-term profitable operations. A robust Risk Management framework is comprehensively integrated into the Group's decision-making, steering, and mitigation processes, which aims to support its business operations proactively. The Group contributes to sustainable finance by incorporating environmental, social, and governance risks into its business strategies, risk management framework, and internal governance arrangements.

The Group has a well-diversified business model. Under its strategic orientations, it intends to be sustainably profitable, predominantly working with clients on its core markets, providing innovative, but simple customer-oriented solutions, and actively contributing to a sustainable, more balanced, and inclusive economic and social system. Efficient management of risks and capital is crucial for the Group to sustain long-term operations. Risk Management in the Group manages, assesses, and monitors risks within the Bank as the main entity in Slovenia and the competence centre for six banking subsidiaries.

Figure 49: Risk profile of NLB Group as at 31 December 2023



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

1.1%
low level of NPE
(EBA def.)

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

KRIs	31 Dec 2023
Total capital ratio	20.3%
CET1 ratio	16.4%
LCR	245.7%
NSFR	187.3%
Cost of risk	−7 bps
NPL ratio (EBA definition)	2.1%
NPE (EBA definition)	1.1%
Interest rate risk (EVE)	−4.2%

During 2023, the Group's credit portfolio quality remained high-quality and well-diversified, with a stable rating structure and lower NPLs level. The Group recorded a slower credit portfolio growth in all segments

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after strong new corporate and retail loan origination across all markets in 2022 due to inflationary pressures, higher interest rates and low GDP growth. The impacts of the floods in Slovenia were estimated as negligible, and only minor client credit quality deterioration or received collaterals occurred. Besides, the Group monitored the macroeconomic and geopolitical circumstances closely, remaining very prudent in identifying any increase in credit risk at a very early stage, and proactive in NPL management. The cost of risk remained low, at -7 bps, mainly due to the successful collection of previously written-off receivables, revised risk parameters, and stable portfolio development in the SEE region.

The Group stayed well capitalised and well above the risk appetite at both the Group and banking member levels. The Group's liquidity position also remained solid, with liquidity indicators high above the regulatory requirements, indicating its low tolerance for liquidity risk. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while at the same time considering the potential adverse negative market movements. Investment activity continued with a balanced approach to finding attractive market opportunities while pursuing well-managed credit spread and interest rate risk, as well as capital consumption. Raising the interest rate environment and corresponding increased market demand for fixed interest rate products led to moderate interest rate risk exposure, which stayed well within the risk appetite tolerance.

As a systemically important institution, the Group was included in the ECB Stress Test exercise performed in H1 2023. On 30 July, the results of stress tests carried out for important banks by the ECB to assess the resilience of the financial institutions were disclosed. Under the adverse scenario, the CET1 ratio (fully loaded) would fall in the 300–599 bps range after three years without mitigation measures. The Group's results of adverse depletion were lower than the peer group and average SSM sample banks results. Moreover, the Group's data quality and accuracy were assessed as above average. The final results of the bottom-up stress test showed that even in a very unfavourable market condition as defined the EBA and ECB, the Group holds sufficient resilience in terms of capitalisation. The qualitative outcomes were included in the determination of capital requirements by the ECB, namely, setting Pillar 2 Guidance, which remained at a relatively low level of 100 bps.

-7 bps

cost of risk on Group level

Besides, the Group is also included in two ECB Stress test exercises – the 2024 EBA Fit-for-55 climate risk scenario analysis and the 2024 ECB Cyber Resilience Stress Test Exercise, which started in Q3 2023 and will be concluded in H1 2024.

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

Supervision is under the jurisdiction of the Joint Supervisory Team (JST) of:

ECB | **BoS**

ECB regulations are followed by the Group, where the Group subsidiaries operating outside Slovenia are compliant with the rules set by the local regulators. Third-party equivalents are approved in Serbia, Bosnia and Herzegovina, and North Macedonia, aligning local regulations with CRR rules.

Across the Group, risks are assessed, monitored, managed, or mitigated in a uniform manner, as defined in the Group's Risk management standards, also considering the specifics of the markets in which individual Group members operate.

Risk Management and control are performed through a clear organisational structure with defined roles and responsibilities. The organisation and delineation of competencies are designed to prevent conflicts of interest and ensure a transparent and documented decision-making process subject to an appropriate upward and downward flow of information.

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

- formulating and controlling the Group's Risk Management policies,
- setting limits,
- overseeing the harmonisation,
- regular monitoring risk exposures and limits based on centralised reporting at the Group level.

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

Risk Management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy, representing the foundation of the Group's Risk Management framework. Within these frameworks, the Group monitors a range of risk metrics to ensure the Group's risk profile is in line with its Risk Appetite. In addition, the Group is constantly enhancing its Risk Management system, where consistent incorporation of ICAAP, ILAAP, the Recovery plan, and other internal stress-testing capabilities into the Risk Management system is essential. Moreover, the Group emphasises their integration into the overall Risk Management system to assure proactive support for informed decision-making.

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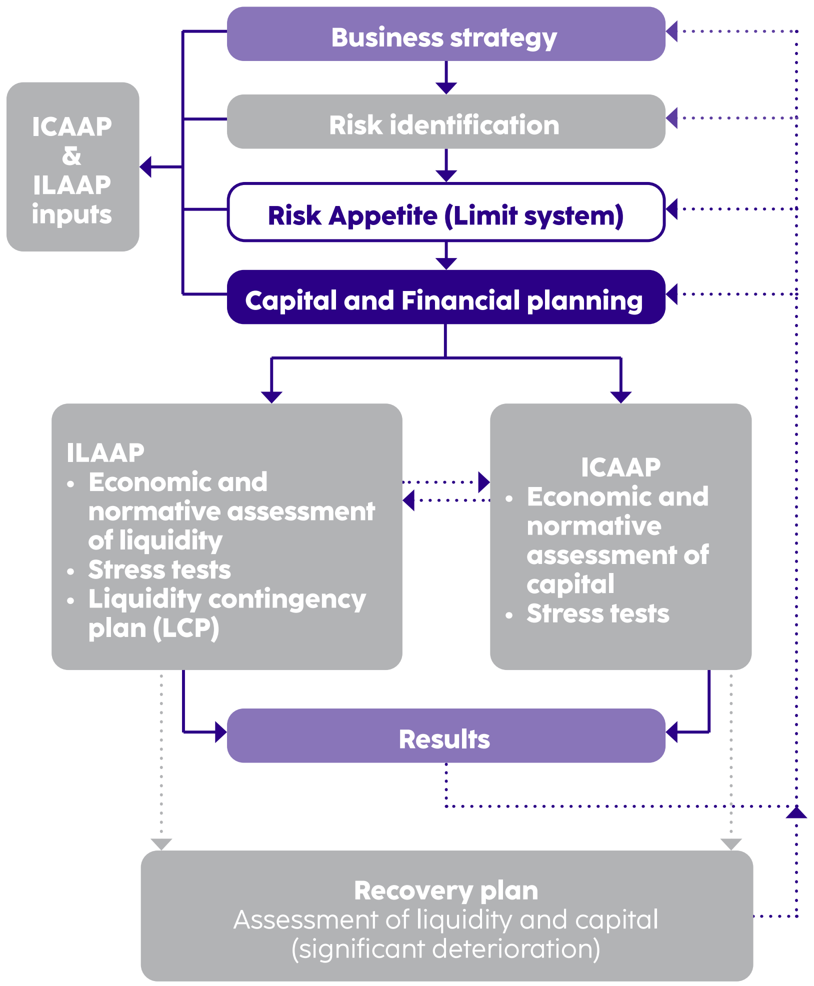
The uniform stress-testing programme, which includes internally developed models, stress scenarios, and sensitivity analysis, is regularly revised and complemented. The Group established an internal ESG stress-testing concept to identify the most relevant financial vulnerabilities stemming from climate risk, which is constantly further enhanced by considering available ESG-related data. Such a comprehensive stress-testing framework is the subject of a regular internal validation cycle and related procedures where the Group established a comprehensive validation framework. The Group supports a robust validation governance process and controls over applied and selected risk approaches and internal models.

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

Figure 50: NLB Group's Risk Management framework



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Proactive Risk Management in 2023

A prudent capital-level position and achieved interim MREL targets

One of the key aims of Risk Management is to preserve a prudent level of the Group's capital position. The Group monitors its capital position at the Group and individual subsidiary bank levels in accordance with the Risk Appetite. It also incorporates normative and economic perspectives as part of the established ICAAP process. As at 31 December 2023, the Group had a very solid capital position and TCR of 20.3% (1.1 p.p. YoY increase). The CET1 ratio, representing capital of the highest quality, stood at 16.4% (1.3 p.p. YoY decrease).

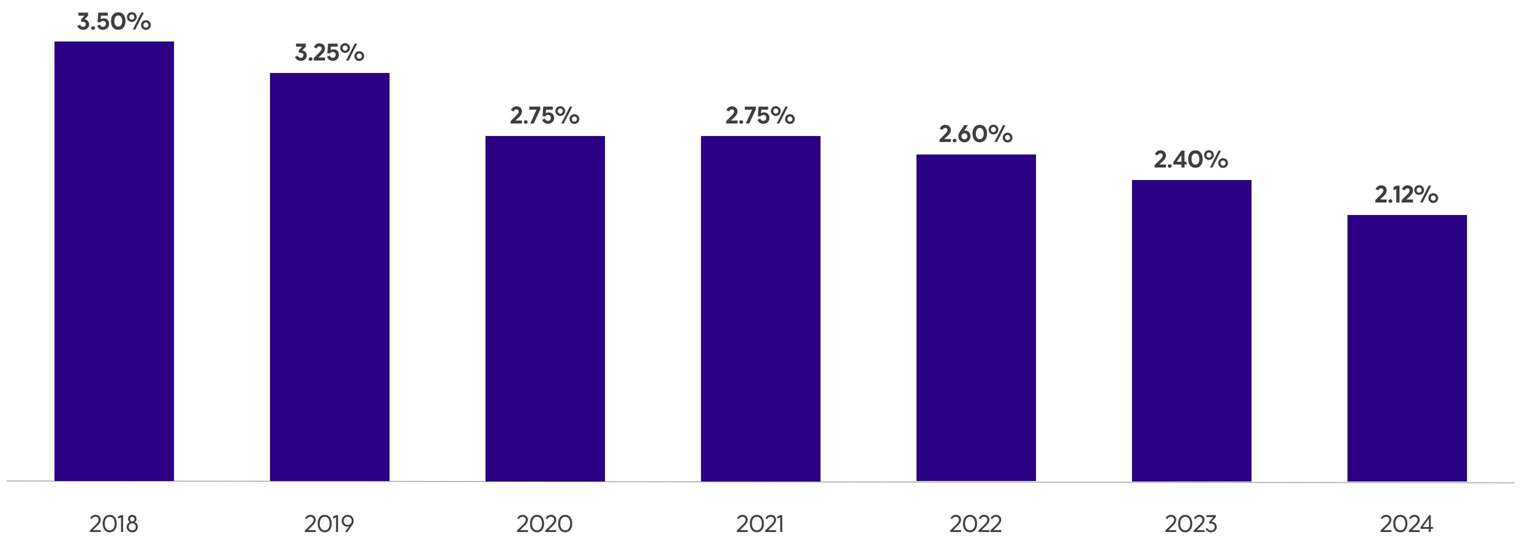
Capital is higher mainly due to the partial inclusion of 2023 profit (EUR 327.4 million). Temporary treatment of FVOCI for sovereign securities ceased to apply, resulting in a decrease of capital by EUR 61.6 million. This effect was compensated with EUR 84.5 million of revaluation adjustments. In addition, a deduction item related to deferred taxes decreased the capital by EUR 47.0 million.

An increase of RWA in NLB Group for credit risk mostly relates to the contribution of acquired N Banka and ramping up lending activity in all NLB Group banks. RWA growth was partially mitigated by CRR-eligible real estate collaterals. A slight increase in RWAs for market risks and CVA is mainly the result of higher RWA for FX risk. The main effect of an increase in the RWA for operational risks derives from the higher net interests, resulting in a higher three-year average of relevant income.

As at 31 December 2023, the Group meets all fully loaded regulatory requirements. Moreover, enhanced overall corporate governance in recent years led to a lower P2R, which decreased from 2.40% applicable in 2023 to 2.12% applicable from 1 January 2024, while Pillar 2 Guidance remains at a low level of 1%.

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

Figure 51: NLB Group's Pillar 2 Requirement evolution



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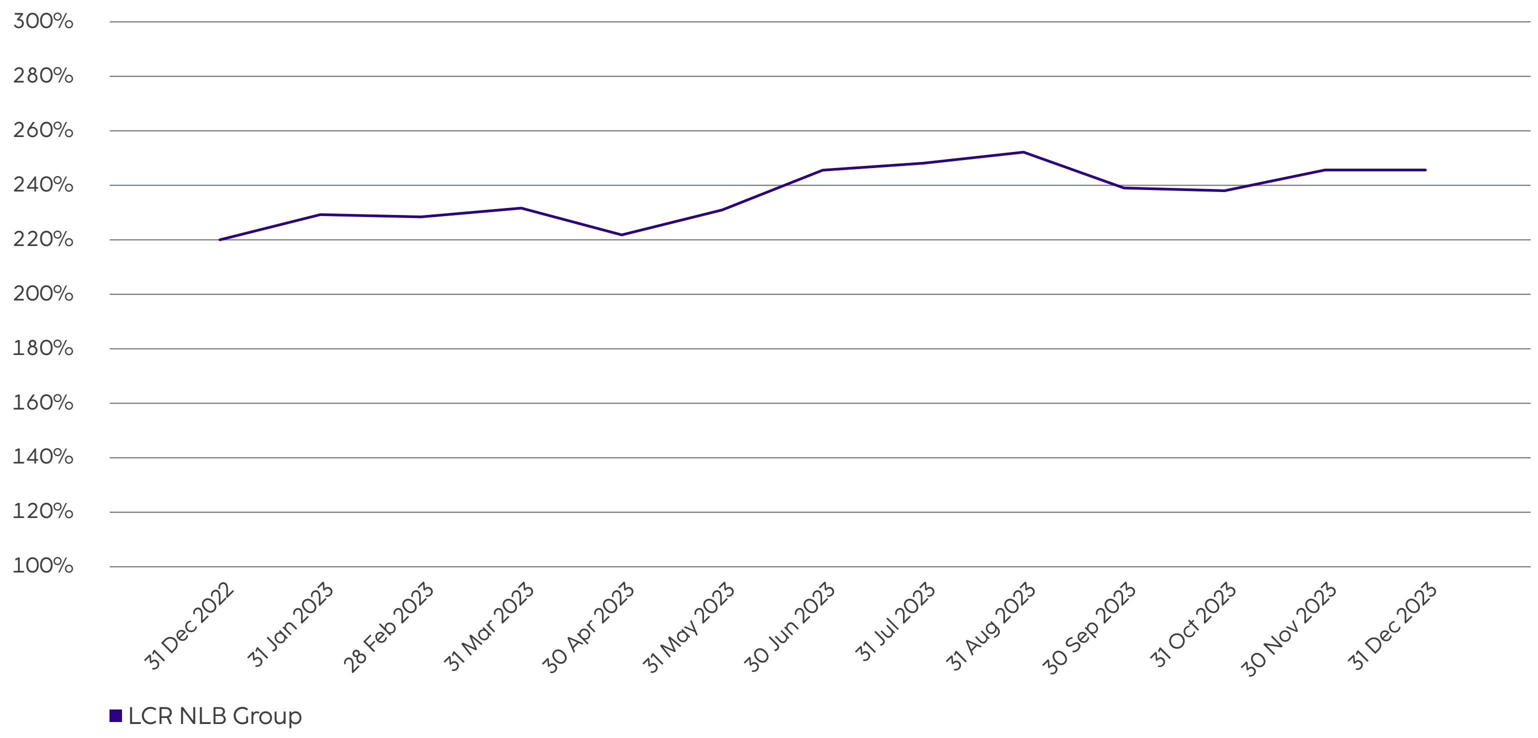
Maintaining a solid level and structure of liquidity

Maintaining a solid level and structure of liquidity represents the next very important risk target. The liquidity position remained stable and strong at the Group and individual subsidiary bank levels. Group LCR slightly increased to 245.7% (by 25.4 p.p. YoY), remaining well above the risk appetite limit. The level of the unencumbered eligible liquid reserves remained at a high level, representing 39.6% of total assets. The Group has sufficient liquidity reserves in the form of placements with the ECB, prime debt securities, and money market placements. Even in the event of the combined adverse stress scenario, the Group would survive at least three months under such stress conditions. The core funding base of the Group predominately represents retail customer deposits with a very stable and constantly growing base. LTD increased to 66.2% from 65.3% at the end of 2022, though it remains at a very comfortable level.

Figure 52: NLB Group's LCR

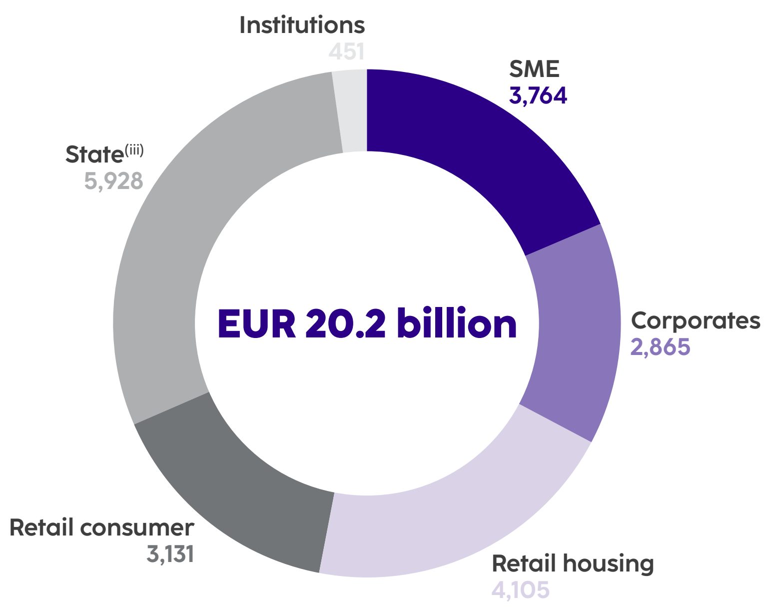


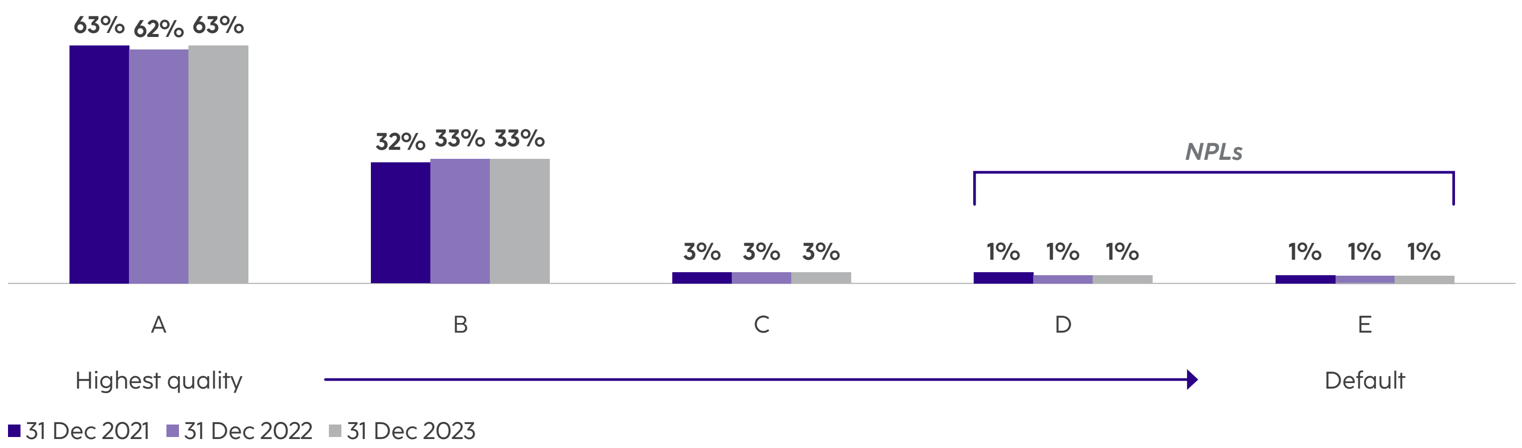
Maintaining adequate credit portfolio quality

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

The Group actively supports SEE markets by financing existing and new creditworthy clients. The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities within the region and EU. In the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized companies, and small enterprise segments, whereas in the corporate segment, the Bank established cooperation with selected corporate clients (through different types of lending or investment instruments). All other banking members in the SEE region where the Group is present are universal banks, mainly focused on the retail, medium-sized companies, and small enterprise segments. Their primary goal is to provide comprehensive services to clients by applying prudent risk management principles.

Figure 53: NLB Group structure of the credit portfolio(i) (gross loans) by segment (in EUR millions) and rating(ii)





(i) Loan portfolio also includes reserves at CBs and demand deposits at banks, which are also shown in the rating distribution.
(ii) Ratings A, B, and C are performing exposures. Rating A: investment grade clients with high financial stability; Rating B: clients with high ability to repay their obligations, a significant aggravation of the economic environment would cause problems to them; Rating C: performing clients with increased level of risk who may encounter issues with settlement of liabilities in the future; Ratings D and E are NPLs: Default clients (article 178 of CRR), including clients in delay >90 days and other clients considered "unlikely to pay" with delays below 90 days. The numbers may add up to less than 100% due to rounding.
(iii) State includes exposures to CBs.

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Lending growth was observed in the corporate, as well as in the retail segments in 2023. In the circumstances of the growing EURIBOR, there was a certain transfer to fixed interest rates; at the same time, the new loan production slowed down compared to the previous year. In the corporate segment, the Bank seized opportunities to finance some of the region's top corporate clients while focusing on SMEs as its key segment. The current structure of the credit portfolio (gross loans) consists of 35.7% retail clients, 14.2% large corporate clients, and 18.6% SMEs and micro companies, while the remainder of the portfolio consists of other liquid assets. The credit portfolio remains well diversified, and no large concentration exists in any specific industry or client segment. The share of the retail portfolio in the whole credit portfolio is quite substantial, with mortgage loans as the still prevailing segment.

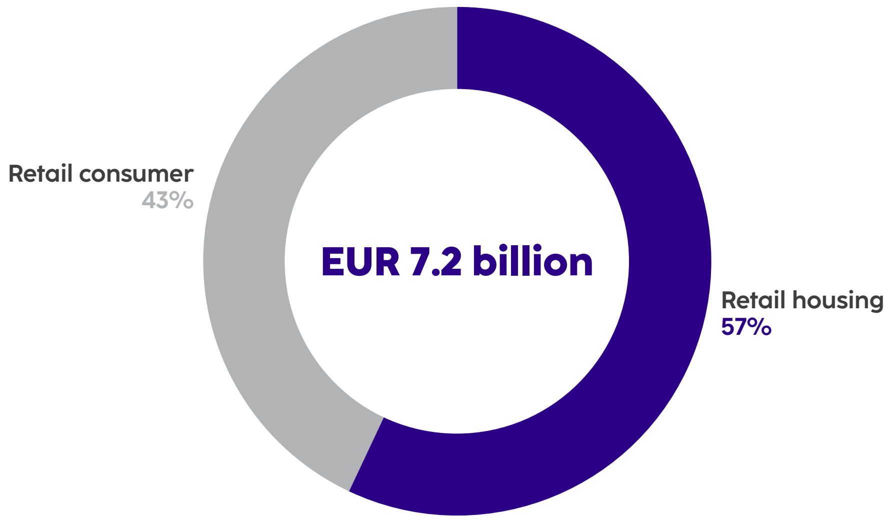
Table 31: Overview of NLB Group loan portfolio by industry as at 31 December 2023

Corporate sector

in EUR millions

Corporate sector by industry	NLB Group	%	Δ 2023
Accommodation and food service activities	198.8	3.0%	-17.9
Act. of extraterritorial org. and bodies	0.0	0.0%	0.0
Administrative and support service activities	111.3	1.7%	31.5
Agriculture, forestry and fishing	344.7	5.2%	18.4
Arts, entertainment and recreation	20.0	0.3%	-3.6
Construction industry	556.9	8.4%	-12.8
Education	15.0	0.2%	1.1
Electricity, gas, steam and air conditioning	543.3	8.2%	-7.2
Finance	144.4	2.2%	-80.3
Human health and social work activities	37.4	0.6%	-9.5
Information and communication	291.6	4.4%	-23.3
Manufacturing	1,524.9	23.0%	66.0
Mining and quarrying	46.1	0.7%	-8.1
Professional, scientific and techn. act.	234.9	3.5%	47.7
Public admin., defence, compulsory social.	199.5	3.0%	10.8
Real estate activities	377.4	5.7%	64.6
Services	13.9	0.2%	-2.8
Transport and storage	619.0	9.3%	-10.5
Water supply	57.1	0.9%	5.8
Wholesale and retail trade	1,290.2	19.5%	12.3
Other	2.8	0.0%	1.5
Total Corporate sector	**6,629.3**	**100.0%**	**83.7**

Retail sector



Companies' financing also includes financing of real estate activities (projects), which represent a smaller part of the portfolio. Projects are carefully monitored throughout each phase of construction. For income-producing CRE companies in the operating phase, the DSCR is between 1.2 and 1.4, and the LTV is, on average, lower than 60%; a sufficient reserve and repayment to the Bank is not threatened. For most approved loans, an amortization repayment structure was backed against the background of concluded long-term rental contracts (offices and shopping malls segment).

In the development phase, the Bank requires a minimum of 25% of equity and a pre-lease/pre-sale of 30% for offices, 60% for shopping malls and 20% for residential real estate before first disbursement. The Bank finances projects sponsored by investors with proven track records. In the CRE portfolio, occupancy rates and rent deterioration have not been observed.

Approximately 53% of the NLB Group corporate and retail loan portfolio is linked to a fixed interest rate, and the rest to a floating rate (mainly the Euribor reference rate). Floating interest rates dominate the corporate segment. In the retail segment, close to 70% of the loan portfolio is linked to a fixed interest rate, which results from considerable growth predominately of housing loans in 2023 and activities of changing the type of contractual interest rates for existing loans at the client's request.

Figure 54: NLB Group corporate and retail loan portfolio by interest rates as at 31 December 2023

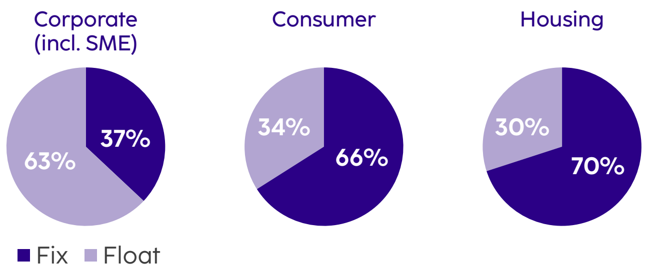


Figure 55: NLB Group loan portfolio by stages as at 31 December 2023

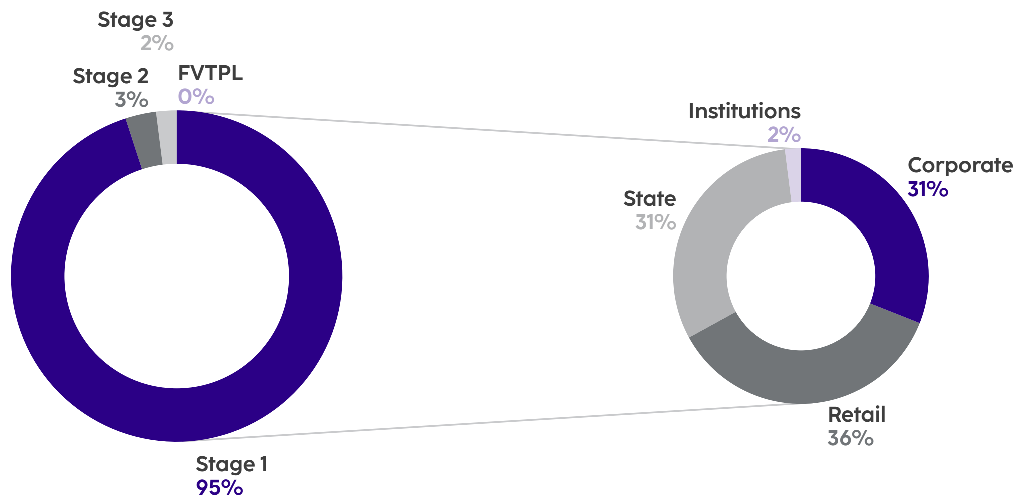


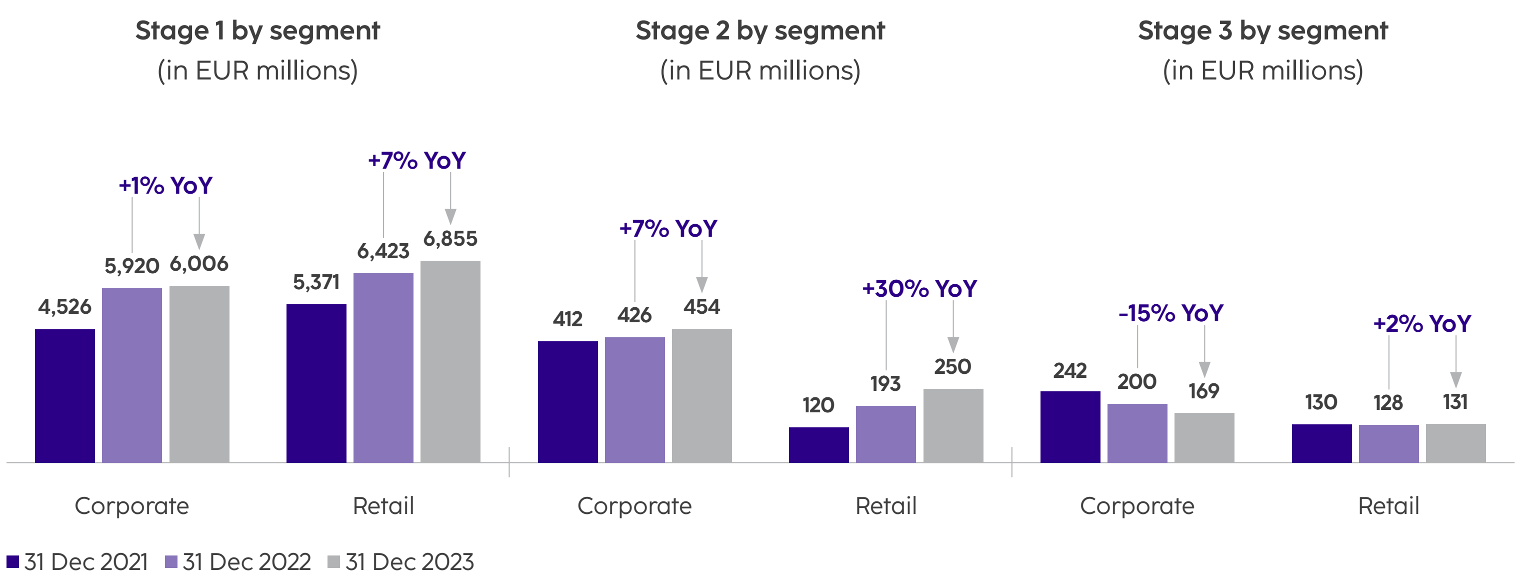
Table 32: NLB Group loan portfolio by stages as at 31 December 2023

in EUR millions

	Credit portfolio									Provisions and FV changes for credit portfolio					
	Stage 1			Stage 2			Stage 3 & FVTPL			Stage 1		Stage 2		Stage 3 & FVTPL	
	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Credit portfolio	Share of Total	YTD change	Provision Volume	Provision Coverage	Provision Volume	Provision Coverage	Provisions & FV changes	Coverage with provisions and FV changes
Total NLB Group	**19,239.2**	**95.0%**	**1,781.6**	**704.1**	**3.5%**	**85.9**	**300.5**	**1.5%**	**-27.5**	**92.3**	**0.5%**	**44.1**	**6.3%**	**194.2**	**64.6%**
o/w Corporate	6,005.6	90.6%	85.6	454.3	6.9%	28.6	169.4	2.6%	-30.4	50.0	0.8%	19.7	4.3%	109.7	64.7%
o/w Retail	6,854.7	94.7%	431.7	249.6	3.4%	57.0	131.0	1.8%	3.0	39.7	0.6%	24.4	9.8%	84.4	64.4%
o/w State	5,928.1	100.0%	1,182.5	–	–	–	0.0	0.0%	-0.1	2.4	0.0%	–	–	0.0	98.4%
o/w Institutions	450.8	99.9%	81.8	0.3	0.1%	0.3	0.1	0.0%	0.0	0.2	0.0%	–	–	0.1	75.9%

The majority of the Group's loan portfolio is classified as Stage 1 (95.0%), the remaining portfolio as Stage 2 (3.5%), Stage 3, and FVTPL (1.5%). The portfolio quality remains very stable, with increasing Stage 1 exposures and a relatively low percentage of NPLs. The percentage of the Stage 1 loan portfolio remains almost at the same level as at the end of 2022, i.e., at 94.7% in the retail segment, while in the corporate segment, despite the adverse economic conditions, improved to the level of 90.6%, which is a result of cautious lending policy and successful closure of NPL. The Stage 2 allocation slightly increased in the corporate and retail segment due to the changed macroeconomic conditions and improved Early Warning System (EWS). Nevertheless, the increase remains negligible compared to the entire portfolio volume.

Figure 56: NLB Group Corporate and Retail loan portfolio (valued at amortised cost) by stages



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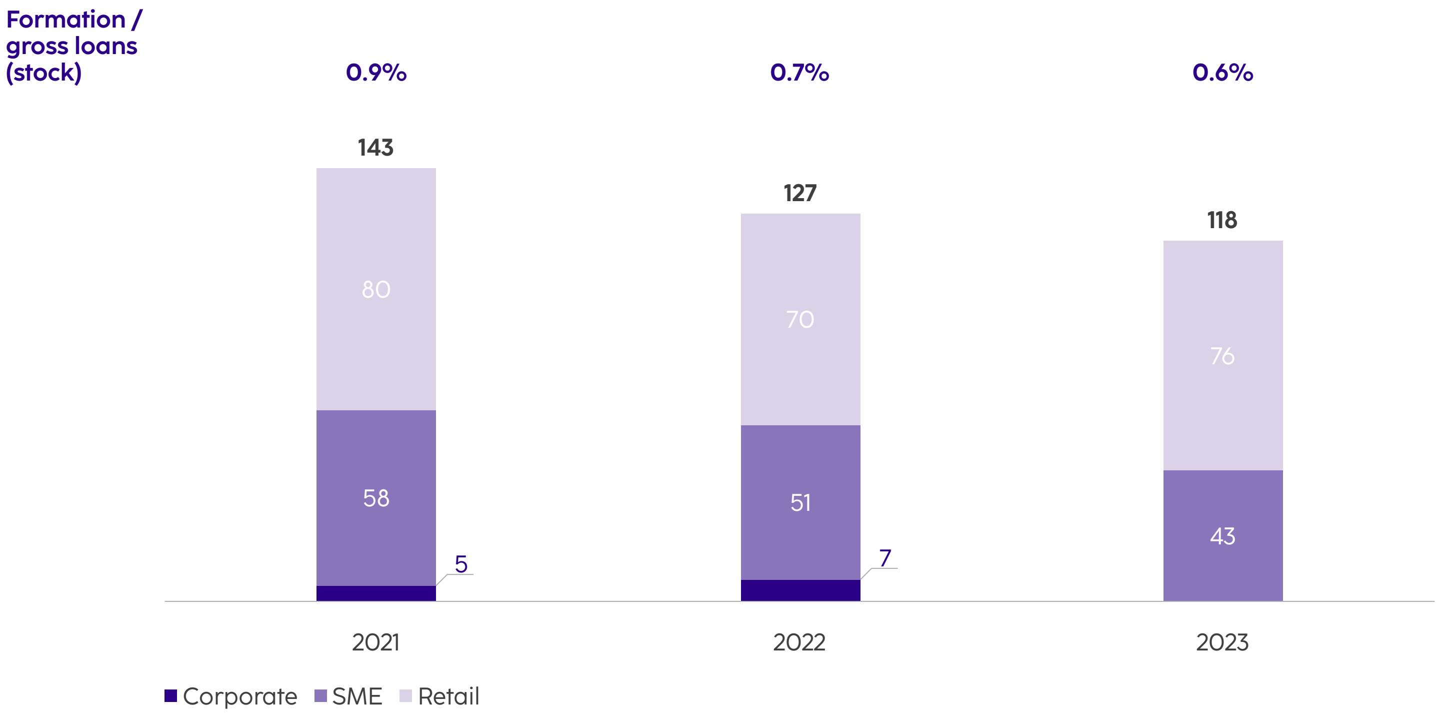
New NPLs formation and NPL management

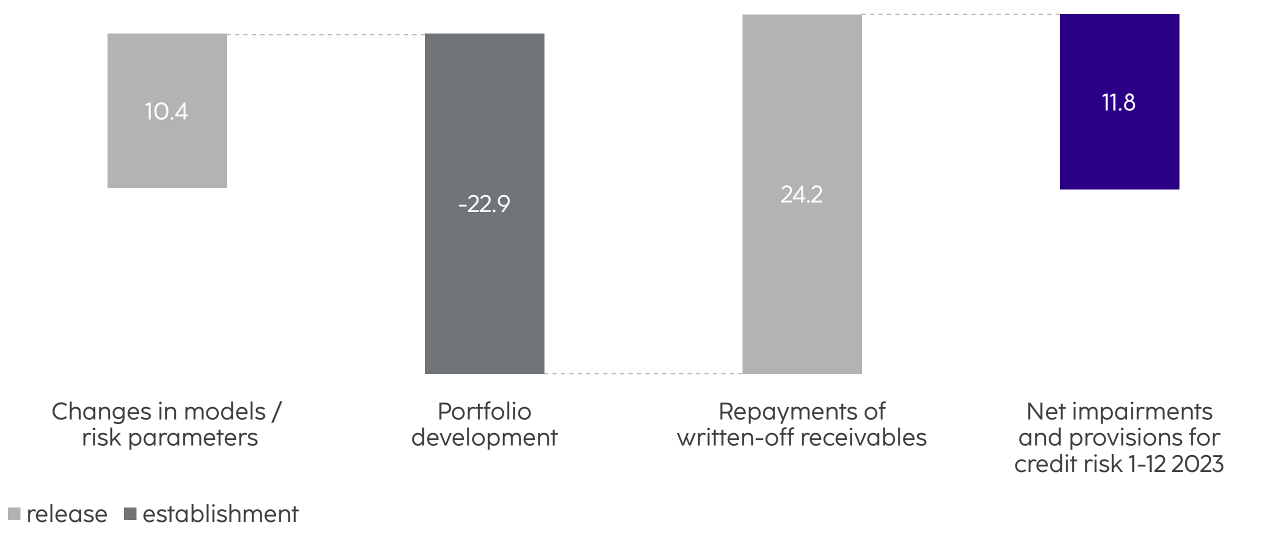
In 2023, NPL formation amounted to EUR 118 million or 0.6% of the total loan portfolio. Nevertheless, the total amount of NPL decreased during 2023 and remained quite low.

Figure 57: NLB Group gross NPL formation (in EUR millions)



In 2023, the Bank released impairments and provisions for a credit risk of EUR 11.8 million. The established impairments derive from portfolio development, new financing and any portfolio deterioration. In contrast, material repayments of written-off receivables and changes in models contributed to a lower total impact and negative cost of risk of -7 bps in the financial year. Macroeconomic conditions in the region could continue to be affected by high inflation and relatively low GDP growth, which could have a negative impact on the level of the cost of risk in the following periods, but their impact should not be substantial.

Figure 58: Cumulative net new impairments and provisions for credit risk in NLB Group (in EUR millions)



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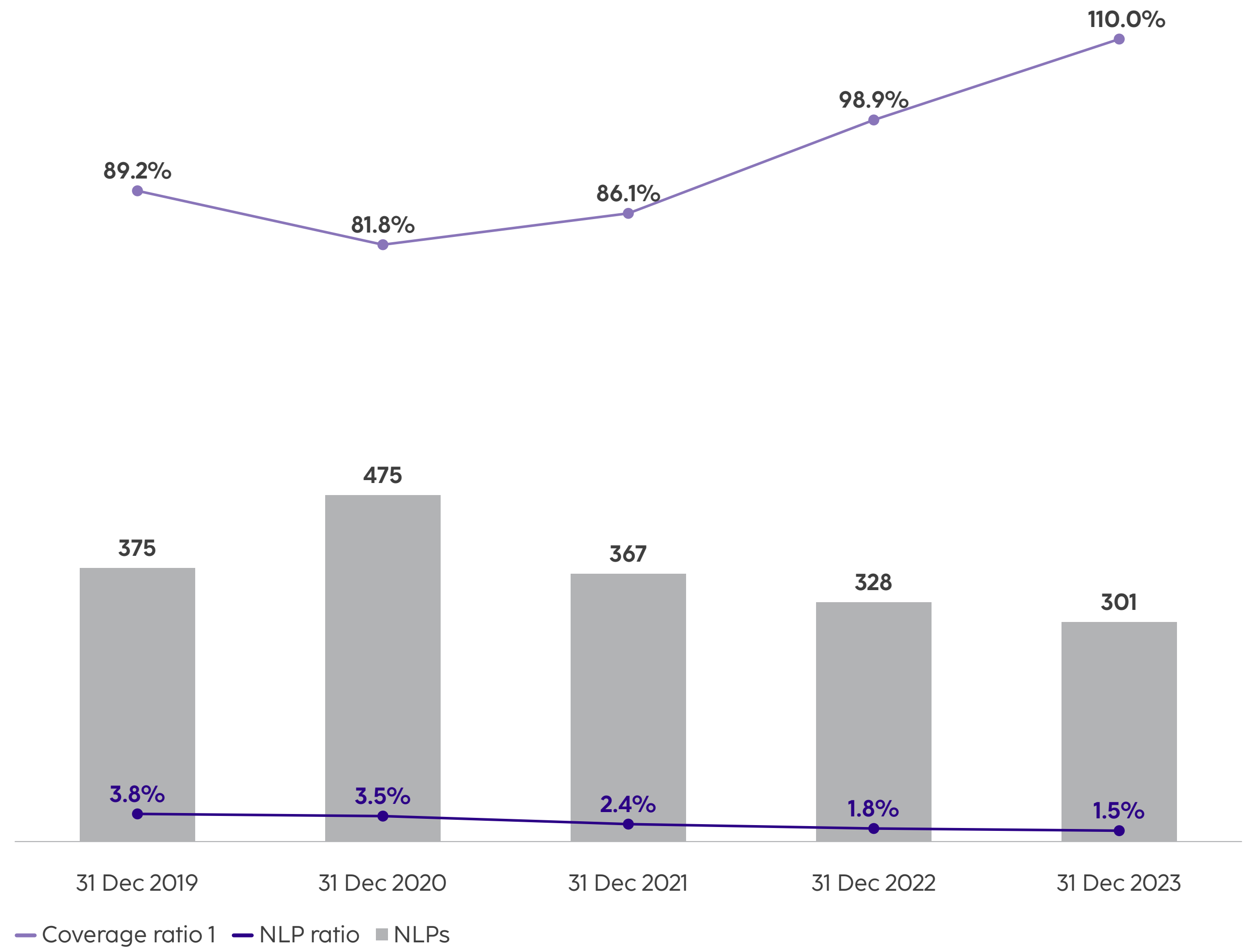
Precisely set targets and various proactive workout approaches facilitated the management of the non-performing portfolio. The Group's approach to NPL management puts a strong emphasis on restructuring and the use of other active NPL management tools, such as the foreclosure of collateral, the sale of claims, and pledged assets. In 2023, the multi-year declining trend of the non-performing credit portfolio stock continued, primarily due to repayments, cured clients, and the collection. The non-performing credit portfolio stock in the Group decreased to EUR 300.5 million at the end of 2023 compared to EUR 328.3 million at the end of 2022. The combined result of contraction in the non-performing credit portfolio stock and credit growth of a higher quality portfolio led to 1.5% of NPLs. At the same time, the internationally more comparable NPE ratio, based on the EBA methodology, stood at 1.1%. The Group's indicator gross NPL ratio, defined by the EBA, equals 2.1%.

Figure 59: NLB Group NPL, NPL ratio and Coverage ratio 1[(i)] (in EUR millions)



(i) By internal definition.

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

An important Group strength is the NPL coverage ratio 1 (coverage of gross NPLs with impairments for all loans), which remains high at 110.0%. Furthermore, the Group's NPL coverage ratio 2 (coverage of gross NPLs with impairments for NPL) stands at 64.6%, well above the EU average published by the EBA (42.6% for Q3 2023). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the coming years.

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

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Low market risk in the trading book

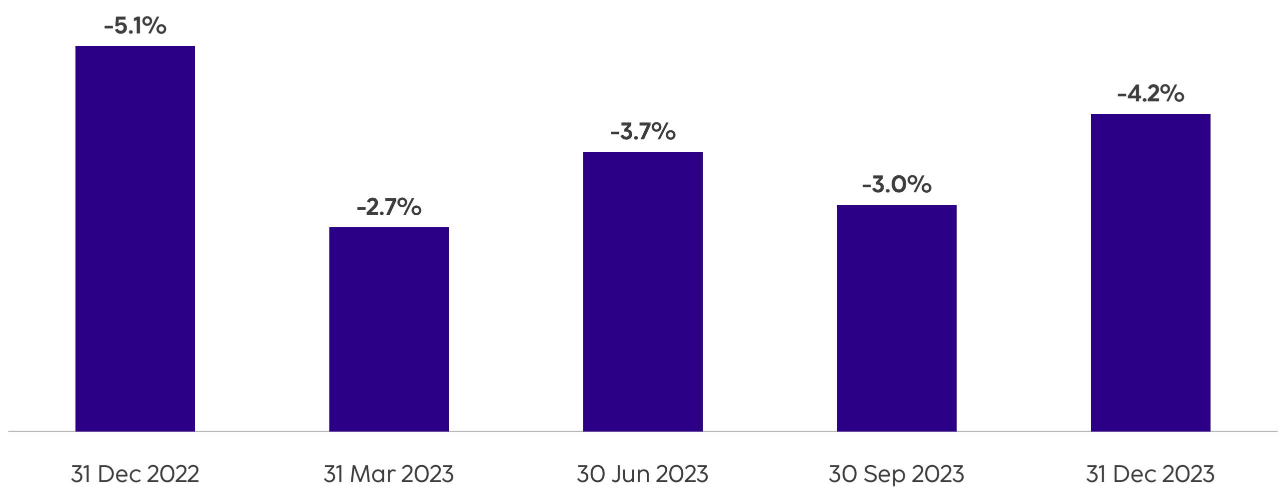
Regarding market risks in the trading book, the Group pursues a low-risk appetite for market risk in the trading book. The exposure to trading (according to the CRR) is only allowed to be carried by the parent Bank as the main entity of the Group and is very limited.

The Group carries its main business activities in euros, and the subsidiary banks, in addition to their domestic currencies, also operate in euros, the Group's reporting currency. The Group's net open FX position from transactional risk is low, at 1.4% of capital. Regarding structural FX positions on a consolidated level, assets and liabilities held in foreign operations are converted into euro currency at the closing FX rate on the balance sheet date. FX differences of non-euro assets and liabilities are recognised in the other comprehensive income and, therefore, affect shareholder's equity and CET1 capital.

Proactive management of interest rate risk in the banking book

The exposure to interest rate risk is moderate and derives mainly from the banking book positions. The Group has a strategy of maintaining a low Economic Value of Equity (EVE) indicator while simultaneously monitoring the effects on Earnings At Risk (EAR). Bonds and loans with a fixed interest rate contribute the most to the interest rate risk exposure in terms of the Economic Value of Equity (EVE) indicator. In contrast, exposure is managed with core deposits, which present the most important and material element of interest rate risk management. To a lesser extent, the Group also uses plain vanilla derivatives to hedge risk.

Figure 60: NLB Group's EVE evolution



The exposure to interest rate risk remains modest, within the risk appetite limits. The Group applies different scenarios when assessing the EVE sensitivity. In 2023, the Group upgraded the measuring of interest rate risk according to new EBA Guidelines, which impacted EVE result. From the EVE perspective, the estimated capital sensitivity of the worst regulatory scenario (parallel up +200 bps) is 4.2% of the Group's T1 capital.

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Robust operational risk management

In operational risk management, where the Group has established a robust operational risk culture, the main qualitative activities refer to reporting loss events and identifying, assessing, and managing operational risks. Constant improvements of control activities, processes, and/or organisation are performed on this basis. Besides that, the Group also focuses on proactive mitigation, prevention, and minimisation of potential damage. Special attention is dedicated to the stress-testing system, based on a scenario analysis referring to the potentially high severity, low-frequency events and modelling data on loss events. The Bank uses the gamma distribution technique for modelling, which proved to be the most suitable. From an economic perspective, the aim is to ensure the necessary capital for materially important risks that could happen extremely rarely. Consequently, data on realised loss events are used with a confidence interval of 99.9%. Moreover, some add-ons are added for specific current and significant risks. In a normative view, a 90% confidence level is used for more plausible, but still severe events which would be absorbed through P&L.

In NLB Group, the reported incurred net loss arising from loss events in 2023 was higher than in the previous year but remained within the set tolerance limits for operational risk. Certain litigation costs occurred due to systemic issues such as changes in the interpretation of legislation (e.g. introduction of reimbursement of a proportional part of loan costs in case of early repayment of consumer loans in Slovenia), litigation risk (e.g. litigation cases related to loan processing fee and loan insurance premium in Serbia) and changes of tax treatment of banking business (e.g. application of VAT on card payments services in Bosnia and Herzegovina).

Apart from losses already included in the loss event database, the Bank could also experience one-off and unpredictable extreme events. The list of such potential events is updated yearly, based on current risks in the Bank's environment or past realised events in the banking industry. For those possible and topical events, scenario analyses are prepared. In 2023, several such scenarios were defined. The cyber-attack scenario as an umbrella scenario was further divided into five more detailed scenarios for different types of such attacks. The results show that the most significant loss could derive from the following potential events: possible difficulties operating electronic banking channels, anti-money laundering, cyber-attacks, other external fraud events, and legal risk. For these scenarios, existent controls were additionally revised, while for identifying potential deficiencies, mitigation measures were defined.

Furthermore, key risk indicators serve as an early warning system for the broader field of operational risks (such as HR, processes, systems, and external conditions). They are regularly monitored, analysed, and reported to improve the existing internal controls and enable on-time reactions.

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

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

Incorporating ESG risks

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

ESG risks do not represent a new risk category, but rather one of the risk drivers of the existing type of risks. The Group integrates and manages them within the established risk management framework in the areas of credit, liquidity, market, and operational risk. The management of ESG risks follows ECB and EBA guidelines, following the tendency of their comprehensive integration into all relevant processes.

The availability of ESG data in the region where the Group operates is still lacking. Nevertheless, the Group made significant progress in obtaining relevant ESG-related data from its clients, being the prerequisite for adequate decision-making and the corresponding proactive management of ESG risks. For the purpose of calculating credit portfolio GHG emissions, several important activities started in 2022. For larger corporate clients, the Group initiated direct Scope 1, 2, and 3 data-gathering processes, whereas for the SME and micro-segments, it developed its own proxies in cooperation with an external expert. In residential mortgages, the most essential input for GHG calculation is the buildings' energy performance certificates. In H1 2023, NLB Group disclosed financed GHG emissions arising from its credit portfolio in Pillar 3 Disclosures. Besides the emissions, the Group collected, analysed, and used relevant historical data for physical risk and publicly available climate change pertinent studies to its region.

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

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In recent years, the Bank signed Framework Agreements with the EBRD, such as the Contract of Guarantees with MIGA, and committed to the UN Principles of Responsible Banking. Consequently, the Group established a mechanism for environmental and social screening of current or potential financing applications against the MIGA and EBRD Exclusion List and applicable environmental and social laws. The management of ESG risks is incorporated into the Group's overall credit approval process and the related credit portfolio management. Sustainable financing is implemented in accordance with the Group's Environmental and Social Management System (ESMS). In addition to addressing ESG risks in all relevant stages of the credit-granting process, relevant ESG criteria were also considered in the collateral evaluation process.

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

On the portfolio level, the Group does not face any large concentration towards specific NACE industrial sectors exposed to climate risk, with the role of transitional risk being more prevalent. Based on the industry segmentation of the portfolio and corresponding emissions, the Group has a relatively low exposure to emission-intensive sectors in its corporate clients' businesses. The Group does not finance companies that extract fossil fuels or operate coal-fired power plants as part of its strategy. Moreover, in December 2023, NLB, as a member of the UN Net-Zero Banking Alliance, publicly disclosed its Net-Zero commitment. With this step, the Bank pledged to align its lending and investment portfolio with net-zero emissions by 2050. In its initial round of NZBA targets, NLB Group has focused on fossil fuel-based and highly energy-intensive sectors (power generation and iron and steel) and other sectors where the Bank has substantial emissions and/or exposure and available data. These include residential mortgages and commercial real estate. These targets will be integrated into NLB Group's Risk appetite as well.

Besides, the Group analyses and monitors its credit portfolio using heat maps. For heat maps, the Group aggregates single risks by using predefined weights to determine a final risk score. Such an approach enables different views over the Group's corporate portfolio from physical and transition risk perspectives. Concerning physical risk, some adverse events in the region in the past years were observed in the public infrastructure and agriculture. However, they were reimbursed to a large extent by the government or insurance. Consequently, there were no material impacts on the Group's portfolio quality or liquidity.

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

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

As a systemically important institution, the Group was included in the ECB Stress test exercise – 2024 EBA Fit-for-55 climate risk scenario analysis. The exercise started in December 2023 and will be concluded in March 2024. By performing this exercise, the ECB assessed how banks were prepared to deal with financial and economic shocks stemming from climate risk.

In 2023, NLB's ESG Risk Rating was revised and improved. The assigned rating reflects a low risk of experiencing material financial impacts from ESG factors.

Further information on risk management is available in Note 6 of the financial part of the report, Pillar 3 Disclosures, and the NLB Group Sustainability Report 2023.

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From it we can truly learn how important it is to work in sync ...

Slovenian alpine skiing team

Advantage is built in every slide and everyturn.

IT and Cyber Security

The Group remains committed to providing its clients with sustainable and efficient services that are supported by highly reliable and secure technology platforms. The Bank is also advancing its technology transformation programme and consolidating core banking systems. IT Security, IT Infrastructure, and IT Governance have made significant progress in the consolidation process at the Group level. Additionally, the Bank rolled out further group-wide business solutions like a contact centre and new product origination platform, and successfully launched a new digital banking platform in Slovenia. The Bank also successfully carried out a technical merger with N Banka. The Bank has prioritised and invested in extra resources and products to enhance overall cyber security resilience in response to the increase in general cyber security risks.

IT Strategy 2020–2024

At the end of 2020, an upgraded IT Strategy incorporating the Group dimension was adopted. Since the existing one is coming to an end, the strategy for the next period is being prepared to pursue further digital transformation. The current IT Strategy covers the following:

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

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

Main principles
- Increase client satisfaction in all segments with a new digital omnichannel platform, digitise client journeys and interactions (CRM), and achieve operational excellence.
- Have an effective IT architecture using cloud solutions and open-source software where possible.
- Introduce a new way of agile development and DevOps transformation, leading to shorter release cycles, automated testing, and fewer manual tasks.
- Ensure the necessary development capacity.
- Introduce modern collaboration tools and digitise internal processes.
- Ensure quality, security, and availability of IT systems and applications.
- Have a highly motivated, effective, and satisfied IT team working closely with the business side.

99.95%
availability in NLB

IT Infrastructure: Ensuring reliability and resilience

Confirmed high performance with numbers
IT performance is monitored through a set of relevant indicators that are linked to the Balanced Scorecard (BSC) system. The indicators reflect high performance of IT operations and successful risk management in this segment. With 99.95% IT system availability and a very low 0.05% of unplanned interruptions, the Bank continues to prioritise stability. In 2023, the number of days without system/service interruptions was 79% (2022: 81.1%). Harmonised Service Level Agreements (SLA) are in place with users of the information system, which the Bank has managed to fulfil to a very high degree. The Group members recorded high IT operational performance (between 99.87% and 99.99%).

Main IT initiatives

Transformation with expanding group-wide capabilities
The primary focus is to transform IT, cover the organisation, group perspective, processes, people, and technology. The IT has supported a more agile way of delivery to make a better partner to businesses, resulting in higher efficiency. Specifically, a Group IT domain concept was introduced that promotes shared teams and IT solutions across the Group.

Strengthening the team and extra investments in cyber security

Group-wide capabilities are still expanding, and the Group Competence Centre in Belgrade, Serbia, which was transferred from the Bank to a separate IT service company called NLB DigIt, significantly supports development on the Group level.

Change of delivery approach
The team has made significant achievements in the key strategic directions regarding solution delivery. They developed a new call centre solution in Slovenia, executed new deployments in the Group, and fully enrolled a new Digital Banking platform in Slovenia. Additionally, the team made progress in reducing reliance on the mainframe and migrated the next set of applications from the mainframe to distributed systems. After acquiring N Banka, the Bank onboarded N Banka IT into the Group and developed an integration plan and strategy in 2022. The technical merger was completed in 2023.

Core systems consolidation
IT followed the core banking system strategy, and the consolidation of core banking systems is in progress. Due to the N Banka integration in Slovenia, the programme course was adjusted, and the first scope was migrated into the new target core system.

Enterprise and application architecture
The focus of enterprise and application architecture is on two key areas. The first focuses on the Group solution, with most new solutions adhering to a Group standard and associated Group roadmaps. New Group solutions have been chosen for a digital web portal and Customer Relationship Management.

The second area involves establishing a standardised enterprise architecture management system for which a market standard tool was procured to enable simpler application portfolio management, mitigate software obsolescence and IT risks and provide support in defining transformation paths.

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Data management
The Bank continues implementing a comprehensive data management platform across the Group, encompassing an enterprise data warehouse, advanced analytics, risk management analytics, profitability, data governance, and consolidated Group regulatory reporting. The Group continues to address data throughout the entire life cycle by implementing data governance policies and tools.

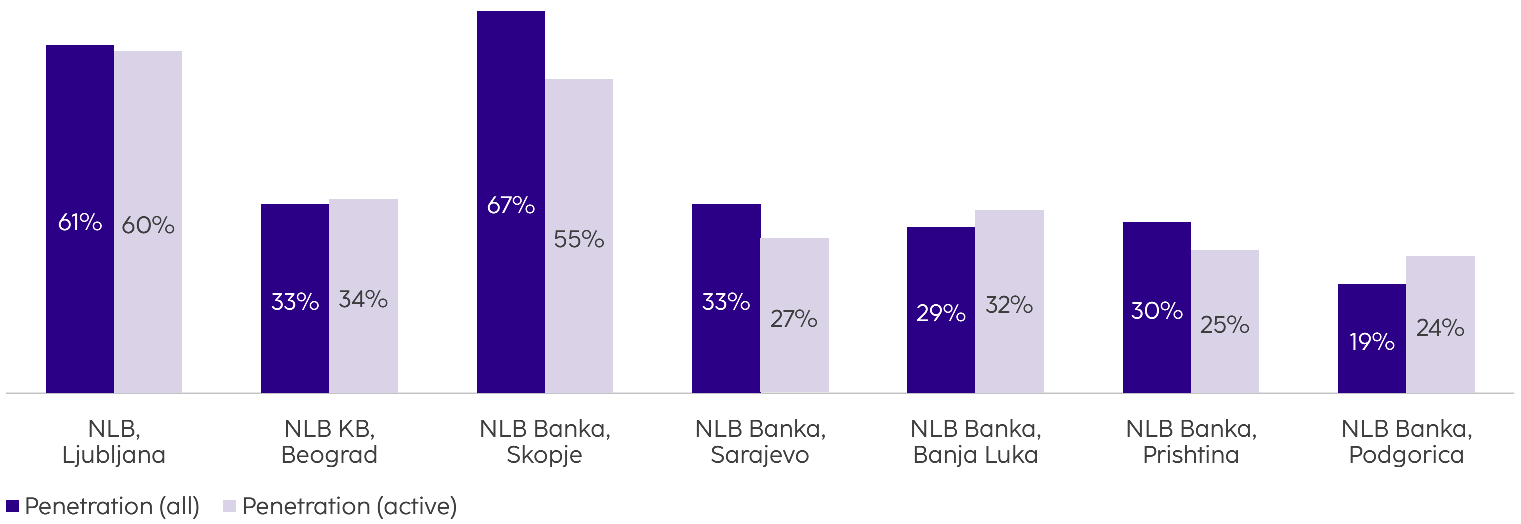
Outlook
In the upcoming years, the Bank remains dedicated to investing in newly adopted technologies crucial for supporting the business strategy, especially in digital, data, the cloud, and customer relationship management. The aim is to consolidate the Group's infrastructure, simplify core systems, and elevate the client experience regarding quality, innovation, reliability, and security.

More than
1.7 million
digital users in the Group

Digital penetration

The Group is working towards digitalisation, which involves utilising the available and ever-changing information technology tools to enhance its efficiency and provide clients with more innovative, personalised, accurate, and prompt service. With an increasing number of smartphone users, the Group aims to move more customers to alternative distribution channels. The Group is committed to developing a wide range of 24/7 digital solutions to bring clients closer and offer them anchor products and accessible and personalised digital services. The primary objective is to encourage digital banking adoption among active customers.

Figure 61: Digital penetration of the Group banks as at 31 December 2023



Cyber security

Strengthening team and implementing new solutions
The Group focuses on cyber security, assuring confidentiality, integrity, and availability of data, information, and IT systems supporting banking services and products for clients. Cyber security in the Group is constantly tested and upgraded by security assessments, independent reviews, and penetration testing, and also regularly discussed at the Bank's Information Security Steering Committee, Operational Risk Committee, and Management Board meetings.

During 2023, the Group stepped up its cyber security capabilities regarding human resources by hiring specialists for different domains. Currently there are 35 FTEs hired in IT security as the first line of defence and 21 FTEs in the CISO corner, working as a second line of defence. Additionally, improvements were made in vulnerability management, with all Group members now utilising a unified solution and configuration.

The team can conduct on-demand scans and stay abreast of global trends and most recently published vulnerabilities, which provides a more proactive approach to the whole vulnerability remediation process in the Group.

Several different new cyber security solutions were introduced within the Group, and the implementation process was initiated in all banks, leading to EUR 1.9 million CAPEX and EUR 2.0 million OPEX annually spent at the Group level. The goal is to have Group unified cyber security solutions in place, guaranteeing equal levels of protection throughout all Group members. The most significant achievement of the Group Cyber security team is that almost all bank members in 2023 had individual on-demand requests for different penetration testing services. More information about cyber security is available in the chapter Compliance and Integrity.

Continuous employee education and information exchange
All employees in the Group are continuously educated about the importance of information/cyber security, as well as social engineering techniques. The banks in the Group provide employees and customers with security notifications, especially regarding threats in the (global) environment with potential impact on the banks' IT systems, services, products, and clients. The Bank also tests the awareness of its employees with social engineering attack simulations. Threat intelligence data is shared by the Group team with all Group members, providing information on the latest threats and recommendations on mitigation measures. In conjunction with routine phishing simulations, the Group Cyber Security team has deployed its proprietary phishing platform and effectively executed simulated internal employee phishing tests across all Group members.

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Human Resources

As a frontrunner in the market, NLB Group realises that investing in employees is crucial, and understands that engaged employees are pivotal in achieving our business goals and driving successful outcomes. That is why the Group continued with its long-lasting tradition of investing in employee development, searching for new approaches, and introducing new practices to improve organisational culture, leadership, and employee experience. Simultaneously, it firmly tries to uphold its "Top Employer" status in the workforce market.

Employee Headcount

The Group continues with the optimisation of processes and right-sizing its staffing level. Due to the acquisition of N Banka, the number of employees rose to some degree, but has downsized throughout the year to reach 7,982 by the end of 2023.

Table 33: NLB Group headcount by countries

Country	31 Dec 2023	31 Dec 2022	Changes YoY
Slovenia	2,689	2,833	-144
Serbia	2,480	2,614	-134
N. Macedonia	962	954	8
BiH	990	971	19
Kosovo	468	467	1
Montenegro	390	380	10
Germany	0	1	-1
Switzerland	2	2	0
Croatia	1	6	-5
Group Total	**7,982**	**8,228**	**-246**

Aspiring to maintain "Top Employer" status

The Group continues strengthening its Human Resources (HR) practices based on feedback from reputable institutions and benchmarks with best-in-class HR practices. In 2023, the Bank was once again recognised as a "Top Employer" by the Dutch Top Employer Institute for the 8th consecutive year, demonstrating a high level of expertise and contribution in the areas of people strategy, leadership, digitalisation, talent acquisition and development, performance management, sustainability, and a lot more. The Bank will continue to ensure an even more stimulating work environment.

"Top Employer" in 2023 for the 8th consecutive year

Investing in Employees: A Longstanding Tradition Continued

Organisational culture

Recognising the importance of organisational culture in driving company development and success, the Group has proactively embraced a comprehensive approach to its enhancement. Following a thorough assessment of the current organisational culture, targeted activities have been initiated to foster more constructive behavioural styles aligning with NLB's goals and target corporate culture. With the input of employees, various improvement initiatives were defined and implemented. The Bank introduced leadership development programmes to improve psychological safety and enhance organisational culture, focusing on implementing and promoting corporate values and work efficiency through meetings. Multiple initiatives coupled with existing practices have proven to be an effective way to support the desired development of organisational culture.

Strategic leadership development

Working environments significantly impact employee satisfaction, and leaders at all levels play an important role in creating a productive atmosphere. The Group is actively enhancing the leadership competencies of its senior management to align with the changing organisational culture. In line with this, the Group undertook two major activities this year:

- Employees at the B and B-1 levels in the Group received individual development and follow-up coaching sessions on their development needs and action plans based on the M/I and L/I 360 feedback on culture impact.
- After an in-depth leadership assessment, the Group development plans were aligned with strategy and culture improvement.

Moreover, to ensure the leadership succession pipeline, the Bank identifies potential successors in all Group members.

Talent cultivation and innovation

The Group has identified talented employees in leadership, professionalism, and youth potential. They received additional opportunities, knowledge, personalised development plans, essential skills to manage and lead in future challenges.

The Bank has delivered two major internal Hackathon initiatives to foster internal capabilities and an innovative and entrepreneurial mindset. The Talents-on Hackathon in the parent bank focused on developing agile cooperation and introducing innovation. In addition, the Data Science Hackathon was carried out on the Group level to support the broadening and exchanging of skills throughout the Group.

On average employee spent **7.2 days** on training activities

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Developing NLB Employer Brand

The Group focuses on developing and actively cultivating its Employer Brand to attract top-tier talent across the region. The Group has implemented various internal and external activities to show who the Bank is as an employer. As a caring mentor, the Bank cooperates with multiple universities throughout the region, offering scholarships and career opportunities to young talents. Also, it invites internal ambassadors to promote and provide recommendations for employment, offers various benefits to employees, and introduces continuous improvements to its processes. As a confirmation of the efforts, the Bank received two Best Employer Brand Awards in the categories of banking and the integration of corporate and employer brands.

Retention and Mobility

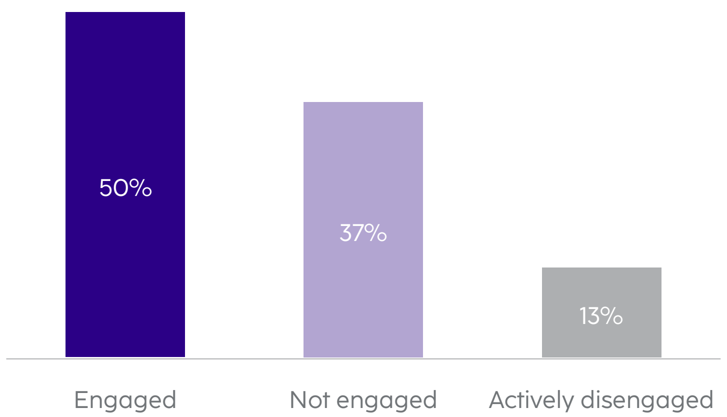
Based on the aligned Retention Policy in all subsidiaries, the Bank strategically managed across the Group to plan, respond, and accept some challenges based on the workforce market by attracting, developing, and retaining employees.

The Mobility Policy within NLB Group is well established throughout the Group. The most commonly used type of mobility is virtual teams, established in all entities and across borders. In addition, some reassignments and job rotations were carried out.

Engagement of employees

A crucial part of success is the motivation and engagement of employees. In 2023, 81.5% of employees participated in the survey.

Figure 62: NLB Group Employee Engagement 2023



Ready to Face Tomorrow's Challenges

Various training activities to embrace changes

The Group upholds rigorous standards characteristic of a contemporary learning institution. In response to the swiftly evolving business landscape, the Bank has broadened its array of training programmes to encompass emerging and pertinent subjects. These include Generative AI, Change Management, Data Analytics, Digital Literacy, ESG, Mergers and Acquisitions, among others, reflecting the shifts in our business and surroundings.

To that end, in addition to regular off-the-shelf programmes, we organised a highly technical series of internal ESG workshops for every NLB Group Member focusing on green investments, ESG risk scorecards, and EU taxonomy. We also organised many digital literacy programmes covering subjects from Generative AI tools to MS 365 and other productivity tools to boost the understanding and effectiveness of our employees and better prepare them for the continuously more digital business environment. The main goal remains to enhance the accessibility and availability of training or programmes by offering a diverse range of online content and simultaneously delivering high-quality in-class training and workshops, whether conducted internally or externally.

The majority of training hours in the Group are provided through internal training (45%) and internal e-learning programmes (24%), while external training (21%) and Udemy for Business (10%) are also utilised.

In 2023, Udemy for Business was utilised across the Group to a substantial number of employees, enabling them access to 7,000+ quality training courses. The objective is to empower employees to take control of their professional development, providing them with opportunities to upskill or reskill anytime, anywhere. This approach aims to equip them with the necessary capabilities to tackle upcoming challenges effectively. A total of 3,200 employees across the Group benefited from Udemy access, collectively engaging in 5,449 days of video content, averaging 1.7 days per employee with a license.

Well-being & Health

The Group consistently prioritises imparting knowledge about healthy habits and advocates for activities contributing to employees' well-being and satisfaction. It fosters a healthy work environment conducive to meaningful interpersonal connections and a balanced work-life dynamic. The Bank proudly holds a family-friendly certificate as a testament to these efforts.

In 2023, the Bank conducted training sessions on health issues, addressing stress management and cultivating healthy habits, mental well-being, mindfulness, personal energy, and effective communication. An internal sustainable mobility challenge ran from May through November, promoting exercise – walking, running, and biking – to reduce work commute-related carbon footprint. Also, in 2023, the Bank organised a Group-wide program called "Sustainability Festival", celebrating environmental awareness and eco-friendly practices, featuring engaging activities, insightful workshops, and showcases of sustainable initiatives.

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

7,982
employees in the Group family

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The Role of Remuneration System in Fostering Employee Engagement and Commitment

Table 34: Composed salary for an employee working in the companies within NLB Group

Fixed part	Fixed pay is determined according to the complexity of the job position for which the employee has concluded a contract of employment.
Variable part	It depends on the employee's working performance.
	Employees are assessed and awarded: - quarterly or half-yearly, and - annual rewards related to the business performance of the bank where they work.
	A performance assessment is done by the head of the employee's organisational unit using a top-down approach to evaluate the employee's achievements in relation to goals set for a particular assessment period (quarter or half-year). The goals are set according to the "SMART" method, meaning they must be specific, measurable, achievable, relevant, and time-bound. In 2023, NLB initiated the transformation process regarding the performance management and reward system for employees on collective agreement. The process of setting "SMART" goals and cascading goals top-down by hierarchy remains the same; changes are more related to ensuring a more transparent and long-term incentive scheme by implementing target bonuses and yearly (for the business part of the bank remains half-yearly) assessments. All these changes will be implemented in the Group in the upcoming period.

The Remuneration Policy for members of the Supervisory and Management Boards of NLB

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

Members of the Management Board receive remuneration compliant with the relevant Remuneration Policy of members of the Supervisory and Management Boards of NLB.

Members of the Management Board receive remuneration consisting of a fixed part of the salary and a variable part of the salary. The variable part of the salary for each member of the Management Board is awarded and paid in cash if the variable part does not exceed EUR 50,000 and is not higher than one-third of their total remuneration for the respective business year. The variable part of the salary for each member of the Management Board is awarded and paid in cash and instruments if the amount of the variable part exceeds EUR 50,000 and is higher than one-third of their total remuneration for the respective business year.

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

In 2023, the Bank amended the Remuneration Policy, which the Supervisory Board adopted in its session on 26 October 2023. It was then submitted to the General Assembly of NLB for voting, which was held on 11 December 2023. The Policy was not confirmed at the General Assembly, but since the voting is of consultative nature it has entered into force and is applicable as of 1 January 2024. The Remuneration Policy will be further improved and presented to the shareholders at the next General Meeting.

The Remuneration policy for employees in NLB and in the Group

The Remuneration Policy for Employees in the NLB and the Group presents the basic framework of principles for rewarding all employees in the Group. It defines fixed and variable remuneration, the goal-setting system and performance criteria (Key Performance Indicators) and sets out the conditions for the awarding and payment of the variable part of remuneration. The Remuneration Policy includes provisions of deferral, malus, retention, and clawback of the variable part of the remuneration for identified employees, severance payments, and compensation for the non-competition period for identified employees and pension benefits for all employees.

Diversity Policy

Framework

The Policy on the Provision of Diversity of the Management Body and Senior Management was amended in 2022 and was adopted by the shareholders' General Meeting in June 2022.

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

The policy is annually reviewed by the Nomination Committee of the Supervisory Board. The Bank implements the principles of the Diversity policy through other policies and procedures, namely the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board, as well as procedures of the Nomination Committee of the Supervisory Board.

Objectives and process

Considering the size of the Bank, the Group members, and their regional presence and business strategy, the following aspects are essential to ensure diversity:

- gender representation
- age structure, which should reflect the age structure in the Bank to the largest extent possible
- professional competencies, skills and experience;
- continuity of composition of the management body and senior management;
- international experience;
- personal integrity;
- geographical provenance.

Goals related to the above-defined aspects of diversity are defined in the relevant diversity policy and are disclosed in NLB Group Sustainability Report 2023.

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Corporate Governance

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

Apart from a binding legal framework, the Bank complies with the Slovenian Corporate Governance Code for Listed Companies. The Code stipulates governance, management, and leadership principles based on the "comply or explain" principle of companies listed on the Ljubljana Stock Exchange. Deviations from the recommendations of the said Code are published in the NLB Group Annual Report in the section Corporate Governance Statement of NLB. This statement is prepared in accordance with Article 70 (Paragraph 5) of the Companies Act (ZGD-1). The before-mentioned statement is also published on the Bank's website, as well as on the website of Ljubljana Stock Exchange – SEOnet.

Rules and Procedures

The Bank's Corporate Governance includes processes through which Bank objectives are set and pursued (directed and controlled). Lately, it has become an efficient way to channel investor-driven initiatives related to sustainability. Corporate governance principles identify the distribution of rights and responsibilities among different stakeholders in the Bank (Management and Supervisory Board, shareholders, investors, creditors, auditor, regulators, and other stakeholders), and include the rules and procedures for decision-making in corporate affairs. The most important rules and procedures are:

Articles of Association of NLB d.d.

NLB operates under a two-tier governance system, defined by the Banking Act (ZBan-3) and Companies Act (ZGD-1). The Management Board manages the Bank's operations, and the Supervisory Board provides for control and supervision of the Management Board's work. Shareholders exercise their rights at General Meetings of Shareholders. For more information, refer to the Bank's website Corporate Governance.

Corporate Governance Policy of the NLB and NLB Group Governance Policy

The corporate governance framework of the Bank, the Corporate Governance Policy of NLB (February 2023), is drawn up jointly by the Management and the Supervisory Boards of the Bank. In this policy, the Management and Supervisory Boards publicly disclose commitments to shareholders, clients, creditors, employees, and other stakeholders as a whole and explain how the Bank is managed and supervised, as well as adopt decisions on which corporate governance code the Bank follows (https://ww.nlb.si/corporate-governance). The Corporate Governance Policy of NLB should be read together with the NLB Group Governance Policy (December 2023), in which the corporate governance principles and mechanisms of the Group members (NLB excluded) are defined and governed.

NLB Group Code of Conduct

In the NLB Group Code of Conduct, the values, mission, and core principles of conduct are defined together with a set of guidelines to which the Group is committed. The Code describes the values and basic principles of ethical business conduct that the Group respects, promotes, and expects to be followed by the whole Group. Operating with integrity and responsibility is key to the Group's corporate culture. The Code demands that every employee, regardless of their job or location of work, and every other stakeholder of the Group comply with the highest standards of integrity.

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Bank's Governing Bodies

The Bank's corporate governance is based on a two-tier system in which the Management Board manages the Bank's daily operations, and the Supervisory Board controls and supervises Management Board's work.

General Meeting of Shareholders

Supervisory Board

Management Board

The General Meeting of Shareholders

The shareholders exercise their rights related to the Bank's operations at General Meetings. The Bank's General Meeting passes decisions that follow legislation and the Bank's Articles of Association. Decisions adopted by the General Meeting include, among others, adopting and amending the Articles of Association, use of distributable profit, granting a discharge from liability to the Management and Supervisory Boards, changes to the Bank's share capital, appointing and discharging members of the Supervisory Board (representatives of capital), remuneration of members of the Supervisory and Management Boards, and authorisation regarding the characteristics of the issue of securities.

There were two General Meetings of Shareholders in 2023. At the 40th General Meeting of the Shareholders dated 19 June 2023, the shareholders took note of the adopted NLB Group Annual Report 2022. They adopted the Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2022 and the Report on remuneration in the business year 2022 with the Additional information to the Report on remuneration in the business year 2022 based on SSH's Baselines, and the Internal Audit Report for 2022, with the Opinion of the Supervisory Board of NLB.

The General Meeting adopted decisions on allocating distributable profit from the previous year and granted a discharge from liability to the Management Board and Supervisory Boards. The shareholders decided to pay out the first tranche of distributable profit as dividends, totalling EUR 55 million, which is equivalent to EUR 2.75 gross per share.

The General Meeting also adopted decisions on the election of the Supervisory Board members. As the term of office of four members of the Supervisory Board, namely Deputy Chairman Andreas Klingen, Shrenik Dhirajlal Davda, Gregor Rok Kastelic, and Mark William Lane Richards, expired, the General Meeting also appointed four members, of whom two were existing and two were new. The shareholders re-appointed Shrenik Dhirajlal Davda and Mark William Lane Richards. They also appointed two new members, namely Cvetka Selšek, a former CEO and Chairwoman of the Societe Generale SKB Bank (Slovenia), and André-Marc Prudent-Toccanier, a seasoned banker who has held various managerial positions in his 40-year career at Societe Generale. All four were appointed for a four-year term of office, which for the existing members began on the day of their appointment, while Cvetka Selšek and André-Marc Prudent-Toccanier assumed the position of members of the Supervisory Board on 15 August 2023, after the ECB agreed to their appointment to their position.

The General Meeting also decided on payments to the members of the Supervisory Board and its committees.

In the 41st General Meeting of the Shareholders held on 11 December, shareholders confirmed the payment of additional dividends at EUR 2.75 gross per share (the second tranche) or EUR 55 million, making a total dividend pay-out in 2023 EUR 110 million. EUR 55 million was already paid-out to shareholders on 27 June 2023.

Both pay-outs in a total amount of EUR 110 million from the profit generated in 2022 are not included in the capital base, meaning they do not affect the Group's capital ratios. With these pay-outs, the Bank remains firmly on a path to fulfilling its ambition – a total capital return through solid cash dividends in a cumulative amount of EUR 500 million between 2022 and the end of 2025.

At the General Meeting, shareholders got acquainted with the revised Remuneration Policy, which was not confirmed in the consultative vote. The Remuneration Policy enters into force, irrespective of the outcome of the vote, and applies as of 1 January 2024 to the remuneration of the members of the Supervisory Board and the members of the Management Board, which refers to the period as of 1 January 2024. The Remuneration Policy will be further improved and presented to the shareholders by the next General Meeting.

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

The Supervisory Board

In accordance with the Articles of Association, the Supervisory Board consists of 10 members, eight of whom represent the interests of shareholders and two of whom represent the interests of employees. The Members of the Supervisory Board of the Bank representing the shareholders' interests are elected and recalled at the Bank's General Meeting from persons proposed by shareholders or the Supervisory Board of the Bank. Members of the Supervisory Board of the Bank representing employees' interests are elected and recalled by the Workers' Council of the Bank. All Supervisory Board members must be independent experts.

As at 31 December 2023:

Number of members:

10

8 are representatives of capital, while 2 are representatives of workers

Diversity:

4

out of 10 members were female (40%)

There was only one change in the composition of the Supervisory Board in 2023. At the General Meeting of the Shareholders held on 19 June 2023, four members were elected, two existing and two new, as mentioned above. At the end of the year, the composition of the Supervisory Board was as follows: Primož Karpe (Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), David Eric Simon, Verica Trstenjak, Islam Osama Zekry, Shrenik Dhirajlal Davda, Mark William Lane Richards, Cvetka Selšek, Andre-Marc Prudent-Toccanier (all of them shareholders' representatives), and Sergeja Kočar and Tadeja Žbontar Rems (as employees' representatives).

As at 31 December 2023, the Supervisory Board had the following members:

Representatives of Capital

Primož Karpe, M.Sc.
Chairman
Term of office: 2016–2020, renewed term 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Chairman)
- Audit Committee (Member)
- Operations and IT Committee (Member)

Membership in management bodies of related or unrelated companies:
- Angler d.o.o. – Director
- Aroma Global 3 Ltd. – Chairman of the Supervisory Board

Shrenik Dhirajlal Davda, MBA, LLB
Deputy Chairman
Term of office: 2019–2023, renewed term 2023–2027

Link to CV

Membership in NLB Supervisory Board committees::
- Remuneration Committee (Chairman)
- Risk Committee (Member)
- Audit Committee (Member)

Membership in management bodies of related or unrelated companies:
- Charity Commission of England and Wales – Commissioner and Board Member (since 27 March 2023)
- IPSO, UK – Lay Member of the Board (since 8 March 2022)
- New Europe Capital Partners Ltd. London, UK – Managing Director

David Eric Simon
Member
Term of office: 2016–2020, renewed term 2020–2024)

Link to CV

Membership in NLB Supervisory Board committees::
- Audit Committee (Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:
- Jihlavan a.s. – Chairman of the Supervisory Board
- Jihlavan Real Estate a.s. – Chairman of the Supervisory Board
- Czech Aerospace industries sro – Legal representative

Islam Osama Zekry, Ph.D.
Member
Term of office: 2021–2025

Link to CV

Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Deputy Chairman)
- Nomination Committee (Member)
- Risk Committee (Member)

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

André-Marc Prudent-Toccanier
Member
Term of office: 2023–2027

Link to CV

Membership in NLB Supervisory Board committees:
- Risk Committee (Chairman)
- Operations and IT Committee (Member)
- Audit Committee (Member)).

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

Mark William Lane Richards, M.Sc.
Member
Term of office: 2019–2023, renewed term 2023-2027

Link to CV

Membership in NLB Supervisory Board committees:
- Operations and IT Committee (Chairman)
- Remuneration Committee (Deputy Chairman)
- Nomination Committee (Deputy Chairman)

Membership in management bodies of related or unrelated companies:
- Vencap International pic Ukraine (UK) – Chairman
- Berry Palmer & Lyle Ltd. (BPL Global) (Lloyds of London insurance Broker) – Non-Executive Director
- Sheffield Haworth Ltd – Non-Executive Director

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Representatives of Capital

Cvetka Selšek
Member
Term of office: 2023–2027

Link to CV

Membership in NLB Supervisory Board committees:
- Audit Committee (Deputy Chairwoman)
- Risk Committee (Deputy Chairwoman)

Membership in management bodies of related or unrelated companies:
- Directors' Association of Slovenia – Deputy President
- Managers Association of Slovenia – Member of the Honorable Tribunal

Verica Trstenjak, Ph.D.
Member
Term of office: 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)
- Remuneration Committee (Member)

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

Representative of Employees

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

Link to CV

Membership in NLB Supervisory Board committees::
- Operations and IT Committee (Member)
- Remuneration Committee (Member)

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

Sergeja Kočar, M.Sc.
Member
Term of office: 2020–2024

Link to CV

Membership in NLB Supervisory Board committees:
- Nomination Committee (Member)
- Remuneration Committee (Member)

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

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

Committees of the Supervisory Board

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

Selection and independence of an audit firm
The selection of and audit firm is carried according to the internal act. A proposal for the criteria for the appointment of the audit company and the minimum conditions for cooperation are prepared, which also include the mandatory disclosure of all possible (non-) audit services. Based on the recommendation of the Audit Committee, the Supervisory Board proposes the appointment of an audit company, which is approved by the Shareholders' Meeting.

The statutory auditor must assess and document compliance with independence requirements before accepting or continuing a statutory audit engagement. The Audit Committee annually requires written declarations of independence from the statutory auditors, which must apply to both the audit firm and the audit partners and senior personnel involved in the audit engagement.

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

Audit Committee	Risk Committee	Nomination Committee	Remuneration Committee	Operations and Information Technology (IT) Committee
David Eric Simon, Chairman	**Andreas Klingen,** Chairman (until 19 June 2023)	**Primož Karpe,** Chairman	**Gregor Rok Kastelic,** Chairman (until 19 June 2023)	**Mark William Lane Richards,** Chairman
Cvetka Selšek, Deputy Chairwoman (from 18 September 2023)	**André-Marc Prudent-Toccanier,** Chairman (from 18 September 2023)	**Andreas Klingen,** Deputy Chairman (until 19 June 2023)	**Shrenik Dhirajlal Davda,** Chairman (from 18 September 2023)	**Islam Osama Zekry,** Deputy Chairman
Primož Karpe, Member	**Cvetka Selšek,** Deputy Chairwoman (from 18 September 2023)	**Mark William Lane Richards,** Deputy Chairman (from 18 September 2023)	**Mark William Lane Richards,** Deputy Chairman	**Andreas Klingen,** Member (until 19 June 2023)
Shrenik Dhirajlal Davda, Member	**Shrenik Dhirajlal Davda,** Member	**Verica Trstenjak,** Member	**Verica Trstenjak,** Member	**Primož Karpe,** Member
André-Marc Prudent-Toccanier, Member (from 18 September 2023)	**Islam Osama Zekry,** Member	**Sergeja Kočar,** Member	**Sergeja Kočar,** Member	**Tadeja Žbontar Rems,** Member
Gregor Rok Kastelic, Member (until 19 June 2023)	**David Eric Simon,** Member	**Islam Osama Zekry,** Member	**Tadeja Žbontar Rems,** Member	**André-Marc Prudent-Toccanier,** Member (from 18 September 2023)
	Gregor Rok Kastelic, Member (until 19 June 2023)			

The Management Board

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

As at 31 December 2023:

Number of members:

6 members

Mandate:

5-year term of office

In 2023, the composition of the Management Board remained unchanged. The Management Board of the Bank consists of Blaž Brodnjak as President & CEO, Archibald Kremser as Chief Financial Officer (CFO), Peter Andreas Burkhardt as Chief Risk Officer (CRO), Hedvika Usenik as Chief Marketing Officer (CMO), responsible for Retail Banking and Private Banking, Andrej Lasič as CMO, responsible for Corporate and Investment Banking, and Antonio Argir, responsible for Group governance, payments, and innovations.

As at 31 December 2023, the composition of the Management Board was as follows:

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

Link to CV

Other important functions and achievements:
- More than 23 years of experience in managerial positions on all levels of international banking groups.
- Was a chairman or member of the supervisory boards of 13 commercial banks in six countries, three insurance companies in three countries, a leading asset management company in Slovenia and a multinational production group.

Direct responsibility:
- Strategy and Business Development
- Legal and Secretariat
- Brand and Communication
- Human Resources and Organisation Development
- Internal Audit
- Compliance and Integrity

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

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

Link to CV

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

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

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

Archibald Kremser
CFO
Term of office:
2013–2016, 2016–2021,
renewed term 2021–2026
Deputy CEO (since 2023)

Link to CV

Other important functions and achievements:
- More than 23 years of experience in the financial services industry in Austria, CEE, and SEE, focusing on finance and asset management, strategy and corporate development, and performance improvement assignments.

Direct responsibility:
- Financial Accounting and Administration
- Controlling
- Financial Markets
- Group Real Estate Management
- IT Delivery
- IT Infrastructure
- Data Management
- IT Governance
- IT Security
- Procurement

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

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

Link to CV

Other important functions and achievements:
- Under the management of Antonio Argir, NLB Banka, Skopje marked exceptional growth in all segments of its operations and was perceived as the most innovative bank on the market, with a significant increase in the bank's profitability, and share price increased fivefold.
- Vice President of the Economic Chamber of North Macedonia (2018–2023)

Direct responsibility:
- Group Steering
- Cash Processing
- Payments Processing
- Payments and Cards Services and Business Development

Membership in management or supervisory bodies of related or unrelated companies:
- Member of the Supervisory Board: NLB Lease&Go, Ljubljana

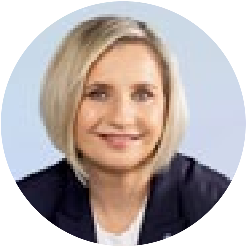
Andrej Lasič
CMO (responsible for Corporate and Investment Banking)
Term of office: 2022–2027

Link to CV

Other important functions and achievements:
- Over 26 years of experience in corporate and investment banking in international banking groups.

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

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



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

Link to CV

Other important functions and achievements:
- Over 21 years of experience in international banking groups, thereof more than 17 years of managerial experience.

Direct responsibility:
- Private Banking
- Call Centre 24/7
- Distribution Network
- Customer, Product Management and Digital Services

Membership in management or supervisory bodies of related or unrelated companies:
- Chairwoman of the Supervisory Board: NLB Skladi
- Member of the Supervisory Board: NLB Banka, Banja Luka
- Member of Management Board: Institute for Economic Research
- Member of Management Board: British–Slovenian Chamber of Commerce

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

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Collective Decision-Making Bodies

The Management Board appoints different committees, commissions, boards, and working bodies to execute relevant tasks within the powers of the Management Board.

Corporate Credit Committee

Chairman: CRO

Number of members: 8

The Committee determines credit ratings, makes decisions on the reclassification of clients, and approves commercial banking investment transactions and limits beyond the directors' competencies. The Committee adopts decisions on investment transactions in commercial banking within the statutory powers in corporate banking in the Bank (all companies, banks, and financial institutions), operations with clients in intensive care, and NPL. As a rule, committee meetings are convened once a week.

Assets and Liabilities Management Committee of the NLB Group

Chairman: CFO

Number of members: equal to the number of the appointed members of the Management Board

The Committee monitors conditions in the macroeconomic environment. It analyses the balance sheet, changes to and trends in the assets and liabilities of the Bank and the Group companies, and drafts resolutions and issues guidelines for achieving the structure of the Bank's and the Group's balance sheet. Committee meetings are generally convened once a month.

NLB Operational Risk Committee

Chairman: CRO

Number of members: 16

The Committee is responsible for monitoring, guiding, and supervising operational risk management in the Bank and transferring this methodology to the Group members. As a rule, the Committee meets once every two months.

Change the Bank Committee

Chairman: CEO

Number of members: equal to the number of the appointed members of the Management Board

The Committee is responsible for adopting decisions related to the development portfolio to transform the Bank and decisions associated with adopting the development guidelines. As a rule, the Committee meetings are convened once a month.

Risk Committee

Chairman: CRO

Number of members: 12

The Risk Committee monitors and periodically reviews matters related to risk and commercial risk and prepares materials for the Management Board to make decisions. As a rule, committee meetings are convened quarterly.

Group Real Estate Management Committee

Chairman: CFO

Number of members: 3

The Committee gives opinions on the acquisition/purchase price of real property and additional investments in real property provided as collateral for NPL, the selling price of own real property, and the acquisition/purchase price for the real property mortgaged in the sale of receivables. As a rule, Committee meetings are convened once a week.

Sales Committee

Chairman: CMO (responsible for Corporate and Investment Banking)

Number of members: 13

The Sales Committee adopts decisions on managing the range of products and services and the relations with the clients in sales. As a rule, Committee meetings are convened once a week.

Private Individual Credit Committee

Chairman: Director of Credit Risk – Retail

Number of members: 5

The Committee decides on the approval of loans and other investment proposals, the conditions of which deviate from standard banking products and services and which represent additional risks for the Bank. As a rule, meetings are convened when necessary.

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

- **Committee for New and Existing Products**
- **Group Real Estate Management Sub Committee**
- **Committee for Business IT Architecture**
- **Data Management Committee**
- **Anti-Money Laundering Commission**
- **Corporate Customer Acceptability Committee**

Advisory bodies of the Bank's Management Board

Watch List Committee	NLB Group Non-Performing Assets Divestment Committee	NLB d.d. Sustainability Committee
Chairman: CRO	Chairman: Director of Workout and Legal Support	Chairman: CEO
Number of members: 7	Number of members: 7	Number of members: 20
The Watch List Committee is a body which monitors the progress of activities for clients on the Watch list. As a rule, committee meetings are convened quarterly.	The NLB Group Non-Performing Assets Divestment Committee monitors the operations of Non-Core Group Members and issues opinions, recommendations, and initiatives. As a rule, committee meetings are convened quarterly.	The Committee oversees the integration of the ESG factors to the NLB d.d. and the NLB Group members' business model in a focused and coordinated way across the company, issues opinions, recommendations, and initiatives, and takes relevant decisions when needed. The Committee shall discuss, develop and approve sustainability strategies, policies, initiatives, methodologies, KPIs and other relevant procedures. It shall influence sustainability-related strategic objectives and shall monitor its development and realisation. As a rule, committee meetings are convened quarterly.

NLB Group's Governance

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

The Group operating model is comprehensively defined in the NLB Group Governance Policy through corporate and business governance rules, principles, criteria, and mechanisms which define the roles, authorisations, and responsibilities of relevant stakeholders to ensure that they act orchestrated and achieve the set business goals. In the Bank, the Group Steering Department is the principal partner of the Bank's Management Board in the corporate and partially also business governance of strategic and non-strategic Group companies.
In line with strategic aspirations, the two key senior functions were fully introduced in recent years: country managers who support and steer the Group members and facilitate best practice-sharing on different levels, and stream coordinators who address the facilitation of more in-depth knowledge of competence lines and greater integration between streams and the Group members, the increasing transmission of current information, needs, and other requirements from the Group members.

Model of Governance of NLB Group consists of three pillars:

1. Corporate Governance, which is carried out following fundamental corporate rules and governance principles comprised of:
   - shareholder voting at the General Meeting of NLB Group members,
   - proposing candidates for supervisory bodies of NLB Group members,
   - offering professional support to supervisory bodies of NLB Group members,
   - offering professional support in the selection of candidates for management of NLB Group members,
   - proposing candidates for various committees of NLB Group members.
2. Business Governance which is carried out through mechanisms that ensure efficient business guidance and oversight:
   - setting up a formal business governance framework by Group Steering,
   - standardisation and harmonisation of operations across NLB Group by Competence Lines.

3. The Internal Control Functions serve as the second and third lines of defence. In addition to standardisation and harmonisation in their respective areas, they also oversee the implementation of group rules and requirements (Internal Audit, Risk Management and Compliance, including AML, Information Security, Fraud Prevention, and Physical Security).

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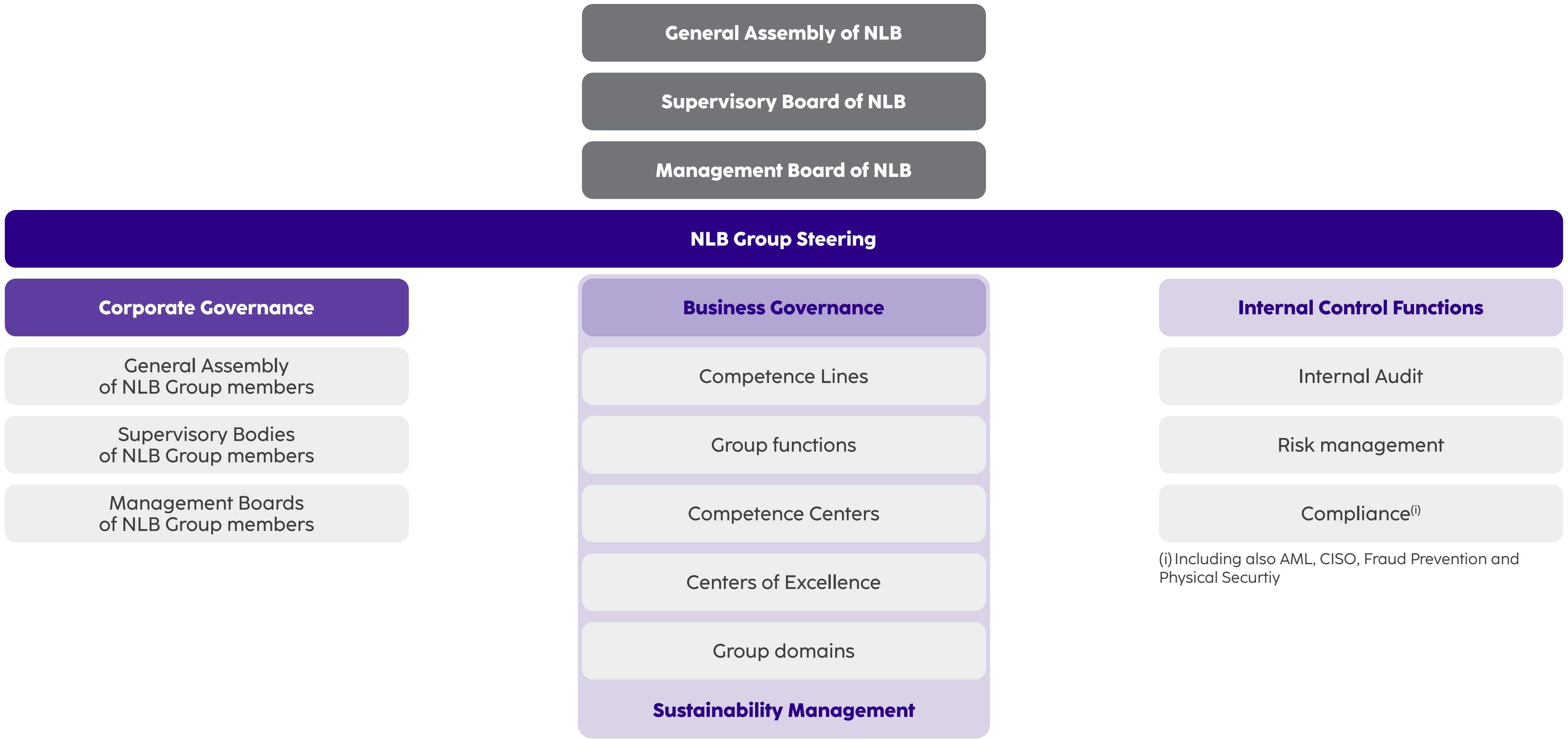
Figure 63: NLB Group Governance Model



The NLB Group consists of NLB and Group members who represent:

- financial core members: banks, leasing companies, and asset management companies;
- non-financial core members: real estate management companies (from 1 January 2024) and other non-financial companies;
- non-core members: companies in wind-down process or companies considered non-strategic for NLB Group.

At the end of 2023, the Group comprised 30 members, six fewer than the previous year. In the core part of the Group, the merger of N Banka to NLB was successfully closed in September. Most of the changes relate to the reduction of the non-core part of the Group, namely two companies merged (SPV 2 d.o.o., Beograd with REAM d.o.o., Beograd and REAM d.o.o. Zagreb, with S-REAM d.o.o., Ljubljana), two companies were sold (Tara Hotel d.o.o. and Optima Leasing d.o.o. in liquidation), the liquidation process of NLB Leasing d.o.o. Beograd–in liquidation was completed, and the company was deleted from the court register.

In the last year, an in-depth revision and renewal of the existing NLB Group operating model was performed due to recent changes in the Group structure and business governance. As a result, the new NLB Group Governance Policy enhanced the role of Competence Lines, which is the main business governance counterpart of the Group members, responsible for harmonisation and standardisation of the Group operations and, therefore, represents the highest level of business governance hierarchy with professional, competent, and qualified teams that are entirely or at least primarily dedicated to the Group. The revised NLB Group Governance Policy also provides the formal framework for the operation of other business governance levels (i.e., Group functions and Group virtual teams) and sub-groups (granddaughters), sets the overarching formal framework and defines the roles of key stakeholders in sustainability management, and establishes clear communication and escalation rules. The policy was adopted in December 2023 and will be subject to the Supervisory Board's acknowledgement in February 2024.

The legal and organisational structure of the banking group, including a description of the internal governance arrangements, the arrangements about close links and the arrangements regarding the governance of subsidiaries, are available on the Bank's website.

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Compliance and Integrity

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

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

Group-wide ethics and integrity standards

Compliance and Integrity addresses the following areas:

- Prevention and investigation of frauds, abuses and other types of misconduct (Fraud);
- Prevention of money laundering and terrorist financing (MLTFP) and restrictive measures;
- Personal data protection (DPO);
- Information protection (CISO);
- Regulatory compliance;
- Prevention of corruption and bribery (ABC) and management of conflicts of interest;
- Prevention of abuse on the financial instruments market;
- Cooperation in the procedure of assessment of suitability of key function holders;
- Efficient, consistent and proportional actions in the event of identified deviations from compliance and integrity;
- Cooperation in the system of internal controls;
- General professional ethics;
- Physical/technical security.

Within the framework of the programme of ensuring business compliance, the Group also deals with the ethics and integrity of the organisation. The Group employees are committed to the culture of responsibility to the customer, implementation of the planned business results, care for the environment, and promotion of a healthy lifestyle. The Bank acts in accordance with the legislation and the rules of the profession, ethical principles and good business practices, as well as the values of the NLB Group. The confidence it enjoys among the customers, fellow employees, shareholders, and society gives it great responsibility. The Bank justifies this trust by working with the stakeholders for a positive change, mutual benefits, and growth. As such, all employees are included in yearly training and awareness-raising activities in general ethics, anti-corruption, anti-money laundering, information security, etc. The Group's Code of Conduct was updated in 2023. It provides guidance and principles of expected behaviour regarding ethical conduct and requires adequate conduct from all the employees at any level of the organisation, including its contractors.

Prevention

As part of the Bank's commitment to ethics and integrity, it has implemented various prevention activities to protect the Bank and its stakeholders from the risk to reputation, money laundering, terrorist financing, fraud, corruption, and other forms of financial crime.

The Bank conducts regular assessments of compliance risks, the so-called "Enterprise Compliance Risk Assessment" (ECRA); the management of the Bank, particularly Compliance and Integrity, can plan its activities to reduce or mitigate compliance and integrity risks. As part of the compliance programme, Compliance and Integrity is also involved, among other things, in risk assessments regarding new and changed products, fit and proper assessments for key function holders, and members of management bodies, outsourcing, and other material changes affecting the Bank's business.

Several workshops and mandatory e-training on ethics, preventing corruption, conflicts of interest, protecting personal data, AML/CFT, Information Security, Physical Security, and other relevant topics related to everyday work were prepared as a standard compliance function. For all employees, yearly e-trainings are mandatory on subjects such as prevention of insider trading and market manipulation, ethics, anti-corruption, mitigation of conflict of interests, personal data protection, information security, and similar topics. The Group focuses on promoting a corporate culture that facilitates compliance and ethics. For this purpose, the Group regularly raises awareness through various means, such as monthly compliance newsletters, highlighting essential regulatory changes and providing current information and case studies relating to compliance and ethics.

The Bank is constantly improving the compliance risk management system and regularly monitors and implements activities, and also renews relevant internal acts to manage compliance risks also in individual areas, such as ensuring the compliance of the management body, operations of the market of financial instruments and custody, data protection, prevention tax evasion, and obligations arising from the automatic exchange of information on financial accounts and the management of the system of internal controls and risks brought by the new legislation.

NLB	NLB Group
2,363	4,179

The number of employees who completed training on the Code of Conduct in 2023

2,389

The number of employees engaged and satisfied with the ethical culture and values of the organisation

NLB	NLB Group
350	751

The number of suppliers and business partners who signed or agreed to comply with the Code of Conduct, anti-corruption policies, and conflict of interest policies

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The regime on inside information (MAR)

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

Prevention of Money Laundering and Terrorism Financing, and Financial Sanctions Compliance

The Bank complies with national regulations on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), including the EBA, BoS, and other competent authorities' guidelines and standards. The RoS is a member of the EU and thus subject to the European AML/CFT Directives, which is how the EU transposes the Financial Action Task Force recommendations throughout the EU. For the Bank, it is paramount to effectively mitigate the risk of money laundering, financing of terrorism, and breaches of financial sanctions. For these reasons, the rules, procedures, and technology in the AML/CFT area are subject to strict and unified policies and standards. The same principles also apply to the Bank's framework on financial sanctions. The Bank regularly updates and enhances its governance in line with directions set by the BoS. Through the system of performing risk assessment, regular reporting, and constant on-site and off-site control, the headquarters effectively monitor implementation and execution of standards throughout the Group.

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

Information security and personal data protection

The information security area, *inter alia*, is focused on implementing measures to increase the level of information/cyber security and the Bank's overall digital resilience by improving cyber threat intelligence situational awareness and testing the cyber security resilience of information systems (pen-tests).

Furthermore, in 2023, the Bank also assessed the information security status of 38 of the Bank's outsourcing providers according to EBA guidelines. Special obligatory e-trainings in information security and social engineering were prepared for all employees – with one specially dedicated training for the Bank's Management Board members carried out as part of the prevention measures in this area.

In response to a notable surge in cyber fraud attempts targeting its customers, the Bank has implemented a robust Brand Intelligence/Brand Protection service. This enhancement enables NLB to swiftly and proactively detect fraudulent NLB-like phishing portals, empowering it to take decisive and independent actions to mitigate threats posed by phishing campaigns targeting its clients.

New information security approaches were introduced and implemented across the Group, improving the visibility and autonomy of each local Chief Information Security Officer (CISO) office in core subsidiaries. The focus was on increasing awareness of the local responsibility for information security management following the subsidiaries' executive management risk appetite, the organisation's ability to build defence,

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and local regulatory compliance. The Bank continues its membership in the only global cyber intelligence-sharing community focused on financial services exclusively. All local CISO offices have access to intelligence exchange platforms and cyber resilience resources to anticipate, mitigate, and respond to cyber threats and NLB Group cyber threat intelligence service was founded. To manage cyber risks, the Group is working on critical intelligence access, strategies to address crisis events, and building a trusted network of relationships. In 2023, the Group continued the cyber-attack incident response exercise and participated in the 2023 FS-ISAC CAPS (cyber-attack against payment systems) exercise, which challenged incident response teams to overcome a simulated attack against systems and processes, locking part of the bank data through forced cooperation of a bank employee and receiving a demand for a payment of ransom.

The Bank runs its operations in line with GDPR requirements, including the retention and processing of personal data, a dedicated Data Privacy Officer, education, and training of employees. A new Slovenian Personal Data Protection Act (ZVOP-2) was adopted in 2022 and is implemented in the Bank's operations.

Fraud prevention and investigation

The Group has implemented a unified system and standards for preventing and investigating suspected misconduct. This framework enables anyone, both internal and external stakeholders, to unhinderedly report potential suspected misconduct through several different communication channels, also anonymous. The Bank uses various measures to ensure complete and total protection of the informant from any potential retaliation they could endure due to well-intended reporting of a suspicion of harmful conduct and adheres to commitments outlined also in the Whistleblower Protection Act. A specialised team centrally handles all reports received, following the detailed internal procedures. Furthermore, the Bank has implemented effective and appropriate reporting mechanisms for management bodies.

In the past year, the Bank has made significant strides in safeguarding its brand's integrity. It has implemented a robust brand protection tool, a testament to its commitment to preserving the trust and confidence that customers place in the Bank. The Bank also implemented a range of additional controls in web & mobile e-banking channels.

We are committed to ensuring the security of our customers and employees, and as such, we have strengthened our approaches to managing risks related to cyber security and preventing unauthorized payment transactions. We have been actively participating in The Bank Association (ZBS) initiatives, playing a pivotal role in educating the public about cyber and payment fraud prevention.

We devote significant attention to employee training, informing about identified patterns of various types of fraud, and providing recommendations for process improvement.

Fraud prevention in loan origination processes is intricately linked to operational risk and requires a comprehensive approach. We have implemented rigorous verification processes for new loan applications, including identity verification checks, thorough credit history analysis, and cross-referencing information from multiple sources to identify any inconsistencies or fraudulent indicators.

Our involvement in these activities underscores our dedication to fostering a secure and transparent business environment. We remain steadfast in our mission to uphold the highest standards of business ethics, ensuring that our customers can engage with our brand with absolute confidence.

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Internal Audit

Internal Audit reviews key risks in the Group's operations, advises management at all levels, and deepens understanding of the Bank's operations. It provides independent and impartial assurance regarding the management of key risks, management of the Bank, and functioning of internal controls; thereby strengthening and protecting the value of the Bank.

Internal Audit is an independent, objective, and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness and functionality of internal control systems, and management of the Group operations on an ongoing basis. Internal Audit provides impartial assurance to the Management and Supervisory Boards on the management of risks in key areas, i.e., the internal governance of risk data collection and risk reporting, the ICAAP process, cyber security transformation processes, digital banking platform, the Single Resolution Board – SRB, ESG, anti-money laundry, outsourcing process, card fraud management, remuneration, lending processes, large exposure, RWA for credit and operational risk, cash management in branches, and others.

Performed audits

Internal Audit performs its tasks and responsibilities at its discretion and in compliance with the annual audit plan approved by the Management and the Supervisory Board. Based on its internal methodology and comprehensive risk analysis for 2023, Internal Audit planned 91 audits, of which 62 were completed and covered various areas of operations in the Bank and the Group. Moreover, 23 of these assignments were branch inspections, four were conducted as group audits, five were joint audits with a local auditor, three were quality reviews in banking subsidiaries, and one new audit was initiated. In addition, Internal Audit was involved in several strategic projects as an advisor. Five planned audits were postponed for objective reasons. Most of the recommendations given in 2023 were implemented within the agreed-upon deadlines.

Implementation of uniform rules

Internal Audit continuously increases efficiency. It focuses on monitoring the implementation of audit recommendations, training, and education, updating the internal audit charter and manual, advising management, and ensuring high-quality and professional operations of the internal audit function within the Group. Internal Audit also introduces uniform rules of operation of the internal audit function and regularly monitors compliance with these rules within the Group.

Following the highest standards

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

91

planned and extraordinary audits conducted in the Bank

36

Internal Audit experts

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… as one team, towards a common goal.

Slovenian
national soccer team

The collective dream comes true when all hearts beat as one.

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The Statement of Management's Responsibility

In accordance with the provisions of Article 134 (2nd paragraph) of the Market and Financial Instruments Act[8], the Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as of 31 December 2023, and represent the actual and fair financial standing of the Bank and the NLB Group as well as their operating results in the year that ended 31 December 2023.

Ljubljana, 10 April 2024

The Management Board confirms that the business report gives a fair view of developments and operating results of the Bank and the Group and their financial standings, including a description of the material types of risks the Bank and the NLB Group companies included in the consolidation that are exposed as a whole.

Management Board of NLB

Hedvika Usenik	**Andrej Lasič**	**Archibald Kremser**	**Peter Andreas Burkhardt**	**Antonio Argir**	**Blaž Brodnjak**
Member	Member	Member	Member	Member	Chief executive officer

8 ZTFI-1, Official Gazzete of the RoS, No. 77/18, 17/19 – corr., 66/19 in 123/21.

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Authorisation to Perform Banking Services

NLB has an authorisation to perform banking services pursuant to Article 5 of the Banking Act (*Official Gazette of the RS*, No. 92/2021, with Amendments; hereinafter: the ZBan-3). Banking services are the acceptance of deposits and other repayable funds from the public and the granting of credits for its own account.

The bank has an authorisation to perform mutually recognised and additional financial services.

It may perform the following mutually recognised financial services, pursuant to Article 5 of the ZBan-3:

1. Receiving deposits
2. Granting of loans, including:
   - consumer loans,
   - mortgage loans,
   - purchase of receivables with or without recourse (factoring),
   - financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting)
4. Payment services and electronic money issuing services
5. Issuance and management of other payment instruments (i.e. travellers' cheques and banker's drafts) in the part in which this service is not included in service of point 4 of this Article
6. Issuing of guarantees and other commitments
7. Trading for own account or for the account of clients:
   - in money-market instruments,
   - in foreign exchange, including currency exchange transactions,
   - financial futures and options,
   - exchange and interest-rate instruments,
   - in transferable securities
8. Participation in securities issues and the provision of associated services
9. Corporate consultancy with regard to capital structure, operational strategy and related matters, and consultancy and services in connection with corporate mergers and acquisitions
10. Monetary intermediation on interbank markets
11. Advice on portfolio management
12. Safekeeping of securities and other related services
13. Credit rating services: collecting, analyzing and disseminating information regarding creditworthiness
14. Leasing of safe deposit boxes
15. Investment services and transactions, and ancillary investment services in accordance with the ZTFI

It may perform the following additional financial services, pursuant to Article 6 of the ZBan-3:

1. insurance agency service pursuant to the law governing the insurance industry
4. custodian and administrative services according to the law governing investment funds and management companies
5. credit brokerage for consumer and other types of loans
6. other services or transactions:
   - 6.1. intermediation in financial leasing
   - 6.2. sale and purchase of investments in gold

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

Corporate Governance Statement of NLB

Pursuant to Article 70, paragraph 5 of the Companies Act (ZGD-1)[9] NLB hereby gives the following Corporate Governance Statement of NLB d.d. as part of the Business Report of the NLB Group Annual Report 2023.

The main function of this statement is the prompt informing of investors on the coherence of the Bank's corporate governance system.

1. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

1.1. References to the Code on Corporate Governance

The recommended best corporate governance practices contribute to a transparent and understandable corporate governance system, which promotes both domestic and foreign investor confidence, as well as the confidence of employees, other stakeholders (shareholders, regulators, suppliers, etc.), and the public. A decision on which code the Bank will follow was made jointly by the Management and Supervisory Boards of the Bank by adopting the Corporate Governance Policy of NLB.[10] Last year, the Corporate Governance Statement of NLB was made according to the renewed version of the Slovenian Corporate Governance Code for Listed Companies.

Compliance with the Slovenian Corporate Governance Code for Listed Companies is explained in this statement on a "comply or explain basis," in which the Bank provides an explanation regarding deviations, reasoning for non-compliance with a certain recommendation, or alternative practices performed mostly due to stricter banking regulation. The statement refers to the Bank's system of corporate governance from the beginning to the end of financial year, which also corresponds to the beginning and the end of the calendar year (from 1 January until 31 December).

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

NLB strives to increase the level of its business transparency and informs the shareholders and other expert community in line with the Guidelines on the Disclosure for Listed Companies (Ljubljana Stock Exchange, 18 December 2020) on an electronic communications system of the Ljubljana Stock Exchange, and in line with Rules and Regulation of the Luxembourg Stock Exchange, as well as in line with the Rules of the London Stock Exchange through Regulatory News Services (RNS) of the London Stock Exchange.

NLB also upholds its own code of conduct. The NLB Group Code of Conduct, which was revised in May 2023, is a standardised document for all members of the Group that defines values, lays down the standards of ethical business conduct, and serves as the guideline for all our relationships regardless of whether it involves clients, competitors, business partners, state authorities, regulators, shareholders, or internal relationships between employees. At the same time, it is the basis of the Group values and basic principles of conduct which provide specific conduct guidelines to its employees. The aim of this approach is to ensure compliance with all applicable laws, regulations, and standards, and is published on the Bank's website.

The Corporate Governance system of the Bank and all relevant information on Bank's management that exceeds the requirements of article 70 of the Companies Act (ZGD-1) are published in the chapter of Risk Management of this annual report, where ESG Risk Management for the year 2023 is described, as well as in the Sustainability chapter of this annual report, and the NLB Group Sustainability Report 2023. Some other aspects about the functioning of the Bank's managing bodies are described in the chapter on Corporate Governance of this annual report, as well as in the Corporate Governance Policy of NLB published on NLB's website. Information on the Diversity Policy and Remuneration Policy and ESG risks is also described in the Pillar 3 Disclosures, according to Basel standards.

9 The Companies Act (ZGD-1; Official Gazette of the RoS, No. 65/09 and consecutive changes).
10 February 2023.

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

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

Recommendation 5.6: NLB does not provide an external assessment of the adequacy of the Corporate Governance Statement of NLB at least every three years since NLB is a systemically important bank with demanding regulation that takes into account high standards of corporate governance. The Bank is highly regulated by a regulator and examined by the external auditor.

Recommendation 7: The Bank has publicly disclosed its strategic document which serves as the overarching framework for sustainability management, replacing the previous NLB Sustainability Framework. The Bank has also started activities to develop the comprehensive NLB Group Net-Zero Strategy in line with the Bank's commitment to a climate-positive future and its net-zero ambition, following UNEP FI – NZBA guidance and methodology. In December 2023, NLB Group published the first NLB Group Net-Zero Disclosure Report which provides a comprehensive overview of the Bank's efforts and progress towards transitioning the operational and attributable GHG emissions from lending and investment portfolios to align with pathways that are consistent with achieving net-zero by 2050 or sooner.

Recommendation 7.2: The Sustainability Policy in NLB d.d. and NLB Group was adopted by the Management Board and the Supervisory Board of the Bank.

Recommendation 7.4: The Sustainability Policy of NLB d.d. and NLB Group contains basic due diligence guidelines and measures for identifying risks and prevention of serious harm in relation to areas covered. Additionally, due diligence guidelines and measures for identifying risk are further elaborated in the Policy on the Respect for Human Rights in NLB and the NLB Group (December 2023), and in the Policy on Conflict-of-Interest Management and Corruption Prevention of NLB d.d. and the NLB Group (April 2023).

Recommendation 12.1: In assessing a candidate's eligibility to be a Supervisory Board member, statutory criteria are applied, however, according to the Policy to Assess the Suitability of the Management and Supervisory Board Members in NLB (June 2022), it is not necessary for candidates to have a certificate evidencing their specialised professional competence for membership on a Supervisory Board, such as the Certificate of Slovenian Directors' Association, or any other relevant certificate. However, all strict conditions must be fulfilled according to banking legislature, including the wide range of knowledge, skills, and experience.

Recommendation 14.2: Currently, valid Rules of Procedure of the Supervisory Board of NLB (2023) are prepared according to strict rules governing banks. They do not include provisions on the Agreement on access to the archives after expiration of the term of office of the members of the Supervisory Board, as the access to the archives after expiration of the term of office is determined by the provisions of the Rules of Procedure of the Supervisory Board of NLB and not in a special agreement.

Recommendation 14.3: The Rules of Procedure of the Supervisory Board of NLB do not include the scope of topics and timeframe to be respected by the Management Board in its periodic reporting of the Supervisory Board. However, the scope of topics and time frames of periodic reporting to the Supervisory Board are included in annual Action Plan of the Supervisory Board. Competent organisational units of the Bank take care that timely information is provided to the Supervisory Board.

Recommendation 14.4: In 2023, the NLB Workers' Council did not report to the Supervisory Board despite being prompted. The NLB Workers' Council will inform the professional services of NLB if it will have the intention to report to the Supervisory Board in the future.

Recommendation 14.6: Access to the archives after expiration of the term of office of the members of the Supervisory Board is determined by the Rules of Procedure of the Supervisory Board of NLB. Members of the Supervisory Board do not sign a special Agreement on the access to the archives upon taking up the position. See also Recommendation 14.2 above.

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

Recommendation 19.1: In 2023, the Supervisory Board members (representatives of capital and representatives of workers) did not receive attendance fees, but received payments for performing their function based on the decisions of the General Meeting of shareholders dated 21 October 2019, 15 June 2020, and 11 December 2023. Remuneration of the members of the Supervisory Board is regulated by the Articles of Association and the Remuneration Policy for the Members of the Supervisory Board of NLB d.d., and the Members of the Management Board of NLB d.d.[11] **Recommendation 20:** Minutes of the Supervisory Board are taken by a professional employee of the bank who was specified by the

11 The second version was adopted by the Supervisory Board on 19 October 2022 and approved by the General Meeting of shareholders on 12 December 2022. The third version was adopted by the Supervisory Board on 26 October 2023 but was not approved by the General Meeting of shareholders on 11 December 2023. Since the voting is of consultative nature it has entered into force and is applicable as of 1 January 2024.

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Management Board to the Supervisory Board to assist in the implementation of the Supervisory Board's tasks.

Recommendation 23.5: In accordance with regulations and the Remuneration Policy of the Members of the Supervisory Board of NLB d.d. and the Members of the Management Board of the NLB d.d, in 2023, NLB awarded to the members of its Management Board 50% of their variable remuneration in share-linked instruments: 50% of such instruments were handed over to the members of the Management Board without any deferral, and the remaining 50% of such instruments will be handed over to the members of the Management Board during a 5-year deferral period.

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

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

Recommendation 32.7: NLB does not publish the rules of procedure of its bodies (Management Board and Supervisory Board and its committees) on its website. However, each year the Bank discloses the composition, competences, and work of its managing bodies in the Corporate Governance Statement of NLB and publishes it in the NLB Group Annual Report, on the Bank's website, as well as on the web page of the Ljubljana Stock Exchange.

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3. MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING

NLB is governed by the provisions of the Capital Requirements Regulation (CRR), with amendments, together with all applicable delegated acts, the Banking Act (ZBan-3) and the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks regulating, and relevant EBA Guidelines, among other, the Bank's obligation to set up, maintain appropriate internal control, and risk management systems. Due to the above, the NLB has developed a steady and reliable internal governance system encompassing the following:

3.1. Internal control mechanisms

Suitability of the internal control mechanisms are determined by the independence, quality, and validity of:
- the rules for and controls of the implementation of the Bank's organisational, business, and work procedures (internal controls), and
- the internal control functions and departments (internal control functions).

3.1.1. Internal Controls

The policy entitled "Internal Control System" defines a system of internal controls as set of rules, procedures, and organisational structures. The system of internal controls in NLB is designed to ensure that for each key risk there is a process or other measure to reduce or manage that risk and that process or measure is effective for that purpose.

Mentioned policy introduces a new description of the three lines of defence, namely:
1. First–level (or line) controls are implemented into business and non–business organisational units (OU).
2. Second–level controls are divided between Risk Management and Compliance control functions (including AML/CTF and Information security management) that carry out independent controls and supervision over the operation of the first line of defence.
3. The third level of controls is performed by the internal audit function, which assesses and regularly checks the completeness, functionality, and adequacy of the internal control system. An internal audit is completely independent of both the first line and the second–level control functions.

In the event of deficiencies, irregularities, or breaches identified in the process of implementation of internal controls the breaches are discussed at the Operational Risk Committee (which is the collective decision-making body appointed by the Management Board of the Bank that is established for execution of individual tasks within powers of the Management Board of the Bank). The mentioned committee adopts decisions so that appropriate actions are taken, and informs the Management Board of the Bank about deficiencies and actions taken on that behalf.

As NLB advances its commitment to sustainable and responsible banking, updates to the Internal Control System policy, implemented in November 2023, reflect our dedication to ensuring a comprehensive approach to ESG governance, addressing ESG risks, and promoting responsible business practices.

3.1.2. Internal Control Functions

The internal control functions are part of the system of the internal governance in the Bank. Internal control functions include:

a) The Internal Audit Function
The Internal Audit function is organised according to the Charter on the Internal Audit of NLB adopted by the Management Board, to which the Supervisory Board of NLB gave its approval.

The Management Board has set up an independent internal audit function which gives assurances and advice about risk management, internal controls system, and management of the NLB. The mission and the principal task of the Internal Audit is to consolidate and secure the value of the Bank by issuing objective assurances based on risk assessment, with a consultancy and deep understanding of the Bank's operations. In addition, the Internal Audit carries out regular control of the quality of operation of the other internal audit departments in the Group and takes care of constant development of the internal auditing function.

The Supervisory Board of NLB must issue its approval of the appointment, remuneration, and dismissal to the Head of the Internal Audit, which ensures their independence and so, the independence of the work of the Internal Audit.

b) The Risk Management Function
The Risk Management Function is organised according to the Charter of the Risk Management Function of NLB adopted by the Management Board, in agreement with the Supervisory Board of NLB.

The risk management function represents an important part of overall management and governance system in the Group. This function in NLB is organised within the Risk stream, covered by the member of the Management Board in charge of risk (Chief risk officer - CRO).

The risk management function is performed by the Global Risk function. In accordance with the competences, authorisations, and responsibilities Global Risk is represented by its General Manager. Global Risk is in functional and organisational terms separate from other functions where business decisions are adopted and where potential conflict of interest may arise with the risk management function. The head of the risk management function has direct access to the Management Board of the NLB, and at the same time has unhindered and independent access to the Supervisory Board of NLB and the Risk Committee of the Supervisory Board of the NLB.

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

In members of the Group, the risk management function is organised according to the local legislation, considering the bases for setup, organisation, and activities in risk management in the members, as defined in the document "Risk Management Standards in the NLB Group."

c) The Compliance Function, Information Security Function, and AML/CTF Function
Compliance and Integrity in the Group in its role as internal control function performs control activities with respect to the main following areas:
- anti-money laundering and counter-terrorist financing (separately for NLB and the Group);
- information security and data protection;
- personal data protection;
- regulatory compliance management;
- prevention of fraud and internal investigations;
- security;
- development of compliance risk methodologies, and setting and monitoring ethics and integrity standards;
- harmonisation of policies and practices within the Group (Competence line Compliance and Integrity).

Compliance and Integrity is an organisational unit of the Bank, placed directly under the Bank's Management Board in the organisational structure. The Bank adopted the Integrity and Compliance Policy of the NLB and the NLB Group, which was revised in December 2023. This Policy regulates the method and scope of the activities of the compliance function in the Bank. Supervision over compliance of operations is within the competence of the Compliance and Integrity. This enables the Compliance and Integrity to operate independently from other Bank's departments.

The Director of Compliance and Integrity does not perform any other function at the Bank that could possibly lead to conflict of interests. To ensure his independence, the Director reports directly to the Management and Supervisory Boards. Additionally, the Director provides regular updates to a designated member of the Bank's Management Board responsible for overseeing compliance area (including information security, personal data protection, and AML/CTF functions). This arrangement provides additional assurance for the independence of the Compliance and Integrity operations.

As information security, AML/CTF, and Group AML functions are organised within Compliance and Integrity, CISO for NLB (Chief Information Security Officer), Group CISO, DPO (Data Protection Officer), the head of the AML/CTF area for NLB, and head of Group AML are ensured full independence through equal reporting lines as the Director of Compliance and Integrity. Following NLB's model, the compliance function was established in the core members of the Group, as well based on the Group standards for the compliance and integrity area.

3.2. Financial reporting

With the aim of ensuring appropriate financial reporting procedures, NLB pursues the adopted Policy on Accounting Controls. The accounting controls are provided through the operation of the complete accounting function with the purpose of ensuring quality and reliable accounting information, and thereby accurate and timely financial reporting. The principal identified risks in this area are managed with an appropriate system of authorisations, a segregation of duties, compliance with accounting rules, documenting of all business events, a custody system, posting on the day of a business event, in-built control mechanisms in source applications, and archiving pursuant to the laws and internal regulations. Furthermore, the policy precisely defines primary accounting controls, performed in the scope of analytical bookkeeping, and secondary accounting controls, i.e., checking the efficiency of implementation of primary accounting controls. With an efficient mechanism of controls in accounting reporting, NLB ensures:
- A reliable decision-making and operation support system;
- Accurate, complete, and timely accounting data, the resulting accounting, and other reports of the Bank;
- Compliance with legal and other requirements.

Financial statements of NLB and consolidated financial statements of the NLB Group are audited by the auditing company KPMG Slovenia d.o.o., Ljubljana. The mentioned auditing company was appointed as the auditor of NLB by the 38th General Meeting of shareholders of the Bank dated 20 June 2022 for the financial years 2023 to 2026.

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4. INFORMATION ON POINT 4, PARAGRAPH 5, OF THE ARTICLE 70 OF THE ZGD-1 regarding points 3, 4, 6, 8, and 9 of paragraph 6 of the same article

Explanation regarding significant direct and indirect ownership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions
(Point 3 of the sixth paragraph of Article 70 of the ZGD-1)

Significant direct and indirect ownership of the company's securities in terms of achieving a qualifying holding as defined in the Takeovers Act (as at 31 December 2023).

Shareholder	Number of shares	Percentage of shares	Nature of ownership
RoS	5,000,001	25.00	shares
EBRD(i)	/	>5 and <10	GDRs
Schroders plc(i)	/	>5 and <10	GDRs

(i) In the form of GDRs.

More information on the Bank's Share Capital is available on the NLB website.

Explanation regarding the holders of securities that carry special control rights
(Point 4 of the sixth paragraph of Article 70 of the ZGD-1)

The Bank did not issue any securities carrying special controlling rights.

Explanation regarding the restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, based on the company's cooperation, the financial rights arising from securities are separated from the rights of ownership of such securities
(Point 6 of the sixth paragraph of Article 70 of the ZGD-1)

The shares of the Bank are freely transferable, subject to the provisions of the Articles of Association of the Bank which require the approval of the Supervisory Board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such an acquisition and the shares held by third parties for the account of the acquirer, exceeds the share of 25% of the Bank's voting shares. Approval for the transfer of shares is issued by the Supervisory Board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceeded the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them for the account of third parties, so that it is not entitled to exercise voting rights from these shares at its sole discretion, while at the same time committing to the Bank, it will not exercise voting rights on the basis of the instructions of an individual third party for whose account it has acquired the shares if, together with the instructions for voting, it does not receive a written guarantee from that person that this person has shares for his own account, and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights.

The acquirer who exceeds the share of 25% of the Bank's shares with voting rights and does not require the issuance of approval for the transfer of shares, or does not receive the approval of the Bank, may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

Explanation on the (i) company's rules on appointment or replacement of members of the management or supervisory bodies, and (ii) changes to company's Articles of Association
(Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

The appointment or replacement of members of the management or supervisory bodies

The Management Board

Articles of Association define that the Management Board of the Bank is comprised of three to seven members, one of whom is appointed President of the Management Board of the Bank. The number of Management Board members is determined by a resolution of the Bank's Supervisory Board. The President and other members of the Management Board are appointed and recalled by the Supervisory Board of the Bank; the President of the Management Board may propose to the Chair of the Supervisory Board of the Bank to appoint or recall an individual member or the remaining members of the Management Board of the Bank.

The President and members of the Management Board shall be appointed for a period of five years and may be re-appointed for another term of office. The President and members of the Management Board may be recalled prior to the expiry of their term of office in accordance with applicable laws and Articles of Association. Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months. Written notice shall be delivered to the Chair of the Supervisory Board of the Bank. The notice term may be shorter than three months if requested by the resigning member of the Management Board of the Bank in his/her notice and is subject to the approval of the Supervisory Board of the Bank.

A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a management board member under the law on banking and who obtained a licence from the BoS or the ECB, if executing the competences and tasks from Item (e) of paragraph 1 of Article 4 of Regulation (EU) no. 1024/2013 for the performance of the function of a bank's management board member under the law regulating banking. The Bank assesses every candidate following the Bank's Policy governing the Fit & Proper assessment prior to the appointment.

The Supervisory Board

The Supervisory Board of the Bank consists of a total of 10 members, of which eight members represent the interests of shareholders and two members represent the interests of employees. Members representing the interests of shareholders shall be elected and recalled by the Bank's General Meeting from persons proposed by shareholders or the Supervisory Board of the Bank, and members representing the interests of employees shall be elected and recalled by the Workers' Council of the Bank. Members of the Supervisory Board representing the interests of shareholders are elected by an ordinary majority of votes cast by the shareholders.

The term of office of the Supervisory Board members commences on the day their appointment enters into force (at the start of the term of office) and lasts up until the end of the Bank's Annual General Meeting of shareholders which decides on the use of accumulated profit for the fourth business year since the start of their term of office, unless otherwise stipulated at the time of appointment of individual members. In this context, the first year is deemed the business year in which the members of the Supervisory Board of the Bank started their term of office.

The General Meeting of the Bank may dismiss an individual or all members of the Supervisory Board (representatives of shareholders) even before the expiration of their term of office. A resolution on a dismissal shall be valid if adopted with at least a three-quarter majority of all votes cast.

The Supervisory Board of the Bank shall at its first meeting after an appointment elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank. A member representing the interests of employees cannot be elected Chair or Deputy Chair of the Supervisory Board of the Bank. All the Supervisory Board members shall be independent professionals, as defined by the Articles of Association.

A member of the Bank's Supervisory Board may only be a person who fulfils the legally prescribed conditions for a supervisory board Member under the banking act and who obtained a licence from the BoS or the ECB, if executing the competences and tasks from Item (e) of paragraph 1 of Article 4 of Regulation (EU) no. 1024/2013 for the performance of the function of a bank's supervisory board member under the law regulating banking. The Bank assesses every candidate following the Bank's Policy governing Fit & Proper assessment prior to the appointment.

Amendments to Articles of Association

A qualified majority of at least 75% (seventy-five per cent) of the votes cast by shareholders at the general meeting of the Bank's shareholders is required for the adoption of any amendments of the Articles of Association.

Explanation regarding the authorisation of the members of the management, particularly authorisations to issue or purchase own shares (Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

No authorisation exists which would authorise the members of the management to issue or purchase own shares of the Bank.

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5. INFORMATION ON THE WORK AND KEY POWERS OF THE SHAREHOLDERS' MEETING AND OF ITS KEY POWERS, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING

The General Meeting is a body of the Bank through which shareholders exercise their rights, which include among others: decisions on corporate changes (amendments of the Articles of Association, increase or decrease of share capital) and legal restructuring (mergers, acquisitions), adopting decisions on all statutory issues with respect to appointing and discharging members of the Supervisory Board (representatives of shareholders), and appointment of an auditor, distribution decisions (appropriation of distributable profit), and the granting of discharge from liability to the Management and Supervisory Boards.

The General Meeting is convened by the Management Board. The General Meeting may be convened by the Supervisory Board in cases where the Management Board fails to convene the General Meeting or where a convocation is necessary to ensure unhindered operations of the Bank. The Supervisory Board may amend the agenda of the General Meeting convened in line with the bylaws.

As a rule, the General Meeting of the Bank shall be convened at the registered office of the Bank, yet it may also be convened at another venue specified by the convenor. The Management Board may stipulate that shareholders may attend or vote before or at the General Meeting by electronic means without physical presence. The General Meeting of shareholders shall adopt resolutions by simple majority of the votes cast, unless the applicable laws or the Bank's Articles of Association stipulate a larger majority or other conditions (adoption and amendments of the Articles of Association, issue of convertible bonds or other equity securities of the Bank, exclusion of pre-emptive right of existing shareholders, decrease in share capital, the status restructuring of the Bank, liquidation of the Bank and discharge of Supervisory Board members).

The shareholders have the right to participate at the general meeting of the Bank, the voting right, pre-emptive right to subscribe for new shares in case of share capital increase, the right to profit participation (dividends), and the right to a share in surplus in the event of liquidation or bankruptcy of the Bank and the right to be informed.

According to Article 296 of the Companies Act, NLB informs shareholders on their rights as shareholders in an Information on the Rights of Shareholders that is published among the documents for convocation of each General Meeting (i.e., on the expansion of the agenda, proposals by shareholders, voting proposals by shareholders, and the shareholders right to be informed).

There were two General Meetings of shareholders in 2023. Shareholders gathered at the 39th General Meeting on 19 June 2023. At the General Meeting, shareholders acknowledged the adopted NLB Group 2022 Annual Report, the Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2022, the Report on renumerations for the business year 2022, and the Additional information to the Report on remuneration for the business year 2022 based on SSH's Baselines.

The shareholders also decided on the allocation of distributable profit for 2022 and granted a discharge from liability to the Management Board and Supervisory Board of NLB for the year 2022. The distributable profit of the Bank as at 31 December 2022 amounted to EUR 515,463,762.89. Part of that profit, in the amount of EUR 55,000,000.00, was paid out as dividends (EUR 2.75 gross per share).

The General Meeting of NLB adopted a decision on election of members of the Supervisory Board of NLB. As the term of office of four members of the Supervisory Board of NLB, namely Deputy Chairman Andreas Klingen, Shrenik Dhirajlal Davda, Gregor Rok Kastelic, and Mark William Lane Richards had expired, the General Meeting also appointed four members, of whom two were already performing a function of a member of the Supervisory Board. The shareholders re-appointed Shrenik Dhirajlal Davda and Mark William Lane Richards, and also appointed two new members, namely Cvetka Selšek, and André-Marc Prudent-Toccanier. All four were appointed for a four-year term of office, which for the existing members began on the day of their appointment, while Cvetka Selšek and André-Marc Prudent-Toccanier assumed the position of members of the Supervisory Board on 15 August 2023, after the ECB agreed to their appointment to their position.

The General Meeting of NLB also took note on Internal Audit Report for 2022 and Opinion of the Supervisory Board of NLB and adopted decision on Determination of payments to members of the Supervisory Board of NLB and its committees.

The 41st General Meeting of NLB Shareholders held on 19 December 2023 confirmed payment of additional dividends of EUR 55 million EUR (2.75 gross per share), making a total dividend pay-out in 2023 of EUR 110 million. With these pay-outs, NLB remains firmly on the path to fulfil its ambition – a total capital return through solid cash dividends in a cumulative amount of EUR 500 million between 2022 and by the end of 2025.

At the General Meeting, the shareholders became acquainted with the revised Remuneration Policy, which was updated so that it ensures that the members of the management board are rewarded in accordance with the long-term strategic goals of the NLB Group and with the interests and directions of the shareholders, the relevant legislation, guidelines, and best practices with the aim of with the aim of rewarding board members not only for their contribution to immediate financial success, but also to the overall sustainable development of the NLB Group, growth and creation of long-term value for shareholders. The policy was not confirmed in the consultative vote, but nevertheless comes into force. Until the next General Meeting NLB will further improve its Remuneration Policy and present it to the shareholders. The outcome of the vote is available to all interested stakeholders on NLB's website.

6. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODY AND ITS COMMITTEES

6.1. Composition of the Management Board

In 2023, the Management Board of the Bank consisted of consists of six members, namely: Blaž Brodnjak as President & CEO, Archibald Kremser as Chief Financial Officer (CFO), Andreas Burkhardt as Chief Risk Officer (CRO), as well as Hedvika Usenik as Chief Marketing Officer (CMO) – responsible for Retail Banking and Private Banking, Antonio Argir – responsible for Group governance, payments, and innovations, and Andrej Lasič as CMO – responsible for Corporate and Investment Banking.

Work of the Management Board

Despite the uncertainties caused by decelerated economic growth, and high inflation, NLB Group once more demonstrated its resilience and delivered strong results. The successful performance of NLB Group can be attributed to the vigorous emphasis on prudent risk management and unwavering focus on maintaining high asset quality, a strong capital base, and robust liquidity position, while remaining committed to ever-improving excellent customer services and embracing opportunities for further growth. In 2023, the Management Board continued to work on the implementation of the NLB Group Strategy and the inclusion of ESG factors into the NLB Group business model.

The Management Board stayed focused on growth of core business and was aware of all the risks possible and eventual distress, while the bank helped customers that faced difficulties due to strengthened market conditions. In 2023, NLB Group delivered remarkable business results. They enabled the Bank to pay out a distributable profit for 2022 in the form of dividends in a total amount of EUR 110 million, and thereby reaffirmed NLB Group's stable and successful business operations and strong capital position. Dividends were paid in two instalments, namely in the amount of EUR 55 million in June 2023, and in the amount of EUR 55 million in December 2023.

There are many topics that the Management Board was working on to remain the leading group in the region. We stayed committed to further improvement and enhancing of the satisfaction and user experience of customers, and to increase digital payment penetration and innovation in the payments area. As part of the digital agenda, we launched our new "Klik," as our online bank "NLB Klik" and mobile bank, "Klikin" merged into one modern digital bank "NLB Klik," which make it easier for our customers to manage their finances. In the business network, we focused on enhanced advice to our customers. In order to do that, we had to keep investing in advance technologies and peoples' strengths.

The Management Board successfully completed the merger of N Banka (former Sberbanka that NLB acquired in March 2022) into NLB that was formally completed on 1 September 2023, and continued activities on the business aspects of integration to make sure that former clients of the bank will benefit from best of both worlds. In 2023, the Management Board signed an agreement for the acquisition of the largest leasing company in Slovenia, which also has operations in Croatia, and an agreement for the acquisition of the third largest asset management company in North Macedonia. Obtaining permits for the acquisition of the Summit Leasing, Slovenia Group together with the Croatian branch and Generali Investments Macedonia is in progress.

The Management Board is deeply aware of the banks' vital role in fighting climate change by supporting the global transition of the real economy towards net-zero, which is why we not only strive to reinforce, accelerate, and support the implementation of decarbonisation, but also want to lead by example. To that extent in December 2023, our first NLB Group Net-Zero Disclosure Report was published, which reaffirms our commitment to achieving Net-Zero by setting targets for reducing its financed emissions and maintaining a coal exclusion policy by 2050 or sooner. Besides environmental issues, the Management Board is equally active about addressing social and governance topics, we advocate equal opportunities, as well as independent and professional corporate governance. To that extent the Management Board was extremely proud of receiving an improved second ESG rating (December 2023) assessed by Sustainalytics (previous ESG risk rating was improved by of 1.7 points).

A detailed information on composition of the Management Board can be found in Appendix C.1 of this statement.

6.2. Composition of the Supervisory Board

At the beginning of 2023, the Supervisory Board of NLB consisted of 10 members, of which eight were representatives of shareholders (in addition to Primož Karpe (President) and Andreas Klingen (Deputy), members were also Mark William Lane Richards, Shrenik Dhirajlal Davda, David Eric Simon, Gregor Rok Kastelic, Verica Trstenjak, and Osama Zekry, while Sergeja Kočar, and Tadeja Žbontar Rems, were representatives of the workers.

As already mentioned in this chapter, the term of office of four members of the Supervisory Board expired. The General Meeting on its session dated 19 June 2023 appointed four members, of whom two were existing, while two members were new. On 31 December 2023, the Supervisory Board of NLB consisted of Primož Karpe (the Chairman), Shrenik Dhirajlal Davda (Deputy Chairman), David Eric Simon, Mark William Lane Richards, Verica Trstenjak, Islam Osama Zekry, Cvetka Selšek, and André-Marc Prudent-Toccanier, and with Sergeja Kočar and Tadeja Žbontar Rems serving as representatives of the employees.

Statement of Independence of the Members of the Supervisory Board

In accordance with Article 16 of the Articles of Association of NLB, all Supervisory Board members must be independent experts. Persons representing the interests of employees in the Supervisory Board of the

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Bank are considered independent despite the existence of an employment relationship with the Bank upon fulfilling certain terms and conditions.

A statement of independence, in which they declare themselves on their meeting of the criteria of conflict of interest, is provided by a candidate for a function of a member of the Supervisory Board, upon each change that would mean change of his/her independence status and once a year (with the new statements published as of January 2024). It is published on the Bank's website.

Work of the Supervisory Board

In 2023, the Supervisory Board held seven regular and nine correspondence sessions. In its work, the Supervisory Board of NLB received professional assistance from five operational committees, namely: The Audit Committee, the Risk Committee, the Nomination Committee, the Remuneration Committee, and the Operations and Information Technology Committee. Mentioned committees function as consulting bodies of the Supervisory Board as they discuss the materials and proposals of the Management Board related to a particular area. Based on their findings, the Supervisory Board passed the appropriate resolutions. Each of the five committees is composed of at least three members of the Supervisory Board.

Through the year, the Supervisory Board monitored the implementation and effectiveness of the NLB Group's Strategy and adopted the regular NLB Group Sustainability Implementation Update and NLB Group Payments Progress update. The Supervisory Board issued approvals to the Management Board related to the Bank's Business Policy and the NLB Group 2024 Budget and Financial Projections 2025 – 2028, adopted the NLB Group Annual Report for 2022, and NLB Group Sustainability Report 2022, the Annual Internal Audit Plan, the Plan of Compliance & Integrity, and adopted the Comprehensive Opinion of the Internal Audit.

In order to implement effective corporate governance arrangements, the Supervisory Board acted within its powers to ensure that the bank's business goals, strategies, and policies were properly coordinated with the strategies and policies for assuming and managing risks. The Supervisory Board was regularly informed on the risk profile of the Group, and the corresponding types of risk to steer the Group's fulfilment of internal strategic objectives and fulfil all external requirements. Consequently, the following items were discussed and adopted – the NLB Group Risk appetite, the NLB Group Risk strategy, ICAAP and ILAAP of NLB Group, the Recovery Plan of NLB Group, regular Risk reports for NLB and NLB Group, other relevant risk reports and information on Pillar III Disclosures.

Through the year, the Supervisory Board acknowledged regular reports on documents received from the regulator(s), namely, the Bank of Slovenia and ECB, and the implementation of the requirements of regulators. As a systemically important institution, the Group was included in the ECB Stress Test exercise aiming to assess the resilience of the financial institution, performed in H1 2023. The Supervisory Board was acquainted with the exercise, where the results showed that even in a very unfavourable market condition defined by the EBA and ECB, the Group holds sufficient resilience in terms of capitalisation.

The Supervisory Board adopted decisions with regards to the convocation of the two General Meetings of shareholders. At the General Meeting of shareholders dated 11 June 2023, the General Meeting acknowledged itself with the Annual Report 2022, the Report of the Supervisory Board and the Additional information to the Report on remuneration. The General Meeting adopted a decision on the allocation of distributable profit for 2022, and granted a discharge from liability to the Management and Supervisory Boards. The General Meeting of Shareholders acknowledged the adopted Internal Audit Report for 2022, and the positive opinion of the Supervisory Board of NLB granted with the resolution of the Supervisory Board adopted on 23 February 2023. The General Meeting adopted decisions on the four proposed candidates for the Supervisory Board and determined payments to members of the Supervisory Board of NLB and its committees.

The General Meeting, dated 11 December 2023, adopted a decision on the allocation of second tranche of the distributable profit for 2022, and approved the Remuneration Policy for the Members of the Supervisory Board of NLB d.d. and the Members of the Management Board of NLB d.d., whereby the vote on this resolution was of a consultative nature.

During the year, the Supervisory Board adopted periodic reports of the Internal Audit, Compliance, and issued approval to the transactions with persons in special relationship with the Bank, and to the conclusion of legal transactions in accordance with Article 170 of the Banking Act.

According to the recommendation of the Slovenian Corporate Governance Code for Listed Companies, the Supervisory Board adopted a decision to engage an external advisor for the evaluation of efficiency and self-assessment of the Supervisory Board of NLB and the Audit Committee of NLB. It also adopted the Internal Audit's Annual Report for 2023, the Internal Audit Plan (2024 & the long-term plan), the Action Plan for Compliance & Integrity for 2024, the regular periodic reports on the Internal Audit, Compliance, and Security.

With the aim of ensuring sustainable development, NLB Group strives to actively contribute to a more balanced and inclusive economic and social system through three lines of actions: sustainable operations, sustainable finance, and Corporate Social Responsibility. The Supervisory Board regularly adopts decisions related to sustainability and ESG issues.

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

To ensure transparent decision-making at sessions of the Supervisory Board and at sessions of committees on which they sit, members of the Supervisory Board in particular take into account all necessary precautionary measures to avoid conflicts of interest.

Pursuant to Article 282 of the Companies Act (ZGD-1) and the above report, the Supervisory Board of NLB established and ensured that it regularly and thoroughly monitored the Bank's and the NLB Group's operations in 2023 within its powers and efficiently supervised the Bank's and the NLB Group's management and operations.

Composition of the Supervisory Board members is described in the Appendix C.2 of this statement.

6.3. The Supervisory Board Committees

All five Committees for the Supervisory Board function as consulting bodies of the Supervisory Board of NLB and discuss the material and proposals of Management Board of NLB for the Supervisory Board meetings related to a particular area. The Supervisory Board has the following committees:
- The Audit Committee
- The Risk Committee
- The Nomination Committee
- The Remuneration Committee
- The Operations and IT Committee.

Committees are composed of at least three members of the Supervisory Board. The Worker's Council can nominate one Supervisory Board member – a representative of the workers into each committee. The member of the Committee may only be appointed from among the members of the Supervisory Board. The term of office of Chair, the Deputy Chair, and members of the Committee should not exceed their term of office as Supervisory Board members. The responsibilities of committees are defined in the Rules of Procedure of the Committees of the Supervisory Board of NLB.

6.3.1. The Audit Committee of the Supervisory Board of NLB

The Audit Committee monitors and prepares draft resolutions for the Supervisory Board on accounting reporting, internal control and risk management, internal audit, the compliance of operations, and external audit, and as well monitors the implementation of regulatory measures.

At the end of 2023, the composition of the committee was as follows: David Eric Simon (Chairman), Cvetka Selšek (Deputy Chairwoman), Primož Karpe, Shrenik Dhirajlal Davda and André-Marc Prudent-Toccanier (members). Changes in membership of the committee that occurred during the year, as well as academic degrees of the Audit Committee members, are reflected in the chart on the Supervisory Board Committees (Appendix C.2 below).

There were six regular, one extraordinary, and three correspondence sessions of the Audit Committee in 2023. The following is a summary of key topics considered by the Audit Committee:
- The NLB Group 2022 Annual Report, Key Performance Indicators; Comprehensive Opinion of Internal Audit for 2022; Internal Audit Annual Report for 2022;Corporate Governance Statement of NLB; Statement on Management of Risk of the NLB, the NLB Group Sustainability Report for 2022; the Report of the of the Audit Committee of the Supervisory Board of NLB to the Supervisory Board of NLB about the statutory audit for financial year 2022; Changes to fees for statutory audit on NLB Group level; Annual Report for the 2022 ECRA – general risk assessment regarding integrity and compliance operations at NLB and NLB Group; Audit planning for 2023 financial statements;
- Regular interim reports on the operations of the NLB Group and Business Performance Indicatory for NLB and NLB Group, Quarterly Internal Audit Reports, Compliance and Integrity Reports, Reports on Information security assurance in NLB; Assessment of the NLB Group identified employees in control functions for 2022; Approval of the payment of deferred variable part for Directors in control functions;
- NLB Group Internal Audit Plan (2024 & long-term), Action Plan for Compliance and Integrity Centre for 2024;
- Regular reports on overdue material recommendations of the Internal Audit; Reports on the documents received from the BoS and ECB and on the implementation of the requirements of the BoS and ECB; the Policy of the Internal Controls System; the Report on the court proceedings exceeding EUR 0.5 million; reports on Restructuring of TOP 20 clients;
- Information about the costs of the Management Board and Supervisory Board;
- Revision of Rules on the Prevention of Market Abuse and Supervision over the Implementation of Personal Transactions in the Provision of Investment Services and Transactions in NLB d.d.; Revision of the Policy Internal control system;
- Self-assessment of the Audit Committee for 2022.

The Audit Committee performs its tasks both at the meetings themselves and outside of the meetings. In addition to considering materials at the meetings themselves and preparing proposals for the Supervisory Board, the committee also regularly meets with representatives of professional services for individual areas covered by the committee. The president of the committee also meets regularly with representatives of the external auditor and regulators.

In 2023, the Audit Committee carried out a self-assessment of its work with the help of an external independent evaluator, the Directors' Association of Slovenia. Based on the findings, an action plan was prepared, which will be discussed and approved at the Supervisory Board meeting in March 2024.

6.3.2. The Risk Committee of the Supervisory Board of NLB

The Risk Committee monitors and drafts resolutions for the Supervisory Board in all risk areas relevant to the Bank's operations. It is consulted on the Group's current and future risk appetite, the corresponding risk profile and risk management strategy, and helps carry out control over senior management concerning implementation of the risk management strategy.

At the end of 2023, the composition of the committee was as follows: André-Marc Prudent-Toccanier (Chairman), Cvetka Selšek (Deputy Chairwoman), Shrenik Davda, Islam Osama Zekry, and David Eric Simon (members). Changes in the membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (Appendix C.2 below).

There were five regular sessions of the Risk Committee in 2023. The following is a summary of key topics considered by the Risk Committee:
- Risk Management Strategy of the NLB Group; Risk Appetite of the NLB Group; Risk dashboard of NLB and NLB Group; IT Security Architecture and Protection of NLB Group; Report on status information security in NLB and NLB Group;
- Internal liquidity adequacy process (ILAAP); The Internal Capital Adequacy Assessment Process (ICAAP) in NLB Group; the NLB Group Recovery Plan for 2022; the Statement of Management of Risk of the NLB; the ECB stress test findings related topics
- Regular quarterly risk reports of NLB and the NLB Group; Pillar III Disclosures of the NLB Group for 2022 and Acknowledgement of quarterly Pillar III Disclosures; Information on the status of information

security in NLB and NLB Group;
- Confirmation of the goals of identified employees;
- Report on the Top 50 groups of clients by exposure in the NLB Group; Report on Top 20 largest restructuring cases; Report on the material court proceedings for NLB and NLB Group members;
- Information of the assessment of the NLB Group and NLB results and identified employees in control function for the year 2022; Approval of the payment of the deferred variable part of the salary for the Director of the Global Risk;
- Changes to Risk Appetite of the NLB Group; NLB Group Non-Performing Exposure and Foreclosed Assets Strategy for the period 2023 – 2025; Proposals for the issuance of prior consent of the Supervisory Board of NLB for legal transactions based on Banking Act (ZBan-3) for large exposures; transactions with NLB Group members; and, prior consent to conclude legal deal with MIGA.

6.3.3. The Nomination Committee of the Supervisory Board of NLB

The Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of the Management Board members; recommends candidates for Supervisory Board members; recommends to the Supervisory Board the dismissal of members of the Management and Supervisory Boards (representatives of capital); prepares the content of executive employment contracts for the President and members of the Management Board; evaluates the performance of the Management and Supervisory Boards; and assesses the knowledge, skills, and experience of individual members of the Management and Supervisory Boards and the bodies as a whole.

At the end of 20223, the composition of the committee was as follows: Primož Karpe (Chairman), Mark Richards (Deputy Chairman), Verica Trstenjak, Sergeja Kočar and Islam Zekry (members). Membership of the Bojana Šteblaj was terminated on 12 September 2022. Changes in the membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (Appendix C.2 below).

There were five regular sessions of the Nomination Committee in 2023. The following is a summary of key topics considered by the Nomination Committee:
- Determination and the appointment of the Deputy President of the Management Board of the Bank;
- Fit and proper assessment – Candidates for members of the Supervisory Board of NLB;
- The reassessment of suitability of the Supervisory Board member;
- Compliance and integrity – prolongation of the mandate;
- Annual review of the Diversity Policy.

6.3.4. The Remuneration Committee of the Supervisory Board of NLB

The Remuneration Committee carries out expert and independent assessments of the remuneration policies and practices and formulates initiatives for measures related to improving the management of the Bank's risks, capital, and liquidity; prepares proposals for remuneration-related decisions of the Supervisory Board; and supervises the remuneration of senior management performing the risk management and compliance functions.

At the end of 2023, the composition of the committee was as follows: Shrenik Davda (Chairman), Mark William Lane Richards (Deputy Chairman), Verica Trstenjak, Tadeja Žbontar Rems, and Sergeja Kočar (members). Changes in the membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (Appendix C.2 below).

There were five regular and two correspondence sessions of the Remuneration Committee in 2023. The following is a summary of key topics considered by the Remuneration Committee:
- The proposed goals of the NLB Group for 2023; Assessment of goals for the members of the Management Board of the NLB for 2022; Proposal for annual self-assessment of identified employees;
- Confirmation of financial goals of the NLB Group; financial goals of NLB and goals for each member of the Management Board of NLB for 2022; Confirmation of the assessment of the NLB Group and NLB results and identified employees in control function for the year 2021; Confirmation of goals of identified employees in controlled and supervisory functions;
- Salary increase of the Director of a controlled function; Awarding of variable pay to the Management Board members for financial years 2019 and 2020 in instruments;
- Remuneration Policy for Employees of NLB d.d. and the NLB Group – annual review; Report on the implementation of the NLB remuneration policy to the NLB Group members.

6.3.5. The Operations and IT Committee of the Supervisory Board of NLB

The Committee monitors and prepares draft resolutions for the Supervisory Board, whereby the main tasks that it performs are the following: monitors the implementation of the IT Strategy, Information Security Strategy, and Operations Strategy; monitors key operations and IT KPI's and service quality indicators; monitors key operations and IT projects and initiatives; monitors operating risks in the area of Operations, IT, and Security; monitors the recommendations for ensuring and increasing the level of information/cyber security issued by CISO; addresses the report on potential violations, events, and incidents in the area of IT security; and monitors the Target Operating Model implementation in the areas of IT, the Security Operating System, Competence Centre, and Operations.

At the end of 2023, the composition of the committee was as follows: Mark William Lane Richards (Chairman), Islam Osama Zekry (Deputy Chairman), Primož Karpe, Tadeja Žbontar Rems, and André-Marc Prudent-Toccanier. Membership of Janja Žabjek Dolinšek was terminated on 8 July 2022. Changes in membership of the committee that occurred during the year are reflected in the chart on Supervisory Board Committees (Appendix C.2 below).

There were five sessions of the Operations and IT Committee 2023. The Operations and IT Committee acknowledged itself with:
- IT Strategy update; Procurement Strategy;
- Review of IT KPIs and Business Priorities; Data/BI remediation progress update; Report on process metrics;
- Information on the achievement of goals for 2022 in the area of Information Technology in the Group;
- Performance Metrics; Data/BI remediation progress update;

- Customer relationship management – Project update;
- Payment IT strategy update; Payment transactions – analysis of process of optimisation;
- Information on Afina – N Banka integration; Digital Banking Platform status; Artificial Intelligence and advance analytics activities and plans in NLB Group; BIT project rollout; OMNI project; Web project readiness assessment.

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7. DESCRIPTION POLICY ON THE PROVISION OF DIVERSITY OF THE MANAGEMENT BODY AND SENIOR MANAGEMENT

7.1. Description of the policy

NLB adopted amendments to the Policy on the Provision of Diversity of the Management Body and Senior Management of NLB d.d. (hereinafter: Diversity Policy) in 2022 to align it with the stipulations of the changed legislation and to address the concerns of stakeholders. The amended Diversity Policy was adopted at the Annual General Meeting on 20 June 2022.

The Diversity Policy outlines specific goals for achieving diverse representation on the Supervisory Board, Management Board, and senior management. The policy establishes various diversity goals, ensuring that the composition of the management body encompasses a collective proficiency in knowledge, skills, and experience. This comprehensive approach aims to foster a deep understanding of the Bank's strategy, challenges, and the associated risks.

This policy concurrently establishes a framework to promote diversity across dimensions such as gender, age, a spectrum of knowledge, skills, and experience, international exposure, and geographical origin.

The Diversity Policy sets out the targets to be pursued in terms of representation on the Supervisory Board, Management Board, and senior management, according to different diversity goals in order the management body is composed in such a way that, as a whole has the knowledge, skills, and experience necessary for an in-depth understanding of the Bank's strategy and challenges, and the risks to which it is exposed. The policy is annually reviewed by the Nomination Committee of the Supervisory Board. The Report on Diversity is adopted on the Supervisory Board on a yearly basis.

The Bank implements the principles of the Diversity Policy through other policies and procedures, namely the Policy on the Selection of Suitable Candidates for Members of the Supervisory Board, and the Policy on the Selection of Suitable Candidates for Members of the Management Board, as well as procedures of the Nomination Committee of the Supervisory Board.

To achieve the objectives of this diversity policy, one of the measure the influence the selection process is also: if two candidates for the position of a member of the Management Board or a member of the Supervisory Board meet all the required tender criteria and at the same time the target gender representation is not achieved in a certain body, a candidate of the underrepresented sex shall be selected.

7.2. Objectives of the policy

Considering the size of the Bank and the NLB Group, our regional presence and business strategy, the following goals are important to ensure diversity:

- Gender diversity – The Bank pursues this objective by ensuring that all stakeholders involved in the HR process strive to construct a well-balanced pool of candidates during the recruitment process. This involves considering the equitable representation of the less-represented gender and achieving a suitable balance between both genders in alignment with the objectives outlined in the Policy. The establishment and implementation of a comprehensive policy for candidate selection create incentives for diversity within the management body.
- Age diversity – The Bank pursues the achievement of age diversity that accurately reflects the Bank's age demographics. To fulfil this objective, the Bank employs recruitment channels designed to attract a broad spectrum of candidates across different age groups, ensuring representation from all demographic segments in both the management body and senior management. When appointing new candidates, the Bank carefully considers the appropriate balance between younger and older members within the management body or the age distribution within senior management.
- Professional competencies, skills, and experience – The collective expertise of the management body must encompass a diverse spectrum of knowledge, skills, and professional capabilities. The composition shall adhere to specific criteria, encompassing factors such as experience, reputation, effective management of potential conflicts of interest, independence, time commitment, and the overall cohesion of the body. The requests previously mentioned apply *mutatis mutandis* to the senior management.
- Continuity of composition of the management body and senior management – the Bank ensures a suitable ratio between the existing and the new members of the management body and senior management by not changing all members of the management body or senior management simultaneously when mandates expire.
- International experience – The Bank should ensure a suitable share of the management body and senior management members with international experience in different areas (e.g., foreigners and Slovenians doing business abroad). To this end, the Bank has established a timeframe, aligning with relevant policies for selecting qualified candidates in the selection process.
- Personal integrity – The management body and senior management members must achieve a high level of personal integrity whereby integrity represents the expected action and responsibility of individuals and organisations in preventing and eliminating risks of using authority, function, authority, or other decision-making power contrary to law, legally permissible goals, and according to the guidelines defined in the NLB Group Code of Conduct.
- Geographical provenance – The Bank strives for the management body members to have different geographical provenances, ensuring that at the collective level, the management body has suitable knowledge of the culture, market characteristics, and legal framework in the areas where the Bank operates.

Targets related to the above-defined aspects of diversity for the management body and senior management until the 2025 are defined in the Policy on the provision of diversity of the management body and senior management in NLB d.d. adopted by the General Meeting dated 20 June 2022 (available at www.nlb.si/general-meetings-in-year-2022 and www.nlb.si/additional-disclosures-according-to-article-104-of-the-zban-3).

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7.3. The manner the policy is implemented

To achieve the objectives outlined in this diversity policy, the following measures are applied:

- Upon the appointment of new members or re-appointment of the members of the Supervisory Board and Management Board, due consideration is given to the Policy on the selection of suitable candidates for members of the Supervisory Board and the Policy on the selection of suitable candidates for members of the Management Board. The above applies mutatis mutandis (with necessary adjustments) to the appointment and re-appointment of the Bank's senior management.
- The pre-definition of conditions for the performance of each function, including the required profile of prospective members of the management body, occurs prior to their appointment.
- Using recruitment pathways that attract a sufficiently wide range of different candidates.
- Should two candidates for the position of a member of the Management Board or a member of the Supervisory Board meet all the required tender criteria and at the same time the target gender representation is not achieved in a certain body, a candidate of the underrepresented sex shall be selected.
- In achieving the target representation of the Management Board, as well as by a predetermined replacement plan and by fulfilling another member of the Management Board, as defined by the Articles of Association of NLB.
- Considering the objectives of the diversity policy when assessing the collective suitability of management and supervisory bodies.

7.4. Results achieved

Implementation and the results achieved by the diversity policy during the reporting period:

The Supervisory Board

It is estimated that the goals for 2023 were almost achieved. Members of the Supervisory Board as a whole cover an adequately wide range of knowledge, skills, and professional experience of its members. The Supervisory Board is composed with regard to the following criteria: experience, reputation, management of potential conflicts of interest, independence, available time, and collective suitability.

Also, the Supervisory Board has a suitable ratio between the existing and the new members considered when appointing new members in Supervisory Board the ratio between existing and new members is not below 70%. The members of the Supervisory Board have a high level of personal integrity, a suitable share of members of the Supervisory Board have international experience, and have suitable geographical experience as set in the plan for the year 2023.

Since the term of office of four members of the Supervisory Board expired in 2023, and to retain the proportion of women in Supervisory Board this criterion was also taken into consideration in the recruitment process. Therefore, at the General Meeting dated 19 June 2023 two male representatives were re-appointed for the position, while among two new members for the position, one member was female.

With this, we maintained the desired target value of gender diversity almost at the planned level. The goal for the members of the Supervisory Board has been almost achieved with 40% of representation of women on the Supervisory Board (on 31 December 2023) since the plan set up for the year 2023 assumed a 42% share of women.

Regarding the age structure of the Supervisory Board, it is also considered appropriate, according to the plan set up for 2023 as members of the Supervisory Board are represented in the age groups from 40 to 60+.

The Management Board

We estimate that the goals for 2023 have been achieved as the members of the Management Board as a whole meet a high level of requirements related to the set goals, namely age structure, gender structure, professional competencies, skills and experience, and requirements related to relevant international experience in various fields, personal integrity, and geographical provenance.

In terms of gender diversity, the target set for 2023 was accomplished, maintaining a representation of 16.7%, the equivalent of at least one woman.

The Senior Management

For 2023, we estimate that the goals were achieved, as senior management at a high level met the requirements relating to the range of knowledge, skills, and professional experience. Regarding the requirements related to international experience in various fields, it is estimated that senior management has largely relevant international experience. It is also estimated that 43% of women in senior management is appropriate.

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Regarding the age structure, it is also considered appropriate, as senior management in the age structure is very dispersed and is thus represented in all age groups from 30 to 60 years.

	Supervisory Board of NLB		Management Board of NLB		Senior Management of NLB	
	2023	Plan for 2023	2023	Plan for 2023	2023	Plan for 2023
Wide range of knowledge, skills and professional experience	High	High	High	High	High	High
International experience of the members in different areas	Medium High	Medium High	Medium High	Medium High	Medium High	Medium High
Continuity of composition of the management body	High	High	High	High	High	High
Personal integrity	High	High	High	High	High	High
Geographical provenance	Medium High	Medium High	Medium High	Medium High	Low	Low
Age structure	20-30 = 0	0	20-30 = 0	0	20-30 = 0	0
	30-40 = 0	0	30-40 = 0	0	30-40 = 1	1
	40-50 = 1	2	40-50 = 3	2	40-50 = 23	18
	50-60 = 5	5	50-60 = 3	4	50-60 = 14	16
	60+ = 4	5	60+ = 0	0	60+ = 2	2

Additional information on the framework, objectives, and chart with set goals of the Diversity Policy can be found in the NLB Group Sustainability Report 2023, as well as in the chapter Human Resources in this Annual Report.

7.5. Description of diversity policy from a gender perspective

As already mentioned in point 7.2: Gender diversity – The Bank pursues this objective by ensuring that all stakeholders involved in the HR process strive to construct a well-balanced pool of candidates during the recruitment process. This involves considering the equitable representation of the less-represented gender and achieving a suitable balance between both genders in alignment with the objectives outlined in the Policy. The establishment and implementation of a comprehensive policy for candidate selection create incentives for diversity within the management body.

In 2023, two new members of the Supervisory Board were appointed and in order to retain the proportion of women in Supervisory Board in the recruitment process this criterion was also taken into consideration. The goal for 2023 set for the Management Board was achieved and stayed on 16.7% or one woman. It is also estimated that 43% of women in senior management is appropriate (the set goal was slightly higher).

7.6. Goals that are followed by the Bank

Goals followed by the bank are published in the Policy on the provision of diversity of the management body and senior management in NLB d.d. adopted by the General Meeting dated 20 June 2022 (available at www.nlb.si/general-meetings-in-year-2022 and www.nlb.si/additional-disclosures-according-to-article-104-of-the-zban-3).

Apart from goals in the Policy the Bank also respects and follows the initiative 40/33/2026 Slovenian Directors' Association, by voluntarily committing to achieving the target of gender diversity by the conclusion of the year 2026. This initiative entails achieving a representation of 40% for members of supervisory boards and an overall 33% representation for members of supervisory boards and management boards of the underrepresented gender in public joint-stock companies and state-owned enterprises by 2026.

With the changed composition of the Supervisory Board in 2023, NLB achieved the first goal, which is a representation of 40% of women in the Supervisory Board of NLB (4 out of 10 members are women). As far as both goals together are concerned NLB is slightly below 33% (5 out of 16 members). Results of the gender diversity in public companies are checked quarterly by Deloitte and published on the website of the Slovenian Directors' Association.

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7.7. Impact on selection procedures

Already explained in Point 7.3.

All the above criteria are considered in the selection process for the members of the Management Board and the Supervisory Board. In 2023, because of this objective in the selection process, in order to maintain gender diversity among the candidates for Supervisory Board of NLB, one female representative was elected.

Statement on changes that occurred between the end of accounting period up to the publication of this statement

In accordance with Guidelines on Disclosure for Listed Companies, point 6.3.2 (Ljubljana Stock Exchange, 18 December 2020) NLB hereby states that the following changes occurred between the end of accounting period up to the publication of this statement.

Ljubljana, 21 March 2024

Management Board of NLB

Hedvika Usenik	Andrej Lasič	Archibald Kremser	Peter Andreas Burkhardt	Antonio Argir	Blaž Brodnjak
Member	Member	Member	Member	Member	Chief executive officer

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Table 35: Composition of Management in financial year 2023 (C.1)

Name and Surname	Position held (President, Member)	Area of work covered within the Management Board	First appointment to the position	Conclusion of the position/ term of office	Citizenship	Year of birth	Qualification	Professional profile	Membership in supervisory bodies in companies not related to the company
Blaž Brodnjak	President	CEO	6 July 2016(i)	6 July 2026	Slovenian	1974	MBA	Banking/Finance	Banks' Association of Slovenia, AmCham Slovenia, Handball Federation of Slovenia, Cedevita Olimpija
Archibald Kremser	Deputy CEO/ Member	CFO	31 July 2013	6 July 2026	Austrian	1971	MBA	Banking/Finance	
Peter Andreas Burkhardt	Member	CRO	18 September 2013	6 July 2026	German	1971	MBA	Banking/Finance	
Antonio Argir	Member	Responsible for Group governance, payments and innovations	28 April 2022	28 April 2027	Macedonian	1975	MBA	Banking/Finance	Economic Chamber of North Macedonia
Andrej Lasič	Member	CMO (responsible for Corporate and Investment Banking)	28 April 2022	28 April 2027	Slovenian	1970	Bachelor's degree	Banking/Finance	
Hedvika Usenik	Member	CMO (responsible for Retail Banking and Private Banking)	28 April 2022	28 April 2027	Slovenian	1972	MBA	Banking/Finance	Institute for Economic Research

(i) Member of the Management Board since 2012.

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Table 36: Composition of Supervisory Board and Committees in financial year 2023 (C.2)

Name and Surname	Position held (Chairman, Deputy Chairman, Member)	First appointment to the position	Conclusion of the position / term of office	Representative of the company's capital structure / employees	Attendance at SB session in regard to the total number of SB session (for example 5/7) applicable on his/her mandate	Gender	Citizenship	Year of birth	Qualification	Professional profile	Independence under Article 23 of the Code (YES/NO)	Existence of conflict of interest, in the business year (YES/NO)	Membership in supervisory bodies in other companies or institutions
Primož Karpe	Chairman	10 February 2016	2024	Representative of the company's capital structure	7/7	male	Slovenian	1970	MSc	Banking/ Finance	YES	YES	Angler d.o.o, Aroma Global 3 Ltd.
Andreas Klingen	Deputy Chairman	22 June 2015	19 June 2023	Representative of the company's capital structure	3/3	male	German	1964	University Degree	Banking/ Finance	YES	NO	Kyrgyz Investment, Credit Bank CISC, Nepi Rockcastle N.V.
Shrenik Dhirajlal Davda	Deputy Chairman/ Member	10 June 2019	2027	Representative of the company's capital structure	7/7	male	British	1960	MBA, LLB	Finance	YES	NO	Charity Commission of England and Wales, PSO, UK
David Eric Simon	Member	4 August 2016	2024	Representative of the company's capital structure	7/7	male	British	1948	Higher National Diploma in Business Studies	Banking/ Finance	YES	NO	Jihlavan a.s., Czech Aerospace industries sro, Central Europe Industry Partners a.s.
Mark William Lane Richards	Member	10 June 2019	2023	Representative of the company's capital structure	7/7	male	British	1966	MSc	Banking/ Finance	YES	NO	BPL Global (Lloyds of London insurance Broker), Sheffield Haworth Ltd, Vencap International pic Ukraine (UK)
Gregor Rok Kastelic	Member	10 June 2019	19 June 2023	Representative of the company's capital structure	3/3	male	Slovenian	1968	MSc	Banking/ Finance	YES	NO	
Verica Trstenjak	Member	15 June 2020	2024	Representative of the company's capital structure	7/7	female	Slovenian	1962	PhD	Law	YES	NO	
Cvetka Selšek	Member	19 June 2023	2027	Representative of the company's capital structure	3/3	female	Slovenian	1951	University Degree	Banking/ Finance	YES	NO	Honorable Tribunal of Managers Association of Slovenia, Directors' Association of Slovenia
André-Marc Prudent-Toccanier	Member	19 June 2023	2027	Representative of the company's capital structure	3/3	male	French	1955	MSc	Banking/ Finance	YES	NO	
Sergeja Kočar	Member	17 June 2020	2024	Representative of the company's employees	7/7	female	Slovenian	1968	MSc	Management	YES	NO	
Tadeja Žbontar Rems	Member	22 January 2021	2025	Representative of the company's employees	7/7	female	Slovenian	1968	MSc	IT	YES	NO	
Islam Osama Zekry	Member	14 June 2021	2025	Representative of the company's capital structure	6/7	male	Egyptian	1977	PhD	IT	YES	NO	CIB Housing association, Egypt, Egyptian AI Council (Ministry of Communication and Information Technology)

Name and Surname	Membership in committees (audit, nominal, income committee, etc.)	First appointment to the position	Conclusion of the position/term of office	Chairman/Deputy Chairman/Member	Attendance at sessions of SB's Committees in regard to the total number of SB's session (applicable on his/her mandate)(i)
Shrenik Dhirajlal Davda	Remuneration Committee	28 June 2019	2027	Chairman	5/5
Mark William Lane Richards	Remuneration Committee	26 June 2020	2027	Deputy Chairman	5/5
Verica Trstenjak	Remuneration Committee	18 September 2023	2024	Member	1/2
Tadeja Žbontar Rems	Remuneration Committee	18 September 2023	2025	Member	2/2
Sergeja Kočar	Remuneration Committee	26 June 2020	2024	Member	5/5
Primož Karpe	Nomination Committee	15 April 2016	2024	Chairman	5/5
Mark William Lane Richards	Nomination Committee	18 September 2023	2027	Deputy Chairman	1/1
Verica Trstenjak	Nomination Committee	26 June 2020	2024	Member	5/5
Sergeja Kočar	Nomination Committee	26 June 2020	2024	Member	5/5
Islam Osama Zekry	Nomination Committee	18 September 2023	2025	Member	1/1
David Eric Simon	Audit Committee	7 April 2016	2024	Chairman	6/6
Cvetka Selšek	Audit Committee	18 September 2023	2027	Deputy Chairwoman	1/1
Primož Karpe	Audit Committee	15 April 2016	2024	Member	5/6
André-Marc Prudent-Toccanier	Audit Committee	18 September 2023	2027	Member	1/1
Shrenik Dhirajlal Davda	Audit Committee	28 June 2019	2027	Member	6/6
André-Marc Prudent-Toccanier	Risk Committee	18 September 2023	2027	Chairman	1/1
Cvetka Selšek	Risk Committee	18 September 2023	2027	Deputy Chairwoman	1/1
Shrenik Dhirajlal Davda	Risk Committee	8 July 2021	2027	Member	5/5
David Eric Simon	Risk Committee	7 April 2016	2024	Member	5/5
Islam Osama Zekry	Risk Committee	8 July 2021	2025	Member	3/5
Mark William Lane Richards	Operational and IT Committee	28 June 2019	2027	Chairman	5/5
Islam Osama Zekry	Operational and IT Committee	8 July 2021	2025	Deputy Chairman	4/5
Primož Karpe	Operational and IT Committee	15 April 2016	2024	Member	5/5
Tadeja Žbontar Rems	Operational and IT Committee	8 April 2021	2025	Member	5/5
André-Marc Prudent-Toccanier	Operational and IT Committee	18 September 2023	2027	Member	1/1

(i) There were also extraordinary sessions of the committees that are not reflected in this table.

External member in committees (audit, nominal, income committee, etc.) - The Banking Act (ZBan-3) contains provision stipulating that, irrespective of provision of Companies Act (ZGD-1) only members of the Supervisory Board can be appointed to Supervisory committees.

Name and Surname	Attendance at sessions of SB's Committees in regard to the total number of SB's session (for example 5/7)	Gender	Qualification	Year of birth	Professional profile	Membership in supervisory bodies in companies not related to the company
none						

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Statement of Management of Risk

NLB d.d.'s Management Board and Supervisory Board provide herewith a concise statement of the risk management according to Article 17 of the Decision on Internal Governance Arrangements, the Management Body, and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the RS, no. 73/15 and 115/2021), Regulation (EU) 575/2013, article 435 (Risk management objectives and policies), points (e) and (f), as well as the EBA Guidelines on Internal Governance (EBA/GL/2021/05) and EBA Guidelines on Disclosure requirements (EBA GL/2016/11).

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

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

NLB Group is engaged in contributing to sustainable finance by incorporating environmental, social, and governance (ESG) risks into its business strategies, risk management framework, and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, the Group implemented the main sustainability elements into its business model. The goal of this strategic, organisation-wide initiative is to ensure sustainable financial performance of the Group by considering ESG risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system. Thus, sustainable finance integrates ESG criteria into the Group's business and investment decisions for the lasting benefit of Group's clients and society. Moreover, in December 2023, NLB, as a member of the UN Net-Zero Banking Alliance, publicly disclosed its Net-Zero commitment. With this step, the Bank pledged to align its lending and investment portfolio with net-zero emissions by 2050.

The NLB Group Sustainability Committee oversees the integration of the ESG factors into the NLB Group business model. The management of ESG risks addresses the Group's overall risk management framework, namely the credit approval process, collateral evaluation process, and related credit portfolio management. It follows ECB and EBA guidelines with tendency of their comprehensive integration into all relevant processes. The availability of ESG data in the region where NLB Group operates is still lacking. Nevertheless, the Group has set up the process of obtaining relevant ESG-related data from its clients, being a prerequisite for adequate decision-making and the corresponding proactive management of ESG risks.

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

Additionally, NLB Group established a comprehensive stress testing framework and other early warning systems in different risk areas, with the intention to contribute to setting and pursuing the Group's business strategy, to support decision-making on an ongoing basis, to strengthen the existing internal controls, and to enable timely response when necessary. The stress testing framework includes all material types of risk, as well those related to ESG, and various relevant stress scenarios or sensitivity analysis, according to the vulnerability of the Group's business model. Stress testing has an important role when assessing the Group's resilience to stressed circumstances, namely from profitability, capital adequacy, and in a liquidity forward-looking perspective. As such, it is embedded into the Group's Risk management system, namely Risk appetite, ICAAP, ILAAP, and the Recovery plan, as an important component of sound risk management. Besides internal stress testing, NLB Group as a

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systemically important bank also participates in the regulatory stress test exercises carried out by the ECB.

NLB Group is one of the largest Slovenian banking and financial groups with an important presence in the SEE region. In accordance with its strategic orientations, it intends to be sustainably profitable, predominantly working with clients in its core markets, providing innovative but simple customer-oriented solutions, and actively contributing to a more balanced and inclusive economic and social system. NLB Group has a well-diversified business model. Efficient managing of risks and capital is crucial for the Group to sustain long-term profitable operations. Based on the Group's business strategy, credit risk is the dominant risk category, followed by credit spread risk on the banking book portfolio, interest rate risk in the banking book, operational risk, liquidity risk, market risk, and other non-financial risks. ESG risks do not represent a new risk category, but rather one of risk drivers of the existing types of risks, such as credit, liquidity, market, and operational risk. The Group integrates and manages them within the established risk management framework. Regular risk identification and their assessment is performed within the ICAAP process with the aim to assure their overall control and effective risk management on an ongoing basis.

Managing risks and capital efficiently at all levels is crucial for NLB Group sustained long-term profitable operations. Management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – a diversified credit portfolio, adequate credit portfolio quality, a sustainable cost of risk, and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The NLB Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Further, with the aim of minimising this risk, the Group pursues an appropriate structure of sources of financing. The Group limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to a moderate level. NLB Group's basic orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital that would arise from changed market interest rates, and therefore, a moderate tolerance for this risk is stated. Moreover, in 2023, the Group has indicated activities for further comprehensive enhancement of the existing interest rate risk management. When assuming operational risk, NLB Group pursues the orientation that such risk must not significantly impact its operations. The Risk appetite for operational risks is low to moderate, with a focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. The conclusion of transactions in derivative financial instruments at NLB d.d. is primarily limited to servicing customers and hedging the Bank's own positions. In the area of currency risk, the NLB Group thus pursues the goals of low to moderate exposure. Based on environmental and climate risk assessment impact of these risks is estimated as low, except for a transition risk in the area of credit risk which is assessed as low to medium. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impacts on the Group's operations.

The main NLB Group Risk Appetite Statement objectives are following:
- preservation of regulatory and internal capital adequacy;
- fulfilment of MREL requirement;
- maintenance of low leverage;
- improvement in the quality of the credit portfolio, sufficient NPL coverage, sustainable credit risk volatility, sustainable cost of risk across the economic cycle, limited Stage 2 exposures, sustainable industry and individual concentration, sustainable exposure to cross border, leverage, M&A and project financing;
- maintenance of a solid liquidity position, maintaining stable customers' deposits as the main funding base;
- diversification of risk in exposures to banks and sovereigns;
- limited exposure to credit spread risk;
- limited exposure to interest rate risk;
- limited exposure to foreign exchange risk;
- sustainable exposure to ESG risks;
- sustainable tolerance to net losses from operational risk.

During the year 2023, sustainable ESG financing in accordance with Environmental and Social Management System (ESMS) was integrated in the Group's Risk appetite and overall risk management framework. In addition, publicly disclosed its Net-Zero commitment was addressed in the Group's Risk appetite in the beginning of the year 2024. In its initial round of NZBA targets, NLB Group has focused on fossil fuel-based and highly energy-intensive sectors, such as power generation and iron and steel, and other sectors where the Bank has substantial emissions and/or exposure and available data. These include residential mortgages and commercial real estate.

Values of the most important risk appetite indicators of NLB Group as at the end of year 2023, reflecting interconnection between strategic business orientations, risk strategy, and targeted risk appetite profile, were following:
- Total capital ratio 20.3%,
- Tier 1 capital ratio 17.0%,
- Common Equity Tier 1 ratio (CET1) 16.4%,
- Leverage ratio 9.6%,
- Cost of risk -7 bps,
- The share of non-performing exposure (NPE%) by EBA 1.1%,
- Non-performing loans coverage ratio (NPL CR) 64.6%,
- Loan-to-deposit ratio (LTD) 66.2%,
- LCR 245.7%,
- NSFR 187.3%,
- EVE sensitivity (of 200 bps) -4.2% of capital,
- Transactional FX risk 1.4% of capital,
- No new financing of coal mining and coal-fired electricity generation (0 EUR),
- Net losses from operational risk 20.0% of capital requirement for operational risk.

During 2023, the Group's credit portfolio quality remained high-quality and well-diversified, with a stable rating structure and lower NPLs level. The Group recorded a slower credit portfolio growth in all segments after strong new corporate and retail loan origination across all markets in previous year due to inflationary pressures, higher interest rates, and low GDP growth. The impacts of the floods in Slovenia were estimated as negligible, and only minor client credit quality deterioration or received collaterals occurred. Besides, the Group monitored the macroeconomic and geopolitical circumstances closely, remaining very prudent in identifying any increase in credit risk at a very early stage, and proactive in NPL management. The cost of risk remained at a very low level, mainly due to the successful collection of previously

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written-off receivables, revised risk parameters, and stable portfolio development in the SEE region.

The Group stayed well capitalised and well above the risk appetite at both the Group and banking member levels. The liquidity position of the Group also remained solid, with liquidity indicators high above the regulatory requirements, indicating its low tolerance for this risk. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while at the same time considering the potential adverse negative market movements. Investment activity continued with a balanced approach to finding attractive market opportunities while pursuing well-managed credit spread and interest rate risk, as well as capital consumption. Raising the interest rate environment and corresponding increased market demand for fixed interest rate products led to moderate interest rate risk exposure, which stayed well within the risk appetite tolerance.

Consequently, NLB Group concluded the year 2023 as self-funded, with strong liquidity and a very solid capital position, demonstrating the Group's financial resilience. Moreover, in 2023, NLB's ESG Risk Rating assigned by Sustainalytics was revised and improved. The assigned rating reflects a low risk of experiencing material financial impacts from ESG factors. N Banka, which legally and operationally merged at the end of September 2023 with NLB d.d., had a similar business model to the Bank's or the Group's, and so, its impact on the Bank's and Group's risk profile at the end of the year 2023 was rather limited. In addition, NLB signed a SPA for 100% shareholding in Summit Leasing Slovenija and its subsidiaries, while NLB Skladi signed SPA for acquiring a majority shareholding in Generali Investments AD Skopje. Otherwise, during 2023 there were no other transactions of sufficiently material nature to impact on NLB Group's risk profile or distribution of the risks on the Group level.

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

Ljubljana, 21 March 2024

Supervisory Board of NLB

Primož Karpe
Chairman

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Peter Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

Statement on Non-Financial Operation

In accordance with Article 56 and in conjunction with Article 70c of the Companies Act, the Bank has prepared a consolidated Statement on Non-Financial Operation as a separate report, called the NLB Group Sustainability Report 2023.

The consolidated report enables interested parties to understand the material dimensions of the NLB Group's development, performance, and position, and the impact of its activities, and includes the following non-financial information, which is disclosed in NLB Group Sustainability Report 2023:
- NLB Group's business model, which is presented in Chapters NLB Group at a Glance and Sustainability Strategy.
- Policy description and results on environmental, social, and human resources matters are described in Chapter Sustainability Strategy and related chapters, and Climate (Net-Zero) Strategy.
- Policy description and results on respect for human rights are described in Chapter Respecting Human Rights.
- Policy description and results on anti-corruption and anti-bribery matters are covered in Chapter Fighting against corruption and bribery.
- The main risks regarding the aforementioned issues are listed in Sustainability Strategy, Climate (Net-Zero) Strategy, Sustainable Finance and ESG Risk Management.
- Key non-financial performance indicators which are important for specific activities are described in 2023 NLB Group Sustainability Report and summarised in Chapter Sustainability KPIs and Targets.

In addition to the aforementioned information, the report discloses information based on the following legal bases, requirements, recommendations, and reporting frameworks:
- EU Taxonomy: Regulation (EU) 2020/852 establishing a framework for the promotion of sustainable investments and the delegated acts adopted under this Regulation;
- Requirements and recommendations of regulatory authorities: Bank of Slovenia (BS), Securities Market Agency (SMA);
- the United Nations Principles for Responsible Banking (UN-PRB United Nations Principle for Responsible Banking);
- ECB Guide on Climate and Environmental Risks;
- the European Commission's Guidelines on Non-Financial Reporting;
- the recommendations of the Task force on Climate Related Financial Disclosures (TCFD) - in line with the requirements and recommendations of the Financial Conduct Authority (FCA); and
- the Global Reporting Initiative (GRI) Sustainability Reporting Standards.

The NLB Group Sustainability Report 2023 is published on the Bank's website, on the Ljubljana Stock Exchange's SEOnet system, on the websites of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES), and on the London Stock Exchange (LSE), at the same time as the NLB Group Annual Report 2023.

The NLB Group's Consolidated Annual Report 2023 is thus in line with the requirements of the Companies Act (ZGD-1), which requires public interest entities with an average number of employees exceeding 500 on the balance sheet cut-off date to include a Statement on Non-Financial Operation in their business report.

Ljubljana, 10 April 2024

Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Peter Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

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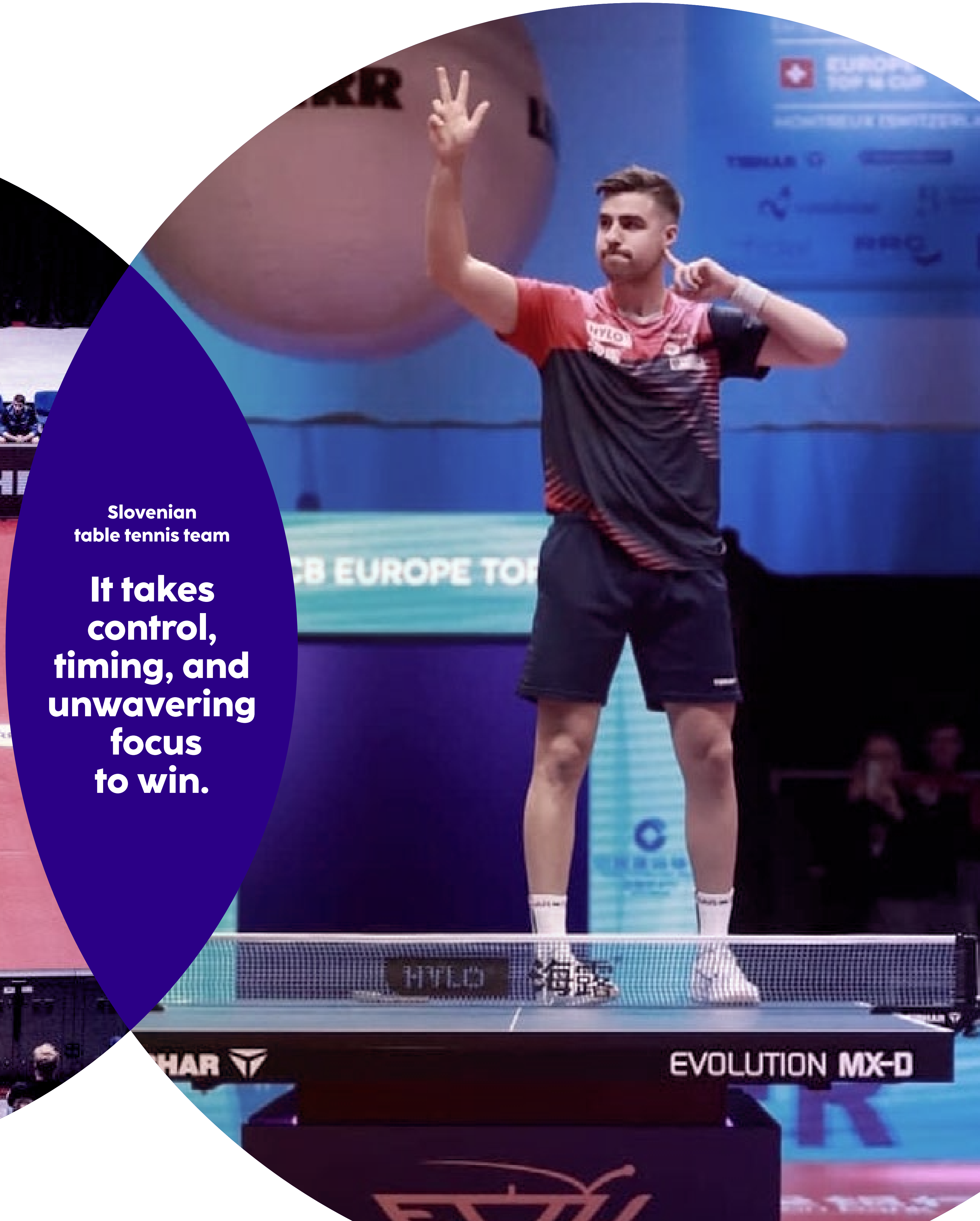
That is why NLB has been proudly supporting Slovenian sports for decades.

Slovenian table tennis team

It takes control, timing, and unwavering focus to win.



Disclosure on Shares and Shareholders of NLB

1. Information pursuant to the Companies Act (ZGD-1), Article 70, paragraph 6

1.1 Structure of the Bank's share capital

The Bank has issued only ordinary registered no-par value shares, the holders of which have a voting right and the right to participate in the General Meeting of the Bank's shareholders, the pre-emptive right to subscribe for new shares in case of a share capital increase, the right to profit participation (dividends), the right to a share in the surplus in the event of liquidation or bankruptcy of the Bank, and the right to be informed. All shares belong to a single class and are issued in book-entry form.

Information regarding the shareholder structure of NLB (as at 31 December 2023) is available in the subchapter Shareholder Structure of NLB in the chapter Shareholder Structure and Market Performance of NLB's Shares and GDRs.

1.2 All restrictions relating to the transfer of shares and the restrictions on voting rights

The shares of the Bank are freely transferable, subject to the provisions of the Articles of Association of the Bank, which require the approval of the Supervisory Board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such an acquisition and the shares held by third parties for the account of the acquirer, exceeds the share of 25% of the Bank's voting shares. Approval for the transfer of shares is issued by the Supervisory Board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceed the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them on account of third parties so that (s)he is not entitled to exercise voting rights from these shares at his/her sole discretion, while at the same time committing to the Bank, (s)he will not exercise voting rights on the basis of the instructions of an individual third party for whose account (s)he has acquired the shares if, together with the instructions for voting, (s)he does not receive a written guarantee from the person that this person has shares on his/her own account and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights. The acquirer who exceeds the share of 25% of the Bank's shares with voting rights and does not require the issuance of approval for the transfer of shares or does not receive the approval of the Bank may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

1.3 Qualifying holdings

This information is included in the chapter Corporate Governance Statement of NLB.

1.4 Securities carrying special controlling rights

This information is included in the chapter Corporate Governance Statement of NLB.

1.5 The employee share scheme, if used by the company, for shares to which the scheme relates and about the method of exercising control over this scheme, if the controlling rights are not exercised directly by employees

NLB does not have an employee share scheme. In accordance with the relevant remuneration policies (when required by ZBan-3), a part of variable remuneration of NLB's Identified Staff shall consist of NLB shares or NLB share-linked instruments or equivalent non-cash instruments (the instrument used is determined by the Supervisory Board). So far, NLB has not used its own shares for this purpose. It currently uses NLB share-linked instruments. More information will be available in the Report on Remunerations for the Management Body of NLB d.d. in the 2023 Business Year.

1.6 Explanation regarding restrictions related to voting rights

This information is included in the chapter Corporate Governance Statement of NLB.

1.7 All agreements among shareholders which are known to the company and could result in restrictions relating to the transfer of securities or voting rights

The Bank is not aware of such agreements.

1.8 The company's rules on the appointment or replacement of management and supervisory board members and changes of the articles of association

This information is included in the chapter Corporate Governance Statement of NLB.

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1.9 Authorisations given to management, particularly authorisations to issue or purchase own shares

This information is included in the chapter Corporate Governance Statement of NLB.

1.10 All major agreements to which the company is a party and which take effect, are changed or cancelled following a change in control over the company resulting from a bid, as laid down by the Act governing M&A, and the effects of such agreements

There are no major agreements to which the Bank is a party and which would take effect, be changed, or cancelled following a change in control over the Bank resulting from a bid.

1.11 All agreements between the Bank and its management or supervision bodies or its employees which envisage compensation if, due to a bid as laid down by the Act governing M&A, these persons resign, are dismissed without a well-founded reason, or their employment is terminated

In line with the employment contracts of the members of the Management Board, if the Supervisory Board recalls a member of the Management Board for other business and economic reasons, "such a member of the Management Board of NLB is entitled to compensation for early termination of his term of office. The member of the Management Board shall not be entitled to compensation for early termination of the term of office if he is employed in the Bank or the Group after the termination of the term of office. In the event of resignation, the member of the Management Board shall not be entitled to any compensation for early discontinuation of the term of office unless otherwise decided by the Supervisory Board."

2. Number of shares held by members of the Supervisory Board and Management Board

Table 37: Number of shares held by members of the Supervisory Board and Management Board

	Shares held as at 31 Dec 2023	
Name of member of Supervisory Board	**Number**	**%**
Primož Karpe	1,286	0.006%
David Eric Simon(i)	582	0.003%
Islam Osama Zekry	–	–
Shrenik Dhirajlal Davda	–	–
Mark William Lane Richards	–	–
Verica Trstenjak	–	–
André-Marc Prudent-Toccanier	–	–
Cvetka Selšek	–	–
Sergeja Kočar	190	0.001%
Tadeja Žbontar Rems	–	–
Name of member of Management Board	**Number**	**%**
Blaž Brodnjak	1,700	0.009%
Archibald Kremser	791	0.004%
Peter Andreas Burkhardt	800	0.004%
Andrej Lasič	325	0.002%
Hedvika Usenik	450	0.002%
Antonio Argir	620	0.003%

(i) David Eric Simon holds 2,910 GDRs, which is equal to 582 shares (as 1 share represents 5 GDRs).

3. Stock option agreements

The Bank has no stock option agreements in relation to its listed shares.

4. Dividend taxation

Withholding tax

In 2023, a Slovenian payer was required to deduct and withhold the amount of Slovenian corporate or personal income tax from dividend payments made to the certain categories of payees:

- Individuals: 25%
- Intermediaries: 25%
- Legal entities (other than Intermediaries): 15%.

There are some exemptions if dividends are paid to intermediaries and legal entities

For the purposes of Slovenian tax legislation, the GDR depositary will qualify as an intermediary. Therefore, the dividends paid by the custodian to the GDR depositary will be subject to the deduction and withholding of Slovenian tax at the rate of 25%. A holder, an owner of a GDR or a beneficial owner will be entitled, if and to the extent applicable, to claim a refund of the withholding tax.

In the case of legal entities, the exemptions are related to the characteristics of the legal entities.

Application of Double Tax Treaties

If the payee is not an intermediary, Financial Administration of the RoS (FURS) may approve the application of a lower tax rate specified in the double tax treaty between the RoS and the country of residence of the payee if the Slovenian payer provides certain information on the payee and a confirmation that the payee is a resident for taxation purposes in such a country, issued by the tax authorities of such a country.

Refund of Withholding Tax

If the Slovenian tax was deducted and withheld at a higher tax rate than it would be paid if a Slovenian payer would make the dividend payment directly to such person as a payee or a higher tax rate than the one specified in the double tax treaty, the payee of the dividend is entitled to the refund of the overpaid tax. The tax refund is enforced by filing a claim to the Financial Administration of the RoS (FURS).

Legal persons

Dividends with respect to the shares received by a legal person who is a Slovenian resident are exempt from Slovenian corporate income tax (*davek od dohodkov pravnih oseb*).

Individuals

The amount of tax withheld from a dividend payment received by an individual constitutes the final amount of Slovenian Personal Income Tax (*dohodnina*) with respect to such a dividend payment.

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Events After the End of the 2023 Financial Year

On 24 January 2024, the Bank issued Tier 2 notes in the amount of EUR 300 million and 10NC5 tenor (ISIN: XS2750306511). In parallel, the Bank conducted a liability management exercise (LME) where it repurchased EUR 219.6 million of its two outstanding Tier 2 notes with approaching call dates (ISIN: XS2080776607 and XS2113139195). The LME was concluded on 26 January 2024

On 21 March 2024, the shareholding of Schroders plc in the Bank changed from 5.12% to 4.98%.

Notice of early redemption of subordinated notes as of 2 April 2024: NLB will, based on the obtained permission of the European Central Bank, redeem its subordinated notes in the aggregate nominal amount of EUR 45 million, issued on 6 May 2019 and with maturity on 6 May 2029 (ISIN: SI0022103855), before their maturity. Pursuant to the terms and condition of the notes the early repayment of principal and accrued and unpaid interest will be made on the fifth anniversary from the issuance, being 6 May 2024.

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Table 38: Income Statement of NLB Group for the annual period ended 31 December 2023

Business Report	in EUR millions	Financial Report	in EUR thousands	Notes
Net interest income	833.3	Interest and similar income	993,405	4.1.
		Interest and similar expenses	(160,071)	4.1.
Net fee and commission income	278.0	Fee and commission income	398,741	4.3.
		Fee and commission expenses	(120,780)	4.3.
Dividend income	0.2	Dividend income	169	4.2.
Net income from financial transactions	17.3	Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	(742)	4.4.
		Gains less losses from financial assets and liabilities held for trading	32,187	4.5.
		Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	1,784	4.6.
		Gains less losses from financial liabilities measured at fair value through profit or loss	(799)	
		Fair value adjustments in hedge accounting	3,899	5.5.a)
		Foreign exchange translation gains less losses	(2,778)	4.7.
		Gains less losses from modification of financial assets	(16,271)	4.12.
Net other income	(35.4)	Gains less losses on derecognition of non-financial assets	3,200	
		Other net operating income	(4,692)	4.8.
		Cash contributions to resolution funds and deposit guarantee schemes	(39,093)	4.10.
		Gains less losses from non-current assets held for sale	5,903	
		Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	(766)	5.12.b), c)
Net non-interest income	260.0		259,962	
Total net operating income	**1,093.3**		**1,093,296**	
Employee costs	(282.2)	Administrative expenses	(452,623)	4.9.
Other general and administrative expenses	(170.5)			
Depreciation and amortisation	(49.2)	Depreciation and amortisation	(49,232)	4.11.
Total costs	**(501.9)**		**(501,855)**	
Result before impairments and provisions	**591.4**		**591,441**	
Impairments and provisions for credit risk	11.8	Provisions for credit losses	5,055	4.13.
		Impairment of financial assets	6,717	4.14.
Other impairments and provisions	(25.9)	Provisions for other liabilities and charges	(25,925)	4.13.
		Impairment of non-financial assets	53	4.14.
Impairments and provisions	(14.1)		(14,100)	
Gains less losses from capital investment in subsidiaries, associates, and joint ventures	1.1	Share of profit from investments in associates and joint ventures (accounted for using the equity method)	1,072	5.12.g)
Result before tax	**578.4**	**Profit before income tax**	**578,413**	
Income tax	(15.1)	Income tax	(15,090)	4.15.
Result of non-controlling interests	12.6	Attributable to non-controlling interests	12,623	
Result after tax	**550.7**	**Attributable to owners of the parent**	**550,700**	

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Table 39: Statement of Financial Position of NLB Group as at 31 December 2023

Business Report	in EUR millions	Financial Report	in EUR thousands	Notes
ASSETS				
Cash, cash balances at central banks, and other demand deposits at banks	6,103.6	Cash, cash balances at central banks and other demand deposits at banks	6,103,561	5.1.
Loans to banks	547.6	Financial assets measured at amortised cost - loans and advances to banks	547,640	5.6.b)
Net loans to customers	13,734.6	Financial assets measured at amortised cost - loans and advances to customers	13,734,601	5.6.c)
Financial assets	4,803.7		4,803,678	
- Trading book	15.7	Financial assets held for trading	15,718	5.2.a)
- Non-trading book	4,788.0	Non-trading financial assets mandatorily at fair value through profit or loss - part (without loans)	14,175	5.3.a)
		Financial assets measured at fair value through other comprehensive income	2,251,556	5.4.
		Financial assets measured at amortised cost - debt securities	2,522,229	5.6.a)
Investments in subsidiaries, associates, and joint ventures	12.5	Investments in associates and joint ventures	12,519	5.12.g)
Property and equipment	278.0	Property and equipment	278,034	5.8.
Investment property	31.1	Investment property	31,116	5.9.
Intangible assets	62.1	Intangible assets	62,117	5.10.
Other assets	368.7	Financial assets measured at amortised cost - other financial assets	165,962	5.6.d)
		Derivatives - hedge accounting	47,614	5.5.b)
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10,207)	5.5.c)
		Current income tax assets	42	
		Deferred income tax assets	111,305	5.17.
		Other assets	49,154	5.13.
		Non-current assets held for sale	4,849	5.7.
TOTAL ASSETS	**25,942.0**	**Total assets**	**25,941,985**	
LIABILITIES				
Deposits from customers	20,732.7	Financial liabilities measured at amortised cost - due to customers	20,732,722	5.15.a)
Deposits from banks and central banks	95.3	Financial liabilities measured at amortised cost - deposits from banks and central banks	95,283	5.15.a)
Borrowings	240.1	Financial liabilities measured at amortised cost - borrowings from banks and central banks	140,419	5.15.b)
		Financial liabilities measured at amortised cost - borrowings from other customers	99,718	5.15.b)
Subordinated debt securities	509.4	Financial liabilities measured at amortised cost - debt securities issued	1,338,235	5.15.c)
Other debt securities in issue	828.8			
Other liabilities	587.6	Financial liabilities held for trading	13,217	5.2.b)
		Financial liabilities measured at fair value through profit or loss	4,482	5.3.b)
		Financial liabilities measured at amortised cost - other financial liabilities	357,116	5.15.d)
		Derivatives - hedge accounting	3,540	5.5.b)
		Provisions	113,305	5.16.
		Current income tax liabilities	35,879	
		Deferred income tax liabilities	1,426	5.17.
		Other liabilities	58,653	5.19.
Equity	2,882.9	Equity and reserves attributable to owners of the parent	2,882,850	
Non-controlling interests	65.1	Non-controlling interests	65,140	
TOTAL LIABILITIES AND EQUITY	**25,942.0**	**Total liabilities and equity**	**25,941,985**	

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We also believe that if a single athlete can make it to the top, everyone is worth supporting.

NLB Wheel

Willpower and determination transcend all barriers.

Alternative Performance Indicators

The Bank has chosen to present these APIs, either because they are in common use within the industry or because they are commonly used by investors and as such are useful for disclosure. The APIs are used internally to monitor and manage operations of the Bank and the Group, and are not considered to be directly comparable with similar KPIs presented by other companies. The Bank's APIs are described below together with definitions.

Cost of risk – Calculated as the ratio between credit impairments and provisions annualized from the income statement and average net loans to customers.

Table 40: NLB Group cost of risk calculation

in EUR millions

	NLB Group	
	2023	2022
Numerator		
Credit impairments and provisions(i)	−8.8	17.6
Denominator		
Average net loans to customers(ii)	13,432.3	12,256.6
Cost of risk (bps)	**−7**	**14**

(i) NLB internal information. Credit impairments and provisions are annualized, calculated as all established and released impairments on loans and provisions for off balance (from the income statement) in the period divided by the number of months for reporting period and multiplied by 12. The net established Credit impairments and provisions are shown with a positive sign, and the net released Credit impairments and provisions are shown with a negative sign.
(ii) NLB internal information. Average net loans to customers are calculated as sum of the balance of the previous year end (31 December) and monthly balances of the last day of each month from January to month *t* divided by (*t+1*).

Cost to income ratio (CIR) – Indicator of cost efficiency, calculated as the ratio between the total costs and total net operating income.

Table 41a: NLB Group and NLB CIR calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Total costs	501.9	460.3	415.4	237.9	207.9	183.6
Denominator						
Total net operating income	1,093.3	798.5	666.9	638.5	366.2	361.5
Cost to income ratio (CIR)	**45.9%**	**57.6%**	**62.3%**	**37.3%**	**56.8%**	**50.8%**

Table 41b: NLB Group's banking subsidiaries CIR calculation

in EUR millions

	NLB Komercijalna Banka, Beograd		NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		N Banka, Ljubljana
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2022
Numerator													
Total cost	113.6	109.0	36.4	31.8	19.4	17.3	19.9	18.3	16.0	14.3	20.4	20.3	23.0
Denominator													
Total net operating income	261.0	192.4	86.6	75.9	46.9	38.5	36.7	31.7	55.2	48.4	49.3	37.3	35.7
Cost to income ratio (CIR)	**43.5%**	**56.6%**	**42.0%**	**41.9%**	**41.5%**	**44.9%**	**54.2%**	**57.8%**	**29.0%**	**29.7%**	**41.4%**	**54.3%**	**64.3%**

Total average cost of funding (quarterly) – Calculated as the ratio between interest expenses annualized and average interest-bearing liabilities.

Table 42: NLB Group's average cost of funding (quarterly) calculation

in EUR millions

	NLB Group			
	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Numerator				
Interest expenses(i)	194.1	173.8	123.2	107.6
Denominator				
Average interest-bearing liabilities(ii)	22,083.7	21,828.0	21,097.3	21,060.6
Total average cost of funding (quarterly)	**0.88%**	**0.80%**	**0.58%**	**0.51%**

(i) Interest expenses (quarterly) are annualized, calculated as the sum of interest expenses in the period divided by the number of days in the quarter and multiplied by the number of days in the year. Interest expenses on interest bearing liabilities also include interest income from negative interest rate on financial liabilities.
(ii) NLB internal information. Average interest-bearing liabilities (quarterly) for the NLB Group are calculated as the sum of monthly balances (t) for the corresponding quarter and monthly balance at the end of the previous quarter divided by (t+1).

Average cost of wholesale funding(iii) (quarterly) – Calculated as the ratio between interest expenses on deposits from customers annualized and average wholesale funding.

Table 43: NLB Group's average cost of wholesale funding (quarterly) calculation

in EUR millions

	NLB Group			
	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Numerator				
Interest expenses from wholesale funding(i)	96.9	94.4	62.9	58.8
Denominator				
Average wholesale funding(ii)	1,674.7	1,665.8	1,329.1	1,205.7
Average cost of wholesale funding (quarterly)	**5.78%**	**5.66%**	**4.73%**	**4.87%**

(i) Interest expenses from wholesale funding (quarterly) are annualized, calculated as the sum of interest expenses from wholesale funding in the period divided by the number of days in the quarter and multiplied by the number of days in the year.
(ii) NLB internal information. Average wholesale funding (quarterly) for the NLB Group, calculated as the sum of monthly balances (t) for the corresponding quarters and monthly balance at the end of the previous quarter divided by (t+1).
(iii) Wholesales funding includes deposits from banks and central banks, borrowings, debt instruments, and subordinated liabilities.

Average interest rate for deposits from customers (quarterly) – Calculated as the ratio between interest expenses on deposits from customers annualized and average deposits from customers.

Table 44: NLB Group's average interest rate for deposits from customers (quarterly) calculation

in EUR millions

	NLB Group			
	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Numerator				
Interest expenses on deposits from customers(i)	94.7	77.2	55.4	47.1
Denominator				
Average deposits from customers(ii)	20,409.0	20,162.2	19,768.1	19,854.9
Average interest rate for deposits from customers (quarterly)	**0.46%**	**0.38%**	**0.28%**	**0.24%**

(i) Interest expenses on deposits from customers (quaterly) are annualized, calculated as the sum of interest expenses on deposits from customers in the period divided by the number of days in the quarter and multiplied by the number of days in the year.
(ii) NLB internal information. Average deposits from customers (quarterly) for the NLB Group, calculated as the sum of monthly balances (t) for the corresponding quarters and monthly balance at the end of the previous quarter divided by (t+1).

Deposit beta – Calculated as the ratio between the change of interest rate on deposits from customers and change of ECB deposit facility interest rate over the selected period.

Table 45: NLB Group's Deposit beta calculation

in %, bps

	NLB Group		
			2023
	Q2 2022	Q4 2023	Δ (in bps)
Numerator			
Interest rate on deposits from customers(i)	0.09%	0.46%	37
Denominator			
ECB deposit facility interest rate(ii)	−0.5%	4.0%	450
Deposit beta			**8%**

(i) NLB internal information. Interest rate on deposits from customers (quarterly average).
(ii) Data from the ECB. Deposit facility interest rate (quarterly average).

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FVTPL – Financial assets measured mandatorily at fair value through profit or loss represent the minor part (0.002% December 2023; 0.002% December 2022) of the loan portfolio (before the deduction of fair value for credit risk; loans with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding). Classification into stages is calculated in the internal data source, by which the NLB Group measures the loan portfolio quality, and which is also published in the Business Report of Annual and Interim Reports.

IFRS 9 requires an expected loss model, where an allowance for the expected credit losses (ECL) is formed. Loans measured at amortised costs (AC) are classified into the following stages (before deduction of loan loss allowances):

- **Stage 1** – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period;
- **Stage 2** – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period;
- **Stage 3** – An impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. The definition of default is harmonised with the EBA guidelines.

A significant increase in credit risk is assumed: when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition; when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment); if NLB Group expects to grant the client forbearance or if the client is placed on the watch list.

Table 46a: NLB Group Stage 1 calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 1	19,239.2
Denominator	
Total gross loans and advances	20,243.9
IFRS 9 classification into Stage 1	**95.0%**

Table 46b: NLB Group Stage 2 calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 2	704.1
Denominator	
Total gross loans and advances	20,243.9
IFRS 9 classification into Stage 2	**3.5%**

Table 46c: NLB Group Stage 3 calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 3	300.2
Total (FVTPL) non-performing loans	0.3
Denominator	
Total gross loans and advances	20,243.9
IFRS 9 classification into Stage 3	**1.5%**

Table 46d: NLB Group Stage 1 in the Corporate segment calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 1 to Corporates	6,005.6
Denominator	
Total gross loans to Corporates	6,629.3
Corporates – IFRS 9 classification into Stage 1	**90.6%**

Table 46e: NLB Group Stage 2 in the Corporate segment calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 2 to Corporates	454.3
Denominator	
Total gross loans to Corporates	6,629.3
Corporates – IFRS 9 classification into Stage 2	**6.9%**

Table 46f: NLB Group Stage 3 in the Corporate segment calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 3 to Corporates	169.1
Total (FVTPL) non-performing loans	0.3
Denominator	
Total gross loans to Corporates	6,629.3
Corporates – IFRS 9 classification into Stage 3	**2.6%**

Table 46g: NLB Group Stage 1 in the Retail segment calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 1 to Retail	6,854.7
Denominator	
Total gross loans to Retail	7,235.3
Retail – IFRS 9 classification into Stage 1	**94.7%**

Table 46h: NLB Group Stage 2 in the Retail segment calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 2 to Retail	249.6
Denominator	
Total gross loans to Retail	7,235.3
Retail – IFRS 9 classification into Stage 2	**3.4%**

Table 46i: NLB Group Stage 3 in the Retail segment calculation

	in EUR millions
	NLB Group
	2023
Numerator	
Total (AC) loans in Stage 3 to Retail	131.0
Denominator	
Total gross loans to Retail	7,235.3
Retail – IFRS 9 classification into Stage 3	**1.8%**

Leverage ratio – Its calculation uses Tier 1 as the numerator, and the denominator is the total exposure of all active balance sheet and off-balance-sheet items after the adjustments are made in the context of which the exposures from individual derivatives, exposures from transactions of security funding, and other off-balance sheet items are especially pointed out. The leverage ratio is a non-risk based supplementary measure to the risk-based capital requirements. A minimum leverage ratio requirement is 3%. The purpose of the leverage ratio is to limit the size of the Bank balance sheets, and with a special emphasis on exposures which are not weighted within the framework of the existing capital requirement calculations.

Table 47: NLB Group and NLB leverage ratio

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Tier I	2,597.8	2,295.7	1,965.6	1,816.6	1,496.7	1,362.7
Denominator						
Total Leverage Ratio exposure measure	26,927.7	25,240.5	19,229.5	16,637.0	14,553.0	10,041.1
Leverage ratio	**9.6%**	**9.1%**	**10.2%**	**10.9%**	**10.3%**	**13.6%**

Liquidity coverage ratio – LCR refers to high liquid assets held by the financial institution to cover its net liquidity outflows over a 30-calendar day stress period.

The LCR requires financial institutions to maintain a sufficient reserve of high-quality liquid assets (HQLA) to withstand a crisis that puts their cash flows under pressure. The assets to hold must equal to or greater than their net cash outflow over a 30-calendar-day stress period (having at least 100% coverage). The parameters of the stress scenario are defined under Basel III guidelines. The calculations presented below are based on internal data sources.

Table 48: NLB Group LCR calculation[(i)]

in EUR millions

	NLB Group													
	31 Dec 2023	30 Nov 2023	31 Oct 2023	30 Sep 2023	31 Aug 2023	31 Jul 2023	30 Jun 2023	31 May 2023	30 Apr 2023	31 Mar 2023	28 Feb 2023	31 Jan 2023	31 Dec 2022	31 Dec 2021
Numerator														
Stock of HQLA	7,011.7	6,719.5	6,687.9	6,687.7	6,772.4	6,594.5	6,505.1	5,922.2	5,943.8	6,131.6	6,093.1	6,069.0	6,028.3	5,367.1
Denominator														
Net liquidity outflow	2,853.9	2,736.9	2,809.2	2,799.8	2,691.4	2,648.8	2,657.4	2,541.8	2,671.8	2,651.4	2,663.4	2,649.8	2,736.6	2,125.0
LCR	**245.7%**	**245.5%**	**238.1%**	**238.9%**	**251.6%**	**249.0%**	**244.8%**	**233.0%**	**222.5%**	**231.3%**	**228.8%**	**229.0%**	**220.3%**	**252.6%**

(i) Based on the European Commission's Delegated Act on LCR.

Net loan to deposit ratio (LTD) – Calculated as the ratio between net loans to customers and deposits from customers. There is no regulatory defined limitation on the LTD, however, the aim of this measure is to restrict extensive growth of the loan portfolio.

Table 49a: NLB Group and NLB LTD calculation

in EUR millions

	NLB Group			NLB		
	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2023	31 Dec 2022	31 Dec 2021
Numerator						
Net loans to customers	13,734.6	13,073.0	10,587.1	7,156.1	6,062.3	5,153.0
Denominator						
Deposits from customers	20,732.7	20,027.7	17,640.8	11,881.6	10,984.4	9,659.6
Net loan to deposit ratio (LTD)	**66.2%**	**65.3%**	**60.0%**	**60.2%**	**55.2%**	**53.3%**

Table 49b: NLB Group's banking subsidiaries LTD calculation

in EUR millions

	NLB Komercijalna Banka, Beograd		NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		N Banka, Ljubljana
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2022
Numerator													
Net loans to customers	2,811.6	2,589.2	1,216.2	1,170.7	557.0	523.2	575.6	521.3	831.3	740.8	584.5	532.3	939.2
Denominator													
Deposits from customers	4,004.1	3,692.2	1,499.5	1,462.0	840.1	796.7	749.7	673.4	1,008.3	894.2	798.0	692.9	898.8
Net loan to deposit ratio (LTD)	**70.2%**	**70.1%**	**81.1%**	**80.1%**	**66.3%**	**65.7%**	**76.8%**	**77.4%**	**82.5%**	**82.8%**	**73.2%**	**76.8%**	**104.5%**

Net interest margin on the basis of interest-bearing assets – Calculated as the ratio between net interest income annualized and average interest-bearing assets.

Table 50: NLB Group's banking subsidiaries net interest margin on the basis of interest-bearing assets calculation(iii)

in EUR millions

	NLB		NLB Komercijalna Banka, Beograd		NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		N Banka, Ljubljana
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2022
Numerator															
Net interest income(i)	372.6	177.0	211.3	131.6	65.4	53.9	32.5	23.6	25.5	19.5	47.2	39.8	40.3	29.6	27.8
Denominator															
Average interest bearing-assets(ii)	13,470.3	11,968.2	4,517.8	4,389.0	1,784.1	1,714.0	961.7	915.1	841.2	746.3	1,124.1	978.4	848.7	737.2	1,377.0
Net interest margin on interest–bearing assets	**2.8%**	**1.5%**	**4.7%**	**3.0%**	**3.7%**	**3.1%**	**3.4%**	**2.6%**	**3.0%**	**2.6%**	**4.2%**	**4.1%**	**4.8%**	**4.0%**	**2.0%**

(i) Net interest income is annualized, and calculated as the sum of interest income and interest expenses in the period divided by the number of days in the period and multiplied by the number of days in the year.
(ii) NLB internal information. Average interest-bearing assets for NLB are calculated as the sum of total assets of the previous year end (31 December) and daily balances in the period (from 1 January to day *d* – the last day in reporting month) divided by (*d+1*). Average interest-bearing assets for individual bank members are calculated as the sum of balance of previous year end (31 December) and monthly balances of the last day of each month from January to reporting month *t* divided by (*t+1*). N Banka internal information. Average interest-bearing assets for N Banka are calculated as the sum of daily balances in the period (from 1 January to day d – the last day in reporting period) divided by number of days d.
(iii) Data for N Banka internal information.

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Net interest margin on the basis of interest-bearing assets - Calculated as the ratio between net interest income annualized and average interest-bearing assets.

Table 51: NLB Group's net interest margin on the basis of interest-bearing assets calculation

		in EUR millions
	NLB Group	
	2023	2022
Numerator		
Net interest income(i)	833.3	504.9
Denominator		
Average interest-bearing assets(ii)	23,782.7	21,988.4
Net interest margin on interest–bearing assets	**3.50%**	**2.30%**

(i) Net interest income is annualized, calculated as the sum of interest income and interest expenses in the period divided by the number of days in the period and multiplied by the number of days in the year.
(ii) NLB internal information. Average interest-bearing assets for the Group are calculated as the sum of balance from the previous year end (31 December) and monthly balances of the last day of each month from January to the reporting month *t* divided by (*t+1*).

Net interest margin on the basis of interest-bearing assets (quarterly) – Calculated as the ratio between the net interest income annualized and average interest-bearing assets.

Table 52: NLB Group net interest margin on the basis of interest-bearing assets calculation (quarterly)

				in EUR millions
	NLB Group			
	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Numerator				
Net interest income(i)	920.0	878.7	806.2	725.8
Denominator				
Average interest-bearing assets(ii)	24,582.1	24,127.6	23,301.0	23,106.7
Net interest margin on interest–bearing assets (quarterly)	**3.74%**	**3.64%**	**3.46%**	**3.14%**

(i) Net interest income (quarterly) is annualized, calculated as the sum of interest income and interest expenses in the period divided by the number of days in the quarter and multiplied by the number of days in the year.
(ii) NLB internal information. Average interest-bearing assets (quarterly) for the NLB Group are calculated as the sum of monthly balances (t) for the corresponding quarter and monthly balance at the end of the previous quarter divided by (t+1).

Net interest margin on total assets – Calculated as the ratio between net interest income annualized, and average total assets.

Table 53: NLB Group and NLB net interest margin on total assets calculation

						in EUR millions
	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Net interest income(i)	833.3	504.9	409.4	372.6	177.0	139.5
Denominator						
Average total assets(ii)	24,706.3	22,975.9	20,659.0	14,728.7	13,133.2	11,853.9
Net interest margin on total assets	**3.4%**	**2.2%**	**2.0%**	**2.5%**	**1.3%**	**1.2%**

(i) Net interest income is annualized, and calculated as sum of interest income and interest expenses in the period divided by the number of days in the period and multiplied by the number of days in the year.
(ii) NLB internal information. Average total assets for the NLB Group are calculated as sum of balance of the previous year end (31 December) and monthly balances of the last day of each month from January to month *t* divided by (*t+1*). Average total assets for NLB are calculated as the sum of total assets of the previous year end (31 December) and daily balances in the period (from 1 January to day day *d* – the last day in reporting month) divided by (*t+1*).

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NPE – NPE includes risk exposure to D- and E-rated clients (includes loans and advances, debt securities, and off-balance exposures, which are included in report Finrep18; before the deduction of allowances for the ECL). Non-performing exposures measured by fair value loans through P&L (FVTPL) are considered at fair value increased by the amount of negative fair changes for credit risk.

NPE per cent. (on-balance and off-balance)/Classified on-balance and off-balance exposures – NPE per cent. in accordance with EBA methodology: NPE as a percentage of all exposures to clients in the Finrep18 before deduction of allowances for the ECL; the ratio is in gross terms.

Non-Performing Exposure includes risk exposure to D- and E-rated clients (including loans and advances, debt securities, and off-balance exposures, which are included in the report Finrep18 before the deduction of allowances for the ECL). The share of NPEs is calculated based on an internal data source, with which the NLB Group monitors the portfolio quality. The calculations presented below are based on internal data sources.

Table 54: NLB Group and NLB NPE (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	333.8	373.6	415.5	155.1	136.0	159.5
Denominator						
Total on-balance and off-balance exposures in Finrep18	30,122.3	28,133.2	24,328.0	17,874.0	15,512.0	13,869.9
NPE per cent.	**1.1%**	**1.3%**	**1.7%**	**0.9%**	**0.9%**	**1.1%**

NPE – The NPE indicator, according to the BoS calculation, differs from the EBA methodology in the treatment of debt instruments measured at FVOCI. Due to impairments, value adjustments increase the carrying amount of debt instruments measured at FVOCI.

Table 55: NLB Group and NLB NPE (EBA def.) (BoS) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Total Non-Performing on-balance and off-balance Exposure in Finrep18	333.8	373.6	415.5	155.1	136.0	159.5
Denominator						
Total on-balance and off-balance exposures in Finrep18, where carrying amount of FVOCI is increased by value adjustments due to impairments	30,284.1	28,134.7	24,339.2	17,907.9	15,506.3	13,872.1
NPE per cent.	**1.1%**	**1.3%**	**1.7%**	**0.9%**	**0.9%**	**1.1%**

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Non-performing loans include loans to D- and E-rated clients, namely loans at least 90 days past due or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

NPL per cent. – The share of non-performing loans in total loans: non-performing loans as a percentage of total loans to clients before deduction of loan loss allowances; ratio in gross terms. Where non-performing loans are defined as loans to D- and E-rated clients, namely loans at least 90 days past due or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances). The share of non-performing loans is calculated based on an internal data source, with which the NLB Group monitors the loan portfolio quality.

Table 56a: NLB NPL calculation

in EUR millions

	NLB		
	2023	2022	2021
Numerator			
Total Non-Performing Loans	138.0	111.2	130.4
Denominator			
Total gross loans	11,562.7	9,667.2	8,522.5
NPL per cent.	**1.2%**	**1.1%**	**1.5%**

Table 56b: NLB Group NPL calculation

in EUR millions

	NLB Group				
	2023	2022	2021	2020	2019
Numerator					
Total Non-Performing Loans	300.5	328.3	367.4	474.7	374.7
Denominator					
Total gross loans	20,243.9	18,403.9	15,541.8	13,686.6	9,793.5
NPL per cent.	**1.5%**	**1.8%**	**2.4%**	**3.5%**	**3.8%**

Table 56c: NLB Group's banking subsidiaries NPL calculation

in EUR millions

	NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		NLB Komercijalna Banka, Beograd		NLB Group's banking subsidiaries
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Numerator													
Total Non-Performing Loans	48.8	54.5	5.5	8.3	15.7	17.0	16.2	15.7	24.1	32.6	22.5	32.5	270.9
Denominator													
Total gross loans	1,558.5	1,506.5	783.9	734.4	772.2	724.2	1,043.6	940.5	756.1	715.3	3,960.1	3,390.0	19,866.4
NPL per cent.	**3.1%**	**3.6%**	**0.7%**	**1.1%**	**2.0%**	**2.3%**	**1.6%**	**1.7%**	**3.2%**	**4.6%**	**0.6%**	**1.0%**	**1.4%**

NPL coverage ratio 1 – The coverage of the gross non-performing loans portfolio with loan loss allowances on the entire loan portfolio - loan impairment in respect of non-performing loans. It shows the level of credit provisions that the entity has already absorbed into its profit and loss accounts with respect to the total of impaired loans. The NPL coverage ratio 1 is calculated based on an internal data source, with which the NLB Group monitors the quality of the loan portfolio.

Table 57a: NLB NPL coverage ratio 1 calculation

in EUR millions

	NLB		
	2023	2022	2021
Numerator			
Loan loss allowances entire loan portfolio	121.3	95.7	97.9
Denominator			
Total Non-Performing Loans	138.0	111.2	130.4
NPL coverage ratio 1 (NPL CR 1)	**87.9%**	**86.1%**	**75.1%**

Table 57b: NLB Group NPL coverage ratio 1 calculation

in EUR millions

	NLB Group				
	2023	2022	2021	2020	2019
Numerator					
Loan loss allowances entire loan portfolio	330.5	324.8	316.5	388.4	334.2
Denominator					
Total Non-Performing Loans	300.5	328.3	367.4	474.7	374.7
NPL coverage ratio 1 (NPL CR 1)	**110.0%**	**98.9%**	**86.1%**	**81.8%**	**89.2%**

NPL coverage ratio 2 – The coverage of the gross non-performing loans portfolio with loan loss allowances on the non-performing loans portfolio. The NPL coverage ratio 2 is calculated based on an internal data source, with which the NLB Group monitors the loan portfolio quality.

Table 58: NLB Group and NLB NPL coverage ratio 2 calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Loan loss allowances non-performing loan portfolio	194.2	187.4	212.9	84.4	64.5	79.0
Denominator						
Total Non-Performing Loans	300.5	328.3	367.4	138.0	111.2	130.4
NPL coverage ratio 2 (NPL CR 2)	**64.6%**	**57.1%**	**57.9%**	**61.2%**	**58.1%**	**60.6%**

Net NPL Ratio – The share of net non-performing loans in total net loans: non-performing loans after deduction of loss allowances on the non-performing loans portfolio as a percentage of total loans to clients after the deduction of loan loss allowances; the ratio is in net terms. The calculations presented below are based on internal data sources.

Table 59: NLB Group and NLB Net NPL ratio calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Net volume of non-performing loans	106.4	140.9	154.5	53.6	46.6	51.4
Denominator						
Total Net Loans	19,913.3	18,079.1	15,225.4	11,441.4	9,571.5	8,424.7
Net NPL ratio per cent. (% Net NPL)	**0.5%**	**0.8%**	**1.0%**	**0.5%**	**0.5%**	**0.6%**

Received collaterals for NPLs/NPL – The coverage of the gross non-performing loans portfolio with collateral for non-performing loans. The collateral market value is used for this calculation. The calculations presented below are based on internal data sources.

Table 60: NLB Group and NLB Received collaterals for NPLs/NPL calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Gross volume of Non-Performing Loans covered by collaterals	174.6	200.3	226.6	81.0	64.9	78.2
Denominator						
Total Non-Performing Loans	300.5	328.3	367.4	138.0	111.2	130.4
Received collaterals for NPLs / NPL	**58.1%**	**61.0%**	**61.7%**	**58.7%**	**58.4%**	**60.0%**

Non-performing loans and advances (EBA def.) – Non-performing loans include loans and advances in accordance with EBA Methodology that are classified as D and E, namely loans at least 90 days past due or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

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Gross NPL ratio (EBA def.) – The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). For this calculation, loans and advances classified as held for sale, cash balances at CBs, and other demand deposits are excluded from the denominator and the numerator. The calculations presented below are based on internal data sources.

Table 61: NLB Group and NLB Gross NPL ratio (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Gross volume of Non-Performing Loans and advances without loans held for sale, cash balances at CBs and other demand deposits	310.8	337.2	375.1	139.4	111.7	131.2
Denominator						
Gross volume of Loans and advances in Finrep18 without loans held for sale, cash balances at CBs and other demand deposits	14,780.1	13,796.0	11,128.8	7,520.3	6,610.8	5,498.9
Gross NPL ratio per cent. (% NPL)	**2.1%**	**2.4%**	**3.4%**	**1.9%**	**1.7%**	**2.4%**

Gross NPL ratio (EBA def.) (BoS) – The gross NPL ratio is the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances, in accordance with the EBA methodology (report Finrep18). Cash balances at CBs and other demand deposits are included in the calculation. The EU banking sector indicator is published quarterly by the EBA in the Risk dashboard. The calculations presented below are based on internal data sources.

Table 62: NLB Group and NLB Gross NPL ratio (EBA def.) (BoS) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Gross volume of Non-Performing Loans and advances	310.8	337.2	375.1	139.4	111.7	131.2
Denominator						
Gross volume of Loans and advances in Finrep18	20,421.9	18,590.5	15,668.8	11,664.9	9,780.9	8,615.3
Gross NPL ratio per cent. (% NPL)	**1.5%**	**1.8%**	**2.4%**	**1.2%**	**1.1%**	**1.5%**

NPL coverage ratio (EBA def.) – The NPL coverage ratio is the ratio of the amount of accumulated impairment, negative changes in fair value due to credit risk to the non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). Loans and advances classified as held for sale, cash balances at CBs and other demand deposits are excluded from the denominator and the numerator.

Table 63: NLB Group and NLB NPL coverage ratio (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances[i]	204.0	195.9	219.1	85.6	65.0	79.8
Denominator						
Gross volume of Non-Performing loans and advances[i]	310.8	337.2	375.1	139.4	111.7	131.2
NPL coverage ratio per cent. (% CR)	**65.6%**	**58.1%**	**58.4%**	**61.4%**	**58.2%**	**60.8%**

(i)Without loans and advances classified as held for sale, cash balances at CBs, and other demand deposits.

NPL coverage ratio (EBA def.) (BoS) – The NPL coverage ratio is the ratio of the amount of accumulated impairment, negative changes in fair value due to credit risk to the non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). Cash balances at CBs and other demand deposits are included in the calculation.

Table 64: NLB Group and NLB NPL coverage ratio (EBA def.) (BoS) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Volume of allowances and value adjustments for credit losses on Non-Performing loans and advances	204.0	195.9	219.1	85.6	65.0	79.8
Denominator						
Gross volume of Non-Performing loans and advances	310.8	337.2	375.1	139.4	111.7	131.2
NPL coverage ratio per cent. (% CR)	**65.6%**	**58.1%**	**58.4%**	**61.4%**	**58.2%**	**60.8%**

Collateral received/NPL (EBA def.) – The NPL collateral ratio is the ratio of the collateral received for non-performing loans and advances to the gross carrying amount of collateralized non-performing loans and advances, in accordance with the EBA methodology (report Finrep18). The calculation is provided on a single loan basis. The NPLs where the amount of collateral received exceeds the net non-performing of each loan exposure are the subject of calculation.

Table 65: NLB Group and NLB NPL collateral coverage ratio (EBA def.) calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Volume of collateral received up to the carrying amount of each loan or advance	16.7	30.7	36.7	7.0	6.2	12.2
Denominator						
Gross volume of collateralized Non-Performing loans and advances	36.6	56.1	62.5	10.4	8.2	19.4
NPL Collateral received / NPL (%)	**45.6%**	**54.7%**	**58.8%**	**67.1%**	**75.6%**	**63.1%**

Net stable funding ratio (NSFR) – The net stable funding ratio is a liquidity risk standard requiring financial institutions to hold enough stable funding to cover the duration of their long-term assets.

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding and is based on the current Basel Committee guidelines. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution and those of its off-balance-sheet (OBS) exposures. The calculations presented below are based on internal data sources.

Table 66: NLB Group and NLB NSFR calculation

in EUR millions

	NLB Group			NLB		
	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2023	31 Dec 2022	31 Dec 2021
Numerator						
Amount of available stable funding	21,868.5	20,409.1	18,446.7	13,375.3	11,691.2	10,815.8
Denominator						
Amount of required stable funding	11,677.6	11,154.7	9,960.8	7,577.5	6,582.3	6,309.5
NSFR	**187.3%**	**183.0%**	**185.2%**	**176.5%**	**177.6%**	**171.4%**

EVE (Economic Value of Equity) method – The EVE method measures the sensitivity of changes in market interest rates on the economic value of financial instruments. EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates under at least six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations take into account behavioural and automatic options, as well as the allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 bps on the economic value of the banking book position:

Table 67: NLB Group EVE calculation

in EUR thousands

	NLB Group				
	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
Numerator					
Interest risk in banking book – EVE	−108,489.1	−69,389.2	−83,353.2	−61,615.8	−110,452.4
Denominator					
Equity (Tier I)	2,589,612.0	2,281,260.0	2,269,153.0	2,254,020.0	2,166,333.0
EVE as % of Equity	**−4.2%**	**−3.0%**	**−3.7%**	**−2.7%**	**−5.1%**

Operational business margin (OBM) – Calculated as the ratio between operational business net income annualized and average assets.

Table 68: NLB Group and NLB OBM calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Operational business net income(i)	1,174.7	820.0	678.1	541.3	326.8	274.3
Denominator						
Average total assets(ii)	24,706.3	22,975.9	20,659.0	14,705.7	13,147.5	11,876.0
OBM (cumulative)	**4.8%**	**3.6%**	**3.3%**	**3.7%**	**2.5%**	**2.3%**

(i) Operational business net income is annualized, and calculated as operational business income in the period divided by the number of days in the period and multiplied by the number of days in the year. Operational business income consists of net interest income (excluding interest expenses from subordinated securities), net fees and commissions and net gains and losses from financial assets and liabilities held for trading that derive from foreign exchange trading.
(ii) NLB internal information. Average total assets is calculated as a sum of balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month *t* divided by (*t+1*).

Operational business margin (OBM) (quarterly) – Calculated as the ratio between operational business net income annualized and average assets.

Table 69: NLB Group OBM (quarterly) calculation

in EUR millions

	NLB Group			
	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Numerator				
Operational business net income(i)	1,272.4	1,223.6	1,145.3	1,054.7
Denominator				
Average total assets(ii)	25,494.3	25,037.1	24,211.9	24,049.9
OBM (quarterly)	**4.99%**	**4.89%**	**4.73%**	**4.39%**

(i) Operational business net income (quarterly) is annualized, and calculated as operational business income in the period divided by the number of days in the quarter and multiplied by the number of days in the year. Operational business income consists of net interest income (excluding interest expenses from subordinated securities), net fees and commissions and net gains and losses from financial assets and liabilities held for trading that derive from foreign exchange trading.
(ii) NLB internal information. Average total assets (quarterly) for the NLB Group are calculated as the sum of monthly balances (t) for the corresponding quarter and monthly balance at the end of the previous quarter divided by (t+1).

Return on equity before tax (ROE b.t.) – Calculated as the ratio between result before tax annualized and average total equity (including non-controlling interests).

Table 70: NLB Group and NLB ROE b.t. calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Result before tax(i)	578.4	483.1	261.4	478.7	164.1	211.5
Denominator						
Average total equity(ii)	2,683.6	2,344.4	2,222.8	1,843.8	1,558.3	1,507.2
ROE b.t.	**21.6%**	**20.6%**	**11.8%**	**26.0%**	**10.5%**	**14.0%**

(i) The result before tax is annualized and calculated as the result before tax in the period divided by the number of months for the reporting period and multiplied by 12.
(ii) NLB internal information. Average total equity (including non-controlling interests) is calculated as the sum of the balance as at end of the previous year end (31 December) and monthly balances of the last day of each month from January to month *t* divided by (*t+1*).

Return on equity after tax (ROE a.t.) – Calculated as the ratio between result after tax annualized and average equity.

Table 71a: NLB Group and NLB ROE a.t. calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Result after tax(i)	550.7	446.9	236.4	514.3	159.6	208.4
Denominator						
Average equity(ii)	2,623.0	2,248.7	2,069.9	1,843.8	1,558.3	1,507.2
ROE a.t.	**21.0%**	**19.9%**	**11.4%**	**27.9%**	**10.2%**	**13.8%**

(i) The result after tax is annualized and calculated as the result after tax in the period divided by the number of months for the reporting period and multiplied by 12.
(ii) NLB internal information. Average equity is calculated as the sum of the balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month *t* divided by (*t+1*).

Table 71b: NLB Group (w/o negative goodwill) ROE a.t. calculation

in EUR millions

NLB Group (w/o NGW)	2022
Numerator	
Result after tax(i)	274.0
Denominator	
Average equity(ii)	2,248.7
ROE a.t.	**12.2%**

(i)(ii) Please refer to the notes under Table 71a.

Table 71c: NLB Group's banking subsidiaries ROE a.t. calculation

in EUR millions

	NLB Komercijalna Banka, Beograd		NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Numerator												
Result after tax(i)	132.3	68.2	44.5	37.9	24.3	19.3	12.8	11.4	36.0	32.4	26.7	16.6
Denominator												
Average equity(ii)	784.6	713.0	270.4	252.9	100.2	95.3	94.1	91.5	131.8	111.1	116.6	99.5
ROE a.t.	**16.9%**	**9.6%**	**16.5%**	**15.0%**	**24.2%**	**20.2%**	**13.6%**	**12.5%**	**27.3%**	**29.2%**	**22.9%**	**16.7%**

(i)(ii) Please refer to the notes under Table 71a.

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Return on equity after tax (ROE a.t.) normalized(iii)– Calculated as the ratio between result after tax annualized and average risk adjusted capital.

Table 72: NLB Group ROE a.t. normalized calculation

in EUR millions

	NLB Group
	2023
Numerator	
Result after tax(i)	550.7
Denominator	
Average risk adjusted capital(ii)	1,879.2
ROE a.t.	**29%**

(i) Result after tax is annualized, calculated as a result after tax in the period divided by the number of months for the reporting period and multiplied by 12.
(ii) NLB internal information. Average risk adjusted capital is calculated as a sum of Risk Weighted Assets (RWA) balance as at the end of the previous year end (31 December) and monthly Risk Weighted Assets (RWA) balances of the last day of each month from January to month *t* divided by (*t+1*), multiplied by Tier 1 regulatory capital requirement and decreased by minority shareholder capital.
(iii) Result a.t. w/o negative goodwill divided by Average risk adjusted capital. Average risk adjusted capital calculated as Tier 1 requirement of average Risk Weighted Assets (RWA) reduced for minority shareholder capital contribution.

Return on assets before tax (ROA b.t.) – Calculated as the ratio between result before tax annualized and average total assets.

Table 73: NLB Group and NLB ROA b.t. calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Result before tax(i)	578.4	483.1	261.4	478.7	164.1	211.5
Denominator						
Average total assets(ii)	24,706.3	22,975.9	20,659.0	14,705.7	13,147.5	11,876.0
ROA b.t.	**2.3%**	**2.1%**	**1.3%**	**3.3%**	**1.2%**	**1.8%**

(i) The result before tax is annualized and calculated as the result before tax in the period divided by the number of months for the reporting period and multiplied by 12.
(ii) NLB internal information. Average total assets are calculated as the sum of the balance as at the end of the previous year end (31 December) and the monthly balances of the last day of each month from January to month *t* divided by (*t+1*).

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Return on assets after tax (ROA a.t.) – Calculated as the ratio between result after tax annualized and average total assets.

Table 74a: NLB Group and NLB ROA a.t. calculation

in EUR millions

	NLB Group			NLB		
	2023	2022	2021	2023	2022	2021
Numerator						
Result after tax(i)	550.7	446.9	236.4	514.3	159.6	208.4
Denominator						
Average total assets(ii)	24,706.3	22,975.9	20,659.0	14,705.7	13,147.5	11,876.0
ROA a.t.	**2.2%**	**1.9%**	**1.1%**	**3.5%**	**1.2%**	**1.8%**

(i) The result after tax is annualized and calculated as the result after tax in the period divided by the number of months for the reporting period and multiplied by 12.
(ii) NLB internal information. Average total assets are calculated as the sum of balance as at the end of the previous year end (31 December) and monthly balances of the last day of each month from January to month *t* divided by (*t+1*).

Table 74b: NLB Group's banking subsidiaries ROA a.t. calculation

in EUR millions

	NLB Komercijalna Banka, Beograd		NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Numerator												
Result after tax(i)	132.3	68.2	44.5	37.9	24.3	19.3	12.8	11.4	36.0	32.4	26.7	16.6
Denominator												
Average total assets(ii)	4,760.5	4,668.8	1,833.2	1,771.1	1,003.6	948.7	870.9	777.6	1,135.9	987.1	911.3	795.2
ROA a.t.	**2.8%**	**1.5%**	**2.4%**	**2.1%**	**2.4%**	**2.0%**	**1.5%**	**1.5%**	**3.2%**	**3.3%**	**2.9%**	**2.1%**

(i)(ii) Please refer to the notes under Table 74a.

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Total capital ratio (TCR) – TCR is the own funds of the institution expressed as a percentage of the total risk exposure amount.

Table 75a: NLB Group and NLB TCR calculation

in EUR millions

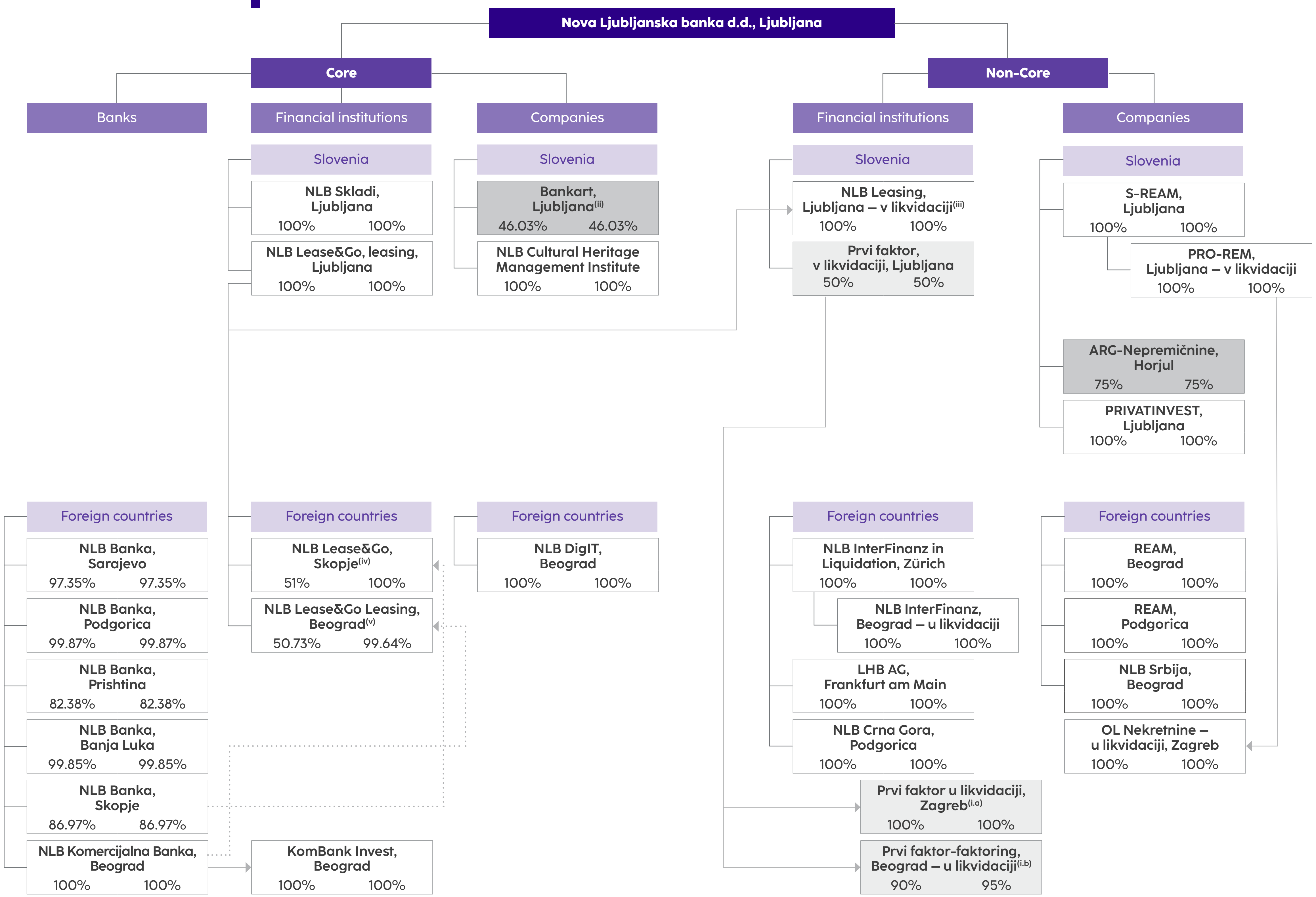
	NLB Group			NLB		
	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2023	31 Dec 2022	31 Dec 2021
Numerator						
Total capital (Own funds)	3,109.2	2,806.4	2,252.5	2,324.1	2,004.2	1,647.3
Denominator						
Total risk exposure Amount (Total RWA)	15,337.2	14,653.1	12,667.4	9,207.5	7,832.7	6,708.5
Total capital ratio	**20.3%**	**19.2%**	**17.8%**	**25.2%**	**25.6%**	**24.6%**

Table 75b: NLB Group's banking subsidiaries TCR calculation

in EUR millions

	NLB Komercijalna Banka, Beograd		NLB Banka, Skopje		NLB Banka, Banja Luka		NLB Banka, Sarajevo		NLB Banka, Prishtina		NLB Banka, Podgorica		N Banka, Ljubljana
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2022
Numerator													
Total capital	717.0	620.9	268.7	251.4	88.6	81.4	95.0	80.4	135.5	117.5	87.6	77.0	188.3
Denominator													
Total risk exposure Amount (Total RWA)	2,647.4	2,521.5	1,422.3	1,384.8	557.2	508.3	534.0	488.1	855.3	746.0	456.6	419.6	877.9
Total capital ratio	**27.1%**	**24.6%**	**18.9%**	**18.2%**	**15.9%**	**16.0%**	**17.8%**	**16.5%**	**15.8%**	**15.7%**	**19.2%**	**18.4%**	**21.4%**

NLB Group Chart



Subsidiary	
% direct share	% indirect share at the group level

Associate	
% direct share	% indirect share at the group level

Joint Venture	
% direct share	% indirect share at the group level

Legend: The chart shows voting rights shares. The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).
(i.a) 100% direct ownership Prvi Faktor, v likvidaciji, Ljubljana.
(i.b) 90% direct ownership Prvi Faktor, v likvidaciji, Ljubljana, 5% NLB, 5% SID banka d.d.
(ii) - 46.03% direct ownership of NLB d.d.
- Abanka merged into Nova KBM, which currently has a 29.22% share in Bankart.
This is over the 25% threshold set in the Founding agreement - no shareholder other than NLB can have more than 25% capital share in Bankart.
(iii) 100% direct ownership NLB Lease&Go, leasing, d.o.o., Ljubljana.
(iv) 51% direct ownership NLB Lease&Go, leasing, d.o.o., Ljubljana, 49% NLB Banka AD Skopje.
(v) 50.73% direct ownership NLB Lease&Go, leasing, d.o.o., Ljubljana, 48.91% NLB Komercijalna Banka, Beograd.

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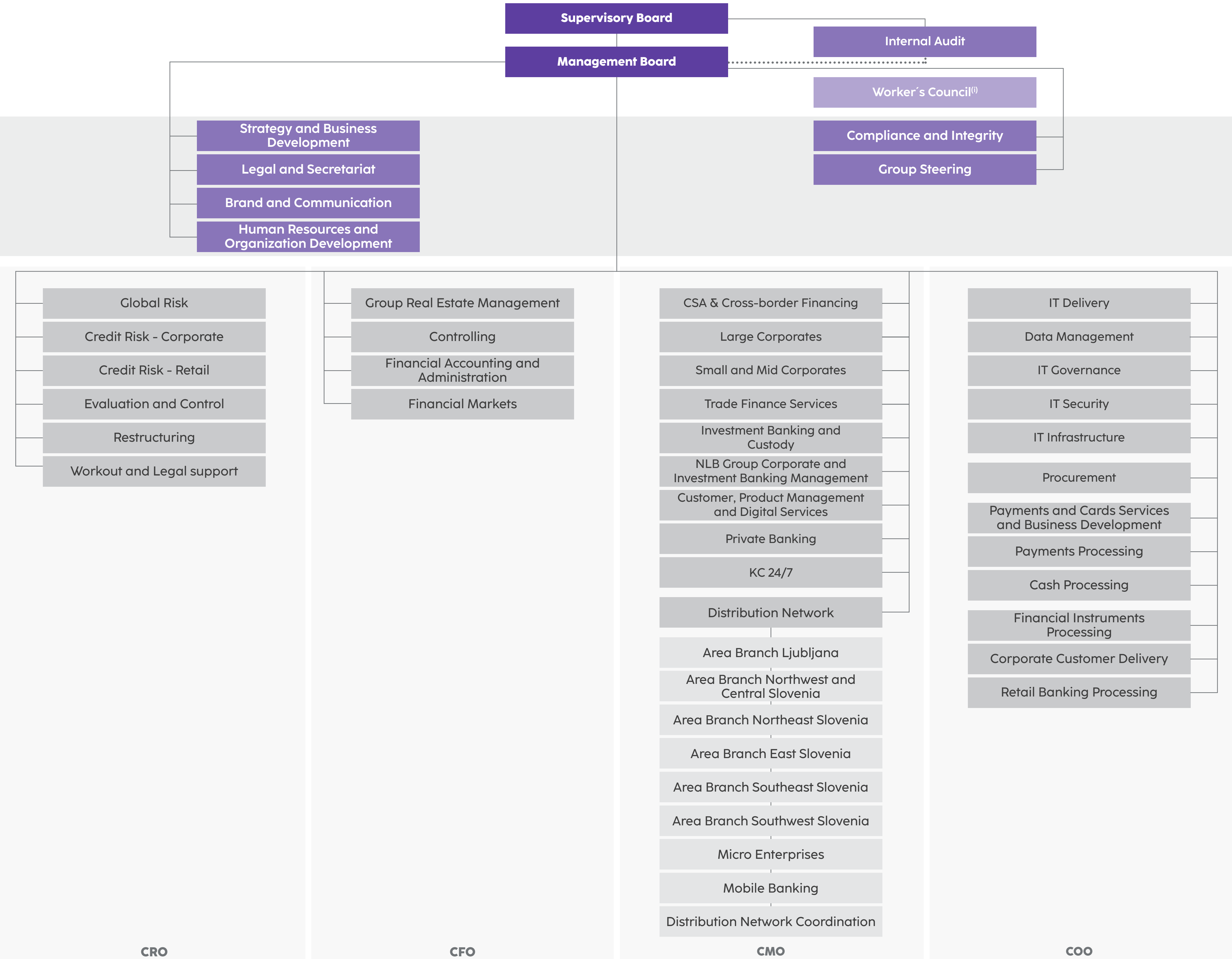
Organisational Structure of NLB



Understanding of the tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit is taken into account in accordance to the definitions of the (currently valid) Banking Act-ZBan-3.
(i) Worker´s Council is independent organisational unit with no subordinate or superior organisational units and it operates in accordance with ZSDU.

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Independent auditor's report

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Independent Auditors' Report

To the shareholders of Nova Ljubljanska banka d.d., Ljubljana

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate financial statements of Nova Ljubljanska banka d.d., Ljubljana (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (collectively, the "Group"), which comprise:

- the separate and consolidated statements of financial position as at 31 December 2023;

and, for the period from 1 January to 31 December 2023:

- the separate and consolidated income statements;
- the separate and consolidated statements of other comprehensive income;
- the separate and consolidated statements of changes in equity;
- the separate and consolidated statements of cash flows;

and

- notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated and consolidated financial position, respectively, of the Bank and the Group as at 31 December 2023, and of their respective unconsolidated and consolidated financial performance and unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (OJ L 158, 27.5.2014, p. 77-112 - EU Regulation EU No 537/2014). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report. We are independent of the Bank and the Group in accordance with International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556000

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audits of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matters:

Allowance for impairment of loans and advances to customers

As at 31 December 2023, the carrying amount of loans and advances to customers of the Bank and the Group, respectively: EUR 7,148 million and EUR 13,735 million; related impairment allowance of the Bank and the Group, respectively: EUR 120 million and EUR 329 million.

We refer to the separate and consolidated financial statements: Note 2.34. "Critical accounting estimates and judgments in applying accounting policies", Note 2.13. "Allowances for financial assets", Note 5.6. "Financial assets measured at amortised cost", Note 5.14. "Movements in allowance for the impairment of financial assets" and Note 6.1. "Credit risk management".

Key audit matter	Our response
Allowances for impairment represent management's best estimate of the expected credit losses ("ECLs") within loans and advances to customers ("loans", "exposures") measured at amortized cost at the reporting date. We focused on this area as the measurement of allowances for impairment requires the Management Board to make complex and subjective assumptions and judgements. ECLs for performing exposures (Stage 1 and Stage 2 in the IFRS 9 *Financial instruments* hierarchy) and for non-performing/defaulted (Stage 3) exposures not exceeding prescribed quantitative thresholds, are determined by modelling techniques relying on key parameters such as the probability of default ("PD"), exposure at default ("EAD"), credit conversion factor ("CCF") and loss given default ("LGD"), taking into account historical experience, identification of exposures with a significant increase in credit risk ("SICR"), forward-looking information and management judgment (together "collective impairment allowance"). ECLs for Stage 3 loans whose amounts exceed the quantitative thresholds are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including, those in respect of the expected proceeds from the sale of the related collaterals and minimum period for collateral disposal.	Our procedures in the area, performed, where applicable, with the assistance of our own financial risk management (FRM) and information technology (IT) audit specialists, included, among other things: — inspecting the Bank's and Group's ECL methodology and assessing its compliance with the requirements of the relevant financial reporting standards. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on our assessment of the entity and portfolio level factors; — testing the design, implementation and operating effectiveness of selected controls in the process of approval, recording and monitoring of loans, including, but not limited to, those relating to the credit rating classification, calculation of days past due, over inputs of collateral data in the system and calculation of ECLs; — challenging the appropriateness and consistency of the Bank's and the Group's application of the standard's definitions of SICR and default, their classification of exposures into performing and non-performing and segmentation of loans into homogenous groups; — evaluating whether appropriately considered in loan staging and impairment measurement were the effects of the current volatile macroeconomic environment, which included

In the wake of the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the current macroeconomic environment (geopolitical situation, increasing interest rates, energy prices and inflation), we considered allowance for impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the separate and consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	challenging the management overlays used in measuring ECLs at the Group level. For collective impairment allowance: — obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's and Group's ECL measurement. Independently assessing the information by means of inquiries of the Management Board and inspecting publicly available information; — challenging the collective PD, EAD, CCF and LGD parameters, by reference to the Bank's and the Group's historical loan default experience and historical realized losses on those defaults, also considering any required adjustments to reflect expected changes in circumstances; — for a risk-based sample of loans, critically assessing, by reference to the underlying loan files and through discussion with responsible loan officers and credit risk management personnel, the existence of any impairment triggers for classification to Stage 2 or Stage 3 as at 31 December 2023. For impairment allowances calculated individually: — for a risk-based sample of Stage 3 loans, challenging the Bank's and Group's cash flow projections and key assumptions used in scenarios, by reference to our knowledge of the relevant industry and of the borrower. We also challenged the collateral valuations by inspecting the underlying valuation reports obtained by the Bank and Group, and also by reference to publicly available data. For loan exposures in totality: — critically assessing the overall reasonableness of the allowances for impairment, including the loans provision coverage; — examining whether the Bank's and Group's loan impairment and credit risk-related disclosures in the separate and consolidated financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

Other Matter

The separate and consolidated financial statements of, respectively, the Bank and the Group as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 12 April 2023.

Other Information

Management is responsible for the other information. The other information comprises the "Overview" "Business Report", "NLB Group Directory" and "Definitions and Glossary of Selected Terms" included in the Annual Report but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, with respect to the Business Report, we are required to report on its consistency with the separate and consolidated financial statements and on whether the Business Report includes the disclosures required by the Companies Act dated 4 May 2006 (official gazette of Republic of Slovenia No. 42/2006 with amendments - hereafter referred to as »the applicable legal requirements«). Based solely on the work required to be undertaken in the course of the audit of the separate and consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of separate and consolidated financial statements that give a true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and EU Regulation (EU) No 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs and EU Regulation (EU) No 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank or the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholders of the Bank on the shareholders meeting dated 20 June 2022 to audit the Bank's and the Group's respective separate and consolidated financial statements for the year ended 31 December 2023. Our total uninterrupted period of engagement is 1 year.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 10 April 2024;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the Bank and the Group in conducting the audit.

For the period to which our statutory audit relates, we and other KPMG network firms have not provided any other services to the Bank and its controlled related entities which are not disclosed in the Business Report or in the separate and consolidated financial statements.

Independent Auditor's Report on the Compliance of the Electronic Financial Statements with the Delegated Regulation 2019/815 on a Single Electronic Reporting Format ("ESEF Format")

We have conducted an engagement to provide reasonable assurance as to whether the audited separate and consolidated financial statements of the Bank and the Group, respectively, for the financial year ended 31 December 2023 (respectively, "Audited Separate Financial Statements" and "Audited Consolidated Financial Statements" and, collectively, "Audited Separate and Consolidated Financial Statements") have been prepared in accordance with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing the Directive 2004/109/EC of the European Parliament and the Council with regard to regulatory technical standards for establishing a single electronic reporting format applicable for the year 2023 ("Delegated Regulation").

Responsibilities of the Bank's Management and Those Charged with Governance

The Bank's Management is responsible for the preparation and presentation of the Audited Separate and Consolidated Financial Statements in accordance with the Delegated Regulation, and for such internal control as management determines is necessary to enable the preparation of the Audited Separate and Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the preparation of the Audited Separate and Consolidated Financial Statements in compliance with requirements of the Delegated Regulation.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the Audited Separate and Consolidated Financial Statements are prepared in accordance with requirements of the Delegated Regulation. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board.

That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the separate and consolidated financial statements in the ESEF Format are properly prepared and presented in accordance with the requirements of the Delegated Regulation, in all material respects.

We have acted in accordance with the independence and ethical requirements of the EU Regulation 537/2014 and the IESBA Code. The Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related*

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KPMG

Services Engagements, issued by the IAASB. This standard requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of Work Performed

Within the scope of our work, we performed the following audit procedures:

- identified and assessed the risks of material non-compliance of the Audited Separate and Consolidated Financial Statements with the requirements of the Delegated Regulation, whether due to error or fraud;
- obtained an understanding of internal control relevant to the engagement in order to provide reasonable assurance for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of such internal control.

Specifically in respect of the Audited Consolidated Financial Statements, we obtained reasonable assurance that:

- the Audited Consolidated Financial Statements are presented in a correct XHTML electronic format;
- the values and disclosures in the Audited Consolidated Financial Statements in XHTML format are correctly marked and in Inline XBRL (iXBRL) technology and that their machine reading provides complete and accurate information contained in the Audited Consolidated Financial Statements;
- notes to the Audited Consolidated Financial Statements are correctly block-tagged.

Specifically in respect of the Audited Separate Financial Statements, we obtained reasonable assurance that:

- the Audited Separated Financial Statements are presented in a correct XHTML electronic format.

We believe that the evidence obtained provides a sufficient and appropriate basis for our opinion.

Opinion

In our opinion, based on the procedures performed and the evidence obtained, the Audited Separate and Consolidated Financial Statements of the Bank and the Group, respectively, as at and for the financial year ended 31 December 2023 are prepared, in all material respects, in accordance with the requirements of the Delegated Regulation.

On behalf of audit firm

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Domagoj Vuković, FCCA
Certified Auditor
Partner

KPMG Slovenija, d.o.o.
1

Ljubljana, 10 April 2024

Statement of management's responsibility

The Management Board hereby confirms its responsibility for preparing the consolidated financial statements of NLB Group and the financial statements of NLB for the year ending on 31 December 2023, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and the Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31 December 2023, and their financial results and cash flows for the year then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of NLB Group and NLB, together with the accompanying notes, have been prepared on a going-concern basis for NLB Group and NLB, and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board is also responsible for appropriate accounting practices, the adoption of appropriate measures for safeguarding assets, and the prevention and identification of fraud and other irregularities or illegal acts.

The Management Board of NLB

Hedvika Usenik
Member

Andrej Lasič
Member

Archibald Kremser
Member

Peter Andreas Burkhardt
Member

Antonio Argir
Member

Blaž Brodnjak
Chief executive officer

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Income statement for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group 2023	NLB Group 2022	NLB 2023	NLB 2022
Interest income calculated using the effective interest method		952,875	558,826	477,154	217,881
Other interest and similar income		40,530	10,950	21,184	4,081
Interest and similar income	4.1.	993,405	569,776	498,338	221,962
Interest expenses calculated using the effective interest method		(148,034)	(53,086)	(115,779)	(34,166)
Other interest and similar expenses		(12,037)	(11,768)	(9,993)	(10,769)
Interest and similar expenses	4.1.	(160,071)	(64,854)	(125,772)	(44,935)
Net interest income		**833,334**	**504,922**	**372,566**	**177,027**
Dividend income	4.2.	169	242	145,258	56,044
Fee and commission income	4.3.	398,741	381,599	170,981	166,440
Fee and commission expenses	4.3.	(120,780)	(108,249)	(42,432)	(37,291)
Net fee and commission income		**277,961**	**273,350**	**128,549**	**129,149**
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	4.4.	(742)	866	(834)	(1,050)
Gains less losses from financial assets and liabilities held for trading	4.5.	32,187	33,451	(408)	11,332
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,784	90	2,445	(1,451)
Gains less losses from financial liabilities measured at fair value through profit or loss		(799)	286	(382)	163
Fair value adjustments in hedge accounting	5.5.a)	3,899	1,655	3,588	1,655
Foreign exchange translation gains less losses	4.7.	(2,778)	297	3,003	(1,588)
Net gains or losses on derecognition of investments in subsidiaries, associates and joint ventures	5.12.b), c)	(766)	–	(105)	–
Gains less losses on derecognition of non-financial assets		3,200	1,861	49	33
Other net operating income	4.8.	(4,692)	16,778	(4,006)	4,411
Administrative expenses	4.9.	(452,623)	(412,886)	(218,407)	(190,865)
Cash contributions to resolution funds and deposit guarantee schemes	4.10.	(39,093)	(36,144)	(11,383)	(9,713)
Depreciation and amortisation	4.11.	(49,232)	(47,390)	(19,457)	(17,001)
Gains less losses from modification of financial assets	4.12.	(16,271)	(26)	–	–
Provisions for credit losses	4.13.	5,055	(3,050)	3,074	282
Provisions for other liabilities and charges	4.13.	(25,925)	(5,932)	(14,422)	(2,325)
Impairment of financial assets	4.14.	6,717	(14,454)	(7,668)	(14,968)
Impairment of non-financial assets	4.14.	53	(5,433)	97,114	22,767
Gain from bargain purchase	5.12.e), f)	–	172,878	–	–
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	5.12.g)	1,072	781	–	–
Gains less losses from non-current assets held for sale		5,903	921	172	168
Profit before income tax		**578,413**	**483,063**	**478,746**	**164,070**
Income tax	4.15.	(15,090)	(25,230)	35,541	(4,468)
Profit for the year		**563,323**	**457,833**	**514,287**	**159,602**
Attributable to owners of the parent		550,700	446,862	514,287	159,602
Attributable to non-controlling interests		12,623	10,971	–	–
Earnings per share (in EUR per share)	4.16.	27.5	22.3	25.7	8.0
Diluted earnings per share (in EUR per share)	4.16.	27.5	22.3	25.7	8.0

The notes are an integral part of these financial statements.

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Statement of other comprehensive income for the annual period ended 31 December

in EUR thousands

		NLB Group		NLB	
	Notes	2023	2022	2023	2022
Net profit for the year after tax		563,323	457,833	514,287	159,602
Other comprehensive income after tax		84,952	(149,677)	48,078	(90,445)
Items that will not be reclassified to income statement					
Actuarial gains/(losses) on defined benefit pensions plans	5.16.c)	(444)	4,031	588	2,048
Fair value changes of equity instruments measured at fair value through other comprehensive income	5.4.c)	6,796	(2,383)	2,284	(1,925)
Share of other comprehensive income/(losses) of entities accounted for using the equity method		45	121	–	–
Income tax relating to components of other comprehensive income	5.18.	(973)	17	(465)	80
Items that have been or may be reclassified subsequently to income statement					
Foreign currency translation		1,884	596	–	–
Translation gains/(losses) taken to equity		1,884	596	–	–
Debt instruments measured at fair value through other comprehensive income		70,926	(163,055)	33,822	(92,030)
Valuation gains/(losses) taken to equity	5.4.c)	77,238	(168,593)	38,046	(98,172)
Transferred to income statement	4.4., 4.14.	(6,312)	5,538	(4,224)	6,142
Income tax relating to components of other comprehensive income	5.18.	6,718	10,996	11,849	1,382
Total comprehensive income for the year after tax		648,275	308,156	562,365	69,157
Attributable to owners of the parent		635,233	297,936	562,365	69,157
Attributable to non-controlling interests		13,042	10,220	–	–

The notes are an integral part of these financial statements.

Statement of financial position as at 31 December

in EUR thousands

	Notes	NLB Group 31 Dec 2023	NLB Group 31 Dec 2022	NLB 31 Dec 2023	NLB 31 Dec 2022
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	6,103,561	5,271,365	4,318,032	3,339,024
Financial assets held for trading	5.2.a)	15,718	21,588	17,957	21,692
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	14,175	19,031	16,643	15,411
Financial assets measured at fair value through other comprehensive income	5.4.	2,251,556	2,919,203	1,023,012	1,334,061
Financial assets measured at amortised cost					
- debt securities	5.6.a)	2,522,229	1,917,615	1,966,169	1,597,448
- loans and advances to banks	5.6.b)	547,640	222,965	149,011	350,625
- loans and advances to customers	5.6.c)	13,734,601	13,072,986	7,148,283	6,054,413
- other financial assets	5.6.d)	165,962	177,823	101,596	114,399
Derivatives - hedge accounting	5.5.b)	47,614	59,362	47,614	59,362
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5.5.c)	(10,207)	(23,767)	(12,514)	(23,767)
Investments in subsidiaries	5.12.a)	–	–	975,757	904,040
Investments in associates and joint ventures	5.12.g)	12,519	11,677	4,823	4,571
Tangible assets					
Property and equipment	5.8.	278,034	251,316	85,970	78,592
Investment property	5.9.	31,116	35,639	7,640	6,753
Intangible assets	5.10.	62,117	58,235	37,379	30,425
Current income tax assets		42	1,696	–	–
Deferred income tax assets	5.17.	111,305	55,527	109,449	34,888
Other assets	5.13.	49,154	72,543	13,907	13,161
Non-current assets held for sale	5.7.	4,849	15,436	4,048	4,235
Total assets		**25,941,985**	**24,160,240**	**16,014,776**	**13,939,333**
Financial liabilities held for trading	5.2.b)	13,217	21,589	17,510	22,150
Financial liabilities measured at fair value through profit or loss	5.3.b)	4,482	1,796	3,210	2,514
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	5.15.a)	95,283	106,414	147,002	212,656
- borrowings from banks and central banks	5.15.b)	140,419	198,609	82,797	57,292
- due to customers	5.15.a)	20,732,722	20,027,726	11,881,563	10,984,411
- borrowings from other customers	5.15.b)	99,718	82,482	–	216
- debt securities issued	5.15.c)	1,338,235	815,990	1,338,235	815,990
- other financial liabilities	5.15.d)	357,116	294,463	198,020	164,567
Derivatives - hedge accounting	5.5.b)	3,540	2,124	1,420	2,124
Provisions	5.16.	113,305	122,652	48,456	45,216
Current income tax liabilities		35,879	12,420	14,762	3,940
Deferred income tax liabilities	5.17.	1,426	2,569	–	–
Other liabilities	5.19.	58,653	49,081	32,350	25,387
Total liabilities		**22,993,995**	**21,737,915**	**13,765,325**	**12,336,463**
Equity and reserves attributable to owners of the parent					
Share capital	5.20.	200,000	200,000	200,000	200,000
Share premium	5.22.a)	871,378	871,378	871,378	871,378
Other equity instruments	5.21.	84,178	84,184	84,178	84,184
Accumulated other comprehensive income	5.22.b)	(76,118)	(160,588)	(36,316)	(81,677)
Profit reserves	5.22.a)	13,522	13,522	13,522	13,522
Retained earnings		1,789,890	1,357,089	1,116,689	515,463
		2,882,850	**2,365,585**	**2,249,451**	**1,602,870**
Non-controlling interests		65,140	56,740	–	–
Total equity		**2,947,990**	**2,422,325**	**2,249,451**	**1,602,870**
Total liabilities and equity		**25,941,985**	**24,160,240**	**16,014,776**	**13,939,333**

The notes are an integral part of these financial statements.

The Management Board of NLB has authorised for issue the financial statements and the accompanying notes.

The Management Board of NLB

Hedvika Usenik	Andrej Lasič	Archibald Kremser	Peter Andreas Burkhardt	Antonio Argir	Blaž Brodnjak
Member	Member	Member	Member	Member	Chief executive officer

Ljubljana, 10 April 2024

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Statement of changes in equity for the annual period ended 31 December

in EUR thousands

NLB Group	Share capital	Share premium	Other equity instruments	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
				Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Notes	**5.20.**	**5.22.a)**	**5.21.**	**5.22.b)**	**5.22.b)**	**5.22.b)**	**5.22.a)**				
Balance as at 1 January 2023	200,000	871,378	84,184	(142,909)	(16,485)	(1,194)	13,522	1,357,089	2,365,585	56,740	2,422,325
- Net profit for the year	–	–	–	–	–	–	–	550,700	550,700	12,623	563,323
- Other comprehensive income	–	–	–	82,953	1,897	(317)	–	–	84,533	419	84,952
Total comprehensive income after tax	–	–	–	82,953	1,897	(317)	–	550,700	635,233	13,042	648,275
Dividends	–	–	–	–	–	–	–	(110,000)	(110,000)	(4,634)	(114,634)
Transactions with non-controlling interests (note 3.)	–	–	–	–	–	–	–	8	8	(8)	–
Transfer of fair values reserve	–	–	–	(63)	–	–	–	63	–	–	–
Other	–	–	(6)	–	–	–	–	(7,970)	(7,976)	–	(7,976)
Balance as at 31 December 2023	**200,000**	**871,378**	**84,178**	**(60,019)**	**(14,588)**	**(1,511)**	**13,522**	**1,789,890**	**2,882,850**	**65,140**	**2,947,990**

in EUR thousands

NLB Group	Share capital	Share premium	Other equity instruments	Accumulated other comprehensive income			Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
				Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other					
Notes	**5.20.**	**5.22.a)**	**5.21.**	**5.22.b)**	**5.22.b)**	**5.22.b)**	**5.22.a)**				
Balance as at 1 January 2022	200,000	871,378	–	11,366	(17,184)	(4,734)	13,522	1,004,385	2,078,733	137,390	2,216,123
- Net profit for the year	–	–	–	–	–	–	–	446,862	446,862	10,971	457,833
- Other comprehensive income	–	–	–	(153,255)	632	3,697	–	–	(148,926)	(751)	(149,677)
Total comprehensive income after tax	–	–	–	(153,255)	632	3,697	–	446,862	297,936	10,220	308,156
Dividends	–	–	–	–	–	–	–	(100,000)	(100,000)	(4,568)	(104,568)
Other equity instruments issued	–	–	82,000	–	–	–	–	–	82,000	–	82,000
Transactions with non-controlling interests (note 3.)	–	–	–	(1,020)	67	(140)	–	8,230	7,137	(86,358)	(79,221)
Transfer of fair values reserve	–	–	–	–	–	(17)	–	17	–	–	–
Other	–	–	2,184	–	–	–	–	(2,405)	(221)	56	(165)
Balance as at 31 December 2022	**200,000**	**871,378**	**84,184**	**(142,909)**	**(16,485)**	**(1,194)**	**13,522**	**1,357,089**	**2,365,585**	**56,740**	**2,422,325**

in EUR thousands

NLB	Share capital	Share premium	Other equity instruments	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
Notes	5.20.	5.22.a)	5.21.	5.22.b)	5.22.b)	5.22.a)	5.20.	
Balance as at 1 January 2023	200,000	871,378	84,184	(79,743)	(1,934)	13,522	515,463	1,602,870
- Net profit for the year	–	–	–	–	–	–	514,287	514,287
- Other comprehensive income	–	–	–	47,521	557	–	–	48,078
Total comprehensive income after tax	–	–	–	47,521	557	–	514,287	562,365
Dividends	–	–	–	–	–	–	(110,000)	(110,000)
Merger of subsidiary	–	–	–	(2,889)	172	–	204,904	202,187
Other	–	–	(6)	–	–	–	(7,965)	(7,971)
Balance as at 31 December 2023	**200,000**	**871,378**	**84,178**	**(35,111)**	**(1,205)**	**13,522**	**1,116,689**	**2,249,451**

in EUR thousands

NLB	Share capital	Share premium	Other equity instruments	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: Other	Profit reserves	Retained earnings	Total equity
Notes	5.20.	5.22.a)	5.21.	5.22.b)	5.22.b)	5.22.a)	5.20.	
Balance as at 1 January 2022	200,000	871,378	–	12,464	(3,696)	13,522	458,266	1,551,934
- Net profit for the year	–	–	–	–	–	–	159,602	159,602
- Other comprehensive income	–	–	–	(92,207)	1,762	–	–	(90,445)
Total comprehensive income after tax	–	–	–	(92,207)	1,762	–	159,602	69,157
Dividends	–	–	–	–	–	–	(100,000)	(100,000)
Other equity instruments issued	–	–	82,000	–	–	–	–	82,000
Other	–	–	2,184	–	–	–	(2,405)	(221)
Balance as at 31 December 2022	**200,000**	**871,378**	**84,184**	**(79,743)**	**(1,934)**	**13,522**	**515,463**	**1,602,870**

The notes are an integral part of these financial statements.

Statement of cash flows for the annual period ended 31 December

in EUR thousands

	Notes	NLB Group		NLB	
		2023	2022	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		997,912	624,528	494,577	247,675
Interest paid		(135,715)	(50,824)	(110,439)	(30,982)
Dividends received		417	965	138,327	75,071
Fee and commission receipts		397,366	382,354	164,611	162,129
Fee and commission payments		(120,892)	(105,086)	(41,809)	(37,183)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss		94	3,365	2	1
Net gains/(losses) from financial assets and liabilities held for trading		29,374	32,799	4,287	12,073
Payments to employees and suppliers		(467,937)	(428,539)	(216,407)	(186,831)
Other receipts		16,913	19,148	11,141	10,159
Other payments		(63,413)	(43,260)	(24,090)	(11,955)
Income tax (paid)/received		(33,404)	(18,336)	(7,750)	3,635
Cash flows from operating activities before changes in operating assets and liabilities		**620,715**	**417,114**	**412,450**	**243,792**
(Increases)/decreases in operating assets		**(74,575)**	**(1,002,409)**	**(14,214)**	**(819,088)**
Net (increase)/decrease in trading assets		200	(213)	200	(213)
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		6,416	3,357	648	(3,048)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income		733,788	349,351	400,123	76,653
Net (increase)/decrease in loans and receivables measured at amortised cost		(818,626)	(1,357,757)	(414,239)	(890,003)
Net (increase)/decrease in other assets		3,647	2,853	(946)	(2,477)
Increases/(decreases) in operating liabilities		**854,231**	**476,590**	**280,488**	**621,876**
Net increase/(decrease) in deposits and borrowings measured at amortised cost		847,289	476,083	274,363	617,277
Net increase/(decrease) in other liabilities		6,942	507	6,125	4,599
Net cash flows from operating activities		**1,400,371**	**(108,705)**	**678,724**	**46,580**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**445,345**	**211,536**	**196,331**	**138,980**
Proceeds from sale of property, equipment, and investment property		11,314	19,675	224	2,915
Proceeds from sale of subsidiaries, net of cash and cash equivalents	5.12.b), c)	12,776	–	20,068	21,130
Proceeds from non-current assets held for sale		16,786	1,081	944	645
Proceeds from disposals of debt securities measured at amortised cost		404,469	190,780	175,095	114,290
Payments from investing activities		**(1,083,639)**	**(252,726)**	**(551,632)**	**(442,731)**
Purchase of property, equipment, and investment property		(42,681)	(26,910)	(10,152)	(5,748)
Purchase of intangible assets		(19,305)	(14,273)	(12,587)	(6,684)
Purchase of subsidiaries, net of cash acquired and increase in subsidiaries' equity	3., 5.12.e), f)	–	198,241	–	(120,944)
Purchase of debt securities measured at amortised cost		(1,021,653)	(409,784)	(528,893)	(309,355)
Net cash flows from investing activities		**(638,294)**	**(41,190)**	**(355,301)**	**(303,751)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financing activities		**497,708**	**599,338**	**497,708**	**598,902**
Issuance of subordinated bonds	5.15.c)	–	217,873	–	217,873
Issuance of senior preferred notes	5.15.c)	497,708	299,029	497,708	299,029
Issuance of ordinary shares and other equity instruments	5.21.	–	82,000	–	82,000
Other proceeds related to financing activities		–	436	–	–
Payments from financing activities		**(122,273)**	**(131,745)**	**(111,264)**	**(100,974)**
Dividends paid		(114,749)	(104,586)	(110,000)	(100,000)
Purchase of subsidiary's treasury shares		–	(19,042)	–	–
Lease payments		(7,524)	(8,117)	(1,264)	(974)
Net cash flows from financing activities		**375,435**	**467,593**	**386,444**	**497,928**
Effects of exchange rate changes on cash and cash equivalents		(595)	6,213	1,039	(1,106)
Net increase/(decrease) in cash and cash equivalents		**1,137,512**	**317,698**	**709,867**	**240,757**
Cash and cash equivalents at beginning of year		**5,500,222**	**5,176,311**	**3,494,435**	**3,254,784**
Cash and cash equivalents of merged bank at the date of the merger		**–**	**–**	**118,158**	**–**
Cash and cash equivalents at end of year		**6,637,139**	**5,500,222**	**4,323,499**	**3,494,435**

The notes are an integral part of these financial statements.

in EUR thousands

	Notes	NLB Group		NLB	
		31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	6,104,851	5,272,538	4,318,499	3,339,381
Loans and advances to banks with original maturity up to three months		506,266	208,404	5,000	155,054
Debt securities measured at fair value through other comprehensive income with original maturity up to three months		26,022	19,280	–	–
Total		6,637,139	5,500,222	4,323,499	3,494,435

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Notes to the financial statements

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB' or 'the Bank') is a Slovenian joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in nine countries, mainly in Slovenia and the SEE market. Information on NLB Group's structure is disclosed in note 5.12. Information on other related party relationships of NLB Group is provided in note 8.

NLB is incorporated and domiciled in Slovenia. The address of its registered office is Trg Republike 2, 1000 Ljubljana. NLB's shares are listed on the Ljubljana Stock Exchange, and the global depositary receipts ('GDR') representing ordinary shares of NLB, are listed on the London Stock Exchange. Five GDRs represent one share of NLB.

As at 31 December 2023 and as at 31 December 2022, the largest shareholder of NLB with significant influence is the Republic of Slovenia, owning 25.00% plus one share.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros unless otherwise stated.

2. Summary of material accounting policy information

The material accounting policy information adopted for the preparation of the separate and consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, except for changes in accounting policies resulting from the application of new standards or changes to standards.

2.1. Statement of compliance

The principal accounting policies applied in the preparation of the separate and consolidated financial statements were prepared in accordance with the International Financial Accounting Standards (hereinafter: 'the IFRS') as adopted by the European Union (hereinafter: 'EU'). Additional requirements under the national legislation are included where appropriate.

The separate and consolidated financial statements are comprised of the income statement and statement of other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, material accounting policy information, and the notes.

2.2. Basis for presenting the financial statements

The financial statements have been prepared on a going-concern basis, under the historical cost convention as modified by the revaluation of financial assets measured at fair value through other comprehensive income, financial assets, and financial liabilities at fair value through profit or loss, including all derivative contracts, hedged items in fair value hedge accounting relationships, non-current assets held for sale, and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.34.

This document contains both the separate financial statements of NLB, and the consolidated financial statements of NLB Group. The presented accounting policies apply to both sets of financial statements, with the exception of policies described in notes 2.4. and 2.5., which only apply to the consolidated financial statements and policies described in note 2.6., where differences in the accounting treatment for investments in subsidiaries, and associated and joint ventures between separate and consolidated financial statements are described. Data relating to separate financial statements is marked 'NLB,' while data relating to consolidated financial statements is marked 'NLB Group.'

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2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to the changes in presentation in the current year.

Compared to the presentation of the financial statements for the year ended 31 December 2022, subtotals of line items 'Interest income/expenses calculated using the effective interest method' and 'Other interest and similar income/expenses' in the Income statement and note 4.1. were changed due to reclassification of line item 'Negative interest' from section 'Other interest and similar income/expenses' to section 'Interest income/expenses calculated using the effective interest method,' and separately disclosed line item 'Finance leases,' which was in the previous year presentation included in the line item 'Loans and advances to customers at amortised cost.' Comparative amounts have been adjusted to reflect these changes in the presentation.

in EUR thousands

31 Dec 2022		NLB Group			NLB		
	Notes	Old presentation	New presentation	Change	Old presentation	New presentation	Change
Income statement							
Interest income calculated using the effective interest method		561,467	558,826	2,641	214,163	217,881	(3,718)
Other interest and similar income		8,309	10,950	(2,641)	7,799	4,081	3,718
Interest and similar income	4.1.	569,776	569,776	–	221,962	221,962	–
Interest expenses calculated using the effective interest method		(43.785)	(53,086)	9,301	(27,373)	(34,166)	6,793
Other interest and similar expenses		(21,069)	(11,768)	(9,301)	(17,562)	(10,769)	(6,793)
Interest and similar expenses	4.1.	(64,854)	(64,854)	–	(44,935)	(44,935)	–
Net interest income		**504,922**	**504,922**	**–**	**177,027**	**177,027**	**–**
Note 4.1. Interest income and expenses							
Analysis by type of assets and liabilities							
Interest and similar income							
Interest income calculated using the effective interest method		561,467	558,826	2,641	214,163	217,881	(3,718)
Loans and advances to customers at amortised cost		489,999	483,392	6,607	174,543	174,543	–
Negative interest		–	3,966	(3,966)	–	3,718	(3,718)
Other interest and similar income		8,309	10,950	(2,641)	7,799	4,081	3,718
Finance leases		–	6,607	(6,607)	–	–	–
Negative interest		3,966	–	3,966	3,718	–	3,718
Interest and similar expenses							
Interest expenses calculated using the effective interest method		43,785	53,086	(9,301)	27,373	34,166	(6,793)
Negative interest		–	9,301	(9,301)	–	6,793	(6,793)
Other interest and similar expenses		21,069	11,768	9,301	17,562	10,769	6,793
Negative interest		9,301	–	9,301	6,793	–	6,793

Compared to the presentation of the financial statements for the year ended 31 December 2022, some subtotals in the Statement of cash flows were change due to separately disclosed line item 'Lease payments' in section 'Cash flows from financing activities,' which was in previous years included in the line item 'Net increase/(decrease) in deposits and borrowings measured at amortised cost' under the section 'Cash flows from operating activities.' Comparative amounts have been adjusted to reflect these changes in the presentation.

in EUR thousands

31 Dec 2022	NLB Group			NLB		
	Old presentation	New presentation	Change	Old presentation	New presentation	Change
Statement of cash flows						
CASH FLOWS FROM OPERATING ACTIVITIES						
Increases/(decreases) in operating liabilities	**468,473**	**476,590**	**(8,117)**	**620,902**	**621,876**	**(974)**
Net increase/(decrease) in deposits and borrowings measured at amortised cost	467,966	476,083	(8,117)	616,303	617,277	(974)
Net cash flows from operating activities	**(116,822)**	**(108,705)**	**(8,117)**	**45,606**	**46,580**	**(974)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Payments from financing activities	**(123,628)**	**(131,745)**	**8,117**	**(100,000)**	**(100,974)**	**974**
Lease payments	–	(8,117)	8,117	–	(974)	974
Net cash flows from financing activities	**475,710**	**467,593**	**8,117**	**498,902**	**497,928**	**974**

2.4. Consolidation

In the consolidated financial statements (NLB Group), subsidiaries which are directly or indirectly controlled by NLB have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB Group.

NLB controls an entity when all three elements of control are met:
- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that the control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary, attributable to interests which NLB does not own, either directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or by the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances, and unrealised gains on transactions between NLB Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the line item 'Equity Attributable to Non-controlling Interest.'

2.5. Business combinations, goodwill, and bargain purchases

NLB Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business, and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process, and whether the acquired set has the ability to produce outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs; and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements and fair value of any pre-existing equity interest in the subsidiary. However, this excludes amounts related to the settlement of pre-existing relationships which are recognised in profit or loss. Acquisition-related costs such as advisory, legal, valuation, and similar professional services are recognised in profit or loss as well. Transaction costs incurred for issuing equity instruments are deducted from the equity, and all other transaction costs associated with the acquisition are expensed.

Identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

A contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. A contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value at each reporting date, and changes in fair value are recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent considerations that are not within the scope of IFRS 9 are measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss.

For each business combination, NLB Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets at the date of acquisition. All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.

Goodwill is measured as the excess of the aggregate of the consideration transferred measured at fair value, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired, as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it has identified all the assets acquired and all the liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill arising from a business combination is, from the acquisition date, allocated to the Group's cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

The goodwill of associates and joint ventures is included in the carrying value of investments.

In a business combination achieved in stages, NLB Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss.

2.6. Investments in subsidiaries, associates and joint ventures

In the separate financial statements (NLB), investments in subsidiaries, associates and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend has been established.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. These are generally undertakings in which NLB Group holds between 20% and 50% of the voting rights, and over which NLB Group exercises significant influence, but does not have control.

Joint ventures are entities over whose activities NLB Group has joint control, established by contractual agreement. In the consolidated financial statements, investments in joint ventures are accounted for using the equity method of accounting.

NLB Group's share of its associates and joint ventures post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.g).

NLB Group's subsidiaries, associates and joint ventures are presented in note 5.12.

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles, and use the carrying amounts of merged entities as reported in the consolidated financial statements.

Mergers of entities within NLB Group do not affect the consolidated financial statements.

When accounting for a merger in separate financial statements (the merger of a parent company and its subsidiary) if a surviving entity is the parent company, NLB applies an accounting policy to recognise the difference between: (1) the amounts assigned to the assets and liabilities in the parents separate financial statements after the merger; and (2) the carrying amounts of the investments in the merged subsidiary before the merger, directly in equity. In such case, the acquired assets and assumed liabilities are recognised at the carrying amounts from the consolidated financial statements of merged subsidiary as of the date of the merger, including any recognised goodwill and fair value adjustments related to merged subsidiary's assets and liabilities. The comparative amounts in separate financial statements are not restated.

2.8. Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e., the functional currency). The financial statements are presented in euros, which is NLB Group's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortised cost of monetary items denominated in a foreign currency and classified as financial assets measured at fair value through other comprehensive income, are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equity instruments classified as financial assets measured at fair value through other comprehensive income, are included together with valuation reserves in the valuation (losses)/ gains taken to other comprehensive income and accumulated in the equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

NLB Group entities
The financial statements of all NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
- income and expenses for each income statement are translated at average annual exchange rates; and
- components of equity are translated at the historical rate.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

In the consolidated financial statements, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income. When control over a foreign operation is lost, the previously recognised exchange differences on translations to a different presentation currency are reclassified from other comprehensive income to profit and loss for the year. On the partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified as a non-controlling interest within the equity.

2.9. Interest income and expenses

Interest income and expenses for all financial instruments measured at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate. The effective interest method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, classified in Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, interest income is again calculated on a gross basis.

In the case of purchased or originated credit-impaired financial assets (POCI), the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the purchased or originated credit-impaired financial asset. At the NLB Group level, most POCI exposures relate to the initial recognition of non-performing exposures in the case of a business combination.

2.10. Fee and commission income

Fees and commissions mainly include fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fee and commission income are recognised at an amount that reflects the consideration to which the NLB Group expects to be entitled, in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified and determined at the inception of the contract. The Group's revenue contracts do not include multiple performance obligations.

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When the NLB Group provides a service to its customers, the consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time. When the service is provided over time, the consideration is invoiced and due in line with the contractual provisions.

The NLB Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognised in the income statement within the line item 'Dividend income' when NLB Group's right to receive payment has been established and an inflow of economic benefits is probable. In the consolidated financial statements, dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification and measurement

Financial instruments are initially measured at fair value plus or minus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent measurement depends on the classification of the instrument.

Financial assets

All debt financial assets need to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The measurement categories of financial assets are as follows:

- Financial assets, measured at amortised costs (AC);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets held for trading (FVTPL); and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, they are measured at the amortised cost using the effective interest method and are subject to impairment. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment are recognised in profit or loss. Each of them is presented as a separate line item in the income statement. Any gain or loss on derecognition is recognised in profit or loss in line item 'Gains less losses from financial assets and liabilities not measured at fair value through profit or loss.'

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at the AC in the income statement. Interest income is calculated using the effective interest method, foreign exchange gains and losses, and impairments are recognised separately in the income statement. Other net gains and losses are recognised in other comprehensive income, until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement under the line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.'

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss. In NLB Group, the most material equity instrument irrevocably designated as FVOCI is the investment in the National Resolution Fund (note 5.4.a). NLB Group decided to use this presentation alternative because the fund was established based on the law, and it has a highly regulated investment strategy in order to ensure safety, low risk, and the high liquidity of the fund.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising the gains or losses on them on different bases.

Financial liabilities

Financial liabilities are subsequently measured at the amortised cost or at fair value through profit or loss, when they are held for trading, derivative instruments, or the fair value designation is applied.

Upon initial recognition, financial liability may be irrevocably designated as measured at fair value through profit or loss if that eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or if the liabilities are part of a group of financial instruments which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Changes in the fair value of financial liabilities designated as measured at fair value through profit or loss are recognised in profit or loss, with the exception of movement in the fair value due to changes of NLB Group's own credit risk. Such changes are presented

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in other comprehensive income with no subsequent reclassification to the income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on the derecognition of a financial liability is recognised in profit or loss. In the event of derecognition of a financial liability measured at amortised cost, the gains and losses are recognised in the line item 'Gains less losses from financial assets and liabilities not classified at fair value through profit or loss.' Gains and losses on disposals of financial liabilities designated as measured at fair value through profit or loss are also presented separately from those held for trading.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within NLB Group, and is based on observable factors for different portfolios that best reflect how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g., whether the compensation is based on the fair value of the assets or on collection of contractual cash flows); and
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into consideration. In general, the business model assessment of the Group can be summarised as follows:

- Loans and deposits given are included in a business model 'held to collect' since the primary objective of NLB Group for the loan portfolio is to collect the contractual cash flows;
- Debt securities are divided into three business models:
  - the first group of debt securities presents 'held for trading' category;
  - debt securities in the second group are held under a business model 'held to collect and sale' with the intention of collecting the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves;
  - the third part of debt securities is held within the business model for holding them with objective to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model, and:

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

A review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than *de minimis* exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily measured at fair value through profit or loss.

NLB Group reviews the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product and for non-standardised products on a single exposure level. The Group has established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of loan agreements.

Accounting policy for modified financial assets

When contractual cash flows of a financial asset are modified, NLB Group assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows;
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification changes the result of the SPPI test.

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. In such cases, NLB Group recalculates the gross carrying amount of the financial asset and recognises modification gain or loss in the income statement. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

b) Reclassification

Financial assets can be reclassified when and only when NLB Group's business model for managing those assets changes. The reclassification takes place from the start of the reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the presented periods. Financial liabilities shall not be reclassified.

c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by a comparison with other

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observable current market transactions in the same instrument (i.e., without modification or repackaging), or based on a valuation technique whose variables only include data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

In cases where the data used for valuation are not fully observable in financial markets, day one gains or losses are not recognised immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

d) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred, and the transfer qualifies for derecognition. A financial liability is derecognised only when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled, or expires.

e) Write-offs
NLB Group writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that there is no reasonable expectation of recovery include default period, quality of collateral, and different stages of enforcement procedures. NLB Group may write off financial assets that are still subject to enforcement activities, but this does not affect its rights in the enforcement procedures. NLB Group still seeks to recover all amounts it is legally entitled to in full. A write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expenses. Write-offs and recoveries are disclosed in note 5.14.a) and b).

f) Fair value measurement principles
The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates; and the discount rate is a market-based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market-based measurements at the reporting date.

g) Derivative financial instruments and hedge accounting
Derivative financial instruments – including forward and futures contracts, swaps, and options – are initially recognised in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favourable to NLB Group, and within liabilities when the derivative position is unfavourable to NLB Group.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NLB Group designates certain derivatives as either:
- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used when certain criteria are met. NLB Group and NLB have exercised the option to continue applying the existing IAS 39 hedge accounting requirements in accordance with the policy choice permitted under IFRS 9. However, disclosures that are required by the IFRS 9 related amendments to IFRS 7 'Financial Instruments: Disclosures' are implemented.

At the inception of the transaction, NLB Group documents the relationship between hedged items and hedging instruments, as well as its risk management objective, valuation methodology, and strategy for undertaking various hedge transactions. NLB Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The actual results of a hedge must always fall within a range of 80–125%.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in 'Fair Value Adjustments in Hedge Accounting' in the income statement.
Any ineffectiveness from derivatives is recognised immediately in the income statement, recorded in the same line as change in fair value of hedging instruments and hedged item if they are different.

If a hedge no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortised to profit or loss over the remaining period to maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon disposal of the equity security.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is immediately recognised in the income statement.

Amounts accumulated in equity are recycled as a reclassification from other comprehensive income to the income statement in the periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Hedge of a net investment in a foreign operation
Hedges of net investments in foreign operations are accounted for in consolidated financial statements similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.' Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

2.13. Allowances for financial assets

a) Expected credit losses for collective allowances
IFRS 9 applies an expected loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not measured at FVTPL, together with loan commitments and financial guarantee contracts.

In the general model, the allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical data, experience, expert credit assessment, and incorporation of forward-looking information.

Classification into stages
NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, models for risk indicators calculation, forward-looking scenarios, and the validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied ECL allowance methodology as described below:
- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on 12-month period;
- Stage 2 – underperforming portfolio: significant increase in credit risk (SICR) since initial recognition, NLB Group recognises an allowance for lifetime period; and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these defaulted financial assets.

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the new European Banking Authority (EBA) definition of non-performing loans (NPLs) as at 31 December 2020. The Bank uses a unified definition of past due and default exposures; defaulted clients are rated D, DF, or E based on the internal rating system and contains the clients with material delays over 90 days, as well as the clients that were assessed as unlikely to pay. All facilities of retail clients obtain a unified credit rating.

A significant increase in credit risk is assumed:
- when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition a significant deterioration is a 3-notch rating decrease taking into consideration the NLB Group's long rating scale (with 9 performing rating classes) or deterioration from invest/invest with care to speculative investment rating grade on the short rating scale (with only 3 performing rating groups),
- when a threefold increase of LPD since initial recognition is detected (comparing the LPD assessed using the PD curve calculated at instrument origination and the last available PD curve),
- when a financial asset has material delays over 30 days with a healing period of 3 months and the materiality limit aligned with the one used as a default trigger (the materiality limit is aligned with the regulatory limit for default definition, the holding period of 3 months is applied),
- if NLB Group grants a forbearance to the borrower where the rules of forbearance expiry are aligned with the ECB Guidelines,
- if the facility is placed on the watch list or intensive care list,
- if a retail client is placed on the watch list based on features which lead to increased credit risk (such as spending habits, decreased employment security, political risk and similar).

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies – Fitch, Moody's, or the S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings available, the credit rating classification is based on the internal Methodology Rating Classification for Financial Markets clients' segments in NLB d.d. and NLB Group. For banks without an international credit rating, we obtain information from Bureau van Dijk, a Moody's Analytics Company, using the modules BankScore and BankFocus. Additionally, information is obtained by an analyst from the annual reports with the assistance of the central relationship manager.

The classification into stages is based on the facility level. Nevertheless, occurring delays on one facility may trigger the stage deterioration of other facilities of the same client. When the SICR criteria no longer exist, the facility may be transferred to a more favourable stage subject to the prescribed cure period of three months.

The ECL for Stage 1 financial assets is calculated based on 12-month PDs or shorter period PDs, if the remaining maturity of the financial asset is shorter than 1 year.

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The 12-month PD already includes the macroeconomic impact effect. Allowances in Stage 1 are designed to reflect expected credit losses that had been incurred in the performing portfolio, but have not been identified.

The ECL for Stage 2 financial assets is calculated based on lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that considers several economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using a PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of being credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in lifetime expected losses since the initial recognition are recognised as a loss allowance.

The calculation of collective allowances is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). The obtained result for each month is discounted to the present time using the original effective interest rate of the facility. For Stage 1 exposures, the ECL only takes a 12-month period into account, while for Stage 2 or 3 all potential losses until the maturity date are included. Risk parameters are calculated separately for each of the three possible scenarios. The final ECL for each facility is calculated as a weighted average ECL for each scenario.

The EAD represents the anticipated outstanding amount owed by the obligor, which is determined as the sum of on-balance exposure and expected future drawings of the off-balance exposure. The drawings are assessed by applying the CCF (credit conversion factor) based on the Bank's historic experience with similar types of facilities.

The PD is the estimation of the likelihood of default over a given time horizon. The estimation is performed separately for each unique segment (corporate clients by size, institutions, or central government), or by product group (mortgage, consumer loans, and other retail products). Through the cycle, the PD is supplemented with the forward-looking aspect using three possible scenarios.

Risk parameter calculations are based on the data from each subsidiary, while the calculations and modelling are performed centrally. In the case where the data samples are not sufficiently large, hurdle rates are applied based on the regulatory or other benchmarks.

Expected Life

When measuring ECL, the NLB Group must consider the maximum contractual period over which the NLB Group is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the NLB Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward-looking information

During 2023, NLB Group reviewed the IFRS 9 provisioning by testing the relevant macroeconomic scenarios to accurately reflect the current circumstances and their future impacts.

NLB Group established multiple scenarios (i.e., baseline, optimistic, and severe) for the 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 an expected forecast macroeconomic view for all the 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 an 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, and 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 NLB 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.

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Macroeconomic scenarios for explanatory variables, developed for each country in the NLB Group used in 2022 (in %):

	Optimistic scenario			Baseline scenario			Severe scenario		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Slovenia									
Real GDP	4.7	5.5	4.0	3.5	3.1	2.8	1.5	0.6	1.8
Unemployment rate	4.3	4.2	4.0	4.4	4.4	4.3	4.6	5.6	7.9
Bosnia and Herzegovina									
Real GDP	4.0	4.9	4.6	2.4	2.3	3.0	(0.1)	(0.7)	1.8
Unemployment rate	15.4	15.4	14.8	15.3	15.1	14.4	18.3	18.9	18.3
Montenegro									
Real GDP	6.2	6.9	5.2	4.2	3.9	3.2	1.2	(0.1)	1.7
Unemployment rate	16.2	15.8	14.9	16.1	15.5	14.5	16.2	16.2	16.5
North Macedonia									
Real GDP	4.1	6.0	5.2	2.9	3.6	4.0	(0.1)	0.1	2.5
Unemployment rate	15.0	14.4	13.9	15.2	14.9	14.6	15.5	16.4	19.1
Serbia									
Real GDP	4.8	6.5	5.0	3.6	4.1	3.8	1.6	1.6	2.8
Unemployment rate	9.9	9.2	8.8	10.0	9.4	9.1	10.4	11.5	15.3
Kosovo									
Real GDP	4.4	6.5	5.1	2.8	3.9	3.5	0.3	0.9	2.3
Unemployment rate	23.7	22.9	22.2	23.6	22.6	21.8	23.7	23.3	23.8

Macroeconomic scenarios for explanatory variables, developed for each country in the NLB Group used in 2023 (in %):

	Optimistic scenario			Baseline scenario			Severe scenario		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Slovenia									
Real GDP	2.4	3.4	2.5	0.6	2.2	2.5	(0.6)	0.4	0.7
Unemployment rate	3.9	4.0	4.1	4.0	4.2	4.2	4.5	5.0	5.3
EURIBOR (6 months)	2.4	2.1	2.2	2.7	2.3	2.3	4.6	4.5	4.6
Bosnia and Herzegovina									
Real GDP	2.3	2.9	2.4	1.0	2.0	2.3	0.3	0.9	1.2
Unemployment rate	15.0	14.0	14.2	15.2	15.1	14.8	15.9	16.2	16.2
EURIBOR (6 months)	2.4	2.1	2.2	2.7	2.3	2.3	4.6	4.5	4.6
Montenegro									
Real GDP	6.0	5.5	3.4	2.6	3.2	3.2	0.6	0.1	0.1
Unemployment rate	13.5	12.2	12.3	13.7	13.3	12.9	14.4	14.4	14.3
EURIBOR (6 months)	2.4	2.1	2.2	2.7	2.3	2.3	4.6	4.5	4.6
North Macedonia									
Real GDP	3.6	4.3	3.3	1.6	3.0	3.3	0.3	1.1	1.4
Unemployment rate	13.7	12.7	12.8	13.9	13.7	13.4	15.3	16.0	16.3
EURIBOR (6 months)	2.4	2.1	2.2	2.7	2.3	2.3	4.6	4.5	4.6
Serbia									
Real GDP	3.3	4.2	3.6	1.8	3.1	3.4	1.1	2.0	2.3
Unemployment rate	9.4	8.6	8.7	9.5	9.2	9.0	10.2	10.4	10.6
EURIBOR (6 months)	2.4	2.1	2.2	2.7	2.3	2.3	4.6	4.5	4.6
Kosovo									
Real GDP	4.1	4.6	3.8	2.4	3.5	3.8	1.4	2.0	2.3
Unemployment rate	16.3	14.9	14.6	16.5	16.0	15.2	17.2	17.1	16.6
EURIBOR (6 months)	2.4	2.1	2.2	2.7	2.3	2.3	4.6	4.5	4.6

NLB Group formed three probable scenarios with an associated probability of occurrence for forward-looking assessment of risk provisioning in the context of IFRS 9. IFRS 9 macroeconomic scenarios incorporate the forward-looking and probability-weighted aspects of ECL impairment calculation. Both features may change when material changes in the future development of the economy are recognised and not embedded in previous forecasts. On this basis, for the year 2023, the Group 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.

Effects of changed risk parameters

The effects of the changed risk parameters on the amount of expected credit losses are disclosed in notes 5.14. and 5.16.b).

b) Individual assessment of allowances for impaired financial assets

NLB Group assesses impairments of financial assets separately for all individually significant assets classified in Stage 3. The materiality threshold is set at a EUR 0.5 million exposure for legal entities, and EUR 0.1 million for private persons on the level of NLB, while the Group members apply lower thresholds applicable to their portfolio size. All other financial assets obtain collective allowances.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the 'going concern' assumption, where the cash flow from operations is considered along with the sale of collateral that is not crucial for future business. In the case of the 'gone concern' principle, the repayments are based on expected cash flows from the sale of collateral. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut is used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount of financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement line item 'Impairment of financial assets.' If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g., repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account, and the gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position

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in the line item ‘Provisions’ and in the income statement in the line item ‘Provisions for credit losses.’

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets, or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor’s inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract under which the contracting parties agree the partial or total repayment of the original debt. When receivables from the client receive restructuring status, the debtor must be classified in the rating grade C or lower.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

The accounting treatment of forborne loans depends on the type of restructuring. When NLB Group embarks on a forborne loan via the modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed upon debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group considers the debtor’s modified position, the economic expectations, and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (i.e., property, plant and equipment; securities; and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part when exposure is no longer considered as impaired or defaulted, when determined amounts were repaid, when one year has passed from the latest of the events defined (introduction of forbearance, classification in the non-performing part, repayment of the last overdue amount, end of the grace period), and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:
- at least a 2-year probation period has passed since the latest of:
  - the moment of extending the restructuring measures, or
  - the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period;
- no exposure, in the probation period, is more than 30 days in default of more than EUR 100;
- the client fulfils determined financial indicators.

In the case of a deferral of payment approved due to the COVID-19 crisis, the probation period is extended for the period of deferral.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose and are sold as soon as it is feasible in order to reduce exposure (note 6.1.l). After initial recognition, the repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Non-financial repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with an IAS 40 Investment property (note 2.20.), and other assets measured in accordance with IAS 2 Inventories.

Real estate obtained as collateral from the foreclosure of loans and receivables, classified as other assets are initially recognised at fair value less costs to sell (realisable value), wherein only the direct costs of sales can be considered, but up to the amount of gross carrying amount of foreclosed loan. At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is recognised as the impairment of other assets, and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.17. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, and the counterparty liability is recognised in financial liabilities measured at an amortised cost. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Securities purchased under agreements to resell (reverse repos) are presented as loans to other banks or customers, as appropriate.

In financial statements, the difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest method.

2.18. Property and equipment

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less any accumulated depreciation and any accumulated impairment loss.

Each year, NLB Group assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as an impairment loss in the income statement.

Items of a largely independent property and equipment which do not generate cash flows are included in the cash-generating unit and later tested for possible impairment.

Depreciation is calculated on a straight-line basis over the assets' estimated useful lives. The following annual depreciation rates were applied:

NLB Group and NLB	in %
Buildings	2 – 5
Leasehold improvements	5 – 25
Computers	14.3 – 50
Furniture and equipment	10 – 33.3
Motor vehicles	12.5 – 25

Depreciation does not begin until the assets are available for use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future economic benefits are recognised in the carrying amount of an asset, and the replaced part, if any, is derecognised.

2.19. Intangible assets

Intangible assets include software licenses, goodwill (note 2.5.), and identifiable intangible assets acquired in a business combination. Intangible assets other than goodwill, have a finite useful life and are in the statement of financial position stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write-down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

The identifiable intangible assets acquired in a business combination and recognised separately from goodwill, are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. After initial recognition, intangible assets acquired in a business combination are measured in accordance with IAS 38 Intangible Assets. Other intangible assets acquired in a business combination (note 5.10.) relate to core deposits and trade name. Their useful life is assessed to be five years. Amortisation of a trade name is calculated on a straight-line basis, while for core deposits accelerated amortisation is applied, since it better reflects the pattern of the asset's consumption.

2.20. Investment properties

Investment properties include properties held to earn rentals, or to increase the value of a long-term investment, rather than to be used by NLB Group. Investment properties are carried at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in the fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

In the case of business combinations, NLB Group measures an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations at fair value less costs to sell.

During subsequent measurement, certain assets and liabilities of a disposal group that are outside the scope of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g., deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value, and contractual rights under insurance contracts). Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

2.22. Accounting for leases

A lease is a contract, or part of a contract which creates enforceable rights and obligations and conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. Thus, IFRS 16 requires determination whether a contract is, or contains, a lease.

NLB Group as a lessee

NLB Group recognises a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases, except for short-term leases and leases of low-value. Short-term leases are defined as those which at the commencement date have a lease term of 12 months or less without the option to purchase the underlying asset. Leases of underlying assets with a value, when new, lower, or equal to EUR 5 thousand are defined as low value leases, and are thus recognised as expenses on a straight-line basis over the lease term.

Right-of-use assets

At the commencement date, NLB Group measures the right-of-use asset at cost. The cost of right-of-use assets consists of the amount of lease liabilities recognised, the initial direct costs incurred, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease and lease payments made at or before the commencement date less any lease incentives received. After the commencement date, NLB Group measures the right-of-use asset using a cost model (the asset is measured at cost, reduced by any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities) and recognises depreciation of the right-of-use assets on a straight-line basis over the lease term, and (separately) interest on the lease liabilities. In the statement of financial position, right-of-use assets are presented in the line item 'Property and equipment.'

Lease liabilities

At the commencement date, NLB Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments consist of fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, the exercise price of a purchase option if there exists a reasonable certainty for it to be exercised, and payments of penalties for terminating the lease if the lease term reflects exercising the option to terminate. Subsequently (after the commencement date), NLB Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

In the statement of financial position, lease liabilities are presented in line item 'Other financial liabilities.'

NLB Group as a lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the interest rate implicit in the lease. Finance lease receivables are recognised at an amount equal to the net investment in the lease, /including the unguaranteed residual value and any initial direct costs of the lessor.

Sale-and-leaseback transactions

NLB Group also enters into sale-and-leaseback transactions (in which NLB Group is primarily a lessor) under which the leased assets are purchased from, and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

Leases recognised in a business combination

In most leases acquired in business combinations, the acquiree is the lessee. For such leases, NLB Group applies the IFRS 16 initial measurement provisions (with exceptions for leases with remaining term of 12 months or less and low value leases), and recognises the acquired lease liability as if the lease contract was a new lease at the acquisition date. The right-of-use asset is measured at an amount equal to the recognised liability. There are no favourable or unfavourable terms of the leases relative to market terms, which would require the adjustment of the right-of-use assets.

2.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks and other demand deposits at banks, loans to banks and debt securities not held for trading with an original maturity of up to three months. Cash and cash equivalents are disclosed under the cash flow statement.

2.24. Borrowings, deposits, and issued debt securities with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expenses, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction of liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

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2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Presentation. An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from retained earnings. The corresponding interest is recognised directly in retained earnings.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the line item 'Other Equity Instruments.'

2.26. Provisions

Provisions are recognised when NLB Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. They are recognised in the amount that is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. When the effect of the time value of money is material, NLB Group determines the level of provisions by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability.

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts, and other banking facilities.

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.

Financial and non-financial guarantees are initially recognised at fair value, which is usually evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. NLB Group's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- ECL provisions as set out in note 2.13.

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent undrawn loan commitments to extend credit, uncovered letters of credit, and other commitments.

The nominal contractual values of guarantees, letters of credit, and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recognised in the statement of financial position.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value and is recognised in the statement of financial position in the line item 'Provisions.' After initial recognition, it is measured at the higher of:

- the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; or
- the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers. This requirement does not apply to contracts accounted for in accordance with IFRS 9.

2.28. Taxes

Income tax expenses comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. Income tax rates within NLB Group ranges from 9 to 32%. The corporate income tax rate for 2023 in Slovenia was 19% (2022: 19%). According to Reconstruction, Development and Provision of Financial Resources Act, the corporate income tax rate is increased to 22% from 2024 to 2028.

Current and deferred taxes are recognised in profit or loss, except to the extent that they relate to a business combination or taxes related to effects recognised directly in equity (deferred tax related to the fair value re-measurement of financial assets measured at fair value through other comprehensive income, cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income).

Deferred income tax is calculated using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realised, or the liability is settled. At each reporting date, NLB Group reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilised.

Deferred tax assets for temporary differences arising from impairments of investments in subsidiaries, associates and joint ventures are recognised only to the extent that it is probable that:
- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

NLB Group recognises a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries to the extent that NLB is able to control the timing of reversal of the temporary differences and that it is probably that the temporary differences will reverse in the foreseeable future. As NLB controls the dividend policy of its subsidiaries, NLB Group recognised the deferred tax liability on withholding tax payable on future planned dividend pay-out.

In the case of business combination, deferred tax balances are recognised if related to temporary differences and carry-forwards of an acquiree that exist at the acquisition date, or if they arise as a result of the acquisition. Income taxes are measured in accordance with IAS 12 Income Taxes.

Slovenian tax law does not set deadlines by which uncovered tax losses must be utilised.

A tax on financial services is a tax on fees, paid for prescribed financial services rendered (financial services, exempt from value-added tax (with the exception of securities transactions) and the services of insurance brokers and agents), paid in Slovenia. The tax rate is 8.5% (2022: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income and expenses relating to fiduciary activities are generally recognised in the income statement when the service has been provided (see also note 2.10.). Fee and commission income charged for this type of service is broken down by items in note 4.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 5.25.

Based on the requirements of Slovenian legislation, NLB Group has, in note 5.25., additionally disclosed the assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e., information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

Employee benefits include:
- short-term employee benefits (such as salary, compensations, annual holiday allowance, separation allowance, and non-monetary benefits);
- reimbursement of commuting costs, meal allowance, compensation for use of own resources;
- retirement indemnity bonuses (post-employment benefits);
- other employment benefits (jubilee long-service benefits, voluntary supplementary pension insurance);
- variable remuneration.

Short-term employee benefits are recognised in the period to which they relate and included in the income statement line item 'Administrative expenses.' Among others, they include the payment of contributions for pension and disability insurance, which according to Slovenian local legislation (for employer) amount to 8.85% of the gross salaries.

According to legislation, employees retire after they fulfil certain conditions and are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB.

These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on the benefit plan's terms and conditions.

Service costs are included in the income statement in the line item 'Administrative expenses' as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the line item 'Interest and similar expenses.' These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. For post-employment benefits, actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the line item 'Actuarial Gains/(Losses) on Defined Benefit Pensions Plans,' and will not be recycled to the income statement. Actuarial gains and losses that relate to other employment benefits are recognised in the income statement as defined benefit costs. In the statement of financial position, liabilities for short-term employee benefits are included in the line item 'Other liabilities,' while liabilities for post-employment benefits and other employment benefits (jubilee long-service benefits) are included in the line item 'Provisions.'

In the case of a business combination employee benefits are recognised and measured in accordance with IAS 19 Employee Benefits, i.e., not at fair value.

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2.31. Share-based payment transactions

Cash-settled share-based payment transactions
If certain conditions are met, members of the Management Board and employees performing special work (i.e., those who can significantly impact the risk profile of the Group in the scope of their tasks and activities) receive part of their variable remuneration in the form of financial instruments, whose value is linked to the value of NLB share. Upon expiration of the legally prescribed period (up to five years), beneficiaries receive cash payments depending on the value of a NLB share. The first contracts, including share-based payment transactions, were concluded in the second quarter of 2022.

In the statement of financial position, a liability is recognised in the line item 'Financial liabilities measured at fair value through profit or loss.' Its fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement line item 'Gains less losses from financial liabilities measured at fair value through profit or loss.'

Equity-settled share-based payment transactions
NLB Group does not have any equity-settled share-based payment transactions.

2.32. Share capital

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by NLB's shareholders.

Treasury shares
If NLB or another member of NLB Group purchases NLB shares, the consideration paid is deducted from the total shareholders' equity as treasury shares. If such shares are subsequently sold, any consideration received is included in equity. If NLB shares are purchased by NLB itself or other NLB Group entities, NLB creates reserves for treasury shares in equity.

Share issue costs
Costs directly attributable to the issue of new shares are recognised in equity as a reduction in the share premium account.

2.33. Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the Management Board of the Bank, which is the executive body that makes decisions regarding the allocation of resources and assesses the performance of a specific segment.

Transactions between organisational units (OUs) are managed under normal operating conditions. Interest income among individual OUs in the parent bank (NLB) and N Banka is allocated using a fund transfer pricing method and shown within the net interest income of each OU. Net non-interest income is allocated to the OU that actually provides the service that generates income. Direct costs are attributed to the segment that is directly related to the provided service, and indirect costs (costs which service centres provide for profit centres) are attributed to the segment for which the service is provided, whereas overhead costs are allocated according to general keys. External net income is the net income of NLB Group from the consolidated income statement. Income tax is not allocated between segments. Analysis by segment for NLB Group is presented in note 7.

In accordance with IFRS 8, NLB Group has the following reportable segments: Retail Banking in Slovenia, Corporate and Investment Banking in Slovenia, Strategic Foreign Markets, Financial Markets in Slovenia, Non-core members, and Other Activities.

2.34. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Allowances for expected credit losses on loans and advances
NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary allowances for ECL. NLB Group creates individual allowances for individually significant financial assets attributed to Stage 3. Such an assignment is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor, and other important facts. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from collateral.

Allowances are assessed collectively for financial assets assigned to Stage 1 or 2, or for financial assets in Stage 3 with exposure below the materiality threshold. The ECL in this group of assets are estimated based on expected value of risk parameters combining the historic movements with the future macroeconomic predictions for three separate scenarios. The models used to estimate future risk parameters are validated and back-tested on a regular basis to make the loss estimations as realistic as possible.

NLB Group applies 3 different macroeconomic scenarios to collectively assess the allowances for credit risk: optimistic, baseline, and severe scenario. The key features of each scenario are described in note 2.13.a) Forward-looking information. Recognised allowances represent a weighted average of the results of the three scenarios.

In terms of credit risk parameters, the scenarios differ in the level of default rates (transfer of assets from performing to non-performing status) and loss rates (the % of exposure that will not be repaid in case of default occurrence). Applying a 100% probability on each of the scenario provides an overview of severity or optimism reflected in the two remaining scenarios.

The results for NLB Group show the following deviations of the severe and optimistic scenario from the baseline as at 31 December 2023:

	Optimistic scenario	Baseline scenario	Severe scenario
Level of collective allowances	91%	100%	137%

The result shows that the optimistic scenario would result in 91% of the baseline provisions, while the severe scenario and its conservative assumptions lead to an increase of 37% compared to the baseline.

b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets) or offer prices (financial liabilities).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable entities, and other frequently used valuation models. These valuation models at their best estimate reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and the applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading, and financial assets measured at fair value through other comprehensive income.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with NLB Group's methodology for the valuation of financial instruments. The market exchange rates, interest rates, yield, and volatility curves used in valuations are based on the market snapshot principle. Market data are saved daily at 4 p.m., and later used for the calculation of the fair values (market value, NPV) of financial instruments. NLB Group applies market yield curves for valuation, and fair values are additionally adjusted for credit risk of the counterparty.

The fair value hierarchy of financial instruments is disclosed in note 6.5.

c) Impairment of investments in subsidiaries, associates and joint ventures

The process of identifying and assessing the impairment of investments in subsidiaries, associates and joint ventures is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. The review of impairment represents management's best estimate of the facts and assumptions such as:

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted business plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio;
- The growth rate in cash flows for the period following the adopted business plan is between 2.8 and 4.0%;
- The target capital adequacy ratio of an individual bank is between 14 and 17%;
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 10.2 and 20.25% (31 December 2022: between 13.1 and 22.2%).

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d) Employee benefits

Liabilities for certain employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

	NLB Group		NLB	
	2023	2022	2023	2022
Actuarial assumptions				
Discount factor	3.6% – 8.0%	3.1% – 8.3%	4.0%	3.1%
Wage growth based on inflation, promotions, and wage growth based on past years of service	2.4% – 13.4%	2.3% – 14.2%	2.4% – 8.0%	3.0% – 7.0%
Other assumptions				
Number of employees eligible for benefits	7,177	7,154	2,519	2,369

A sensitivity analysis of significant actuarial assumptions for post-employment benefit:

31 Dec 2023	NLB Group				NLB			
	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 p.p.	−0.5 p.p.	+0.5 p.p.	−0.5 p.p.	+0.5 p.p.	−0.5 p.p.	+0.5 p.p.	−0.5 p.p.
Impact on provisions for employee benefits - post-employment benefits (in %)	(4.4)	4.8	4.8	(4.5)	(4.2)	4.5	4.5	(4.2)

31 Dec 2022	NLB Group				NLB			
	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 p.p.	−0.5 p.p.	+0.5 p.p.	−0.5 p.p.	+0.5 p.p.	−0.5 p.p.	+0.5 p.p.	−0.5 p.p.
Impact on provisions for employee benefits - post-employment benefits (in %)	(4.7)	5.0	5.1	(4.8)	(4.5)	4.8	4.9	(4.7)

Individual analysis is done by changing one assumption for +/- 0.5 percentage points, while all other assumptions stay the same.

The breakdown of actuarial gains and losses for post-employment benefit by causes:

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Actuarial gains and losses due to changed financial assumptions	(470)	4,093	614	1,759
Actuarial gains and losses due to changes in demographic assumptions	141	–	–	–
Actuarial gains and losses due to experience	(115)	(62)	(26)	289
Total actuarial gains and losses for the year	**(444)**	**4,031**	**588**	**2,048**

The weighted average duration of liabilities in years:

	NLB Group		NLB	
	2023	2022	2023	2022
Post-employment benefit	9.6 – 20.9	11.1 – 22.0	10.9	11.1

e) Taxes
NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2023 are based on profit forecasts and take the expected manner of recovery of the assets into account. Changes in assumptions regarding the likely manner of recovering assets or changes in profit forecasts can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. If profit projections used for estimation of the amount of deferred tax assets which are expected to be reversed in the foreseeable future (i.e., within five years) would change by 10%, the estimated amount of deferred tax assets would change by approximately EUR 10.7 million (notes 4.15. and 5.17.).

2.35. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: 'the IASB') and the International Financial Reporting Interpretations Committee (hereinafter: 'the IFRIC'), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2023.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2023 that were endorsed by the EU and adopted by NLB Group

- IAS 1 (amendment) – Presentation of Financial Statements and IFRS Practice Statement 2 – Disclosure of Accounting policies is effective for annual periods beginning on or after 1 January 2023. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. There was no impact on NLB Group financial statements.
- IAS 8 (amendment) – Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates is effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. There was no impact on NLB Group financial statements.
- IFRS 17 (new standard including amendments) – Insurance Contracts is effective for annual periods beginning on or after 1 January 2023. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfilment cash flows, and for revenue to be recognised – as the service is provided over the coverage period. The additionally issued amendments to IFRS 17 simplify some requirements and explanation of financial performance, and provide additional transition reliefs to reduce the complexity of applying standard for the first time. There was no impact on NLB Group financial statements.
- IAS 12 (amendment) – Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction is effective for annual periods beginning on or after 1 January 2023. IAS 12 specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions. There was no impact on NLB Group financial statements.
- IAS 12 (amendment) – Income taxes: International Tax Reform – Pillar Two Model Rules is effective for annual periods beginning on or after 1 January 2023. The amendments to IAS 12 introduce a temporary exception from accounting for deferred taxes arising from the implementation of the OECD Pillar Two Model Rules. Applying the exception, an entity does not recognise deferred tax assets and liabilities related to the OECD Pillar Two income taxes. It also does not disclose any information about these deferred tax assets and liabilities. In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity is required to disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation. NLB Group has disclosed impact on financial statements in note 4.15.

Accounting standards and amendments to existing standards that were endorsed by the EU, but not adopted early by NLB Group
New and revised accounting standards and interpretations endorsed by the EU that are not mandatory for annual accounting periods beginning on 1 January 2023, were not adopted early by NLB Group. These standards and amendments are not expected to have a material impact on the consolidated financial statements of NLB Group in the future reporting periods and on foreseeable future transactions.
NLB Group plans to adopt the accounting standards and amendments listed below for reporting periods commencing on or after the effective date.

- IAS 1 (amendment and deferral of effective date) – *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current* is effective for annual periods beginning on or after 1 January 2024. The amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. NLB Group does not expect an impact on the financial statements.
- IAS 1 (amendment) – *Presentation of Financial Statements: Non-current Liabilities with Covenants* is effective for annual periods beginning on or after 1 January 2024. The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants. The amendments also responded to stakeholders' concerns about the classification of such a liability as current or non-current. NLB Group does not expect an impact on the financial statements.

- IFRS 16 (amendment) – *Leases: Lease Liability in a Sale and Leaseback* is effective for annual periods beginning on or after 1 January 2024. The amendments affect only the subsequent measurement of lease liabilities arising from a sale and leaseback transaction with variable lease payments, which occurred from the date of initial application of IFRS 16 and for which the seller-lessee's accounting policy differs from the requirements specified in these amendments. NLB Group does not expect an impact on the financial statements.

Accounting standards and amendments to existing standards, but not endorsed by the EU

- IAS 7 (amendment) – *Statement of Cash Flows* and IFRS 7 (amendment) – *Financial Instruments: Disclosures: Supplier Finance Arrangements* is effective for annual periods beginning on or after 1 January 2024. The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows, and the entity's exposure to liquidity risk. Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. The amendments note that arrangements that are solely credit enhancements for the entity or instruments used by the entity to settle directly with a supplier the amounts owed are not supplier finance arrangements. Meanwhile, the amendments to IFRS 7 require from an entity to disclose a description of how it manages the liquidity risk resulting from financial liabilities. The amendments include as an additional factor whether the entity has accessed, or has access to, supplier finance arrangements that provide the entity with extended payment terms or the entity's suppliers with early payment terms. NLB Group does not expect an impact on the financial statements.
- IAS 21 (amendment) – *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability* is effective for annual periods beginning on or after 1 January 2025. The amendments clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is exchangeable when an entity is able to exchange that currency for another currency through market or exchange mechanisms that create enforceable rights and obligations without undue delay at the measurement date and for a specified purpose. If a currency is not exchangeable at the measurement date, the entity is required to estimate the spot exchange rate as the rate that would have applied to an orderly exchange transaction between market participants at the measurement date under prevailing economic conditions, and disclose expected affects to the entity's financial statements. NLB Group does not expect an impact on the financial statements.

3. Changes in the composition of the NLB Group

Changes in 2023

Capital changes:

- In January 2023, NLB Lease&Go, leasing, d.o.o., Ljubljana increased share capital in the form of a cash contribution in the amount of EUR 2,100 thousand in company Zastava Istrabenz Lizing, d.o.o., Beograd. Ownership interest increased from 95.20% to 99%. In January 2023, the company was renamed to 'NLB Lease&Go leasing d.o.o. Beograd.'
- In June 2023, NLB Lease&Go, leasing, d.o.o., Ljubljana increased share capital in the form of a cash contribution in the amount of EUR 1,195 thousand in company NLB Lease&Go leasing d.o.o. Beograd. Ownership interest increased from 99% to 99.30%.
- In September 2023, NLB Komercijalna banka a.d. Beograd increased share capital in the form of a cash contribution in the amount of EUR 767 thousand in company KomBank Invest a.d. Beograd.
- In September 2023, NLB Lease&Go, leasing, d.o.o., Ljubljana and NLB Banka a.d., Skopje increased share capital in the form of a cash contribution in the total amount of EUR 1,571 thousand in company NLB Lease&Go, d.o.o. Skopje.
- In December 2023, NLB Komercijalna banka a.d. Beograd increased share capital in the form of a cash contribution in the amount of EUR 3,804 thousand in company NLB Lease&Go leasing d.o.o. Beograd. After that, NLB Lease&Go, leasing, d.o.o., Ljubljana ownership of NLB Lease&Go leasing d.o.o. Beograd is 50.73%, meanwhile, NLB Komercijalna banka a.d. Beograd ownership of NLB Lease&Go leasing d.o.o. Beograd is 48.91%.

Other changes:

- In April 2023, after merging with REAM d.o.o., Beograd, subsidiary SPV 2 d.o.o., Beograd ceased to exist. All its assets and liabilities were transferred to REAM d.o.o., Beograd which become after merger its universal legal successor.
- In May 2023, NLB Group sold its subsidiary Tara Hotel d.o.o. Budva (note 5.12.c).
- In July 2023, a purchase agreement was signed for the sale of NLB Group`s subsidiary Optima Leasing d.o.o., Zagreb – u likvidaciji. The transfer of the ownership was entered into Register of Companies on 13 September 2023 (note 5.12.b).
- In August 2023, NLB received an authorisation of the ECB for the merger of the N Banka. On 1 September 2023, with entry of the merger in the Register of Companies, the process of legal merger of N Banka with NLB was closed. As at the date of the merger, N Banka ceased to exist as an independent legal entity, and NLB as a universal successor, took over all of its rights and obligations (note 5.12.d).
- In September 2023, NLB Leasing d.o.o., Beograd – u likvidaciji was liquidated. In accordance with the court order, the company was removed from the court register.
- In September 2023, after cross boarder merging with S-REAM d.o.o., Ljubljana, subsidiary REAM d.o.o, Zagreb ceased to exist. All its assets and liabilities were transferred to S-REAM d.o.o., Ljubljana, which become after merger its universal legal successor.
- On 30 November 2023, NLB concluded a purchase agreement for the acquisition of a 100% stake in the company SLS HOLDCO d.o.o., the parent company of Summit Leasing Slovenija d.o.o. and its subsidiaries from funds managed by affiliates of Apollo Global Management, Inc. and the European Bank for Reconstruction and Development. The purchase price for the mentioned deal is equal to the book value of Summit Leasing with an additional small mark-up. Completion of the transaction depends on obtaining regulatory approvals and approvals from competent authorities/institutions for the protection of competition and is expected in the second half of 2024.

Changes in 2022

Capital changes:

- In March 2022, in accordance with Resolution and Compulsory Winding-Up of Banks Act, NLB became an owner of 100% shares of Sberbank banka d.d., Ljubljana. The purchase price for the bank was EUR 5,109 thousand and was fully paid in cash (note 5.12.e). At the General Meeting of Shareholders of Sberbank banka d.d., Ljubljana, held in April 2022, a decision was made to rename Sberbank banka d.d., Ljubljana to 'N Banka d.d., Ljubljana.'
- In March 2022, Komercijalna banka a.d. Beograd bought 2.90% of all ordinary shares in the amount of EUR 19,047 thousand of treasury shares from dissenting shareholders, which Komercijalna banka a.d. Beograd should dispose of within 12 months of their takeover.
- In April 2022, NLB established IT services company named 'NLB DigIT d.o.o., Beograd.'
- In May 2022, NLB acquired an additional 442,799 ordinary shares of NLB Komercijalna banka a.d. Beograd and combined with existing shareholding reached the ownership of 90.2155% of the basic capital and 91.7294% of shares with voting rights. The increase in capital investment was recognised in the amount of EUR 15,715 thousand.
- In July 2022, NLB successfully squeezed out the remaining shareholders of NLB Komercijalna banka a.d. Beograd and thereby became the owner of 100% of this Serbian bank. Prior to the squeeze-out process, NLB owned 90.2155% of share capital and 91.7294% of voting rights. Through the squeeze-out process, NLB acquired 1,528,110 regular shares and 316,260 preferred shares with a total value of EUR 61,865 thousand.
- In September 2022, an increase in share capital in the form of a cash contribution in the amount of EUR 306 thousand in NLB Lease&Go, leasing, d.o.o., Ljubljana for the purpose of achieving NLB Group's leasing strategy.
- In September 2022, NLB Lease&Go, leasing, d.o.o., Ljubljana (51%) and NLB Banka a.d., Skopje (49%) established the financial company named 'NLB Liz&Go d.o.o. Skopje.' In December 2022, the company was renamed to 'NLB Lease&Go d.o.o. Skopje.'
- In November 2022, NLB Lease&Go, leasing, d.o.o., Ljubljana became an owner of 95.20% of financial company 'Zastava Istrabenz Lizing, d.o.o., Beograd.' The purchase price for the company was EUR 1,036 thousand and was fully paid in cash (note 5.12.f). In January 2023, the company was renamed to 'NLB Lease&Go leasing d.o.o. Beograd.'
- In December 2022, an increase in share capital in the form of a cash contribution in the amount of EUR 2,100 thousand in NLB Lease&Go, leasing, d.o.o., Ljubljana for the purpose of achieving NLB Group's leasing strategy.
- In December 2022, an increase in share capital in the form of a cash contribution in the amount of EUR 21,130 thousand in S-REAM d.o.o., Ljubljana for the purpose of consolidation of real estate companies in Slovenia.

Other changes:

- After obtaining all regulatory licenses, as well as by registering the merger with the Business Registers Agency, the integration process of Komercijalna banka a.d. Beograd and NLB Banka a.d., Beograd, was successfully completed. From 30 April 2022, the bank operates under the new name NLB Komercijalna banka a.d. Beograd. Based on the merger of NLB Banka a.d., Beograd to Komercijalna banka a.d. Beograd as the acquirer, NLB Komercijalna banka a.d. Beograd is its universal legal successor.
- In November 2022, NLB Komercijalna banka a.d. Beograd sold its 23.97% ownership interest in NLB Banka a.d., Podgorica to NLB.
- In December 2022, NLB sold its 100% ownership interest in PRO-REM d.o.o., Ljubljana – v likvidaciji to S-REAM d.o.o., Ljubljana.

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4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Interest and similar income				
Interest income calculated using the effective interest method	952,875	558,826	477,154	217,881
Financial assets measured at fair value through other comprehensive income	38,645	38,840	9,184	11,215
Securities measured at amortised cost	36,886	16,791	24,237	11,431
Deposits with banks and central banks	130,829	12,067	122,807	10,868
Loans and advances to banks measured at amortised cost	21,616	3,770	9,584	6,106
Loans and advances to customers at amortised cost	724,899	483,392	311,342	174,543
Negative interest	–	3,966	–	3,718
Other interest and similar income	40,530	10,950	21,184	4,081
Financial assets held for trading	6,213	3,732	6,459	3,352
Non-trading financial assets mandatorily at fair value through profit or loss	48	48	417	166
Derivatives - hedge accounting	14,529	559	14,308	559
Finance leases	18,959	6,607	–	–
Other	781	4	–	4
Total	**993,405**	**569,776**	**498,338**	**221,962**
Interest and similar expenses				
Interest expenses calculated using the effective interest method	148,034	53,086	115,779	34,166
Deposits from banks and central banks	3,372	795	6,914	692
Borrowings from banks and central banks	1,880	1,236	712	617
Due to customers	68,784	19,464	36,266	5,116
Borrowings from other customers	1,515	939	–	–
Subordinated liabilities	35,155	12,737	35,155	12,737
Debt securities issued	36,579	8,183	36,579	8,183
Lease liabilities (note 5.11.a)	728	431	132	28
Negative interest	21	9,301	21	6,793
Other interest and similar expenses	12,037	11,768	9,993	10,769
Derivatives - hedge accounting	4,470	7,468	4,444	7,468
Financial liabilities held for trading	5,595	3,497	5,191	3,144
Interest expenses on defined employee benefits (note 2.30., 5.16.c)	668	374	330	144
Other	1,304	429	28	13
Total	**160,071**	**64,854**	**125,772**	**44,935**
Net interest income	**833,334**	**504,922**	**372,566**	**177,027**

The line item 'Negative interest' classified under the line item 'Interest income calculated using the effective interest method' in 2022 mainly includes the interest from targeted longer-term refinancing operations (TLTRO) in the amount of EUR 3,902 thousand for NLB Group and EUR 3,677 thousand for NLB (note 5.15.b).

The line item 'Negative interest' classified under the line item 'Interest expenses calculated using the effective interest method' in 2022 includes the interest from deposits with banks and central banks in the amount of EUR 8,746 thousand for NLB Group and EUR 6,238 thousand for NLB. It also includes interest from deposits with financial organisations in the amount of EUR 186 thousand for NLB Group and NLB, and interest from securities with a negative yield in the amount of EUR 369 thousand for NLB Group and NLB.

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4.2. Dividend income

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Financial assets measured at fair value through other comprehensive income	116	173	–	–
- related to investments held at the end of reporting period	116	173	–	–
Investments in subsidiaries	–	–	144,930	55,244
Investments in associates and joint ventures	–	–	275	754
Non-trading financial assets mandatorily at fair value through profit or loss	53	69	53	46
Total	**169**	**242**	**145,258**	**56,044**

4.3. Fee and commission income and expenses

a) Fee and commission income and expenses relating to activities of NLB Group and NLB

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	130,460	113,358	50,094	44,476
Customer transaction accounts	93,527	89,277	53,355	52,120
Other fee and commission income				
Payments	88,334	94,035	24,977	24,005
Investment funds	32,994	29,640	9,916	9,034
Agency of insurance products	13,425	10,511	9,679	7,973
Other services	10,381	17,336	3,816	11,019
Total fee and commission income from contracts with customers	**369,121**	**354,157**	**151,837**	**148,627**
Guarantees	17,954	16,417	9,577	8,418
Total	**387,075**	**370,574**	**161,414**	**157,045**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	91,543	78,291	33,387	28,390
Other fee and commission expenses				
Payments	13,169	13,812	1,351	1,148
Insurance for holders of personal accounts and gold cards	1,516	1,335	888	841
Investment banking	4,627	4,036	679	944
Guarantees	1,691	1,713	1,598	1,580
Other services	4,314	5,594	606	917
Total	**116,860**	**104,781**	**38,509**	**33,820**
Net fee and commission income related to banking activities	**270,215**	**265,793**	**122,905**	**123,225**

b) Fee and commission income and expenses relating to fiduciary activities

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,661	1,928	1,546	1,657
Management of financial instruments portfolio	1,724	1,601	–	–
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	228	143	228	143
Custody and similar services	6,027	5,150	5,842	5,426
Management of clients' account of non-materialised securities	1,942	1,696	1,942	1,696
Safe-keeping of clients' financial instruments	75	34	–	–
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	9	473	9	473
Total	**11,666**	**11,025**	**9,567**	**9,395**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	3,844	3,374	3,847	3,377
Fee and commission related to stock exchange and similar organisations	76	94	76	94
Total	**3,920**	**3,468**	**3,923**	**3,471**
Net fee income related to fiduciary activities	**7,746**	**7,557**	**5,644**	**5,924**
Total fee and commission income a) and b)	**398,741**	**381,599**	**170,981**	**166,440**
Total fee and commission expenses a) and b)	**120,780**	**108,249**	**42,432**	**37,291**
Total net fee and commission a) and b)	**277,961**	**273,350**	**128,549**	**129,149**

c) Analysis of fee and commission income and expenses by type and by segments

in EUR thousands

2023	NLB Group Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Intercompany relations	Total
Fee and commission income								
Fee and commission income relating to financial instruments not at fair value through profit or loss	84,170	22,043	117,756	125	–	14	(121)	223,987
Other fee and commission	71,260	23,400	71,358	493	46	2,763	(12,520)	156,800
Total fee and commission income from contracts with customers								
Guarantees	120	10,361	7,545	35	–	13	(120)	17,954
Total	**155,550**	**55,804**	**196,659**	**653**	**46**	**2,790**	**(12,761)**	**398,741**
Fee and commission expenses	(41,434)	(15,593)	(72,547)	(2,727)	(122)	(1,118)	12,761	(120,780)
Total	**(41,434)**	**(15,593)**	**(72,547)**	**(2,727)**	**(122)**	**(1,118)**	**12,761**	**(120,780)**
Net fee and commission income	**114,116**	**40,211**	**124,112**	**(2,074)**	**(76)**	**1,672**	**–**	**277,961**

in EUR thousands

2022	NLB Group Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Intercompany relations	Total
Fee and commission income								
Fee and commission income relating to financial instruments not at fair value through profit or loss	76,956	19,022	106,491	635	–	11	(480)	202,635
Other fee and commission	71,481	29,072	70,320	687	182	2,132	(11,327)	162,547
Total fee and commission income from contracts with customers								
Guarantees	120	9,365	7,014	32	–	–	(114)	16,417
Total	**148,557**	**57,459**	**183,825**	**1,354**	**182**	**2,143**	**(11,921)**	**381,599**
Fee and commission expenses	(35,312)	(13,907)	(65,087)	(3,012)	(184)	(2,668)	11,921	(108,249)
Total	**(35,312)**	**(13,907)**	**(65,087)**	**(3,012)**	**(184)**	**(2,668)**	**11,921**	**(108,249)**
Net fee and commission income	**113,245**	**43,552**	**118,738**	**(1,658)**	**(2)**	**(525)**	**–**	**273,350**

4.4. Gains less losses from financial assets and liabilities not measured at fair value through profit or loss

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Debt instruments measured at fair value through other comprehensive income				
- gains	94	96	2	–
- losses	(836)	(1,764)	(836)	(316)
Debt instruments measured at amortised cost				
- gains	–	3,269	–	1
- losses	–	(735)	–	(735)
Total	**(742)**	**866**	**(834)**	**(1,050)**

Sales of debt instruments measured at amortised cost in 2022 were made due to increase in credit risk.

4.5. Gains less losses from financial assets and liabilities held for trading

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Foreign exchange trading				
- gains	35,774	43,213	12,308	19,388
- losses	(7,394)	(13,988)	(7,299)	(11,465)
Debt instruments				
- gains	188	237	134	195
- losses	(28)	(175)	(28)	(175)
Derivatives				
- currency	2,462	3,636	(1,512)	2,768
- interest rate	1,182	512	(4,014)	605
- securities	3	16	3	16
Total	**32,187**	**33,451**	**(408)**	**11,332**

Interest income from financial assets held for trading is included in the income statement line item 'Interest and similar income' and interest expenses from financial liabilities held for trading in line item 'Interest and similar expenses' (note 4.1.).

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Equity securities				
- gains	2,667	3,481	1,901	2,699
- losses	(985)	(3,162)	(712)	(1,925)
Debt securities				
- gains	122	70	–	–
- losses	(44)	(299)	–	–
Loans and advances to customers				
- gains	24	–	1,256	(2,225)
Total	**1,784**	**90**	**2,445**	**(1,451)**

Interest income from non-trading financial assets mandatorily at fair value through profit or loss is included in the income statement line item 'Interest and similar income' (note 4.1.)

4.7. Foreign exchange translation gains less losses

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Financial assets and liabilities not measured as at fair value through profit or loss	(2,549)	(95)	3,232	(1,980)
Financial assets measured at fair value through profit or loss	(7)	(11)	(7)	(11)
Other	(222)	403	(222)	403
Total	**(2,778)**	**297**	**3,003**	**(1,588)**

4.8. Other net operating income

	NLB Group		NLB	
in EUR thousands	2023	2022	2023	2022
Other operating income				
Income from non-banking services	7,933	6,952	6,862	6,367
- cash transportation	3,455	3,327	3,481	3,383
- operating leases of movable property	2,133	1,252	485	475
- IT services	221	254	1,249	1,020
- other	2,124	2,119	1,647	1,489
Rental income from investment property	1,755	2,912	359	459
Revaluation of investment property to fair value (note 5.9.)	617	3,766	223	85
Sale of investment property	427	2,450	17	393
Other operating income	6,676	7,366	2,915	2,912
Total	**17,408**	**23,446**	**10,376**	**10,216**
Other operating expenses				
Donations	12,008	1,535	11,564	3,597
Expenses related to issued service guarantees	545	451	545	451
Revaluation of investment property to fair value (note 5.9.)	1,734	674	41	1
Other operating expenses	7,813	4,008	2,232	1,756
Total	**22,100**	**6,668**	**14,382**	**5,805**
Other net operating income	**(4,692)**	**16,778**	**(4,006)**	**4,411**

The line item 'Donations,' classified under the 'Other operating expenses' in year 2023 also include donations of NLB for floods mitigation in Slovenia to municipalities in the total amount of EUR 4,000 thousand, and to the Budget of the Republic of Slovenia to a particular budget line to raise funds to recover the consequences of the August floods in the amount of EUR 5,000 thousand.

Other operating expenses mainly include expenses associated with the changes in proportional deduction of VAT, licences, penalties and damages.

Other operating income mainly include reimbursement of costs and taxes and income from sale of gold.

4.9. Administrative expenses

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Employee costs				
Gross salaries, compensations, and other short-term benefits	252,731	230,277	118,962	104,278
Defined contribution scheme	17,424	16,343	8,225	7,217
Social security contributions	12,612	11,404	6,864	6,002
Defined benefit expenses (note 5.16.c)	(602)	(365)	(279)	(207)
Post-employment benefits	(1,134)	(82)	(452)	(38)
Other employee benefits	532	(283)	173	(169)
Total	**282,165**	**257,659**	**133,772**	**117,290**
Other general and administrative expenses				
Material	6,672	6,091	1,624	1,529
Services	46,735	47,053	26,824	24,748
Intellectual services	18,385	20,393	9,768	9,932
Costs of supervision	4,942	5,422	2,806	3,325
Costs of other services	23,408	21,238	14,250	11,491
Other tax expenses	4,454	4,096	1,040	956
Membership fees and similar	903	833	359	322
Business travel	1,684	1,230	561	326
Marketing	17,373	15,340	9,213	7,916
Buildings and equipment	32,680	33,092	15,290	15,230
Electricity	8,285	10,212	4,307	5,740
Rents and leases	3,012	2,079	526	273
Maintenance costs	9,370	8,846	4,977	4,335
Costs of security	5,952	6,181	2,203	1,935
Insurance for tangible assets	656	689	152	156
Other costs related to buildings and equipment	5,405	5,085	3,125	2,791
Technology	43,093	32,735	23,100	16,349
Maintenance of software and hardware	22,527	15,792	10,232	6,140
Licences	12,612	9,725	8,829	6,760
Data assets and subscription costs	3,267	3,022	2,157	1,876
Other technology costs	4,687	4,196	1,882	1,573
Communications	12,490	11,146	4,567	4,423
Postal services	4,868	4,043	2,814	2,612
Telecommunication and internet	5,141	4,717	558	649
Other communication costs	2,481	2,386	1,195	1,162
Other general and administrative costs	4,374	3,611	2,057	1,776
Total	**170,458**	**155,227**	**84,635**	**73,575**
Total administrative expenses	**452,623**	**412,886**	**218,407**	**190,865**
Number of employees	7,982	8,228	2,554	2,418

Costs of other services include costs for cash transport, archiving costs, costs for certification agency and e-business, and other attorneys and notaries services costs.

In the table below are presented expenses related to the services of the statutory auditor:

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
External audit services				
Audit of annual report	944	750	333	275
Other audit services	28	412	28	287
Total	**972**	**1,162**	**361**	**562**

The contractual amount of remuneration of auditor for audit of annual report (without VAT, predefined costs and inflation, if exceeds 3% in individual state of the NLB Group member) in 2023 in the NLB Group amounted to EUR 757 thousand of which in NLB EUR 341 thousand.

Additionally, to the services included in the paragraph above, the statutory auditor in 2023 performed also other assurance services in the amount of EUR 343 thousand (Group: EUR 350 thousand) and non-assurance services in the amount of EUR 7 thousand (Group: EUR 17 thousand), both related to the issuance of bonds. Amounts are presented without VAT. Payment was included in the calculation of the effective interest rate on the instrument issued. In 2023 and 2022, the statutory auditor did not performed any other non-audit services.

Tax on banks' balance sheets

For the years 2024-2028 tax on banks' balance sheets was introduced in Slovenia. The yearly tax liability is estimated to be more than EUR 30 million.

4.10. Cash contributions to resolution funds and deposit guarantee schemes

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Cash contributions to deposit guarantee schemes	36,946	33,884	9,686	7,614
Cash contributions to resolution funds	2,147	2,260	1,697	2,099
Total	**39,093**	**36,144**	**11,383**	**9,713**

4.11. Depreciation and amortisation

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Amortisation of intangible assets (note 5.10.)	16,402	15,757	7,528	5,769
Depreciation of property and equipment:				
- own property and equipment (note 5.8.b)	24,832	22,941	10,508	10,260
- right-of-use assets (note 5.11.a)	7,998	8,692	1,421	972
Total	**49,232**	**47,390**	**19,457**	**17,001**

4.12. Gains less losses from modification of financial assets

in EUR thousands

	2023				2022			
NLB Group	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Financial assets modified during the period								
Amortised cost before modification	510,682	4,141	4,145	518,968	1,046	1,361	698	3,105
Net modification gains/(losses)	(16,043)	(123)	(105)	(16,271)	(56)	5	25	(26)

The majority of modification loss of financial assets in 2023 refers to the Decision on temporary measures for banks in relation to housing loans to natural persons, which limited the interest rates of housing loans in Serbia.

The loss represents the difference between the balance of the loan on the modification date and the discounted value of the cash flows of the modified repayment plans using the original effective interest rate.

in EUR thousands

NLB Group	31 Dec 2023	31 Dec 2022
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which loss allowance has changed to 12-month measurement during the period	775	–

4.13. Provisions

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Provisions for credit losses	(5,055)	3,050	(3,074)	(282)
Guarantees and commitments (note 5.16.b)	(5,055)	3,050	(3,074)	(282)
Provisions for other liabilities and charges	25,925	5,932	14,422	2,325
Restructuring provisions (note 5.16.d)	3,654	10,325	3,800	–
Provisions for legal risks (note 5.16.e)	7,280	1,645	(2,678)	125
Other provisions (note 5.16.f)	14,991	(6,038)	13,300	2,200
Total	**20,870**	**8,982**	**11,348**	**2,043**

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4.14. Impairment charge

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(504)	(6,600)	110	10
Loans and advances to banks measured at amortised cost (note 5.14.a)	23	67	(80)	34
Loans and advances to individuals measured at amortised cost (note 5.14.a)	37,632	17,140	15,689	13,523
Loans and advances to other customers measured at amortised cost (note 5.14.a)	(41,396)	(2,629)	(4,254)	(4,744)
Debt securities measured at fair value through other comprehensive income (note 5.14.b)	(7,054)	3,870	(5,058)	5,826
Debt securities measured at amortised cost (note 5.14.b)	1,749	474	672	161
Other financial assets measured at amortised cost (note 5.14.a)	2,833	2,132	589	158
Total impairment of financial assets	**(6,717)**	**14,454**	**7,668**	**14,968**
Impairment of investments in subsidiaries, associates and joint ventures				
Investments in subsidiaries	–	–	(96,876)	(22,685)
Investments in associates and joint ventures	–	–	(241)	(88)
Total	**–**	**–**	**(97,117)**	**(22,773)**
Impairment of other assets				
Property and equipment (note 5.8.b)	47	1,620	–	–
Other assets	(100)	3,813	3	6
Total	**(53)**	**5,433**	**3**	**6**
Total impairment of non-financial assets	**(53)**	**5,433**	**(97,114)**	**(22,767)**
Total impairment	**(6,770)**	**19,887**	**(89,446)**	**(7,799)**

Impairment of financial assets in 2022 includes EUR 8,900 thousand of 12-month expected credit losses for Stage 1 financial assets, acquired through a business combination (note 5.12.e). Of that, EUR 8,894 thousand relates to financial assets measured at amortised cost, EUR 5 thousand to financial assets measured at fair value through other comprehensive income, and EUR 1 thousand to cash balances at central banks and other demand deposits at banks.

Impairment of debt securities measured at amortised cost in 2022 relates mainly to impairment of Russian sovereign debt, which was sold in February 2023 (note 5.4.).

In 2023, NLB released impairments related to equity investments in subsidiaries and an associate in total amount of EUR 97,847 thousand (2022: EUR 23,388 thousand). Release of impartments in subsidiaries was due to increase in their estimated recoverable amounts.

The recoverable amounts have been calculated based on value in use, determining by discounting the future cash flows expected to be generated from holding the investments. The values assigned to the key assumptions represent management's assessment of future trends in the relevant sectors and have been based on historical data from both internal and external sources (discount rate from 10.2% to 20.25%; growth rate from 2.8% to 4%; target capital adequacy ratio between 14% and 17%). Details of the assumptions used in the estimates are presented in note 2.34.c).

In 2023, NLB impaired equity investment in non-core subsidiary in amount of EUR 730 thousand (2022: EUR 615 thousand), which is included in the amount in the line item 'Investments in subsidiaries.'

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4.15. Income tax

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Current income tax	66,072	26,753	25,210	5,992
Deferred income tax (note 5.17.)	(50,982)	(1,523)	(60,751)	(1,524)
Total	**15,090**	**25,230**	**(35,541)**	**4,468**

Reconciliations of differences from the amount of tax determined by applying the Slovenian statutory tax rate and reconciliation of effects:

in EUR thousands

	NLB Group				NLB			
	2023		2022		2023		2022	
Profit before tax	578,413		483,063		478,746		164,070	
Tax calculated at prescribed rate of 19%	109,898	19.0%	91,782	19.0%	90,962	19.0%	31,173	19.0%
Tax effect of:								
Income not subject to tax	(13,180)	-2.3%	(45,621)	-9.4%	(45,966)	-9.6%	(14,548)	-8.9%
Non-deductible expenses	10,572	1.8%	7,332	1.5%	3,130	0.7%	1,605	1.0%
Utilization of previously non-deductible expenses	(16,034)	-2.8%	(3,370)	-0.7%	(2,578)	-0.5%	(3,370)	-2.1%
Tax reliefs	(3,324)	-0.6%	(4,132)	-0.8%	(3,301)	-0.7%	(2,792)	-1.7%
Use of previously unrecognised tax losses	(22,266)	-3.8%	(5,022)	-1.0%	(21,898)	-4.6%	(4,641)	-2.8%
Unrecognised deferred tax assets on current period tax losses	14,218	2.4%	487	0.1%	-	-	-	-
Recognition of previously unrecognised deferred tax on tax losses	(46,697)	-8.1%	-	-	(46,697)	-9.8%	-	-
Recognition of previously unrecognised deferred tax on deductible temporary differences	(1,918)	-0.3%	(4,688)	-1.0%	(1,918)	-0.4%	(4,688)	-2.9%
Changes in deferred taxes due to the increase of tax rate	(13,491)	-2.3%	-	-	(13,544)	-2.8%	-	-
Effect of different tax rates in other countries	(18,636)	-3.2%	(12,963)	-2.7%	-	-	-	-
Withholding tax for which no tax credit was available	6,920	1.2%	1,617	0.3%	6,920	1.4%	1,617	1.0%
Deferred tax liability on undistributed profits	9,626	1.7%	-	-	-	-	-	-
Adjustment to tax in respect of prior years	50	-	(282)	-0.1%	(3)	-	-	-
Other	(648)	-0.1%	90	-	(648)	-0.1%	112	0.1%
Total	**15,090**	**2.6%**	**25,230**	**5.2%**	**(35,541)**	**-7.4%**	**4,468**	**2.7%**

Each member of NLB Group (disclosed in note 5.12.a) is taxable as required by local tax legislation. Income tax rates within NLB Group ranges from 9 to 32%.

A tax rate of 19% was applied in Slovenia in 2023 (2022: 19%). For the years 2024-2028 the rate in Slovenia will be 22%.

The effect of income not subject to tax of NLB in 2023, related to:

- dividends in 2023 amounted EUR 26,219 thousand (2022: EUR 10,116 thousand). They are based on non-taxable dividend income in 2023 which amounts to EUR 137,994 thousand (2022: EUR 53,242 thousand).
- release of impairments of equity investments in 2023 amounted to EUR 18,591 thousand (2022: EUR 4,444 thousand). They are based on non-taxable income from release of impairments of equity investments in 2023 in amount of EUR 97,847 thousand (2022: EUR 23,388 thousand).

The effect of income not subject to tax of NLB Group for 2022 mostly relates to the gain from a bargain purchase of N Banka, and amounted to EUR 32,834 thousand (non-taxable income in 2022 amounts to EUR 172,810 thousand).

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e., within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), a lower range of expected outcomes was considered for the purposes of deferred tax assets calculation.

Based on a highly successful year in 2023 and substantially increased profit projections for the upcoming 5 years, NLB increased recognised deferred tax assets for EUR 56,668 thousand in 2023. The increased amount consists of recognition of previously unrecognised deferred tax on tax losses in the amount of EUR 46,697 thousand, recognition of previously unrecognised deferred tax on deductible temporary differences (tax non-deductible impairments of non-core equity investments) in the amount of EUR 1,681 thousand, and recognition of unrecognised deferred tax assets for valuation of financial instruments which was recognised in other comprehensive income in amount of EUR 8,290 thousand.

Deferred tax assets were also increased by EUR 14,924 thousand due to an increase of the tax rate to 22% for the next 5 years (2024 to 2028), of which EUR 13,544 thousand was recognised in the income statement, and EUR 1,380 thousand in other comprehensive income.

In 2023, NLB recognised deferred tax assets on all temporary differences (non-recognised deferred tax assets on temporary differences in 2022 are disclosed in note 5.17. Deferred Income tax). The deferred tax assets for tax losses in 2023 are recognised in the amount that takes into account other recognised deferred tax assets, reaches the total amount of deferred tax assets, for which a reversal is expected within five years (in 2022 deferred tax assets for tax loses were not recognised, due to the consideration of the total amount of recognised deferred tax assets). The deferred tax assets with respect to which simultaneously deferred tax liabilities are recognised are excluded from this calculation (e.g., deferred tax assets for temporary non-deductible expenses for impairment of debt securities measured at fair value through other comprehensive income and deferred tax assets related to fair value hedge accounting).

NLB Group members did not recognise deferred tax assets for tax losses if there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised. The majority of the impact of unrecognised deferred tax assets on current period tax losses for 2023 relates to the tax loss of a non-strategic subsidiary that realised tax loss due to the utilisation of previously tax non-deductible expenses for impairments in the subsidiary, which was divested in 2023.

Deferred tax liability related to undistributed profits includes withholding tax which shall be paid in the year 2024 on projected dividends.

The tax authorities may audit operations of NLB Group entities. In general, tax inspection, which may result in the emergence of additional tax liability, default interest, and penalties, may be initiated at any time within four to six years from the date of tax statement or from the year in which tax should have been assessed. NLB is not aware of any circumstances that could give rise to a potential material tax liability in this respect.

NLB has a special tax status at the Financial Administration of the Republic of Slovenia (FURS). The purpose of the status is to establish cooperation between FURS and the taxpayers, with the aim of encouraging voluntary compliance and reduce administrative burdens on financial supervision. FURS cooperates with NLB and responds quickly to resolve NLB's tax compliance issues, which reduces NLB's tax risks and uncertain tax positions.

Global minimum tax

The Minimum Tax Act was adopted in Slovenia in December 2023, providing a global minimum tax for multinational and large domestic groups. It is expected that the parent company NLB will be liable to pay the top-up tax concerning subsidiaries in non-EU jurisdictions that have a statutory tax rate below 15% and have not enacted the new legislation on Global minimum tax in domestic legislation. Based on first estimates for the year 2024, we expect that the tax liability will amount to approximately EUR 4 million. However, since the newly enacted legislation in Slovenia is only effective from 1 January 2024, there is no current tax impact for the year 2023.

The NLB Group applied a mandatory temporary exception from the requirements of IAS 12, according to which information on deferred tax assets and liabilities related to Global minimum tax are not recognised.

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4.16. Earnings per share

Earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue, less treasury shares.

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated bonds and other issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2023	2022	2023	2022
Net profit attributable to the owners of the parent (in EUR thousands)	550,700	446,862	514,287	159,602
Weighted average number of ordinary shares (in thousands)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	27.5	22.3	25.7	8.0
Diluted earnings per share (in EUR per share)	27.5	22.3	25.7	8.0

5. Notes to the statement of financial position

5.1. Cash, cash balances at central banks, and other demand deposits at banks

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Balances and obligatory reserves with central banks	5,435,460	4,536,526	4,077,399	3,104,442
Cash	470,902	489,197	181,735	180,483
Demand deposits at banks	198,489	246,815	59,365	54,456
	6,104,851	**5,272,538**	**4,318,499**	**3,339,381**
Allowance for impairment	(1,290)	(1,173)	(467)	(357)
Total	**6,103,561**	**5,271,365**	**4,318,032**	**3,339,024**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfil their compulsory reserve deposit requirements.

5.2. Financial instruments held for trading

a) Financial assets held for trading

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Derivatives, excluding hedging instruments				
Swap contracts	13,867	16,169	16,135	16,274
- currency swaps	3,687	743	3,712	849
- interest rate swaps	10,180	15,426	12,423	15,425
Options	1,249	2,312	1,249	2,312
- interest rate options	1,229	2,295	1,229	2,295
- securities options	20	17	20	17
Forward contracts	602	2,904	573	2,903
- currency forward	602	2,904	573	2,903
Total derivatives	**15,718**	**21,385**	**17,957**	**21,489**
Securities				
Treasury bills	–	203	–	203
Total securities	**–**	**203**	**–**	**203**
Total	**15,718**	**21,588**	**17,957**	**21,692**
- quoted securities	–	203	–	203
of these debt instruments	–	203	–	203

The notional amounts of derivative financial instruments are disclosed in note 5.24.b).

b) Financial liabilities held for trading

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Derivatives, excluding hedging instruments				
Swap contracts	11,139	15,903	15,440	16,535
- currency swaps	2,035	1,550	4,216	1,963
- interest rate swaps	9,104	14,353	11,224	14,572
Options	1,573	2,800	1,573	2,742
- interest rate options	1,573	2,800	1,573	2,742
Forward contracts	505	2,886	497	2,873
- currency forward	505	2,886	497	2,873
Total	**13,217**	**21,589**	**17,510**	**22,150**

The notional amounts of derivative financial instruments are disclosed in note 5.24.b).

5.3. Non-trading financial instruments measured at fair value through profit or loss

a) Financial assets mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Assets				
Shares	6,300	5,579	6,300	5,211
Investment funds	2,658	10,336	2,558	2,308
Bonds	5,217	3,116	–	–
Loans and advances to companies	–	–	7,785	7,892
Total	**14,175**	**19,031**	**16,643**	**15,411**
- quoted securities	5,217	3,484	–	–
of these equity instruments	–	368	–	–
of these debt instruments	5,217	3,116	–	–
- unquoted securities	8,958	15,547	8,858	7,519
of these equity instruments	8,958	15,547	8,858	7,519

As at 31 December 2023, NLB Group did not have any assets received by taking possession of collateral and included in financial assets mandatorily at fair value through profit or loss (31 December 2022: EUR 368 thousand). As at 31 December 2023 and as at 31 December 2022, NLB did not have any assets received by taking possession of collateral and included in financial assets mandatorily at fair value through profit or loss (note 6.1.l).

b) Financial liabilities measured at fair value through profit or loss

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Liabilities				
Loans and advances to companies	–	–	1,234	1,786
Other financial liabilities (note 2.31.)	4,482	1,796	1,976	728
Total	**4,482**	**1,796**	**3,210**	**2,514**

5.4. Financial assets measured at fair value through other comprehensive income

a) Analysis by type of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Bonds	1,836,604	2,506,224	962,084	1,196,760
- governments	1,398,036	1,895,891	523,516	586,427
- Republic of Slovenia	246,155	269,853	210,509	199,224
- other EU members	200,914	271,464	194,599	253,346
- Republic of Serbia	579,333	898,531	4,482	3,913
- other non-EU members	371,634	456,043	113,926	129,944
- banks	413,926	578,552	413,926	578,552
- other issuers	24,642	31,781	24,642	31,781
Shares	26,467	22,285	303	269
National Resolution Fund	60,625	58,122	60,625	42,515
Treasury bills	301,838	310,748	–	94,517
- Republic of Slovenia	19,902	52,723	–	32,908
- other EU members	247,827	170,382	–	10,888
- other non-EU members	34,109	87,643	–	50,721
Commercial bills	26,022	21,824	–	–
Total	**2,251,556**	**2,919,203**	**1,023,012**	**1,334,061**
of these debt securities	2,164,464	2,838,796	962,084	1,291,277
of these equity securities	87,092	80,407	60,928	42,784
Allowance for impairment (note 5.14.b)	(7,329)	(15,876)	(2,448)	(8,799)
- quoted securities	1,997,126	2,612,330	962,084	1,291,277
of these debt instruments	1,992,263	2,593,533	962,084	1,291,277
of these equity instruments	4,863	18,797	–	–
- unquoted securities	254,430	306,873	60,928	42,784
of these debt instruments	172,201	245,263	–	–
of these equity instruments	82,229	61,610	60,928	42,784

As at 31 December 2023, the Bank does not have any exposure towards the Russia anymore. A Russian government bond in the nominal amount of USD 8,000 thousand that would otherwise mature in September 2023, was sold at the beginning of February 2023.

The credit quality analysis for financial assets and contingent liabilities is disclosed in note 6.1.j) and movements in allowance for the impairment of debt securities in note 5.14.b).

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b) Movements of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	2023		2022		2023		2022	
	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities
Balance as at 1 January	2,838,796	80,407	3,395,261	66,599	1,291,277	42,784	1,541,042	44,709
Effects of translation of foreign operations to presentation currency	(293)	(34)	1,358	30	–	–	–	–
Acquisition of subsidiary (note 5.12.e)	–	–	53,223	16,164	–	–	–	–
Additions	1,446,746	–	1,699,839	–	59,345	–	290,245	–
Derecognition	(2,249,943)	(82)	(2,141,377)	–	(479,962)	–	(414,666)	–
Net interest income	38,624	–	38,471	–	9,163	–	10,846	–
Exchange differences on monetary assets	1,901	–	3,104	–	(766)	–	4,484	–
Changes in fair values	88,633	6,801	(211,083)	(2,386)	49,410	2,284	(140,674)	(1,925)
Merger of subsidiary (note 5.12.d)	–	–	–	–	33,617	15,860	–	–
Balance as at 31 December	**2,164,464**	**87,092**	**2,838,796**	**80,407**	**962,084**	**60,928**	**1,291,277**	**42,784**

As at 31 December 2023, and as at 31 December 2022, NLB Group and NLB do not have any equity instruments measured at fair value through other comprehensive income obtained by taking possession of collateral in the statement of financial position (note 6.1.l).

c) Accumulated other comprehensive income related to financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	2023		2022		2023		2022	
	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities	Debt securities	Equity securities
Balance as at 1 January	(144,578)	1,332	7,481	3,257	(78,283)	(1,460)	12,365	99
Effects of translation of foreign operations to presentation currency	(31)	(5)	(12)	3	–	–	–	–
Net gains/(losses) from changes in fair value	77,269	6,801	(168,581)	(2,386)	38,046	2,284	(98,172)	(1,925)
Gains/losses transferred to net profit on disposal (note 4.4.)	742	–	1,668	–	834	–	316	–
Impairment (note 4.14.)	(7,054)	–	3,870	–	(5,058)	–	5,826	–
Transfer of gains/losses to retained earnings	–	(63)	–	–	–	–	–	–
Deferred income tax (note 5.17.)	6,718	(1,054)	10,996	458	11,849	(434)	1,382	366
Merger of subsidiary	–	–	–	–	(2,643)	(246)	–	–
Balance as at 31 December	**(66,934)**	**7,011**	**(144,578)**	**1,332**	**(35,255)**	**144**	**(78,283)**	**(1,460)**

5.5. Derivatives for hedging purposes

NLB Group entities measure exposure to interest rate risk using repricing gap analysis and by calculating the sensitivity of the statement of financial position and off-balance-sheet items in terms of the economic value of equity. The portfolio duration is used as a measure of risk in the management of securities in the banking book.

NLB Group entities use interest rate swaps (IRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e., the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also occasionally used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All fair value hedges are made on assets and liability items.

Hedge accounting principles (i.e., fair value and cash flow hedging) were applied in the hedging of interest rate risk using interest rate swaps. These hedge relationships are designated in such a way that the characteristics of the hedging instrument and those of the hedged item match (i.e., the principal terms match), while the dollar-offset method is used to regularly measure hedge effectiveness retrospectively. Efficiency is considered when total difference is within range 80%–125% or within materiality threshold defined at origination of hedge. Prospective testing of hedge effectiveness is carried out regularly for macro hedges where the characteristics of both items in the hedge relationship do not fully match by comparing the change in the fair value of both items to the shift in the yield curve.

Sources of hedge ineffectiveness may arise from to the different of discount rates used for valuation of hedged and hedging instruments, notional and timing differences, as well differences in the amortisation plan between hedged items and the hedging instrument. Hedge effectiveness is assessed monthly, by comparing changes in the fair value of the hedged item that are attributable to a hedged risk with changes in the fair value of the hedging instrument.

a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Fair value hedge from assets items	**2,735**	**1,655**	**2,424**	**1,655**
Net effects from hedging instruments	(24,799)	89,894	(22,803)	89,894
- interest rate swap for micro hedge	(15,677)	57,981	(13,681)	57,981
- interest rate swap for macro hedge	(9,122)	31,913	(9,122)	31,913
Net effects from hedged items	27,534	(88,239)	25,227	(88,239)
- loans measured at amortised cost - micro hedge	(3)	(57)	(3)	(57)
- bonds measured at amortised cost - micro hedge	2,684	(14,834)	2,684	(14,834)
- bonds measured at fair value through OCI - micro hedge	11,293	(42,499)	11,293	(42,499)
- loans measured at amortised cost- macro hedge	13,560	(30,849)	11,253	(30,849)

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Fair value hedge from liability items	**1,164**	**–**	**1,164**	**–**
Net effects from hedging instruments	6,505	–	6,505	–
- interest rate swap for micro hedge	6,505	–	6,505	–
Net effects from hedged items	(5,341)	–	(5,341)	–
- debt securities issued	(5,341)	–	(5,341)	–

In both years presented, all fair value hedges were effective, with actual results of the hedge ratio within a range of 80–125%, therefore, no discontinuation of the hedge accounting was required.

As at 31 December 2023 and 2022, NLB Group and NLB had no relationships designated for cash flow hedge accounting or for hedge of a net investment in a foreign operation. NLB Group applied a hedge of a net investment in a foreign operation in years 2011 and 2012, and at that time recognised a EUR 754 thousand gain on the hedging instrument in other comprehensive income (note 5.22.b). This gain will be included in the consolidated income statement when the foreign operation is disposed of as a part of the gain or loss on the disposal.

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b) Notional amounts of interest rate swaps

in EUR thousands

Fair value hedge of assets items	NLB Group				NLB			
	Notional amount	Fair value		Change in fair value of hedging instrument used for calculating hedge ineffectiveness	Notional amount	Fair value		Change in fair value of hedging instrument used for calculating hedge ineffectiveness
		Asset	Liability			Asset	Liability	
31 Dec 2023	633,798	38,738	3,540	19,708	573,798	38,738	1,420	17,843
31 Dec 2022	644,132	59,362	2,124	90,439	644,132	59,362	2,124	90,439

in EUR thousands

Fair value hedge of liability items	NLB Group				NLB			
	Notional amount	Fair value		Change in fair value of hedging instrument used for calculating hedge ineffectiveness	Notional amount	Fair value		Change in fair value of hedging instrument used for calculating hedge ineffectiveness
		Asset	Liability			Asset	Liability	
31 Dec 2023	450,000	8,876	–	8,774	450,000	8,876	–	8,774
31 Dec 2022	–	–	–	–	–	–	–	–

The hedging instrument is included in the statement of financial position in the line item Derivatives – hedge accounting.

c) Accumulated fair value adjustments arising from the corresponding continuing hedge relationships

The table below presents accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether there has been a change in the hedge designation during the year. The accumulated fair value adjustment is presented in the same line of statement of financial position as a hedged item, except for macro fair value hedges. In such relationships, hedged items are presented in the line item 'Financial assets measured at amortised cost,' while the accumulated fair value adjustment is presented in a separate line item 'Fair value changes of the hedged items in portfolio hedge of interest rate risk.'

in EUR thousands

	NLB Group				NLB			
	2023		2022		2023		2022	
	Carrying amount of hedged items	Accumulated amount of FV adjustments on the hedged item	Carrying amount of hedged items	Accumulated amount of FV adjustments on the hedged item	Carrying amount of hedged items	Accumulated amount of FV adjustments on the hedged item	Carrying amount of hedged items	Accumulated amount of FV adjustments on the hedged item
Micro fair value hedges								
Fixed rate corporate loans measured at AC	–	–	573	3	–	–	573	3
Fixed rate bonds measured at AC	108,494	(4,349)	108,979	(6,721)	108,494	(4,349)	108,979	(6,721)
Fixed rate bonds measured at FVOCI	242,347	(15,841)	261,879	(27,205)	242,347	(15,841)	261,879	(27,205)
Fixed rate issued bonds	464,393	5,341	–	–	464,393	5,341	–	–
Macro fair value hedges								
Fixed rate retail loans	267,908	(10,207)	153,594	(23,767)	205,601	(12,514)	153,594	(23,767)

The change in fair value of the hedge item used as the basis for recognising hedge ineffectiveness:

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Micro fair value hedges	3,591	57,201	3,591	57,201
Macro fair value hedges	10,577	31,122	8,540	31,122

d) IBOR reform

NLB Group continuously monitors the development of Benchmark Interest Rate Reform and is actively preparing for the changes imposed by the regulation. In 2018, NLB formed a special working group which deals with the preparation for the discontinuation of some important reference interest rates and reports on this to the NLB Group ALCO.

NLB Group no longer offers new products that would be tied to reference rates in termination. With regards to the reference rates, the NLB Group offers only products related to EURIBOR, which is not scheduled for discontinuation. Therefore, NLB Group's attention in the past few years has been focused on the modification of new contractual relationships with customers in which EURIBOR occurs.

EURIBOR's possible discontinuation

Due to the timely transition to the new hybrid EURIBOR methodology which meet the BMR requirements, EURIBOR can continue to be used in new and legacy contracts for the foreseeable future.

EU-supervised entities are bound to include robust fallback clauses into contractual documentation with the clients. In November 2019, the Euro risk-free rates (RFR) Working Group published high level recommendations for fallback provisions for products referencing EURIBOR. The inclusion of robust fallback language is a requirement in contracts subject to the EU Benchmark Regulation. The Bank already incorporated the generic fallback clause into all new EURIBOR (both retail and corporate) contracts.

In May 2021, the Euro RFR Working Group produced its recommendations on EURIBOR fallback trigger events and €STR-based EURIBOR fallback rates. Our mid-term activities are expected to undertake on the implementation of more precise fallback provisioning, based on these recommendations. NLB identified potential €STR-based fallbacks for EURIBOR, in line with the current market consensus on those fallbacks and intends to proceed with the activities for inclusion on EURIBOR fallbacks into all new EURIBOR-based contracts. In the next step, the Bank is also expected to include fallback provisions in legacy contracts. The exact timing depends on regulatory/market development and best practice.

NLB as a supervised entity, is required to comply with the Benchmark regulation and, as a user of benchmarks, must produce and maintain a robust written plan setting out the actions NLB would take in the event that a benchmark materially changes or ceases to be provided. NLB has prepared a plan, which sets out an inexhaustive/summary action list, and will continue to closely follow market standards to identify alternative benchmarks that could be referenced in substitute of existing benchmarks.

LIBOR discontinuation

Since many LIBOR settings ceased to exist at the beginning of 2022, the Bank finished the process of winding-down the exposures in a most efficient way. Incremental LIBOR transactions were not allowed unconditionally.

NLB Group activities for implementation of LIBOR transition were as follows:
- review of outstanding LIBOR referencing loans,
- identification of alternative reference rate to be used for loan portfolio,
- analysis of how the alternative reference rate will be calculated and how to calculate any economic difference between LIBORs and the selected alternative reference rates,
- consideration of IT system accommodation with alternative reference rates,
- documentation of the transition of the loans.

The tables indicate the notional amount and weighted average maturity of derivatives on the NLB Group level and separately NLB d.d. sole in hedging relationships that will be affected by the IBOR reform, analysed on an interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure NLB Group manages through hedging relationships.

in EUR thousands

	2023		2022	
NLB Group	Notional amount (in EUR thousands)	Weighted average maturity (years)	Notional amount (in EUR thousands)	Weighted average maturity (years)
Interest rate swaps (assets)				
EURIBOR (3 months)	318,509	8.94	280,981	10.01
EURIBOR (6 months)	315,289	5.68	355,651	6.06
USD LIBOR (6 months)	–	–	7,500	0.71
Interest rate swaps (liabilities)				
EURIBOR (3 months)	350,000	2.49	–	–
EURIBOR (6 months)	100,000	2.49	–	–

in EUR thousands

	2023		2022	
NLB	Notional amount (in EUR thousands)	Weighted average maturity (years)	Notional amount (in EUR thousands)	Weighted average maturity (years)
Interest rate swaps (assets)				
EURIBOR (3 months)	258,509	9.72	280,981	10.01
EURIBOR (6 months)	315,289	5.68	355,651	6.06
USD LIBOR (6 months)	–	–	7,500	0.71
Interest rate swaps (liabilities)				
EURIBOR (3 months)	350,000	2.49	–	–
EURIBOR (6 months)	100,000	2.49	–	–

As can be seen from the table, the majority of long-term derivatives in hedging relationships are exposed to EURIBOR, therefore, the uncertainty arising from interest rate benchmark reform derives mainly from derivatives with longer maturities, when a change of EURIBOR could be expected. As at 31 December 2023, derivatives with remaining maturity of five or more years amount to EUR 285,280 thousand (31 December 2022: EUR 295,580 thousand).

5.6. Financial assets measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Debt securities	2,522,229	1,917,615	1,966,169	1,597,448
Loans and advances to banks	547,640	222,965	149,011	350,625
Loans and advances to customers	13,734,601	13,072,986	7,148,283	6,054,413
Other financial assets	165,962	177,823	101,596	114,399
Total	**16,970,432**	**15,391,389**	**9,365,059**	**8,116,885**

The credit quality analysis for financial assets and contingent liabilities is disclosed in note 6.1.j).

a) Debt securities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Governments	1,898,725	1,486,496	1,347,161	1,184,601
Companies	79,679	84,979	72,458	64,913
Banks	536,096	323,944	536,096	323,944
Financial organisations	13,251	25,980	13,251	25,980
	2,527,751	**1,921,399**	**1,968,966**	**1,599,438**
Allowance for impairment (note 5.14.b)	(5,522)	(3,784)	(2,797)	(1,990)
Total	**2,522,229**	**1,917,615**	**1,966,169**	**1,597,448**

b) Loans and advances to banks

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Loans	623	782	119,914	127,717
Time deposits	249,765	118,241	25,865	221,271
Reverse sale and repurchase agreements	294,069	102,358	–	–
Purchased receivables	3,482	1,853	3,482	1,853
	547,939	**223,234**	**149,261**	**350,841**
Allowance for impairment (note 5.14.a)	(299)	(269)	(250)	(216)
Total	**547,640**	**222,965**	**149,011**	**350,625**

c) Loans and advances to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Loans	13,117,311	12,626,259	6,946,199	5,873,443
Overdrafts	449,145	425,135	236,792	208,499
Finance lease receivables (note 5.11.b)	337,610	193,948	–	–
Credit card business	154,664	148,870	82,457	64,460
Called guarantees	4,498	2,772	2,403	1,423
	14,063,228	**13,396,984**	**7,267,851**	**6,147,825**
Allowance for impairment (note 5.14.a)	(328,627)	(323,998)	(119,568)	(93,412)
Total	**13,734,601**	**13,072,986**	**7,148,283**	**6,054,413**

Analysis of loans and advances to customers by sector

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Governments	386,291	303,443	118,220	124,736
Financial organisations	91,523	116,078	384,995	286,504
Companies	6,169,972	6,031,795	3,101,465	2,606,674
Individuals	7,086,815	6,621,670	3,543,603	3,036,499
Total	**13,734,601**	**13,072,986**	**7,148,283**	**6,054,413**

d) Other financial assets

Analysis by type of other financial assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Receivables in the course of settlement and other temporary accounts	43,608	36,712	20,207	19,370
Credit card receivables	54,748	41,364	42,753	30,544
Debtors	9,265	8,516	2,013	2,710
Fees and commissions	9,734	8,737	2,924	2,359
Receivables to brokerage firms and others for the sale of securities and custody services	–	31,587	–	31,081
Accrued income	7,171	3,390	6,247	3,413
Prepayments	2,176	2,563	–	–
Other financial assets	50,065	53,988	29,066	25,935
	176,767	**186,857**	**103,210**	**115,412**
Allowance for impairment (note 5.14.a)	(10,805)	(9,034)	(1,614)	(1,013)
Total	**165,962**	**177,823**	**101,596**	**114,399**

Receivables in the course of settlement are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets in the amount of EUR 22,745 thousand (31 December 2022: EUR 23,508 thousand) relate to a receivable recognised in accordance with the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (note 5.16.a). The remaining balance includes claims for fees and legal costs, and claims from refunds.

Analysis of other financial assets by sector

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Banks	51,020	38,362	19,779	11,918
Government	44,233	78,285	25,756	55,708
Financial organisations	30,715	23,644	23,554	17,578
Companies	5,062	6,368	723	670
Individuals	34,932	31,164	31,784	28,525
Total	**165,962**	**177,823**	**101,596**	**114,399**

e) Movement of called non-financial guarantees

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	397	717	90	420
Effects of translation of foreign operations to presentation currency	(1)	1	–	–
Called guarantees	1,184	891	–	82
Paid guarantees	(534)	(1,087)	–	(287)
Merger of subsidiary	–	–	32	–
Write-offs	(62)	(125)	(62)	(125)
Balance as at 31 December	**984**	**397**	**60**	**90**

5.7. Non-current assets held for sale

The line item 'Non-current assets held for sale' includes business premises and assets received as collateral that are in the process of being sold. As at 31 December 2023, the value of assets received by taking possession of collateral and included in non-current assets held for sale by NLB Group amounted to EUR 474 thousand (31 December 2022: EUR 651 thousand). As at 31 December 2023, and as at 31 December 2022, NLB did not have any non-current assets obtained by taking possession of collateral and included in non-current assets held for sale (note 6.1.l).

Analysis of movements of non-current assets held for sale

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	15,436	7,051	4,235	4,089
Effects of translation of foreign operations to presentation currency	11	9	–	–
Transfer from/(to) property and equipment (note 5.8.)	584	8,226	584	617
Disposals	(10,861)	(637)	(655)	(532)
Valuation	(321)	787	(116)	61
Balance as at 31 December	**4,849**	**15,436**	**4,048**	**4,235**

5.8. Property and equipment

a) Analysis by type

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Own property and equipment	249,920	228,944	80,240	75,262
Right-of-use assets (note 5.11.)	28,114	22,372	5,730	3,330
Total	**278,034**	**251,316**	**85,970**	**78,592**

b) Movement of own property and equipment

in EUR thousands

	NLB Group					NLB				
	Land & Buildings	Computers	Other equipment		Total	Land & Buildings	Computers	Other equipment		Total
			for own use	in operating lease				for own use	in operating lease	
Cost										
Balance as at 1 January 2023	347,252	84,875	95,075	9,304	536,506	195,685	42,180	43,783	3,722	285,370
Effects of translation of foreign operations to presentation currency	(68)	(20)	(3)	–	(91)	–	–	–	–	–
Additions	16,827	14,104	15,217	7,604	53,752	3,527	4,737	2,829	482	11,575
Disposals	(5,519)	(4,969)	(5,627)	(1,904)	(18,019)	–	(1,357)	(2,403)	(2)	(3,762)
Transfer to/from investment property (note 5.9.)	86	–	–	–	86	–	–	–	–	–
Transfer to/from non-current assets held for sale (note 5.7.)	(1,051)	–	–	–	(1,051)	(1,051)	–	–	–	(1,051)
Merger of subsidiary (note 5.12.d)	–	–	–	–	–	3,919	992	657	–	5,568
Disposal of subsidiaries (note 5.12.b), c)	–	(22)	(50)	–	(72)	–	–	–	–	–
Balance as at 31 December 2023	**357,527**	**93,968**	**104,612**	**15,004**	**571,111**	**202,080**	**46,552**	**44,866**	**4,202**	**297,700**
Depreciation and impairment										
Balance as at 1 January 2023	177,896	53,340	72,310	4,016	307,562	138,264	29,619	38,891	3,334	210,108
Effects of translation of foreign operations to presentation currency	(10)	(3)	11	–	(2)	–	–	–	–	–
Disposals	(914)	(4,615)	(4,845)	(335)	(10,709)	–	(1,350)	(2,359)	(2)	(3,711)
Depreciation (note 4.11.)	6,782	10,123	6,412	1,515	24,832	3,750	4,635	1,884	239	10,508
Impairment (note 4.14.)	47	–	–	–	47	–	–	–	–	–
Transfer to/from non-current assets held for sale (note 5.7.)	(467)	–	–	–	(467)	(467)	–	–	–	(467)
Merger of subsidiary (note 5.12.d)	–	–	–	–	–	233	515	274	–	1,022
Disposal of subsidiaries (note 5.12.b), c)	–	(22)	(50)	–	(72)	–	–	–	–	–
Balance as at 31 December 2023	**183,334**	**58,823**	**73,838**	**5,196**	**321,191**	**141,780**	**33,419**	**38,690**	**3,571**	**217,460**
Net carrying value										
Balance as at 31 December 2023	**174,193**	**35,145**	**30,774**	**9,808**	**249,920**	**60,300**	**13,133**	**6,176**	**631**	**80,240**
Balance as at 1 January 2023	**169,356**	**31,535**	**22,765**	**5,288**	**228,944**	**57,421**	**12,561**	**4,892**	**388**	**75,262**

As at 31 December 2023, the value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 11,641 thousand (31 December 2022: EUR 11,962 thousand). As at 31 December 2023 and as at 31 December 2022, NLB did not have any assets received by taking possession of collateral and included in property and equipment (note 6.1.l).

in EUR thousands

	NLB Group					NLB				
	Land & Buildings	Computers	Other equipment		Total	Land & Buildings	Computers	Other equipment		Total
			for own use	in operating lease				for own use	in operating lease	
Cost										
Balance as at 1 January 2022	346,858	80,131	94,729	5,609	527,327	195,852	43,899	46,143	3,519	289,413
Effects of translation of foreign operations to presentation currency	39	13	3	–	55	–	–	–	–	–
Acquisition of subsidiary (note 5.12. e), f)	4,552	818	1,154	–	6,524	–	–	–	–	–
Additions	8,118	13,508	10,767	4,262	36,655	1,448	3,072	1,420	271	6,211
Disposals	(1,242)	(9,595)	(11,550)	(567)	(22,954)	–	(4,791)	(3,780)	(68)	(8,639)
Impairment (note 4.14.)	79	–	–	–	79	–	–	–	–	–
Transfer to/from investment property (note 5.9.)	(1,358)	–	(28)	–	(1,386)	–	–	–	–	–
Transfer to/from non-current assets held for sale (note 5.7.)	(9,794)	–	–	–	(9,794)	(1,615)	–	–	–	(1,615)
Balance as at 31 December 2022	**347,252**	**84,875**	**95,075**	**9,304**	**536,506**	**195,685**	**42,180**	**43,783**	**3,722**	**285,370**
Depreciation and impairment										
Balance as at 1 January 2022	172,160	53,833	74,415	3,326	303,734	135,514	30,087	37,782	3,125	206,508
Effects of translation of foreign operations to presentation currency	(3)	7	4	–	8	–	–	–	–	–
Disposals	(1,109)	(9,608)	(8,084)	(134)	(18,935)	–	(4,713)	(904)	(45)	(5,662)
Depreciation (note 4.11.)	7,030	9,108	5,979	824	22,941	3,748	4,245	2,013	254	10,260
Impairment (note 4.14.)	1,699	–	–	–	1,699	–	–	–	–	–
Transfer to/from investment property (note 5.9.)	(313)	–	(4)	–	(317)	–	–	–	–	–
Transfer to/from non-current assets held for sale (note 5.7.)	(1,568)	–	–	–	(1,568)	(998)	–	–	–	(998)
Balance as at 31 December 2022	**177,896**	**53,340**	**72,310**	**4,016**	**307,562**	**138,264**	**29,619**	**38,891**	**3,334**	**210,108**
Net carrying value										
Balance as at 31 December 2022	**169,356**	**31,535**	**22,765**	**5,288**	**228,944**	**57,421**	**12,561**	**4,892**	**388**	**75,262**
Balance as at 1 January 2022	**174,698**	**26,298**	**20,314**	**2,283**	**223,593**	**60,338**	**13,812**	**8,361**	**394**	**82,905**

5.9. Investment property

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	35,639	47,624	6,753	9,181
Effects of translation of foreign operations to presentation currency	(14)	22	–	–
Acquisition of subsidiaries (note 5.12.e), f)	–	766	–	–
Additions	–	70	–	–
Disposals	(3,392)	(17,004)	(79)	(2,512)
Transfer from/(to) property and equipment (note 5.8.)	(86)	1,069	–	–
Transfer from/(to) other assets	86	–	–	–
Net valuation to fair value (note 4.8.)	(1,117)	3,092	182	84
Merger of subsidiary (note 5.12.d)	–	–	784	–
Balance as at 31 December	**31,116**	**35,639**	**7,640**	**6,753**

As at 31 December 2023, the value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 21,253 thousand (31 December 2022: EUR 25,326 thousand), and in NLB amounted to EUR 2,263 thousand (31 December 2022: EUR 1,901 thousand) (note 6.1.l).

Operating expenses arising from investment properties:

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Leased to others	1,986	2,496	373	355
Not leased to others	459	564	298	300
Total	**2,445**	**3,060**	**671**	**655**

5.10. Intangible assets

in EUR thousands

	NLB Group				NLB
	Software licenses	Other intangible assets	Goodwill	Total	Software licenses
Cost					
Balance as at 1 January 2023	259,684	13,227	32,336	305,247	207,769
Effects of translation of foreign operations to presentation currency	(25)	(13)	–	(38)	–
Merger of subsidiary (note 5.12.d)	–	–	–	–	979
Additions	20,697	–	–	20,697	13,797
Disposals	(4)	–	–	(4)	–
Write-offs	(7,740)	–	–	(7,740)	(4,366)
Disposal of subsidiary (note 5.12.b)	(167)	–	–	(167)	–
Balance as at 31 December 2023	**272,445**	**13,214**	**32,336**	**317,995**	**218,179**
Amortisation and impairment					
Balance as at 1 January 2023	210,821	7,384	28,807	247,012	177,344
Effects of translation of foreign operations to presentation currency	(16)	(13)	–	(29)	–
Merger of subsidiary (note 5.12.d)	–	–	–	–	294
Disposals	(4)	–	–	(4)	–
Amortisation (note 4.11.)	14,037	2,365	–	16,402	7,528
Write-offs	(7,336)	–	–	(7,336)	(4,366)
Disposal of subsidiary (note 5.12.b)	(167)	–	–	(167)	–
Balance as at 31 December 2023	**217,335**	**9,736**	**28,807**	**255,878**	**180,800**
Net carrying value					
Balance as at 31 December 2023	**55,110**	**3,478**	**3,529**	**62,117**	**37,379**
Balance as at 1 January 2023	**48,863**	**5,843**	**3,529**	**58,235**	**30,425**

Other intangible assets represent additionally identified intangible assets in a business combination, namely core deposits and trade name.

	NLB Group				NLB
in EUR thousands	Software licenses	Other intangible assets	Goodwill	Total	Software licenses
Cost					
Balance as at 1 January 2022	245,607	13,211	32,336	291,154	201,028
Effects of translation of foreign operations to presentation currency	(7)	16	–	9	–
Acquisition of subsidiaries (note 5.12.e), f)	1,444	–	–	1,444	–
Additions	14,170	–	–	14,170	6,741
Disposals	(535)	–	–	(535)	–
Write-offs	(995)	–	–	(995)	–
Balance as at 31 December 2022	**259,684**	**13,227**	**32,336**	**305,247**	**207,769**
Amortisation and impairment					
Balance as at 1 January 2022	198,997	4,274	28,807	232,078	171,575
Effects of translation of foreign operations to presentation currency	(8)	8	–	–	–
Amortisation (note 4.11.)	12,655	3,102	–	15,757	5,769
Write-offs	(823)	–	–	(823)	–
Balance as at 31 December 2022	**210,821**	**7,384**	**28,807**	**247,012**	**177,344**
Net carrying value					
Balance as at 31 December 2022	**48,863**	**5,843**	**3,529**	**58,235**	**30,425**
Balance as at 1 January 2022	**46,610**	**8,937**	**3,529**	**59,076**	**29,453**

5.11. Leases

a) NLB Group as a lessee

in EUR thousands	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Right-of-use assets				
Land and buildings	24,541	19,567	2,794	2,241
Vehicles	92	130	2,681	1,089
Computers	395	–	255	–
Furniture and equipment	3,086	2,675	–	–
Total	**28,114**	**22,372**	**5,730**	**3,330**
Lease liabilities	**28,944**	**23,840**	**5,793**	**3,349**

In the statement of financial position, right-of-use assets are included in the line item 'Property and equipment' and lease liabilities are included in the line item 'Other financial liabilities.'

Additions to the right-of-use assets during 2023 in NLB Group amounted to EUR 19,149 thousand (2022: EUR 6,411 thousand), and in NLB EUR 4,656 thousand of which EUR 500 thousand from N Banka merger (2022: EUR 1,751 thousand).

The income statement shows the following amounts relating to leases:

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Depreciation of right-of-use assets (note 4.11.)				
Land and buildings	6,519	7,092	692	511
Vehicles	160	276	705	448
Computers	61	–	24	–
Furniture and equipment	1,258	1,324	–	13
Total	**7,998**	**8,692**	**1,421**	**972**

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Interest expenses on lease liabilities (note 4.1.)	(728)	(431)	(132)	(28)
Expenses relating to short-term leases (included in administrative expenses)	(1,554)	(855)	(403)	(158)
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	(1,237)	(1,129)	(182)	(185)
Income from sub-leasing right-of-use assets (included in other operating income)	140	77	–	–

The total cash outflow for leases in 2023 in NLB Group was EUR 8,242 thousand (2022: EUR 8,547 thousand), and in NLB EUR 1,386 thousand (2022: EUR 1,001 thousand).

NLB Group leases various offices, branches, vehicles, and other equipment used in its business. Rental contracts for offices and branches generally have lease terms between 5 to 20 years, while some contracts are made for indefinite periods. Contracts for indefinite periods are included in the measurement of the liability in accordance with planning projections. Normally, a lease term of five years is assumed, with the exemption of business premises on strategic locations where management assesses a different (longer) lease term. Vehicles and other equipment generally have lease terms between 1 and 5 years. There are several lease contracts that include extension and termination options. These options are negotiated by management to align with the Group's business needs. Lease payments to be made under reasonably certain extension options are included in measurement of the liability.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NLB Group also has certain leases of other equipment with a lease term of 12 months or less, and equipment with low value. For these leases, NLB Group applies the short-term lease and the lease of low-value assets recognition exemptions. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

For calculation of the net present value of the future lease payments, NLB Group applies the internal transfer price as a discount rate.

NLB Group and NLB do not have expenses relating to variable payments and gains or losses arising from a sale and leaseback transactions.

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The following table sets out a maturity analysis of lease liabilities.

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Up to 1 Month	448	3,440	149	82
1 Month to 3 Months	446	431	258	155
3 Months to 1 Year	2,125	2,913	1,187	664
1 Year to 5 Years	15,693	16,300	3,592	2,056
Over 5 Years	10,232	756	607	392
Total	**28,944**	**23,840**	**5,793**	**3,349**

The increase in lease liabilities in the NLB Group in 2023 arising from the newly concluded long-term lease contracts for business premises.

b) NLB Group as a lessor

Finance and operating leases of motor vehicles and operating leases of business premises and POS terminals represent the majority of agreements in which NLB Group acts as a lessor.

Most of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements. Most of the finance lease agreements are concluded for a non-cancellable period of between 48 and 60 months. By paying the last instalment at the end of the contract, the leasing object becomes the lessee's property. The financial leasing receivables are secured by the object of financing. NLB Group does not have finance lease contracts with variable payments not included in the measurement of the net investment in the lease.

The investment properties are leased to the lessee under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or a rate. The investment properties generally have lease terms between 2 and 10 years. Some contracts are made for an indefinite period.

Finance leases

Loans and advances to customers in NLB Group include finance lease receivables.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

in EUR thousands

NLB Group	2023	2022
Less than 1 year	115,449	70,629
1 to 2 years	89,047	46,515
2 to 3 years	76,876	39,899
3 to 4 years	62,091	29,423
4 to 5 years	31,172	17,422
More than 5 years	20,787	13,878
Total undiscounted lease receivable	**395,422**	**217,766**
Unearned finance income	(57,812)	(23,818)
Net investment in the lease	**337,610**	**193,948**

During 2023, NLB Group recognised interest income on lease receivables in the amount of EUR 18,959 thousand (2022: EUR 6,607 thousand).

Operating lease

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Less than 1 year	4,991	2,580	300	345
1 to 2 years	2,920	1,657	297	343
2 to 3 years	1,678	1,028	271	340
3 to 4 years	1,434	694	254	315
4 to 5 years	1,013	488	189	315
More than 5 years	689	1,314	592	1,224
Total	**12,725**	**7,761**	**1,903**	**2,882**

NLB Group realised rental income arising from: investment properties in the amount of EUR 1,755 thousand (2022: EUR 2,912 thousand); and movable property in the amount of EUR 2,133 thousand (2022: EUR 1,252 thousand). NLB realised rental income arising from: investment properties in the amount of EUR 359 thousand (2022: EUR 459 thousand); and movable property in the amount of EUR 485 thousand (2022: EUR 475 thousand) (note 4.8.).

5.12. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

in EUR thousands

NLB	31 Dec 2023	31 Dec 2022
Banks	901,765	813,362
Other financial organisations	30,407	32,126
Enterprises	43,585	58,552
Total	975,757	904,040

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2023:

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2023 (in EUR thousands)	Profit/(loss) for 2023 (in EUR thousands)	NLB Group		NLB	
					Shareholding (in %)	Voting rights (in %)	Shareholding (in %)	Voting rights (in %)
Core members								
NLB Banka a.d., Skopje	Banking	North Macedonia	279,987	44,517	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	120,390	26,658	99.87	99.87	99.87	99.87
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	107,270	24,269	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	149,669	35,968	82.38	82.38	82.38	82.38
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	95,980	12,819	97.34	97.35	97.34	97.35
NLB Komercijalna banka a.d. Beograd	Banking	Serbia	827,575	132,313	100	100	100	100
KomBank Invest a.d. Beograd	Finance	Serbia	769	(1,201)	100	100	–	–
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	13,707	9,498	100	100	100	100
NLB Lease&Go, leasing, d.o.o., Ljubljana	Finance	Slovenia	21,251	1,664	100	100	100	100
NLB Lease&Go, d.o.o. Skopje**	Finance	North Macedonia	1,493	(605)	100	100	–	–
NLB Lease&Go leasing d.o.o. Beograd***	Finance	Serbia	7,115	(736)	99.64	99.64	–	–
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	3,500	86	100	100	100	100
NLB DigIT d.o.o., Beograd	IT services	Serbia	2,569	204	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana - v likvidaciji*	Finance	Slovenia	2,021	1,487	100	100	–	–
NLB Crna Gora d.o.o., Podgorica	Finance	Montenegro	3,643	348	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	9,762	(2,321)	100	100	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Serbia	3	1	100	100	–	–
LHB AG, Frankfurt	Finance	Germany	684	(402)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Montenegro	2,156	389	100	100	100	100
REAM d.o.o., Beograd - Novi Beograd	Real estate	Serbia	2,042	(576)	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	22,452	(384)	100	100	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	20,447	635	100	100	–	–
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,153	(314)	100	100	–	–
NLB Srbija d.o.o., Beograd	Real estate	Serbia	18,252	(603)	100	100	100	100
Privatinvest d.o.o., Ljubljana	Real estate	Slovenia	110	(11)	100	100	100	100

*100% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana.
**51% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana and 49% ownership of NLB Banka a.d., Skopje.
***50.73% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana and 48.91% NLB Komercijalna banka a.d. Beograd.

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Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2022:

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2022 (in EUR thousands)	Profit/(loss) for 2022 (in EUR thousands)	NLB Group		NLB	
					Shareholding (in %)	Voting rights (in %)	Shareholding (in %)	Voting rights (in %)
Core members								
NLB Banka a.d., Skopje	Banking	North Macedonia	265,844	37,874	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Montenegro	106,937	16,613	99.87	99.87	99.87	99.87
NLB Banka a.d., Banja Luka	Banking	Bosnia and Herzegovina	96,237	19,281	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Kosovo	113,844	32,402	82.38	82.38	82.38	82.38
NLB Banka d.d., Sarajevo	Banking	Bosnia and Herzegovina	90,608	11,436	97.34	97.35	97.34	97.35
NLB Komercijalna banka a.d. Beograd	Banking	Serbia	737,972	66,014	100	100	100	100
KomBank Invest a.d. Beograd	Finance	Serbia	1,203	(148)	100	100	–	–
N Banka d.d., Ljubljana	Banking	Slovenia	186,423	11,085	100	100	100	100
Privatinvest d.o.o., Ljubljana	Real estate	Slovenia	123	(99)	100	100	–	–
NLB Skladi d.o.o., Ljubljana	Finance	Slovenia	12,598	8,404	100	100	100	100
NLB Lease&Go, leasing, d.o.o., Ljubljana	Finance	Slovenia	19,578	810	100	100	100	100
NLB Lease&Go, d.o.o. Skopje**	Finance	North Macedonia	529	(68)	100	100	–	–
NLB Lease&Go leasing d.o.o. Beograd	Finance	Serbia	766	(390)	95.20	95.20	–	–
NLB Zavod za upravljanje kulturne dediščine, Ljubljana	Cultural heritage management	Slovenia	3,414	2,601	100	100	100	100
NLB DigIT d.o.o., Beograd	IT services	Serbia	2,368	(36)	100	100	100	100
Non-core members								
NLB Leasing d.o.o., Ljubljana - v likvidaciji*	Finance	Slovenia	16,936	366	100	100	–	–
Optima Leasing d.o.o., Zagreb - „u likvidaciji“	Finance	Croatia	821	(434)	100	100	–	–
NLB Leasing d.o.o., Beograd - u likvidaciji	Finance	Serbia	5,899	(91)	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Finance	Montenegro	3,295	165	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	10,029	(2,213)	100	100	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Serbia	4	1	100	100	–	–
LHB AG, Frankfurt	Finance	Germany	1,086	(646)	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Montenegro	13,546	(3,255)	100	100	12.71	12.71
REAM d.o.o., Podgorica	Real estate	Montenegro	1,767	71	100	100	100	100
REAM d.o.o., Beograd - Novi Beograd	Real estate	Serbia	1,758	(90)	100	100	100	100
SPV 2 d.o.o., Beograd - Novi Beograd	Real estate	Serbia	867	35	100	100	100	100
S-REAM d.o.o., Ljubljana	Real estate	Slovenia	23,141	(184)	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Croatia	994	66	100	100	–	–
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Slovenia	19,974	162	100	100	–	–
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Croatia	1,467	153	100	100	–	–
NLB Srbija d.o.o., Beograd	Real estate	Serbia	31,591	(709)	100	100	100	100

*100% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana.
**51% ownership of NLB Lease&Go, leasing, d.o.o., Ljubljana and 49% ownership of NLB Banka a.d., Skopje.

Changes in ownership interest in the subsidiaries of NLB Group in 2023 and 2022 are presented in note 3.

Data of subsidiaries with significant non-controlling interests, before intercompany eliminations:

in EUR thousands

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2023	2022	2023	2022
Non-controlling interest in equity in %	13.03	13.03	17.62	17.62
Non-controlling interest's voting rights in %	13.03	13.03	17.62	17.62
Income statement and statement of comprehensive income				
Revenues	111,640	94,624	68,468	58,296
Profit/(loss) for the year	**44,517**	**37,874**	**35,968**	**32,402**
Attributable to non-controlling interest	5,801	4,935	6,339	5,710
Other comprehensive income	3,363	(5,071)	(141)	(309)
Total comprehensive income	**47,880**	**32,803**	**35,827**	**32,093**
Attributable to non-controlling interest	6,239	4,274	6,314	5,656
Paid dividends to non-controlling interest	4,391	1,332	–	3,014
Statement of financial position				
Current assets	867,333	826,723	716,000	563,629
Non-current assets	1,034,922	1,020,798	513,757	520,009
Current liabilities	1,393,480	1,404,491	856,340	806,646
Non-current liabilities	228,788	177,186	223,748	163,148
Equity	**279,987**	**265,844**	**149,669**	**113,844**
Attributable to non-controlling interest	36,482	34,639	26,376	20,063

b) Disposal of subsidiary Optima Leasing d.o.o., Zagreb – u likvidaciji

In September 2023, NLB Group sold its subsidiary Optima Leasing d.o.o., Zagreb – u likvidaciji.

The assets and liabilities derecognised from NLB Group financial statements as a result of disposal are as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	713
Financial assets measured at amortised cost	
- other financial assets	4
Other assets	104
Total assets	**821**
Provisions	30
Other liabilities	22
Total liabilities	**52**
Net assets of subsidiary	769
Total disposal consideration	**470**
Cash and cash equivalents in subsidiary sold	(713)
Cash outflow on disposal	**(243)**
Consideration for disposal of the subsidiary	470
Carrying amount of net assets disposed of	769
Loss from disposal of subsidiary in consolidated financial statements	**(299)**

At sale of subsidiary Optima Leasing d.o.o., Zagreb – u likvidaciji, NLB Group realised a loss in the amount of EUR 299 thousand.

c) Disposal of subsidiary Tara Hotel d.o.o., Budva

In May 2023, NLB Group sold its subsidiary Tara Hotel d.o.o., Budva.

The assets and liabilities derecognised from NLB Group financial statements as a result of disposal are as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	2
Financial assets measured at amortised cost	
- other financial assets	19
Other assets	13,938
Total assets	**13,959**
Financial liabilities measured at amortised cost	
- borrowings from banks and central banks	178
- other financial liabilities	20
Deferred income tax liabilities	193
Other liabilities	82
Total liabilities	**473**
Net assets of subsidiary	13,486
Total disposal consideration	**13,019**
Cash inflow on disposal	**13,019**
Consideration for disposal of the subsidiary	13,019
Carrying amount of net assets disposed of	13,486
Loss from disposal of subsidiary in consolidated financial statements	**(467)**

At sale of Tara Hotel d.o.o., Budva NLB Group realised a loss in the amount of EUR 467 thousand and NLB in the amount of EUR 105 thousand.

d) Merger of N Banka d.d., Ljubljana

On 1 September 2023, with entry of the merger in the Register of Companies, the process of legal merger of N Banka d.d. with NLB d.d. was closed. As at the date of the merger, N Banka ceased to exist as an independent legal entity, and NLB, as a universal legal successor, took over all of its rights and obligations.

Merger was accounted for using merger accounting principles, due to the fact that such a merger is considered to be a business combination involving entities under common control. NLB has applied for the merger the following accounting policy:

- As of 1 September 2023 all assets, liabilities and off-balance sheet items of N Banka were recognised as they were reported for the purposes of NLB Group financial statements as of 31 August 2023 in relevant line items of assets, liabilities and off-balance sheet items of merged bank; and
- As of 1 September 2023 all income and expenses of N Banka were recognised as they were reported for the purposes of NLB Group financial statements as of 31 August 2023 directly into retained earnings. Therefore only income and expenses from 1 September 2023 onwards were recognised in the income statement of merged bank.

As at the day of the merger, NLB also took over control of the company Privatinvest d.o.o., which was 100% owned by N Banka and whose assets consist only of repossessed real estate. N Banka also had an investment in Bankart d.o.o., Ljubljana, which was on the day of the merger transferred to NLB.

Items of the statement of financial position at the day of the merger were as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	118,158
Financial assets measured at fair value through other comprehensive income	49,477
Financial assets measured at amortised cost	
- debt securities	13,044
- loans and advances to banks	3
- loans and advances to customers	765,552
- other financial assets	2,664
Investments in associates and joint ventures	134
Tangible assets	
Property and equipment	4,884
- own property and equipment	4,546
- right-of-use assets	338
Investment property	784
Intangible assets	685
Deferred income tax assets	2,426
Other assets	68
Total assets	**957,879**
Financial liabilities held for trading	189
Financial liabilities measured at amortised cost	
- deposits from banks and central banks	131,070
- borrowings from banks and central banks	40,084
- due to customers	574,747
- other financial liabilities	2,193
Provisions	7,881
Current income tax liabilities	1,026
Other liabilities	943
Total liabilities	**758,133**
Equity	199,746
Total liabilities and equity	**957,879**

As a result of the merger, NLB's off-balance sheet liabilities increased by EUR 200,933 thousand:

	in EUR thousands
Guarantees	108,673
Commitments to extend credit	92,260
Total	**200,933**

Items of the N Banka income statement for the period 1 January - 31 August 2023 as they were reported for the purposes of NLB Group financial statements:

	in EUR thousands
Net interest income	27,822
Net fee and commission income	6,016
Profit for the year	**13,389**

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e) Acquisition of N Banka d.d., Ljubljana

On the level of the European Central Bank and the Single Resolution Board, a decision was made on 28 February 2022 to suspend the business operations of the banking group Sberbank Europe AG, which also had a subsidiary bank in Slovenia. At the same time, a transitional period or short-term moratorium was adopted, during which a solution for the Slovenian subsidiary, Sberbank banka d.d., was found with the aim to ensure the continuity of the business operations for all of its clients. On 1 March 2022, in order to maintain financial stability in Slovenia, the Single Resolution Board, in cooperation with the Bank of Slovenia, adopted a scheme and resolution plan for Sberbank banka d.d., Ljubljana. Based on this resolution, the Bank of Slovenia issued a decision using the instrument of sale of operation in a way that all shares are transferred from the shareholders to the transferee. In the process of finding a new owner of Sberbank banka d.d., Ljubljana, a sale agreement was concluded with NLB, which became an owner of 100% of the bank's shares as at 1 March 2022. At the date of acquisition, the acquired bank had one 100% owned subsidiary, company Privatinvest d.o.o., whose assets consist only of repossessed real estate. It also had an investment into Bankart d.o.o., Ljubljana, which is in individual financial statements of the acquired bank accounted for as financial asset measured at fair value through other comprehensive income, while on the level of NLB Group it is an associate.

In April 2022, Sberbank banka d.d., Ljubljana was renamed to N Banka d.d., Ljubljana.

The purchase price for the bank was EUR 5,109 thousand and was fully paid in cash. There are no contingent consideration arrangements. At the acquisition date, cash in acquired entities amounted to EUR 265,062 thousand, therefore the net inflow of cash amounted to EUR 259,953 thousand (included in the statement of cash flows within payments from investing activities).

The assets and liabilities recognised as a result of the acquisition are as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	265,062
Financial assets held for trading	4,788
Non-trading financial assets mandatorily at fair value through profit or loss	332
Financial assets measured at fair value through other comprehensive income	69,387
Financial assets measured at amortised cost	
- debt securities	12,819
- loans and advances to banks	2,489
- loans and advances to customers	1,148,615
- other financial assets	3,465
Investments in associates and joint ventures	11
Tangible assets	
Property and equipment	10,905
- own property and equipment (note 5.8.b)	6,387
- right-of-use assets	4,518
Investment property	464
Intangible assets	1,424
Current income tax assets	46
Deferred income tax assets	4,481
Other assets	2,169
Total assets	**1,526,457**
Financial liabilities held for trading	4,698
Financial liabilities measured at amortised cost	
- deposits from banks and central banks	24,937
- borrowings from banks and central banks	190,008
- due to customers	1,072,411
- other financial liabilities	30,155
Provisions	21,896
Current income tax liabilities	2,249
Other liabilities	2,184
Total liabilities	**1,348,538**
Net identifiable assets acquired	177,919
Consideration given	5,109
Gain from bargain purchase	**172,810**

NLB owns 100% of N Banka, therefore no non-controlling interests were recognised as a result of acquisition.

The acquisition of N Banka resulted in a gain from a bargain purchase in the amount of EUR 172,810 thousand, which is recognised in the income statement under the line item 'Gain from bargain purchase.'

Current market conditions, when banks are generally valued below their net book values, usually result in recognition of a gain from a bargain purchase, which is in the case of N Banka even higher than it would be as a result of an orderly transaction, since the bank was acquired in the process of resolution. Gain from bargain purchase is not taxable.

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As a result of the acquisition, NLB Group's off-balance sheet liabilities increased by EUR 277,772 thousand:

	in EUR thousands
Guarantees	136,309
- financial	41,615
- non-financial	94,694
Commitments to extend credit	138,749
Letters of credit	2,714
Total	**277,772**

Since the bank was acquired within a very short timeframe in the process of resolution, acquisition-related costs were immaterial.

NLB obtained all the necessary information for measuring fair values, therefore no amounts were measured and recognised on a provisional basis.

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Assets acquired	Valuation technique
Performing loans	*Discounted cash flow approach:* Since these are performing loans, it was assumed that they would be repaid by future cash flows in accordance with amortisation schedules. Credit risk was considered for loans which are classified in Stage 2 in N Banka individual financial statements, by reducing future cash flows accordingly. Also prepayment risk was estimated for consumer and mortgage loans. The discount rates used for fair value measurement of loans were based on the publicly available interest rates published by Bank of Slovenia, that represent market rates and are thus considered the most appropriate. Discount rates differ based on product type, client segment, maturity and currency.
Non-performing loans	*Discounted cash flow approach*: Since these are non-performing loans, it could generally not be assumed that they would be repaid with cash flows from client's regular business. Instead, gone concern principle was used, taking into account liquidation value of collateral as expected cash flows. Appropriate haircuts for age of valuations, type of collateral, type of location, and type of real estate were used to estimate the liquidation value of collateral, which was then discounted for a period of 4 years, with the required yield of 15%.
Debt securities	For debt securities classified in Level 1 of fair value hierarchy, fair values were determined by an observable market price in an active market for an identical asset. For valuing debt securities in Level 2, income approach was used, based on the estimation of future cash flows discounted to the present value. The input parameters used in the income approach were the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).
Real estate	Three approaches were used for estimating the value of real estate - the income capitalisation approach, the sale comparison approach and the residual land value approach. Each views the valuation from different perspectives and considers data from different market sources. The most suitable approach depends on the characteristics and use of individual real estate. *The income capitalization approach:* Values property by the amount of income - cash flow that it can potentially generate. The value of the property is derived by converting the expected income generated from a property into a present value estimate using market capitalization rate. This method is commonly used for valuing income-generating properties. *The sale comparison approach:* Values property by comparing similar properties that have been sold recently. This approach is sometimes referred to as the 'direct sales comparison approach.' The reliability of an indication found by this method depends on the quality of comparable data found in the marketplace and application of adequate adjustments for individually appraised real estate. When sale transactions are not available, the direct sales comparison approach is not applicable. *Residual land value approach:* is a method for calculating the value of development land. It is performed by subtracting from the total value of a development project, all costs associated with the development project, including profit but excluding the cost of the land. It is applicable only for development/ construction land.
Liabilities acquired	**Valuation technique**
Deposits	*Discounted cash flow approach:* Aggregated future cash flows were discounted by applying market interest rates for term deposits. As a discount rate, average market rates on the deposits, published by Bank of Slovenia, were used.

The fair value of acquired loans and advances to customers is EUR 1,148,615 thousand, of which EUR 1,127,261 thousand relates to performing portfolio and EUR 21,354 thousand to non-performing portfolio. The latter was recognised as purchased or originated credit-impaired financial assets (POCI). The gross contractual amount for performing loans and advances to customers is EUR 1,135,072 thousand and for this exposure 12-month expected credit losses in the amount of EUR 8,552 thousand were recognised through the income statement. The gross contractual amount for non-performing loans and advances to customers is EUR 49,641 thousand, and it is expected that approximately EUR 23 million of the contractual cash flows will not be collected.

Immediately after acquisition, 12-month expected credit losses for Stage 1 financial assets in the amount of EUR 8,900 thousand and attributable deferred taxes in the amount of EUR 1,691 thousand were recognised. Additionally, EUR 39,657 thousand of revenue, EUR 18,294 thousand of gain after tax, and EUR 2,650 thousand of other comprehensive loss were recognised in NLB Group financial statements since the acquisition date. Had the acquisition occurred on 1 January 2022, management estimates that the consolidated revenue (excluding gain from bargain purchase) would have been approximately EUR 960 million, and the consolidated profit for the year (excluding gain from bargain purchase) approximately EUR 265 million. The exact result is difficult to determine due to the changed circumstances during the year, especially the impact of the war in Ukraine.

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f) Acquisition of NLB Lease&Go leasing d.o.o. Beograd

In November 2022, NLB Lease&Go, leasing, d.o.o., Ljubljana became an owner of 95.20% of financial company Zastava Istrabenz Lizing, d.o.o., Beograd.

In January 2023, Zastava Istrabenz Lizing, d.o.o., Beograd was renamed to NLB Lease&Go leasing d.o.o. Beograd.

The purchase price for the company was EUR 1,036 thousand and was fully paid in cash. There are no contingent consideration arrangements. At the acquisition date, cash in acquired entity amounted to EUR 117 thousand, therefore the net outflow of cash amounted to EUR 919 thousand (included in the statement of cash flows within payments from investing activities).

The assets and liabilities recognised as a result of the acquisition are as follows:

	in EUR thousands
Cash, cash balances at central banks and other demand deposits at banks	117
Financial assets measured at amortised cost	
- loans and advances to banks	171
- loans and advances to customers	913
- other financial assets	5
Tangible assets	
Property and equipment	137
- own property and equipment (note 5.8.b)	137
Investment property	302
Intangible assets	20
Current income tax assets	5
Other assets	2
Total assets	**1,672**
Financial liabilities measured at amortised cost	
- borrowings from other customers	490
- other financial liabilities	7
Provisions	7
Other liabilities	8
Total liabilities	**512**
Net identifiable assets acquired (100%)	**1,160**
Less: non-controlling interests	56
Net assets acquired (NLB Group share)	**1,104**
Consideration given	1,036
Gain from bargain purchase	**68**

NLB Group recognises non-controlling interests in NLB Lease&Go leasing d.o.o. Beograd at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The acquisition of NLB Lease&Go leasing d.o.o. Beograd resulted in a gain from a bargain purchase in the amount of EUR 68 thousand, which is recognised in the income statement under the line item 'Gain from bargain purchase.' Gain from bargain purchase is not taxable.

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g) Analysis by type of investment in associates and joint ventures

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Carrying amount of the NLB Group's interest				
Other financial organisations	12,519	11,677	4,293	4,282
Enterprises	–	–	530	289
Total	**12,519**	**11,677**	**4,823**	**4,571**

NLB Group's associates

2023 — in %

	Nature of Business	Country of Incorporation	NLB Group Shareholding	NLB Group Voting rights	NLB Shareholding	NLB Voting rights
Bankart d.o.o., Ljubljana	Card processing	Slovenia	46.03	46.03	46.03	46.03
ARG - Nepremičnine d.o.o., Horjul	Real estate	Slovenia	75.00	75.00	75.00	75.00

2022 — in %

	Nature of Business	Country of Incorporation	NLB Group Shareholding	NLB Group Voting rights	NLB Shareholding	NLB Voting rights
Bankart d.o.o., Ljubljana	Card processing	Slovenia	46.03	46.03	45.64	45.64
ARG - Nepremičnine d.o.o., Horjul	Real estate	Slovenia	75.00	75.00	75.00	75.00

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

The carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

in EUR thousands

	2023	2022
Carrying amount of the NLB Group's interest	**12,519**	**11,677**
NLB Group's share of:		
- Profit for the year	1,072	781
- Other comprehensive income	45	121
- Total comprehensive income	**1,117**	**902**

NLB Group's interest in an associate was in previous years reduced to zero, consequently NLB Group did not recognise a share of profit in the amount of EUR 347 thousand in 2023 (2022: EUR 87 thousand). The cumulative unrecognised share of losses of an associate as at 31 December 2023 amounted to EUR 1,742 thousand (31 December 2022: EUR 2,083 thousand).

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NLB Group's joint ventures

			2023	2022
	Nature of Business	Country of Incorporation	Voting rights	Voting rights
Prvi Faktor Group, Ljubljana	Finance	Slovenia	50	50

in %

NLB Group's interest in a joint venture was in previous years reduced to zero, consequently NLB Group did not recognise a share of profit in the amount of EUR 751 thousand in 2023 (2022: EUR 429 thousand). The cumulative unrecognised share of losses of a joint venture as at 31 December 2023 amounted to EUR 13,645 thousand (31 December 2022: EUR 14,396 thousand).

h) Movements of investments in associates

in EUR thousands

NLB Group	2023	2022
Balance as at 1 January	11,677	11,525
Acquisition of subsidiary (note 5.12.e)	–	11
Share of result before tax	1,394	827
Share of tax	(322)	(46)
Net gains/(losses) recognised in other comprehensive income	45	121
Dividends received	(275)	(761)
Balance as at 31 December	**12,519**	**11,677**

5.13. Other assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Assets, received as collateral (note 6.1.l)	27,637	51,586	3,129	3,170
Deferred expenses	12,313	12,200	6,915	6,929
Inventories	5,825	4,961	2,943	2,324
Claim for taxes and other dues	1,599	1,509	531	417
Prepayments	1,780	2,287	389	321
Total	**49,154**	**72,543**	**13,907**	**13,161**

Assets, received as collateral on NLB Group in the amount of EUR 27,122 thousand (31 December 2022: EUR 50,913 thousand), and on NLB in the amount of EUR 3,129 thousand (31 December 2022: EUR 3,170 thousand) consist of real estate (note 6.1.l).

5.14. Movements in allowance for the impairment of financial assets

a) Movements in allowance for the impairment of loans and receivables measured at amortised cost

in EUR thousands

NLB Group	Balance as at 1 Jan 2023	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Disposal of subsidiary	Balance as at 31 Dec 2023	Repayments of written-off receivables
Notes				4.14.		4.14.			5.6.b), c), d)	4.14.
12-month expected credit losses										
Loans and advances to banks	161	–	–	49	–	–	3	–	**213**	–
Loans and advances to individuals	31,385	(13)	31,614	(22,681)	(221)	(419)	3	–	**39,668**	–
Loans and advances to other customers	59,840	(17)	(1,229)	5,634	–	(13,134)	(7)	–	**51,087**	–
Other financial assets	1,246	–	(17)	(201)	(42)	(117)	(225)	(20)	**624**	–
Lifetime ECL not credit-impaired										
Loans and advances to individuals	14,582	(5)	(28,704)	34,051	(18)	5,121	24	–	**25,051**	–
Loans and advances to other customers	31,230	1	(1,988)	(9,837)	(8)	156	224	–	**19,778**	–
Other financial assets	38	–	(36)	82	(17)	(26)	(1)	–	**40**	–
Lifetime ECL credit-impaired										
Loans and advances to banks	108	–	–	(26)	–	–	4	–	**86**	–
Loans and advances to individuals	75,807	(5)	(2,910)	29,543	(23,445)	720	4,070	–	**83,780**	8,703
Loans and advances to other customers	111,154	645	3,217	(8,614)	(19,399)	(364)	22,624	–	**109,263**	15,237
Other financial assets	7,750	–	53	3,374	(764)	(18)	17	(271)	**10,141**	261
Of which: Purchased or originated credit-impaired										
Loans and advances to individuals	(499)	–	–	(414)	(456)	–	2,393	–	**1,024**	1,377
Loans and advances to other customers	(3,134)	(6)	–	(4,817)	(1,026)	–	14,968	–	**5,985**	2,012
Other financial assets	185	(2)	–	185	–	–	863	–	**1,231**	–

in EUR thousands

NLB Group	Balance as at 1 Jan 2022	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022	Repayments of written-off receivables
Notes				4.14.		4.14.		5.6.b), c), d)	4.14.
12-month expected credit losses									
Loans and advances to banks	198	1	–	(46)	–	5	3	**161**	–
Loans and advances to individuals	18,336	(6)	19,708	(12,932)	(239)	6,521	(3)	**31,385**	–
Loans and advances to other customers	50,961	6	(4,026)	18,487	(1)	(5,585)	(2)	**59,840**	–
Other financial assets	476	1	(263)	911	(72)	20	173	**1,246**	–
Lifetime ECL not credit-impaired									
Loans and advances to individuals	7,398	(4)	(12,893)	16,206	(18)	3,897	(4)	**14,582**	–
Loans and advances to other customers	26,624	2	2,175	2,943	(1)	(493)	(20)	**31,230**	–
Other financial assets	36	(1)	13	1	(26)	12	3	**38**	–
Lifetime ECL credit-impaired									
Loans and advances to banks	–	–	–	108	–	–	–	**108**	–
Loans and advances to individuals	76,047	4	(6,815)	28,969	(21,199)	(751)	(448)	**75,807**	8,213
Loans and advances to other customers	136,607	626	1,851	(9,912)	(27,759)	144	9,597	**111,154**	24,770
Other financial assets	5,714	(3)	250	1,556	(1,136)	(22)	1,391	**7,750**	346
Of which: Purchased or originated credit-impaired									
Loans and advances to individuals	(157)	1	–	24	(219)	–	(148)	**(499)**	1,537
Loans and advances to other customers	613	(2)	–	(11,136)	(244)	–	7,635	**(3,134)**	3,546
Other financial assets	(608)	–	–	(1,034)	–	–	1,827	**185**	12

Column Increases/(Decreases) also includes 12-month expected credit losses recognised at the acquisition of N Banka in the amount of EUR 187 thousand for Loans and advances to banks, in the amount of EUR 8,552 thousand for Loans and advances to customers, and in the amount of EUR 95 thousand for Other financial assets (notes 4.14. and 5.12.e).

Other movements relate mainly to income from repayments of non-performing exposures in NLB Komercijalna banka a.d. Beograd and N Banka, which were at acquisition recognised at fair value, without a corresponding allowance for the impairment and to expenses due to initial recognition of non-performing exposure at fair value in NLB.

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in EUR thousands

NLB	Balance as at 1 Jan 2023	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Merger of subsidiary	Balance as at 31 Dec 2023	Repayments of written-off receivables
Notes			4.14.		4.14.		5.12.d)	5.6.b), c), d)	4.14.
12-month expected credit losses									
Loans and advances to banks	216	–	(54)	–	2	–	–	**164**	–
Loans and advances to individuals	6,161	15,744	(14,192)	(189)	(603)	1	1,151	**8,073**	–
Loans and advances to other customers	14,880	(1,199)	(2,541)	–	(3,622)	25	5,939	**13,482**	–
Other financial assets	203	(193)	(92)	(7)	(34)	(1)	222	**98**	–
Lifetime ECL not credit-impaired									
Loans and advances to individuals	7,385	(14,921)	15,949	(10)	2,127	24	935	**11,489**	–
Loans and advances to other customers	800	1,344	(2,647)	(1)	(444)	–	3,501	**2,553**	–
Other financial assets	2	(6)	7	(1)	–	–	–	**2**	–
Lifetime ECL credit-impaired									
Loans and advances to banks	–	–	(28)	–	–	4	110	**86**	–
Loans and advances to individuals	34,286	(823)	15,358	(5,797)	17	819	1,803	**45,663**	2,967
Loans and advances to other customers	29,900	(145)	11,822	(7,292)	(29)	1,677	2,375	**38,308**	6,793
Other financial assets	808	199	785	(296)	–	(8)	26	**1,514**	77
Of which: Purchased or originated credit-impaired									
Loans and advances to individuals	–	–	1,672	(20)	–	88	15	**1,755**	–
Loans and advances to other customers	638	–	4,661	(247)	–	626	–	**5,678**	–
Other financial assets	1	–	–	–	–	1	–	**2**	–

in EUR thousands

NLB	Balance as at 1 Jan 2022	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022	Repayments of written-off receivables
Notes			4.14.		4.14.		5.6.b), c), d)	4.14.
12-month expected credit losses								
Loans and advances to banks	182	–	34	–	–	–	**216**	–
Loans and advances to individuals	3,503	7,665	(6,686)	(238)	1,916	1	**6,161**	–
Loans and advances to other customers	10,101	833	5,358	(1)	(1,440)	29	**14,880**	–
Other financial assets	62	16	95	(17)	46	1	**203**	–
Lifetime ECL not credit-impaired								
Loans and advances to individuals	2,421	(6,808)	8,313	(15)	3,474	–	**7,385**	–
Loans and advances to other customers	1,787	1,192	(2,277)	(1)	100	(1)	**800**	–
Other financial assets	1	–	2	(1)	–	–	**2**	–
Lifetime ECL credit-impaired								
Loans and advances to individuals	31,497	(857)	9,321	(5,761)	(279)	365	**34,286**	2,536
Loans and advances to other customers	47,110	(2,025)	3,922	(11,178)	(94)	(7,835)	**29,900**	10,313
Other financial assets	1,090	(16)	225	(491)	–	–	**808**	210
Of which: Purchased or originated credit-impaired								
Loans and advances to other customers	838	–	4,801	–	–	(5,001)	**638**	–
Other financial assets	6	–	(5)	–	–	–	**1**	–

Other movements relate mainly to expenses due to initial recognition of non-performing exposure at fair value.

The contractual amount outstanding on financial assets that were written off during the year ending 31 December 2023 and that are still subject to enforcement activity for NLB Group amounted to EUR 43,080 thousand (31 December 2022: EUR 29,654 thousand), and for NLB amounted to EUR 15,715 thousand (31 December 2022: EUR 9,949 thousand), of which EUR 2,962 thousand in NLB Group (31 December 2022: EUR 1,730 thousand) and EUR 1,904 thousand in NLB (31 December 2022: EUR 1,140 thousand) represent interest receivables that have not been recognised in the income statement prior to the write-off.

b) Movements in allowance for the impairment of debt securities

in EUR thousands

NLB Group	Balance as at 1 Jan 2023	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2023
Notes				4.14.		4.14.		5.4.a), 5.6.a)
12-month expected credit losses								
Debt securities measured at amortised cost	3,519	2	(52)	1,478	–	9	(10)	**4,946**
Debt securities measured at fair value through other comprehensive income	9,029	4	–	(2,470)	–	(87)	(1)	**6,475**
Lifetime ECL not credit-impaired								
Debt securities measured at amortised cost	265	(1)	52	(253)	–	515	(2)	**576**
Debt securities measured at fair value through other comprehensive income	70	–	–	(13)	–	(1)	–	**56**
Lifetime ECL credit-impaired								
Debt securities measured at fair value through other comprehensive income	6,777	–	–	(4,483)	(1,537)	–	41	**798**

Release of lifetime ECL credit-impaired debt securities measured at fair value through other comprehensive income relates to impairment of Russian sovereign debt, which was sold in February 2023.

in EUR thousands

NLB Group	Balance as at 1 Jan 2022	Effects of translation of foreign operations to presentation currency	Transfers	Increases/ (Decreases)	Changes in models/ risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022
Notes				4.14.	4.14.		5.4.a), 5.6.a)
12-month expected credit losses							
Debt securities measured at amortised cost	3,253	(2)	–	158	104	6	**3,519**
Debt securities measured at fair value through other comprehensive income	11,148	5	(25)	(2,049)	(67)	17	**9,029**
Lifetime ECL not credit-impaired							
Debt securities measured at amortised cost	52	1	–	271	(59)	–	**265**
Debt securities measured at fair value through other comprehensive income	70	–	(803)	739	12	52	**70**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	–	828	5,235	–	(84)	**6,777**

Column Increases/(Decreases) includes also 12-month expected credit losses recognised at the acquisition of N Banka in the amount of EUR 60 thousand for Debt securities measured at amortised cost, and in the amount of EUR 5 thousand for Debt securities measured at fair value through other comprehensive income (notes 4.14. and 5.12.e).

Impairment of debt securities measured at fair value through other comprehensive income relates mainly to impairment of Russian sovereign debt (note 5.4.).

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in EUR thousands

NLB	Balance as at 1 Jan 2023	Transfers	Increases/ (Decreases)	Write-offs	Changes in models/risk parameters	Merger of subsidiary	Foreign exchange differences and other movements	Balance as at 31 Dec 2023
Notes			4.14.		4.14.	5.12.d)		5.4.a), 5.6.a)
12-month expected credit losses								
Debt securities measured at amortised cost	1,990	(52)	585	–	(36)	140	(3)	**2,624**
Debt securities measured at fair value through other comprehensive income	2,022	–	(554)	–	(21)	204	(1)	**1,650**
Lifetime ECL not credit-impaired								
Debt securities measured at amortised cost	–	52	123	–	–	–	(2)	**173**
Lifetime ECL credit-impaired								
Debt securities measured at fair value through other comprehensive income	6,777	–	(4,483)	(1,537)	–	–	41	**798**

Release of lifetime ECL credit-impaired debt securities measured at fair value through other comprehensive income relates to impairment of Russian sovereign debt, which was sold in February 2023.

in EUR thousands

NLB	Balance as at 1 Jan 2022	Transfers	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and o ther movements	Balance as at 31 Dec 2022
Notes			4.14.	4.14.		5.4.a), 5.6.a)
12-month expected credit losses						
Debt securities measured at amortised cost	1,826	–	119	42	3	**1,990**
Debt securities measured at fair value through other comprehensive income	2,203	(25)	(192)	32	4	**2,022**
Lifetime ECL not credit-impaired						
Debt securities measured at fair value through other comprehensive income	–	(803)	751	–	52	**–**
Lifetime ECL credit-impaired						
Debt securities measured at fair value through other comprehensive income	798	828	5,235	–	(84)	**6,777**

Impairment of debt securities measured at fair value through other comprehensive income relates mainly to impairment of Russian sovereign debt (note 5.4.).

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c) Explanation of how significant changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance

Movement of gross carrying amount of loans to banks

in EUR thousands

	NLB Group				NLB		
	2023		2022		2023		2022
	12-month expected credit losses	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL credit-impaired	12-month expected credit losses	Lifetime ECL credit-impaired	12-month expected credit losses
Balance as at 1 January	223,126	108	140,881	–	350,841	–	199,469
Effects of translation of foreign operations to presentation currency	(105)	–	74	–	–	–	–
Acquisition of subsidiaries (note 5.12.e), f)	–	–	2,660	–	–	–	–
Increases/(Decreases)	322,034	5	75,516	–	(202,175)	–	150,644
Exchange differences on monetary assets	2,771	–	4,103	–	482	–	728
Transfers	–	–	(108)	108	–	–	–
Merger of subsidiary (note 5.12.d)	–	–	–	–	–	113	–
Balance as at 31 December	**547,826**	**113**	**223,126**	**108**	**149,148**	**113**	**350,841**

Movement of gross carrying amount of loans and advances to individuals

in EUR thousands

Individuals	NLB Group 12-month expected credit losses	NLB Group Lifetime ECL not credit - impaired	NLB Group Lifetime ECL credit-impaired	NLB Group Total	NLB 12-month expected credit losses	NLB Lifetime ECL not credit - impaired	NLB Lifetime ECL credit-impaired	NLB Total
Balance as at 1 January 2023	6,422,877	190,121	130,446	6,743,444	2,922,907	101,744	59,680	3,084,331
Effects of translation of foreign operations to presentation currency	(1,606)	(24)	(12)	(1,642)	–	–	–	–
Transfers	(103,434)	70,870	32,564	–	(48,707)	34,682	14,025	–
Increases/(Decreases)	551,995	(12,564)	(7,469)	531,962	204,972	5,439	(346)	210,065
Write-offs	(221)	(18)	(23,445)	(23,684)	(189)	(10)	(5,797)	(5,996)
Exchange differences on monetary assets	783	124	186	1,093	1,914	127	189	2,230
Modification losses (note 4.12.)	(15,669)	(85)	(105)	(15,859)	–	–	–	–
Merger of subsidiary (note 5.12.d)	–	–	–	–	298,616	10,279	9,303	318,198
Balance as at 31 December 2023	**6,854,725**	**248,424**	**132,165**	**7,235,314**	**3,379,513**	**152,261**	**77,054**	**3,608,828**

in EUR thousands

Individuals	NLB Group 12-month expected credit losses	NLB Group Lifetime ECL not credit - impaired	NLB Group Lifetime ECL credit-impaired	NLB Group Total	NLB 12-month expected credit losses	NLB Lifetime ECL not credit - impaired	NLB Lifetime ECL credit-impaired	NLB Total
Balance as at 1 January 2022	5,372,551	120,235	128,285	5,621,071	2,570,925	66,035	57,396	2,694,356
Effects of translation of foreign operations to presentation currency	672	(12)	8	668	–	–	–	–
Acquisition of subsidiaries (note 5.12.e)	411,068	–	6,583	417,651	–	–	–	–
Transfers	(106,876)	78,073	28,803	–	(46,023)	35,084	10,939	–
Increases/(Decreases)	746,532	(8,179)	(12,059)	726,294	396,545	596	(2,932)	394,209
Write-offs	(239)	(18)	(21,199)	(21,456)	(238)	(15)	(5,761)	(6,014)
Exchange differences on monetary assets	(746)	34	12	(700)	1,698	44	38	1,780
Modification losses (note 4.12.)	(85)	(12)	13	(84)	–	–	–	–
Balance as at 31 December 2022	**6,422,877**	**190,121**	**130,446**	**6,743,444**	**2,922,907**	**101,744**	**59,680**	**3,084,331**

In year 2023, the loss allowance for loans and advances to individuals increased by EUR 26,725 thousand at the NLB Group level, while at the NLB level it increased by EUR 17,393 thousand. The reasons for increases are also changed risk parameters, which increased the loss allowance by EUR 5,422 thousand at the NLB Group level, and by EUR 1,541 thousand at NLB level. At the NLB level, it also increased due to the merger of N Banka by EUR 3,889 thousand. At the NLB Group level, the gross carrying amount increased by EUR 491,870 thousand, mainly due to increased exposure, while at the NLB level it increased by EUR 524,497 thousand due to increased exposure and the merger of N Banka (EUR 318,198 thousand).

In year 2022, the loss allowance for loans and advances to individuals increased by EUR 19,993 thousand at the NLB Group level, while at the NLB level it increased by EUR 10,411 thousand. The main reasons for these increases are changed risk parameters, which increased loss allowance by EUR 9,667 thousand at the NLB Group level, and by EUR 5,111 thousand at NLB level and an increase of the gross carrying amount. At the NLB Group level, the gross carrying amount increased by EUR 1,122,373 thousand, mainly due to increased exposure and the acquisition of subsidiaries, while at the NLB level it increased by EUR 389,975 thousand.

Acquisition of subsidiaries in 2022 (note 5.12.f) contributed EUR 417,651 thousand to the gross carrying amount of loans and advances to individuals on the NLB Group level.

Movement of gross carrying amount of loans and advances to other customers

in EUR thousands

	NLB Group				NLB			
Other customers	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2023	6,028,285	423,671	201,584	6,653,540	2,960,455	51,906	51,133	3,063,494
Effects of translation of foreign operations to presentation currency	(1,887)	(128)	960	(1,055)	–	–	–	–
Transfers	(94,306)	80,889	13,417	–	(41,456)	36,860	4,596	–
Increases/(Decreases)	277,557	(53,135)	(27,449)	196,973	115,612	26,546	(2,303)	139,855
Write-offs	–	(8)	(19,399)	(19,407)	–	(1)	(7,292)	(7,293)
Exchange differences on monetary assets	(1,622)	(97)	(6)	(1,725)	(91)	–	–	(91)
Modification losses (note 4.12.)	(374)	(38)	–	(412)	–	–	–	–
Merger of subsidiary (note 5.12.d)	–	–	–	–	400,313	47,665	15,080	463,058
Balance as at 31 December 2023	**6,207,653**	**451,154**	**169,107**	**6,827,914**	**3,434,833**	**162,976**	**61,214**	**3,659,023**

in EUR thousands

	NLB Group				NLB			
Other customers	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2022	4,630,485	412,184	239,354	5,282,023	2,351,275	123,304	72,637	2,547,216
Effects of translation of foreign operations to presentation currency	1,189	87	893	2,169	–	–	–	–
Acquisition of subsidiaries (note 5.12.e), f)	716,577	–	15,300	731,877	–	–	–	–
Transfers	(154,654)	123,967	30,687	–	34,662	(37,337)	2,675	–
Increases/(Decreases)	835,299	(112,477)	(56,944)	665,878	572,648	(34,158)	(13,056)	525,434
Write-offs	(1)	(1)	(27,759)	(27,761)	(1)	(1)	(11,178)	(11,180)
Exchange differences on monetary assets	(639)	(106)	41	(704)	1,871	98	55	2,024
Modification losses (note 4.12.)	29	17	12	58	–	–	–	–
Balance as at 31 December 2022	**6,028,285**	**423,671**	**201,584**	**6,653,540**	**2,960,455**	**51,906**	**51,133**	**3,063,494**

In 2023, the gross carrying amount of loans and advances to other customers increased by EUR 174,374 thousand at the NLB Group level mostly in Stage 1 due to the increased exposure. Irrespective of that, the loss allowance decreased by EUR 22,096 thousand. The main reason for the decrease were write-offs in the amount of EUR 19,407 thousand. Also, in 2023, the gross carrying amount of loans and advances to other customers increased by EUR 595,529 thousand at the NLB level, mostly due to merger of N Bank (EUR 463,058 thousand). The loss allowance increased by EUR 8,925 thousand, the main reason was the merger of N Banka (EUR 11,815 thousand).

In 2022, the gross carrying amount of loans and advances to other customers increased by EUR 1,371,517 thousand at the NLB Group level and EUR 516,278 thousand at the NLB level, mostly in Stage 1 due to the acquisition of subsidiaries and the increased exposure. Regardless of that, the loss allowance decreased by EUR 11,968 thousand at the NLB Group level and EUR 12,631 thousand at the NLB level, mainly in Stage 3. The main reason for the decrease were write-offs in the amount of EUR 27,761 thousand at the NLB Group level and EUR 11,180 thousand at the NLB level.

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Movement of gross carrying amount of other financial assets

The gross carrying amount of other financial assets in 2023 decreased (by EUR 10,090 thousand at the NLB Group level and EUR 12,202 thousand at the NLB level), with the majority of these decreases relating to receivables for the sale of securities. As these receivables are by their nature short-term, they did not contribute significantly to the decrease of the loss allowance. Therefore, the loss allowance for other financial assets in year 2023 on the NLB Group level increased only by EUR 1,771 thousand, while at the NLB level by EUR 601 thousand. The main reason for this moderate increase at the NLB Group level and on the NLB level are write-offs (EUR 823 thousand at the NLB Group level and EUR 304 thousand at the NLB level).

The gross carrying amount of other financial assets in 2022 increased (by EUR 58,402 thousand at the NLB Group level and EUR 21,855 thousand at the NLB level), with the majority of this increase relating to credit card receivables and receivables for the sale of securities. As these receivables are by their nature short-term, they did not contribute significantly to the increase of the loss allowance. Therefore, the loss allowance for other financial assets in year 2022 on the NLB Group level increased only by EUR 2,808 thousand, while at the NLB level it decreased by EUR 140 thousand. The main reason for this moderate increase at the NLB Group level and decrease on the NLB level are write-offs (EUR 1,234 thousand at the NLB Group level and EUR 509 thousand at the NLB level).

Movement of gross carrying amount of debt securities measured at amortised cost

in EUR thousands

	NLB Group				NLB		
	2023		2022		2023		2022
	12-month expected credit losses	Lifetime ECL not credit - impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	12-month expected credit losses	Lifetime ECL not credit - impaired	12-month expected credit losses
Balance as at 1 January	1,914,170	7,229	1,713,711	7,220	1,599,438	–	1,438,250
Effects of translation of foreign operations to presentation currency	(344)	(8)	(187)	9	–	–	–
Acquisition of subsidiaries (note 5.12.e)	–	–	12,819	–	–	–	–
Additions	1,023,233	–	411,724		531,650	–	310,394
Derecognition	(453,836)	(24)	(226,884)	–	(200,534)	(24)	(146,939)
Net interest income	36,750	136	16,791	–	24,101	136	11,431
Exchange differences on monetary assets	(2,234)	(5)	1,030	–	(1,664)	(5)	1,136
Other	2,684	–	(14,834)	–	2,684	–	(14,834)
Merger of subsidiary (note 5.12.d)	–	–	–	–	13,184	–	–
Transfers	(4,993)	4,993	–	–	(4,993)	4,993	–
Balance as at 31 December	**2,515,430**	**12,321**	**1,914,170**	**7,229**	**1,963,866**	**5,100**	**1,599,438**

Movement of gross carrying amount of debt securities measured at fair value through other comprehensive income

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2023	2,999,030	165	8,337	3,007,532	1,367,496	–	8,337	1,375,833
Effects of translation of foreign operations to presentation currency	(262)	–	–	(262)	–	–	–	–
Additions	1,446,746	–	–	1,446,746	59,345	–	–	59,345
Derecognition	(2,233,255)	(21)	(7,526)	(2,240,802)	(463,403)	–	(7,526)	(470,929)
Net interest income	38,624	–	–	38,624	9,163	–	–	9,163
Exchange differences on monetary assets	1,914	–	(13)	1,901	(753)	–	(13)	(766)
Merger of subsidiary	–	–	–	–	37,085	–	–	37,085
Balance as at 31 December 2023	**2,252,797**	**144**	**798**	**2,253,739**	**1,008,933**	**–**	**798**	**1,009,731**

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2022	3,396,101	184	798	3,397,083	1,526,972	–	798	1,527,770
Effects of translation of foreign operations to presentation currency	1,370	–	–	1,370	–	–	–	–
Acquisition of subsidiaries (note 5.12.e)	53,223	–	–	53,223	–	–	–	–
Additions	1,699,839	–	–	1,699,839	290,245	–	–	290,245
Derecognition	(2,171,808)	(13,750)	–	(2,185,558)	(443,781)	(13,731)	–	(457,512)
Net interest income	38,554	38	(121)	38,471	10,929	38	(121)	10,846
Exchange differences on monetary assets	2,054	973	77	3,104	3,434	973	77	4,484
Transfers	(20,303)	12,720	7,583	–	(20,303)	12,720	7,583	–
Balance as at 31 December 2022	**2,999,030**	**165**	**8,337**	**3,007,532**	**1,367,496**	**–**	**8,337**	**1,375,833**

5.15. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at the amortised cost

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Deposits from banks and central banks	95,283	106,414	147,002	212,656
Borrowings from banks and central banks	140,419	198,609	82,797	57,292
Due to customers	20,732,722	20,027,726	11,881,563	10,984,411
Borrowings from other customers	99,718	82,482	–	216
Debt securities issued	1,338,235	815,990	1,338,235	815,990
Other financial liabilities	357,116	294,463	198,020	164,567
Total	**22,763,493**	**21,525,684**	**13,647,617**	**12,235,132**

a) Deposits from banks and central banks and amounts due to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Deposit on demand				
- banks and central banks	75,756	86,892	127,726	193,523
- other customers	17,454,515	17,386,022	10,674,541	10,268,908
- governments	351,313	421,770	64,406	151,251
- financial organisations	285,540	306,836	225,295	254,948
- companies	4,639,997	4,374,028	2,543,280	2,241,793
- individuals	12,177,665	12,283,388	7,841,560	7,620,916
Other deposits				
- banks and central banks	19,527	19,522	19,276	19,133
- other customers	3,278,207	2,641,704	1,207,022	715,503
- governments	61,880	91,662	35,813	42,049
- financial organisations	215,457	237,758	90,590	95,637
- companies	718,230	646,944	378,340	282,560
- individuals	2,282,640	1,665,340	702,279	295,257
Total	**20,828,005**	**20,134,140**	**12,028,565**	**11,197,067**

b) Borrowings from banks and central banks and other customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Loans				
- banks and central banks	140,419	198,609	82,797	57,292
- other customers	99,718	82,482	–	216
- governments	20,357	21,535	–	–
- financial organisations	79,361	60,731	–	–
- companies	–	216	–	216
Total	**240,137**	**281,091**	**82,797**	**57,508**

As at 31 December 2023, NLB Group and NLB had EUR 95,249 thousand in undrawn borrowings (31 December 2022: EUR 96,878 thousand).

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Targeted longer-term refinancing operations (TLTRO)
In December 2021, N Banka participated in ECB TLTRO III.10 operation and had drawn a credit tranche of EUR 93,000 thousand for three years. In December 2022, N Banka repaid a part of the loan early in the amount of EUR 30,000 thousand. In June 2023, N Banka also repaid the remaining part of the loan early in the amount of EUR 63,000 thousand.

In June 2021, NLB participated in the ECB TLTRO III.8 operation and had drawn a credit tranche of EUR 750,000 thousand for three years. The loan was repaid early in June 2022.

NLB Group accounted for these loans according to the requirements of IFRS 9 and recognises interest income by applying the expected effective interest rate (note 4.1.). The expected effective interest rate was estimated based on the expectation of achieving a lending performance threshold, and in the case of NLB, also expected early repayment was taken into account. As the lending performance threshold was achieved in both banks, there were no changes in estimates of payments due to the revised assessment of meeting the eligibility criteria. Changes in the interest rate applied by the ECB were implemented prospectively. NLB Group does not consider these loans as loans at below-market rate of interest, as these targeted longer-term refinancing operations were available to all banks under the same conditions.

c) Debt securities issued

in EUR thousands

NLB Group and NLB				31 Dec 2023		31 Dec 2022	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated bonds							
	EUR	06.05.2029	4.20% to 06.05.2024, thereafter 5Y MS + 4.159% p.a.	45,980	45,000	45,941	45,000
	EUR	19.11.2029	3.65% to 19.11.2024, thereafter 5Y MS + 3.833% p.a.	119,781	120,000	119,677	120,000
	EUR	05.02.2030	3.40% to 05.02.2025, thereafter 5Y MS + 3.658% p.a.	123,176	120,000	123,106	120,000
	EUR	28.11.2032	10.75% to 28.11.2027, thereafter 5Y MS + 8.298% p.a.	220,458	225,000	220,054	225,000
Total Subordinated bonds				**509,395**	**510,000**	**508,778**	**510,000**
Senior Preferred notes							
	EUR	19.07.2025	6% to 19.07.2024, thereafter 1Y MS + 4.835% p.a.	307,507	300,000	307,212	300,000
	EUR	27.06.2027	7.125% to 27.07.2026, thereafter 1Y MS + 3.606% p.a.	521,333	500,000	–	–
Total Senior Preferred notes				**828,840**	**800,000**	**307,212**	**300,000**
Total Debt securities issued				**1,338,235**	**1,310,000**	**815,990**	**810,000**

All issued subordinated bonds represent non-convertible Tier 2 instruments (note 5.23.). In the event of bankruptcy or liquidation of the issuer, obligations arising from Tier 2 instruments shall be repaid:

a) after repayment of all unsubordinated obligations of the Issuer, as well as at all subordinated obligations (if any) which are expressed to rank in priority to Tier 2 instruments;
b) with the same priority (*pari passu*) as, and proportionally with the obligations arising from other instruments which qualify as Tier 2 instruments or have the same priority of repayment as the Tier 2 instruments;
c) in priority to the obligations arising from shares or other instruments which qualify as Common Equity Tier 1 capital instruments or Additional Tier 1 instruments or have the same priority of repayment as these instruments.

Movement of debt securities issued

in EUR thousands

NLB Group and NLB	Subordinated bonds		Senior Preferred notes	
	2023	2022	2023	2022
Balance as at 1 January	508,778	288,519	307,212	–
Cash flow items:	(34,538)	207,523	479,708	299,029
- new issued	–	217,873	497,708	299,029
- repayments of interest	(34,538)	(10,350)	(18,000)	–
Non-Cash flow items:	35,155	12,736	41,920	8,183
- accrued interest	35,155	12,736	36,579	8,183
- other	–	–	5,341	–
Balance as at 31 December	**509,395**	**508,778**	**828,840**	**307,212**

d) Other financial liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Items in the course of settlement	93,425	70,232	17,957	16,281
Debit or credit card payables	113,398	72,148	90,495	54,920
Suppliers	22,872	19,608	16,614	13,455
Lease liabilities (note 5.11.a)	28,944	23,840	5,793	3,349
Accrued expenses	35,628	33,574	17,065	15,898
Fees and commissions	1,242	751	1,133	633
Liabilities to brokerage firms and others for securities purchase and custody services	288	224	268	205
Other financial liabilities	61,319	74,086	48,695	59,826
Total	**357,116**	**294,463**	**198,020**	**164,567**

Other financial liabilities in the amount of EUR 24,025 thousand (31 December 2022: EUR 24,788 thousand) relate to a liability recognised in accordance with the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (note 5.16.a). The remaining balance also includes liabilities to insurance companies, liabilities for received EIB financial initiatives, that can be used for specified purposes, received warranties, and obligations for the purchase of securities.

5.16. Provisions

a) Analysis by type of provisions

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Provisions for guarantees and commitments (note 5.24.a)	32,548	37,609	17,941	20,299
Stage 1	18,429	18,826	7,653	8,156
Stage 2	1,655	1,953	319	378
Stage 3	12,464	16,830	9,969	11,765
Employee benefit provisions	17,892	18,026	11,795	11,876
Restructuring provisions	12,592	21,036	7,198	7,288
Provisions for legal risks	44,833	43,209	6,219	3,584
Other provisions	5,440	2,772	5,303	2,169
Total	**113,305**	**122,652**	**48,456**	**45,216**

Provisions for guarantees and commitments represent expected credit losses in accordance with IFRS 9, employee benefits are recognised in accordance with IAS 19, while all other provisions are recognised according to IAS 37.

Legal risks

Provisions for legal risks are formed based on expectations regarding the probable outcome of legal disputes. As at 31 December 2023, NLB Group was involved in 41 (31 December 2022: 41) legal disputes with material claims against Group members in the total amount of EUR 463,122 thousand, excluding accrued interest (31 December 2022: EUR 462,564 thousand). As at 31 December 2023, NLB was involved in 21 (31 December 2022: 17) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 236,727 thousand (31 December 2022: EUR 219,847 thousand).

In connection with legal risks, the largest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 174.4 million (as per 31 December 2023). Due to the fact the proceedings had been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any such obligations. Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay of all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in the Memorandum of Understanding to stay all of the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in six claims (as explained below in detail) in favour of the plaintiff. In four of those cases, NLB filed a constitutional suit after an extraordinary legal measure of NLB with the Supreme Court of the Republic of Croatia was not successful, and in two, NLB filed an extraordinary legal measure with the Supreme Court of the Republic of Croatia.

Contrary to the decisions of the court described above in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. The extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by the Supreme Court on 16 June 2015.

In the other cases, with respect to which court procedures described above are pending, final court decisions have not yet been issued.

The table below summarises the amounts according to final court decisions (not including penalty interest):

Date of the ruling	Plaintiff	Principal amount	Costs of the proceedings	Measures taken by NLB
May 2015	PBZ	254.76 EUR	2,094.53 EUR	Constitutional suit against the final judgement, as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 21 May 2018.
April 2018	PBZ	222,426.39 EUR	33,616.48 EUR	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles, and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 5 October 2021.
September 2017	ZaBa	492,430.53 EUR	99,354.14 EUR	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles, and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 5 October 2021.
November 2017	PBZ	220,115.98 EUR	91,348.88 EUR	NLB challenged the judgments with the extraordinary legal measure (revision) on the Supreme Count of the Republic of Croatia, which rejected NLB's revision on 22 November 2023 (judgment received on 5 January 2024). NLB intends to challenge the judgment in question with a constitutional lawsuit before the Constitutional Court of the Republic of Croatia.
December 2018	PBZ	3,855,173.35 SEK	90,241.70 EUR	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 3 October 2023
March 2019	PBZ	9,185,141.76 USD	424,548.41 EUR	NLB challenged the judgment with the extraordinary legal measure (revision) on the Supreme Count of the Republic of Croatia and later, if necessary, will challenge the judgment with all other available remedies of the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of NLB.

The NLB Shareholders' Meeting provided the Management Board of NLB with instructions how to act in the event of existing or potential new final decisions by Croatian courts against LB and NLB regarding the transferred foreign currency deposits, especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies and regarding the management of the property from that perspective.

On 19 July 2018, the National Assembly of the Republic of Slovenia passed the 'Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana' (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: 'the ZVKNNLB') which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, hereinafter: 'the Fund'), shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, that is the principle amount, accrued interest, expenses of court, attorney's expenses and other expenses of the plaintiff, and expenses related to enforcement with the accrued interest, and shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings. There shall be no compensation for any voluntarily made payments by NLB. In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB (which was concluded on 14 August 2018), NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits, and use against court decisions that are disadvantageous for NLB, all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement. In the aforementioned case from May 2015, the Succession Fund of the Republic of Slovenia has already compensated the sums recovered from NLB by enforcement.

Provisions for legal risks for existing claims filed by PBZ and ZaBa are not formed, since NLB believes that based on the factual and legal evaluation there are greater prospects for the court proceedings to end in favour of NLB than the opposite.

Regardless of the negative outcomes for claims for which the final ruling was issued, in the financial statements NLB Group did not recognise the negative impact on profit and loss due to protection provided by the ZVKNNLB. For final judgements, NLB Group recognised the liabilities and related assets, which are included within other financial assets (note 5.6.d) and other financial liabilities (note 5.15.d).

b) Provisions for guarantees and commitments

Movements in provisions for guarantees and commitments

in EUR thousands

NLB Group	Balance as at 1 Jan 2023	Effects of translation of foreign operations to presentation currency	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2023
Notes				**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses							
Guarantees and commitments	18,826	(3)	583	2,609	(3,587)	1	**18,429**
Lifetime ECL not credit-impaired							
Guarantees and commitments	1,953	–	(263)	(873)	837	1	**1,655**
Lifetime ECL credit-impaired							
Guarantees and commitments	16,830	–	(320)	(4,039)	(2)	(5)	**12,464**
Of which: Purchased or originated credit-impaired							
Guarantees and commitments	4,095	1	–	(1,015)	–	14	**3,095**

in EUR thousands

NLB Group	Balance as at 1 Jan 2022	Effects of translation of foreign operations to presentation currency	Acquisition of subsidiaries	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022
Notes			**5.12.e)**		**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses								
Guarantees and commitments	12,912	2	921	740	1,468	2,765	18	**18,826**
Lifetime ECL not credit-impaired								
Guarantees and commitments	1,640	(1)	–	(55)	291	76	2	**1,953**
Lifetime ECL credit-impaired								
Guarantees and commitments	18,889	(1)	180	(685)	(1,462)	(88)	(3)	**16,830**
Of which: Purchased or originated credit-impaired								
Guarantees and commitments	4,344	–	180	(11)	(444)	–	26	**4,095**

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in EUR thousands

NLB	Balance as at 1 Jan 2023	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Merger of subsidiary	Balance as at 31 Dec 2023
Notes			**4.13.**	**4.13.**	**5.12.d)**	**5.16.a)**
12-month expected credit losses						
Guarantees and commitments	8,156	158	(146)	(1,142)	627	**7,653**
Lifetime ECL not credit-impaired						
Guarantees and commitments	378	147	(616)	387	23	**319**
Lifetime ECL credit-impaired						
Guarantees and commitments	11,765	(305)	(1,589)	32	66	**9,969**
Of which: Purchased or originated credit-impaired						
Guarantees and commitments	2,876	–	(3)	–	62	**2,935**

in EUR thousands

NLB	Balance as at 1 Jan 2022	Transfer	Increases/ (Decreases)	Changes in models/risk parameters	Foreign exchange differences and other movements	Balance as at 31 Dec 2022
Notes			**4.13.**	**4.13.**		**5.16.a)**
12-month expected credit losses						
Guarantees and commitments	3,909	570	(229)	3,910	(4)	**8,156**
Lifetime ECL not credit-impaired						
Guarantees and commitments	141	60	192	(15)	–	**378**
Lifetime ECL credit-impaired						
Guarantees and commitments	16,510	(630)	(4,146)	6	25	**11,765**
Of which: Purchased or originated credit-impaired						
Guarantees and commitments	4,041	(11)	(1,179)	–	25	**2,876**

Movement of contractual amounts of guarantees and commitments in off-balance sheet

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2023	3,843,293	83,270	26,897	3,953,460	2,397,742	35,243	15,019	2,448,004
Effects of translation of foreign operations to presentation currency	(837)	(28)	(2)	(867)	–	–	–	–
Increases/(Decreases)	224,499	(9,271)	(7,960)	207,268	216,455	1,071	(2,041)	215,485
Foreign exchange differences	231	–	–	231	152	–	–	152
Transfers	(34,627)	32,645	1,982	–	(28,955)	28,362	593	–
Merger of subsidiary (note 5.12.d)	–	–	–	–	198,583	1,943	407	200,933
Balance as at 31 December 2023	**4,032,559**	**106,616**	**20,917**	**4,160,092**	**2,783,977**	**66,619**	**13,978**	**2,864,574**

in EUR thousands

	NLB Group				NLB			
	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2022	3,027,971	97,536	38,998	3,164,505	1,913,572	49,102	26,903	1,989,577
Effects of translation of foreign operations to presentation currency	541	24	4	569	–	–	–	–
Acquisition of subsidiary (note 5.12.f)	277,325	–	447	277,772	–	–	–	–
Increases/(Decreases)	543,028	(14,927)	(18,212)	509,889	477,730	(8,465)	(11,491)	457,774
Foreign exchange differences	703	16	6	725	631	16	6	653
Transfers	(6,275)	621	5,654	–	5,809	(5,410)	(399)	–
Balance as at 31 December 2022	**3,843,293**	**83,270**	**26,897**	**3,953,460**	**2,397,742**	**35,243**	**15,019**	**2,448,004**

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c) Movements in employee benefit provisions

Post-employment benefits

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	16,021	19,227	10,672	12,781
Effects of translation of foreign operations to presentation currency	(3)	2	–	–
Acquisition of subsidiaries (note 5.12.e), f)	–	1,393	–	–
Merger of subsidiary (note 5.12.d)	–	–	531	–
Additional provisions (note 4.9.)	227	1,046	587	635
Provisions released (note 4.9.)	(1,361)	(1,128)	(1,039)	(673)
Interest expenses (note 4.1.)	587	335	297	130
Utilised during year (payments)	(447)	(823)	(91)	(153)
Actuarial gains and losses	444	(4,031)	(588)	(2,048)
Balance as at 31 December	**15,468**	**16,021**	**10,369**	**10,672**

Other employee benefits

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	2,005	2,220	1,204	1,425
Effects of translation of foreign operations to presentation currency	(1)	–	–	–
Acquisition of subsidiary (note 5.12.e)	–	167	–	–
Merger of subsidiary (note 5.12.d)	–	–	79	–
Additional provisions (note 4.9.)	636	275	173	90
Provisions released (note 4.9.)	(104)	(558)	–	(259)
Interest expenses (note 4.1.)	81	39	33	14
Utilised during year	(193)	(138)	(63)	(66)
Balance as at 31 December	**2,424**	**2,005**	**1,426**	**1,204**

Other employee benefits include NLB Group's obligations for jubilee long-service benefits.

d) Movements in restructuring provisions

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	21,036	19,217	7,288	11,131
Effects of translation of foreign operations to presentation currency	(1)	10	–	–
Additional provisions (note 4.13.)	4,006	10,335	3,800	–
Provisions released (note 4.13.)	(352)	(10)	–	–
Utilised during year	(12,097)	(8,516)	(3,890)	(3,843)
Balance as at 31 December	**12,592**	**21,036**	**7,198**	**7,288**

Additional restructuring provisions recognised during the year 2023 relate mainly to NLB for the purpose of continuing the reorganisation, optimisation of work processes/business in individual segments and HR restructuring (restructuring of workforce in accordance with business demands) and the related reduction in the number of employees.

Additional restructuring provisions recognised during the year 2022 relate mainly to N Banka and NLB Komercijalna banka a.d. Beograd and are based on reorganisation plans in both banks.

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e) Movements in provisions for legal risks

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	43,209	45,288	3,584	3,466
Effects of translation of foreign operations to presentation currency	8	54	–	–
Acquisition of subsidiary (note 5.12.e)	–	1,790	–	–
Disposal of subsidiaries (note 5.12.b)	(30)	–	–	–
Merger of subsidiary (note 5.12.d)	–	–	5,382	–
Additional provisions (note 4.13.)	16,354	7,595	899	125
Provisions released (note 4.13.)	(9,074)	(5,950)	(3,577)	–
Utilised during year	(5,634)	(5,568)	(69)	(7)
Balance as at 31 December	**44,833**	**43,209**	**6,219**	**3,584**

f) Movements in other provisions

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Balance as at 1 January	2,772	11	2,169	–
Effects of translation of foreign operations to presentation currency	1	–	–	–
Acquisition of subsidiary (note 5.12.e)	–	17,452	–	–
Merger of subsidiary (note 5.12.d)	–	–	1,173	–
Additional provisions (note 4.13.)	15,019	2,372	13,300	2,200
Provisions released (note 4.13.)	(28)	(8,410)	–	–
Utilised during year	(12,324)	(106)	(11,339)	(31)
Other	–	(8,547)	–	–
Balance as at 31 December	**5,440**	**2,772**	**5,303**	**2,169**

Other provisions in year 2023 in the NLB Group and NLB relate mainly to liability in relation to reimbursement of fees in case of early loan repayment.

At the acquisition of N Banka on 1 March 2022, other provisions increased by EUR 17,452 thousand, which represents the assessed fair value of contingent liabilities of N Banka as at the acquisition date. During March 2022, some unfavourable events, which were taken into account already at assessing initial fair values realised, therefore EUR 8,547 thousand of provisions were used to decrease the amount of related receivables, mainly for unsettled derivative transactions. Additionally, the amount of other provisions significantly decreased in December 2022 (for EUR 8,400 thousand), when possible obligation ceased to exist.

5.17. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousands

31 Dec 2023	NLB Group				NLB			
	Deferred income tax assets	Deferred income tax liabilities	Included in the income statement	Included in other comprehensive income	Deferred income tax assets	Deferred income tax liabilities	Included in the income statement	Included in other comprehensive income
Valuation of financial instruments and capital investments	59,640	7,218	8,055	4,322	55,098	3,556	7,517	10,244
Impairment of financial assets	9,704	3,589	801	1,342	1,153	538	(961)	1,171
Provisions for liabilities and charges	9,047	–	(928)	81	1,856	–	23	(31)
Depreciation and valuation of non-financial assets	4,141	1,304	(452)	–	123	168	9	–
Fair value adjustments of financial assets measured at amortised cost	1,940	6,651	(1,398)	–	1,412	–	94	–
Tax losses	54,069	–	54,069	–	54,069	–	54,069	–
Undistributed profit of subsidiaries	–	9,626	(9,626)	–	–	–	–	–
Other	248	522	461	–	–	–	–	–
Total	**138,789**	**28,910**	**50,982**	**5,745**	**113,711**	**4,262**	**60,751**	**11,384**

The table above does not include the effects of the merger of N Banka.

in EUR thousands

31 Dec 2022	NLB Group				NLB			
	Deferred income tax assets	Deferred income tax liabilities	Included in the income statement	Included in other comprehensive income	Deferred income tax assets	Deferred income tax liabilities	Included in the income statement	Included in other comprehensive income
Valuation of financial instruments and capital investments	48,415	8,375	6,416	12,346	38,028	5,283	4,819	2,850
Impairment of financial assets	9,480	5,501	2,934	(892)	2,050	1,672	1,133	(1,102)
Provisions for liabilities and charges	9,899	–	(1,718)	(441)	1,819	–	(555)	(286)
Depreciation and valuation of non-financial assets	4,737	1,641	962	–	109	163	3	–
Fair value adjustments of financial assets measured at amortised cost	2,046	5,366	(2,540)	–	–	–	–	–
Unpaid dividends	–	–	(3,876)	–	–	–	(3,876)	–
Tax losses	–	–	(253)	–	–	–	–	–
Tax reliefs	–	–	(945)	–	–	–	–	–
Other	141	877	543	–	–	–	–	–
Total	**74,718**	**21,760**	**1,523**	**11,013**	**42,006**	**7,118**	**1,524**	**1,462**

Temporary differences on which NLB did not recognise deferred tax assets, as related deferred tax assets would exceed the amount of deferred tax assets expected to be reversed in five years are presented in the table below, together with non-recognised deferred tax assets.

in EUR thousands

NLB	31 Dec 2023 Temporary difference	31 Dec 2023 Non-recognised deferred tax assets	31 Dec 2022 Temporary difference	31 Dec 2022 Non-recognised deferred tax assets
Tax loss	580,388	127,686	950,469	180,589
Impairments and valuation of capital investments and financial instruments	–	–	116,913	22,213

Due to highly successful year 2023 and the projected good profits in the 5 years profit projections and also due to the increase of tax rate to 22% for the years 2024-2028, NLB importantly increased the amount of recognised deferred tax assets in 2023. NLB recognised all previously non-recognised deferred tax assets for impairments and valuation of capital investments and financial instruments and deferred tax assets for tax loss in amount of EUR 54,069 thousand. The tax loss on which NLB did not recognise deferred tax assets, as at 31 December 2023 amounts to EUR 580,388 thousand (31 December 2022: EUR 950,469 thousand). Slovenian tax law does not set deadlines by which uncovered tax losses must be utilised, but the use of tax loss is limited to 50% of the actual tax base. Other banking members have no tax losses.

NLB did not recognise deferred tax assets on temporary differences arising from the impairments of investments in subsidiaries and associates where it is not probable that the temporary difference will reverse in the foreseeable future. These temporary differences amount to EUR 189,311 thousand as at 31 December 2023 (31 December 2022: EUR 282,092 thousand).

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b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousands

NLB Group	Provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment of financial assets	Unpaid dividends	Tax losses	Tax relief	Fair value adjustments of financial assets measured at amortised cost	Other	Total
Balance as at 1 January 2022	10,128	33,002	3,505	5,879	3,876	253	945	320	62	57,970
Effects of translation of foreign operations to presentation currency	6	2	3	7	–	–	–	–	–	18
(Charged)/credited to profit and loss	(1,718)	4,837	1,229	3,583	(3,876)	(253)	(945)	(516)	79	2,420
(Charged)/credited to other comprehensive income	(441)	10,270	–	–	–	–	–	–	–	9,829
Acquisition of subsidiary (note 5.12.e)	1,924	304	–	11	–	–	–	2,242	–	4,481
Balance as at 31 December 2022	**9,899**	**48,415**	**4,737**	**9,480**	**–**	**–**	**–**	**2,046**	**141**	**74,718**
Effects of translation of foreign operations to presentation currency	(5)	1	–	(8)	–	–	–	2	–	(10)
(Charged)/credited to profit and loss	(928)	7,490	(596)	232	–	54,069	–	(108)	107	60,266
(Charged)/credited to other comprehensive income	81	3,734	–	–	–	–	–	–	–	3,815
Balance as at 31 December 2023	**9,047**	**59,640**	**4,141**	**9,704**	**–**	**54,069**	**–**	**1,940**	**248**	**138,789**

in EUR thousands

NLB	Provisions for liabilities and charges	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment of financial assets	Tax losses	Fair value adjustments of financial assets measured at amortised cost	Unpaid dividends	Total
Balance as at 1 January 2022	2,660	31,696	112	917	–	–	3,876	39,261
(Charged)/credited to profit and loss	(555)	4,688	(3)	1,133	–	–	(3,876)	1,387
(Charged)/credited to other comprehensive income	(286)	1,644	–	–	–	–	–	1,358
Balance as at 31 December 2022	**1,819**	**38,028**	**109**	**2,050**	**–**	**–**	**–**	**42,006**
(Charged)/credited to profit and loss	23	7,517	14	(961)	54,069	94	–	60,756
(Charged)/credited to other comprehensive income	(31)	8,517	–	–	–	–	–	8,486
Merger of subsidiary (note 5.12.d)	45	1,036	–	64	–	1,318	–	2,463
Balance as at 31 December 2023	**1,856**	**55,098**	**123**	**1,153**	**54,069**	**1,412**	**–**	**113,711**

Deferred income tax liabilities

in EUR thousands

NLB Group	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Undistributed profit of subsidiaries	Fair value adjustments of financial assets measured at amortised cost	Other	Total
Balance as at 1 January 2022	3,960	12,026	1,374	–	3,338	1,340	22,038
Effects of translation of foreign operations to presentation currency	–	4	–	–	4	1	9
Charged/(credited) to profit and loss	649	(1,579)	267	–	2,024	(464)	897
Charged/(credited) to other comprehensive income	892	(2,076)	–	–	–	–	(1,184)
Balance as at 31 December 2022	**5,501**	**8,375**	**1,641**	**–**	**5,366**	**877**	**21,760**
Effects of translation of foreign operations to presentation currency	(1)	(4)	–	–	(5)	(1)	(11)
Charged/(credited) to profit and loss	(569)	(565)	(144)	9,626	1,290	(354)	9,284
Charged/(credited)to other comprehensive income	(1,342)	(588)	–	–	–	–	(1,930)
Disposal of subsidiaries	–	–	(193)	–	–	–	(193)
Balance as at 31 December 2023	**3,589**	**7,218**	**1,304**	**9,626**	**6,651**	**522**	**28,910**

in EUR thousands

NLB	Impairment of financial assets	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1 January 2022	570	6,620	169	7,359
Charged/(credited) to profit and loss	–	(131)	(6)	(137)
Charged/(credited) to other comprehensive income	1,102	(1,206)	–	(104)
Balance as at 31 December 2022	**1,672**	**5,283**	**163**	**7,118**
Charged/(credited) to profit and loss	–	–	5	5
Charged/(credited) to other comprehensive income	(1,171)	(1,727)	–	(2,898)
Merger of subsidiary (note 5.12.d)	37	–	–	37
Balance as at 31 December 2023	**538**	**3,556**	**168**	**4,262**

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5.18. Income tax relating to components of other comprehensive income

in EUR thousands

2023	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	(444)	81	(363)	588	(31)	557
Financial assets measured at fair value through other comprehensive income	77,722	5,664	83,386	36,106	11,415	47,521
Share of associates and joint ventures	45	–	45	–	–	–
Total	**77,323**	**5,745**	**83,068**	**36,694**	**11,384**	**48,078**

in EUR thousands

2022	NLB Group			NLB		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and losses	4,031	(441)	3,590	2,048	(286)	1,762
Financial assets measured at fair value through other comprehensive income	(165,438)	11,454	(153,984)	(93,955)	1,748	(92,207)
Share of associates and joint ventures	121	–	121	–	–	–
Total	**(161,286)**	**11,013**	**(150,273)**	**(91,907)**	**1,462**	**(90,445)**

5.19. Other liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Accrued salaries	28,228	21,948	19,461	14,014
Unused annual leave	7,657	6,886	2,761	2,569
Deferred income	11,376	11,177	4,376	4,749
Taxes payable	7,015	5,724	4,895	4,023
Payments received in advance	4,377	3,346	857	32
Total	**58,653**	**49,081**	**32,350**	**25,387**

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5.20. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change in 2023. It is comprised of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31 December 2023, the major shareholder of NLB with significant influence is the Republic of Slovenia, who owns 25.00% plus one share.

The book value of a NLB share on a consolidated level as at 31 December 2023 was EUR 139.9 (31 December 2022: EUR 114.1), and on a solo level was EUR 108.3 (31 December 2022: EUR 75.9). It is calculated as the ratio of net assets' book value excluding other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2023 amounts to EUR 1,116,689 thousand (31 December 2022: EUR 515,463 thousand) and consists of NLB net profit for 2023 in the amount of EUR 514,287 thousand (2022: EUR 159,602 thousand), and retained earnings from previous years in the amount of EUR 405,463 thousand, increased for the N Banka merger effect in the amount of EUR 204,904 thousand and reduced for the interests of subordinated bonds issued in the year 2023 – which are considered instruments of additional basic capital in the amount of EUR 7,965 thousand. Its allocation will be subject to a decision by the Bank's General Assembly. The proposal for the General Assembly will be prepared by the Management and the Supervisory Board, considering restrictions imposed by the regulators, the Group's risk appetite, the target capital adequacy at the Group's level and actual prevailing capital position at the time of the proposal.

The shares give to their holders the right to vote at the NLB's meeting of shareholders where, as a rule, each share entitles its holder to one vote. Nevertheless, a shareholder who acquires shares which, together with the shares already held by such shareholder or by a third person on behalf of such shareholder, represent more than 25% of the NLB's share capital, may only exercise its voting rights under such shares if NLB's Supervisory Board approves such an acquisition. The Supervisory Board's approval may only be rejected if, following such an acquisition, such a person would hold shares representing more than 25% of NLB's issued share capital plus one share. The approval shall be considered given if not expressly rejected in 20 days. No such approval is necessary with respect to the shares acquired by a person on behalf of third persons provided that such a person is not entitled to exercise the voting rights arising out of such shares at its own discretion and undertakes to NLB that it will not exercise the voting rights based on voting instructions unless such voting instructions are accompanied with a confirmation that the person giving such instructions is the beneficial owner of the shares with respect to which votes are to be exercised and does not hold in the aggregate, directly or indirectly 25% or more NLB shares with voting rights.

The shares also give their holders the right to be informed, as well as the pre-emptive right to subscribe for new shares on a pro rata basis in the case of a share capital increase, the right to a pro-rata share of remaining assets in case of bankruptcy or liquidation or NLB, and the right to receive a dividend. In 2023, NLB paid dividends for the previous year in the amount of EUR 5.5 per share (2022: EUR 5.0 per share), which decreased retained earnings by EUR 110,000 thousand (2022: EUR 100,000 thousand).

As at 31 December 2023 and 31 December 2022, NLB holds no own shares. In June 2019, the General Assembly of NLB authorised the Management Board that in the period of 36 months from the adoption of the shareholders' resolution, it can buy own shares of the Bank for the payment of variable remuneration to certain employees as required by the Banking Act and other relevant regulations. NLB did not buy any own shares based on this authorisation.

5.21. Other equity instruments issued

On 23 September 2022, NLB issued subordinated notes intended to qualify as Additional Tier 1 Instruments in the aggregate nominal amount of EUR 82 million. The notes have no scheduled maturity date. The issuer has the option for early redemption of the notes in the period between 23 September 2027 and 23 March 2028, and on each distribution payment date after 23 March 2028. Until 23 March 2028, the interest on the principal of the notes will accrue at the interest rate of 9.721% per annum, and for each subsequent 5-year period, will accrue at the applicable interest rate, which shall be reset prior to the commencement of each such period (5Y MS + 7.20% per annum). The coupon payments are discretionary and non-cumulative. The notes terms provide for a temporary write-down in the event that the Common Equity Tier 1 ratio of NLB Group and/or NLB drop(s) below 5.125%. The issue price was equal to 100% of the nominal amount of the notes. The ISIN code of the notes is SI0022104275. The carrying amount as at 31 December 2023 is EUR 84,178 thousand (31 December 2022: EUR 84,184 thousand).

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5.22. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2023 and 31 December 2022 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2023 and 31 December 2022, profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2023, NLB recorded a net profit in the amount of EUR 514,287 thousand (2022: net profit EUR 159,602 thousand) which is included in the retained earnings as at 31 December 2023.

b) Accumulated other comprehensive income

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Financial assets measured at fair value through other comprehensive income - debt securities	(66,666)	(143,954)	(35,255)	(78,283)
Financial assets measured at fair value through other comprehensive income - equity securities	6,647	1,045	144	(1,460)
Actuarial defined benefit pension plans	(2,265)	(1,948)	(1,205)	(1,934)
Foreign currency translation	(14,588)	(16,485)	–	–
Hedge of a net investment in a foreign operation	754	754	–	–
Total	**(76,118)**	**(160,588)**	**(36,316)**	**(81,677)**

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5.23. Capital adequacy ratios

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings - from previous years	1,235,363	908,965	602,402	355,861
Profit eligible - from current year	327,398	334,297	159,833	49,602
Accumulated other comprehensive income	(75,662)	(98,470)	(36,316)	(50,527)
Other reserves	13,522	13,522	13,522	13,522
Minority interest	28,798	26,806	–	–
Prudential filters: Additional Valuation Adjustments (AVA)	(2,295)	(2,981)	(1,067)	(1,385)
(-) Goodwill	(3,529)	(3,529)	–	–
(-) Other intangible assets	(37,153)	(41,351)	(20,846)	(23,675)
(-) Deferred tax assets	(47,002)	–	(54,069)	–
(-) Insufficient coverage for non-performing exposures	(907)	(418)	(246)	(80)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,509,911**	**2,208,219**	**1,734,591**	**1,414,696**
Capital instruments eligible as AT1 Capital	82,000	82,000	82,000	82,000
Minority interest	5,907	5,481	–	–
Additional Tier 1 capital	**87,907**	**87,481**	**82,000**	**82,000**
TIER 1 CAPITAL	**2,597,818**	**2,295,700**	**1,816,591**	**1,496,696**
Capital instruments and subordinated loans eligible as Tier 2 capital	507,516	507,516	507,516	507,516
Minority interest	3,874	3,159	–	–
TIER 2 CAPITAL	**511,390**	**510,675**	**507,516**	**507,516**
TOTAL CAPITAL	**3,109,208**	**2,806,375**	**2,324,107**	**2,004,212**
RWA for credit risk	12,168,121	11,797,851	7,449,829	6,356,959
RWA for market risks	1,447,713	1,359,476	818,113	776,963
RWA for credit valuation adjustment risk	14,200	85,600	15,613	86,138
RWA for operational risk	1,707,128	1,410,132	923,943	612,654
TOTAL RISK EXPOSURE AMOUNT (RWA)	**15,337,162**	**14,653,059**	**9,207,498**	**7,832,714**
Common Equity Tier 1 Ratio	16.4%	15.1%	18.8%	18.1%
Tier 1 Ratio	16.9%	15.7%	19.7%	19.1%
Total Capital Ratio	**20.3%**	**19.2%**	**25.2%**	**25.6%**

European banking capital legislation – CRD IV, is based on the Basel III guidelines. The legislation defines three capital ratios reflecting a different quality of capital:
- Common Equity Tier 1 ratio (ratio between common or CET1 capital and risk-weighted exposure amount or RWA), which must be at least 4.5%,
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%, and
- Total capital ratio (total capital to RWA), which must be at least 8%.

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

Overall capital requirements of NLB Group on consolidated level:

SREP requirement		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 (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%
Combined buffer requirement (CBR)				
Capital 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	0.26%	0.0%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.96%	9.46%	9.55%
	Tier 1	11.91%	11.45%	11.56%
	Total Capital	14.51%	14.10%	14.25%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.96%	10.46%	10.55%
	Tier 1	12.91%	12.45%	12.56%
	Total Capital	15.51%	15.10%	15.25%

As at December 31, 2023, the Group's Overall Capital Requirement (OCR) on a consolidated basis was 14.51%. This requirement has two components:

- The Total SREP Capital Requirement (TSCR) is 10.40%, including 8.00% Pillar 1 and 2.40% Pillar 2 Requirements. As at 1 January 2023, the Pillar 2 Requirement decreased by 0.2 p.p. to 2.40% due to a better overall SREP assessment.
- The second component is the Combined Buffer Requirement (CBR), which is 4.11%, and includes a 2.50% Capital Conservation Buffer, a 1.25% O-SII Buffer, a 0.26% Countercyclical Buffer and a 0.10% Systemic risk buffer.

In addition to the above requirements, the Pillar 2 Guidance (P2G) is 1.0% of Common Equity Tier 1 (CET1).

Effective from 1 January 2024, NLB has lower capital requirements. On 1 December 2023, NLB received a new SREP decision on a consolidated basis for 2024. As per the decision, the Pillar 2 Requirement decreased by 0.28 p.p. to 2.12% since the overall SREP assessment improved.

Effective as at 1 January 2025, there will be some changes in the capital buffer rates for Slovenia. The countercyclical capital buffer rate for exposures in Slovenia will increase from 0.5% to 1.0%. At the same time, the sectoral systemic risk buffer for retail exposures to natural persons secured by residential real estate will decrease from 1.0% to 0.5%.

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

As at 31 December 2023, NLB Group capital ratios on a consolidated basis stand at:

- 16.4% CET1 ratio,
- 16.9% Tier 1 ratio,
- 20.3% Total Capital ratio.

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses a standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to a basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

As at 31 December 2023, the TCR for the NLB Group stood at 20.3% (or 1.1 p.p. increase compared to 31 December 2022), and the CET1 ratio stood at 16.4% (1.3 p.p. increase compared to 31 December 2022), well above requirements. The higher total capital adequacy derives from higher capital (EUR 302.8 million compared to 31 December 2022), which compensated for the increase of the RWA (EUR 684.1 million compared to 31 December 2022). The NLB Group increased its capital with a partial inclusion of 2023 profit (EUR 327.4 million). Temporary treatment of FVOCI for sovereign securities ceased to apply as at 1 January 2023, which decreased capital by EUR 61.6 million. This effect was compensated with EUR 84.5 million in revaluation adjustments. In December 2023, a deduction item related to deferred taxes appeared in EUR 47.0 million.

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In 2023, the RWA of Group for credit risk increased by EUR 370.3 million, mainly as the consequence of ramping up lending activity in all NLB Group banks, the most in the Bank, NLB Komercijalna banka a.d. Beograd and NLB Banka Pristina. Higher RWA for exposures associated with particularly high risk due to new project financing loans given, mainly in the Bank and NLB Komercijalna banka a.d. Beograd, was partially offset by repayments or by withdrawing the high-risk flag after fulfilling the relevant conditions. In contrast, an RWA decrease was observed for liquidity assets, mainly in NLB Komercijalna banka a.d. Beograd, due to the maturity of some Serbian bonds and higher MIGA guarantee for assets at central banks in a foreign currency (EUR). The higher MIGA guarantee also reduced the RWA for exposures nominated in EUR at the central bank in Skopje. Furthermore, RWA also decreased due to the maturity of Macedonian bonds and Bosnian bonds of Republika Srpska. The RWA decline for liquidity assets was partly mitigated by the RWA increase at institutions, mainly in the Bank due to the purchase of bank bonds, larger volume of deposits at commercial banks and higher risk weights for institutions from countries outside the EEA that are not on the third-party equivalent list (e.g., the United Kingdom). Repayments, higher impairments and provisions, upgrades, and improved data of real estate collaterals for CRR eligibility 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 16.8 million compared to 31 December 2022 was the result of higher RWA for FX risk of EUR 86.6 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks – mostly RSD), lower RWA for CVA risk of EUR 71.4 million (due to a change of calculating exposure value for derivative transactions subject to CRR risk based on OEM method) and higher RWA for TDI risk of EUR 1.2 million (mostly IRS derivatives).

The increase in the RWA for operational risks (EUR 297.0 million compared to 31 December 2022) derived from the higher net interests, mainly from the Bank and NLB Komercijalna banka a.d. Beograd, resulting in a higher three-year average of relevant income. There were no significant deviations from previous years in the other components used in the calculations.

The most important goal of internal capital adequacy assessment process (ICAAP) in NLB Group, set up in accordance with ECB Guidelines, is ensuring adequate capital and sustainability on an ongoing basis. The purpose of this process is to have in place sound, effective, and comprehensive strategies and processes to assess and maintain capital on an ongoing basis, as well the adequate distribution of internal capital for covering the nature and level of the risks to which NLB Group is or might be exposed. In addition, NLB Group gives strong emphasis on its integration into the overall risk management system in order to assure proactive support for informed decision-making.

From an economic perspective, NLB Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. A normative perspective is a multiyear forward-looking assessment of NLB Group which shows its ability to fulfil all of its capital-related regulatory and supervisory requirements and risk appetite of NLB Group. Within these capital constraints, NLB Group defines its management buffers in the Risk appetite above the regulatory and supervisory requirement, and the internal capital needs that allow it to sustainably follow its business strategy. A normative perspective includes several stress scenarios which are integrated into NLB Group's annual business plan review and budgeting process.

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5.24. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Short-term guarantees	369,849	407,967	205,731	176,535
- financial	154,769	220,786	88,373	96,473
- non-financial	215,080	187,181	117,358	80,062
Long-term guarantees	1,261,764	1,103,341	817,646	613,061
- financial	513,523	427,743	309,909	230,318
- non-financial	748,241	675,598	507,737	382,743
Loan commitments	2,469,800	2,388,468	1,822,847	1,635,498
Letters of credit	41,026	35,029	10,446	13,204
Other	17,653	18,655	7,904	9,706
	4,160,092	**3,953,460**	**2,864,574**	**2,448,004**
Provisions (note 5.16.b)	(32,548)	(37,609)	(17,941)	(20,299)
Total	**4,127,544**	**3,915,851**	**2,846,633**	**2,427,705**

Fee income from issued non-financial guarantees amounted to EUR 8,628 thousand (2022: EUR 7,535 thousand) in NLB Group, and to EUR 5,552 thousand (2022: EUR 4,574 thousand) in NLB.

In addition to the instruments presented in the table above, NLB Group and NLB have also some low-risk off-balance sheet items, for which a 0% credit conversion factor is applied in accordance with the Capital Requirements Regulation (credit and other lines which can be irrevocably cancelled by a bank). As at 31 December 2023, these items at the NLB Group level amount to EUR 915,450 thousand (31 December 2022: EUR 657,232 thousand), and at the NLB level EUR 412,330 thousand (31 December 2022: EUR 316,977 thousand).

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b) Analysis of derivative financial instruments by notional amounts

in EUR thousands

	NLB Group				NLB			
	31 Dec 2023		31 Dec 2022		31 Dec 2023		31 Dec 2022	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	486,874	1,526,962	257,015	1,111,946	715,173	1,586,962	359,978	1,111,690
- currency swaps	482,463	10,799	256,820	–	710,762	10,799	359,587	–
- interest rate swaps	4,411	1,516,163	195	1,111,946	4,411	1,576,163	391	1,111,690
Options	–	45,924	72	60,626	–	45,924	72	60,626
- interest rate options	–	30,189	72	46,963	–	30,189	72	46,963
- securities options	–	15,735	–	13,663	–	15,735	–	13,663
Forward contracts	74,351	6,640	54,660	11,720	72,120	6,640	54,384	11,720
- currency forward	74,351	6,640	54,660	11,720	72,120	6,640	54,384	11,720
Total	**561,225**	**1,579,526**	**311,747**	**1,184,292**	**787,293**	**1,639,526**	**414,434**	**1,184,036**
	2,140,751		**1,496,039**		**2,426,819**		**1,598,470**	

As at 31 December 2023, the NLB Group held interest rate swaps intended as fair value hedges of assets with a total nominal value of EUR 633,798 thousand (31 December 2022: EUR 644,132 thousand) and intended to hedge the fair value of bonds issued in 2023 with a total nominal value of EUR 450,000 thousand (note 5.5.b).

As at 31 December 2023, the NLB held interest rate swaps intended as fair value hedges of assets with a total nominal value of EUR 573,798 thousand (31 December 2022: EUR 644,132 thousand) and intended to hedge the fair value of bonds issued in 2023 with a total contractual value of EUR 450,000 thousand (note 5.5.b).

Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2. and 5.5.

c) Capital commitments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Capital commitments for purchase of:				
- property and equipment	3,131	1,651	3,022	1,496
- intangible assets	2,901	5,246	2,470	5,206
Total	**6,032**	**6,897**	**5,492**	**6,702**

5.25. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Fiduciary activities	30,241,726	26,935,868	28,278,498	24,990,075
Settlement and other services	1,085,213	1,247,360	1,010,624	1,156,361
Total	**31,326,939**	**28,183,228**	**29,289,122**	**26,146,436**

Fiduciary activities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Assets				
Clearing or transaction account claims for client assets	**30,196,860**	**26,886,137**	**28,243,725**	**24,950,876**
From financial instruments	30,196,322	26,866,494	28,243,237	24,931,891
- receipt, processing, and execution of orders	11,217,662	10,004,881	10,407,489	9,166,585
- management of financial instruments portfolio	573,177	509,000	–	–
- custody services	18,405,483	16,352,613	17,835,748	15,765,306
To Central Securities Clearing Corporation or bank settlement account for sold financial instrument	128	891	78	233
To other settlement systems and institutions for bought financial instrument (debtors)	410	18,752	410	18,752
Clients' money	**44,866**	**49,731**	**34,773**	**39,199**
- at settlement account for client assets	27,082	22,037	16,989	22,037
- at bank transaction accounts	17,784	27,694	17,784	17,162
Liabilities				
Clearing or transaction liabilities for client assets	**30,241,726**	**26,935,868**	**28,278,498**	**24,990,075**
To clients from cash and financial instruments	30,238,652	26,931,466	28,275,954	24,986,135
- receipt, processing, and execution of orders	11,233,595	10,024,193	10,423,422	9,185,897
- management of financial instruments portfolio	582,790	519,728	–	–
- custody services	18,422,267	16,387,545	17,852,532	15,800,238
To Central Securities Clearing Corporation or bank settlement account for bought financial instrument	138	444	138	444
To other settlement systems and institutions for bought financial instrument (creditors)	2,532	3,540	2,002	3,078
To bank or settlement bank account for fees and costs, etc.	404	418	404	418

Fee income for funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Fiduciary activities (note 4.3.b)	11,666	11,025	9,567	9,395
Settlement and other services	912	1,372	806	1,363
Total	**12,578**	**12,397**	**10,373**	**10,758**

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6. Risk management

Risk management in NLB Group is implemented in accordance with the set strategic guidelines, established internal policies, and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, current EBA guidelines, and relevant good banking practices. In addition, the Group is constantly enhancing and complementing the existing approaches, methodologies, and processes in all risk management segments with the aim to proactively support decision-making.

Managing risks and capital efficiently is crucial for NLB Group sustained long-term profitable operations. A robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group. NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group.

NLB Group's Risk management framework supports business decision-making on strategic and operating levels, comprehensive steering, proactive risk management, and mitigation by incorporating:

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

NLB Group uses the 'three lines of defence framework' as an important element of its internal governance, whereby the Risk management function acts as a second line of defence. Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

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

Key strategic risk management principles of NLB Group are defined by its Risk Appetite and Risk Strategy, designed in accordance with the Group's business model, integrating forward-looking perspective. The Strategy of NLB Group, the Risk Appetite, Risk Strategy, and the key internal policies of NLB Group – which are approved by the Management and Supervisory Boards – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal strategic objectives and fulfil all external requirements. The main strategic risk guidelines are comprehensively integrated into decision-making, including the business plan review and budgeting process.

NLB Group plans a prudent risk profile and optimal capital usage, representing an important element of its business strategy and related mid-term financial targets. The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks – a diversified credit portfolio, adequate credit portfolio quality, the sustainable costs of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards ensuring an adequate liquidity position on an ongoing basis. The Group limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to moderate level. The fundamental orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital, therefore, a moderate tolerance for this risk is stated. When assuming operational risk, the Group pursues the orientation that such a risk must not significantly impact its operations. On this basis, changes of control activities, processes, and/or organisation are performed when necessary.

Besides, the Group also focuses on proactive mitigation, prevention, and minimisation of potential damage. The conclusion of transactions with derivative financial instruments at NLB is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, NLB Group pursues the goals of low to moderate exposure. The tolerance for other risk types is low and focuses on minimising their possible impacts on NLB Group's entire operations.

Environmental, social, and governance (ESG) risks do not represent a new risk category, but rather one of risk drivers of the existing types of risks, such as credit, liquidity, market and operational risk. The Group integrates and manages them within the established risk management framework. The management of ESG risks follows ECB and EBA guidelines with the tendency to comprehensively integrate them into all relevant processes. Based on environmental and climate risk assessment impact of these risks is estimated as low, except for transition risk in the area of credit which is assessed as low to medium. With the NZBA commitment the Bank made a pledge to align the Bank's lending and investment portfolio with net-zero emissions by 2050.The availability of ESG data in the region where NLB Group operates is still lacking. Nevertheless, the Group made a large progress in the process of obtaining relevant ESG related data from its clients, being prerequisite for adequate decision-making and the corresponding proactive management of ESG risks.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy. Within these frameworks, the Group monitors a range of risk metrics, including internal capital allocation in order to assure the Group's risk profile is in line with its risk appetite. The usage of risk limits and potential deviations from limits and target values are regularly reported to the respective committees and/or the Management Board of the Bank. The banking subsidiaries within NLB Group adapted a corresponding approach to monitor and manage their target risk profiles.

NLB Group established a comprehensive stress-testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely response when necessary.

Robust and uniform stress-testing programme includes all material types of risk and relevant stress scenario analysis, according to the vulnerability of the Group's business model. The Group established an internal ESG stress-testing concept to identify most relevant financial vulnerabilities stemming from climate risk, which will be further enhanced by considering disposable ESG-related data. Stress testing is integrated into the risk appetite, ICAAP, ILAAP, Recovery Plan, and budgeting process to support proactive management of the Group's risk profile, namely the capital and liquidity positions in a forward-looking perspective. In addition, the Group also performs reverse stress tests with the aim to test its maximum recovery capacity. Other partial risk assessments are covered by other risk analysis, based on relevant risk parameters, and integrated into the process of setting a risk management limit system.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, representing a secondary source of repayment with the aim of efficient credit risk management and optimal capital consumption. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in NLB Group are described in more relevant details in the section 'Credit risk management.' When hedging market risks, namely interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

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

NLB Group established the three lines of a defence framework with the aim of managing risks effectively. The three lines of defence concept provides a clear division of activities and defines roles and responsibilities for risk management at different levels within the Group. Risk management in the Group acts as a second line of defence, accountable for appropriate managing, assessing, monitoring, and reporting of risks in the Bank as the main entity in Slovenia, and as the competence centre in charge of six banking members, leasing members, and other non-core subsidiaries which are in a controlled wind-out.

Overall, the organisation and delineation of competencies in NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in NLB Group is managed within the Risk management competence line, which is a specialised competence line encompassing several professional areas for which the Global Risk Department, the Credit Risk – Corporate Department, the Credit Risk – Retail Department and the Evaluation and Control Department are responsible within NLB, and which reports to the Management Board, Assets and Liabilities Committee (ALCO) Risk Committee (RICO) and Credit Committee of the Management Board and the Risk Committee of the Supervisory Board. The risk management competence line is in charge of formulating and controlling the risk management policies of NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the NLB Group, monitoring NLB Group's risk exposures, and preparing external and internal reports.

All members of NLB Group that are included in the financial statements of NLB Group, report their exposure to risks to the competent organisational units within the Risk management competence line. These organisational units then report all relevant risk information to the Management Board and its respective Committees and the Supervisory Board its respective Committees, which is where appropriate measures are adopted.

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

Risk monitoring in NLB Group members is operating within an independent and/or separate organisational unit. This way, monitoring of risks is established based on standardised and systemic risk management approaches. This monitoring enables a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk appetite, risk management strategy, and policies of NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function to maintain the objectivity required when assessing business decisions (three lines of defence concept). The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO, RICO and the Operational Risk Committee) and Management Board, which report to the Supervisory Board (the Risk Committee of the Supervisory Board or Board of Directors).

c) Risk measurement and reporting systems
As a systemic banking group, NLB Group is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team (JST) of the ECB and the Bank of Slovenia. The Group member complies with the ECB regulation, while NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. A third-party equivalent was approved in Serbia, Bosnia and Herzegovina, and North Macedonia, resulting in alignment of local regulation with CRR rules. With regards to capital adequacy, based on the provisions of

the Directive (CRD), Decision (CRR), NLB Group applies a standardised approach to credit and market risk, and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

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

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

d) Data and IT system

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

The Group has established a strong and robust data governance program that aligns with the goals and objectives of the Group's risk management function. NLB Group data governance and data quality framework consists of identifying risks, developing policies and controls on data confidentiality, integrity, accuracy, and availability, and by executing the second line of defence controls by an independent validation unit under the responsibility of Group Data Governance Officer. This framework covers agreed service level standards for both in-house and outsourced data-related processes.

e) Main emphasis of risk management in 2023

Efficient managing of risks and capital remains crucial for NLB Group to sustain long-term profitable operations. The Group further enhanced the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively, and prudently. Risk identification in a very early stage, its efficient managing, and the corresponding mitigation processes represent essential steps in such a system. The business and operating environment relevant for NLB Group operations is changing with trends, such as sustainability, social responsibility, governance, changing customer behaviours, emerging new technologies and competitors, as well as increasing new regulatory requirements. Respectfully, the risk management framework is regularly adapted with the aim of detecting and managing new potential emerging risks.

The NLB Group gives special focus on the inclusion of risk analysis into the decision-making process on strategic and operating levels, diversification in order to avoid a large concentration, optimal usage of internal capital, appropriate risk-adjusted pricing, regular education/trainings at all levels of management, and the assurance of overall compliance with internal policies/rules and relevant regulations.

During 2023, the Group's credit portfolio quality remained of high quality, well diversified, with a stable rating structure and lower level of NPLs. In the light of inflationary pressures, higher interest rates and low GDP growth, the Group recorded a slower credit portfolio growth in all segments. Impacts of the floods in Slovenia were estimated as negligible, and only minor client credit quality deteriorations or received collaterals were recorded. Besides, the Group monitored the macroeconomic and geopolitical circumstances closely, remaining prudent in identifying any increase in credit risk at a very early stage and proactive in NPL management. The cost of risk remained at low level, mainly due to the successful collection of previously written-off receivables, revised risk parameters, and a stable portfolio development.in the whole region. The liquidity position of the Group remained very robust. Even if a highly unfavourable liquidity scenario would materialise, the Group holds a sufficient level of high-quality liquidity reserves. Significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while keeping in mind the potential adverse negative market movements.

The management of ESG risks follows ECB and EBA guidelines with a tendency of their comprehensive integration into all relevant processes. It addresses the Group's overall credit approval process and related credit portfolio management. Sustainable ESG financing in accordance with Environmental and Social Management System is integrated into the Group's Risk Appetite Statement. As part of its strategy, the Group does not finance companies that extract fossil fuels or operate coal-fired power plants. Moreover, in December 2023 NLB as a member of the UN Net-Zero Banking Alliance, publicly disclosed its Net-Zero commitment. With this step, the Bank made a pledge to align the Bank's lending and investment portfolio with net-zero emissions by 2050.

As a systemically important institution, the Group was included in the ECB Stress Test exercise performed in H1 2023. On 30 July, the results of stress tests carried out for important banks by the ECB to assess the resilience of the financial institutions were disclosed. The final results of the bottom-up stress test showed that even in a very unfavourable market condition defined by the EBA and ECB, the Group holds sufficient resilience in terms of capitalisation. The qualitative outcomes were included in the determination of capital requirements by the ECB, namely setting Pillar 2 Guidance.

Besides, the Group is also included in two ECB Stress test exercises – 2024 EBA Fit-for-55 climate risk scenario analysis and the 2024 ECB Cyber Resilience Stress Test Exercise, which started in Q3 2023 and will be concluded in H1 2024.

6.1. Credit risk management

a) Introduction

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

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

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

Comprehensive analyses are regularly performed to assure monitoring of the portfolio quality through time and to identify any breach of limits or targets. Great emphasis is placed on the evolution of portfolio structure in terms of client segmentation, credit rating structure, structure by stages (based on IFRS 9), and NPL ratios. Furthermore, the coverage of NPL is an important indicator of potential future losses that is closely monitored.

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

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

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, and at the collective level for the rest of the portfolio.

An individual review is performed for material Stage 3 financial assets which have been rated as non-performing based on the information regarding significant financial problems encountered by a customer, actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter bankruptcy or a financial reorganisation.

Expected future cash flows (from ordinary operations and possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised.

Collective ECL allowances are made for the remainder of the portfolio, which is not assessed on an individual basis. Based on IFRS 9 requirements, financial assets measured at amortised cost or at fair value through other comprehensive income are attributed to the appropriate stage based on the estimated increase of credit risk of a single exposure since initial recognition. The stage of financial assets determines whether a 12-month or lifetime ECL must be considered. The ECL calculation is based on the forward-looking probability of default (PD) and loss given default (LGD), which are calculated using historic data and statistical modelling, as well as predicted macroeconomic parameters for different scenarios. For off-balance financial assets, the probability of the redemption of guarantees is considered when creating collective provisions. The models used to estimate future risk parameters are validated and backtested on a regular basis to make loss estimations as realistic as possible.

The management of ESG risks addresses the Group's overall credit approval process and related credit portfolio management. Sustainable financing is implemented through amended documentary framework:
- Lending Policy for Non-Financial Companies in NLB d.d. and NLB Group where in the special chapter Environmental and Social Framework three categories are defined (prohibited, restricted, normal activities);
- Policy Environmental and Social Transaction Policy Framework in NLB d.d. and NLB Group applies to certain transactions with the greatest potential for significant E&S impact (exclusion list, regulatory compliance check, category A list);
- Methodology Environmental and Social Transaction Categorisation Methodology Framework in NLB d.d. and NLB Group provides a guide to the typical level of inherent environmental and social risk according to NACE codes.

Beside addressing ESG risks in all relevant stages of the credit-granting process relevant ESG criteria were also considered in the collateral evaluation process. On the portfolio level, the Group does not face any large concentration towards specific NACE industrial sectors exposed to climate risk, whereby the role of transitional risk is more prevailing. The availability of ESG data in the region where NLB Group operates is still lacking, nevertheless the Group has made material progress in this respect in 2022 and has ambitious plans for the following year.

b) Main emphasis in 2023
In the process of constantly complementing and enhancing credit risk management, NLB Group focuses on taking moderate risks, and at the same time ensuring an optimal return considering the risks assumed. Preserving high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. The Group is actively present on the market in the region, financing existing and new creditworthy clients. To further enhance existing risk management tools, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in credit risk assessment in line with best banking practises, while at the same time enabling faster responsiveness towards clients.

Lending growth, which was observed in the Corporate, as well as in the Retail segment in 2022 no longer prevailed in 2023 due rising interest rates that led to less favourable lending conditions. In the circumstances of the growing EURIBOR, there was certain transfer to fixed interest rates, especially in the housing loans market. In the Corporate segment, the Bank seized opportunities to finance some of the top corporate clients in the region while keeping the focus on SME as its key segment. Credit portfolio remains well-diversified, there is no large concentration in any specific industry or client segment. The share of retail portfolio in the whole credit portfolio is quite substantial, with still prevailing segment of mortgage loans.

In 2023, the Group's credit portfolio quality remained solid with a stable rating structure and diversified portfolio. Great emphasis was placed on intensive and proactive handling of problematic customers and an early warning system for detecting increased credit risk at a very early stage. The stock of NPE volume decreased, as a result of active workout management. As at 31 December 2023, the share of non-performing exposure by EBA methodology in NLB Group was 1.1% (1.3% at the end of 2022). Moreover, the coverage ratio remains high at 64.6%, which is above the EU average published by the EBA (42.6% in 3Q 2023).

c) Maximum exposure to credit risk

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Cash, cash balances at central banks, and other demand deposits at banks	6,103,561	5,271,365	4,318,032	3,339,024
Financial assets held for trading	15,718	21,588	17,957	21,692
Non-trading financial assets mandatorily at fair value through profit or loss	5,217	3,116	7,785	7,892
Financial assets at fair value through other comprehensive income	2,164,464	2,838,796	962,084	1,291,277
Financial assets at amortised cost				
Debt securities	2,522,229	1,917,615	1,966,169	1,597,448
Loans to governments	386,291	303,443	118,220	124,736
Loans to banks	547,640	222,965	149,011	350,625
Loans to financial organisations	91,523	116,078	384,995	286,504
Loans to individuals	7,086,815	6,621,670	3,543,603	3,036,499
Loans to companies	6,169,972	6,031,795	3,101,465	2,606,674
Other financial assets	165,962	177,823	101,596	114,399
Derivatives - hedge accounting	47,614	59,362	47,614	59,362
Total net financial assets	**25,307,006**	**23,585,616**	**14,718,531**	**12,836,132**
Guarantees	1,631,613	1,511,308	1,023,377	789,596
Financial guarantees	668,292	648,529	398,282	326,791
Non-financial guarantees	963,321	862,779	625,095	462,805
Loan commitments	2,469,800	2,388,468	1,822,847	1,635,498
Other potential liabilities	58,679	53,684	18,350	22,910
Total contingent liabilities	**4,160,092**	**3,953,460**	**2,864,574**	**2,448,004**
Total maximum exposure to credit risk	**29,467,098**	**27,539,076**	**17,583,105**	**15,284,136**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and contingent liabilities. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

d) Collaterals from financial assets measured at amortised cost

Collaterals from credit impaired financial assets measured at amortised cost

in EUR thousands

31 Dec 2023	NLB Group					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Loans to banks	–	–	–	113	27	–
Loans to individuals	47,586	28,634	133,472	83,423	17,964	4,511
Loans to other customers	102,763	47,238	343,157	66,332	12,606	20,506
Other financial assets	119	57	4,507	10,484	405	54
Total	**150,468**	**75,929**	**481,136**	**160,352**	**31,002**	**25,071**

in EUR thousands

31 Dec 2022	NLB Group					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Loans to banks	–	–	–	108	–	–
Loans to individuals	46,587	32,322	135,480	81,523	19,235	5,607
Loans to other customers	127,938	69,180	426,805	71,733	19,227	22,607
Other financial assets	249	104	7,301	8,979	1,374	46
Total	**174,774**	**101,606**	**569,586**	**162,343**	**39,836**	**28,260**

in EUR thousands

31 Dec 2023	NLB					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Loans to banks	–	–	–	113	27	–
Loans to individuals	32,400	20,097	76,149	43,943	10,579	3,189
Loans to other customers	41,759	18,968	145,806	19,456	3,938	4,028
Other financial assets	7	2	355	1,655	146	10
Total	**74,166**	**39,067**	**222,310**	**65,167**	**14,690**	**16,374**

in EUR thousands

31 Dec 2022	NLB					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Loans to banks	–	–	–	–	–	–
Loans to individuals	22,988	16,518	50,403	36,692	8,876	3,311
Loans to other customers	36,494	17,154	93,719	14,637	4,079	2,130
Other financial assets	3	2	379	830	23	7
Total	**59,485**	**33,674**	**144,501**	**52,159**	**12,978**	**5,448**

Collaterals from financial assets measured at amortised cost classified into Stage 1 and 2

in EUR thousands

31 Dec 2023	NLB Group					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Debt securities	113,822	113,724	113,161	2,413,929	2,408,505	–
Loans to banks	216	216	1,037	547,610	547,397	–
Loans to individuals	3,358,508	3,351,490	7,084,152	3,745,797	3,688,727	184,220
Loans to other customers	2,489,620	2,466,593	5,645,989	4,169,199	4,121,349	620,595
Other financial assets	1,440	1,436	3,296	164,724	164,064	487
Total	**5,963,606**	**5,933,459**	**12,847,635**	**11,041,259**	**10,930,042**	**805,302**

in EUR thousands

31 Dec 2022	NLB Group					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Debt securities	123,860	123,753	123,860	1,797,539	1,793,862	–
Loans to banks	480	475	972	222,646	222,490	–
Loans to individuals	3,245,998	3,240,439	6,636,980	3,369,336	3,329,674	169,791
Loans to other customers	2,467,255	2,430,478	5,536,384	3,986,614	3,932,431	645,861
Other financial assets	607	604	2,387	177,022	175,741	138
Total	**5,838,200**	**5,795,749**	**12,300,583**	**9,553,157**	**9,454,198**	**815,790**

in EUR thousands

31 Dec 2023	NLB					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Debt securities	113,822	113,724	113,161	1,855,144	1,852,445	–
Loans to banks	–	–	–	149,148	148,984	–
Loans to individuals	1,902,110	1,900,201	4,027,602	1,630,374	1,612,726	38,207
Loans to other customers	1,024,057	1,025,532	2,437,145	2,573,752	2,556,242	311,166
Other financial assets	44	44	130	101,504	101,404	18
Total	**3,040,033**	**3,039,501**	**6,578,038**	**6,309,922**	**6,271,801**	**349,391**

in EUR thousands

31 Dec 2022	NLB					
	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
	Gross value of financial assets	Net value of financial assets	Fair value of collateral	Gross value of financial assets	Net value of financial assets	Fair value of collateral
Financial assets at amortised cost						
Debt securities	123,860	123,753	123,860	1,475,578	1,473,695	–
Loans to banks	–	–	–	350,841	350,625	–
Loans to individuals	1,611,092	1,610,129	3,256,002	1,413,559	1,400,976	37,933
Loans to other customers	837,771	836,196	1,630,471	2,174,592	2,160,485	331,673
Other financial assets	6	6	19	114,573	114,368	11
Total	**2,572,729**	**2,570,084**	**5,010,352**	**5,529,143**	**5,500,149**	**369,617**

e) Collateral from loans mandatorily at fair value through profit or loss

in EUR thousands

	31 Dec 2023				31 Dec 2022			
NLB	Fully/over collateralised loans		Loans not or not fully covered with collateral		Fully/over collateralised loans		Loans not or not fully covered with collateral	
	Fair value of loans	Fair value of collateral	Fair value of loans	Fair value of collateral	Fair value of loans	Fair value of collateral	Fair value of loans	Fair value of collateral
Loans mandatorily at fair value through profit or loss	70	149	7,715	5,800	4,345	4,699	3,547	2,000

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

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

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

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

In September 2023, the operational merger of N Banka into NLB was successfully completed with the transfer of all customers and their business. During the transition period prior to the merger, N Banka has adopted all relevant internal acts in the field of collaterals, thus facilitating the integration into NLB system.

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

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

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

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

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

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

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually, either by preparing individual assessments or by using the internal methodology for preparing an own value appraisal of real estate, based either on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in the Republic of Slovenia) or on analyses carried out. The value of pledged movable property

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is monitored once a year (in NLB automated, with a straight-line depreciation over the period of the remaining useful life).

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

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

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

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

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

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

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

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

i) Risks, deriving from valuation of received collateral
Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on the approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral, loan maturity, and the client rating. The ratios are based on experience and regulatory guidelines.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral from which payment can be realistically expected if it is liquidated, is considered.

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NLB Group has the largest concentration of collaterals arising from mortgages on real estate, which is a relatively reliable and quality type of collateral. Due to the possible decrease of real estate market prices, the Group closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value, which are expected to be achieved in a sale (expected payment from collateral). Priority is given to property where the pledge right of the Group is entered in the first place and the real estate is already owned by the debtor and/or the pledger. For real estate, there must be a market, and it must be redeemable within a reasonable time.

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans based on pledged securities and equity shares in NLB. Deviations from the Rules are subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined regarding the rating of the issuer, the securities' liquidity, maturity, and correlation with changes in market indexes, i.e., by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price.

Collateral consisting of the sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Business Rules – Collateral for Retail and Corporate Loans regulate which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfil to be able to be considered.

j) Credit quality analysis for financial assets and contingent liabilities

in EUR thousands

	NLB Group					NLB				
31 Dec 2023	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities at amortised cost										
A	1,779,525	–	–	–	1,779,525	1,590,676	–	–	–	1,590,676
B	735,905	–	–	–	735,905	373,190	–	–	–	373,190
C	–	12,321	–	–	12,321	–	5,100	–	–	5,100
Loss allowance	(4,946)	(576)	–	–	(5,522)	(2,624)	(173)	–	–	(2,797)
Carrying amount	2,510,484	11,745	–	–	2,522,229	1,961,242	4,927	–	–	1,966,169
Loans and advances to banks at amortised cost										
A	166,615	–	–	–	166,615	145,666	–	–	–	145,666
B	381,211	–	–	–	381,211	3,482	–	–	–	3,482
D and E	–	–	113	–	113	–	–	113	–	113
Loss allowance	(213)	–	(86)	–	(299)	(164)	–	(86)	–	(250)
Carrying amount	547,613	–	27	–	547,640	148,984	–	27	–	149,011
Loans and advances to individuals at amortised cost										
A	6,787,523	111,211	–	632	6,899,366	3,373,404	77,225	–	313	3,450,942
B	64,863	55,590	–	10	120,463	6,109	31,221	–	8	37,338
C	2,339	81,623	–	514	84,476	–	43,815	–	389	44,204
D and E	–	–	126,743	4,266	131,009	–	–	72,822	3,521	76,343
Loss allowance	(39,668)	(25,051)	(82,756)	(1,024)	(148,499)	(8,072)	(11,489)	(43,908)	(1,755)	(65,224)
Carrying amount	6,815,057	223,373	43,987	4,398	7,086,815	3,371,441	140,772	28,914	2,476	3,543,603
Loans and advances to other customers at amortised cost										
A	1,344,256	3,758	–	–	1,348,014	1,167,563	1,961	–	–	1,169,524
B	4,724,560	158,829	–	12	4,883,401	2,182,739	59,001	–	–	2,241,740
C	138,837	288,567	–	–	427,404	84,531	102,014	–	–	186,545
D and E	–	–	152,759	16,336	169,095	–	–	49,049	12,166	61,215
Loss allowance	(51,087)	(19,778)	(103,278)	(5,985)	(180,128)	(13,482)	(2,553)	(32,631)	(5,678)	(54,344)
Carrying amount	6,156,566	431,376	49,481	10,363	6,647,786	3,421,351	160,423	16,418	6,488	3,604,680
Other financial assets at amortised cost										
A	125,514	77	–	–	125,591	83,727	25	–	–	83,752
B	39,042	156	–	–	39,198	17,580	50	–	–	17,630
C	819	556	–	–	1,375	122	44	–	–	166
D and E	–	–	9,346	1,257	10,603	–	–	1,658	4	1,662
Loss allowance	(624)	(40)	(8,910)	(1,231)	(10,805)	(98)	(2)	(1,512)	(2)	(1,614)
Carrying amount	164,751	749	436	26	165,962	101,331	117	146	2	101,596
Debt instruments at fair value through other comprehensive income										
A	1,221,592	–	–	–	1,221,592	854,472	–	–	–	854,472
B	1,031,205	–	–	–	1,031,205	154,461	–	–	–	154,461
C	–	144	–	–	144	–	–	–	–	–
D and E	–	–	798	–	798	–	–	–	798	798
Loss allowance	(6,475)	(56)	(798)	–	(7,329)	(1,650)	–	–	(798)	(2,448)
Contingent liabilities										
A	1,691,834	26,522	–	37	1,718,393	1,358,079	25,286	–	10	1,383,375
B	2,286,997	33,489	–	11	2,320,497	1,383,937	25,497	–	1	1,409,435
C	53,728	46,605	–	170	100,503	41,961	15,836	–	56	57,853
D and E	–	–	17,221	3,478	20,699	–	–	10,613	3,298	13,911
Loss allowance	(18,429)	(1,655)	(9,369)	(3,095)	(32,548)	(7,653)	(319)	(7,034)	(2,935)	(17,941)
Carrying amount	4,014,130	104,961	7,852	601	4,127,544	2,776,324	66,300	3,579	430	2,846,633

in EUR thousands

	NLB Group					NLB				
31 Dec 2022	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities at amortised cost										
A	1,388,564	–	–	–	1,388,564	1,318,134	–	–	–	1,318,134
B	525,606	–	–	–	525,606	281,304	–	–	–	281,304
C	–	7,229	–	–	7,229	–	–	–	–	–
Loss allowance	(3,519)	(265)	–	–	(3,784)	(1,990)	–	–	–	(1,990)
Carrying amount	1,910,651	6,964	–	–	1,917,615	1,597,448	–	–	–	1,597,448
Loans and advances to banks at amortised cost										
A	87,422	–	–	–	87,422	350,138	–	–	–	350,138
B	135,704	–	–	–	135,704	703	–	–	–	703
D and E	–	–	108	–	108	–	–	–	–	–
Loss allowance	(161)	–	(108)	–	(269)	(216)	–	–	–	(216)
Carrying amount	222,965	–	–	–	222,965	350,625	–	–	–	350,625
Loans and advances to individuals at amortised cost										
A	6,327,508	82,441	–	772	6,410,721	2,915,578	37,725	–	–	2,953,303
B	80,749	40,465	–	50	121,264	7,329	29,299	–	–	36,628
C	14,620	67,215	–	1,514	83,349	–	34,720	–	–	34,720
D and E	–	–	122,350	5,760	128,110	–	–	59,680	–	59,680
Loss allowance	(31,385)	(14,582)	(76,306)	499	(121,774)	(6,161)	(7,385)	(34,286)	–	(47,832)
Carrying amount	6,391,492	175,539	46,044	8,595	6,621,670	2,916,746	94,359	25,394	–	3,036,499
Loans and advances to other customers at amortised cost										
A	1,366,495	1,405	–	–	1,367,900	1,007,159	91	–	–	1,007,250
B	4,508,706	146,749	–	15	4,655,470	1,907,775	23,418	–	–	1,931,193
C	153,084	275,517	–	1,898	430,499	45,521	28,397	–	2	73,920
D and E	–	–	178,206	21,465	199,671	–	–	47,824	3,307	51,131
Loss allowance	(59,840)	(31,230)	(114,288)	3,134	(202,224)	(14,880)	(800)	(29,262)	(638)	(45,580)
Carrying amount	5,968,445	392,441	63,918	26,512	6,451,316	2,945,575	51,106	18,562	2,671	3,017,914
Other financial assets at amortised cost										
A	138,353	57	–	–	138,410	102,414	2	–	–	102,416
B	37,103	169	–	–	37,272	11,362	19	–	–	11,381
C	1,370	577	–	–	1,947	759	23	–	–	782
D and E	–	–	7,940	1,288	9,228	–	–	832	1	833
Loss allowance	(1,246)	(38)	(7,565)	(185)	(9,034)	(203)	(2)	(807)	(1)	(1,013)
Carrying amount	175,580	765	375	1,103	177,823	114,332	42	25	–	114,399
Debt instruments at fair value through other comprehensive income										
A	1,453,671	–	–	–	1,453,671	1,159,704	–	–	–	1,159,704
B	1,545,358	–	–	–	1,545,358	207,791	–	–	–	207,791
C	–	165	–	–	165	–	–	–	–	–
D and E	–	–	8,338	–	8,338	–	–	8,338	–	8,338
Loss allowance	(9,029)	(70)	(6,777)	–	(15,876)	(2,022)	–	(6,777)	–	(8,799)
Contingent liabilities										
A	1,500,489	6,657	–	34	1,507,180	1,118,801	4,426	–	–	1,123,227
B	2,294,429	38,878	–	318	2,333,625	1,256,792	17,906	–	101	1,274,799
C	48,375	37,735	–	88	86,198	22,149	12,911	–	25	35,085
D and E	–	–	20,134	6,323	26,457	–	–	11,575	3,318	14,893
Loss allowance	(18,826)	(1,953)	(12,735)	(4,095)	(37,609)	(8,156)	(378)	(8,889)	(2,876)	(20,299)
Carrying amount	3,824,467	81,317	7,399	2,668	3,915,851	2,389,586	34,865	2,686	568	2,427,705

NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices, as well as Bank of Slovenia regulations, and ECB and EBA guidelines and requirements. The aligned rating methodology is used across the entire NLB Group. It includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients.

Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high coverage of financial liabilities with free cash flow. The Rating Group A is considered as investment grade classification.

Rating Group B (BBB to B rating classes) includes clients with a low credit risk, starting one notch lower than 'A' rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements, and have sufficient cash flow to settle their obligations, but may be more sensitive to changes in the industry or the economy. The Rating Group B classification is an investment grade for BBB, and an 'invest with care' for BB and B.

Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. CCC rated clients are financed by the Bank only in the case when such support brings more positive effects for the Bank; however, Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

Rating Groups D (D and DF rating classes) and E represent non-performing clients that are treated as defaulted. D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

The NLB Group ratings in the master scale are mapped to the following PD structure:

Rating class	Average PD in %
AAA	0.05
AA	0.15
A	0.30
BBB	0.60
BB	1.20
B	2.40
CCC	4.80
CC	9.60
C	19.20
D	100
DF	100
E	100

In 2020, NLB Group applied a new default definition based on the EBA guidelines, where the materiality threshold for delays is determined in absolute and relative terms (EUR 100 for retail and EUR 500 for the non-retail segment and 1% of the total on-balance exposure on the client level). At the same time, the assessment of rating for private individuals was improved by establishing a common rating on the client level. In 2023, a scoring model for private individual clients came into effect, which will enable higher degree of differentiation among the clients as it introduces 9 performing rating classes (instead of the previous 3).

A standard corporate rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 7 million, or EUR 15 million for NLB Group members with total assets greater than EUR 1.5 billion. Materially important clients are submitted to the NLB Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

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k) Forborne loans

in EUR thousands

31 Dec 2023	NLB Group						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
Loans and advances (including at amortised cost and fair value)	**246,402**	**116,477**	**129,874**	**129,925**	**(7,883)**	**(81,121)**	**92,352**
Governments	624	419	205	205	(22)	(205)	–
Other financial organisations	1,388	–	1,388	1,388	–	(1,388)	–
Non-financial organisations	168,726	77,709	90,966	91,017	(3,857)	(59,606)	58,611
Households	75,664	38,349	37,315	37,315	(4,004)	(19,922)	33,741
Debt instruments other than held for trading	**246,402**	**116,477**	**129,874**	**129,925**	**(7,883)**	**(81,121)**	**92,352**
Loan commitments given	**434**	**84**	**350**	**350**	**(1)**	**(27)**	**352**
Total exposures with forbearance measures	**246,836**	**116,561**	**130,224**	**130,275**	**(7,884)**	**(81,148)**	**92,704**

in EUR thousands

31 Dec 2022	NLB Group						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
Loans and advances (including at amortised cost and fair value)	**272,249**	**117,808**	**154,385**	**154,441**	**(9,929)**	**(79,535)**	**121,376**
Governments	840	604	236	236	(12)	(234)	–
Other financial organisations	1,526	201	1,325	1,325	(6)	(1,325)	–
Non-financial organisations	207,473	89,871	117,546	117,602	(7,267)	(61,900)	87,245
Households	62,410	27,132	35,278	35,278	(2,644)	(16,076)	34,131
Debt instruments other than held for trading	**272,249**	**117,808**	**154,385**	**154,441**	**(9,929)**	**(79,535)**	**121,376**
Loan commitments given	**1,392**	**743**	**649**	**649**	**(2)**	**(209)**	**740**
Total exposures with forbearance measures	**273,641**	**118,551**	**155,034**	**155,090**	**(9,931)**	**(79,744)**	**122,116**

in EUR thousands

31 Dec 2023	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
Loans and advances (including at amortised cost and fair value)	**110,905**	**42,584**	**68,270**	**68,321**	**(3,718)**	**(41,050)**	**53,937**
Other financial organisations	1,388	–	1,388	1,388	–	(1,388)	–
Non-financial organisations	50,979	15,166	35,762	35,813	(70)	(23,142)	27,232
Households	58,538	27,418	31,120	31,120	(3,648)	(16,520)	26,705
Debt instruments other than held for trading	**110,905**	**42,584**	**68,270**	**68,321**	**(3,718)**	**(41,050)**	**53,937**
Loan commitments given	**434**	**84**	**350**	**350**	**(1)**	**(27)**	**352**
Total exposures with forbearance measures	**111,339**	**42,668**	**68,620**	**68,671**	**(3,719)**	**(41,077)**	**54,289**

in EUR thousands

31 Dec 2022	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		Collateral and financial guarantees received on forborne exposures
	Gross carrying amount	Performing	Non - performing		Performing forborne exposures	Non-performing forborne exposures	
			Impaired	Defaulted			
Loans and advances (including at amortised cost and fair value)	**84,694**	**16,694**	**67,944**	**68,000**	**(1,628)**	**(37,260)**	**38,474**
Other financial organisations	1,526	201	1,325	1,325	(6)	(1,325)	–
Non-financial organisations	42,470	3,521	38,893	38,949	(40)	(22,935)	19,073
Households	40,698	12,972	27,726	27,726	(1,582)	(13,000)	19,401
Debt instruments other than held for trading	**84,694**	**16,694**	**67,944**	**68,000**	**(1,628)**	**(37,260)**	**38,474**
Loan commitments given	**687**	**41**	**646**	**646**	**(2)**	**(207)**	**416**
Total exposures with forbearance measures	**85,381**	**16,735**	**68,590**	**68,646**	**(1,630)**	**(37,467)**	**38,890**

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Forborne exposures of debt instruments by periods of forbearance

in EUR thousands

	NLB Group			
31 Dec 2023	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	7,519	1,813	8,140	91,122
Non-performing exposures	1,569	6,838	5,071	35,275
Total exposures with forbearance measures	**9,088**	**8,651**	**13,211**	**126,397**
31 Dec 2022				
Performing exposures	2,930	45,452	4,714	54,783
Non-performing exposures	4,343	3,472	13,351	53,684
Total exposures with forbearance measures	**7,273**	**48,924**	**18,065**	**108,467**

in EUR thousands

	NLB			
31 Dec 2023	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	7,059	1,690	2,880	27,237
Non-performing exposures	1,312	6,634	2,455	16,819
Total exposures with forbearance measures	**8,371**	**8,324**	**5,335**	**44,056**
31 Dec 2022				
Performing exposures	2,063	608	1,864	10,531
Non-performing exposures	1,939	1,261	7,300	20,184
Total exposures with forbearance measures	**4,002**	**1,869**	**9,164**	**30,715**

The main forbearance measurements used by NLB Group and NLB are: deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims, and others, either as a single forbearance measurement or as a combination of those.

l) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousands

	NLB Group		NLB	
Net value	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**
Nature of assets				
Equity securities mandatorily measured at fair value through profit or loss (note 5.3.a)	–	368	–	–
Investment property (note 5.9.)	21,253	25,326	2,263	1,901
Property and equipment (note 5.8.)	11,641	11,962	–	–
Investments in subsidiaries and associates	–	–	530	2,049
Real estates (note 5.13.)	27,122	50,913	3,129	3,170
Other assets (note 5.13.)	515	673	–	–
Non-current assets held for sale (note 5.7.)	474	651	–	–
Total	**61,005**	**89,893**	**5,922**	**7,120**

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m) Analysis of loans and advances by industry sectors

in EUR thousands

NLB Group	31 Dec 2023				31 Dec 2022			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	547,939	(299)	547,640	3.79	223,234	(269)	222,965	1.65
Finance	154,385	(2,321)	152,064	1.05	235,737	(2,579)	233,158	1.73
Electricity, gas, and water	599,988	(9,284)	590,704	4.09	601,556	(10,704)	590,852	4.39
Construction industry	535,444	(23,798)	511,646	3.54	547,251	(27,686)	519,565	3.86
Heavy industry	1,487,769	(29,619)	1,458,150	10.09	1,415,304	(25,553)	1,389,751	10.31
Education	14,278	(481)	13,797	0.10	13,246	(1,313)	11,933	0.09
Agriculture, forestry, and fishing	108,204	(3,536)	104,668	0.72	98,813	(3,063)	95,750	0.71
Public sector	390,522	(4,234)	386,288	2.67	285,495	(4,737)	280,758	2.08
Individuals	7,235,314	(148,499)	7,086,815	49.05	6,743,441	(121,771)	6,621,670	49.14
Mining	45,801	(1,733)	44,068	0.31	53,854	(2,747)	51,107	0.38
Entrepreneurs	388,668	(7,604)	381,064	2.64	389,376	(9,162)	380,214	2.82
Services	929,438	(34,385)	895,053	6.19	809,891	(41,343)	768,548	5.70
Transport and communications	884,162	(20,676)	863,486	5.98	920,149	(19,476)	900,673	6.68
Trade industry	1,254,749	(41,550)	1,213,199	8.40	1,239,161	(53,113)	1,186,048	8.80
Health care and social security	34,506	(907)	33,599	0.23	43,710	(751)	42,959	0.32
Other financial assets	176,767	(10,805)	165,962	1.15	186,857	(9,034)	177,823	1.32
Total	**14,787,934**	**(339,731)**	**14,448,203**	**100.00**	**13,807,075**	**(333,301)**	**13,473,774**	**100.00**

in EUR thousands

NLB	31 Dec 2023				31 Dec 2022			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	149,261	(250)	149,011	2.01	350,841	(216)	350,625	5.37
Finance	440,080	(2,914)	437,166	5.90	383,781	(3,167)	380,614	5.83
Electricity, gas, and water	429,569	(2,577)	426,992	5.76	371,356	(1,467)	369,889	5.67
Construction industry	131,462	(8,652)	122,810	1.66	150,715	(9,714)	141,001	2.16
Heavy industry	847,052	(11,135)	835,917	11.29	688,517	(6,161)	682,356	10.45
Education	3,509	(63)	3,446	0.05	3,529	(19)	3,510	0.05
Agriculture, forestry, and fishing	14,566	(65)	14,501	0.20	15,432	(70)	15,362	0.24
Public sector	116,388	(824)	115,564	1.56	104,303	(1,176)	103,127	1.58
Individuals	3,608,827	(65,224)	3,543,603	47.84	3,084,331	(47,832)	3,036,499	46.52
Mining	19,996	(71)	19,925	0.27	23,736	(185)	23,551	0.36
Entrepreneurs	83,802	(2,753)	81,049	1.09	64,471	(1,722)	62,749	0.96
Services	607,989	(15,368)	592,621	8.00	342,882	(12,336)	330,546	5.06
Transport and communications	580,244	(3,814)	576,430	7.78	589,152	(3,155)	585,997	8.98
Trade industry	370,514	(5,521)	364,993	4.93	308,724	(6,143)	302,581	4.64
Health care and social security	21,638	(587)	21,051	0.28	24,788	(265)	24,523	0.38
Other financial assets	103,210	(1,614)	101,596	1.37	115,412	(1,013)	114,399	1.75
Total	**7,528,107**	**(121,432)**	**7,406,675**	**100.00**	**6,621,970**	**(94,641)**	**6,527,329**	**100.00**

n) Analysis of net loans and advances by geographical sectors

in EUR thousands

	NLB Group		NLB	
Country	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Slovenia	6,705,660	6,704,603	6,701,924	5,824,477
Other European Union members	414,732	274,795	222,556	180,842
Serbia	3,306,766	2,790,892	193,376	184,530
Other countries	4,021,045	3,703,484	288,819	337,480
Total	**14,448,203**	**13,473,774**	**7,406,675**	**6,527,329**

o) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousands

31 Dec 2023	NLB Group				NLB		
Country	Financial assets measured at amortised cost	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at FV through profit or loss	Derivative financial instruments	Financial assets measured at amortised cost	Financial assets measured at fair value through OCI	Derivative financial instruments
Slovenia	428,163	274,855	–	1,092	416,679	219,307	1,092
Other members of European Union	1,567,873	805,334	5,217	35,121	1,440,075	551,192	35,121
- Austria	113,531	77,472	707	–	105,552	46,541	–
- Belgium	173,326	84,471	706	7,819	156,407	34,407	7,819
- Bulgaria	34,226	1,002	–	–	34,226	1,002	–
- Czech Republic	12,975	–	–	–	12,975	–	–
- Cyprus	18,172	1,550	–	–	18,172	1,550	–
- Denmark	16,662	8,187	–	–	16,662	8,187	–
- Finland	67,257	90,419	707	–	59,293	57,919	–
- France	239,395	136,115	–	9,227	211,895	92,483	9,227
- Germany	167,538	107,278	505	12,301	136,969	54,500	12,301
- Hungary	45,211	5,639	–	–	45,211	5,639	–
- Ireland	58,793	31,191	–	2,677	52,634	29,141	2,677
- Italy	51,566	5,989	100	–	51,566	5,989	–
- Latvia	23,276	–	–	–	23,276	–	–
- Lithuania	20,596	–	–	–	20,596	–	–
- Luxembourg	69,567	7,337	–	–	69,567	7,337	–
- Malta	27,442	–	–	–	27,442	–	–
- Netherlands	117,309	112,840	2,492	3,097	91,519	70,653	3,097
- Poland	35,024	7,126	–	–	35,024	7,126	–
- Portugal	42,677	16,574	–	–	42,677	16,574	–
- Romania	53,190	5,013	–	–	53,190	5,013	–
- Slovakia	63,406	18,900	–	–	58,488	18,900	–
- Spain	67,471	40,190	–	–	67,471	40,190	–
- Sweden	41,597	48,041	–	–	41,597	48,041	–
- Other	7,666	–	–	–	7,666	–	–
United States of America	37,158	58,889	–	–	6,831	7,427	–
Other countries	489,035	1,025,385	–	27,119	102,584	184,158	29,358
- Bosnia and Herzegovina	59,073	132,027	–	–	4,064	2,917	–
- Kosovo	–	48,614	–	20	–	–	20
- Montenegro	60,109	22,665	–	–	6,760	3,008	2,243
- North Macedonia	154,398	115,535	–	29	13,129	46,539	7
- Serbia	140,796	579,332	–	821	3,972	4,482	839
- Albania	–	27,819	–	–	–	27,819	–
- Canada	26,681	12,133	–	–	26,681	12,133	–
- Great Britain	1,638	51,436	–	26,249	1,638	51,436	26,249
- Iceland	7,737	8,205	–	–	7,737	8,205	–
- Israel	7,408	9,062	–	–	7,408	9,062	–
- Kazakhstan	–	7,507	–	–	–	7,507	–
- Norway	19,303	6,465	–	–	19,303	6,465	–
- Other	11,892	4,585	–	–	11,892	4,585	–
Total	**2,522,229**	**2,164,463**	**5,217**	**63,332**	**1,966,169**	**962,084**	**65,571**

Other members of the European Union included in the line item 'Other' are Estonia and Greece.
Other members of the 'Other countries' in the line item 'Other' are Egypt, Uzbekistan, South Korea and Oman.

in EUR thousands

31 Dec 2022	NLB Group					NLB			
Country	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at FV through profit or loss	Derivative financial instruments	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets measured at fair value through OCI	Derivative financial instruments
Slovenia	360,623	–	331,539	–	2,450	347,976	–	241,095	2,449
Other members of European Union	1,214,523	–	951,992	2,267	36,606	1,184,663	–	774,380	36,606
- Austria	96,349	–	79,119	–	–	96,349	–	51,193	–
- Belgium	129,217	–	94,088	–	11,397	129,217	–	55,622	11,397
- Bulgaria	41,233	–	3,029	–	–	41,233	–	3,029	–
- Czech Republic	12,901	–	–	–	–	12,901	–	–	–
- Cyprus	10,187	–	1,553	–	–	10,187	–	1,553	–
- Denmark	5,975	–	13,333	–	–	5,975	–	13,333	–
- Finland	57,440	–	114,292	–	–	57,440	–	84,477	–
- France	184,831	–	169,157	–	10,087	179,844	–	137,668	10,087
- Germany	139,370	–	105,082	–	10,447	114,497	–	70,207	10,447
- Greece	–	–	10,888	–	–	–	–	10,888	–
- Hungary	37,346	–	5,260	–	–	37,346	–	5,260	–
- Ireland	53,384	–	31,592	–	–	53,384	–	29,525	–
- Italy	37,472	–	13,544	99	–	37,472	–	13,544	–
- Latvia	15,507	–	–	–	–	15,507	–	–	–
- Lithuania	16,798	–	–	–	–	16,798	–	–	–
- Luxembourg	91,588	–	27,256	–	–	91,588	–	27,256	–
- Netherlands	57,523	–	112,907	2,168	4,675	57,523	–	99,933	4,675
- Poland	19,772	–	17,691	–	–	19,772	–	17,691	–
- Portugal	46,750	–	16,440	–	–	46,750	–	16,440	–
- Romania	37,802	–	4,827	–	–	37,802	–	4,827	–
- Slovakia	31,523	–	31,592	–	–	31,523	–	31,592	–
- Spain	55,076	–	39,097	–	–	55,076	–	39,097	–
- Sweden	24,753	–	61,245	–	–	24,753	–	61,245	–
- Other	11,726	–	–	–	–	11,726	–	–	–
United States of America	25,966	–	62,170	849	–	4,690	–	11,859	–
Other countries	316,503	203	1,493,095	–	41,691	60,119	203	263,943	41,796
- Bosnia and Herzegovina	7,648	–	177,746	–	–	4,056	–	2,905	–
- Kosovo	–	–	58,034	–	17	–	–	–	17
- Montenegro	40,672	–	20,949	–	–	6,780	–	2,819	–
- North Macedonia	189,383	–	134,268	–	5	15,260	–	54,590	31
- Serbia	25,490	–	898,531	–	–	–	–	3,913	79
- Albania	–	–	25,866	–	–	–	–	25,866	–
- Canada	3,007	–	21,147	–	–	3,007	–	21,147	–
- Great Britain	–	–	54,178	–	41,669	–	–	54,178	41,669
- Iceland	7,746	–	7,892	–	–	7,746	–	7,892	–
- Israel	–	–	9,053	–	–	–	–	9,053	–
- Kazakhstan	–	–	12,970	–	–	–	–	12,970	–
- Norway	16,186	–	11,206	–	–	16,186	–	11,206	–
- Russia	–	–	2,026	–	–	–	–	2,026	–
- Switzerland	19,287	203	54,572	–	–	–	203	50,721	–
- Other	7,084	–	4,657	–	–	7,084	–	4,657	–
Total	**1,917,615**	**203**	**2,838,796**	**3,116**	**80,747**	**1,597,448**	**203**	**1,291,277**	**80,851**

Other members of the European Union included in the line item 'Other' are Malta and Estonia.
Other members of the 'Other countries' in the line item 'Other' are Egypt, Uzbekistan, and Oman.

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p) Internal rating of derivatives counterparties

in %

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
A	92.94	88.90	93.80	90.18
B	6.91	11.10	6.06	9.82
C	0.08	0.00	0.07	0.00
D and E	0.08	0.00	0.07	0.00
Total	**100.00**	**100.00**	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

r) Debt financial instruments in NLB Group's and NLB's portfolio that represent subordinated liabilities for the issuer

in EUR thousands

31 Dec 2023	NLB Group					NLB				
Internal rating	A	B	C	D	Total	A	B	C	D	Total
Financial assets measured at fair value through other comprehensive income	28,421	–	–	–	28,421	28,421	–	–	–	28,421
Financial assets measured at amortised cost										
- debt securities	9,484	–	–	–	9,484	9,484	–	–	–	9,484
- loans and advances to banks	–	–	–	–	–	90,153	–	–	–	90,153
- loans and advances to customers	–	–	–	–	–	–	–	7,050	–	7,050
Total	**37,905**	**–**	**–**	**–**	**37,905**	**128,058**	**–**	**7,050**	**–**	**135,108**

in EUR thousands

31 Dec 2022	NLB Group					NLB				
Internal rating	A	B	C	D	Total	A	B	C	D	Total
Financial assets measured at fair value through other comprehensive income	28,014	–	–	–	28,014	28,014	–	–	–	28,014
Financial assets measured at amortised cost										
- debt securities	2,612	–	–	–	2,612	2,612	–	–	–	2,612
- loans and advances to banks	–	–	–	–	–	84,713	–	–	–	84,713
- loans and advances to customers	–	–	–	–	–	–	–	6,613	–	6,613
Total	**30,626**	**–**	**–**	**–**	**30,626**	**115,339**	**–**	**6,613**	**–**	**121,952**

s) Presentation of net financial instruments by measurement category

in EUR thousands

31 Dec 2023	NLB Group Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Financial leases	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	–	–	–	6,103,561	–	–	6,103,561
Securities	–	14,175	2,251,556	2,522,229	–	–	4,787,960
- Bonds	–	5,217	1,836,604	2,522,229	–	–	4,364,050
- Shares	–	6,300	87,092	–	–	–	93,392
- Commercial bills	–	–	26,022	–	–	–	26,022
- Treasury bills	–	–	301,838	–	–	–	301,838
- Investment funds	–	2,658	–	–	–	–	2,658
Derivatives	15,718	–	–	–	–	47,614	63,332
Loans and receivables	–	–	–	13,945,973	336,268	–	14,282,241
- Loans to governments	–	–	–	386,059	232	–	386,291
- Loans to banks	–	–	–	547,640	–	–	547,640
- Loans to financial organisations	–	–	–	91,460	63	–	91,523
- Loans to individuals	–	–	–	6,986,045	100,770	–	7,086,815
- Loans to other customers	–	–	–	5,934,769	235,203	–	6,169,972
Other financial assets	–	–	–	165,962	–	–	165,962
Total financial assets	**15,718**	**14,175**	**2,251,556**	**22,737,725**	**336,268**	**47,614**	**25,403,056**

in EUR thousands

31 Dec 2022	NLB Group Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Financial leases	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	–	–	–	5,271,365	–	–	5,271,365
Securities	203	19,031	2,919,203	1,917,615	–	–	4,856,052
- Bonds	–	3,116	2,506,224	1,917,615	–	–	4,426,955
- Shares	–	5,579	80,407	–	–	–	85,986
- Commercial bills	–	–	21,824	–	–	–	21,824
- Treasury bills	203	–	310,748	–	–	–	310,951
- Investment funds	–	10,336	–	–	–	–	10,336
Derivatives	21,385	–	–	–	–	59,362	80,747
Loans and receivables	–	–	–	13,102,729	193,222	–	13,295,951
- Loans to governments	–	–	–	303,086	357	–	303,443
- Loans to banks	–	–	–	222,965	–	–	222,965
- Loans to financial organisations	–	–	–	116,046	32	–	116,078
- Loans to individuals	–	–	–	6,550,704	70,966	–	6,621,670
- Loans to other customers	–	–	–	5,909,928	121,867	–	6,031,795
Other financial assets	–	–	–	177,823	–	–	177,823
Total financial assets	**21,588**	**19,031**	**2,919,203**	**20,469,532**	**193,222**	**59,362**	**23,681,938**

in EUR thousands

31 Dec 2023	NLB					
	Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	–	–	–	4,318,032	–	4,318,032
Securities	–	8,858	1,023,012	1,966,169	–	2,998,039
- Bonds	–	–	962,084	1,966,169	–	2,928,253
- Shares	–	6,300	60,928	–	–	67,228
- Investment funds	–	2,558	–	–	–	2,558
Derivatives	17,957	–	–	–	47,614	65,571
Loans and receivables	–	7,785	–	7,297,294	–	7,305,079
- Loans to governments	–	–	–	118,220	–	118,220
- Loans to banks	–	–	–	149,011	–	149,011
- Loans to financial organisations	–	–	–	384,995	–	384,995
- Loans to individuals	–	–	–	3,543,603	–	3,543,603
- Loans to other customers	–	7,785	–	3,101,465	–	3,109,250
Other financial assets	–	–	–	101,596	–	101,596
Total financial assets	**17,957**	**16,643**	**1,023,012**	**13,683,091**	**47,614**	**14,788,317**

in EUR thousands

31 Dec 2022	NLB					
	Financial assets held for trading	Non-trading financial assets mandatorily at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	–	–	–	3,339,024	–	3,339,024
Securities	203	7,519	1,334,061	1,597,448	–	2,939,231
- Bonds	–	–	1,196,760	1,597,448	–	2,794,208
- Shares	–	5,211	42,784	–	–	47,995
- Treasury bills	203	–	94,517	–	–	94,720
- Investment funds	–	2,308	–	–	–	2,308
Derivatives	21,489	–	–	–	59,362	80,851
Loans and receivables	–	7,892	–	6,405,038	–	6,412,930
- Loans to governments	–	–	–	124,736	–	124,736
- Loans to banks	–	–	–	350,625	–	350,625
- Loans to financial organisations	–	–	–	286,504	–	286,504
- Loans to individuals	–	–	–	3,036,499	–	3,036,499
- Loans to other customers	–	7,892	–	2,606,674	–	2,614,566
Other financial assets	–	–	–	114,399	–	114,399
Total financial assets	**21,692**	**15,411**	**1,334,061**	**11,455,909**	**59,362**	**12,886,435**

As at 31 December 2023 and 31 December 2022, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities, and financial liabilities measured at fair value through profit or loss, were carried at amortised cost.

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6.2. Market risk

NLB Group defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices), or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the Bank's Assets and Liabilities Committee (ALCO). Global Risk also monitors and manages exposure to market risks separately for the banking and trading books. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The Bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress-testing, backtesting, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress-testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low to medium exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net interest income and economic value of equity arising from changed market interest rates. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading with financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted.

For monitoring and managing NLB Group's exposure to market risks, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have an impact on the financial position and cash flows of the Bank. The Bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress-testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits that are approved by the Management Board of the Bank and in accordance with the adopted policy of managing market risk in the trading book of NLB. The trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the income statement. FX exposures in banking book result from core banking business activities.

Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with the parent Bank's guidelines and standards, as well as local regulatory requirements. Policies are confirmed by either the local Management Board or Supervisory Board. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

NLB Group banks follow the guidelines for managing FX lending in NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks, and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. FX positions are managed on the currency level so that they are always within the limits.

Regarding structural FX positions on a consolidation level, assets, and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the reporting date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect shareholder's equity and CET1 capital. NLB Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the ALCO committee of the NLB Group, and quarterly on the consolidated level.

a) Analysis of financial instruments by currency exposure

in EUR thousands

	NLB Group					
31 Dec 2023	**EUR**	**RSD**	**USD**	**CHF**	**Other**	**Total**
Financial assets						
Cash, cash balances at central banks, and other demand deposits at banks	5,117,465	468,397	37,052	38,933	441,714	6,103,561
Financial assets held for trading	15,718	–	–	–	–	15,718
Non-trading financial assets mandatorily at fair value through profit or loss	7,875	–	6,300	–	–	14,175
Financial assets measured at fair value through other comprehensive income	1,629,595	389,392	138,401	–	94,168	2,251,556
Financial assets measured at amortised cost						
- debt securities	2,112,344	117,940	96,660	–	195,285	2,522,229
- loans and advances to banks	173,510	294,884	41,070	28,361	9,815	547,640
- loans and advances to customers	11,215,215	1,049,206	19,600	47,409	1,403,171	13,734,601
- other financial assets	95,883	18,890	23,091	47	28,051	165,962
Derivatives - hedge accounting	47,614	–	–	–	–	47,614
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10,207)	–	–	–	–	(10,207)
Total financial assets	**20,405,012**	**2,338,709**	**362,174**	**114,750**	**2,172,204**	**25,392,849**
Financial liabilities						
Financial liabilities held for trading	13,217	–	–	–	–	13,217
Financial liabilities measured at fair value through profit or loss	2,914	532	–	–	1,036	4,482
Derivatives - hedge accounting	3,540	–	–	–	–	3,540
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	55,741	14,320	5,113	6,199	13,910	95,283
- borrowings from banks and central banks	127,206	–	13,213	–	–	140,419
- due to customers	16,968,455	1,418,343	360,062	212,261	1,773,601	20,732,722
- borrowings from other customers	99,718	–	–	–	–	99,718
- debt securities issued	1,338,235	–	–	–	–	1,338,235
- other financial liabilities	249,881	41,067	36,216	1,808	28,144	357,116
Total financial liabilities	**18,858,907**	**1,474,262**	**414,604**	**220,268**	**1,816,691**	**22,784,732**
Net on-balance sheet financial position	**1,546,105**	**864,447**	**(52,430)**	**(105,518)**	**355,513**	**2,608,117**
Derivative financial instruments	(233,578)	(25,498)	55,204	123,650	59,879	(20,343)
Net financial position	**1,312,527**	**838,949**	**2,774**	**18,132**	**415,392**	**2,587,774**
31 Dec 2022						
Total financial assets	**19,235,733**	**1,834,866**	**323,743**	**209,176**	**2,054,653**	**23,658,171**
Total financial liabilities	**18,039,672**	**1,188,425**	**416,320**	**208,949**	**1,697,827**	**21,551,193**
Net on-balance sheet financial position	**1,196,061**	**646,441**	**(92,577)**	**227**	**356,826**	**2,106,978**
Derivative financial instruments	(75,897)	42,632	82,411	(2,031)	51,477	98,592
Net financial position	**1,120,164**	**689,073**	**(10,166)**	**(1,804)**	**408,303**	**2,205,570**

Other mostly relates to exposures in currency MKD and BAM.

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in EUR thousands

31 Dec 2023	NLB					
	EUR	RSD	USD	CHF	Other	Total
Financial assets						
Cash, cash balances at central banks, and other demand deposits at banks	4,284,634	544	7,518	8,844	16,492	4,318,032
Financial assets held for trading	17,957	–	–	–	–	17,957
Non-trading financial assets mandatorily at fair value through profit or loss	10,343	–	6,300	–	–	16,643
Financial assets measured at fair value through other comprehensive income	989,555	–	28,234	–	5,223	1,023,012
Financial assets measured at amortised cost						
- debt securities	1,891,752	–	59,625	–	14,792	1,966,169
- loans and advances to banks	149,011	–	–	–	–	149,011
- loans and advances to customers	7,085,715	–	13,205	49,112	251	7,148,283
- other financial assets	78,522	3	23,036	4	31	101,596
Derivatives - hedge accounting	47,614	–	–	–	–	47,614
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(12,514)	–	–	–	–	(12,514)
Total financial assets	**14,542,589**	**547**	**137,918**	**57,960**	**36,789**	**14,775,803**
Financial liabilities						
Financial liabilities held for trading	17,510	–	–	–	–	17,510
Financial liabilities measured at fair value through profit or loss	3,210	–	–	–	–	3,210
Derivatives - hedge accounting	1,420	–	–	–	–	1,420
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	111,289	78	6,915	11,607	17,113	147,002
- borrowings from banks and central banks	69,584	–	13,213	–	–	82,797
- due to customers	11,595,732	23	148,346	84,643	52,819	11,881,563
- debt securities issued	1,338,235	–	–	–	–	1,338,235
- other financial liabilities	173,942	2	23,703	135	238	198,020
Total financial liabilities	**13,310,922**	**103**	**192,177**	**96,385**	**70,170**	**13,669,757**
Net on-balance sheet financial position	**1,231,667**	**444**	**(54,259)**	**(38,425)**	**(33,381)**	**1,106,046**
Derivative financial instruments	(157,517)	5	55,204	39,957	40,143	(22,208)
Net financial position	**1,074,150**	**449**	**945**	**1,532**	**6,762**	**1,083,838**
31 Dec 2022						
Total financial assets	**12,552,661**	**474**	**130,881**	**115,791**	**62,861**	**12,862,668**
Total financial liabilities	**11,905,320**	**104**	**196,776**	**86,245**	**73,475**	**12,261,920**
Net on-balance sheet financial position	**647,341**	**370**	**(65,895)**	**29,546**	**(10,614)**	**600,748**
Derivative financial instruments	(79,626)	–	65,535	(29,451)	24,326	(19,216)
Net financial position	**567,715**	**370**	**(360)**	**95**	**13,712**	**581,532**

Other mostly relates to exposures in currency GBP and CAD.

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b) FX sensitivity analysis

	NLB Group and NLB	
Scenarios	31 Dec 2023	31 Dec 2022
USD	+/−13.32%	+/−9.27%
CHF	+/−9.67%	+/−7.88%
CZK	+/−7.10%	+/−5.70%
RSD	+/−0.55%	+/−0.40%
MKD	+/−1.82%	+/−1.62%
JPY	+/−19.69%	+/−12.35%
AUD	+/−9.20%	+/−9.91%
HUF	+/−20.39%	+/−13.43%
HRK	–	+/−0.98%
BAM	+/−0%	+/−0%

in EUR thousands

	31 Dec 2023				31 Dec 2022			
	NLB Group		NLB		NLB Group		NLB	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of								
USD	(342)	–	(294)	248	(333)	–	(482)	423
CHF	(730)	1,330	53	–	(662)	463	7	–
CZK	–	–	–	–	(2)	–	1	–
RSD	(125)	4,775	2	–	11	3,167	1	–
MKD	4	5,234	4	–	1	4,518	1	–
Other	100	93	102	–	251	48	144	–
Effects on comprehensive income	**(1,093)**	**11,432**	**(133)**	**248**	**(734)**	**8,196**	**(328)**	**423**
Depreciation of								
USD	262	–	225	(190)	277	–	400	(351)
CHF	601	(1,096)	(44)	–	565	(396)	(6)	–
CZK	–	–	–	–	2	–	(1)	–
RSD	124	(4,724)	(2)	–	(11)	(3,142)	(1)	–
MKD	(4)	(5,047)	(4)	–	(1)	(4,375)	(1)	–
Other	(70)	(93)	(71)	–	(203)	(48)	(121)	–
Effects on comprehensive income	**913**	**(10,960)**	**104**	**(190)**	**629**	**(7,961)**	**270**	**(351)**

The effect on the other comprehensive income statement of NLB Group has increased due to the higher translation positions in MKD and RSD currencies, and because of the higher volatility growths' scenarios for MKD and RSD currencies.

6.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines low total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, a monitored period of 250 business days, a 10-day holding position period).

6.2.3. Interest rate risk

Interest rate risk is the risk to NLB Group's capital and profit or loss arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking book according to regulatory standards. It takes into account the positions in each currency. Interest rate risk management in NLB Group is adopted in accordance with the risk appetite and risk strategy, based on general Basel standards on interest rate management in the banking book (IRRBB; hereinafter: 'Standards') and European Banking Authority guidelines.

In the trading book, interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The interest rate risk in the banking book is measured and monitored within a framework of interest rate risk management policy that establishes consistent methodologies, models, and limit systems. NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method (Basis Point Value), which measures the extent to which the economic value of the banking book would change if interest rates change according to the scenario;
- Sensitivity of net interest income – which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in the level and shape of interest rate yield curve, including all significant sources of risk, taking into account behavioural and modelling assumptions. Part of non-maturing deposits, which is considered as a core part is allocated long-term by using replicating portfolio approach. Optionality risk is mainly derived from behavioural options, reflected in prepayments and withdrawals, and embedded options such as caps and floors. Moreover, considering expected cash flows, non-performing exposures, as well as off-balance sheet items are considered when measuring interest rate risk exposure.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin.

NLB Group also manages interest rates risk by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules.

Each member of NLB Group is responsible for its own interest rate risk policy, which includes the limit system and is in line with the parent Bank's guidelines and standards, as well as with the local regulatory requirements. NLB regularly monitors the interest rate risk exposure of each individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported by the Global Risk Department (weekly in the case of NLB and monthly on Group level), while positions are managed by Financial Markets. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level.

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a) Analysis of financial instruments according to the exposure to interest rate risk

The following table presents open net interest rate risk positions by the most important currencies of NLB Group. Financial instruments without maturity such as sight deposits are presented in the first gap irrespective of their behavioural characteristics and the NLB Group's expectations.

in EUR thousands

31 Dec 2023	NLB Group			
Currency	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 Years
EUR	(2,109,587)	1,278,722	1,519,103	756,545
RSD	573,943	195,097	69,386	5
MKD	253,734	25,929	(5,110)	5,960
Other	(206,743)	130,171	87,324	3,970

in EUR thousands

31 Dec 2022	NLB Group			
Currency	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 Years
EUR	(2,061,940)	1,461,068	1,389,104	667,013
RSD	338,852	213,972	52,070	2
MKD	192,033	13,086	17,792	10,070
Other	(131,316)	73,414	52,832	6,652

in EUR thousands

31 Dec 2023	NLB			
Currency	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 Years
EUR	(1,772,291)	1,004,157	1,436,836	645,084
Other	(176,222)	19,729	20,418	–

in EUR thousands

31 Dec 2022	NLB			
Currency	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 Years
EUR	(1,871,890)	1,050,116	1,023,946	550,833
Other	(81,512)	29,436	395	7,189

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b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity for the horizon of the next 12 months assumes a sudden parallel interest rate shock down by 50 basis points for EUR or 100 basis points for other currencies. The analysis assumes that the positions used remain unchanged.

The assessment of the impact of a change in interest rates of 50/100 basis points on the amount of net interest income of the banking book position:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Net interest income sensitivity	57,595	43,713	33,281	21,393
Net interest income sensitivity - as % of Equity	2.22%	2.02%	1.84%	1.48%

The 'EVE' (Economic Value of Equity) method is a measure of the sensitivity of changes in market interest rates on the economic value of financial instruments. The EVE represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates at least under the six prescribed standardised interest rate shock scenarios or more if necessary, according to the situation on financial markets. Calculations are considering behavioural and automatic options, as well as the allocation of non-maturing deposits.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Interest risk in banking book - EVE	108,489	122,276	60,747	82,714
Interest risk in banking book - EVE as % of Equity	4.19%	5.60%	3.36%	5.72%

The applied sudden parallel interest rate shock up is by 200 basis points, which represents a "worst case" scenario for NLB Group. The calculation takes into the account allocation of the core part of non-maturing deposits and other behavioural assumptions.

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6.3. Liquidity risk

Liquidity risk is the risk of the NLB Group being unable to fulfil current or future expected and unexpected cash requirements, across all time horizons. The risk may stem from the reduction in funding sources or a reduction in the liquidity of certain assets.

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

Intraday liquidity risk is the capacity required during the business day to enable financial institutions to make payments and settle obligations.

In the risk identification process, first the reasons for the realisation of each identified material risk are analysed and grouped together in short risk descriptions. Material risks are then classified into three groups based on what part of liquidity is affected by the realisation of the material risks: the liabilities side, the assets side, and intraday liquidity risk. The origin of each risk is determined as being internal, external, or a combination of internal and external (internal shock, meaning it originates within the Bank, or external shock; meaning it comes from outside the Bank – e.g., a major macroeconomic event, physical or transition event, ESG rating downgrade). Based on the identified material risks, key liquidity risk drivers are defined. Key risk drivers of the liquidity position are factors that are expected to trigger a substantial deterioration of the Group's liquidity position. This deterioration may take place in the form of an increase in outflows, a decrease in inflows or a decrease in the liquidity value of the counterbalancing capacity.

Liquidity risk is defined as an important risk type for NLB Group, and one which must be managed carefully. NLB Group has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. NLB Group formulated a set of liquidity risk metrics and limits to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding, and holding a solid liquidity reserve, the NLB Group maintains a sound and robust liquidity position, even under severely adverse conditions.

The Management Board approves the Liquidity Risk Management Policy, which outlines the key principles for the Bank's liquidity management. ALCO receives a regular report on the liquidity position and the performance against approved limits and targets. ALCO oversees the development of the Bank's funding and liquidity position and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group must be able to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in two stages:
- Static view (current exposure),
- Forward-looking and stress-testing.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:
- ensuring a sufficient amount of liquidity for the settlement of all NLB Group's liabilities;
- minimising the costs of maintaining liquidity;
- determining an adequate amount of counterbalancing capacity and optimal liquidity management;
- ensuring adequate control environment;
- ensuring an appropriate level of liquidity for different situations and stress scenarios;
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- ensuring regular projections of future cash flows and stress-testing of liquidity risk;
- preparing proposals for establishing additional financial assets as collateral for sources of funding;
- to ensure that climate-related and environmental risks which could have a material impact on net cash outflows or liquidity reserves, are incorporate into liquidity risk management and liquidity reserves calibration.

Overall assessment of the liquidity position of NLB Group is assessed in the Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. The ILAAP process is integral to risk management frameworks and is aligned with the NLB Group's risk appetite which is consistent with the business model and approved by the management board. Based on the Risk Appetite, the NLB Group prepares a business plan and financial forecasts which are crucial for defining internal capital needs (the ICAAP process) and an internal liquidity assessment (ILAAP process). Both processes are conducted from the normative and economic perspectives and supplemented by the stress-testing programme.

NLB Group performs stress tests on a regular basis for a variety of bank-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the NLB Group's established liquidity risk tolerance. Stress test outcomes are used to adjust its liquidity risk management strategies, policies, and positions, define minimum amount of counterbalancing capacity, and to develop effective contingency plans.

NLB Group has a formal liquidity contingency plan (LCP) that clearly sets out the procedures for addressing liquidity shortfalls in stressed situations. The plan outlines procedures to manage a range of stress environments, establish clear lines of responsibility, include clear invocation and escalation procedures, and is regularly tested and updated to ensure that it is operationally robust.

NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB/central bank or on the market. In the current situation, NLB Group also strives to follow as closely as possible the long-term

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trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfilment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance.

The Group manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:
- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and
- performing a liquidity stress test to define the liquidity reserves for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

Liquidity risk management in NLB Group is under strict monitoring by NLB as a parent bank. Reporting to NLB by all Group members is performed daily. Global Risk gives guidelines and defines minimal standards for Group members regarding liquidity risk management in NLB Group Risk Management Standards. Each Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO, and to local Assets and Liabilities Committees.

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves are comprised of cash, the settlement account at the central bank above reserve requirement, debt securities valued at market value, and loans eligible as collateral for the Eurosystem's liquidity providing operations on the basis of which the Bank may generate the requisite liquidity at any time. The available liquidity reserves are liquidity reserves decreased by the required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The structure of liquidity reserves is shown in the following table.

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Liquidity reserves				
Cash, cash balances at central banks*	4,958,969	4,020,397	4,142,013	3,180,523
Trading book securities**	–	203	–	203
Banking book securities**	4,569,721	4,542,597	2,810,064	2,679,404
ECB eligible loans	678,445	624,278	678,445	624,278
Total available liquidity reserves	**10,207,135**	**9,187,475**	**7,630,522**	**6,484,408**
Encumbered liquidity reserves	**41,502**	**122,963**	**41,502**	**5,451**

*above reserve requirement
**market value

As at 31 December 2023, 79.5% (31 December 2022: 81.0%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 11.9% (31 December 2022: 9.1%) were senior unsecured bonds.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and the interest rate risk management, simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The general rules and principles for managing the banking book securities are laid in the Framework for managing debt securities in the banking book.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the general terms about execution of monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that classifies as an eligible counterparty to the Eurosystem. As such, these ECB credit claims are included among liquidity reserves.

Members of NLB Group manage their liquid assets on a decentralised basis in compliance with the local liquidity regulation and valid policies and standards of NLB Group.

b) Encumbered/unencumbered assets

in EUR thousands

	NLB Group				NLB			
31 Dec 2023	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	1,241,906	–	4,390,753	–	118,356	–	4,017,941	–
Equity instruments	1,002	1,002	95,048	95,048	–	–	69,786	69,786
Debt securities	42,739	41,502	4,649,171	4,568,776	42,739	41,502	2,885,514	2,810,064
Loans and advances other than loans on demand	15,171	–	14,433,032	–	8,067	–	7,398,608	–
Other assets	–	–	1,073,163	–	–	–	1,473,765	–
Total	**1,300,818**		**24,641,167**		**169,162**		**15,845,614**	

in EUR thousands

	NLB Group				NLB			
31 Dec 2022	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities	Carrying amount of encumbered assets	Fair value of encumbered securities	Carrying amount of unencumbered assets	Fair value of unencumbered securities
Loans on demand	1,109,016	–	3,673,152	–	112,804	–	3,045,737	–
Equity instruments	742	742	95,580	95,580	–	–	50,303	50,303
Debt securities	77,522	74,992	4,682,208	4,516,292	57,041	54,510	2,831,887	2,679,423
Loans and advances other than loans on demand	27,000	–	13,446,808	–	11,413	–	6,515,916	–
Other assets	–	–	1,048,212	–	–	–	1,314,232	–
Total	**1,214,280**		**22,945,960**		**181,258**		**13,758,075**	

c) Collateral received – unencumbered

The table below shows the nominal value of collateral received and own debt securities issued not available for encumbrance.

in EUR thousands

	NLB Group		NLB	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Equity instruments	293,343	262,947	265,757	239,405
Loans and advances other than loans on demand	175,307	167,431	51,190	16,867
Other assets	13,599,848	12,876,402	6,408,890	4,721,729
Total	**14,068,498**	**13,306,780**	**6,725,837**	**4,978,001**

d) Sources of encumbrance

in EUR thousands

	NLB Group				NLB			
	31 Dec 2023		31 Dec 2022		31 Dec 2023		31 Dec 2022	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	2,486	9,638	3,238	13,753	2,486	9,638	9,607	20,051
Deposits	–	–	62,755	65,048	–	–	13,001	12,971
Other sources of encumbrance	2,861	1,291,180	2,901	1,135,479	–	159,524	–	148,235
Total	**5,347**	**1,300,818**	**68,894**	**1,214,280**	**2,486**	**169,162**	**22,608**	**181,257**

As at 31 December 2023, NLB Group and NLB had a large share of unencumbered assets. Other sources of encumbrance mostly relate to the obligatory reserve. On the NLB Group level, the amount of encumbered assets equalled EUR 1,301 million (31 December 2022: EUR 1,214 million).

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousands

		NLB Group					
31 Dec 2023	Carrying amount	Total	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Cash, cash balances at central banks, and other demand deposits at banks	6,103,561	**6,103,561**	6,103,561	–	–	–	–
Non-trading financial assets mandatorily at fair value through profit or loss	14,175	**14,175**	1,009	707	11,586	873	–
Financial assets measured at fair value through other comprehensive income	2,251,556	**2,408,707**	283,269	222,258	434,430	1,212,748	256,002
Financial assets measured at amortised cost							
- debt securities	2,522,229	**2,825,397**	64,238	115,969	273,677	1,310,387	1,061,126
- loans and advances to banks	547,640	**547,646**	500,739	43,829	1,572	1,502	4
- loans and advances to customers	13,734,601	**16,818,381**	691,501	622,566	3,068,830	7,109,179	5,326,305
- other financial assets	165,962	**165,962**	132,368	1,150	1,732	6,705	24,007
Total financial assets	**25,339,724**	**28,883,829**	**7,776,685**	**1,006,479**	**3,791,827**	**9,641,394**	**6,667,444**
Financial liabilities measured at fair value through profit or loss	4,482	**4,482**	–	–	–	4,144	338
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	95,283	**95,726**	75,818	–	15,330	4,332	246
- borrowings from banks and central banks	140,419	**147,519**	1,198	1,417	11,311	16,181	117,412
- due to customers	20,732,722	**20,857,070**	17,921,304	258,812	1,661,298	928,654	87,002
- borrowings from other customers	99,718	**114,387**	1,101	1,835	8,261	9,021	94,169
- debt securities issued	1,338,235	**1,852,163**	–	4,079	84,166	871,459	892,459
- other financial liabilities	357,116	**357,116**	274,348	6,915	9,111	26,557	40,185
Credit risk related commitments	3,196,771	**3,196,771**	3,196,771	–	–	–	–
Non-financial guarantees	963,321	**963,321**	76,594	97,262	338,287	380,994	70,184
Total financial liabilities and credit-related commitments	**26,928,067**	**27,588,555**	**21,547,134**	**370,320**	**2,127,764**	**2,241,342**	**1,301,995**

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in EUR thousands

31 Dec 2022	Carrying amount	NLB Group Total	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Cash, cash balances at central banks, and other demand deposits at banks	5,271,365	**5,271,370**	5,271,370	–	–	–	–
Non-trading financial assets mandatorily at fair value through profit or loss	19,031	**19,031**	6,028	–	–	–	13,003
Financial assets measured at fair value through other comprehensive income	2,919,203	**3,155,399**	622,857	210,878	413,150	1,600,987	307,527
Financial assets measured at amortised cost							
- debt securities	1,917,615	**2,015,086**	21,204	93,066	220,454	991,980	688,382
- loans and advances to banks	222,965	**223,182**	216,396	763	4,495	1,526	2
- loans and advances to customers	13,072,986	**15,075,576**	625,837	674,761	2,959,896	6,047,276	4,767,806
- other financial assets	177,823	**177,822**	145,170	5,804	3,100	23,699	49
Total financial assets	**23,600,988**	**25,937,466**	**6,908,862**	**985,272**	**3,601,095**	**8,665,468**	**5,776,769**
Financial liabilities measured at fair value through profit or loss	1,796	**1,796**	–	–	–	1,796	–
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	106,414	**106,787**	85,924	101	164	20,598	–
- borrowings from banks and central banks	198,609	**201,625**	1,386	2,067	5,809	129,289	63,074
- due to customers	20,027,726	**20,069,028**	17,972,715	301,188	958,293	819,684	17,148
- borrowings from other customers	82,482	**85,495**	651	1,413	6,247	35,338	41,846
- debt securities issued	815,990	**1,176,970**	–	4,427	52,572	473,176	646,795
- other financial liabilities	294,463	**294,463**	200,302	8,979	22,610	61,190	1,382
Credit risk related commitments	3,090,681	**3,090,681**	3,090,286	70	75	250	–
Non-financial guarantees	862,779	**862,779**	238,213	65,243	155,752	323,300	80,271
Total financial liabilities and credit-related commitments	**25,480,940**	**25,889,624**	**21,589,477**	**383,488**	**1,201,522**	**1,864,621**	**850,516**

in EUR thousands

31 Dec 2023	Carrying amount	NLB Total	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Cash, cash balances at central banks, and other demand deposits at banks	4,318,032	**4,318,032**	4,318,032	–	–	–	–
Non-trading financial assets mandatorily at fair value through profit or loss	16,643	**17,515**	4	43	12,714	154	4,600
Financial assets measured at fair value through other comprehensive income	1,023,012	**1,063,468**	11,640	38,854	241,365	632,002	139,607
Financial assets measured at amortised cost							
- debt securities	1,966,169	**2,202,821**	6,764	30,167	154,110	1,057,182	954,598
- loans and advances to banks	149,011	**201,826**	5,933	6,719	15,928	42,789	130,457
- loans and advances to customers	7,148,283	**8,487,918**	405,580	212,509	1,284,363	3,621,788	2,963,678
- other financial assets	101,596	**101,597**	70,972	1,131	1,583	5,035	22,876
Total financial assets	**14,722,746**	**16,393,177**	**4,818,925**	**289,423**	**1,710,063**	**5,358,950**	**4,215,816**
Financial liabilities measured at fair value through profit or loss	3,210	**3,210**	1,234	–	–	1,976	–
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	147,002	**147,442**	127,726	–	15,330	4,142	244
- borrowings from banks and central banks	82,797	**83,851**	–	–	1,654	1,967	80,230
- due to customers	11,881,563	**11,919,187**	10,985,068	97,176	540,607	278,051	18,285
- debt securities issued	1,338,235	**1,852,163**	–	4,079	84,166	871,459	892,459
- other financial liabilities	198,020	**198,020**	149,601	6,481	6,871	9,902	25,165
Credit risk related commitments	2,239,479	**2,239,479**	2,239,479	–	–	–	–
Non-financial guarantees	625,095	**625,095**	29,712	68,768	196,286	265,632	64,697
Total financial liabilities and credit-related commitments	**16,515,401**	**17,068,447**	**13,532,820**	**176,504**	**844,914**	**1,433,129**	**1,081,080**

in EUR thousands

		NLB					
31 Dec 2022	**Carrying amount**	**Total**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Cash, cash balances at central banks, and other demand deposits at banks	3,339,024	**3,339,024**	3,339,024	–	–	–	–
Non-trading financial assets mandatorily at fair value through profit or loss	15,411	**16,201**	553	102	330	7,378	7,838
Financial assets measured at fair value through other comprehensive income	1,334,061	**1,398,203**	66,285	105,372	212,998	834,228	179,320
Financial assets measured at amortised cost							
- debt securities	1,597,448	**1,681,693**	20,826	30,251	141,751	848,140	640,725
- loans and advances to banks	350,625	**390,583**	112,305	55,403	40,168	101,332	81,375
- loans and advances to customers	6,054,413	**6,975,507**	326,426	210,512	1,174,802	2,828,633	2,435,134
- other financial assets	114,399	**114,399**	90,598	375	89	23,320	17
Total financial assets	**12,805,381**	**13,915,610**	**3,956,017**	**402,015**	**1,570,138**	**4,643,031**	**3,344,409**
Financial liabilities measured at fair value through profit or loss	2,514	**2,514**	1,786	–	–	728	–
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	212,656	**212,967**	193,526	–	–	19,441	–
- borrowings from banks and central banks	57,292	**58,819**	13,086	681	–	45,052	–
- due to customers	10,984,411	**10,996,371**	10,604,437	60,516	119,935	208,066	3,417
- borrowings from other customers	216	**216**	1	–	–	215	–
- debt securities issued	815,990	**1,176,970**	–	4,427	52,572	473,176	646,795
- other financial liabilities	164,567	**164,567**	122,875	4,891	6,494	29,915	392
Credit risk related commitments	1,985,199	**1,985,199**	1,985,199	–	–	–	–
Non-financial guarantees	462,805	**462,805**	23,682	52,473	106,608	243,618	36,424
Total financial liabilities and credit-related commitments	**14,685,650**	**15,060,428**	**12,944,592**	**122,988**	**285,609**	**1,020,211**	**687,028**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years, NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

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f) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousands

	NLB Group					
31 Dec 2023	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(52,767)	(12,024)	(15,874)	(250)	–	(80,915)
- Inflow	52,821	12,035	15,890	250	–	80,996
- Swaps						
- Outflow	(264,488)	(150,003)	(77,229)	–	–	(491,720)
- Inflow	264,597	150,432	78,250	–	–	493,279
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,000)	(5,613)	(27,240)	(51,905)	(22,798)	(108,556)
- Inflow	3,250	4,043	34,172	79,633	37,296	158,394
- Caps and floors						
- Outflow	(211)	(51)	(768)	(586)	(6)	(1,622)
- Inflow	179	37	629	416	3	1,264
Total outflow	**(318,466)**	**(167,691)**	**(121,111)**	**(52,741)**	**(22,804)**	**(682,813)**
Total inflow	**320,847**	**166,547**	**128,941**	**80,299**	**37,299**	**733,933**

in EUR thousands

	NLB Group					
31 Dec 2022	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(31,846)	(22,128)	(5,856)	(6,475)	–	(66,305)
- Inflow	31,895	22,136	5,863	6,487	–	66,381
- Swaps						
- Outflow	(194,674)	(52,726)	(10,042)	–	–	(257,442)
- Inflow	193,719	53,098	9,996	–	–	256,813
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(819)	(2,100)	(10,699)	(105,839)	(24,177)	(143,634)
- Inflow	816	2,560	19,982	76,356	44,616	144,330
- Caps and floors						
- Outflow	(14)	(36)	(667)	(16,104)	(8,632)	(25,453)
- Inflow	45	30	850	1,468	15	2,408
Total outflow	**(227,353)**	**(76,990)**	**(27,264)**	**(128,418)**	**(32,809)**	**(492,834)**
Total inflow	**226,475**	**77,824**	**36,691**	**84,311**	**44,631**	**469,932**

in EUR thousands

31 Dec 2023	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
	NLB					
Foreign exchange derivatives						
- Forwards						
- Outflow	(50,861)	(11,715)	(15,874)	(250)	–	(78,700)
- Inflow	50,894	11,726	15,890	250	–	78,760
- Swaps						
- Outflow	(310,781)	(279,104)	(131,949)	–	–	(721,834)
- Inflow	310,647	278,819	132,095	–	–	721,561
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,455)	(5,763)	(29,050)	(57,044)	(23,651)	(116,963)
- Inflow	3,605	4,162	35,869	87,326	38,276	169,238
- Caps and floors						
- Outflow	(211)	(51)	(768)	(586)	(6)	(1,622)
- Inflow	179	37	629	416	3	1,264
Total outflow	**(363,308)**	**(296,633)**	**(177,641)**	**(57,880)**	**(23,657)**	**(919,119)**
Total inflow	**365,325**	**294,744**	**184,483**	**87,992**	**38,279**	**970,823**

in EUR thousands

31 Dec 2022	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
	NLB					
Foreign exchange derivatives						
- Forwards						
- Outflow	(31,557)	(22,128)	(5,856)	(6,475)	–	(66,016)
- Inflow	31,618	22,136	5,863	6,487	–	66,104
- Swaps						
- Outflow	(249,950)	(110,588)	–	–	–	(360,538)
- Inflow	248,993	110,595	–	–	–	359,588
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(844)	(2,027)	(12,366)	(41,180)	(22,621)	(79,038)
- Inflow	819	2,567	20,349	77,243	44,616	145,594
- Caps and floors						
- Outflow	(50)	(55)	(919)	(1,824)	(41)	(2,889)
- Inflow	45	30	850	1,468	15	2,408
Total outflow	**(282,401)**	**(134,798)**	**(19,141)**	**(49,479)**	**(22,662)**	**(508,481)**
Total inflow	**281,475**	**135,328**	**27,062**	**85,198**	**44,631**	**573,694**

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6.4. Management of non-financial risks

a) Operational risk

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

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

In NLB Group, the reported incurred net loss arising from loss events in 2023 was higher than in the previous year but remaining within the set tolerance limits for operational risk.

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

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

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

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, epidemic/pandemic, and the undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the Business Continuity Management System. In 2023, Business Continuity Management was upgraded and optimised – rationalisation of Business Impact Analysis (hereinafter BIA).

The basis for modernising the business continuity plans is the regular annual Business Impact Analysis (BIA). On its basis, the adequacy of the plans for Organisational Unit Plans (merged office buildings and HR plans) and IT plans are checked. The best indicator of the adequacy of the business continuity plans is testing. In 2023, NLB tested Manual Procedures, backup locations, and the IT Disaster Recovery Plan and external. No major deviations were identified.

In NLB Group, know-how and methodologies are transferred to its members. The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary.

For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. All preventive and response measures with regard to business continuity are regularly sent to the members with the purpose to help and act in the uniform way. Besides, workshops are performed to present development of Business Continuity Management System to all the NLB Group members to be more resilient in all relevant circumstances.

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With regards to natural disasters (floods) and IT failures, the Bank successfully used the business continuity plans and instructions for manual procedures, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – strategic risks, reputation risk, and profitability risk
Risks not included in the regulatory capital requirements (standardised approach) but have or might have an important influence on the risk profile of NLB Group, are regularly assessed, monitored, and managed. In addition, they are integrated into internal capital adequacy assessment process (ICAAP). NLB Group established internal methodologies for identifying and assessing specific types of risk, referring to the Group's business model or arising from other external circumstances. If a certain risk is assessed as a materially important risk, relevant disposable preventive and mitigation measures are applied, including regular monitoring of their effectiveness. On this basis, internal capital is considered, and its consumption regularly monitored.

6.5. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, gold, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e., prices) or indirectly (i.e., derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, is Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds, and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g., share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. These techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

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a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

in EUR thousands

31 Dec 2023	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	–	15,698	20	15,718	–	17,937	20	17,957
Derivatives	–	15,698	20	15,718	–	17,937	20	17,957
Derivatives - hedge accounting	–	47,614	–	47,614	–	47,614	–	47,614
Financial assets measured at fair value through other comprehensive income	1,456,684	793,516	1,356	2,251,556	955,638	67,071	303	1,023,012
Debt instruments	1,451,824	712,570	70	2,164,464	955,638	6,446	–	962,084
Equity instruments	4,860	80,946	1,286	87,092	–	60,625	303	60,928
Non-trading financial assets mandatorily at fair value through profit and loss	5,317	–	8,858	14,175	–	–	16,643	16,643
Debt instruments	5,217	–	–	5,217	–	–	–	–
Equity instruments	100	–	8,858	8,958	–	–	8,858	8,858
Loans	–	–	–	–	–	–	7,785	7,785
Financial liabilities								
Financial instruments held for trading	–	13,217	–	13,217	–	17,510	–	17,510
Derivatives	–	13,217	–	13,217	–	17,510	–	17,510
Derivatives - hedge accounting	–	3,540	–	3,540	–	1,420	–	1,420
Financial liabilities measured at fair value through profit or loss	–	4,482	–	4,482	–	3,210	–	3,210
Non-financial assets								
Investment properties	–	10,927	20,189	31,116	–	7,640	–	7,640
Non-current assets held for sale	–	4,048	801	4,849	–	4,048	–	4,048
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	–	–	89	89	–	–	–	–
Recoverable amount of investments in subsidiaries, associates and joint ventures	–	–	–	–	–	–	1,646	1,646

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in EUR thousands

31 Dec 2022	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	203	21,368	17	21,588	203	21,472	17	21,692
Debt instruments	203	–	–	203	203	–	–	203
Derivatives	–	21,368	17	21,385	–	21,472	17	21,489
Derivatives - hedge accounting	–	59,362	–	59,362	–	59,362	–	59,362
Financial assets measured at fair value through other comprehensive income	1,746,405	1,169,306	3,492	2,919,203	1,282,584	49,182	2,295	1,334,061
Debt instruments	1,745,896	1,090,664	2,236	2,838,796	1,282,584	6,667	2,026	1,291,277
Equity instruments	509	78,642	1,256	80,407	–	42,515	269	42,784
Non-trading financial assets mandatorily at fair value through profit and loss	11,512	–	7,519	19,031	–	–	15,411	15,411
Debt instruments	3,116	–	–	3,116	–	–	–	–
Equity instruments	8,396	–	7,519	15,915	–	–	7,519	7,519
Loans	–	–	–	–	–	–	7,892	7,892
Financial liabilities								
Financial instruments held for trading	–	21,589	–	21,589	–	22,150	–	22,150
Derivatives	–	21,589	–	21,589	–	22,150	–	22,150
Derivatives - hedge accounting	–	2,124	–	2,124	–	2,124	–	2,124
Financial liabilities measured at fair value through profit or loss	–	1,796	–	1,796	–	2,514	–	2,514
Non-financial assets								
Investment properties	–	12,192	23,447	35,639	–	6,753	–	6,753
Non-current assets held for sale	–	4,235	11,201	15,436	–	4,235	–	4,235
Non-financial assets impaired during the year								
Recoverable amount of property and equipment	–	–	30,636	30,636	–	–	–	–
Recoverable amount of investments in subsidiaries, associates and joint ventures	–	–	–	–	–	–	3,301	3,301

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b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

Fair value hierarchy	Equities	Equity stake	Gold	Funds	Debt securities	Loans	Derivatives		
							Equities	Currency	Interest
1	market value from exchange market		market value from spot market	official price by fund management company	market value from exchange market				
2					valuation model		valuation model (underlying in level 1)	valuation model	valuation model
3	valuation model	valuation model		valuation model	valuation model	valuation model	valuation model (underlying instrument in level 3)		
Transfers									
	from level 1 to 3			*from level 1 to 3*	*from level 1 to 2*		*from level 2 to 3*		
	equity excluded from exchange market			fund management company stops publishing regular valuation	debt securities excluded from exchange market		underlying instrument excluded from exchange market		
	from level 1 to 3			*from level 3 to 1*	*from level 1 to 2*		*from level 3 to 2*		
	companies in insolvency proceedings			fund management company starts publishing regular valuation	debt securities not liquid (not trading for 6 months)		underlying instrument included in exchange market		
	from level 1 to 3				*from level 1 to 3 and from 2 to 3*				
	equity not liquid (not trading for 2 months)				companies in insolvency proceedings				
	from level 3 to 1				*from level 2 to 1 and from 3 to 1*				
	equity included in exchange market				start trading with debt securities on exchange market				
					from level 3 to 2				
					until valuation parameters are confirmed on ALCO (at least on quarterly basis)				

For 2023, neither NLB Group nor NLB had any significant transfers between levels of valuation of financial instruments measured at fair value in financial statements.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: mostly bonds not quoted on active markets and valued by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets; and
- the National Resolution Fund.

Non-financial assets on Level 2 of the fair value hierarchy at NLB Group and NLB include investment properties and non-current assets held for sale.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (the Garman and Kohlhagen model, the binomial model, and the Black-Scholes model).

At least one of the three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed.

When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and adjusts it appropriately.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- equities: mainly financial equities that are not quoted on active markets;
- debt instruments: bonds not quoted on active markets and valuated by valuation model with inputs which are not based on observable market data;
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (the Garman and Kohlhagen model, the binomial model, and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Bloomberg information system;
- loans measured at fair value, which according to IFRS 9 do not pass the SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return. In defining the expected cash flows for loans, the value of collateral and other pay off estimates can be used.

Non-financial assets on Level 3 of the fair value hierarchy at NLB Group include investment properties and non-current assets held for sale.

NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in first bullet: income, market, and cost approaches.

NLB Group selects valuation model and values of unobservable input data within a reasonable possible range, but uses model and input data that other market participants would use.

At least one of the three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed.

When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and adjusts it appropriately.

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Movements of financial assets and liabilities at Level 3

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
NLB Group	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**	
Balance as at 1 January 2022	1	351	1,136	4,472	5,960
Effects of translation of foreign operations to presentation currency	–	–	(2)	–	(2)
Acquisition of subsidiaries	–	–	12	–	12
Valuation:					
- through profit or loss	16	–	–	477	493
- recognised in other comprehensive income	–	239	110	–	349
Foreign exchange differences	–	(25)	–	262	237
Increases	–	–	–	2,873	2,873
Decreases	–	(141)	–	(565)	(706)
Transfers to Level 3	–	1,812	–	–	1,812
Balance as at 31 December 2022	**17**	**2,236**	**1,256**	**7,519**	**11,028**
Valuation:					
- through profit or loss	3	–	–	1,362	1,365
- recognised in other comprehensive income	–	5,768	49	–	5,817
Foreign exchange differences	–	21	–	(173)	(152)
Increases	–	–	–	150	150
Decreases	–	(6,418)	(19)	–	(6,437)
Write-offs	–	(1,537)	–	–	(1,537)
Balance as at 31 December 2023	**20**	**70**	**1,286**	**8,858**	**10,234**

in EUR thousands

	Financial instruments held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss	Total financial assets
NLB	**Derivatives**	**Debt instruments**	**Equity instruments**	**Equity instruments**	
Balance as at 1 January 2022	1	–	219	4,472	4,692
Valuation:					
- through profit or loss	16	–	–	477	493
- recognised in other comprehensive income	–	239	50	–	289
Foreign exchange differences	–	(25)	–	262	237
Increases	–	–	–	2,873	2,873
Decreases	–	–	–	(565)	(565)
Transfers to Level 3	–	1,812	–	–	1,812
Balance as at 31 December 2022	**17**	**2,026**	**269**	**7,519**	**9,831**
Valuation:					
- through profit or loss	3	–	–	1,362	1,365
- recognised in other comprehensive income	–	5,768	19	–	5,787
Foreign exchange differences	–	21	–	(173)	(152)
Increases	–	–	–	150	150
Decreases	–	(6,278)	–	–	(6,278)
Write-offs	–	(1,537)	–	–	(1,537)
Merger of subsidiary	–	–	15	–	15
Balance as at 31 December 2023	**20**	**–**	**303**	**8,858**	**9,181**

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NLB Group and NLB recognise the effects from valuation of trading instruments in income statement line item 'Gains less losses from financial assets and liabilities held for trading,' the effects from valuation of non-trading equity instruments and loans mandatorily measured at fair value through profit or loss in the income statement line item 'Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss,' and the effects from valuation of financial assets measured at fair value through other comprehensive income in the accumulated other comprehensive income line item 'Financial assets measured at fair value through other comprehensive income.'

In 2023 and in 2022, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December:

in EUR thousands

NLB Group	Financial assets held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss
2023	Derivatives	Debt instruments	Equity instruments	Equity instruments
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	3	–	–	–
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	–	–	–	1,362
Foreign exchange translation gains less losses	–	–	–	(173)
Item of Other comprehensive income				
Financial assets measured at fair value through other comprehensive income	–	–	49	–

in EUR thousands

NLB Group	Financial assets held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss
2022	Derivatives	Debt instruments	Equity instruments	Equity instruments
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	16		–	–
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	–	–	–	477
Foreign exchange translation gains less losses	–	(25)	–	262
Item of Other comprehensive income				
Financial assets measured at fair value through other comprehensive income	–	239	110	–

in EUR thousands

NLB	Financial assets held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss
2023	Derivatives	Debt instruments	Equity instruments	Equity instruments
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	3	–	–	–
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	–	–	–	1,362
Foreign exchange translation gains less losses	–	–	–	(173)
Item of Other comprehensive income				
Financial assets measured at fair value through other comprehensive income	–	–	19	–

in EUR thousands

NLB	Financial assets held for trading	Financial assets measured at fair value through OCI		Non-trading financial assets mandatorily at fair value through profit or loss
2022	Derivatives	Debt instruments	Equity instruments	Equity instruments
Items of Income statement				
Gains less losses from financial assets and liabilities held for trading	16	–	–	–
Gains less losses from non-trading assets mandatorily at fair value through profit or loss	–	–	–	477
Foreign exchange translation gains less losses	–	(25)	–	262
Item of Other comprehensive income				
Financial assets measured at fair value through other comprehensive income	–	239	50	–

Movements of non-financial assets at Level 3

in EUR thousands

	Investment property		Non-current assets held for sale	
NLB Group	2023	2022	2023	2022
Balance as at 1 January	23,447	27,642	11,201	2,962
Effects of translation of foreign operations to presentation currency	(14)	22	11	9
Acquisition of subsidiaries (note 5.12.f)	–	302	–	–
Additions	–	3	–	7,609
Disposals	(1,954)	(7,578)	(10,206)	(105)
Transfer from/(to) property and equipment	(86)	434	–	–
Transfer from/(to) other assets	86	–	–	–
Net valuation to fair value	(1,290)	2,622	(205)	726
Balance as at 31 December	**20,189**	**23,447**	**801**	**11,201**

e) Fair value of financial instruments not measured at fair value in financial statements

Financial instruments not measured at fair value in financial statements are not managed on a fair value basis. For respective instruments fair values are calculated for disclosure purposes only, and do not impact NLB Group statement of financial position or income statement.

The table below shows estimated fair values of financial instruments not measured at fair value in the statement of financial position.

in EUR thousands

	NLB Group				NLB			
	31 Dec 2023		31 Dec 2022		31 Dec 2023		31 Dec 2022	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	2,522,229	2,440,596	1,917,615	1,749,169	1,966,169	1,889,481	1,597,448	1,442,453
- loans and advances to banks	547,640	547,555	222,965	223,077	149,011	149,011	350,625	362,422
- loans and advances to customers	13,734,601	13,256,192	13,072,986	12,883,859	7,148,283	6,895,232	6,054,413	5,965,468
- other financial assets	165,962	165,962	177,823	177,823	101,596	101,596	114,399	114,399
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	95,283	95,657	106,414	106,627	147,002	147,379	212,656	212,880
- borrowings from banks and central banks	140,419	134,020	198,609	193,774	82,797	75,152	57,292	52,897
- due to customers	20,732,722	20,746,603	20,027,726	20,031,938	11,881,563	11,892,641	10,984,411	10,989,255
- borrowings from other customers	99,718	101,649	82,482	80,684	–	–	216	216
- debt securities issued	1,338,235	1,363,301	815,990	788,892	1,338,235	1,363,301	815,990	788,892
- other financial liabilities	357,116	357,116	294,463	294,463	198,020	198,020	164,567	164,567

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing market interest rates for instruments with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings

The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates, and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Debt securities measured at amortised cost and debt securities issued

The fair value of debt securities measured at amortised cost and debt securities issued is based on their quoted market price or value calculated by using a discounted cash flow method and the prevailing money market interest rates.

Loan commitments

For credit facilities that are drawn soon after the NLB Group grants loans (drawn at market rates) and loan commitments to those clients that are not impaired, the fair value is close to zero. For loan commitments to clients that are impaired, fair value represents the amount of the recognised provisions.

Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

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Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousands

31 Dec 2023	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	2,030,120	403,255	7,221	2,440,596	1,779,995	109,486	–	1,889,481
- loans and advances to banks	–	547,555	–	547,555	–	149,011	–	149,011
- loans and advances to customers	–	–	13,256,192	13,256,192	–	–	6,895,232	6,895,232
- other financial assets	–	–	165,962	165,962	–	–	101,596	101,596
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	–	95,657	–	95,657	–	147,379	–	147,379
- borrowings from banks and central banks	–	134,020	–	134,020	–	75,152	–	75,152
- due to customers	–	20,746,603	–	20,746,603	–	11,892,641	–	11,892,641
- borrowings from other customers	–	–	101,649	101,649	–	–	–	–
- debt securities issued	1,363,301	–	–	1,363,301	1,363,301	–	–	1,363,301
- other financial liabilities	–	–	357,116	357,116	–	–	198,020	198,020

in EUR thousands

31 Dec 2022	NLB Group				NLB			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost								
- debt securities	1,476,615	265,325	7,229	1,749,169	1,350,003	92,450	–	1,442,453
- loans and advances to banks	–	223,077	–	223,077	–	362,422	–	362,422
- loans and advances to customers	–	–	12,883,859	12,883,859	–	–	5,965,468	5,965,468
- other financial assets	–	–	177,823	177,823	–	–	114,399	114,399
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	–	106,627	–	106,627	–	212,880	–	212,880
- borrowings from banks and central banks	–	193,774	–	193,774	–	52,897	–	52,897
- due to customers	–	20,031,938	–	20,031,938	–	10,989,255	–	10,989,255
- borrowings from other customers	–	–	80,684	80,684	–	–	216	216
- debt securities issued	748,958	39,934	–	788,892	748,958	39,934	–	788,892
- other financial liabilities	–	–	294,463	294,463	–	–	164,567	164,567

6.6. Environmental and climate-related risks

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

ESG risks do not represent a new risk category, but rather one of the risk drivers of the existing type of risks. The Group integrates and manages them within the established risk management framework in the areas of credit, liquidity, market, and operational risk. The management of ESG risks follows ECB and EBA guidelines, following the tendency of their comprehensive integration into all relevant processes.

The management of ESG risks is incorporated into the Group's overall credit approval process and the related credit portfolio management. Sustainable financing is implemented in accordance with the Group's Environmental and Social Management System (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 NLB Group conducts a materiality assessment as part of its overall risk identification process to determine the level of transitional and physical risk to which the Group is exposed. In this process, the identification of environmental risk factors, relevant transmission channels, and their materiality and impact on the Group's financial performance in short-, mid- and long-term periods are assessed. From the perspective of physical risk, the most relevant natural disasters are floods, landslides, and drought, while hail and windstorms are also frequent, but less material. Despite this, the Group can expect its impact to increase in the long run if no adequate policy changes are implemented in a timely manner. Chronic risk is not determined as a material risk. Transition risks already arise in the short term due to the determination of the EU to reduce carbon emissions, according to its ambitious net zero strategy by 2050. With the NZBA commitment and implementation of NLB Group's Net Zero Strategy in 2023, its impacts are expected to diminish gradually in the long run. Nevertheless, the Group assessed them more materially than physical risk.

As a systemically important institution, the NLB Group was included in the ECB Stress test exercise – 2024 EBA Fit-for-55 climate risk scenario analysis. The exercise started in December 2023 and will be concluded in March 2024. By performing this exercise, the ECB assessed how banks were prepared to deal with financial and economic shocks stemming from climate risk.

6.7. Offsetting financial assets and financial liabilities

NLB Group has entered into bilateral foreign exchange netting arrangements with certain banks and corporates. Cash flows from such transactions that are due on the same day in the same currency, are settled on a net basis, i.e., a single cash flow for each currency. The settlement of all interest rates derivatives is also carried out by netting of both legs of transaction. Assets and liabilities related to these netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to the entire financial instrument.

NLB Group also holds certain standardised derivatives (some interest rate swaps) with a clearing house or central counterparty. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

All derivatives are conducted under the conditions of signed Master Agreements (MA), with international banks. The ISDA MA is in place along with CSA annex and for corporates domestic MA is in place, which enable daily evaluation and exchange of margining.

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				in EUR thousands
	NLB Group			
31 Dec 2023	Amounts not set off in the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	63,283	4,992	52,103	6,188
Derivatives - liabilities	16,714	4,992	1,563	10,159

				in EUR thousands
	NLB Group			
31 Dec 2022	Amounts not set off in the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	80,724	3,053	72,204	5,467
Derivatives - liabilities	17,482	3,053	1,959	12,470

				in EUR thousands
	NLB			
31 Dec 2023	Amounts not set off in the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	65,551	5,013	54,346	6,192
Derivatives - liabilities	18,929	5,013	1,563	12,353

				in EUR thousands
	NLB			
31 Dec 2022	Amounts not set off in the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/ liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	80,834	3,133	72,204	5,497
Derivatives - liabilities	24,273	3,133	8,251	12,889

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

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7. Analysis by segment for NLB Group

a) Segments

in EUR thousands

2023	NLB Group							
	Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Unallocated	Total
Total net income	366,988	149,184	541,624	40,437	(131)	5,574	–	1,103,676
Net income from external customers	246,811	204,868	541,098	95,748	(578)	5,349	–	1,093,296
Intersegment net income	120,177	(55,684)	526	(55,311)	447	225	–	10,380
Net interest income	264,707	106,462	423,249	37,752	1,540	(376)	–	833,334
Net interest income from external customers	147,803	161,103	429,464	94,023	1,444	(503)	–	833,334
Intersegment net interest income	116,904	(54,641)	(6,215)	(56,271)	96	127	–	–
Administrative expenses	(141,132)	(63,955)	(223,239)	(9,202)	(13,230)	(12,740)	–	(463,498)
Depreciation and amortisation	(12,675)	(6,240)	(27,990)	(689)	(508)	(635)	–	(48,737)
Reportable segment profit/(loss) before impairment and provision charge	213,181	78,989	290,395	30,546	(13,869)	(7,801)	–	591,441
Other net gains/(losses) from equity investments in associates and joint ventures	1,072	–	–	–	–	–	–	1,072
Impairment and provisions charge	(32,592)	7,909	1,124	4,757	3,729	973	–	(14,100)
Profit/(loss) before income tax	181,661	86,898	291,519	35,303	(10,140)	(6,828)	–	578,413
Owners of the parent	181,661	86,898	278,896	35,303	(10,140)	(6,828)	–	565,790
Non-controlling interests	–	–	12,623	–	–	–	–	12,623
Income tax	–	–	–	–	–	–	(15,090)	(15,090)
Profit for the year								**550,700**
Reportable segment assets	3,778,767	3,376,370	11,058,835	7,232,457	47,097	435,940	–	25,929,466
Investments in associates and joint ventures	12,519	–	–	–	–	–	–	12,519
Reportable segment liabilities	9,381,016	2,512,801	9,329,079	1,540,000	3,419	227,680	–	22,993,995
Additions to non-current assets	19,775	9,826	40,239	505	4	4,099	–	74,448

in EUR thousands

2022	NLB Group Retail Banking in Slovenia	Corporate and Investment Banking in Slovenia	Strategic Foreign Markets	Financial Markets in Slovenia	Non-Core Members	Other activities	Unallocated	Total
Total net income	211,474	105,198	427,519	46,601	4,697	10,024	–	805,513
Net income from external customers	227,590	121,042	429,999	5,558	4,426	9,934	–	798,549
Intersegment net income	(16,116)	(15,844)	(2,480)	41,043	271	90	–	6,964
Net interest income	104,809	52,930	298,042	47,304	267	1,570	–	504,922
Net interest income from external customers	125,541	71,832	303,349	2,169	453	1,578	–	504,922
Intersegment net interest income	(20,732)	(18,902)	(5,307)	45,135	(186)	(8)	–	–
Administrative expenses	(132,893)	(60,471)	(199,593)	(8,812)	(12,109)	(7,309)	–	(421,187)
Depreciation and amortisation	(11,149)	(4,629)	(28,538)	(618)	(498)	(621)	–	(46,053)
Reportable segment profit/(loss) before impairment and provision charge	67,432	40,098	199,388	37,171	(7,910)	2,094	–	338,273
Other net gains/(losses) from equity investments in associates and joint ventures	781	–	–	–	–	–	–	781
Gain from bargain purchase	–	–	68	–	–	172,810	–	172,878
Impairment and provisions charge	(21,435)	12,156	(12,325)	(3,363)	(829)	(3,073)	–	(28,869)
Profit/(loss) before income tax	46,778	52,254	187,131	33,808	(8,739)	171,831	–	483,063
Owners of the parent	46,778	52,254	176,160	33,808	(8,739)	171,831	–	472,092
Non-controlling interests	–	–	10,971	–	–	–	–	10,971
Income tax	–	–	–	–	–	–	(25,230)	(25,230)
Profit for the year								**446,862**
Reportable segment assets	3,665,110	3,372,047	10,179,396	6,514,047	61,563	356,400	–	24,148,563
Investments in associates and joint ventures	11,677	–	–	–	–	–	–	11,677
Reportable segment liabilities	9,108,497	2,777,001	8,539,025	1,118,681	3,754	190,957	–	21,737,915
Additions to non-current assets	10,717	6,088	29,042	261	99	4,688	–	50,895

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results. NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

The business activities of the parent bank (NLB) and N Banka are divided into several segments. Interest income and expenses are reallocated between segments on the basis of fund transfer prices (FTP). Other NLB Group members are, based on their business activity, included in only one segment except NLB Lease&Go Ljubljana, which is according to its business activities divided into two segments.

The segments of NLB Group are divided into core and non-core segments.

The core segments are the following:

- Retail Banking in Slovenia, which includes banking with individuals and micro companies (NLB and N Banka), asset management (NLB Skladi), and part of subsidiary NLB Lease&Go Ljubljana that includes operations with retail clients, as well as the contribution to the result of the associated company Bankart.
- Corporate and Investment Banking in Slovenia, which includes banking with Key Corporate Clients, SMEs, Cross-border corporate financing, Investment Banking and Custody, Restructuring and Workout in NLB and N Banka, and part of the subsidiary NLB Lease&Go Ljubljana that includes operations with corporate clients.
- Strategic Foreign Markets, which consist of the operations of strategic Group banks in the strategic markets (North Macedonia, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia), as well as investment company KomBank Invest, Beograd, NLB DigIT, Beograd, NLB Lease&Go Skopje, and NLB Lease&Go leasing Beograd.
- Financial Markets in Slovenia include treasury activities and trading with financial instruments, while they also present the results of asset and liabilities management (ALM) in both NLB and N Banka.
- Other activities include categories in NLB and N Banka whose operating results cannot be allocated to specific segments, including gain from bargain purchase from acquisition of N Banka in 2022, as well as subsidiaries NLB Cultural Heritage Management Institute and Privatinvest.

Non-Core Members include the operations of non-core NLB Group members, namely REAM and leasing entities in liquidation, NLB Srbija, and NLB Crna Gora.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

No revenues were generated from transactions with a single external customer that would amount to 10% or more of NLB Group's revenues.

b) Geographical information

Geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Slovenia	729,170	445,749	556,854	367,121	275,533	288,563	19,447	(9,719)
South East Europe	663,042	505,855	538,752	431,267	305,507	194,764	(34,525)	(15,487)
Bosnia and Herzegovina	104,460	84,065	85,158	71,205	40,677	33,475	(3,467)	(2,635)
Croatia	–	23	(557)	473	(527)	(170)	–	(45)
Kosovo	68,279	58,297	56,374	49,251	39,797	35,922	(3,995)	(3,693)
Montenegro	62,625	49,528	51,658	38,251	32,032	15,436	(5,502)	(1,838)
North Macedonia	111,599	94,660	90,233	78,369	49,895	41,807	(4,910)	(3,795)
Serbia	316,079	219,282	255,886	193,718	143,633	68,294	(16,651)	(3,481)
Western Europe	103	13	(2,310)	161	(2,627)	(264)	(12)	(24)
Germany	–	–	51	58	(402)	(647)	–	–
Switzerland	103	13	(2,361)	103	(2,225)	383	(12)	(24)
Total	**1,392,315**	**951,617**	**1,093,296**	**798,549**	**578,413**	**483,063**	**(15,090)**	**(25,230)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income.

The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, the effect on the derecognition of assets, net operating income, and gain less losses from non-current assets held for sale.

in EUR thousands

	Non-current assets		Total assets		Number of employees	
NLB Group	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2022**
Slovenia	160,574	152,037	14,851,067	13,935,167	2,689	2,833
South East Europe	223,185	204,802	11,072,317	10,216,136	5,291	5,392
Bosnia and Herzegovina	38,861	35,550	1,934,891	1,799,877	990	971
Croatia	–	377	1,194	3,557	1	6
Kosovo	13,810	14,289	1,229,426	1,082,474	468	467
Montenegro	23,163	17,416	928,913	825,400	390	380
North Macedonia	34,276	36,348	1,895,297	1,832,477	962	954
Serbia	113,075	100,822	5,082,596	4,672,351	2,480	2,614
Western Europe	27	28	18,601	8,937	2	3
Germany	27	28	552	691	–	1
Switzerland	–	–	18,049	8,246	2	2
Total	**383,786**	**356,867**	**25,941,985**	**24,160,240**	**7,982**	**8,228**

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The table below presents data on NLB Group members before intercompany eliminations and consolidation journals:

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
NLB Group	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Slovenia	909,550	523,774	704,971	431,187	511,693	191,900	28,958	(9,153)
South East Europe	670,510	507,243	542,776	429,307	308,129	199,981	(34,879)	(15,952)
Bosnia and Herzegovina	105,503	84,107	83,567	70,211	40,555	33,352	(3,467)	(2,635)
Croatia	–	128	(385)	617	(366)	(170)	–	(45)
Kosovo	68,468	58,296	55,182	48,391	39,963	36,095	(3,995)	(3,693)
Montenegro	64,729	49,738	50,465	37,822	32,836	18,374	(5,502)	(1,838)
North Macedonia	111,933	94,624	86,612	75,882	48,822	41,601	(4,910)	(3,795)
Serbia	319,877	220,350	267,335	196,384	146,319	70,729	(17,005)	(3,946)
Western Europe	118	25	(2,467)	(12)	(2,711)	(2,835)	(12)	(24)
Germany	–	1	51	54	(402)	(646)	–	–
Switzerland	118	24	(2,518)	(66)	(2,309)	(2,189)	(12)	(24)
Total	**1,580,178**	**1,031,042**	**1,245,280**	**860,482**	**817,111**	**389,046**	**(5,933)**	**(25,129)**

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8. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel, or their family members have control, joint control, or a significant influence; a major shareholder of NLB with significant influence, subsidiaries, associates and joint ventures.

Related-party transactions with Management Board and other key management personnel, their family members and companies these related parties have control, joint control, or significant influence

A number of banking transactions are entered into with related parties within regular course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousands

NLB Group	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
	2023	2022	2023	2022	2023	2022	2023	2022
Loans issued								
Balance at 1 January	2,173	2,097	469	415	–	532	54	60
Increase	1,214	1,526	307	324	–	8	46	76
Decrease	(1,532)	(1,450)	(332)	(270)	–	(540)	(76)	(82)
Balance at 31 December	**1,855**	**2,173**	**444**	**469**	**–**	**–**	**24**	**54**
Interest income	57	41	17	10	–	–	1	–
Deposits received								
Balance at 1 January	2,556	2,170	926	718	218	590	348	505
Increase	2,617	2,938	1,440	634	496	6,413	407	398
Decrease	(2,806)	(2,552)	(1,213)	(426)	(442)	(6,785)	(338)	(555)
Balance at 31 December	**2,367**	**2,556**	**1,153**	**926**	**272**	**218**	**417**	**348**
Interest expenses	(33)	(7)	(6)	–	–	–	(5)	(2)
Other financial liabilities	**1**	**2**	**–**	**–**	**12**	**3**	**–**	**–**
Other financial liabilities measured at fair value through profit or loss (note 2.31.)	**2,075**	**801**	**–**	**–**	**–**	**–**	**–**	**–**
Other operating liabilities	**11,066**	**6,559**	**–**	**–**	**–**	**–**	**–**	**–**
Guarantees issued and loan commitments	**287**	**237**	**64**	**70**	**–**	**–**	**14**	**17**
Fee income	19	19	8	7	3	66	1	2
Other income	16	17	–	–	–	–	–	–
Other expenses	–	–	–	–	(94)	(382)	(1)	–

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in EUR thousands

NLB	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
	2023	2022	2023	2022	2023	2022	2023	2022
Loans issued								
Balance at 1 January	2,172	2,097	469	415	–	532	54	60
Increase	1,203	1,480	307	324	–	8	46	76
Decrease	(1,521)	(1,405)	(332)	(270)	–	(540)	(76)	(82)
Balance at 31 December	**1,854**	**2,172**	**444**	**469**	**–**	**–**	**24**	**54**
Interest income	57	41	17	10	–	–	1	–
Deposits received								
Balance at 1 January	2,536	2,170	926	718	218	590	348	505
Increase	2,555	2,643	1,440	634	496	6,413	407	398
Decrease	(2,734)	(2,277)	(1,213)	(426)	(442)	(6,785)	(338)	(555)
Balance at 31 December	**2,357**	**2,536**	**1,153**	**926**	**272**	**218**	**417**	**348**
Interest expenses	(33)	(7)	(6)	–	–	–	(5)	(2)
Other financial liabilities	**1**	**2**	**–**	**–**	**12**	**3**	**–**	**–**
Other financial liabilities measured at fair value through profit or loss (note 2.31.)	**1,975**	**728**	**–**	**–**	**–**	**–**	**–**	**–**
Other operating liabilities	**11,080**	**6,539**						
Guarantees issued and loan commitments	**279**	**223**	**64**	**70**	**–**	**–**	**14**	**17**
Fee income	19	18	8	7	3	66	1	2
Other income	16	17	–	–	–	–	–	–
Other expenses	–	–	–	–	(94)	(382)	(1)	–

Key management compensation

The remuneration for the 2023 for the members of the Supervisory Board of NLB d.d. and the Management Board of NLB d.d. is regulated in Remuneration Policy for the Members of the Supervisory Board of NLB d.d. and the Members of the Management Board of NLB d.d. The remuneration for the identified employees and other employees is regulated in Remuneration Policy for employees of NLB d.d. and NLB Group.

In the Remuneration Policy and based thereon and in accordance with Commission Delegated regulation (EU) 2021/923, the Bank designates identified employees. In designating identified employees, the internal organisation and the nature, scope, and complexity of the Bank's activities are taken into account. The criteria fully take into account the risks that the Bank or the NLB Group is or could be exposed to its given risk profile and risk appetite. The Remuneration Policy includes members of the Supervisory Board, members of the Management Board, senior management, and other identified employees who are included in the Policy on the basis of the Bank's self-assessment.

Members of the Supervisory Board may, in relation to their function of a member of the Supervisory Board, only receive remuneration that is compliant with the relevant resolutions of the Bank's General Meeting. The Supervisory Board members are entitled to a remuneration for performing their function and/or attendance fees for their membership in the Supervisory Board of the Bank and the committees of the Supervisory Board of the Bank, which are determined in accordance with respective applicable resolution by the General Meeting of the Bank, and to reimbursement of travel expenses, daily allowances, and accommodation costs up to the amount provided by the regulations governing reimbursement of costs related to work and other income not included in the tax base.

The Bank's General Meeting may determine and change the remuneration of the members of the Supervisory Board independently from the Remuneration Policy, and may change, repeal, or replace any of its resolutions in relation to the remuneration of the Supervisory Board members at any time, or adopt a new resolution in relation to the remuneration of the Supervisory Board members. The last changes of the remuneration of members of the Supervisory Board were adopted at the General Meeting of NLB d.d. 19 June 2023.

The performance of key management is defined by financial and non-financial criteria. In addition to the salary determined in their employment contract, they are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

The objectives and performance assessment criteria of each member of the Management Board shall be determined each year by the Supervisory Board NLB d.d. at the time of adoption of the Bank's annual business plan. Also, the Supervisory Board of NLB d.d. confirm the objectives of the heads of control or supervisory functions. The objectives and performance assessment criteria for the identified employees are determined by the Management Board.

The variable portion of receipts for a given financial year may not exceed nine salaries of a member of the Management Board in the financial year. Other identified employees are entitled to a variable part of remuneration according to the category of employee in the maximum amount of three to six salaries. Key management shall be entitled to a variable part of the performance benefit only in proportional part to the actual period of employment (duration of the term of office) of the Bank during the period to which the variable part of the performance benefit relates.

The non-deferred part of variable remuneration is paid no later than three months after the adoption of the Annual Report of NLB Group for the business year to which the variable remuneration relates. Variable remuneration part of payment of an identified employee is awarded and paid in cash, provided that the amount does not exceed EUR 50 thousand or/and is higher than one-third of his/her total remuneration for each financial year, and if this is permissible in accordance with the relevant regulation.

If the variable remuneration part of payment of an identified employee exceeds EUR 50 thousand or/and is higher than one-third of his/her total remuneration for each financial year and if this is permissible in accordance with the relevant regulation, then at least 50% of the variable remuneration must consist of instruments. The part of the variable remuneration of an identified employee consisting of instruments shall be awarded and paid under the terms and conditions in the valid Remuneration Policy in instruments whose value is based on the value of the share of NLB d.d. (with these instruments not giving any dividends or other yields).

The deferred part of the variable part of the salary must be deferred for a period of at least five years of the day on which the non-deferred part of such variable remuneration is paid and it is paid in proportional shares, according to the relevant legislation.

The table below shows payments in presented periods:

in EUR thousands

NLB Group and NLB	Management Board		Other key management personnel		Supervisory Board	
	2023	2022	2023	2022	2023	2022
Short-term benefits	3,076	2,282	6,604	6,148	728	696
Cost refunds	9	6	112	98	104	74
Long-term bonuses:						
- severance pay	–	–	120	–	–	–
- other benefits	53	7	163	77	–	–
- variable part of payments	299	276	1,252	1,425	–	–
Total	**3,437**	**2,571**	**8,251**	**7,748**	**832**	**770**

Short-term benefits include:
- monetary benefits (gross salaries, supplementary insurance, holiday allowances, and other bonuses);
- non-monetary benefits (company cars, health care, residential facilities, etc.).

The reimbursement of cost comprises food allowances, travel expenses, and use of own resources.

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Payments to individual members of the Management Board

in EUR

Member / Mandate		2023	2022
Blaž Brodnjak	Short-term benefits:		
1.12.2012	- gross salary and holiday allowance	662,159	542,370
	- benefits and other short-term bonuses	9,040	6,908
	Costs refunds	1,490	1,318
	Long-term bonuses:		
	- other benefits	2,904	1,912
	- variable part of payments	92,854	95,214
	Total	**768,447**	**647,722**
Peter Andreas Burkhardt	Short-term benefits:		
18.09.2013	- gross salary and holiday allowance	552,167	486,438
	- benefits and other short-term bonuses	46,318	33,588
	Costs refunds	1,540	1,243
	Long-term bonuses:		
	- other benefits	3,364	1,452
	- variable part of payments	83,480	89,132
	Total	**686,869**	**611,853**
Archibald Kremser	Short-term benefits:		
31.07.2013	- gross salary and holiday allowance	632,159	517,370
	- benefits and other short-term bonuses	33,364	39,220
	Costs refunds	1,324	1,302
	Long-term bonuses:		
	- other benefits	3,364	1,452
	- variable part of payments	88,539	91,870
	Total	**758,750**	**651,214**
Antonio Argir	Short-term benefits:		
28.04.2022	- gross salary and holiday allowance	352,909	205,291
	- benefits and other short-term bonuses	64,854	30,077
	Costs refunds	1,515	796
	Long-term bonuses:		
	- other benefits	37,140	859
	- variable part of payments	34,047	–
	Total	**490,465**	**237,023**
Andrej Lasič	Short-term benefits:		
28.04.2022	- gross salary and holiday allowance	352,909	205,292
	- benefits and other short-term bonuses	3,756	4,216
	Costs refunds	1,469	796
	Long-term bonuses:		
	- other benefits	3,364	859
	- variable part of payments	34,047	–
	Total	**395,545**	**211,163**
Hedvika Usenik	Short-term benefits:		
28.04.2022	- gross salary and holiday allowance	352,909	205,292
	- benefits and other short-term bonuses	13,234	5,512
	Costs refunds	1,507	782
	Long-term bonuses:		
	- other benefits	2,904	859
	- variable part of payments	34,047	–
	Total	**404,601**	**212,445**

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Payments to individual members of the Supervisory Board

in EUR

Member / Mandate		2023	2022
Primož Karpe	Annual compensation	103,680	96,000
11.02.2016	Other bonuses - benefit	279	382
	Costs refunds	9,300	10,952
David Eric Simon	Annual compensation	87,480	81,000
04.08.2016	Other bonuses - benefit	279	382
	Costs refunds	13,162	7,931
Shrenik Dhirajlal Davda	Annual compensation	83,683	72,000
10.06.2019	Other bonuses - benefit	279	382
	Costs refunds	19,444	8,767
Mark William Lane Richards	Annual compensation	87,480	81,000
10.06.2019	Other bonuses - benefit	279	382
	Costs refunds	18,141	9,493
Verica Trstenjak	Annual compensation	73,254	66,000
15.06.2020	Other bonuses - benefit	279	382
	Costs refunds	3,490	1,473
Sergeja Kočar	Annual compensation	23,659	8,327
17.06.2020	Other bonuses - benefit	279	382
	Costs refunds	1,017	1,183
Islam Osama Bahgat Zekry	Annual compensation	77,760	72,000
14.06.2021	Other bonuses - benefit	279	382
	Costs refunds	17,656	17,622
Tadeja Žbontar Rems	Annual compensation	44,774	31,215
22.01.2021	Other bonuses - benefit	279	382
	Costs refunds	309	185
Cvetka Selšek	Annual compensation	30,102	–
15.08.2023	Other bonuses - benefit	279	–
	Costs refunds	2,580	–
André Marc Richard Prudent Toccanier	Annual compensation	33,063	–
15.08.2023	Other bonuses - benefit	279	–
	Costs refunds	6,773	–
Gregor Rok Kastelic	Annual compensation	38,025	81,000
10.06.2019 - 19.06.2023	Other bonuses - benefit	–	382
	Costs refunds	4,527	9,340
Andreas Klingen	Annual compensation	42,250	90,000
22.06.2015 - 19.06.2023	Other bonuses - benefit	–	382
	Costs refunds	7,917	7,360
Bojana Šteblaj	Annual compensation	–	12,014
17.06.2020 - 12.09.2022	Other bonuses - benefit	–	–
	Costs refunds	–	–
Janja Žabjek Dolinšek	Annual compensation	–	1,473
20.11.2020 - 08.07.2022	Other bonuses - benefit	–	–
	Costs refunds	–	32

Related-party transactions with subsidiaries, associates and joint ventures

in EUR thousands

NLB Group	Associates		Joint ventures	
	2023	2022	2023	2022
Loans issued				
Balance at 1 January	1,057	1,011	201	201
Acquisition of subsidiaries	–	77	–	–
Increase	1,161	145	2	2
Decrease	(2,208)	(176)	(203)	(2)
Balance at 31 December	**10**	**1,057**	**–**	**201**
Interest income	63	39	1	3
Impairment	825	(8)	6	2
Deposits received				
Balance at 1 January	5,375	7,967	3,071	3,492
Effects of translation of foreign operations to presentation currency	–	–	(3)	3
Increase	10,378	5,982	6,902	1,073
Decrease	(9,585)	(8,574)	(8,519)	(1,497)
Balance at 31 December	**6,168**	**5,375**	**1,451**	**3,071**
Interest expenses	–	–	(36)	(46)
Other financial assets	**7**	**7**	**1**	**–**
Other financial liabilities	**1,460**	**1,116**	**–**	**1**
Guarantees issued and loan commitments	**30**	**2,034**	**–**	**–**
Income/(expenses) provisions for guaranties and commitments	2	(1)	–	–
Fee income	8	69	–	–
Fee expenses	(16,167)	(12,894)	–	–
Other income	53	92	5	5
Other expenses	(1,174)	(571)	–	–

in EUR thousands

NLB	Subsidiaries		Associates		Joint ventures	
	2023	2022	2023	2022	2023	2022
Loans issued						
Balance at 1 January	337,900	250,303	982	1,011	201	201
Increase	660,088	536,279	1,161	145	2	2
Decrease	(539,304)	(448,682)	(2,133)	(174)	(203)	(2)
Balance at 31 December	**458,684**	**337,900**	**10**	**982**	**–**	**201**
of which at amortised cost	450,213	328,641	10	982	–	201
of which at fair value through profit or loss	8,471	9,259	–	–	–	–
Interest income	19,938	7,461	63	39	1	3
Impairment	11	(645)	861	27	6	2
Valuation	1,231	(2,225)	–	–	–	–
Deposits						
Balance at 1 January	223,492	83,948	–	–	–	–
Increase	1,120,256	2,171,418	–	–	–	–
Decrease	(1,321,986)	(2,031,874)	–	–	–	–
Balance at 31 December	**21,762**	**223,492**	**–**	**–**	**–**	**–**
Interest income	985	940	–	–	–	–
Interest expenses	–	(5)	–	–	–	–
Impairment	43	(18)	–	–	–	–
Loans received						
Balance at 1 January	13,001	44,484	–	–	–	–
Increase	36,887	13,001	–	–	–	–
Decrease	(49,888)	(44,484)	–	–	–	–
Balance at 31 December	**–**	**13,001**	**–**	**–**	**–**	**–**
Interest income	–	9	–	–	–	–
Interest expenses	(12)	(2)	–	–	–	–
Deposits received						
Balance at 1 January	165,778	68,372	5,375	7,967	40	27
Increase	87,107,211	23,967,799	10,378	5,982	418	82
Decrease	(87,168,040)	(23,870,393)	(9,585)	(8,574)	(63)	(69)
Balance at 31 December	**104,949**	**165,778**	**6,168**	**5,375**	**395**	**40**
Interest expenses	(5,205)	(465)	–	–	–	–
Derivatives						
Fair value	54	(6,681)	–	–	–	–
Contractual amount	298,290	113,711	–	–	–	–
Interest income	25	312	–	–	–	–
Interest expenses	(208)	(181)	–	–	–	–
Other financial assets	**2,058**	**2,514**	**7**	**7**	**–**	**–**
Impairment	3	5	–	–	–	–
Other financial liabilities	**4,615**	**2,710**	**1,340**	**972**	**–**	**–**
Guarantees issued and loan commitments	**87,094**	**46,366**	**30**	**2,034**	**–**	**–**
Income/(expenses) provisions for guaranties and commitments	(76)	(85)	2	(1)	–	–
Received loan commitments and financial guarantees	**10,741**	**10,983**	**–**	**–**	**–**	**–**
Fee income	10,632	10,200	8	69	–	–
Fee expenses	(5)	(280)	(12,698)	(9,964)	–	–
Other income	1,959	1,543	43	92	2	2
Other expenses	(5,087)	(5,864)	(1,137)	(559)	–	–
Gains less losses from financial assets and liabilities held for trading	(1,898)	(7,132)	–	–	–	–

Related-party transactions with major shareholder with significant influence

The volumes of related party transactions with major shareholder are as follows:

in EUR thousands

	NLB Group		NLB	
	2023	2022	2023	2022
Loans issued				
Balance at 1 January	17,595	20,534	17,595	20,534
Increase	2,731	3,708	2,731	3,708
Decrease	(6,942)	(6,647)	(6,942)	(6,647)
Balance at 31 December	**13,384**	**17,595**	**13,384**	**17,595**
Interest income	713	713	713	713
Investments in securities				
Balance at 1 January	564,287	534,522	473,389	483,656
Exchange difference on opening balance	(27)	36	–	–
Acquisition of subsidiaries	–	151,047	33,617	–
Increase	550,561	672,692	409,682	553,823
Decrease	(548,065)	(746,698)	(410,346)	(521,066)
Valuation	10,773	(47,312)	10,584	(43,024)
Balance at 31 December	**577,529**	**564,287**	**516,926**	**473,389**
Interest income	7,131	5,816	5,692	5,844
Interest expenses	(21)	–	(21)	–
Other financial assets	**65**	**31,141**	**65**	**31,141**
Other financial liabilities	**20**	**2**	**20**	**2**
Guarantees issued and loan commitments	**1,466**	**1,194**	**1,466**	**1,194**
Fee income	574	350	574	350
Fee expenses	(28)	(28)	(28)	(28)
Other income	272	257	272	257
Other expenses	(5,009)	(3)	(5,009)	(3)
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	(656)	–	(656)	–
Gains less losses from financial assets and liabilities held for trading	–	(66)	–	(66)

NLB Group and NLB disclose all transactions with the major shareholder with significant influence. For transactions with other government-related entities, NLB Group discloses individually significant transactions with exposure above EUR 40 million and their business accounts.

in EUR thousands

NLB Group and NLB	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
	2023	2022	2023	2022
Guarantees issued and loan commitments	50,000	188,000	1	3

in EUR thousands

NLB Group and NLB	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2023	2022	2023	2022
Loans	406,005	565,330	10	10
Debt securities measured at amortised cost	64,132	64,913	1	1
Borrowings, deposits and business accounts	30,399	108,606	3	3
Guarantees issued and loan commitments	152,500	152,500	2	2

in EUR thousands

NLB Group and NLB	Effects in income statement during the year	
	2023	2022
Interest income from loans	18,489	5,130
Fees and commissions income	51	777
Interest income from debt securities measured at amortised cost and net valuation effects from hedge accounting	2,411	(4,940)
Interest expenses from borrowings, deposits, and business accounts	–	(99)

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9. Events after the reporting date

Subordinated notes

On 24 January 2024, NLB issued subordinated Tier 2 notes in the total nominal amount of EUR 300 million, 10NC5 tenor and ISIN code XS2750306511. In parallel, NLB conducted a liability management exercise where it repurchased EUR 219.6 million of its two outstanding subordinated Tier 2 notes with approaching call dates with ISIN code XS2080776607 and XS2113139195. The liability management exercise was concluded on 26 January 2024.

Notice of early redemption of subordinated notes as of 2 April 2024

NLB will, based on the obtained permission of the European Central Bank, redeem its subordinated notes in the aggregate nominal amount of EUR 45 million, issued on 6 May 2019 and with maturity on 6 May 2029 (ISIN code SI0022103855), before their maturity. Pursuant to the terms and condition of the notes the early repayment of principal and accrued and unpaid interest will be made on the fifth anniversary from the issuance, being 6 May 2024.

NLB Group Directory

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Antonio Argir, Responsible for Group governance, payments and innovations
Peter Andreas Burkhardt, CRO
Archibald Kremser, CFO
Andrej Lasič, CMO (responsible for Corporate and Investment Banking)
Hedvika Usenik, CMO (responsible for Retail Banking and Private Banking)

Slovenian network

Area Branch Ljubljana
Trg republike 2
1000 Ljubljana, Slovenia

Area Branch Northwest and Central Slovenia
Ljubljanska cesta 62
1230 Domžale, Slovenia

Area Branch East Slovenia
Titova cesta 2
2000 Maribor, Slovenia

Area Branch Northeast Slovenia
Rudarska cesta 3
3320 Velenje, Slovenia

Area Branch Southeast Slovenia
Seidlova cesta 3
8000 Novo mesto, Slovenia

Area Branch Southwest Slovenia
Cesta Zore Perello - Godina 7
6000 Koper, Slovenia

Private Banking
Trg republike 2
1000 Ljubljana, Slovenia

Micro Enterprises
Trg republike 2
1000 Ljubljana, Slovenia

Mobile banking
Trg republike 2
1000 Ljubljana, Slovenia

Small and Mid-corporates

Central region
Trg republike 2
1000 Ljubljana, Slovenia

Northwest region
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1230 Domžale, Slovenia

Primorsko-Goriška region
Cesta Zore Perello - Godina 7
6000 Koper, Slovenia

Podravsko-Pomurska region
Titova cesta 2
2000 Maribor, Slovenia

Savinjsko-Koroška region
Kocenova 1
3000 Celje, Slovenia

Dolenjsko-Posavska region
Seidlova cesta 3
8000 Novo mesto, Slovenia

CSA & Cross-Border Financing

Trg republike 2
1000 Ljubljana, Slovenia

Large corporates

Institutional Investors
Trg republike 2
1000 Ljubljana, Slovenia

Large Corporates
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Investment Banking and Custody

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Trade Finance Services

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13 Mirsad Haskaj was appointed as Member of the Management Board as of 1 January 2024 and Ardian Hasa as of 1 February 2024.

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Definitions and Glossary of Selected Terms

AC	Amortised Costs
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
ALMM	Additional Liquidity Monitoring Metrics
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
AT1	Additional Tier 1 capital
AuM	Assets under Management
B2C	Business-to-Consumer
BCA	Baseline Credit Assessment
BCM	Business Continuity Management
BIA	Business Impact Analysis
BiH	Bosnia and Herzegovina
BMR	Benchmarks Regulation
BoS	Bank of Slovenia
bps	Basis Points
BPV	Basis Point Value
CB	Central Bank
CBR	Combined Buffer Requirement
CEE	Central Eastern Europe
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 capital
CFO	Chief Financial Officer
CGU	Cash-Generating Units
CIR	Cost-to-Income Ratio
CISO	Chief Information Security Officer
CMO	Chief Marketing Officer
CoR	Cost of Risk
CRD	Capital Requirements Directive
CRE	Commercial Real Estate
CRM	Customer Relationship Management
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CSD	Central Security Depository
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainable Reporting Directive
CVA	Credit Value Adjustments
DGS	Deposit Guarantee Scheme
DTA	Deferred Tax Asset
DWH	Data Warehouse
EAD	Exposure at Default
EaR	Earnings at Risk
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECL	Expected Credit Losses
ECRA	Enterprise Compliance Risk Assessment
EEA	European Economic Area
EIB	European Investment Bank
EMIR	European Market Infrastructure Regulation
EPS	Earnings Per Share
ESEF	European Single Electronic Format
E&S	Environmental and Social
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System
EU	European Union
EVE	Economic Value of Equity
EWS	Early Warning System
FDI	Foreign Direct Investment
FTE	Full Time Equivalent
FTP	Fund Transfer Pricing
FURS	Financial Administration of the Republic of Slovenia
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GAR	Green Asset Ratio
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GDR	Global Depositary Receipts
GGB	Government Guaranteed Bonds
HHI	Herfindahl-Hirschman Index
HR	Human Resources
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICMA	International Capital Market Association
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based
IRRBB	Interest Rate Risks for Banking Book
IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association
IVS	International Valuation Standards
JST	Joint Supervisory Team
KB	Komercijalna Banka
KDD	Central Securities Clearing Corporation
KPI	Key Performance Indicator
KRI	Key Risk Indicators
LCP	Liquidity Contingency Plan
LCR	Liquidity Coverage Ratio
LECL	Lifetime Expected Credit Losses

LGD	Loss Given Default
LPD	Lifetime Probability of a Default
LRE	Leverage Ratio Exposure
LTD	Loan-to-Deposit Ratio
M&A	Mergers and Acquisitions
MA	Master Agreements
MAR	Market Abuse Regulation
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation Rules
MIGA	Multilateral Investment Guarantee Agency (part of the World Bank Group)
MREL	Minimum Requirement of Own Funds and Eligible Liabilities
MS	Mid-swap
NACE	Statistical Classification of Economic Activities in the European Community
NFC	Non-Financial Corporation
NGW	Negative Goodwill, i.e. Gains from Bargain Purchase
NLB or the Bank	NLB d.d.
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
NPS	Net Promoter Score
NPV	Net Present Value
NSFR	Net stable funding ratio
NZBA	Net-Zero Banking Alliance
OBM	Operational Business Margin
OCI	Other Comprehensive Income
OCR	Overall Capital Requirement
OEM	Original Exposure Method
O-SII	Other Systemically Important Institutions
OU	Organisational Units
p.p.	Percentage Point(s)
P1R	Pillar 1 Requirement
P2eM	Person to e-Merchant
P2G	Pillar 2 Guidance
P2M	Person to Merchant
P2P	Person to Person
P2R	Pillar 2 Requirements
PD	Probability of Default
PMI	Purchasing Managers' Index
POCI	Purchased or Originated Credit-Impaired
POS	Point of Sale
PSD2	Payments Services Directive
REAM	Real Estate Asset Management

RFR	Risk-Free Rates
RICO	Risk Committee
RICS	Royal Institution of Chartered Surveyors
ROA	Return on Assets
ROE	Return on Equity
RORAC	Return On Risk-Adjusted Capital
RoS	Republic of Slovenia
RSD	Serbian dinar
RWA	Risk Weighted Assets
SEE	South-Eastern Europe
SICR	Significant Increase of Credit Risk
SLA	Service Level Agreements
SME	Small and Medium-sized Enterprises
SPPI	Solely Payment of Principal and Interest
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SSM	Single Supervisory Mechanism
TCFD	Task force on Climate Related Financial Disclosures
TCR	Total Capital Ratio
TDI	Traded Debt Instruments
The Group	NLB Group
TLTRO	Targeted Longer-Term Refinancing Operations
TREA	Total Risk exposure Amount
TSCR	Total SREP Capital Requirement
UN	United Nations
UN SDG	United Nations Sustainable Development Goals
UNEP FI PRB	United Nations Environment Programme Finance Initiative's Principles for Responsible Banking
VaR	Value-at-Risk
VAT	Value Added Tax
ZBan-3	Slovenian Banking Act
ZGD-1	Companies Act
ZPIZ	Slovenian Pension and Disability Insurance Act
ZPPDFT-2	Prevention of Money Laundering and Terrorist Financing Act
ZPPDFT-2A	Act Amending the Prevention of Money Laundering and Terrorist Financing Act
ZTFI-1	Financial Instruments Market Act
ZVKNNLB	Slovenian Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana
ZVOP-2	Slovenian Personal Data Protection Act

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