Building on advantages of our homecourt

Pillar III Disclosures for the Q1 2024

Contents

1. Key highlights

(Article 447 of CRR)

Table 1 – EU KM Key metrics template of NLB Group

		31.03.2024	31.12.2023	30.09.2023	30.06.2023	31.03.2023
		a	b	c	d	e
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	2,519,491	2,509,911	2,192,893	2,181,381	2,166,912
2	Tier 1 capital	2,607,376	2,597,818	2,280,566	2,269,153	2,254,574
3	Total capital	3,199,406	3,109,207	2,791,407	2,780,111	2,765,244
	Risk-weighted exposure amounts					
4	Total risk exposure amount (TREA)	15,427,769	15,337,162	14,919,023	14,838,352	14,622,299
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio	16.33%	16.36%	14.70%	14.70%	14.82%
6	Tier 1 ratio	16.90%	16.94%	15.29%	15.29%	15.42%
7	Total capital ratio	20.74%	20.27%	18.71%	18.74%	18.91%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.12%	2.40%	2.40%	2.40%	2.40%
EU 7b	of which: to be made up of CET1 capital	1.19%	1.35%	1.35%	1.35%	1.35%
EU 7c	of which: to be made up of Tier 1 capital	1.59%	1.80%	1.80%	1.80%	1.80%
EU 7d	Total SREP own funds requirements	10.12%	10.40%	10.40%	10.40%	10.40%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50%	2.50%	2.50%	2.50%	2.50%
9	Institution specific countercyclical capital buffer	0.26%	0.26%	0.01%	0.01%	0.00%
EU 9a	Systemic risk buffer	0.10%	0.10%	0.10%	0.10%	0.10%
EU 10a	Other Systemically Important Institution buffer	1.25%	1.25%	1.25%	1.25%	1.25%
11	Combined buffer requirement	4.11%	4.11%	3.86%	3.86%	3.85%
EU 11a	Overall capital requirements	14.23%	14.51%	14.26%	14.26%	14.25%
12	CET1 available after meeting the total SREP own funds requirements	1,101,679	1,075,886	797,964	793,995	799,727
	Leverage ratio					
13	Total exposure measure	27,028,794	26,927,714	26,320,818	25,778,410	25,105,562
14	Leverage ratio	9.65%	9.65%	8.66%	8.80%	8.98%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Total SREP leverage ratio requirements	3.00%	3.00%	3.00%	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	3.00%	3.00%	3.00%	3.00%	3.00%
EU 14e	Overall leverage ratio requirement	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	6,700,372	6,428,200	6,174,159	5,916,414	5,774,965
EU 16a	Cash outflows - Total weighted value	3,277,825	3,211,716	3,162,936	3,128,451	3,099,033
EU 16b	Cash inflows - Total weighted value	536,504	513,754	503,623	505,154	500,673
16	Total net cash outflows	2,741,321	2,697,962	2,659,314	2,623,297	2,598,360
17	Liquidity coverage ratio	244.28%	238.17%	232.11%	225.52%	222.21%
	Net Stable Funding Ratio					
18	Total available stable funding	21,717,251	21,868,469	21,156,302	20,870,086	20,217,758
19	Total required stable funding	11,902,634	11,677,566	11,499,159	11,368,668	11,109,114
20	NSFR ratio	182.46%	187.27%	183.98%	183.58%	181.99%

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

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

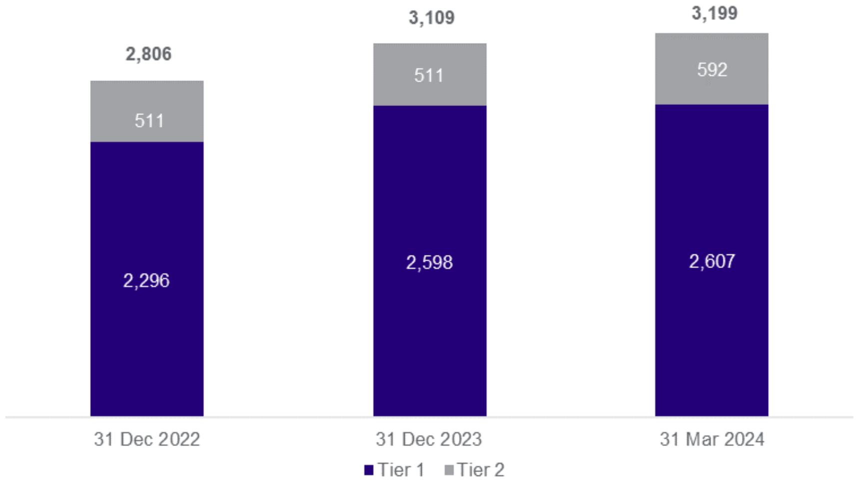


Figure 2: Total capital and capital ratio evolution YtD of NLB Group

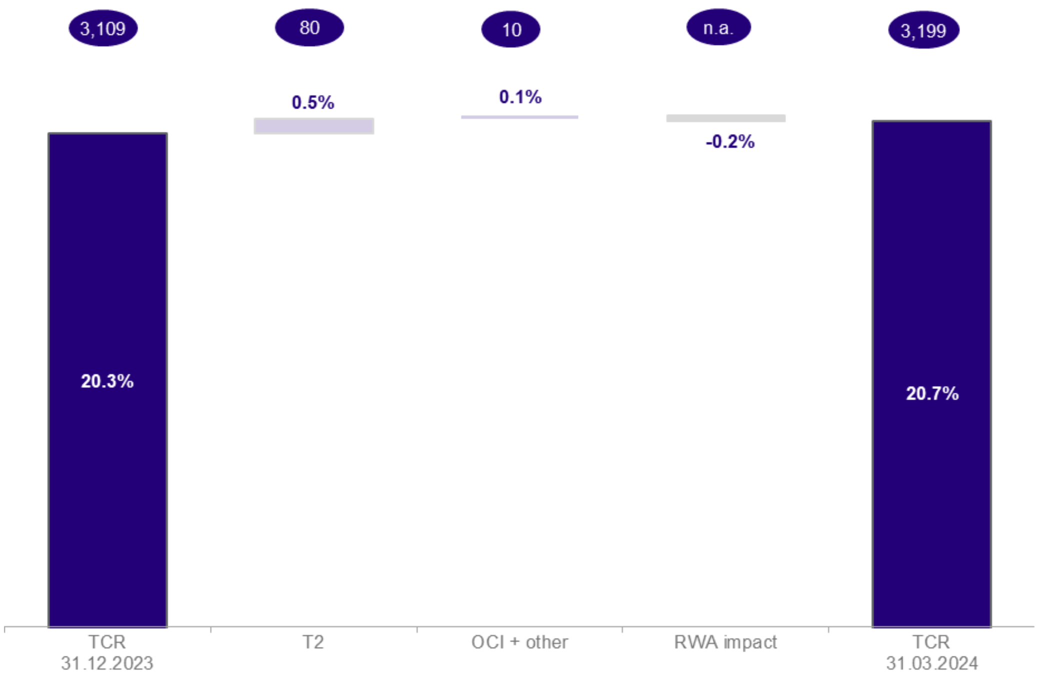
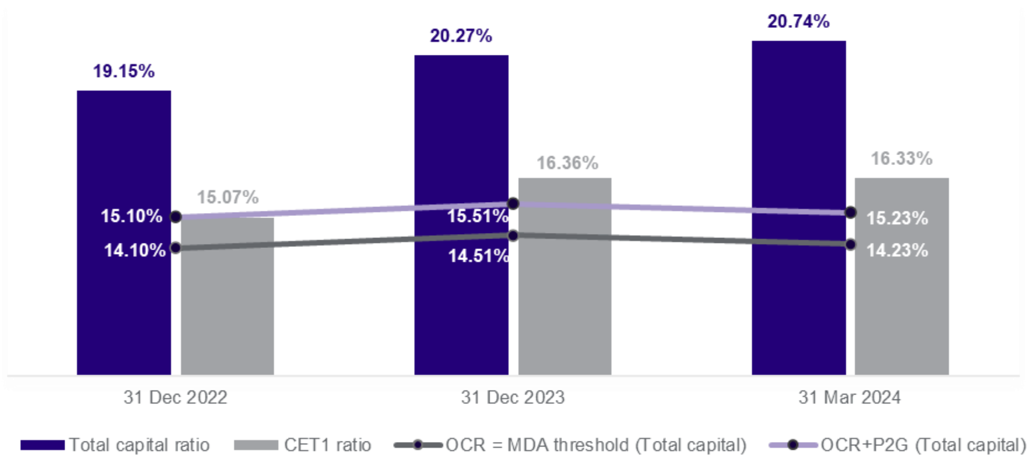


Figure 3: Capital ratios and regulatory thresholds (in %) of NLB Group



2. Introduction

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

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

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

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

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

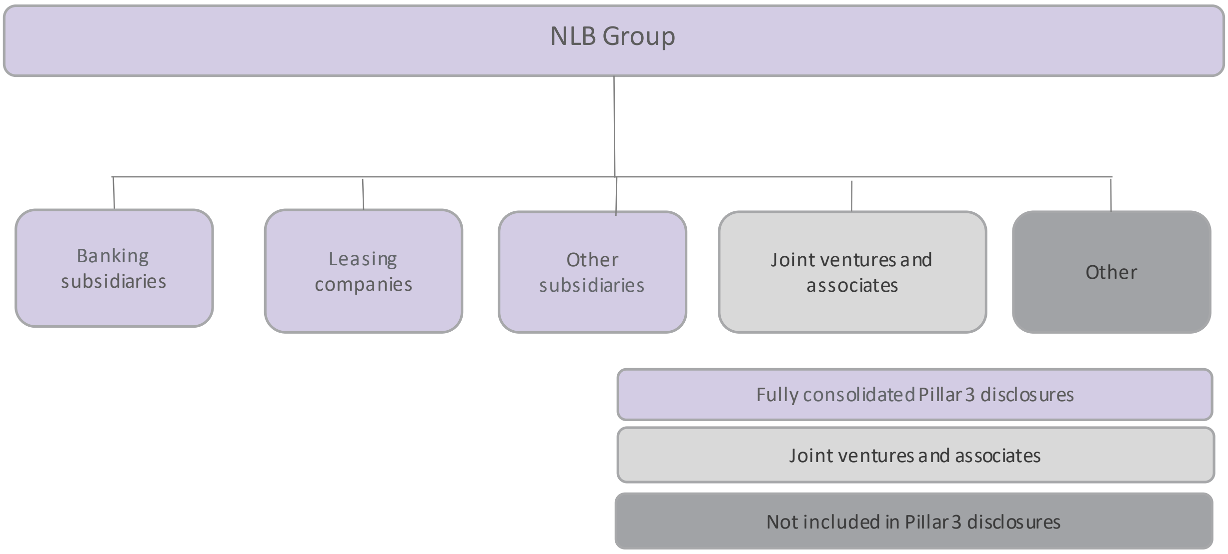
It should be noted that while some quantitative information in this document is based on financial data contained in the Q1 2024 NLB Group Interim Report, other quantitative data is sourced from the regulatory reporting (Finrep and Corep) and is calculated according to regulatory requirements. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the Q1 2024 NLB Group Interim Report.

3. Scope of application

(Articles 436 a, b, c, and d of CRR)

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

Figure 4: NLB Group scheme



The consolidation for *accounting purposes* comprises all:

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

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

The difference between accounting consolidation and regulatory consolidation as at 31 March 2024 represents:

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

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

4. Capital and capital requirements

4.1. Capital adequacy

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

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

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

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

Table 2 – Capital requirements and buffers of NLB Group

		2024	2023	2022
Pillar 1 (P1R)	CET1	4.5%	4.5%	4.5%
	AT1	1.5%	1.5%	1.5%
	T2	2.0%	2.0%	2.0%
Pillar 2 (SREP req. - P2R)	CET1	1.19%	1.35%	1.46%
	Tier 1	1.59%	1.80%	1.95%
	Total Capital	2.12%	2.40%	2.60%
Total SREP Capital requirement (TSCR)	CET1	5.69%	5.85%	5.96%
	Tier 1	7.59%	7.80%	7.95%
	Total Capital	10.12%	10.40%	10.60%
Combined buffer requirement (CBR)				
Capital conservation buffer	CET1	2.50%	2.50%	2.5%
O-SII buffer	CET1	1.25%	1.25%	1.0%
Systemic risk buffer	CET1	0.10%	0.10%	0.0%
Countercyclical buffer	CET1	0.26%	0.26%	0.0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.80%	9.96%	9.46%
	Tier 1	11.70%	11.91%	11.45%
	Total Capital	14.23%	14.51%	14.10%
Pillar 2 Guidance (P2G)	CET1	1.0%	1.0%	1.0%
OCR + P2G	CET1	10.80%	10.96%	10.46%
	Tier 1	12.70%	12.91%	12.45%
	Total Capital	15.23%	15.51%	15.10%

As at the end of March 2024, the Bank's Overall Capital Requirement (OCR) on a consolidated basis was 14.23%, which is lower than at the end of year 2023. This requirement has two components:

- The Total SREP Capital Requirement (TSCR) is 10.12%, which includes 8.00% Pillar 1 and 2.12% Pillar 2 Requirements. As at 1 January 2024, the Pillar 2 Requirement decreased by 0.28 p.p. to 2.12% 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[1] and a 0.10% Systemic risk buffer.[2]

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

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

As at 31 March 2024, the total capital ratio (TCR) for the Group stood at 20.7% (or 0.5% p.p. increase compared to the end of 2023) and the CET1 ratio for the Group stood at 16.3%, being well above requirements. The higher total capital adequacy derives from higher capital (EUR 90.2 million compared to the end of 2023), which compensated for the increase of the RWA (EUR 90.6 million compared to the end of 2023). The Group increased its capital mainly with an increased volume of T2 instruments (EUR 80.4 million) and EUR 12.7 million in revaluation adjustments.

The total capital does not include a part of the 2023 result in the amount of EUR 220 million, which is envisaged to be paid as the dividend in 2024. Therefore, there will be no effect on the capital once the dividends are paid.

The drivers behind the differences between the RWAs in Q1 2024 are explained in Chapter 4.2 Risk weighted exposure amounts in the Table 4 – EU OV1 – Overview of risk weighted exposure amounts of NLB Group.

[1] The BoS 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.
[2] Starting from 1 January 2023, the BoS has made it mandatory for banks to maintain a systemic risk buffer 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.

Table 3 – Capital adequacy of NLB Group:

	31.03.2024	31.12.2023
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	1,560,778	1,235,363
Current result	-	327,398
Accumulated other comprehensive income	(62,940)	(75,662)
Other reserves	13,522	13,522
Minority interest	29,009	28,798
Prudential filters: Additional Valuation Adjustments (AVA)	(2,610)	(2,295)
(-) Goodwill	(3,529)	(3,529)
(-) Other intangible assets	(37,436)	(37,153)
(-) Deferred tax assets	(45,977)	(47,002)
(-) Insufficient coverage for non-performing exposures	(1,981)	(907)
(-) Deduction item related to credit impairments and provisions not included in capital	(723)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,519,491**	**2,509,911**
Capital instruments eligible as AT1 Capital	82,000	82,000
Minority interest	5,885	5,907
Additional Tier 1 capital	**87,885**	**87,907**
TIER 1 CAPITAL	**2,607,376**	**2,597,818**
Capital instruments and subordinated loans eligible as T2 capital	587,916	507,516
Minority interest	4,114	3,874
Tier 2 capital	**592,030**	**511,390**
TOTAL CAPITAL	**3,199,406**	**3,109,208**
Risk exposure amount for credit risk	12,255,328	12,168,121
Risk exposure amount for market risks	1,448,450	1,447,713
Risk exposure amount for CVA	16,863	14,200
Risk exposure amount for operational risk	1,707,128	1,707,128
TOTAL RISK EXPOSURE AMOUNT (RWA)	**15,427,769**	**15,337,162**
Common Equity Tier 1 Ratio	16.33%	16.36%
Tier 1 Ratio	16.90%	16.94%
Total Capital Ratio	**20.74%**	**20.27%**

4.2. Risk weighted exposure

(Article 438 d and h of CRR)

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

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

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

Table 4 shows the detailed composition of the risk weighted exposure amounts of the Group at the end of Q1 2024, and at the end of 2023; as well as composition of own fund (capital) requirements at the end of Q1 2024.

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

		Total risk exposure amounts (TREA)		Total own funds requirement
		31.03.2024	31.12.2023	31.03.2024
		a	b	c
1	**Credit risk (excluding CCR)**	**12,006,791**	**11,942,285**	**960,543**
2	of which the standardised approach	12,006,791	11,942,285	960,543
6	**Counterparty credit risk - CCR**	**50,650**	**47,981**	**4,052**
7	of which the standardised approach	33,787	33,781	2,703
EU 8b	of which credit valuation adjustment - CVA	16,863	14,200	1,349
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,448,450**	**1,447,713**	**115,876**
21	of which the standardised approach	1,448,450	1,447,713	115,876
23	**Operational risk**	**1,707,128**	**1,707,128**	**136,570**
EU 23a	of which basic indicator approach	1,707,128	1,707,128	136,570
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**214,750**	**192,055**	**17,180**
29	**Total**	**15,427,769**	**15,337,162**	**1,234,222**

In the first three months of 2024, the RWA of the Group for credit risk (lines 2, 7, and 24 in Table 4) increased by EUR 87.2 million due to lending activity, which was more predominant in the retail segment. New production at corporates was partially offset by repayments provided by corporate clients in the Bank. Additionally, RWA for high-risk exposures increased due to new project financing loans given, mostly in the Bank and NLB Komercijalna banka, Beograd, and withdrawals of project finance loans approved in the previous periods. However, RWA for liquidity assets decreased mainly in NLB Komercijalna Banka, Beograd due to the maturity of some Serbian bonds and the lower amount denominated in EUR placed at the settlement account of the central bank. The RWA was also reduced due to lower exposure to the central bank in Kosovo and the maturity of Kosovo bonds, bonds of Republika Srpska and Uzbekistan bonds. This reduction was partially offset by higher RWA for equity exposures from purchasing subordinated bank bonds.

The increase in the Group's RWAs for market risks and Credit Value Adjustments (CVA) (lines EU 8b and 21 in Table 4) in the amount of EUR 3.4 million compared to the end of 2023 was the result of higher RWA for FX risk of EUR 5.5 million (mainly the result of more opened positions in domestic currencies of non-euro subsidiary banks), higher RWA for CVA risk of EUR 2.6 million, and lower RWA for Traded Debt Instruments risk of EUR 4.8 million (due to closed net positions from IRS).

4.3. 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

During 2023, subdued economic growth or its gradual slowdown was experienced due to rising inflation, high interest rates, weaker external demand, and increased macroeconomic uncertainty. In 2024, the growth in the Group's region is expected to remain at a rather moderate level, though relatively high inflationary pressures and other uncertainties could suggest a further slowdown, affecting investment growth and private consumption.

Credit risk usually increases considerably in the times of an economic slowdown. The Group has thoroughly analysed and adjusted the potential impact on the credit portfolio in the light of anticipated inflationary pressures and expected decreases in economic growth. The lending growth in the corporate and retail segments is expected to remain relatively moderate, especially under current circumstances. Regarding the credit portfolio quality, the Group carefully monitors the potentially most affected segments to detect any significant increase in credit risk at a very early stage. The aforementioned adverse developments and geopolitical uncertainties 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. Given that market interest rates in 2024 are expected to decrease, the Group is focusing on stabilising net interest income and reducing its sensitivity. 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 sovereign, 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.

A 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 the case law that is generally becoming more favourable to consumers, e.g. litigation cases related to loan processing fee in Serbia and Montenegro, 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 the latest developments.

The Group is subject to various regulations and laws relating to banking, insurance, and financial services. Consequently, it faces the risk of significant interventions by several regulatory and enforcement authorities in each jurisdiction in which it operates, including any changes in the tax treatment of banking business (e.g. application of VAT on card payment services in Bosnia and Herzegovina) and changes in interpretation of legislation (e.g. introduction of reimbursement of a proportional part of loan costs in the event of early repayment of consumer loans in Slovenia). A comparable materialisation level of such risks may also be expected in future periods.

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 regional instability or economic deterioration.

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 accurately reflect the current circumstances and their future impacts. 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 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. A 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 the 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 IFRS 9.

On this basis, the Group revised scenario weights in H1 2023. The weights that were assigned were 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. A 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.

4.4. CRR 'Quick Fix'

The European Commission published on 26 June 2020 an amendment of two regulations:

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

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

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

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

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

The Group implemented:

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

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

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

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

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

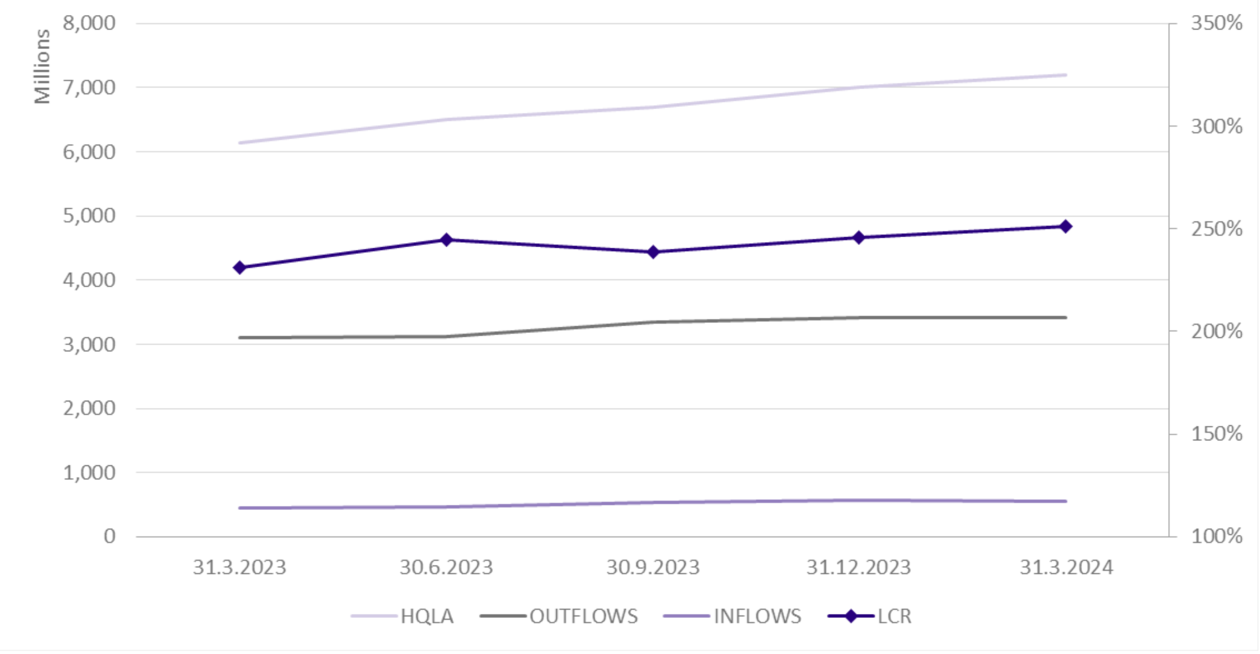
5. Liquidity

(Article 451a (2) of CRR)

Liquidity coverage ratio

The Group holds a very strong liquidity position at the Group (and individual subsidiary bank) level, which is well above the risk appetite. In Q1 2024, the LCR of the Group ranged between 222% and 257% (251% as of 31 March 2024). The surplus of HQLA is at a very high level in the Group, ranging between EUR 3.27 billion and EUR 4.40 billion in the past year (EUR 4.33 billion as of 31 March 2024).

Figure 5: Movement of LCR and inputs to LCR calculation of NLB Group



In the second quarter of 2023, a slightly increasing trend was observed (the largest increase was marked in Withdrawable CB reserves due to the issuance of green senior preferred bonds in the Bank in June 2023). The stabilised trend was observed in the second half of 2023. In the first quarter of 2024, the increasing trend is primarily driven by a higher amount of liquidity buffer, stemming from an increase in central government assets. Additionally, there was also an increase in inflows, mostly from financial customers, while outflows decreased mainly due to lower corporate deposits.

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

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

Figure 6: LCR: Structure of HQLA (in %) of NLB Group

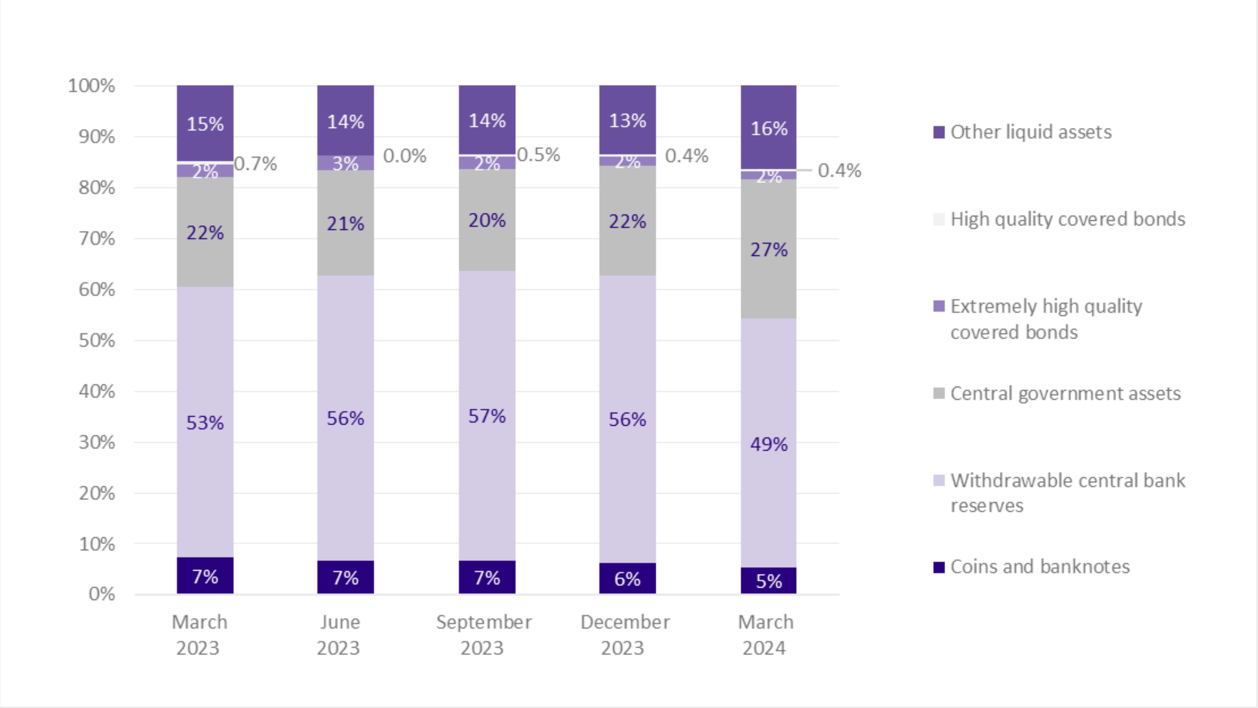


Figure 7: LCR: structure of outflows (in %) of NLB Group

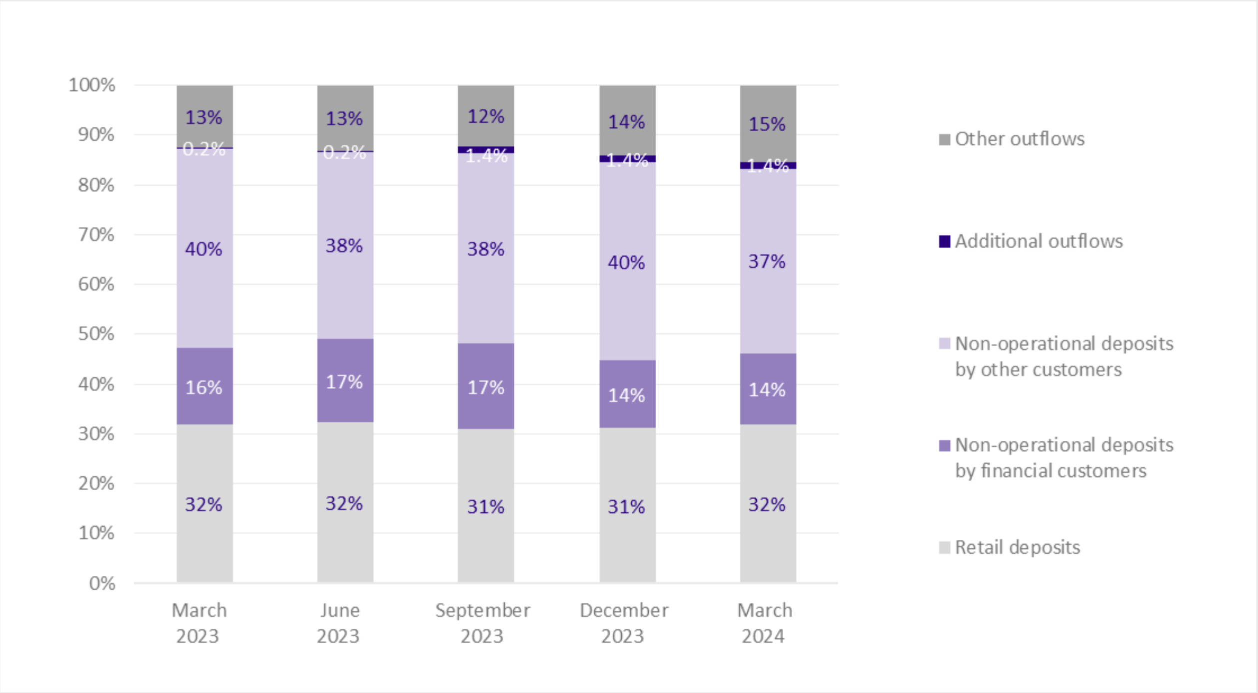
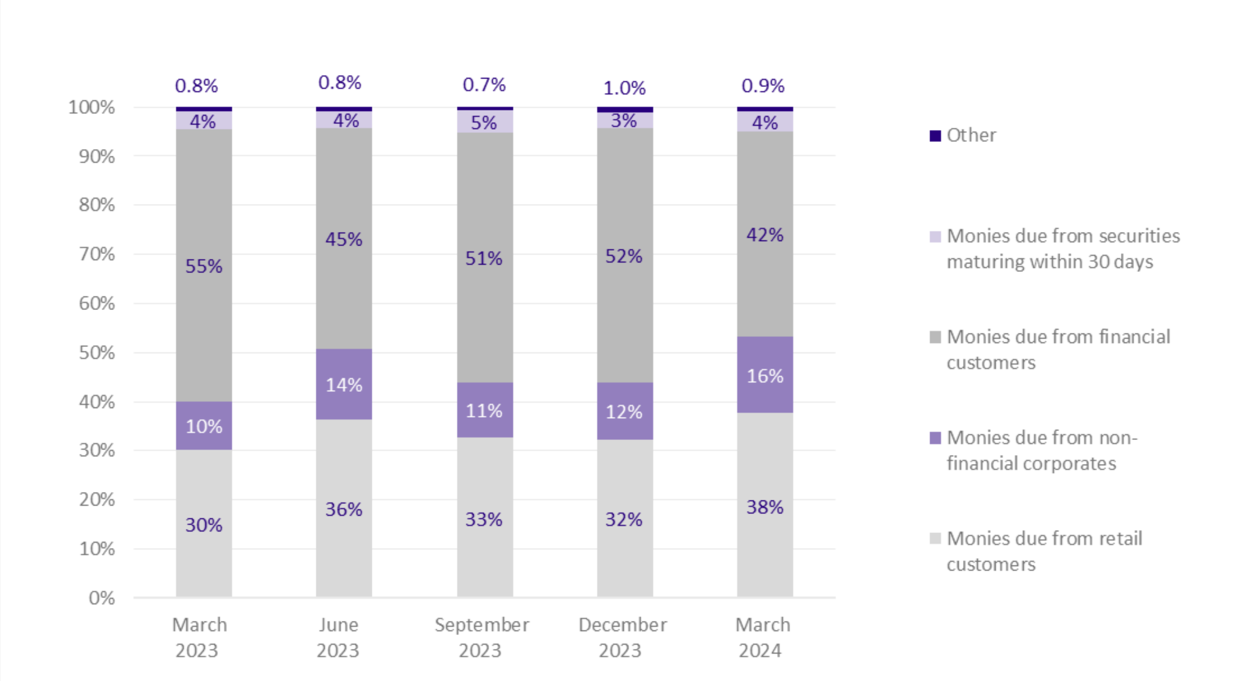


Figure 8: LCR: structure of inflows (in %) of NLB Group



Concentration of funding and liquidity sources

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

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

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

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

On the Group level, at the end of March 2024, the top 30 counterparties provided 3.2% of the total liabilities, while the top 30 counterparties in the Bank provided 3.5% of the total liabilities.

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

Table 5 – LIQ1 – Quantitative information of LCR of NLB Group (in EUR millions)

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	**Quarter ending on**	**31.03.2024**	**31.12.2023**	**30.09.2023**	**30.06.2023**	**31.03.2024**	**31.12.2023**	**30.09.2023**	**30.06.2023**
		a	b	c	d	e	f	g	h
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)					6,700	6,428	6,174	5,916
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	16,357	16,165	15,982	15,806	1,040	1,014	992	973
3	*Stable deposits*	12,002	11,922	11,857	11,762	600	596	593	588
4	*Less stable deposits*	3,673	3,507	3,378	3,275	440	418	400	385
5	Unsecured wholesale funding	3,717	3,679	3,645	3,599	1,787	1,769	1,756	1,745
7	*Non-operational deposits (all counterparties)*	3,713	3,675	3,643	3,597	1,783	1,764	1,754	1,743
8	*Unsecured debt*	4	4	2	2	4	4	2	2
10	Additional requirements	2,294	2,332	2,342	2,322	215	209	201	198
11	*Outflows related to derivative exposures and other collateral requirements*	30	20	10	7	30	20	10	7
13	*Credit and liquidity facilities*	2,264	2,312	2,332	2,315	185	189	191	191
14	Other contractual funding obligations	237	224	223	231	143	130	125	125
15	Other contingent funding obligations	1,623	1,584	1,553	1,527	93	90	89	87
16	**TOTAL CASH OUTFLOWS**					**3,278**	**3,212**	**3,163**	**3,128**
Cash-inflows									
18	Inflows from fully performing exposures	779	750	733	740	516	493	483	488
19	Other cash inflows	20	21	21	17	20	21	21	17
20	**TOTAL CASH INFLOWS**	**799**	**770**	**754**	**757**	**537**	**514**	**504**	**505**
EU-20c	***Inflows subject to 75% cap***	**799**	**770**	**754**	**757**	**537**	**514**	**504**	**505**
Total adjusted value									
21	**LIQUIDITY BUFFER**					**6,700**	**6,428**	**6,174**	**5,916**
22	**TOTAL NET CASH OUTFLOWS**					**2,741**	**2,698**	**2,659**	**2,623**
23	**LIQUIDITY COVERAGE RATIO**					**244.28%**	**238.17%**	**232.11%**	**225.52%**

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

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

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

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

In the Group, there are no currency mismatches in the LCR. The LCR indicator is fulfilled in all currencies because the Group has enough liquidity reserves in all currencies where the outflows might happen. The most significant currency of the Group is euro currency. Additionally, the Group reports LCR in a second significant currency, which is in Serbian dinar (RSD). As at 31 March 2024, the aggregate liabilities in RSD represented 6.4% of total liabilities of the Group, therefore, RSD qualified as a significant currency.

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

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

6. Appendices

6.1. Appendix 1

List of all disclosures required under Part 8 of CRR

Article	Chapter	Page
438 d)	4.2	9
h)	/	/
447	1	3
451a (2)	5	14

6.2. Appendix 2

Abbreviations

ALCO	Asset and Liability Committee
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
BoS	Bank of Slovenia
CB	Central Bank
CBR	Combined buffer requirement
CCR	Counterparty credit risk
CET1	Common equity tier 1 capital
COVID	Coronavirus Disease
CRD	Capital Requirements Directive
CRD V	Capital Requirements Directive and Regulation
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Losses
EMIR	European Market Infrastructure Regulation
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
HQLA	High-quality liquid assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ISDA	International Swaps and Derivatives Association
LCR	Liquidity coverage ratio
LEI	Legal Entity Identifier
MDA	Maximum Distributable Amount
NPL	Non Performing Loans
NSFR	Net Stable Funding Ratio
OCI	Other comprehensive income
OCR	Overall capital requirement
O-SII	Other systemically important institutions
P2G	Pillar 2 Guidance
P1R	Pillar 1 Requirement
P2R	Pillar 2 Requirement
RWA	Risk-weighted assets
RWEA	Risk weighted exposure amount
SEE	Southeast Europe
SME	Small Medium Enterprise
SREP	Supervisory Review and Evaluation Process
T2	Tier 2 (capital)
TCR	Total Capital ratio
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement