Here We are a Part of Something Bigger

Pillar III Disclosures for the Q1 2025

Contents

1. Key highlights

(Article 447 of CRR)

Table 1 – EU KM Key metrics template of NLB Group

		31.03.2025	31.12.2024	30.09.2024	30.06.2024	31.03.2024
		a	b	c	d	e
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	2,788,768	2,785,818	2,535,289	2,523,241	2,519,491
2	Tier 1 capital	2,874,602	2,872,352	2,621,311	2,611,129	2,607,376
3	Total capital	3,402,000	3,411,258	3,168,726	3,158,473	3,199,406
	Risk-weighted exposure amounts					
4	Total risk exposure amount	18,099,747	18,216,105	17,064,027	16,017,152	15,427,769
4a	Total risk exposure pre-floor	18,099,747	-	-	-	-
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	15.41%	15.29%	14.86%	15.75%	16.33%
5b	Common Equity Tier 1 ratio considering unfloored TREA (%)	15.41%	0.00%	0.00%	0.00%	0.00%
6	Tier 1 ratio (%)	15.88%	15.77%	15.36%	16.30%	16.90%
6b	Tier 1 ratio considering unfloored TREA (%)	15.88%	0.00%	0.00%	0.00%	0.00%
7	Total capital ratio (%)	18.80%	18.73%	18.57%	19.72%	20.74%
7b	Total capital ratio considering unfloored TREA (%)	18.80%	0.00%	0.00%	0.00%	0.00%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7d	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.12%	2.12%	2.12%	2.12%	2.12%
EU 7e	of which: to be made up of CET1 capital (percentage points)	1.19%	1.19%	1.19%	1.19%	1.19%
EU 7f	of which: to be made up of Tier 1 capital (percentage points)	1.59%	1.59%	1.59%	1.59%	1.59%
EU 7g	Total SREP own funds requirements (%)	10.12%	10.12%	10.12%	10.12%	10.12%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.76%	0.52%	0.36%	0.26%	0.26%
EU 9a	Systemic risk buffer (%)	0.08%	0.11%	0.11%	0.10%	0.10%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	1.25%	1.25%	1.25%	1.25%	1.25%
11	Combined buffer requirement (%)	4.59%	4.38%	4.22%	4.11%	4.11%
EU 11a	Overall capital requirements (%)	14.71%	14.50%	14.34%	14.23%	14.23%
12	CET1 available after meeting the total SREP own funds requirements (%)	1,125,401	1,111,758	967,105	1,051,265	1,101,679
	Leverage ratio					
13	Total exposure measure	30,306,798	29,082,843	28,253,682	27,647,476	27,028,794
14	Leverage ratio (%)	9.49%	9.88%	9.28%	9.44%	9.65%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital	0.00%	0.00%	0.00%	0.00%	0.00%
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%

		31.03.2025	31.12.2024	30.09.2024	30.06.2024	31.03.2024
		a	b	c	d	e
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value-average)	6,584,777	6,792,546	6,997,399	6,953,811	6,700,372
EU 16a	Cash outflows - Total weighted value	3,414,235	3,376,826	3,334,902	3,308,277	3,277,825
EU 16b	Cash inflows - Total weighted value	480,040	492,233	511,010	524,616	536,504
16	Total net cash outflows (adjusted value)	2,934,196	2,884,593	2,823,892	2,783,661	2,741,321
17	Liquidity coverage ratio (%)	225.28%	236.32%	247.91%	249.82%	244.28%
	Net Stable Funding Ratio					
18	Total available stable funding	23,884,082	23,461,035	22,604,140	22,408,978	21,717,251
19	Total required stable funding	14,461,039	14,001,121	13,473,477	12,356,145	11,902,634
20	NSFR ratio (%)	165.16%	167.57%	167.77%	181.36%	182.46%

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

Figure 1: Total capital and capital ratio evolution YtD of NLB Group

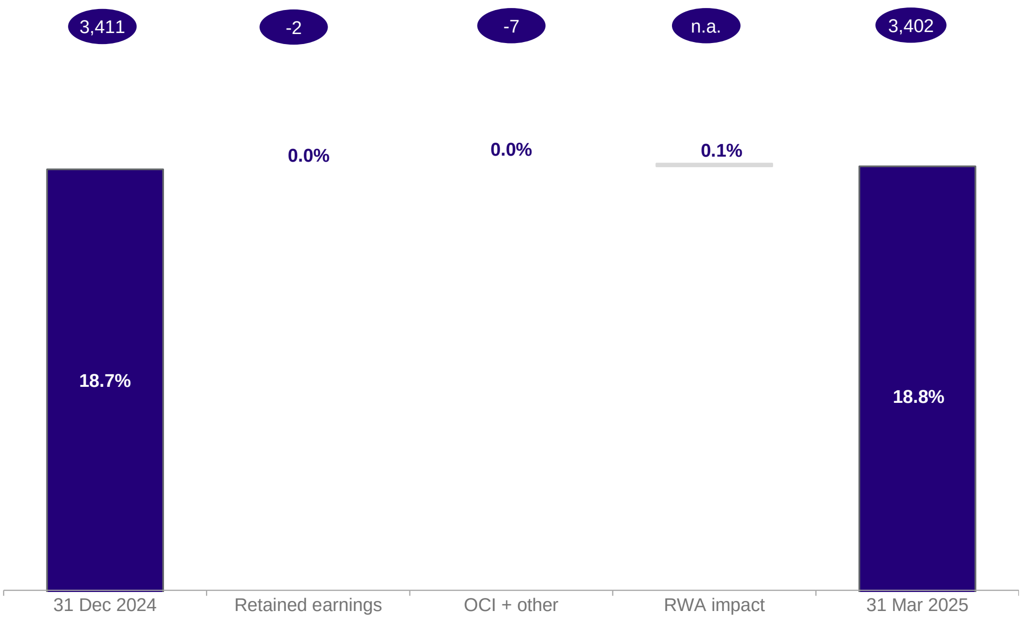
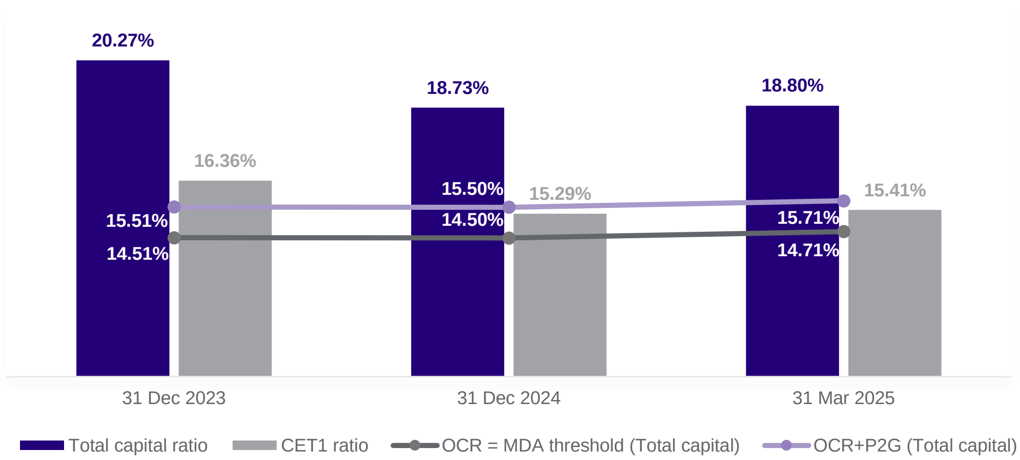


Figure 2: Capital ratios and regulatory thresholds (in %) of NLB Group



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 to 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.

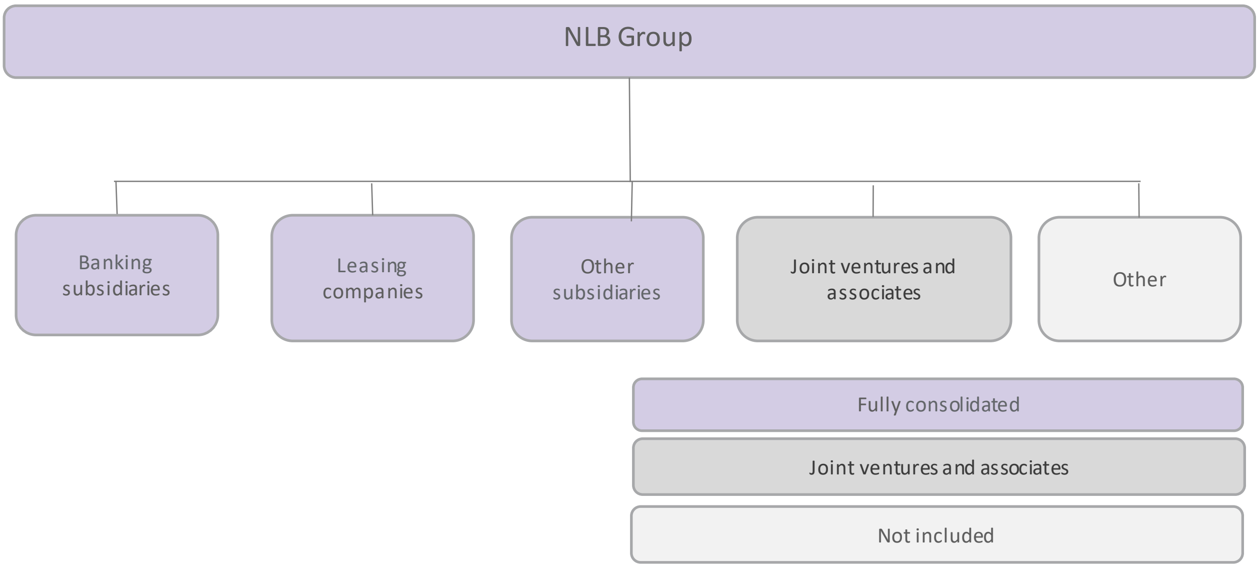
CRR3/CRD6 require the Group to disclose information at least on an annual basis. To ensure the effective communication of Group’s business and risk profile, the Group also pays particular attention to the possible need to provide information more frequently than annually. A separate Pillar 3 document is also published quarterly on NLB’s website Financial Reports (nlbgroup), following our Annual or Interim Reports for NLB Group disclosure.

It should be noted that while some quantitative information in this document is based on financial data contained in the Q1 2025 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 2025 NLB Group Interim Report.

3. Scope of application

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

Figure 3: NLB Group scheme



A significant subsidiary of the Group that exceeds 10% of the Group's RWA is NLB Komercijalna banka a.d. Beograd (hereafter: 'Komercijalna Banka, Beograd'). Detailed information is disclosed in their annual reports published on the website: https://www.nlbkb.rs/o-nama/finansijski-izvestaji.

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 2025 represents:

- the company operating in the area of other activities *NLB MUZA Zavod za upravljanje kulturne dediščine* (the Cultural Heritage Management Institute),
- the IT services company *NLB DigIT*, *Beograd*, and
- the non-financial company for digital business *NLB Car&Go*, Ljubljana,

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 – CRR3/CRD6, 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): a 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 the capital requirement but triggers limitations in payment of dividends and other distributions from the 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: a capital recommendation set by the supervisory institution through the SREP process. It is bank-specific, set as a recommendation, which is 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 the preparation of a capital restoration plan).

Table 2 – Capital requirements and buffers of NLB Group

		2025	2024	2023
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%	1.19%	1.35%
	Tier 1	1.59%	1.59%	1.80%
	Total Capital	2.12%	2.12%	2.40%
Total SREP Capital requirement (TSCR)	CET1	5.69%	5.69%	5.85%
	Tier 1	7.59%	7.59%	7.80%
	Total Capital	10.12%	10.12%	10.40%
Capital conservation buffer	CET1	2.50%	2.50%	2.50%
O-SII buffer	CET1	1.25%	1.25%	1.25%
Systemic risk buffer	CET1	0.08%	0.11%	0.10%
Countercyclical buffer	CET1	0.76%	0.52%	0.26%
Combined buffer requirement (CBR)		4.59%	4.38%	4.11%
Overall capital requirement (OCR) = MDA threshold	CET1	10.28%	10.07%	9.96%
	Tier 1	12.18%	11.97%	11.91%
	Total Capital	14.71%	14.50%	14.51%
Pillar 2 Guidance (P2G)	CET1	1.00%	1.00%	1.00%
OCR + P2G	CET1	11.28%	11.07%	10.96%
	Tier 1	13.18%	12.97%	12.91%
	Total Capital	15.71%	15.50%	15.51%

As at the end of March 2025, the Group's Overall Capital Requirement (OCR) stood at 14.71%, representing an increase of 0.21 p.p. compared to the end of 2024. This rise is primarily attributable to a higher Combined Buffer Requirement due to an increase in the Countercyclical Buffer. The OCR comprises:

- The Total SREP Capital Requirement (TSCR) is 10.12%, which includes 8.00% Pillar 1 and 2.12% Pillar 2 Requirements.
- The second component is the Combined Buffer Requirement (CBR), which is 4.59%, and includes a 2.50% Capital Conservation Buffer, a 1.25% O-SII Buffer, a 0.76% Countercyclical Buffer, and a 0.08% Systemic risk buffer.

In addition to the above mandatory requirements, the regulator has recommended a Pillar 2 Guidance (P2G) at 1.0% of Common Equity Tier 1 (CET1). The Group maintains this buffer to ensure resilience under severe economic stress scenarios.

Effective as of 1 January 2025, there were some changes in the capital buffer rates for Slovenia. The countercyclical capital buffer rate for exposures in Slovenia increased from 0.5% to 1.0%. At the same time, the sectoral systemic risk buffer for retail exposures to private individuals secured by residential real estate decreased from 1.0% to 0.5%.

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

Table 3 – Capital adequacy of NLB Group:

	31.03.2025	31.12.2024
Paid up capital instruments	200,000	200,000
Share premium	871,378	871,378
Retained earnings	1,640,046	1,385,040
Current result	-	256,973
Accumulated other comprehensive income	(14,773)	(19,197)
Other reserves	186,332	186,332
Minority interest	38,410	38,480
Prudential filters: Additional Valuation Adjustments (AVA)	(2,908)	(2,606)
(-) Goodwill	(8,069)	(8,069)
(-) Other intangible assets	(63,440)	(65,420)
(-) Deferred tax assets	(50,591)	(51,667)
(-) Insufficient coverage for non-performing exposures	(5,340)	(5,426)
(-) Deduction item related to credit impairments and provisions not included in capital	(2,277)	-
COMMON EQUITY TIER 1 CAPITAL (CET1)	**2,788,768**	**2,785,818**
Capital instruments eligible as AT1 Capital	82,000	82,000
Minority interest	3,834	4,534
Additional Tier 1 capital	**85,834**	**86,534**
TIER 1 CAPITAL	**2,874,602**	**2,872,352**
Capital instruments and subordinated loans eligible as T2 capital	522,921	533,421
Minority interest	4,477	5,485
Tier 2 capital	**527,398**	**538,906**
TOTAL CAPITAL	**3,402,000**	**3,411,258**
Risk exposure amount for credit risk	14,903,114	14,508,398
Risk exposure amount for market risks	1,569,231	1,505,108
Risk exposure amount for CVA	22,087	16,613
Risk exposure amount for operational risk	1,605,315	2,185,986
TOTAL RISK EXPOSURE AMOUNT (RWA)	**18,099,747**	**18,216,105**
Common Equity Tier 1 Ratio	15.41%	15.29%
Tier 1 Ratio	15.88%	15.77%
Total Capital Ratio	**18.80%**	**18.73%**

As at 31 March 2025, the Group's TCR stood at 18.8% (a 0.1 p.p. increase YtD), while the CET1 ratio stood at 15.4%, remaining well above the regulatory requirements. The higher total capital adequacy resulted from a lower RWA of EUR 116.3 million YtD, although the capital decreased by EUR 9.3 million YtD. The decrease in capital was mainly due to a EUR 10.5 million reduction in T2 instruments.

The total capital does not include EUR 257.3 million of the 2024 result, which is envisaged to be paid out as a dividend in 2025. Therefore, there will be no effect on the capital once the dividends are paid.

The drivers behind the differences between the RWAs in Q1 2025 are explained in Chapter 4.2. Risk-weighted exposure in the Table 4 – EU OV1 – An Overview of Risk-weighted exposure amounts of NLB Group.

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 – simplified standardised approach,
- CVA risk – reduced basic approach (R-BA), and
- Operational risk – standardised 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 Group's risk-weighted exposure amounts at the end of March 2025, and December 2024, as well as its own fund (capital) requirements at the end of March 2025.

In the first three months of 2025, the Group's RWA for credit risk (lines 1, and 6 in Table 4) increased by EUR 394.7 million, driven by changes in EU regulatory rules effective from 1 January 2025 (approximately EUR +311.8 million) and portfolio development (approximately EUR +82.9 million).

The most significant RWA increase due to legislative changes was observed in off-balance sheet exposures, specifically, the undrawn part of credit limits and loans, where the credit conversion factor (CCF) was increased from 20% to 40%. In certain NLB Group subsidiary banks, the RWA increase stemmed from the introduction of a multiplier of 1.5 for FX transactions in the retail segment.

On the other hand, a reduction in RWA was recorded for high-risk exposures that were previously subject to a 150% risk weight under Capital Requirements Regulation 2 (CRR2). Under the new Capital Requirements Regulation 3 (CRR3), these exposures were reclassified into other categories (ADC, IPRE, SL, or the debtor category), enabling the application of more favourable risk weights. Further RWA reductions were achieved through lower risk weights for exposures secured by CRR-eligible residential real estate, the use of S&P corporate ratings, and internal credit ratings applied to unrated banks.

The Bank will report RWA for credit risk under CRR3 (Basel III) to the regulator for the first time as of 31 March 2025.

Portfolio growth in 2025 contributed to a rise in RWA, mainly in corporate and retail segments, where the majority of the loans are at least partially secured by real estate. However, this RWA increase was partially offset by the reduction in EUR-denominated assets at central banks in the region and the maturity of certain government bonds. A part of the liquidity surplus was redistributed into deposits with commercial banks, leading to only a minor RWA increase. Repayments, cures and additional provisions on the non-performing portfolio resulted in a slight RWA decrease.

The increase in RWAs for market risks and Credit Value Adjustments (CVA) by EUR 69.6 million (lines 10 and 20 in Table 4) during the first three months of 2025 was mainly driven by a higher RWA for FX risk, which rose by EUR 63.4 million (mainly due to an increase in open positions in domestic currencies held by non-euro subsidiary banks). RWA for CVA risk increased by EUR 5.5 million following the implementation of the new Basic (BA) risk method for its calculation.

With the entry into force of CRR3 on 1 January 2025, the Bank adopted the new standardised approach for calculating capital requirements for operational risk. This implementation resulted in a lower Business Indicator (BI) and Marginal Coefficient, reducing the Marginal Coefficient from 15% to 12% up to 1 bn BI. Consequently, there was a decrease of EUR 580.7 million in the Group Risk Exposure for Operational Risk (REA) in the first quarter of 2025. The calculation is primarily influenced by the Asset and the Financial Component. The most significant contributions to the capital requirements were from NLB d.d., Komercijalna Banka Beograd and NLB Banka Skopje. Additionally, the calculation takes into account data from M&A entities along with their three-year average.
This reduction reflects a more risk-sensitive methodology under the revised regulatory framework. The Bank will report its Own Funds Requirements for operational risk under CRR3 to the regulator for the first time as of 31 March 2025.

Table 4 – EU OV1 – An Overview of Risk-weighted exposure amounts of NLB Group

		Total risk exposure amounts (TREA)		Total own funds requirement
		31.03.2025	31.12.2024	31.03.2025
		a	b	c
1	Credit risk (excluding CCR)	14,880,533	14,472,920	1,190,443
2	Of which the standardised approach	14,880,533	14,472,920	1,190,443
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	22,581	35,478	1,806
7	Of which the standardised approach	22,581	35,478	1,806
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
9	Of which other CCR	-	-	-
10	Credit valuation adjustments risk - CVA risk	22,087	16,613	1,767
10a	Of which the standardised approach (SA)	-	16,613	-
10b	Of which the basic approach (F-BA and R-BA)	22,087		1,767
10c	Of which the simplified approach	-		-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	1,569,231	1,505,108	125,538
21	Of which the Alternative standardised approach (A-SA)	-	-	-
21a	Of which the Simplified standardised approach (S-SA)	1,569,231	1,505,108	125,538
22	Of which Alternative Internal Model Approach (A-IMA)	-	-	-
EU 22a	Large exposures	-	-	-
23	Reclassifications between the trading and non-trading books	-	-	-
24	Operational risk	1,605,315	2,185,986	128,425
24a	Exposures to crypto-assets	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	166,165	171,060	13,293
26	Output floor applied (%)	-	-	
27	Floor adjustment (before application of transitional cap)	-	-	
28	Floor adjustment (after application of transitional cap)	-	-	
29	**Total**	**18,099,747**	**18,216,105**	**1,447,980**

4.3. Risk factors

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

- 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

In 2024, the growth of the euro area economy stagnated, while other countries in NLB Group's region were growing faster, with household consumption being the main driving factor of growth. Wage growth remained elevated, impacting to reaccelerate inflation. Lending growth, which was modest in the previous year due to increasing interest rate trends, peaked. In 2025, the growth in the Group's region was expected to strengthen; however, heightened uncertainty keeps the growth subdued. Moreover, inflationary pressures, lower-than-expected GDP growth, geopolitical and other uncertainties could lead to a slowdown in private consumption and investment growth.

Credit risk usually increases considerably in times of an economic slowdown. At the end of Q1 2025, the Group's credit portfolio remained high-quality and well-diversified, with a stable rating structure and lower NPLs level. There was no large concentration in any selected industry sector. The latter is particularly important as geopolitical tensions, the green transition, and other macro developments could materially impact specific industry sectors. The Group monitors the macroeconomic and geopolitical circumstances closely and remains very prudent in identifying any increase in credit risk at a very early stage and proactive in NPL management.

Furthermore, unfavourable trends in the German automotive industry did not severely influence the Slovenian exportoriented industry. Considering that, the Bank downgraded some selected clients in Stage 2 and formed additional impairments. The aforementioned adverse developments, including geopolitical and other 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 that the corresponding impairments will 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. Investment activity continued with a balanced approach to finding attractive market opportunities while pursuing a well-managed credit spread, interest rate risk, and capital consumption. Geopolitical uncertainties impacted the volatility in the financial markets, particularly shifts in credit spreads, 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 cyberattacks 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 regard 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 fees and loan insurance premiums 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. 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 the banking business and changes in the interpretation of legislation. 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 Slovenia, 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.

In H1 2024, the Group regularly reviewed the IFRS 9 provisioning by testing the relevant macroeconomic scenarios to adequately 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 possible 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 decreasing inflation as energy-related impact on goods and services prices abate, a slightly less tight labour market, GDP growth supported by declining interest rates and strong private consumption due to real wage growth, resilient labour market and positive expectations, industry and export activity pick-up, and limited spillover effects of financial system issues / major trading partners growth slowdown on the real economy.

The alternative scenarios are based on plausible drivers of economic development for the next three years. The optimistic alternative scenario demonstrates supply-driven positive developments. Supply chains adapt swiftly and support an optimistic economic stance – keeping a lid on inflation pressures. Labour skill mismatches are addressed through targeted training programs. Automation and technology adoption create new job opportunities, offsetting any displacement. In the short-term, financing conditions ease, and business confidence rebounds. Consumer spending picks up, contributing to overall growth. The ECB considers both demand and supply factors when setting interest rates. In this scenario, the ECB maintains a dovish stance, easing aggressively until the inflation rebounds towards the ECB target.

The severe alternative scenario paints a picture of bleak economic developments, where supply constraints, geopolitical tensions, technological shifts, and labour market disruption hinder economic recovery. Moreover, high public debt diverts funds from productive investments. Policymakers must navigate these challenges to ensure stability and sustainable growth. This adverse scenario results in a prolonged global recession, with growth falling well below the levels needed to achieve sustainable development goals in the mid-term. The ECB carefully considers demand and supply factors when setting interest rates to prevent abrupt economic shifts.

The Bank considers these scenarios when calculating expected credit losses in the context of IFRS 9. On this basis, the Group revised scenario weights in H1 2024. The assigned weights were 20%–60%–20% (alternative scenarios receiving 20% each, and the baseline scenario 60%).

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, the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), and the Recovery Plan to determine how severe and unexpected changes in the business, geopolitical, and macro environments 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 measure's feasibility analysis, its impact on the Group's business model, and the strength of the available measure.

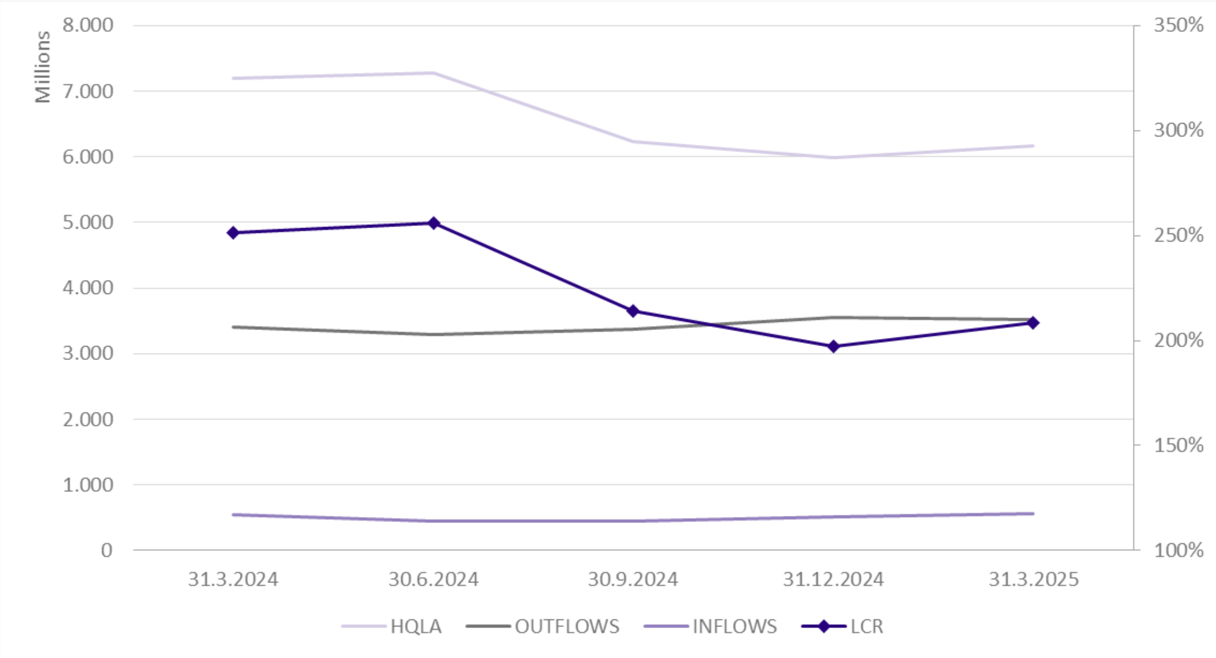
5. Liquidity

(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 the last twelve months (31 March 2024 – 31 March 2025), the LCR of the Group ranged between 196% and 265% (208% as of 31 March 2025). The surplus of HQLA is at a very high level in the Group, ranging between EUR 2.90 billion and EUR 4.56 billion in the past year (EUR 3.21 billion as at 31 March 2025).

Figure 4: Movement of LCR and inputs to LCR calculation of NLB Group



In the first half of 2024, a steady trend in the LCR for both the Group and the Bank has been observed, marked by a modest uptick, primarily due to the issuance of senior preferred notes in May 2024. However, towards the end of the second half of 2024, the ratio decreased, mostly attributed to the acquisition of Summit Leasing. However, in Q1 2025 slightly increasing trend is observed. Despite this, the Group maintains a high liquidity surplus, remaining comfortably above the set risk appetite.

Moreover, when calculating consolidated LCR (on the level of the Group) specific rules needs to be consider, whereby from each Group banking member only HQLA in the amount of its net liquidity outflows in the specific currency can be included in the calculation of consolidated LCR.

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

Figure 5: LCR: Structure of HQLA (in %) of NLB Group

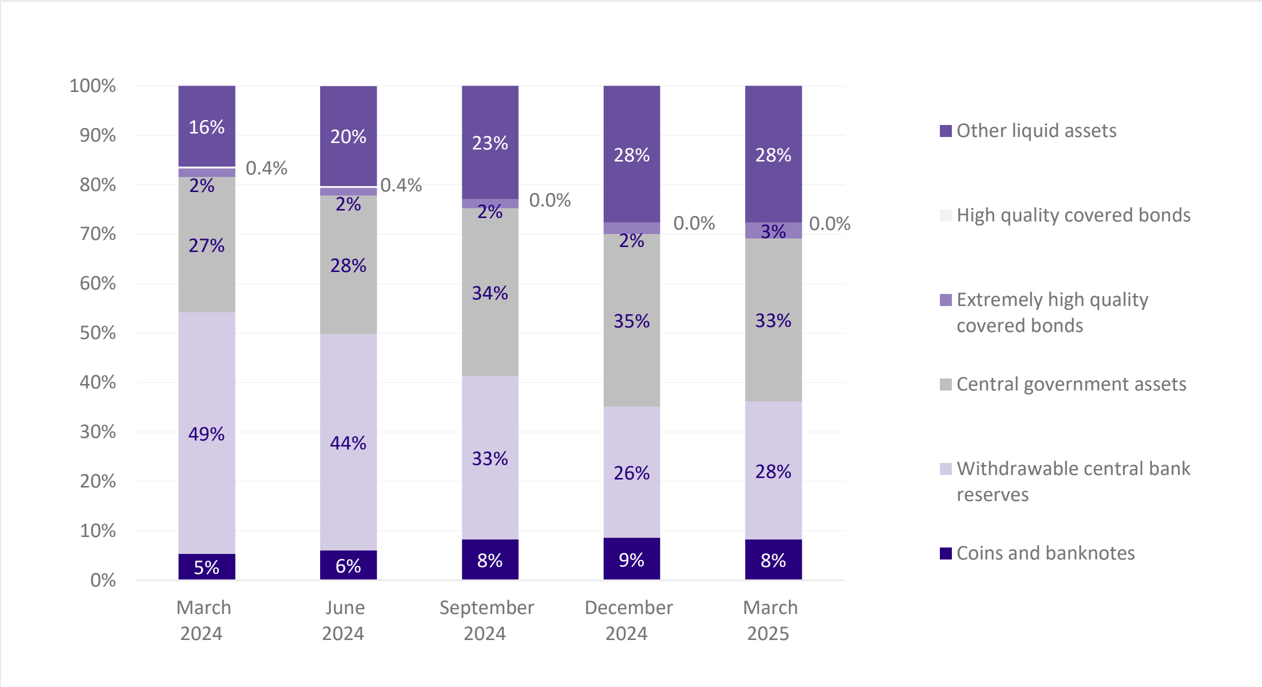


Figure 6: LCR: Structure of outflows (in %) of NLB Group

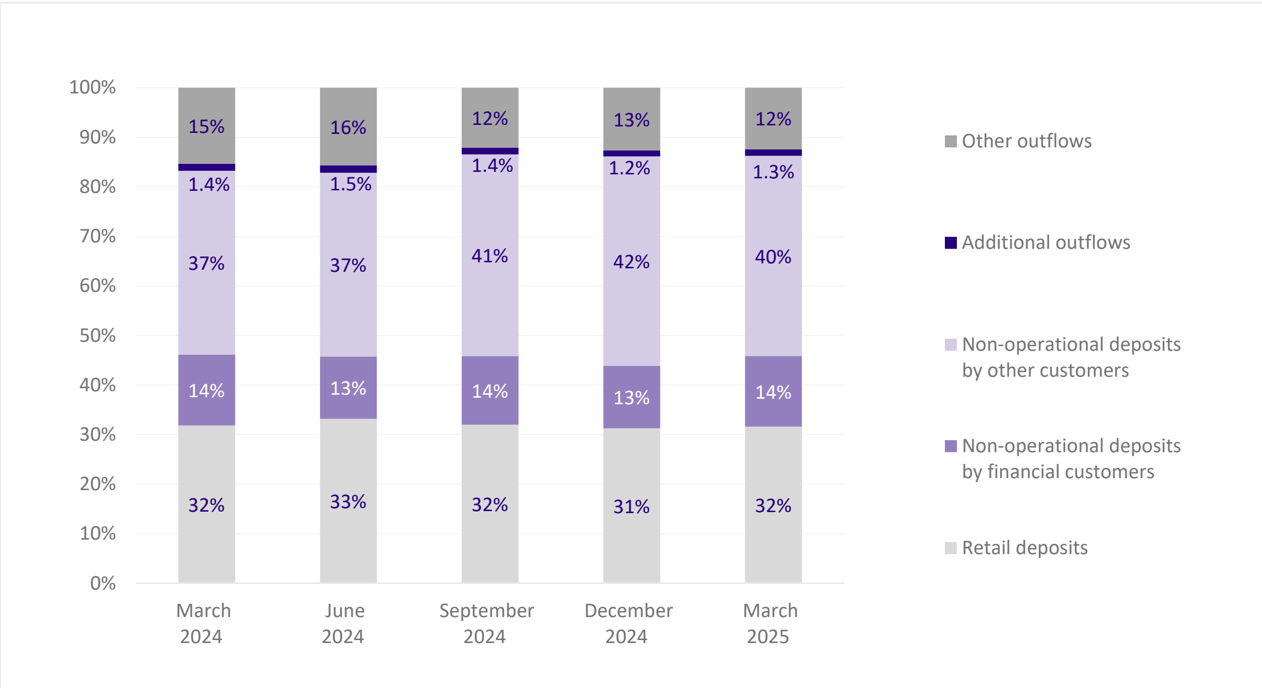
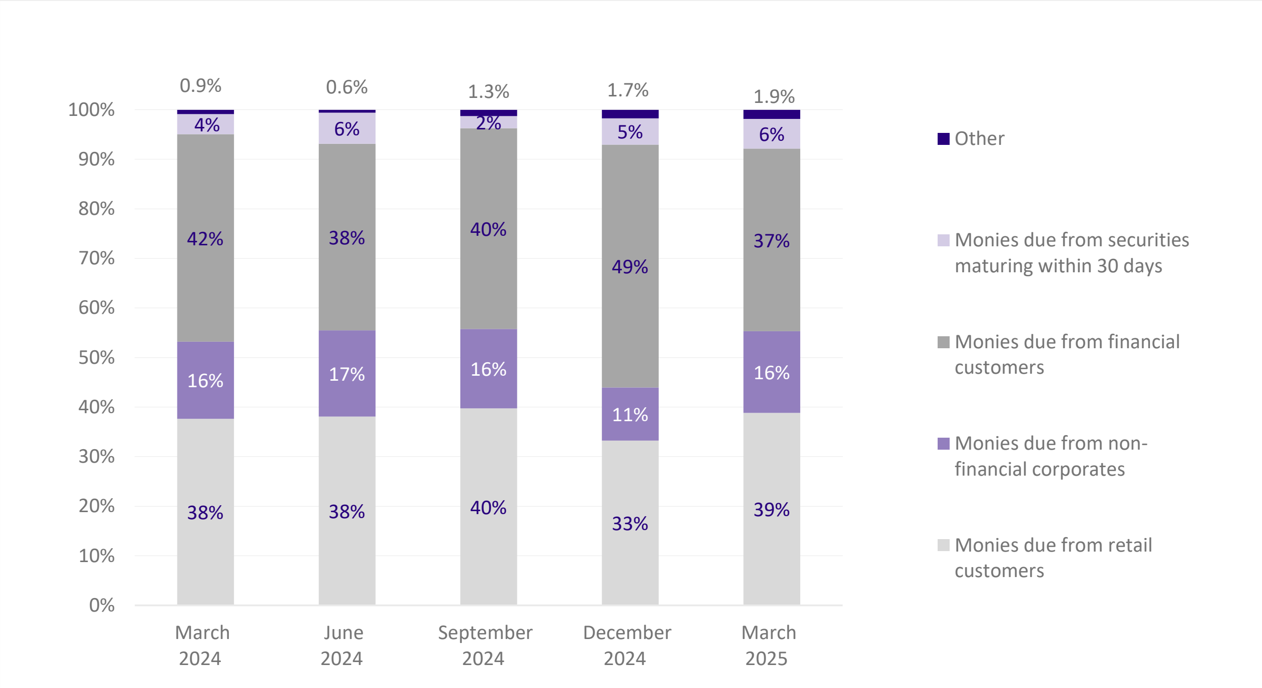


Figure 7: LCR: Structure of inflows (in %) of NLB Group



Concentration of funding and liquidity sources
In accordance with the Risk Appetite Statement of the NLB 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, as well as compliance with relevant regulatory frameworks.

The funding strategy in 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 set for Group members and defined in the Group Risk Management Standards. 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, in the first quarter of 2025, the top 30 counterparties provided 3.2% of the total liabilities, mostly in retail, while the top 30 counterparties in the Bank provided 3.2% of the total liabilities.

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 (within 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.

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

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

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	**Quarter ending on**	**31.03.2025**	**31.12.2024**	**30.09.2024**	**30.06.2024**	**31.03.2025**	**31.12.2024**	**30.09.2024**	**30.06.2024**
		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)					6,793	6,793	6,997	6,954
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	17,364	17,082	16,825	16,584	1,096	1,090	1,079	1,063
3	*Stable deposits*	12,524	12,330	12,157	12,059	626	617	608	603
4	*Less stable deposits*	3,934	3,946	3,908	3,825	470	474	471	460
5	Unsecured wholesale funding	3,891	3,807	3,740	3,719	1,837	1,801	1,776	1,779
7	*Non-operational deposits (all counterparties)*	3,884	3,801	3,735	3,713	1,830	1,795	1,770	1,773
8	*Unsecured debt*	7	7	6	6	7	7	6	6
10	Additional requirements	2,396	2,376	2,328	2,277	241	239	235	223
11	Outflows related to derivative exposures and other collateral requirements	47	48	48	41	47	48	48	41
13	*Credit and liquidity facilities*	2,349	2,328	2,280	2,236	194	192	187	183
14	Other contractual funding obligations	269	270	262	241	140	147	149	148
15	Other contingent funding obligations	1,784	1,749	1,705	1,664	100	99	97	95
16	TOTAL CASH OUTFLOWS					3,414	3,377	3,335	3,308
CASH-INFLOWS									
18	Inflows from fully performing exposures	721	731	758	766	459	470	492	504
19	Other cash inflows	21	22	19	20	21	22	19	20
20	TOTAL CASH INFLOWS	742	753	777	786	480	492	511	525
EU-20c	*Inflows subject to 75% cap*	742	753	777	786	480	492	511	525
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					6,585	6,793	6,997	6,954
22	TOTAL NET CASH OUTFLOWS					2,934	2,885	2,824	2,784
23	LIQUIDITY COVERAGE RATIO					225.28%	236.32%	247.91%	249.82%

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 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 EMIR. The Bank calculates 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 sufficient liquidity reserves in all currencies where the potential outflows could 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 2025, the aggregate liabilities in RSD represented 7.3% 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 and the Group 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
da)	/	/
h)	/	/
447	1	3
451a (2)	5	14

6.2. Appendix 2
Abbreviations

A-IMA	Alternative Internal model approach
A-IRB	Advanced Internal ratings-based approach
A-SA	Alternative standardised approach
ADC	Land acquisition, Development, and Construction
AT1	Additional Tier 1 capital
AVA	Additional Valuation Adjustments
CBR	Combined buffer requirement
CCF	Credit conversion factor
CCP	Central Counterparty
CCR	Counterparty credit risk
CET1	Common equity tier 1 capital
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
ECB	European Central Bank
ECL	Expected Credit Losses
EMIR	European Market Infrastructure Regulation
EU	European Union
F-BA	Full basic approach
F-IRB	Foundation Internal ratings-based approach
FX	Foreign Exchange
GDP	Gross Domestic Product
GMRA	Global Master Repurchase Agreement
HQLA	High-quality liquid assets
IAA	Internal assesment approach
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMM	Internal model method
IPRE	Income producing real estate
IRB	Internal ratings-based approach
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
P1R	Pillar 1 Requirement
P2R	Pillar 2 Requirement
P2G	Pillar 2 Guidance
R-BA	Reduced Basic Approach
RWA	Risk-weighted assets
RWEA	Risk weighted exposure amount
S-SA	Simplified standardised Approach
SA	Standardised Approach
SEC-ERBA	Securitization External ratings-based approach
SEC-IRBA	Securitization Internal ratings-based approach
SEE	Southeast Europe
SL	Specialised lending
SREP	Supervisory Review and Evaluation Process
T2	Tier 2 (capital)
TCR	Total Capital ratio
TREA	Total risk exposure amount
TSCR	Total SREP capital requirement