

Internal Audit Report for 2025

1. THE PURPOSE OF PREPARING THE REPORT

According to Article 281a of the Companies Act, Article 164 of the Banking Act, and Article 10 of the Internal Audit Charter of NLB d.d. (the Bank), the Internal Audit is required to prepare the Internal Audit Annual Report and submit it to the Management Board, the Audit Committee, the Supervisory Board and the external auditor of the financial statements. The Management Board of NLB d.d. must then inform the General Meeting of Shareholders about the report and the Supervisory Board's opinion thereon.

The Annual Report contains all the information specified in Article 164 of the Banking Act, which includes:

- the statement of objectivity and independence;
- the implementation of the Annual Action Plan;
- the major findings of the audits of operations carried out;
- the assessment of compliance of remuneration practices with the remuneration policy;
- the implementation of the Quality Improvement and Assurance Programme.

2. STATEMENT OF OBJECTIVITY AND INDEPENDENCE

In terms of ensuring independence and objectivity, avoiding conflicts of interest, and reporting on the occurrence of any circumstances that could compromise their independence and objectivity, the duties of the Chief Audit Executive of the Internal Audit and internal auditors in NLB d.d. are defined in the Internal Audit Charter of NLB d.d.

The independence of the Internal Audit department has been clearly established. As a management support service within the organizational structure, it operates functionally separate from other parts of the Bank and reports directly to the Management Board, the Supervisory Board, and the Audit Committee.

In setting objectives, defining the areas and scope of internal auditing, and carrying out performance and reporting, the Internal Audit is independent. Those carrying out internal auditing tasks do not engage in any other responsibilities within the Bank that could lead to conflicts of interest and compromise their objectivity.

The Chief Audit Executive and internal auditors perform their work objectively and without bias. Potential threats to independence and objectivity are managed at the level of individual auditor, engagement, and functional and organizational responsibility. If independence and objectivity are compromised, the Chief Audit Executive of the Internal Audit must promptly disclose such information to the Management Board, the Supervisory Board, and the Audit Committee.

In accordance with the Global Internal Audit Standards, the Code of Ethics of the Institute of Internal Auditors of Slovenia and the Internal Audit Charter of NLB d.d., the Chief Audit Executive of the Internal Audit states that both the Chief Audit Executive of the Internal Audit and the internal auditors of the Bank operated independently in 2025, and that no circumstances arose in the course of their activities that could compromise their objectivity. To this end, the Chief Audit Executive and all internal auditors have signed a statement confirming their independence and objectivity for 2025.

3. IMPLEMENTATION OF THE ANNUAL ACTION PLAN

The Internal Audit performs its tasks and responsibilities at its discretion and in compliance with the Annual Internal Audit Plan approved by the Management Board and with the consent of Supervisory Board. Based on its internal methodology and comprehensive risk assessment for 2025, the Internal Audit planned 110 audits. By 31 December 2025, 100 audits had been completed, covering various areas of operations within the Bank and the Group. These included 24 branch inspections, 6 Group Audits, 2 Joint Audits conducted with a local auditor, 3 quality reviews of Internal Audit functions in banking subsidiaries, and 8 newly initiated audits.

In addition, the Internal Audit participated in several strategic projects as an advisor and observed the integration process. Five planned audits were postponed for objective reasons. Most recommendations issued in 2025 had been implemented within the agreed deadlines.

4. MAJOR AUDIT FINDINGS – 2025

All findings and recommendations issued by the Internal Audit have been addressed, with the responsible areas preparing action plans to mitigate the associated risks.

Risk management

The Group maintains a comprehensive model risk framework with clear policies and procedures, reinforced by the recent upgrade of Model Inventory instructions and continued alignment with regulatory expectations. Actions are underway to accelerate model validations, ensure that approvals align with delegated authorities, and raise documentation quality across portfolios. Governance and oversight of model-lifecycle activities are being further strengthened, improving transparency and supporting consistent implementation across the Group.

Basel III and Capital Requirements Regulation (CRR) III preparedness continues through system upgrades, targeted training, and coordinated risk management. Operating rules and product documentation are being upgraded to ensure consistent implementation across platforms. System responsibilities are being clarified.

Following the reviews by the Joint Supervisory Team of the European Central Bank (JST of the ECB) on International Financial Reporting Standard 9 (IFRS9) and Unlikely-To-Pay areas, the Bank has enhanced several processes, including policies, systems and controls. Furthermore, the Bank had prepared comprehensive remediation plans and remains fully committed to completing all actions taken on the measures within the prescribed deadlines.

Internal audit reviews concluded that risk management practices across key areas are generally adequate, while also identifying several opportunities to further enhance control effectiveness. In the area of liquidity risk management, the Net Stable Funding Ratio (NSFR) calculation process is operationally effective but still includes certain manual steps. Strengthening documentation consistency, formalizing tolerance thresholds, and refining data-mapping practices would contribute to a more robust and transparent process.

Market risk management within the trading book is assessed as adequate, though certain areas require enhancement. These include the formal approval of internal acts and further improvement of comprehensive stress-testing activities. Similarly, the calculation of Risk Weighted Assets (RWA) for market risk is considered adequate; however, the process still relies on several manual procedures. More timely communication of methodological updates, together with more structured governance arrangements, would facilitate a smoother and more controlled transition to the 2027 Fundamental Review of the Trading Book (FRTB) regulatory framework.

The review of Interest Rate Risk in the Banking Book and Credit Spread Risk in the Banking Book (IRRBB/CSRBB) indicates that, while the overall framework is in place, some elements of the process require further enhancement. Key areas of focus include the implementation of the supporting IT tool,

model inventory governance, timely updates of internal procedures, and other methodologies - also on a Group level.

Lending process

The Bank has modernised its end-to-end lending processes. The purchase of receivables, online retail lending, and pre-qualified corporate lending processes are now largely digitalised and automated. Stronger process controls and clear ownership support faster and more consistent decision-making. Client experience has improved without compromising risk disciplines, providing a solid foundation for sustainable growth and stable operations.

Collateral governance is being upgraded to address valuation discipline, eligibility criteria, and data quality across the NLB Group. Annual revaluation practices and documentation standards are being strengthened. Internal reporting is progressing towards a more unified and automated approach, reducing the possibility of mistakes associated with manual workarounds. Group-wide harmonisation supports more consistent collateral management.

Processes for identifying connected clients are established and applied to significant exposures. Further improvements are focused on data quality and integrity, as well as ensuring the consistent assessment and documentation of justified exceptions. The Bank has taken steps to better align data sources, while operational consistency is being strengthened to reduce manual workload.

Non-Performing Loan (NPL) management

Non-performing loan position remained within risk appetite, supported by prudent provisioning and robust oversight processes. Improved early-collection capabilities contribute to greater portfolio resilience, while reporting on portfolio quality is being further refined to strengthen transparency. These actions ensure a structured and disciplined approach to managing potential deterioration in the credit portfolio.

Forbearance capabilities have been significantly advanced, supported by the full automation of retail status labelling and enhanced monitoring tools. Automation for legal entities is being expanded, while business rules and data are being refined. Early collection capacity has also been raised through system enhancements, new dashboards, and coordinated client communications via telephone, digital banking notifications, email and written reminders.

Individual provisioning practices are assessed as adequate, with calculations performed accurately and properly documented. The update of internal documents is underway to ensure timely recognition for non-performing clients and to further strengthen audit trails.

Early warning indicators and unlikely-to-pay triggers are being enhanced to improve timeliness. All remedial actions are in progress and aligned with the ECB's requirements.

IT risk management & Cyber resilience

The Bank continues to strengthen its information technology risk management and digital resilience capabilities in line with evolving regulatory expectations, including the Digital Operational Resilience Act (DORA). A Group-wide implementation programme is underway, with further enhancements planned to support comprehensive performance measurement and reporting.

Core IT service management practices, including incident and problem management, are supported by modern tools and generally reflect recognised good practices. Ongoing initiatives focus on further harmonisation across the Group and on enhancing analytical insights to support consistent oversight and continuous improvement.

The Bank is also advancing the formalisation of its software demand and development governance to improve transparency, prioritisation, and control, thereby strengthening operational efficiency and regulatory alignment.

Cybersecurity monitoring capabilities, including centralised event monitoring and security operations functions, are in place and operational. Planned refinements, such as expanded detection coverage, periodic rule optimisation, and clearer service performance definitions, are expected to further strengthen the effectiveness of cyber threat detection.

Significant progress has been made in strengthening data protection and resilience through the introduction of modern backup infrastructure and cloud-based data replication. Additional improvements, including broader deployment of advanced backup protections and continued testing activities, are being pursued to further reinforce recovery readiness for critical systems.

Overall, the Bank demonstrates a clear commitment to continuous improvement of its IT risk management and resilience environment, supported by ongoing investments, governance development, and alignment with regulatory best practices.

Third-party risk management

The reviewed key outsourced IT services with Third Party Providers (TPP)s are effectively managed, with appropriate controls in place to mitigate risks and monitor performance.

Cash management in branches, safe deposit boxes, and the central vault

In line with the 2025 Internal Audit Plan, 24 branches were inspected with a focus on compliance with cash-handling work instructions. Overall, a significant improvement was observed compared to previous years, reflecting the measures implemented by the Distribution network. These measures include strengthened first-level control of branches, targeted staff training and setting specific Key Performance Indicator (KPI).

Commercial banking

The cash pooling process operates adequately, supported by established automated and manual controls. Some improvements are required to clarify duties and responsibilities, and to improve filing and documentation archiving practices.

The acquiring process review confirmed that the Bank maintains a robust and secure POS environment, supported by advanced fraud-prevention technologies and effective vendor oversight. Collaboration with the service provider enables the use of advanced Proactive Risk Management (PRM) system, allowing the Bank to quickly detect and prevent fraud in POS transactions. Recommendations had been issued to further improve internal procedures, periodic trainings, archiving documentation and merchant-risk monitoring.

The card issuing and renewal process has been improved by systematically prescribed process, detailed instructions, stock optimization and inventory monitoring, all of which will be further improved with the planned introduction of dedicated software support.

The business and product development review confirmed that the Bank has established a sound Group-wide policy framework for the introduction of new and significantly modified products. Remedial actions have been implemented to improve internal procedures, clarity and completeness of internal decision-making documentation, and regular process and product reviews.

Personal Banking is a key segment that supports long-term growth by offering tailored financial solutions, continuously enhancing services, and broadening the knowledge and expertise to strengthen customer relationship management, client experience and loyalty. Focus on mandatory training, efficient execution of remote orders, regular updates to the dedicated Personal Banking website, and the improvement of internal guidelines will further improve services and overall client satisfaction.

The process for opening, maintaining and closing Personal accounts is well-defined and supported by both automated and manual mechanisms, with ongoing efforts to further streamline the related processes. The ongoing upgrades focus on strengthening automated controls in the account-opening process, improving documentation standards, and enhance monitoring and archiving activities.

Domestic payments are supported by a highly automated and reliable infrastructure, with exceptionally high Straight Through Process (STP) rates and well-established controls across Single Euro Payments Area (SEPA) Direct Debit, SEPA mass payments and other domestic transactions. The processes are supported by payment, client and back-office applications, effective complaint handling, robust limit controls and sound continuity arrangements that ensure stable and secure operations. Only minor opportunities for improvement had been identified, related to refining SEPA Direct Debit volume-restriction activities and strengthening filing and archiving practices.

The Anti Money Laundering (AML) function's review confirmed noticeable progress in digitalizing and strengthening AML/Know Your Customer (KYC) processes, including the implementation of the KYC application, enhanced training, structured coordination and effective mechanisms to manage workload and quality controls. Further upgrades of processes are underway to implement additional controls in the IT application, improve central storage of due-diligence documentation, enhance client-notification procedures, strengthen quality controls over client reviews, and improve internal reporting and dashboard capabilities.

Single Resolution Board (SRB)

The Bank adheres to SRB guidelines when preparing documents required for resolution. Certain improvements are needed in internal procedures to strengthen controls over the preparation and approval process prior to submission to the regulator. The Bank has properly implemented the requirements for the Separability Analysis Report (SAR), while the related instructions should be aligned with actual practices, ensuring coverage of all manual inputs and key control activities.

Environmental Social Governance (ESG)

NLB Group published its 2024 sustainability report in accordance with the European Sustainability Reporting Standards (ESRS). The NLB Sustainability Team has established a data-collection system to support reporting, and internal documents describing principles and data management practices have been defined and communicated. The reporting process can be further improved by defining detailed guidelines for data preparation, as well as establishment of clear end-to-end data ownership and strengthened data control mechanisms.

Fit and Proper (F&P)

The F&P assessment process is well-defined and broadly compliant with applicable legal requirements. Prior to the preparation of the F&P assessment, the implementation of the diversity policy principles for corporate bodies and senior management in NLB d.d. is also verified.

Corporate Governance of the NLB Group

The Bank has entered into a Framework Service Agreement governing the provision of services within the NLB Group. This agreement establishes a clear legal basis for the provision of chargeable services between the Group members and enables more effective oversight of services delivered in line with the Group's Service Catalogue. Further improvements are required to strengthen the documentation of services provided and enhance the methodology for determining and applying cost allocation keys.

Legal and administration support

The Bank provides administrative support to the Supervisory Board and all its committees, the Management Board and the Bank's other committees. A documentation framework has been established within an IT solution. Nevertheless, there is scope for further optimization, in particular the through reducing the number and complexity of internal acts.

Legal support within the Bank is provided by the Legal and Secretariat, Workout and Legal Support, and Compliance and Integrity units, complemented by the engagement of external legal advisers. The related processes are appropriately regulated.

Financial services

Overall, the deposit-strategy management is assessed as adequate, with further efforts focused on improving data quality and model governance.

Foreign Exchange Spot-related processes are effective and supported by both, automated and manual controls.

Primary-market securities issuance processes are well controlled and supported by high level of automation, with no significant irregularities identified.

European Market Infrastructure Regulation (EMIR) Refit reporting is assessed as adequate, however, certain manual steps remain in the process. Enhancements to valuation-reconciliation controls are underway.

Procurement process

A new procurement tool within the Enterprise Resource Planning System will harmonize procurement procedures across the Group. Integration between budget data, procurement, and supporting IT solution will also be implemented.

5. ASSESSMENT OF COMPLIANCE OF REMUNERATION PRACTICES WITH THE REMUNERATION POLICY

The Bank received a Supervisory Review and Evaluation Process (SREP) letter containing recommendations with an implementation deadline of end- 2025. The Bank had completed the remedial actions taken on the recommendations and supplemented the Remuneration Policy accordingly. The Supervisory Board adopted the updated Policy on 19 June 2025, with effect from 1 January 2026. Internal audit provides assurance that remuneration for 2024 was paid in accordance with the applicable Remuneration Policy.

6. IMPLEMENTATION OF THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Internal Audit has implemented a Quality Assurance and Improvement Programme to ensure compliance with the Global Internal Audit Standards and ethical rules of internal auditing, while continuously improving the operational efficiency and effectiveness. This programme was implemented through various methods, as described below:

a. Internal quality review

- Ongoing supervision of internal audit activities by the Chief Audit Executive.
- Continuous professional supervision and direction of internal auditors' work by expert managers.
- Weekly monitoring of the progress of individual engagements to improve work efficiency.
- Regular monitoring of the time spent by internal auditors on different activities (assignments, trainings, administration, etc).
- Semi-annual and annual assessment of the objectives attained by the internal auditors and Internal Audit as a whole.
- Measuring the satisfaction of the management of the audited units with the work of the Internal Audit.
- Performance of internal quality reviews of the internal audit files.

b. Education and training

Thirteen out of 35 internal auditors hold various professional licences awarded by Slovenian (SIR) and International internal audit institutions (CIA). This includes seven auditors with an international licence in the field of Information Systems Auditor (CISA) and/or Information Security Auditor licence, and one with an ESG Certificate of the IIA.

Internal auditors spent a significant amount of time on professional training and upskilling through various training courses organized by the Slovenian Institute of Auditors (SIR), the International Institute of Auditors (IIA), International Institute of Auditors of Slovenia and Hungary, the Information Systems Audit and Control Association (ISACA), the Bank Association of Slovenia (BAS), and other relevant institutions. They improved their knowledge in different areas, like Artificial Intelligence, information systems and information security management, information and personal data protection, updates in banking regulations with an emphasis on risk management, ESG, international accounting standards, fraud prevention, abuse and money laundering, corporate governance, Global Internal Audit Standards including specific requirements, and more. Additionally, they were familiarized with international auditing trends and improved their communication, report writing and presentation skills.

c. Implementation of recommendations from the external quality review

The latest external assessment of the quality of work of NLB's Internal Audit was conducted in 2022. The external provider confirmed overall compliance with all International Standards of Professional Practice of Internal Auditing.

d. Supervision over the work of the internal audit departments of the NLB Group members

In 2025, the following activities were carried out:

- 3 internal quality reviews of internal audit functions in subsidiaries.
- Monthly competence line meetings with Heads of Internal Audit departments of subsidiaries.
- A competence line meeting held in Ljubljana with the Heads of Internal Audits of subsidiaries.
- Training sessions provided for internal auditors of the Group, including practical audit examples, the process of Group audits, and safe use of Artificial Intelligence.
- Ongoing professional assistance to internal auditors of subsidiaries when performing audits.
- Group and joint audits according to the Group Internal Audit Plan.
- Monitoring of reports prepared by the internal auditors in subsidiaries for their management and supervisory bodies, including annual action plans, quarterly and annual activities reports, and the implementation of audit recommendations.
- Coordination of IT internal audit activities.
- Monthly meeting for IT auditors.
- Monthly meeting focused on Artificial Intelligence and robotics.
- Update of the Internal Audit Manual to reflect minor changes in internal audit processes.
- In alignment with the Global Internal Audit Standards (effective from January 2025), the Chief Audit Executive developed and implemented the Internal Audit Strategy of NLB d.d., and Internal Audit Communication Plan.

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Ljubljana, 2/3/2026

Attila Kövesdi

Chief Audit Executive