Biser Topco Group

DISCLOSURES 2021

(under Pillar 3)

NovaKBM

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List of abbreviations

Abanka: Abanka d.d.
AC: Financial instruments at amortised cost
AIRB: Advanced IRB approach
ALCO: Asset-Liability Committee
AT1: Additional Tier 1 capital
GDP: Gross domestic product
BIA: Basic indicator approach
BRRD: Bank Recovery and Resolution Directive
BoS: Banka Slovenije
CCF: Credit conversion factor
CCoB: Capital conservation buffer
CCR: Counterparty credit risk
CCyB: Countercyclical capital buffer
CEO: President of the Management Board
CET1: Common equity Tier 1 capital
CCP: Central counterparty
CNS: Risk exposure amount for contributions to guarantee fund
COREP: Common reporting standards
Covid-19: Coronavirus disease
CRD: Capital Requirements Directive
CRM: Credit risk mitigation
CRO: Chief risk officer (member of management board responsible for risk management)
CRR: Capital Requirements Regulation
CUSIP number: International security identification number for North America
CVA: Credit valuation adjustment
O-SIIs: Other systemically important institutions
EAD: Exposure at default
EBA: European Banking Authority
ECAI: External credit assessment institution
ECB: European Central Bank
ECL: Expected credit losses
EHQLA: Extremely high-quality liquid assets
ESG: Environmental, social and governance
EVE: Economic value of equity
EWS: Early warning system for detecting increased credit risk
FINREP: Financial reporting standards
FIRB: Foundation IRB approach
FLI: Forward-looking information
NPs: Natural persons (consumers)
FTE: Full-time equivalent
FARS: Financial Administration of the Republic of Slovenia

FVTOCI: Financial instruments at fair value through other comprehensive income
FTVPL: Financial instruments measured at fair value through profit or loss
GSIIs: Global systemically important institutions
HQLA: High-quality liquid assets
IAA: Internal assessment approach
ICAAP: Internal Capital Adequacy Assessment Process
DFIs: derivatives
ILAAP: Internal Liquidity Adequacy Assessment Process
IMA: Internal models approach
IMM: Internal model method
IST: Income statement
IRB approach: Internal ratings-based approach
ISDA: International Swaps and Derivatives Association
ISIN: International securities identification number
QCCP: Qualifying central counterparties
CC: Credit Committee
CCHRI: Credit Committee for High-Risk Investments
LCR: Liquidity coverage ratio
LGD: Loss given default
LRCom: Leverage ratio (common disclosure)
LRSpl: Breakdown of on-balance-sheet exposures
LRSum: Summary of reconciliation of accounting assets and leverage ratio exposure measure
LTV: Loan-to-value ratio
SMEs: Small and medium-size enterprises
IFRS 9: International Financial Reporting Standard 9
NFCI: Net fee and commission income
NII: Net interest income
Nova KBM: Nova Kreditna banka Maribor d.d.
NPEs: Non-performing exposures
NSFR: Net stable funding ratio
OCR: Overall capital requirement
IILC: Investment and International Lending Committee
PPE: Property, plant and equipment
OSIBs: Other systemically important banks
OR: Operational risk
OUPN: Workout Department
P2G: Pillar 2 Guidance
P2R: Pillar 2 own funds requirements
PD: Probability of default
PKP: Act Determining Emergency Measures to Contain the Covid-19 Epidemic
POCI: Purchased or originated credit-impaired assets
AML/CFT: Anti-money laundering / combating the financing of terrorism

CRA: Capital revaluation adjustment
RAF: Risk appetite framework
RAC: Risk absorption capacity
RWA: Risk-weighted assets
SA: Standardised approach
SFA: Supervisory formula approach
SICR: Significant increase in credit risk
SID: Slovenska izvozna in razvojna banka, d.d., Ljubljana
SISBON: Slovenian information system on customer creditworthiness
SLS: Summit Leasing Slovenija d.o.o.
SREP: Supervisory review and evaluation process
Tier 2: Tier 2 capital
TLTRO: Targeted longer-term refinancing operation
TSCR: Total SREP capital requirement
VP: securities
ZBan-2: Banking Act
BAS: Bank Association of Slovenia
ZDR-1: Employment Relationships Act
ZFisP: Public Finance Act
ZGD-1: Companies Act
ZIUOPOK: Emergency Deferral of Borrowers' Liabilities Act
ZPIZ-2: Pension and Disability Insurance Act
ZZavar-1: Insurance Act

1 INTRODUCTION

The Biser Topco Group's disclosures for 2021 under Pillar 3 of the Basel standards (hereinafter: the disclosures) have been prepared in accordance with the provisions of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), amended by Regulation (EU) 2019/876 (CRR II) and Regulation (EU) No 2020/873 (CRR QF) (all three documents are hereinafter referred to collectively as the CRR), Directive 2013/36/EU, amended by Directive 2019/878/EU (both documents are hereinafter referred to collectively as the CRD), Commission Implementing Regulation (EU) 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 (hereinafter: Implementing Regulation 2021/637), the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) and other guidelines that lay down disclosure requirements (i.e. regarding materiality, proprietary information and confidentiality and disclosure frequency, regarding remuneration policies, etc.).

Nova KBM d.d. is ultimately owned by the financial holding company Biser Topco S.à r.l. In accordance with Article 13 of the CRR, institutions owned by EU financial holding companies must comply with the obligations laid down in Part Eight of the CRR at the highest level of consolidation and at the sub-consolidated level were relevant (as required under Articles 437, 438, 440, 442, 450, 451, 451a and 453 of the CRR). The data in this document are therefore disclosed at the level of the Biser Topco Group and at the level of the Nova KBM Group where relevant. The disclosures have been prepared by Nova KBM, as the largest financial institution in the Biser Topco Group as of 31 December 2021.

Nova KBM has the status of other systemically important institution (O-SII), which means that it is treated as a large institution in accordance with Article 4(146)(b) of the CRR and as an institution that is not listed on the stock exchange in accordance with Article 4(148) of the CRR. The Bank is thus bound to the frequency and scope of disclosures set out in Article 433a(2) of the CRR.

The Group acquired ALEJA finance d.o.o. in October 2021 and has included that company in the Nova KBM Group since that time. ALEJA finance continues to function as an independent company but works closely with the parent bank.

The Nova KBM Group expanded its leasing activity in Croatia in 2021 with the purchase of Mercedes Benz Leasing Hrvatska (MBL). The transaction is expected to be completed during the first quarter of 2022. Given its total assets, the aforementioned company is not deemed a material member of the Nova KBM Group, but is material for the operations of SLS which will be MBL's direct owner. MBL provides finance and operating leasing services to companies and sole traders who purchase vehicles (passenger cars, commercial vehicles and buses) via the Mercedes Benz and Emil Frey retail network in Croatia. The products are very similar to those distributed by SLS in Slovenia, and the Bank does not see any material risks in connection with the expansion of its leasing activity to Croatia.

Due to the signing of an agreement in May 2021 on the sale of the Nova KBM Group to OTP, the Bank is not seeking further acquisitions prior to the conclusion of the transaction which is expected in the second or third quarter of 2022.

Impact of and response to the coronavirus crisis

The coronavirus has had and will continue to have a significant impact on the Group's operations and financial performance in 2022, as there remains uncertainty regarding the emergence of additional strains of the virus, their impact and their transmissibility. The government adopted a series of measures in 2020 and 2021 to mitigate the impact of the coronavirus pandemic on individuals and companies in Slovenia. During this period and with the development of the pandemic, government measures became more targeted and focused on supporting those sectors of the economy directly affected by those measures, i.e. tourism, accommodation and food service activities, leisure activities and the non-food retail sector, which were unable to operate during the first, brief lockdown, and the much longer second lockdown, which ended in May 2021. The Bank believes that the aforementioned measures provided sound support to the companies and employees working in those sectors. It is, however, uncertain how and to what extent the government will provide a similar level of support in the future to individuals and companies affected by its restrictive measures.

The Bank finds that the vaccination programme has progressed slower than initially expected, and that the vaccination rate (including booster shots) remains lower than in other parts of the European Union. There is a risk that the impact of new strains on the healthcare system and the wider economy could be greater than would otherwise be the case with a higher vaccination rate in the country.

The Bank also finds that demand for loans from both companies and households has slowed considerably in the wake of the pandemic, as decisions regarding investments and consumption in the period 2020–2021 have been postponed, or are still being postponed. A high level of prepayments and refinancing rates have also contributed to slowing growth in loans, particularly in the housing loan segment. At the same time, both corporates and individuals have continued to maintain or strengthen their liquidity, resulting in significantly higher growth in deposits than in the credit portfolio. This has been reflected in a significant increase in the Bank’s portfolio of liquid assets, which is creating pressure on credit margins. At the same time, the timeframes for raising new or refinancing existing loans under more favourable terms for borrowers are being extended.

The Bank has taken into account the potential impact of the evolution of the pandemic on its financial statements for 2021. The recovery of the domestic and global economy began in 2021, while demand from consumers and corporates has also risen relative to the previous two years of the pandemic. The economic recovery is expected to continue in 2022, although the strength of that recovery has created pressures on global supply chains, and caused a rise in the prices of energy products and a wide range of raw materials that are used as inputs for key drivers in the automotive industry, machine tools and other segments, which in turn has caused a sharp rise in inflation. The rise in inflation is expected to be temporary or of a short-term nature, and will slow as soon as global supply chains are put in order. It is currently unclear whether such expectations are realistic. It is thus likely that the competent authorities will adopt measures to reduce inflation, including the withdrawal, over time, of (pandemic-related) measures to support the economy and the raising of key interest rates (first in the US and later in the EU).

The Bank has taken the forecasted economic recovery into account in its established business objectives for 2022 and business plan. The Bank is also aware that the pandemic remains a source of uncertainty that could slow or halt the economic recovery and impact the Group's business plans.

The Bank regularly monitors macroeconomic forecasts and updates its internal macroeconomic scenarios, which it takes into account in the creation of impairments and provisions. Uncertainty in connection with the pandemic is taken into account in the Bank's models for calculating expected credit losses via PMA (post-model adjustments). That approach is being maintained in 2022.

Integration of environmental, climate and social risks (ESG)

The Bank is aware that its business environment is changing and that climate change will affect the business and macroeconomic environment in which it operates. Moreover, the transition to a low-carbon or carbon-neutral economy brings both risks and opportunities to the Bank and to other financial institutions.

The Bank operates in a country that is a signatory to the Paris Agreement and a member of the European Green Deal, under which Europe has committed to becoming a climate-neutral continent by 2050. European authorities expect the financial sector to play a key role in this regard, which the European Commission recognised in its action plan for the financing of sustainable growth. Slovenia has laid out its own strategy and defined its contribution to the achievement of broader EU objectives. The Bank is aware of these plans and will use them to set business objectives in the context of its business strategy and business plan.

The Bank has taken steps towards the implementation of the ECB's Guide on climate-related and environmental risks. That guide lays out supervisory expectations regarding the management, measurement and disclosure of such risks. The Bank also regularly monitors other regulations governing ESG risks and incorporates them into its business processes.

In 2021, the Bank adopted an ESG strategy, which was approved by management bodies, and established a Climate Change and Sustainability Committee to ensure the comprehensive implementation and monitoring of the Nova KBM Group's ESG strategy.

This means that the Bank will strive to achieve the following over the short and medium term:

- to adjust its portfolio of customers and exposures to the Nationally Determined Contributions (NDCs) of the EU, which requires the reduction of greenhouse gas emissions by 55% relative to 1990 levels by 2030 (and Slovenia's associated commitments); and
- to adopt measures to increase its commitment to finance the transition to a low-carbon or carbon-neutral economy.

The Bank has identified ESG risks, both physical and transition risks, in the scope of its overall risk profile and assessed those risks through a threat and control assessment in 2021. Threats and controls relating to ESG risks were included in the following risks:

- credit risks: default risk, credit concentration risk, country risk and project financing risk;
- market risks: credit spread risk;
- operational risks: operational risk, outsourcing risk, reputation risk and HR risk;
- financing/liquidity risk; and
- business/strategic risk, profitability risk and equity risk.

The assessment indicates that assessors rate inherent risk lower than the risk management function assesses or envisages that risk.

The Bank also implemented the following activities in 2021 to include ESG and climate and transition risk factors in its loan origination process and investment policy:

- based on publicly accessible data, the Bank established a process for the internal definition of a customer's key business activity (sector), which is assessed as a low-, medium- or high-risk ESG activity;
- for customers who operate in medium- and high-risk ESG activities and whose exposure exceeds internally established limits, the Bank has prepared an ESG questionnaire that must be completed when a transaction is approved;
- the Bank has also established a special approval process for customers who operate in activities that are not of a sustainable nature;
- the Bank will primarily invest in:
    - sectors with low and medium ESG risk. Investments in high-risk ESG activities will account for a smaller proportion of the total investment portfolio (bonds and international lending portfolio);
    - the Bank will finance investments that represent the transition to a low-carbon society; and
- the Bank has also begun the implementation of ESG factors in the internal assessment of customer credit risk.

With the increasing volume of ESG-related data in its internal databases, the Bank will also develop and upgrade its internal process for measuring and performing internal ESG stress tests, in particular climate-related stress tests. It will also upgrade the process of monitoring and reporting in this area.

Obligation to disclose information

The Group is obliged to disclose material information that, if omitted or misstated, would change or affect the assessment or decision of persons who use that information to make business decisions. The law allows for the possibility of the non-disclosure of information that is deemed confidential or a trade secret.

Nova KBM has included the method, frequency and verification of the disclosure of material information in the Disclosure Policy of the Nova KBM Group. All disclosures are prepared on a consolidated basis in thousands of euros, except where otherwise stated.

In accordance with Article 432 of the CRR, the Group has omitted disclosures (an entire template or certain rows or columns in a specific template) that are not relevant. The Group's disclosures are not audited. The Group's disclosures were approved by the Bank's Management Board. The Group publishes disclosures on the website www.nkbm.si in Slovene and English, in the section intended for investors.

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

This section defines the disclosure requirements set out in Article 435 of Part Eight of the CRR.

2.1 STATEMENT OF THE MANAGEMENT BODY REGARDING POLICIES IN PLACE TO ENSURE THE FULFILMENT OF DISCLOSURE REQUIREMENTS UNDER PART EIGHT OF THE CRR

In accordance with Article 431(3) of Regulation (EU) No 2019/876 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR II), the management body, represented by

John Denhof, President,
Sabina Župec Kranjc, Vice-President,
Miha Kristl, member,
Matej Falatov, member, and

the Supervisory Board, represented by its **Chairman Andrej Fatur,**

hereby confirms, by signing this statement, that the Group prepares the disclosures under Part Eight of the CRR II (hereinafter: the disclosures) in accordance with the Disclosure Policy of the Nova KBM Group (hereinafter: the Disclosure Policy), which is updated at a minimum annually or in the event of regulatory changes, and which ensures that the disclosures are prepared in accordance with Part Eight of the CRR II and other legal requirements. The method, frequency and verification of the disclosure of material information are included in the Disclosure Policy. In accordance with the Disclosure Policy, the Group has in place internal controls and procedures for ensuring the accuracy of disclosed information. The administrators of specific content are responsible for primary controls.

Key elements of the Disclosure Policy include:

- the definition of the roles and responsibilities of organisational units included in the preparation of the disclosures;
- the identification of information for publication (in accordance with EBA GL/2014/14 and Articles 432 and 433 of the CRR II);
- instructions for contributions from organisational units, and the coordination and control thereof;
- approval of the disclosures by the Management Board; and

- publication of the disclosures on the Bank's website.

Maribor, 7 April 2022

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

Supervisory Board of Nova KBM d.d.

Andrej Fatur,
Chair

2.2 GENERAL INFORMATION REGARDING RISK MANAGEMENT OBJECTIVES AND POLICIES

This section includes the disclosures required under Article 435(1) of the CRR, which are set out in Table 'EU OVA – Institution risk management approach' in the Guidelines.

2.2.1 RISK MANAGEMENT STRATEGIES AND PROCESSES

(Article 435 (1.a) of the CRR)

2.2.1.1 Disclosure of information at the Biser Topco Group level

Because Nova KBM is owned by an EU parent financial holding company, it must disclose the relevant information and data set out in Part Eight of the CRR regarding the consolidated financial position. The detailed ownership structure is presented in the Annual Report.

In order to ensure compliance with risk management legislation at the consolidated level, Nova KBM included risk management and reporting obligations at the consolidated level of the Biser Topco Group in its own methodological approach where appropriate. That methodology is described in the following sections of this document.

2.2.1.2 Disclosure of information at the Nova KBM Group level

The Group's mission is to ensure the security of its operations, to accept risks in a serious and responsible manner, and to maintain the highest standards of risk management. In the scope of the risk appetite framework, the Group defined the objectives of the future take-up and management of risks, taking into account its risk profile, the envisaged and expected development of the Group's operations, its business and investment strategies, the asset and liability management (ALM) strategy, including the IT strategy, non-performing loan management strategy and the recovery plan. The Group regularly identifies and measures various types of risks that arise in its operations.

The risk appetite framework is based on six pillars:

- the identification and measurement of risks;
- the risk management strategy;
- the risk appetite statement;
- the risk absorption capacity, the establishment of limits, the establishment of an allocation system and the monitoring of the use of allocated own funds;
- risk management; and
- the definition of roles and responsibilities.

The Bank defined the following risk management objectives at the Group level in its risk appetite framework:

- moderate, sustainable and long-term profitability;
- the generation of profits while accepting moderate credit risk;
- the acceptance f significant yet diversified risk from exposures to governments and investment-grade financial institutions and corporates with the aim of ensuring the high liquidity of assets;
- the acceptance of low funding risk and market liquidity risks;
- the accelerated integration of ESG risks in the business and management environment of the Bank and banking group. The Group will integrate climate and environmental risks in its business strategy and business plans, and in its risk management framework. The Group strives to maintain these types of risks at low or moderate levels in accordance with the objectives of its ESG strategy. The Group is taking a progressive approach to the integration of ESG risks/factors in its business planning and risk management framework, with a clear emphasis on lending activities. The Group aims to adjust its investment and loan portfolios over the short and medium terms to ensure that they are in line with Slovenia's climate commitments. It also aims to increase its commitments to finance the transition to a low-carbon or carbon-neutral economy; and

- to maintain the other risks to which the Group is exposed at a low or moderate level.

The risk management process reflects the Group's comprehensive approach and includes the following:

- the identification of the risks to which the Group is exposed in its operations;
- the measurement of risks and risk factor monitoring methods;
- the continuous monitoring of exposure to individual risks, and systematic and comprehensive reporting;
- the performance of stress tests, the results of which are used in the decision-making process and the making of strategic decisions;
- the established limit system, with an early warning system and a defined risk appetite; and
- learning from and adaptation to the changing business environment which includes the re-assessment of limits and methodologies for setting limits in order to ensure the stable and secure operations of the Nova KBM Group over the long term.

The Group has the following in place for each type of risk:

- a risk management policy;
- a risk management methodology;
- a risk appetite statement that defines the appetite for a particular type of risk, as well as the level of key risk indicators; and
- a comprehensive limit system, including operating limits and an early warning system.

Decisions regarding the risk appetite framework, the establishment of a limit system, risk management policies, methodologies for measuring, monitoring and managing risks within the Nova KBM Group are made by Nova KBM as the largest credit institution in the Group. All Group companies manage risks in accordance with legal requirements and internal policies or methodologies that reflect their activities and the scope of operations. Persons at the Bank responsible for individual policies and methodologies must be familiar with the method used to manage the risks covered by those policies and methodologies at all Group companies, and have the ability and duty to influence the establishment of an appropriate method for managing and measuring individual risks at Group companies. Risk management procedures are carried out independently at the level of each individual company. The Group has defined reporting methods, report content, reporting frequency and report recipients for each individual type of risk.

All Nova KBM Group companies treat risk management as the continuous process of identifying, measuring and managing the risks that arise in the course of their operations.

In accordance with the Capital Requirements Directive IV and the European Banking Authority (EBA) guidelines relating to the SREP, the Bank carries out the Internal Capital Adequacy Assessing Process (ICAAP) and Internal Liquidity Adequacy Assessing Process (ILAAP).

Reliable, effective and comprehensive ICAAP in ILAAP are based on two pillars, i.e. economic and normative perspectives that are mutually complementary.

2.2.1.2.1 Internal Capital Adequacy Assessment Process (ICAAP)

The identification of the risks to which the Group is exposed in its operations is an integral element of the ICAAP. The identification of risks is the task of every Group employee. The acceptable level of and method for measuring and monitoring individual types of risk are defined by experts who specialise in the management of such risks. The organisational unit responsible for defining the acceptable level of and method for measuring and monitoring risks is organisationally segregated from the units that take-up risks.

The risks to which the Group is exposed in its operations and the methods for measuring particular types of risk are presented in section 5.1 of the disclosures. The Group deems the following types of risk to be material: credit risk, credit spread risk, strategic risk, operational risk, residual risk, and risk in connection with real estate.

Credit risk is the most important risk to which the Bank is exposed in its operations. In addition to credit risk, the Bank has identified the following types of risks that it addresses in the scope of credit risk:

- credit concentration risk,
- risk associated with foreign currency loans,
- country risk,
- settlement risk,
- residual risk,
- credit rating migration risk,
- risk in connection with special credit facilities,
- risk in connection variable-rate loans,
- counterparty risk,
- sovereign risk, and
- risks in connection with real estate.

In 2020, the Bank identified and included in its risk register climate/environmental, social and governance risks. ESG factors were included and assessed in the scope of relevant risk types in 2021, and not as separate types of risks in order to avoid the duplication of the associated effects. In 2022, the Bank will continue the integration of ESG risks in all relevant risk management and operational processes.

In the scope of the ICAAP, the Bank calculates Pillar 1 and Pillar 2 own funds requirements and capital ratios, and defines the risk appetite and key risk indicators in the scope of the planning process and in the scope of internal stress testing.

The Bank intends to further improve the ICAAP in 2022 by focusing on the upgrading of the economic perspective, and on the performance of the associated sensitivity analyses and internal stress tests.

2.2.1.2.2 Internal liquidity adequacy assessment process (ILAAP)

The purpose of the ILAAP implemented by the Group is the effective management and systematic identification, assessment, measurement and mitigation of the risks to which the Group is exposed in its operations.

The ILAAP is in line with the Bank's business model, size, complexity, risks and market expectations. It includes all qualitative and quantitative information that serves as the basis of its risk appetite, including a description of the systems, processes and methodology used to measure and manage liquidity and funding risks.

The main objectives of the ILAAP are:

- the planning of actual and potential cash inflows with respect to cash outflows, and the assessment of liquidity risk through the calculation of liquidity ratios;
- ensuring an adequate level of liquid investments or other forms of liquidity in relation to liquidity risk;
- the monitoring of the appropriate structure of liabilities and financial assets;
- the calculation of liquidity ratios;
- the establishment of limits and maintenance of a limit system to limit exposure to liquidity risk;
- the performance of various liquidity stress tests, including an adverse scenario;
- the definition of the economic and normative perspectives of the ILAAP;
- the definition of links between the ICAAP, ILAAP, the recovery plan, liquidity resolution and the planning process; and
- the availability and maintenance of a liquidity contingency plan should liquidity problems arise.

The Bank continued to upgrade the ILAAP in 2021. It further updated the ILAAP policy and methodology, and established an ILAAP methodology for the performance of stress tests, which comprehensively covers in more detail the performance of all liquidity stress tests within the Group. The most significant progress was made in the liquidity resolution area, where the Bank identified key members of the Nova KBM Group and key liquidity factors, and developed a methodology and rapid and slow stress tests for the purpose of risk mitigation.

It also defined new indicators for the economic perspective. In the scope of the separate monitoring of market liquidity risk and funding liquidity risk, the Bank also identified intraday liquidity risk and asset encumbrance risk, and updated the roles and responsibilities of individual organisational units and committees. It also upgraded the liquidity contingency plan.

The Bank simulated a liquidity crisis in 2021 and thus verified the appropriateness of predefined procedures for managing a liquidity crisis through the activation of available measures to mitigate liquidity risk. The exercise indicated that the Bank is capable of reacting swiftly and effectively to a liquidity crisis and that established procedures are appropriate.

The Bank draws up its annual business plan within the framework of its risk appetite. The structure of and approach to the funding of business under the business plan is defined in detail in the refinancing plan. The refinancing plan provides a detailed definition of individual segments of funding with regard to geographical origin, the maturity structure of funding, and realised and projected funding costs. The refinancing plan outlines the scope of the projected funding for the next three years. The document also encompasses business continuity in crisis conditions. It is evident from the refinancing plan that the Group's funding is diversified and stable, as more than 80% of the funding comes from deposits by non-bank customers.

2.2.1.2.3 Performance of stress tests

The Group has established a process for performing internal stress tests, which are used to assess its ability to continue as a going concern. At the request of regulators, the Group also performs regulatory stress tests. The performance of stress tests is set out in the Stress-Testing Policy of the Nova KBM Group. The Group performs regulatory stress tests taking into account the methodologies prescribed by regulators, while in performing internal stress tests, it uses an internally established policy and methodologies, which define scenarios, input data and a timeframe, assumptions, risk parameters, measurement techniques, thresholds and proposed management measures.

The Group performs the following types of stress tests and sensitivity analyses:

- stress tests in the scope of the Single Supervisory Mechanism (SSM);
- stress tests at the request of the Bank of Slovenia/European Central Bank;
- stress tests/sensitivity analyses in the scope of the ICAAP;
- stress tests/sensitivity analyses in the scope of the ILAAP;
- stress tests in the scope of the recovery plan; and
- other occasional stress tests (i.e. when launching a new product).

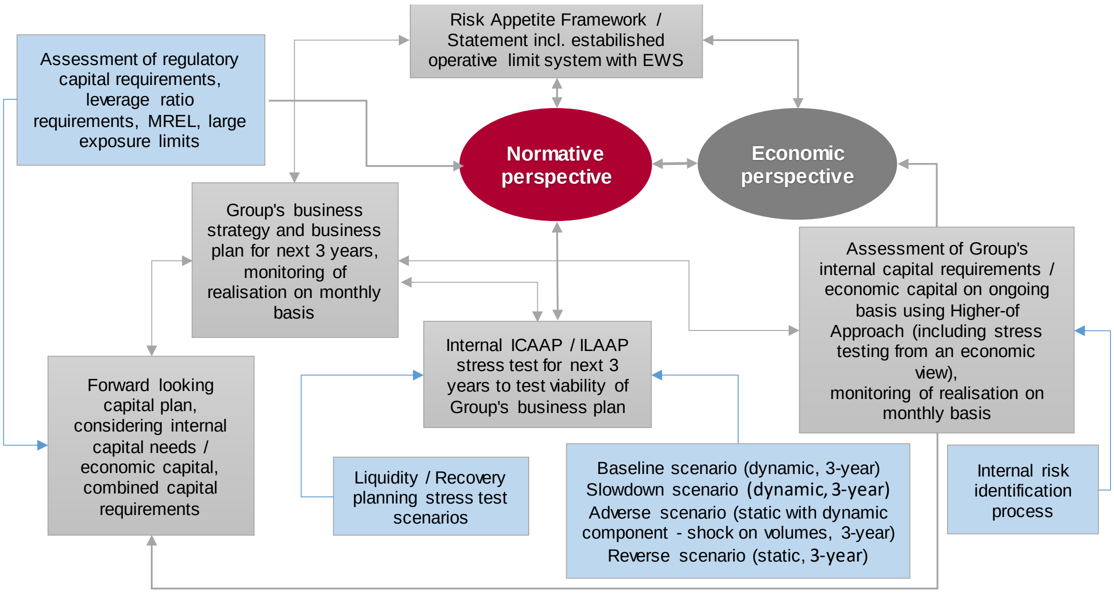
Use of stress tests in the decision-making process:

The Group presents the results of stress tests to the Supervisory Board, the Bank's Management Board and to other relevant decision-making levels, in order to take into account the results and findings in the further operations of the Group. When performing reverse ICAAP stress tests and stress tests in the scope of the recovery plan, the Group has in place uniform methodology for determining minimum capital adequacy ratios and a uniform escalation process.

Performing stress tests in the scope of the ICAAP

ICAAP stress tests are performed at least once a year in order to assess the impact of a severe economic recession on the Group's risk profile, and capital and financial position. The performance of stress tests in the scope of the ICAAP is shown in the figure below.

Figure 1: Performance of stress tests in the scope of the normative and economic perspectives of the ICAAP



In the scope of the ICAAP, the Bank prepares internal macroeconomic stress scenarios that differ from one another in terms of the intensity of an economic crisis and the impact of macroeconomic indicators on the risk parameters and portfolios covered by the stress test. The key assumptions of ICAAP stress scenarios include the following:

- scope of risks:
  - credit risk, covering a portion of assets through the impact on the credit portfolio's size and own funds through the effect of impairments in the profit and loss statement, which is one of the components of own funds;
  - market risk covering a portion of assets through the following:
    - a shock to debt securities held in the banking book (covering a portion of assets and own funds via the effect of revaluation adjustments),
    - a shock to equities held in the banking book (covering a portion of assets and own funds via the effect of revaluation adjustments), and
    - loans measured at fair value through profit or loss (covering a portion of assets and own funds via the effect on profit or loss);
  - funding risk through the effect of the size of the liability portfolio on profit or loss due to shocks on margins and volumes; the risk is also correlated with volumes and margins on the asset side;
  - operational risk of the effect on profit and loss items;
  - profitability risk and interest rate risk in the banking book, covering the impact on:
    - net interest income – NII (as a result of all risks, covering part of profit or loss),
    - net fee and commission income – NFCI (covering part of profit or loss),

    - operating costs (covering part of profit or loss),
    - losses arising from market risk (revaluation of securities),
    - losses arising from credit risk (expected credit losses), and
    - losses arising from operational risk.
- Scenarios covering all of the above-stated risks include:
    - A baseline scenario, which is based on the business plan and represents the planning of own funds, own funds requirements and capital adequacy based on a 'top-down' and 'bottom-up' business plan. A dynamic balance sheet assumption is used.
    - A slowdown scenario, which is the macroeconomic scenario that the Bank deems is most likely to be realised and that envisages a slowdown in macroeconomic growth relative to the business plan. The objective of this scenario is to test the business plan in an economic environment that is less favourable than forecast. Used in this scenario is a dynamic balance sheet assumption that is based on the fact that the adopted business plan is also feasible under changed macroeconomic conditions.
    - An adverse scenario, which envisages an economic downturn or an even deeper recession, if the economy is already in recession, which simultaneously affects all risk factors. This scenario defines a series of systemic risks that may threaten the Group's financial stability and trigger special shocks, including growth in gross domestic product (GDP) in the EU. The approach selected for the adverse scenario is static because it assumes that the Bank will not follow its adopted business plan in the event of a severe crisis, but will seek to maintain the status quo. Notwithstanding the above, the Bank incorporates a dynamic component in stress testing in subsequent years when performing stress tests on the static volumes (new and rolled-over exposures) of the credit and treasury portfolios, and in the case of deposits and costs.
    - A reverse scenario is defined as the determination of the point of collapse where macroprudential supervisory own funds requirements are no longer met. Based on an inverse loop, the Bank defines the macroeconomic assumptions that correspond to such a point of collapse.
- Macroeconomic assumptions: the Bank analyses forecasts of key macroeconomic indicators published by various local and international organisations, and it forecasts the values of macroeconomic assumptions in various stress scenarios using internal tools and expert judgement.

- Risk parameters assessed on the basis of internal models:
    - exposure at default (EAD),
    - probability of default (PD),
    - loss given default (LGD), and
    - average transition matrix.
- Time components: ICAAP stress tests cover a period of three years and are carried out at the level of the Nova KBM Group

- Measurement techniques: the Bank has in place an internal methodology, based on which it assesses the effects of specific risks and risk parameters on the final results of stress tests
- Established limits: stress tests are deemed successfully completed when the minimum established limits for the following are exceeded:
  - Common Equity Tier 1 capital ratio,
  - total capital ratio, and
  - liquidity coverage ratio,

  which take into account the minimum required macroprudential regulatory limits of the above ratios.
- Evaluation of results: the Bank presents the effects of the following in the scope of stress-testing results:
  - risk factors (risk parameters),
  - effects on the balance sheet and profit and loss account, including the effects of the impact of a stress test on the size of individual portfolios,
  - capital adequacy ratios, regulatory own funds and risk-weighted assets,
  - leverage ratio, the cost of risk, the MREL and liquidity ratios, and
  - sensitivity analysis following an assessment of all of the above-described effects on the Group's key portfolios
- The roles and responsibilities for performing stress tests are defined in the Group's existing bylaws.

The Bank also performs stress tests when introducing new products and services, if so required by the provisions of bylaws.

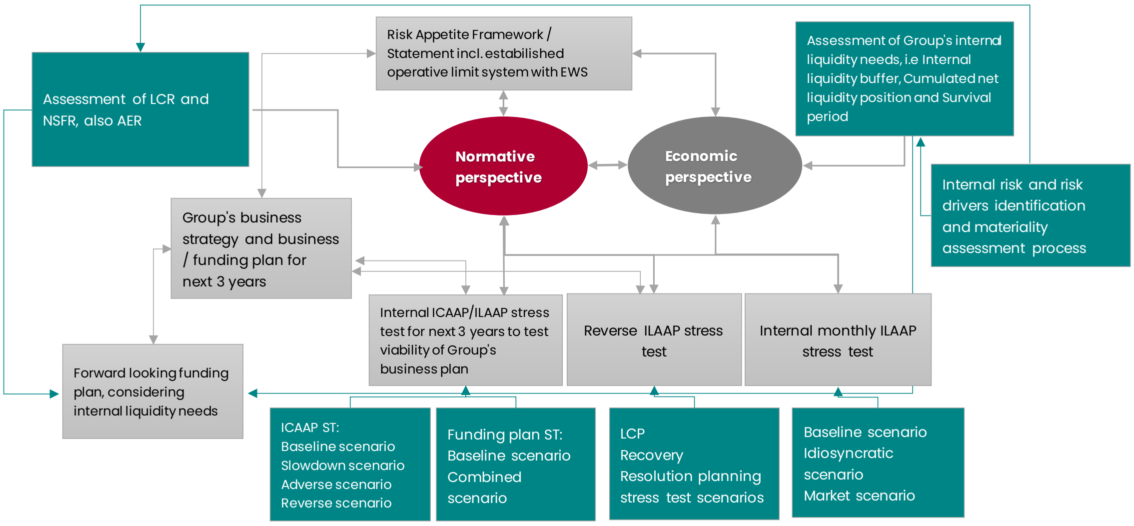
The Bank hired independent external validators to validate its internal models. The validation process is set out in the model validation methodology.

The Bank reports to management bodies and regulators regarding stress testing.

Performing stress tests in the scope of the ILAAP

The performance of stress tests in the scope of the ILAAP is an integral part of the Group's overall risk management. The results of stress tests affect the decision-making process and the adoption of strategic decisions. The aim of performing stress tests is to ensure sufficient liquidity even in stress conditions.

Figure 2: Performance of stress tests in the scope of the normative and economic perspectives of the ILAAP



The main assumption of measuring and managing liquidity risk is the survival period in stress conditions. This means that the Bank can survive a pre-determined period of stress conditions without adopting additional measures. In this way, the Bank ensures the time required to adopt measures in accordance with its risk appetite framework and ensures its long-term viability. The survival period is defined in relation to the internal liquidity buffer and cumulative net funding gap.

The Bank regularly implements various liquidity management scenarios, including through the use of methods to mitigate liquidity risk, and on the basis of the results of stress tests verifies the assumptions that serve as the basis for decisions in connection with ensuring the appropriate liquidity of the Bank and Group.

Based on such scenarios, the Bank defines the method used to ensure an adequate liquidity position, while taking into account:

- the normal course of operations (baseline scenario); and
- emergency liquidity conditions (stress scenario).

Stress scenarios are divided into three main groups:

- a scenario adjusted to the Bank's own liquidity position, i.e. an idiosyncratic scenario, which assumes the loss of renewable major sources of liquidity (e.g. institutional investors and large enterprises) without the provision of collateral by the Bank, and a decline in deposits by minor investors;
- a scenario conditioned by the situation on the market, which assumes a decline in the liquidity of assets and a deterioration in the terms for obtaining liquidity on the market; and
- a scenario based on a combination of the two aforementioned scenarios.

Stress scenarios are based on various levels of severity and different lengths for the period of emergency liquidity conditions. They take into account the impact on on- and off-balance-sheet items, and other contingent liabilities. The Bank implements each of these stress scenarios (idiosyncratic, market and combined) at two levels of difficulty that are defined based on the predetermined quantile of an empirical distribution of each risk factor. Key risk factors that are analysed by the Bank include downgrades, changes in the market value of investments, outflows of demand and time deposits, the larger liquidation of off-balance sheet items and lower inflows from loans. Assumptions for scenarios that derive from statistical analysis can be revised based on an expert opinion, in particular where the timeframe for statistical analysis is small and an expert in such cases facilitates the consideration of historical events.

A stress test is performed at least once a year for the liquidity contingency plan and recovery plan. The Bank reports regularly to the ALCO and in the scope of the CRO report regarding stress tests performed.

Performance of stress tests linked to ESG, with a special emphasis on climate risks

The Bank included the performance of stress tests linked to ESG, with a special emphasis on climate risks in its internal policy and methodology on the performance of stress tests with the primary aim of the short-term and long-term integration of stress tests and analyses in this area.

2.2.2 STRUCTURE AND ORGANISATION OF THE RELEVANT RISK MANAGEMENT FUNCTION INCLUDING INFORMATION ON ITS AUTHORITY AND STATUTE, OR OTHER APPROPRIATE ARRANGEMENTS

(Article 435 (1.b) of the CRR)

This section discloses the structure and organisation of the Group's risk management and the risk management functions as required under Article 435(1)(b) of the CRR.

2.2.2.1 Disclosure of information at the Biser Topco Group level

Certain members of the Management Board of Biser Topco S.à r.l. are also members of the Supervisory board of the Nova KBM Group as presented in section 2.2.2.2 and, as owner representatives, those persons also perform a controlling function at the Nova KBM Group level.

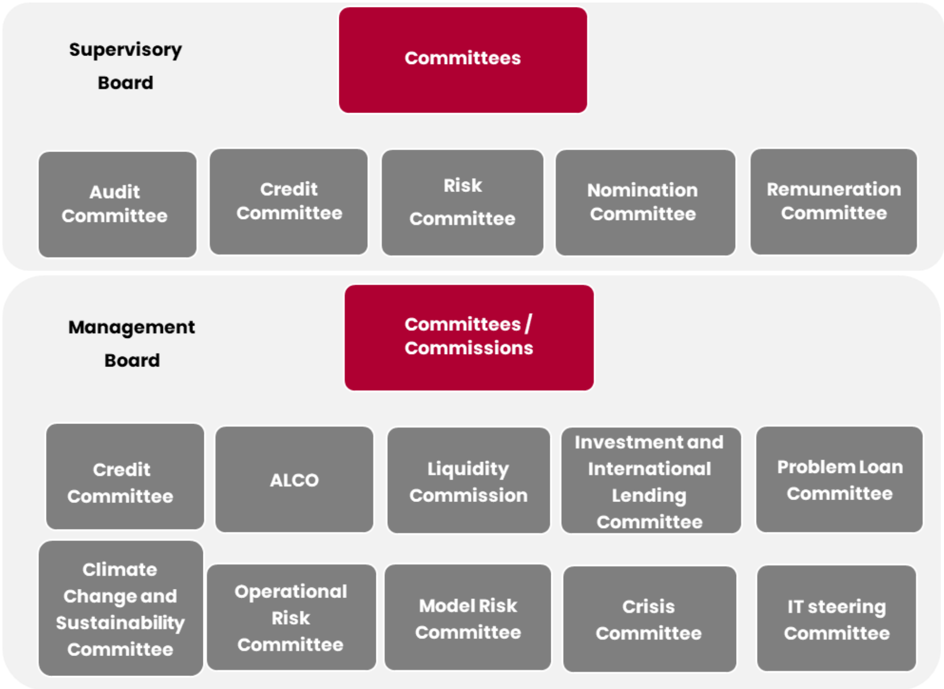
2.2.2.2 Disclosure of information at the Nova KBM Group level

The Group has in place a risk management structure that defines the active role of the Supervisory Board and Management Board, as well as the appropriate structure of the risk management function, which is separated in organisational terms from other business areas. Key decisions are made at the level of the Management Board and Supervisory Board.

To ensure the systematic control of exposure to material risks, the Group has established a system of internal controls at all levels of the organisational structure. Responsibility for establishing and implementing internal controls lays with persons responsible for individual areas at the Bank. Internal control functions are in place to ensure an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of the review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks by the Bank and Group companies. Control functions represent three lines of defence that comprise the risk function, compliance function and internal audit function. The task of the Compliance Department is to ensure the proper management of compliance risk, i.e. to ensure the proper operations of the Bank in accordance with the applicable regulations, legislation and standards of good practice. The role of the Internal Audit Department is to ensure an independent assessment with regard to the quality and effectiveness of internal governance arrangements, including the Bank's risk management systems and processes and internal controls, and to provide assurances to the management body, Audit Committee and senior management regarding the adequacy of internal governance arrangements. The Internal Audit Department supports and assists the management body in safeguarding the Bank's long-term interests and protecting its reputation. As part of the assessment regarding the quality and effectiveness of internal governance arrangements, the Internal Audit Department also performs independent assessments of the work of the risk management and compliance functions through the internal audit process.

In terms of internal governance, the Bank thus has several governance levels in place to ensure the effective management of risks, as illustrated by Figures 3 and 4. Decisions in connection with the management and take-up of material risks are adopted by the decision-making bodies presented below.

Figure 3: Governance of the Nova KBM Group



1. Supervisory Board and Management Board

Nova KBM's governance bodies as at 31 December 2021 were the Management Board (five members), the Supervisory Board (seven members) and the General Meeting of Shareholders.

Management Board

Nova KBM's Management Board had five members as at 31 December 2021. Detailed information about the Management Board can be found in Section 2.4. Information regarding governance arrangements.

Nova KBM committees

- Credit Committee

The Bank's Credit Committee makes decisions within its powers regarding all loans to customers, in accordance with the competences, procedures and decision-making methods in place at the Bank with respect to loan origination.

The committee has four members. The committee's chair is the member of the Management Board responsible for corporate banking. Meetings of the committee are convened once a week.

- Investment and International Lending Committee

The Investment and International Lending Committee discusses and makes decisions regarding international investments in accordance with the Bank's investment strategy and lending policy. It decides on international lending activities (syndicated loans, direct lending, promissory notes, etc.) on foreign markets, and on the Bank's investments within the framework of its debt securities portfolio. The committee comprises four members from the areas of finance and risk management, and meets on a weekly basis. It is chaired by the member of the Management Board responsible for finance.

- Problem Loan Committee

The Bank also has in place a Problem Loan Committee. It has four members, and is chaired by the member of the Management Board responsible for risk management.

- Liquidity Commission

The Liquidity Commission monitors the situation and adopts measures to ensure short-term liquidity. It has nine members, and is chaired by the member of the Management Board responsible for finance.

The Liquidity Commission meets daily.

- Asset-Liability Committee (ALCO)

The ALCO assesses and monitors the structure of the statement of financial position, capital adequacy, interest rate risk, structural liquidity, market risks, currency risks, the profitability and results of profit centres, financial plans, aggregate credit risk, regulatory requirements, the tax aspects of operations, and other risks associated with new products and services. It has ten members, and is chaired by the member of the Management Board responsible for finance.

The ALCO meets once a month.

- Operational Risk Committee

The Operational Risk Committee is responsible for monitoring, measuring, assessing, and managing operational risks. It has seven members, and is chaired by the member of the Management Board responsible for risk management.

The committee meets at a minimum quarterly.

- Crisis Committee

The Crisis Committee is the decision-making body responsible for managing crises. The committee makes independent decisions regarding all proposals for immediate action aimed at crisis management, including decisions regarding the use of extraordinary financial and other assets. The committee meets and functions when crises occur. It is chaired by the president of the Management Board.

- Model Risk Committee

The committee is responsible for reviewing model risk management, the register of models, model risk appetite and take-up, and the model risk management statement. It is responsible for the approval and submission of final decisions to the Management Board in connection with new risk models and changes to existing models, the adoption of the Bank's bylaws regarding model risk management, the results of the assessment of materiality and risk models, plans and reports in connection with model validation.

It has eight members and is chaired by the member of the Management Board responsible for risk management.

The committee typically meets once a month.

- IT Steering Committee

The committee is tasked with studying, discussing and making decisions regarding all current IT requirements in connection with personnel, risk- and finance-related issues, discussing external providers of IT services, and making decisions regarding new projects and planning requirements.

It comprises all members of the Management Board. The committee is chaired by the member of the Management Board responsible for operations. It typically meets once a month.

- Climate Change and Sustainability Committee

The Climate Change and Sustainability Committee is responsible for the comprehensive and effective implementation of the ESG strategy with the aim of managing the associated risks and opportunities.

The committee takes decisions regarding the inclusion of various initiatives, defines and monitors objectives and success in connection with climate-related risks, oversees the work of the internal working group, monitors the drafting and approval of the ESG report, and adopts reports regarding the activities of the relevant organisational units and reports on progress to the Supervisory Board.

Committee members include all members of the Management Board, the directors responsible for areas most closely related to ESG, an advisor to the Management Board's and the ESG coordinator. The committee is chaired by the member of the Management Board responsible for the area of risk.

Supervisory Board

According to the Articles of Association, the Supervisory Board comprises a minimum of six and a maximum of 11 members, who are appointed by the General Meeting of Shareholders. It had seven members as at 31 December 2021.

Detailed information about the Supervisory Board can be found in Section 2.4. Information regarding governance arrangements.

Committees of the Supervisory Board

The following committees performed their work in accordance with the Companies Act (ZGD-1) and Banking Act (ZBan-3) during the 2021 financial year: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Risk Committee and the Credit Committee.

In accordance with the Articles of Association, the Supervisory Board has established a Credit Committee, which is responsible for giving consent to the Management Board for the conclusion of legal transactions in respect of which the Supervisory Board has adopted a special resolution.

Detailed information regarding the work and powers of the Supervisory Board's committees is presented in the section entitled Corporate governance statement of Nova KBM.

2. Lines of defence

The Bank has defined the organisational structure of internal control mechanisms, i.e. three lines of defence, in the scope of the Internal Control System Policy at Nova KBM.

Internal controls, as the first line of defence, are the primary tool for managing business risk. The primary objective of internal controls is to reduce risks to an acceptable level (risk mitigation), and to prevent intentional and unintentional errors and irregularities. The Bank has internal controls in place at all organisational levels, including business, control, and support functions, and at the level of each product and service of the Bank, with a clear and documented decision-making process, a clear segregation of responsibilities and powers, and a clear work process defined by internal instructions.

Internal control functions, as the second and third lines of defence, provide an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of the review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks.

Risk management tasks

Nova KBM's risk management function ensures independent control over the management of the risks that arise from the institution's activities. The Bank's core internal risk management policies establish a clear mandate for the risk management function in terms of its objectives and powers in relation to other functions, and provide the risk management function access to the information needed to prepare assessments, analyses and reports that support the Management Board's decision-making process. Policies are regularly reviewed and updated in order to reflect both external (in particular legislative) events, and internal changes and objectives.

Nova KBM's risk management function is responsible for ensuring effective processes are in place:

- to define the risks to which the Bank is exposed;
- to develop methods and models for the assessment and measurement of risks;
- to develop, maintain and monitor the risk management strategy, risk appetite framework and risk management policies;
- to develop, maintain and monitor the Lending Policy, the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), and to develop forward-looking own funds/liquidity management, and to plan capacities using the appropriate methodologies and tools;
- to perform stress tests in the scope of the ICAAP and ILAAP, and in the area of ESG risks;
- to regularly review (at least once a year) the risks to which the Bank is exposed in the performance of its business activity;

- to perform a risk-related review of the consequences of new business activities proposed by the Bank's commercial functions;
- to develop and maintain reports and analyses relating to the risks to which the Bank is exposed, including credit, market, interest rate, liquidity, operational and strategic risks, and the reputation risk; and
- to implement the bank recovery and resolution directive (BRRD), and the processes of the Bank and the banking group; to develop and maintain recovery and resolution plans.

In addition, the risk management function has an early warning system (EWS) in place for detecting increased risks in order to capture potential risks in the Bank's portfolio and to take appropriate action to mitigate such risks in a timely manner. The main area of work is the continuous inclusion of risk models in the Bank's risk management processes.

Risk identification

The risk identification process includes the annual assessment of the risk profile, the drafting of the register and set of risks to which the Bank and the Group are exposed and the definition of a materiality threshold for each risk. The risk assessment process includes ongoing analyses of existing risks and the identification of new or emerging risks captured in all relevant organisational units.

The risk assessment process represents the basis for identifying/modifying risk materiality thresholds, and for defining qualitative/quantitative measures in the scope of the ICAAP for new types of risks, on the basis of which the Bank's risk appetite is determined.

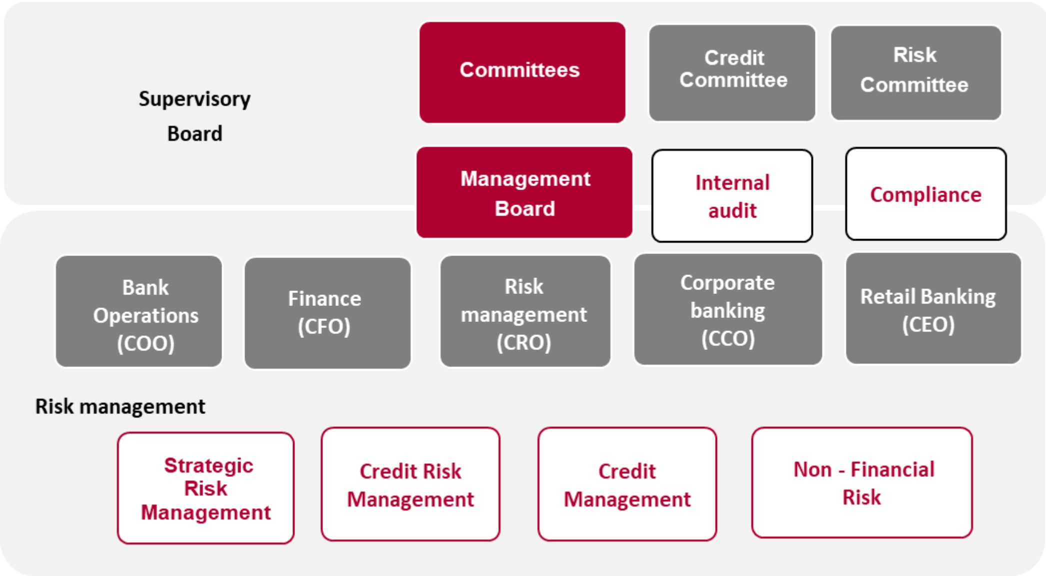
Risk appetite

The risk appetite framework (RAF) defines the Bank's risk profile and the corresponding level of risks the Bank is prepared to accept in order to achieve its business objectives. Risk appetite is quantified in the risk appetite statement which serves as the basis for communicating the Group's risk appetite throughout the organisation. The RAF is thus reflected in and determines the business strategy.

In accordance with legal requirements, the risk management function has direct access to the Supervisory Board, while a regular reporting process to the Management Board is in place via a monthly report submitted to the Chief Risk Officer (CRO), which provides the latter detailed information regarding the main identified risks to which the Group is exposed in quantitative and qualitative terms, with key risk indicators being assessed in terms of the three levels of limits set out in the risk appetite statement.

The figure below illustrates the organisational structure of risk management at Nova KBM d.d.

Figure 4: Organisation of the area of risk management at Nova KBM d.d.



Compliance function

As an element of the system of internal control mechanisms, the compliance function manages compliance risk through regular monitoring, assessment, measures and reporting. The compliance function reports directly to the Bank's Management Board and is functionally and organisationally segregated from the Bank's other functions in which conflicts of interest could arise vis-à-vis the compliance function. The compliance function has unlimited access to all information required for the performance of its tasks and responsibilities.

Compliance risk is the current and expected risk of losses in connection with income, capital and the Bank's reputation due to breaches of or failure to comply with laws, the requirements of supervisory bodies (e.g. the Bank of Slovenia, European Central Bank, Securities Market Agency, etc.), rules and regulations (internal and external), agreements, prescribed practices and the ethical standards set out in the Code of Conduct of Nova KBM d.d. and the Nova KBM Group.

The primary objective is the Bank's commitment to operating in accordance with valid regulations and ethical standards in order to safeguard the core values, integrity, ethics and reputation of the Bank and Group. The continuous management of compliance risk in this area is required to achieve the aforementioned objective, including, in particular, the management of all risks that could bring the Bank or Group into disrepute, cause financial damage, result in legal or regulatory sanctions, or affect employees, customers, contractors, suppliers, shareholders and all other stakeholders who cooperate with or wish to cooperate with the Bank or Group.

The preventive management of compliance risk includes the regular monitoring of all changes to valid legislation on the one hand and ensuring the implementation of those changes in the Bank's bylaws and processes on the other, as well as the establishment, propagation and actual implementation of a culture of compliance and integrity across the Bank and Group. The latter is based on the principle of equity and the Bank's zero-tolerance policy with regard to unauthorised conduct.

To that end, the compliance function:

- informs and educates employees with regard to the values, policies and processes that help ensure that the Bank acts responsibly and fulfils all valid obligations;
- provides advice and assistance to the Bank as a whole and to its employees with regard to measures that contribute to the prevention of non-compliance;
- establishes internal controls and improves the effectiveness thereof;
- manages compliance risk management systems, and identifies, assesses, monitors and reports on risks;
- addresses identified events that indicate possible breaches of regulations in the broadest sense or the ineffectiveness of safeguards (inadequate arrangements or security controls), or that indicate a previously unknown situation that could be relevant with regard to compliance;
- addresses all adverse or unplanned events that cause or could cause an unwanted situation at the Bank. Adverse events include, in particular, errors (the aspect of an event) and unauthorised conduct;
- regularly verifies and tests internal controls and resilience to specific compliance risks;
- continuously monitors new and amended regulations and rules, and the implementation thereof; and
- analyses compliance risk by actively participating in the verification of whether new products are launched in accordance with valid regulations, standards and the Bank's bylaws.

The compliance function draws up an assessment of the compliance risks to which the Bank and Group are exposed at least once a year or when necessary, i.e. in the event of material changes in operations (geographical expansion, new products, new owner, etc.) or material changes in the regulatory environment (e.g. new regulations). That assessment also sets out the planned management of identified risks, taking into account previously envisaged or planned measures and activities to manage/mitigate compliance risks. Also defined in that regard are priorities with respect to the identified level of compliance risks. The compliance function reports regularly to the management body and relevant organisational unit with respect to the aforementioned assessment, together with proposed measures for improvement of internal controls in the event of increased compliance risk. The compliance function submits an annual report and annual compliance risk assessment to the Bank's Management Board and Supervisory Board for review and approval.

Given the specific nature of the tasks and activities of the Bank's compliance function, the employees who perform the compliance function require a high level of professional competences in the area of law and the appropriate work experience. Also desired is knowledge in the areas of banking, economics (finance) and the Bank's business processes. For that purpose, employees who perform the compliance function attend regular training in the area of compliance.

Internal audit function

The Bank has in place a system with three lines of defence in order to ensure effective governance, risk management and internal control systems. Serving as the third line of defence is the Internal Audit Department, which is organised as a sector.

The Internal Audit Department conducts internal auditing in accordance with:

- the International Standards for the Professional Practice of Internal Auditing,
- the Code of Internal Auditing Principles,
- the Code of Ethics of Internal Auditors, and
- the Internal Audit Charter.

Nova KBM's Internal Audit Department is responsible for the internal audit function of Nova KBM and the Nova KBM Group. The parent bank's subsidiaries may have their own internal audit function in accordance with legal requirements and/or the decision of their owners. Nova KBM's Internal Audit Department is responsible for internal auditing at all subsidiaries as part of the performance of its control activities. Decisions regarding auditing at subsidiaries are adopted based on annual planning, which in turn is based on risks. All subsidiaries must comply with the rules of the Internal Audit Charter.

For the purpose of performing its tasks, the internal audit function has the comprehensive and unlimited right to request the submission of information and documentation, and the right to review and investigate.

Principles of the Internal Audit Department's work:

- it is an independent organisational unit that is segregated from the Bank's other organisational units;
- reports directly to the entire Management Board of Nova KBM, Audit Committee and Supervisory Board;
- reports to the President of the Management Board (CEO) in disciplinary and organisational terms;
- the head of the Internal Audit Department is responsible for the performance of auditing tasks in accordance with the law; and
- auditing tasks are performed in accordance with the annual audit plan, which is submitted to the Supervisory Board/Audit Committee in accordance with the law.

Operating principles of the Internal Audit Department:

- Independence in the planning of internal auditing. The Internal Audit Department independently draws up an annual plan based on risks in accordance with the risk-based internal audit planning methodology of the Nova KBM Group. The Bank's Management Board approves that plan with the consent of the Supervisory Board.
- Independence in auditing, reporting and the assessment of the results of auditing. Independence is ensured in the scope of the audit process. The Bank's Management Board receives audit reports following coordination with audited areas/organisational units.
- Inclusion of the Internal Audit Department in other activities. Auditors only perform auditing activities. If other activities are performed, it must be ensured that an auditor's impartiality is not impaired as a result.
- Impartiality. Once a year, every internal auditor must declare any conflicts of interest that might impair their impartiality.
- Education and training. In accordance with the law, at least one employee must hold the title of certified internal auditor. Appropriately qualified staff must be in place to ensure the quality of internal auditing. This is ensured by the Bank through an annual education and training plan.

The Internal Audit Department ensures the quality of internal auditing through external assessments performed every five years and through annual internal assessments. The aforementioned external assessment provides the assurance of an independent assessor that internal auditing work is performed in line with professional standards and rules.

2.2.3 SCOPE AND NATURE OF RISK REPORTING AND MEASUREMENT SYSTEMS

(Article 435 (1.c) of the CRR)

The Group employs a systematic approach to the regular updating and assessment of the appropriateness of established strategies, policies, methodologies and instructions. Documents are reviewed and updated at least once a year.

Policies governing the management of individual risks include definitions of the methods and frequency of measurement and reporting. The scope and frequency of reporting depend on the type of risk and report recipient. The persons responsible for managing and reporting on specific risks are independent from the organisational units that take up risks, which in turn prevents conflicts of interest.

Reports take into account requirements regarding objective, comprehensive and transparent reporting on specific risks. Regular reports are standardised.

Table 1: Reporting on exposures and risk management

REPORTS	Frequency of reporting	Regulatory body	Supervisory Board	Risk Committee	ALCO	Management Board	Operational Risk Committee
CREDIT RISK							
Quality of the credit portfolio	monthly		x	x		x	
Financial restructuring indicators	monthly		x	x	x	x	
Loan portfolio limits by segment and product	monthly		x	x		x	
Changes in the rating classification of obligors, and changes in impairments and provisions	monthly		x	x		x	
Newly approved on- and off-balance-sheet assets	monthly		x	x		x	
Exposure to obligors in a group of connected clients	monthly	x	x	x		x	
LIQUIDITY (ILAAP) RISK							
Liquidity position, results of stress tests in stock of liquidity reserves	monthly		x	x	x	x	
Liquidity ratios (LR, LCR and NSFR)	daily/ monthly/ quarterly		x	x	x	x	
Annual ILAAP report	annual	x	x	x		x	
Report on the risk profile of the Nova KBM Group	at least once a year	x	x	x		x	

REPORTS	Frequency of reporting	Regulatory body	Supervisory Board	Risk Committee	ALCO	Management Board	Operational Risk Committee
Report on stress tests performed for the funding plan	at least once a year	x	x			x	
Monitoring of key risk indicators, limits and appetite by risk type	monthly		x	x	x	x	
LAS (annual ILAAP report)	annual	x	x	x		x	
MARKET RISKS							
Current IRRBB and stress tests	monthly		x	x	x	x	
IRRBB position and limit system	monthly		x	x	x	x	
Trading and banking book of securities and derivatives, and limit system	daily/monthly		x	x	x	x	
Monitoring of established limits	daily/ monthly		x	x	x	x	
OPERATIONAL RISK							
Reports regarding operational risk management: - reports on operational risk management - reports regarding physical and IT security incidents - reports on self-assessments of operational risk - reports on the management of risks in connection with outsourced services	quarterly						x

REPORTS	Frequency of reporting	Regulatory body	Supervisory Board	Risk Committee	ALCO	Management Board	Operational Risk Committee
- reports on fraud risk management							
Report on fraud	monthly					x	
Fraud reporting	half-yearly	x					
Red light: if an individual loss event or the sum of loss events exceeds limits – according to the Recovery plan	when a limit is exceeded	x	x			x	x

Pillar 1 capital adequacy

Own funds, capital adequacy and capital adequacy ratio	monthly * quarterly reporting to the regulator * annual reporting in the scope of the CAS	x*	x	x	x	x	
Monitoring of established limits	monthly * annual reporting in the scope of the CAS	x*	x	x		x	
Reporting on the long-term planning of own funds, capital adequacy and capital adequacy ratio	monthly monitoring * annual reporting in the scope of the CAS; calculation at least once a year	x*	x	x	x	x	

ICAAP

REPORTS	Frequency of reporting	Regulatory body	Supervisory Board	Risk Committee	ALCO	Management Board	Operational Risk Committee
Report on the risk profile of the Nova KBM Group	* annual reporting in the scope of the CAS; at least once a year	x*	x	x		x	
Report on stress tests performed	* annual reporting in the scope of the CAS; at least once a year	x*	x	x		x	
Monitoring of the allocation of own funds, regulatory own funds and Pillar 2 capital adequacy	Monthly * annual reporting in the scope of the CAS	x*	x	x		x	
Monitoring of key risk indicators, limits and appetite by risk type	monthly * annual reporting in the scope of the CAS	x*	x	x		x	
Reporting on the long-term planning of own funds, capital adequacy and capital adequacy ratio	monthly monitoring * annual reporting in the scope of the CAS; calculation at least once a year	x*	x	x		x	
MREL monitoring	monthly * quarterly reporting to the regulator * annual reporting in	x*	x	x	x	x	

REPORTS	Frequency of reporting	Regulatory body	Supervisory Board	Risk Committee	ALCO	Management Board	Operational Risk Committee
	the scope of the CAS						
CAS	annual	x	x	x		x	

JOINT REPORTS

REPORTS	Frequency of reporting	Regulatory body	Supervisory Board	Risk Committee	ALCO	Management Board	Operational Risk Committee
CRO report	monthly		x	x		x	
ALCO Report	monthly				x	x	
COREP reporting	quarterly	x					
Recovery plan	annual	x	x			x	

2.2.4 POLICIES FOR HEDGING AND MITIGATING RISK, AND THE STRATEGIES AND PROCESSES FOR MONITORING THE CONTINUING EFFECTIVENESS OF HEDGES AND MITIGANTS

(Article 435 (1.d) of the CRR)

The Bank has in place an umbrella document regarding the acceptance and management of risks, i.e. the risk appetite framework, including the risk appetite statement, and the Operational Limits Handbook at the level of the Nova KBM Group and at the level of the Biser Topco Group, where appropriate. That handbook includes:

- risk appetite, overall and by individual type of risk;
- precisely defined thresholds for key risk indicators;
- precisely defined exposure thresholds for each segment, product, etc., which are linked to the risk appetite limit and key risk indicators; and
- an early warning system, and measures and responsibilities in the event the maximum value of thresholds are exceeded.

The monitoring and management of individual types of risk are defined in detail in the risk management policy, which takes into account the specific characteristics of individual types of risk. Each policy is the responsibility of one person who ensures the harmonisation of an individual policy with other policies, and with the applicable legislation and best banking practice. Defined is the minimum scope of an individual policy, which includes a definition of activities during the current year, the definition of risk, the method for measuring, reporting and limiting exposure, and a clear definition of the tasks of individual persons.

The following bylaws are deemed the most important risk management and control policies at the Group level:

- Strategies:
  - Business strategy
  - Asset and Liability Management (ALM) Strategy
  - Investment strategy
  - Trading strategy for financial instruments in the trading book
  - IT strategy
  - ESG strategy
- Credit risk:
  - Credit Risk Management Policy
  - Policy Governing Lending to Corporate and Financial Market Customers
  - Policy Governing Consumer Loans and Loans to Micro Enterprises
  - Credit Protection Policy
- Pillar 1 capital adequacy:
  - Policy Governing the Management of Own Funds and Own Funds requirements
- Market risks:
  - Market Risk Management Policy
  - Interest Rate Risk Management Policy
- Operational risks:
  - Framework for implementing the Operational Risk Management Policy
  - Operational Risk Management Policy
  - Outsourcing Policy
  - Compliance Policy
  - IT Security Policy
  - Policy Governing the Management of Risk Associated with Information and Communication Technology (ICT)
  - Fraud Management Policy
  - Reputation Risk Management Policy
- ICAAP and ILAAP:
  - ILAAP Policy within the Nova KBM Group
  - Internal Capital Adequacy Assessment Policy
  - Model Risk Management Policy
  - Stress Testing Policy
- The Group's other management policies and strategies:

  - Governance Policy of Nova KBM d. d. and Companies within the Nova KBM Group
  - Policy on the Assessment of the Suitability of Members of Management bodies and key Function Holders (the Fit & Proper Policy)
  - Internal Control System Policy
  - Disclosure Policy
  - Remuneration Policy
  - Anti-Corruption Policy
  - Data Management Policy
  - Dividend Policy
  - Policy on the Risk-Adjusted Return on Capital (RaRoC)
  - Rules on the Introduction of New Products and the Modification of Existing Products
  - Policy on Drafting of the Strategies, Plans and Forecasts of the Nova KBM Group
  - Recovery and Resolution Policy

Risk management policies form the basis for the management of individual risks across the entire Group. In line with the scope of their operations, Group companies may use their own approach to managing specific risks, with the consent of the responsible person at the parent bank.

Credit risk management is carried out on the basis of:

- statistical credit rating models used to assess the risk associated with an obligor (probability of default);
- statistical credit rating models used to assess loss given default;
- the daily monitoring of notifications from the EWS;
- the definition of appropriate forms of collateral in terms of type, legal certainty and the valuation thereof;
- the definition of rules regarding the identification and formulation of groups of connected clients, and the determination of the appropriate exposure on that basis;
- the appropriate segregation of responsibilities and the definition of decision-making competences at all levels of credit risk management;
- a clear framework for portfolio monitoring and credit risk management;
- the establishment of appropriate processes and tools for effective recovery in the event of non-performing investments;
- the indirect (through loan-origination models) and direct participation of representatives of the Risk Management Department in decisions regarding loan origination;
- clear guidelines and rules in the loan origination process;
- the adoption of appropriate strategies when obligors encounter financial difficulties;
- risk assessment methodologies, reporting and the adoption of measures, and the monitoring of the success thereof;

- a limit system for the entire portfolio subject to credit risk, which is directly integrated into the risk appetite framework and ICAAP; and
- IT support for the appropriate documentation of data and the prevention of operational risk.

The management and mitigation of liquidity risk (ILAAP) is carried out on the basis of:

- limit systems;
- the daily monitoring of the liquidity position and liquidity ratios;
- the performance of stress tests;
- the ILAAP methodology;
- the ILAAP methodology as it relates to the performance of stress tests;
- liquidity risk management contingency plan methodologies;
- other risk assessment methodologies, reporting and the adoption of measures, and the monitoring of the success thereof;
- IT support for the appropriate documentation of data and the prevention of operational risk.

The management and mitigation of market risk is carried out on the basis of:

- the established limit system;
- the daily monitoring of the EWS;
- the performance of stress tests;
- risk assessment methodologies, reporting and the adoption of measures, and the monitoring of the success thereof; and
- IT support for the appropriate documentation of data and the prevention of operational risk.

The management and mitigation of operational risk (OR) is carried out on the basis of:

- the established Operational Risk Loss and Event Data Rulebook;
- established OR self-assessment and scenario analysis methodologies;
- the established risk indicator management framework;
- the daily monitoring of OR loss events;
- the established outsourcing risk management framework; and
- the definition and monitoring of appropriate measures to prevent the repetition of OR loss events.

The management and mitigation of other types of risks, material in terms of the ICAAP, are carried out on the basis of:

- the establishment and monitoring of a limit system and EWS, where appropriate;
- the performance of stress tests, where appropriate;

- established risk assessment and measurement methodologies;
- reporting on risks and the proposal of the necessary measures to mitigate exposure to risk and the monitoring of the success of those measures;
- the established system of internal controls; and
- the established system for defining the roles and responsibilities of individuals responsible for managing individual types of risks.

2.2.5 DECLARATION OF THE MANAGEMENT BODY REGARDING THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

(Articles 435(1)(e) and 435(1)(f) of the CRR)

In accordance with Article 17 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks and Articles 435(1)(e) and 435(1)(f) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the management body comprising the Management Board:

John Denhof, President,
Sabina Župec Kranjc, Vice-President,
Miha Kristl, member,
Matej Falatov, member

and the Supervisory Board, represented by its **Chairman Andrej Fatur,**

hereby confirm, by signing this declaration, that the risk management function, which is an independent area within the Bank's organisational scheme, is adequately arranged. The risk management system is appropriate with respect to the Bank's risk profile and strategy, and its capacity to take-up risks.

Within the framework of its Governance Policy and its Internal Control System Policy, the Group has put in place an effective internal governance system based on the concept of three lines of defence, where the risk management function represents the second line of defence. The risk management function is an independent organisational unit.

Risk Management Function and Risk Appetite Framework

The risk management function is an important part of the overall governance of the Group and is based on the Nova KBM Group's Risk Appetite Strategy which defines the concepts, objectives and procedures in connection with the conscious acceptance of risks. The Risk Appetite Strategy is linked to the Group's business strategy, ICAAP, ILAAP, the implementation of stress tests, and other processes/strategies material for the governance of the Group. The main elements of the Risk Appetite Strategy are included in the risk appetite statement which serves as the basis for informing the Bank's organisational units about Nova KBM's risk appetite. This approach provides for the proper implementation of the Group's risk management strategy.

The basis for the drafting of the Risk Appetite Strategy is the identification of the risks associated with the Group's current and future operations. Risks are identified using the appropriate process, which is an integral part of the assessment of the Bank's risk profile in the scope of the ICAAP and ILAAP. The identification of risks is carried out with the help of quantitative and qualitative models and covers both the risks to which the Group is already exposed and the risks to which it might be exposed in the future. The result of the risk identification process is a list of risks that are subsequently assessed and managed in the scope of the ICAAP and ILAAP processes. Also defined is the materiality of individual types of risks is defined based on an assessment of each type of risk during the risk quantification process through the definition of the materiality of risks and the need to allocate capital or a liquidity buffer. This is performed with the help of an assessment of the probability of the realisation of risks and the occurrence of a loss event, an assessment of the appropriateness of controls established to mitigate individual risks and on the basis of the results of stress tests from the business plan and sensitivity analyses. The need to allocate capital or a liquidity buffer is assessed, and a limit system established for identified and assessed risks.

Risk Appetite Statement and Risk Bearing Capacity

In its risk appetite statement, the Group defines the overall scope and type of risks that it is willing to accept or avoid achieving its business objectives. Defined in that statement is the risk appetite framework which sets out a list of material and other risks, as well as key risk indicators relating to capital adequacy, liquidity, asset quality and profitability. Those indicators are monitored on a regular basis. For the purpose of defining its risk appetite, the Group has established threshold values for the aforementioned key risk indicators by acceptance level based on forward-looking assessments, as well as risk triggers. The established risk appetite is further integrated in the limit system, together with the early warning system. The limit system is defined in the Group's Operational Limits Handbook which is a separate document enclosed with the risk appetite statement.

In addition to the risk appetite statement, the Group has also defined its risk-bearing capacity. Risk-bearing capacity determines the maximum scope of risks that the Nova KBM Group is capable of taking-up and is defined by the amount of Common Equity Tier 1 capital (CET1) which is in line with the 'going concern' approach defined in the ICAAP framework. In the scope of the ILAAP, this is represented by available, highly liquid assets, and the definition of the minimum required liquidity buffer that must be ensured by the Bank for a three-month period of emergency liquidity conditions.

Risk-bearing capacity represents the starting point for the definition of the overall risk appetite, which is also defined for each type of risk by the need to allocate capital or a liquidity buffer, and by the total utilisation of the acceptable scope of risks with respect to the risk appetite. When determining its risk appetite, the Nova KBM Group takes into account the most recent list of risks, the utilisation of limits by individual type of risk, and by individual organisational unit, segment and product, where appropriate. The risk appetite is in line with the Group's business plan and the results of the internal stress tests. The Group regularly monitors the utilisation of risk-bearing capacity through key risk triggers and reports them to the Bank's bodies. The risks that the Group is willing to take-up do not exceed its risk-bearing capacity.

The performance of stress tests is also an integral part of the overall risk management process within the Nova KBM Group. The results obtained on the basis of the analysis of stress tests are used in the decision-making process and in the adoption of strategic decisions. Stress tests are performed in scope of the ICAAP, ILAAP and the Recovery Plan.

The Bank has begun to include economic, social and governance risks in risk management and other internal processes, with an emphasis on environmental and climate risk. That process is continuously updated with the aim of achieving its objectives and commitments to sustainable development and the transition to a low-carbon economy.

This effective risk management system, which is based on the business model put in place at the Group, and also effective corporate governance, has made a comprehensive contribution to reducing SREP requirements in recent years.

Risk profile

The risk profile is drawn up at the level of the Nova KBM Group. Identified and assessed risks included in the Nova KBM Group's risk profile do not deviate from the risks identified by the Biser Topco Group.

The Bank has in place a comprehensive process for identifying types of risks to which it is exposed in its operations. The Bank monitors identified risks in the form of a risk register. A narrower set of risks assessed during the drafting of the risk profile is confirmed by risk owners and other responsible persons, including the Bank's Management Board, and presents the risks to which the Group is exposed in its operations. The risks identified and assessed in the scope of the risk profile are further addressed in the Internal Capital Assessment Process.

In 2020, the Bank identified and included in its risk register economic, social and governance risks. ESG factors were included and assessed in the scope of relevant risk types in 2021, and not as separate types of risks in order to avoid the duplication of the associated effects. Included in the risk appetite framework in 2022 are target guidelines regarding the implementation of ESG risks in the Group's operations.

Risks related to the credit and treasury portfolios, which were assessed during the assessment of risk profile for 2021, are deemed the most significant risks to which the Group is exposed or could be exposed. The assessment of the risk profile for 2021 is in line with expectation, and reflects the Group's business policies.

Risk-bearing capacity, risk appetite and established limit system

The risk appetite statement is a written statement regarding the overall scope and type of risks that the Group is willing to take-up or avoid to achieve its business objectives. The risk appetite statement (RAS) expresses the capacity to consciously take up risks, which is defined by a set of quantitative measurements and qualitative statements. The risk appetite is defined as the highest level of risk that the Group can take up with respect to own funds and liquidity, its ability to manage and control risks, and regulatory constraints.

Defining the risk appetite is an integral part of business planning and the planning of regulatory own funds and own funds requirements, the planning of liquidity needs, and the performance of stress tests. The risk appetite is defined at the level of each type of risks with the need for the allocation of own funds, and in a total amount as a proportion of the risk-bearing capacity. The latter is represented by the amount of Common Equity Tier 1 capital.

Every year, or more frequently as required, the Management Board approves the risk appetite statement in the scope of the risk appetite framework in order to ensure compliance with the business strategy, the business and regulatory environments, and the requirements of stakeholders.

The risk appetite statement links established key risk indicators, the results of the ICAAP and ILAAP, the normative and economic perspectives, and the limit system, together with the early warning system.

The key risk indicators link the Group's business strategy, business plan and risk profile. The table below illustrates the key risk indicators defined in the Group's risk appetite statement as at 31 December 2021. All the key indicators on the reporting date were adequately clear of the internal thresholds put in place.

Table 2: Key risk indicators as at 31 December 2021 of the Biser Topco Group

Solvency	Common Equity Tier 1 capital ratio	16.6%
	Total capital ratio	18.1%
	Leverage ratio	8.1%
	Economic solvency ratio	51.4%
Liquidity	LCR	352.0%
	NSFR	174.4%
	Survival period	> 365 days
Profitability	Cost of risk	46 b.p.
	Net operating margin	40.1%
Asset quality	NPL ratio	2.9%
	Non-performing loans / equity and impairments	16.6%
NPE strategy	Annual reduction of non-performing exposures	€67.7 million

The economic perspectives of the ILAAP set out the required size of the internal liquidity buffer which consists of high-quality available liquid assets intended to cover funding liquidity risk and market liquidity risk. The Group sets a minimum requirement for the internal liquidity buffer as the liquidity risk appetite.

Strategic planning and capital and liquidity adequacy planning process

On an annual basis, the Bank carries out the strategic planning process, which defines the Group's future strategic priorities and comprises two phases: a 'top-down' phase and a 'bottom-up' phase. The objective of the strategic plan is to establish a comprehensive process that includes regulatory own funds/own funds requirements/capital adequacy, funding and profitability plans.

Such an approach translates long-term strategic objectives into measurable short-term and medium-term financial targets, and facilitates the monitoring and management of the success of the business plan during the year.

The purpose of the strategic planning process is to achieve:

- balanced, risk-weighted operations across all business areas and organisational units;
- high risk management standards;
- compliance with regulatory requirements; and
- stable capital and liquidity position.

The process of strategic planning and capital and liquidity adequacy planning provides for the following:

- the assessment of key risk management indicators, taking into account strategic priorities and the business plan;
- the assessment of the risk-bearing capacity with regard to internal and regulatory requirements;
- the assessment of the risk appetite and thresholds of key risk indicators, and the establishment of a limit system for each type of risk; and
- the performance of stress tests for the purpose of assessing the impact of stress scenarios on capital adequacy, own funds and liquidity.

The business plan for the next three years is approved by the management body.

Resolution planning

The Group Resolution Plan is prepared by the resolution authorities, rather than by the Group itself. The Group works closely with the Single Resolution Board (SRB) and the Bank of Slovenia (BoS) which established the Group Resolution Plan. The Resolution Plan is based on a single point of entry (SPE) bail-in as the preferred resolution strategy. Under the SPE bail-in strategy, the Bank would be recapitalised through a write-down and/or conversion to equity of capital instruments and other eligible liabilities to stabilise the Bank.

To further support and improve resolvability the Group has established a **multi-annual resolvability work programme**, which defines resolution planning activities. Inter alia, the programme includes:

- Tasks on improving operational continuity in resolution with upgrades of management information systems and assessment of operational continuity risk,
- The preparation of the FMI contingency plan document, which was amended according to IRT feedback with the main inputs from FMI Questionnaires of FMI providers,
- A new key priority in 2021 was Liquidity in Resolution, covering the identification of key liquidity entities, key drivers of liquidity needs in resolution and the methodology for assessing liquidity needs in resolution, and
- Information systems and data requirements for bail-in and for valuation purposes.

The Group's Management and Supervisory Boards regularly reviews progress with regard to the multi-annual resolvability work programme.

MREL

The BRRD requires banks in EU member states to maintain minimum requirements for own funds and eligible liabilities (MREL) to make resolution credible by establishing sufficient loss absorption and recapitalisation capacity. The MREL requirement for the Group which is based on the Single Point of Entry (SPE) approach, is regularly analysed and monitored by the Group. The Group has fully integrated the MREL requirement into its the overall Risk Management system.

The Group's MREL – TREA requirement issued by the BoS is set at the level of 21.59% after CBR which as of 1 January 2022 needs to be met as an intermediate binding target. After the end of the transition period on 1 January 2024 the final Group's MREL - TREA target requirement is set at the level of 26.18% after CBR.

Maribor, 7 April 2022

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

Supervisory Board of Nova KBM d.d.

Andrej Fatur,
Chair

2.3 INFORMATION REGARDING RISK MANAGEMENT OBJECTIVES AND POLICIES BY RISK CATEGORY

This section covers the disclosures required under Article 435(1) of the CRR and are set out in the tables EU CRA, EU CCRA, EU MRA and EU LIQA of the Guidelines, for each individual risk category.

2.3.1 GENERAL QUALITATIVE INFORMATION REGARDING CREDIT RISK

This section includes the disclosures required under Article 435(1) of the CRR and are set out in Table 'EU CRA – General qualitative information regarding credit risk'.

Credit risk is the risk of loss arising from the failure of an obligor to settle its obligations to a Group company, and is the basic risk to which the Group is exposed in its activity. As the core document, the Nova KBM Group's risk appetite framework includes quantified strategic objectives in connection with the take-up of credit risk.

Credit risk management includes the identification, measurement and reduction of risks to an acceptable level that is in line with the established business strategy, risk appetite framework and risk appetite statement. Credit risk is managed at the level of customer, individual Group company and the Group as a whole.

The Group monitors, mitigates and manages credit risk:

- by defining the risk associated with an obligor and assessing expected credit losses in accordance with the International Financial Reporting Standards;
- by ensuring sufficient capital to cover credit risks;
- by limiting exposure in the scope of the limit system, which is directly integrated into the risk appetite framework and ICAAP; and
- by appropriately securing financial assets.

For the purpose of mitigating credit risk, decision-makers from the risk management function are included in the decision-making process (decisions according to the four-eyes principle).

2.3.1.1 Non-performing exposures

The Group designates as non-performing exposures (NPEs) those exposures where it justifiably expects that an obligor will be unable to settle its obligations in full by the contractual deadline or that those obligations will not be settled without measures taken by the Bank, including the redemption of collateral, the sale of claims or forbearance.

The Group deems exposures to be non-performing if any of the following criteria are met:

- the exposure has a status of non-performing or is classified as Stage 3 in accordance with IFRS 9 and the Group's Methodology for Assessing Expected Credit losses (including arrears in the settlement of a material credit obligation of more than 90 days in accordance with the new definition of default under Article 178 of Regulation (EU) No 575/2013 (Capital Requirements Regulation or CRR), and with regulatory technical standards regarding the materiality threshold for credit obligations in arrears under Article 178 of Regulation (EU) No 575/2013), which is deemed the sum of all past due unpaid obligations of an individual obligor to the Bank until that sum exceeds 1% of total exposure to that obligor and is greater than €100 or €500, depending on calculated exposure;

- an exposure has been forborne, whereby the Group has experienced a material economic loss or assesses that an obligor's liabilities will probably not be repaid – forbearance with a low probability of payment;
- the exposure has already been treated as non-performing and the exit criteria are not met; and
- the customer is in insolvency proceedings.

The Bank has precisely defined criteria for customers in default. When those criteria are met, it deems that the risk associated with a customer has been mitigated and default status can be discontinued. When a customer is returned to a non-default rating grade, the associated exposure in a given observation period is reclassified as Stage 2.

When the reasons that resulted in a significant increase in the credit risk associated with a specific financial asset no longer exist and the Bank has sound reason to believe that there will not be another significant increase in the credit risk associated with an obligor's exposures over the short term, that financial asset is classified as Stage 1 and expected credit losses are recalculated for a 12-month period.

Reclassification to non-performing exposures after forbearance:

- any of an obligor's exposures are 30 days past due during the two-year probationary period or repeat forbearance was carried out.

The Workout Department and Legal Office manage the portfolio of customers in default who are classified to default rating grades.

2.3.1.2 Interest rates and loan origination costs

The prices of banking products at Group companies are set in accordance with valid policies governing lending to customers. For example, the interest rates on loans to customers depend on the base interest rate, type of transaction, past cooperation with Group companies, a customer's credit rating, and loan maturity and collateral.

Loan origination costs are set based on the valid resolutions of an individual Group company's management board and that company's lending policy.

The Bank applies an effective interest rate (EIR). An EIR is an interest rate that precisely discounts estimated future cash outflows or inflows to the gross carrying amount of a financial asset over the expected duration thereof. When estimating ECLs for POCI assets, the effective interest rate set at initial recognition is used for discounting purposes.

An interest rate benchmark represents the reference value at which banks can lend funds to or borrow funds from other banks or agents that are not banks. It is also used in transactions with banking customers that include a variable interest rate. Interest rate reform is in progress with the aim of ensuring the increased reliability, accuracy and integrity of interest rate benchmarks. Interest rate benchmarks such as the Euro Overnight Index Average (EONIA) and London Interbank Offered Rate (LIBOR) will be discontinued, replaced or amended.

Commission Implementing Regulation (EU) 2021/1847 of 14 October 2021 was published in the Official Journal of the European Union on 22 October 2021, and legally set the compounded SARON as the replacement interest rate benchmark for the CHF LIBOR, as the latter ceased to exist on 31 December 2021. Also published in the Official Journal of the European Union was Commission Implementing Regulation (EU) 2021/1848 of 21 October 2021, which set the €STR as the replacement interest rate benchmark for the EONIA.

2.3.1.3 Exposure limits

In its operations the Group meets the restrictions on maximum allowed exposure prescribed by the CRR. In accordance with Article 395 of the CRR, the Bank's exposure to an individual person or group of connected clients, minus impairments and provisions, credit risk mitigation, exemptions and the effect of credit protection, may not exceed 25% of its eligible capital.

For effective management of the risks inherent in its operations, and having regard for the legal and regulatory requirements, the Group has put in place a limit system that ensures that the Group's operations comply with its business strategies and business plans, and with the risk management policies in accordance with the risk appetite strategy.

The Group's exposure to a client or a group of connected clients is limited with regard to the following:

- the credit rating of the individual client, having regard for the financial solidity of the group of connected clients;
- the collateral obtained;
- separately by product, where relevant; and
- the business segment (whether the exposure is to retail customers, to corporates or to financial institutions)

The Group regularly monitors the utilisation of the established limits, and reports regularly thereon to the appropriate management bodies.

2.3.1.4 Credit portfolio limits

With the aim of preventing a significant increase in credit risk in the Group's portfolio, and preventing the basic limits set out in the risk appetite statement from being transgressed, the Group has introduced a credit portfolio limit system. This is linked to the total capital ratio defined in the risk appetite statement, and is also linked via risk-weighted assets to the nominally determined limits sent to commercial units. Limits are set at the level of business lines, customer segments, products, where relevant, and credit ratings.

Limits related to quality and portfolio concentration are also set.

The limits apply to the Group, and are divided into two sets:

- portfolio structure limits: to prevent the limits set out in the risk appetite statement, concentrations and the resulting potential losses from being exceeded; and
- portfolio quality limits: to maintain portfolio quality.

The defined limits are additional supported by the early warning system (EWS), which sets out warning thresholds, and clearly defined roles, responsibilities and essential actions when those thresholds are reached.

2.3.1.5 Collateral policy

The Bank accepts the collateral set out in the CRR/CRD and the Regulation on credit risk management at banks and savings banks. The Bank also accepts other acceptable forms of collateral.

The type of required collateral depends on the Bank's strategy and lending policies, specifically the policy governing lending to corporate and financial market customers and the policy governing consumer loans to micro enterprises. Collateral is defined depending on:

- the purpose and maturity of an investment, and
- an obligor's creditworthiness.

The Bank improves the quality of the collateral portfolio and thus mitigates credit risk through established minimum requirements for the collateralisation of investments (maximum loan-to-value – LTV). The Bank has defined the permitted level of unsecured investments taking into account the maturity of an investment and an obligor's creditworthiness.

2.3.2 QUALITATIVE DISCLOSURE RELATED TO COUNTERPARTY CREDIT RISK

This section covers the disclosures required under Article 435(1)(a) of the CRR and are set out in Table EU CCRA – Qualitative disclosure related to CCR of the Guidelines.

Counterparty credit risk management is explained in more detail in section 6.

2.3.3 QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO MARKET RISK

This section covers the disclosures required under Article 435(1)(a), (b) and (d) of the CRR and are set out in Table EU MRA – Qualitative disclosure requirements related to market risk of the Guidelines.

Market risk management is explained in more detail in section 12.

2.3.4 QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO LIQUIDITY RISK

This section covers the disclosures required under Article 435(1) of the CRR and are set out in EU LIQA – Template on qualitative and quantitative information of liquidity risk of the Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013.

Liquidity risk management is explained in more detail in section 18a.

2.4 INFORMATION REGARDING GOVERNANCE ARRANGEMENTS

This section includes the disclosures required under Article 435(2) of the CRR, the content of which is set out in Table EU OVB.

2.4.1 NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY

(Article 435 (2.a) of the CRR)

Management Board

Nova KBM's Management Board comprised the following five members as at 31 December 2021: John Denhof, President, Jon Locke, Vice-President, Sabina Župec Kranjc, member, Matej Falatov, member, and Aytac Aydin, member.

Table 3: Membership of Management Board members on the bodies of other entities

Membership on the bodies of other entities as at 31 December 2021				
Management Board	**Name of other entity**	**Activity**	**Management Board**	**Supervisory Board**
John Denhof, President	Summit Leasing d.o.o.	Leasing		X
Sabina Župec Kranjc	Summit Leasing d.o.o.	Leasing		X
	Bank Association of Slovenia	Banking		X
Jon Locke, Vice-President	Summit Leasing d.o.o.	Leasing		X
	British-Slovenian Chamber of Commerce	Corporates		X
Matej Falatov	Summit Leasing d.o.o.	Leasing		X
	ALEJA finance d.o.o.	Factoring		X
Aytac Aydin	Bankart d.o.o.	Payment systems		X

The term of office of member and Vice-President of Nova KBM's Management Board, Jon Locke, who also served as Chief Risk Officer, expired on 31 December 2021.

The Supervisory Board appointed Miha Kristl, Director of the Credit Management Sector, to serve as new member of the Management Board and Chief Risk Officer on 9 September 2021. On 25 November 2021, Miha Kristl received authorisation from the ECB to perform the function of member of the Management Board and his term of office began on 1 January 2022.

On 22 November 2021, the Supervisory Board reappointed John Michael Denhof to serve as President of Nova KBM's Management Board for a period that will run from 1 March 2022 until 31 December 2022.

At the same session, Nova KBM's Supervisory Board also reappointed Sabina Župec Kranjc to serve as a member of the Bank's Management Board for a period that will run from 17 November 2022 until 31 December 2023.

On 22 November 2021, the Supervisory Board also reappointed Matej Falatov to serve as member of Nova KBM's Management Board for a period that will run from 23 November 2021 until 31 December 2023.

Supervisory Board

Alexander Saveliev resigned from his position as a member of the Supervisory Board, effective 17 March 2021. Based on his resignation, the General Meeting of Shareholders relieved Mr Saveliev of his function on 17 March 2021.

On 17 March 2021, the General Meeting of Shareholders appointed Kristina Žagar to a five-year term of office as member of the Supervisory Board, effective 18 March 2021.

Due to the expiry of the terms of office of Supervisory Board members (20 April 2021), the General Meeting of Shareholders reappointed the following persons to new five-year terms of office on 17 March 2021: Andrej Fatur, Michele Rabà, Andrea Moneta and Manfred Puffer. The terms of office of Supervisory Board members began on 21 April 2021.

The Supervisory Board comprised the following seven members as at 31 December 2021: Andrej Fatur, Chairman, Andrzej Klesyk, Deputy Chairman, and members Manfred Puffer, Michele Rabà, Andrea Moneta, Kristina Žagar and Borut Jamnik.

Table 4: Membership of Supervisory Board members on the bodies of other entities

Membership on the bodies of other entities as at 31 December 2021				
Supervisory Board	Name of other entity	Activity	Management Board	Supervisory Board
Andrej Fatur, Chairman	Odvetniška družba Fatur Menard, o.p., d.o.o.		X	
Manfred Puffer	Oldenburgische Landesbank AG	Banking		X
	Athene Life Holding Bermuda	Financial		X
	Athene Life RE Bermuda			X
	Athene Lebensversicherung AG	Insurance		X
	Infineon Technologies			X
Michele Rabà	Summit Leasing d.o.o.	Leasing		X
	Biser Topco S.à r.l.	Holding company		X
	Biser Bidco S.à r.l.	Holding company		X
	Biser Holdings Ltd.	Holding company		X
	Jewel UK Topco Ltd.	Holding company		X
	Jewel Holdco S.à r.l.	Holding company		X
	Jewel Holdco 2 S.à r.l.	Holding company		X
	Jewel UK Watch Holdings Limited	Holding company		X
	Lottomatica Group SpA	Gaming		X
	Gamma Bidco SpA	Holding company		X
	Gamma Midco SpA	Holding company		X

Membership on the bodies of other entities as at 31 December 2021				
	Oldenburgische Landesbank AG	Banking		X
	Sazka Entertainment AG	Entertainment		X
	Sazka Group a.s.			X
	Reno de Medici			X
Andrea Moneta	Amissima Group	Financial		X
	The Floow			X
	Lottomatica Group SpA	Gaming		X
Kristina Žagar	Biser Topco S.à r.l.	Holding company		X
	Biser Bidco S.à r.l.	Holding company		X
Andrzej Klesyk, Deputy Chairman	Foundation Centrum Im Profesora Bronisława Geremka	Pension/Health Fund		X
	Cornerstone Investment Management			X
	Avenga Group			
	ProService			
	Moventum SCA			
	Moventum Holdings S.A.			
	Okechamp International BV			
Borut Jamnik	Modra zavarovalnica d.d.	Pension company	X	
	Krka d.d.	Manufacture of pharmaceutical preparations		X

2.4.2 RECRUITMENT POLICY FOR THE SELECTION OF MEMBERS OF THE MANAGEMENT BODY AND THEIR ACTUAL KNOWLEDGE, SKILLS AND EXPERIENCE

(Article 435 (2.b) of the CRR)

The Bank implements a Policy on the Selection of Suitable Candidates for the Management Body in accordance with the provisions of paragraph 2 of Article 35 of the Banking Act (ZBan-3), which envisages the establishment and implementation of an appropriate selection policy for suitable candidates that ensures:

- that the management body, as a whole, takes into account the wide range of knowledge, skills and experience of its members, which facilitates an in-depth understanding of the Bank's business activities and the risks to which it is exposed;
- initiatives to achieve diversity within the management body, including the appropriate representation of both genders and policies to achieve these objectives by increasing the number of members of an under-represented gender on the management body; and
- the definition of conditions for the performance of a specific function, including the required profile of members of the management body before they are appointed.

The members of the management body play a key role in the pursuit of the Bank's interests, and must therefore be, individually and as a whole, appropriately qualified, experienced and of a suitable number to ensure the reliable performance of the tasks entrusted to them, while their personal interests must be in line with the long-term interests of the Bank. Based on their responsibility to manage and supervise the Bank, the members of the management body are expected to possess specific professional and personal competences. The required knowledge, skills and experience of each member, individually and in connection with other members as a complementary whole, ensure a level of understanding of the Bank's transactions, the risks to which it is exposed and the structure of governance required for the adoption of professional, sound and competent decisions for managing and supervising the Bank.

Moreover, the Bank consistently implements the Policy on the Assessment of the Suitability of Members of Management Bodies and Key Function Holders (so-called Fit & Proper Policy) of Nova KBM. That policy sets out the key criteria for the fulfilment of individual and collective suitability that must be met by members of the management body, as well as the body that verifies the fulfilment of those criteria. They are: the criterion of experience (the education, work experience and knowledge of individual members or candidates in key areas are assessed in this regard), the criterion of personal reliability and reputation, and the criterion of management, with an emphasis on managing conflicts of interest, independence and time commitment. The body responsible for assessment is Nova KBM's Fit & Proper Committee. Requirements regarding the function of president of the management body and the members thereof are defined separately. Added to the above-described criteria were other relevant areas that could have a decisive impact on the Bank's future operations. This concerns, in particular, the fulfilment of the condition regarding knowledge and experience in the areas of sustainable financing and associated

ESG risks, IT risks, cyber risks, sustainable business models and digitalisation. The aforementioned policy also states that care must be taken in the formation of cogent commissions and committees by members of the Supervisory Board to ensure that their members possess the appropriate expertise and experience in the relevant work area, so as to ensure a level of qualification and competence of the committee or commission as a whole, where individual members systematically and comprehensively cover all relevant areas of expertise, and the body as a whole is able to perform the duties entrusted to it in a diligent and prudent manner.

The policy also defines the succession of members of the management body, based on which the Bank provides for an appropriate succession plan for members of the management body to ensure the continuity of decision-making and to prevent, where possible, the simultaneous replacement of an excessive number of members.

Presentation of the Bank's Management Board and Supervisory Board

Management Board

Notwithstanding the aforementioned, the Bank's Supervisory Board takes into account the provisions of the Companies Act (ZGD-1), Banking Act (ZBan-3), Bank of Slovenia implementing regulations, EU regulations, the Bank's Articles of Association and Nova KBM's Policy on the Selection of Suitable Candidates for Management Body Members in the appointment of the President and members of the Management Board.

John Denhof began performing the function of President of the Management Board on 1 March 2017. He is a financial expert with extensive experience gained in various management roles at Citibank in several emerging and developed markets, including Singapore, the UK, Turkey, the Czech Republic and Spain. He has been working in the financial sector for more than 25 years. He has planned and implemented the repositioning of banks, transformed them into institutions with sustainable growth and profitability, developed distribution channels, improved capacities for digital operations, and increased added value for customers. He has performed the function of Chairman of the Supervisory Board of Summit leasing d.o.o. since 18 September 2017. From 8 May 2018 until 11 June 2019, he served as Deputy Chairman of the Supervisory board of KBM Infond d.o.o.

Sabina Župec Kranjc holds a master's degree in economics and business, with a major in corporate finance and banking. She has been a member of Nova KBM's Management Board since 17 November 2014 and has more than 20 years of work experience in the field of banking. She began her business career in 1998 in the Treasury Sector at Abanka Vipa d.d., where she was head of Trading Department from 2003 to 2004. From 2004 to 2008, she served as the head of trading and then the head of treasury at Raiffeisen Banka d.d. She was the head of the Treasury Sector at Abanka Vipa d.d. from 2008 to 2013. She has been employed at Nova KBM since July 2013 as the Executive Director of the Financial Markets Sector, where she has managed more complex projects, such as asset quality review (AQR) and the privatisation of the Bank. In the past, she served as Chairperson of the Supervisory Board of PBS, and served as member of the Supervisory Board of Terme Olimia from 1 July

2015 to 10 September 2017. She performed the function of member of the Supervisory Board of KBM Infond d.o.o. from 2014 to 11 June 2019. She has been a member of the Supervisory Board of Summit Leasing Slovenija d.o.o. since 18 September 2017, and also serves as member of the Supervisory Board of the Bank Association of Slovenia.

Jon Locke began his term of office as member of the Management Board on 1 January 2017. He has more than 25 years of experience in managerial and consultancy positions in the banking sector, in particular in the management of risks and non-performing claims at banks in Central and Southern Europe. During his career, he has served as a member of bank management teams in a number of change management programmes, where he focused in particular on the management of credit risk and non-performing claims, and data integration in banking operations. Since 2013, he has been a member of the Management Board and CRO at Banca Comercială Română in Bucharest, a leading bank in Romania and a member of the Erste Group. From 2003 to 2013, he performed managerial functions at three major Central European banks from the Intesa Sanpaolo Group. He served as Chief Workout Officer at the Hungarian bank CIB. Prior to that, he served as Vice-President of the Management Board and CRO at the Croatian bank Privredna banka Zagreb, and performed the same function at the Slovakian bank VUB. He also gained managerial, professional and consultancy experience at Deloitte, where he was a partner from 2001 to 2003. Prior to joining Deloitte, he was employed for ten years by the consultancy firms Coopers & Lybrand and PricewaterhouseCoopers, where he worked as a consultant to financial institutions in London, Prague and Moscow. He has served as a member of the Supervisory Board of Summit leasing d.o.o. since 18 September 2017. He has served as member and Deputy Chairman of the Supervisory Board of the British-Slovenian Chamber of Commerce since May 2017. He has performed the function of Vice-President of Nova KBM's Management Board since 31 March 2018. From 8 May 2018 until 11 June 2019, he served as member the Supervisory board of KBM Infond d.o.o.

Matej Falatov holds a bachelor's degree in economics. He also received a master's degree in management and corporate organisation from the School of Economics and Business at the University of Ljubljana, and completed a specialised course in banking management. He has obtained his knowledge in various managerial positions. From 2016 to 2018, he served as the President of the Management Board of Addiko Bank d.d. Ljubljana, where he was responsible for all banking services and leasing transactions. Before that function, he served as a member of the management board or executive director at various banks in Slovenia and abroad (Hypo Alpe Adria Bank d.d., Ljubljana, SKB banka d.d. Ljubljana, Factor Banka d.d. and West East Bank a.d. Sofia), where he was responsible for managing the areas of corporate banking, retail banking, treasury, investment banking and other financial-commercial services. He has served as a member of the Supervisory Board of Summit leasing d.o.o. since 30 August 2018. He has served as the Chairman of the Supervisory Board of ALEJA finance d.o.o. since 21 October 2021, and as member of Nova KBM's Management Board since 6 July 2018.

Aytac Aydin began his term of office as member of the Management Board on 6 May 2019. He has over 19 years' experience in the fields of banking, consultancy, technology and operational processes. He received a master's degree in business administration, as well as a master's degree in electrical engineering at Penn State University in the US. He also successfully completed MBA studies at Wharton Graduate School of Business in Singapore, France and the US. His past achievements include the successful management of numerous projects at various banking, financial and other organisations in connection with the establishment and transformation of IT, different developmental operational and sales models, cost management, improvements to process management and other consultancy projects. He held a variety of senior positions over a period of 4 years from 2014 to 2018 and has been a member of the Supervisory Board of Bankart.

Supervisory Board

The provisions of the Companies Act (ZGD-1), Banking Act (ZBan-3), Bank of Slovenia implementing regulations, EU regulations, the Bank's Articles of Association and Nova KBM's Policy on the Selection of Suitable Candidates for Management Body Members are taken into account in the appointment of the Supervisory Board members.

The Bank has also adopted the Governance Policy of Nova KBM d.d. and Nova KBM Group Companies, which sets out the delegation of responsibilities and competences among the members of Nova KBM's management and supervisory bodies.

In connection with the strategy and criteria for selecting members of the Management Board and Supervisory Board, and key function holders, the Bank has in place the Policy on the Assessment of Suitability of Members of Management Bodies and Key Function Holders (Fit & Proper Policy), based on which a special Fit & Proper Committee was formed.
Taking into account Nova KBM's Policy on the Selection of Suitable Candidates for Management Body Members and the Fit & Proper Policy, the Supervisory Board's Nomination Committee identifies and recommends to the Supervisory Board candidates for members of the Management Board, and identifies and recommends to the General Meeting of Shareholders candidates for members of the Supervisory Board.

Andrej Fatur (Chairman) has extensive international experience as a corporate lawyer and is currently acting as the Chair of the Public Finance Law Institute in Slovenia. Previously, he served as a legal adviser to the BSI on banking operations and regulations.

Andrzej Klesyk (Deputy Chairman) is an expert in financial services and has been working as a senior advisor mainly for financial companies which consult investors, banks and international companies on their business strategy in Europe. Between 2007 and 2015, he was the Chief Executive Officer of PZU SA.

Manfred Puffer has more than 30 years of experience in the banking and insurance sectors. Since 2008, he has been working as an Operating Partner and consultant to certain affiliates of Apollo Global Management, Inc., focusing primarily on the banking sector in Europe. Mr. Puffer also holds directorship positions at Infineon Technologies Munich, Athene Holding Ltd. Bermuda, Athene Lebensversicherung AG and Oldenburgische Landesbank AG (f/k/a Bremer Kreditbank AG).

Michele Rabà is a partner in Apollo Management International, LLP, focusing on Private Equity. He previously worked at the Investment Banking Division of Goldman Sachs International. Mr. Rabà currently holds directorship positions, *inter alia*, at Biser Holdings Limited, Biser Topco, Biser Bidco, Lottomatica Group, Oldenburgische Landesbank AG, Sazka Group and Reno de Medici.

Andrea Moneta has held senior directorship positions in a number of companies in the banking and insurance sectors, including serving as an executive member of the Board and Group Executive Director of Aviva Plc and CEO of Central and Eastern Europe Division of UniCredit. He is currently serving as the Chairman of the Board of directors of Amissima Group. He is also a non-executive director of the Floow and the Lottomatica Group.

Kristina Žagar is a Senior Banker/Associate Director, Financial Institutions, EU Banks & Structured Finance Team at EBRD with 15-year experience in banking. She developed her skills and experience by holding various functions at the EBRD and, previously, at Merrill Lynch International, London. She began her professional career at Raiffeisenbank, Zagreb. Ms. Žagar currently holds directorship positions at Biser Bidco and Biser Topco.

Borut Jamnik is currently serving as the Chairman of the management board of Modra zavarovalnica d.d. During his career he held numerous executive and non-executive positions in the banking, insurance and finance industries (including Kapitalska družba d.d. – Capital Fund, Probanka Asset Management Company, HIT d.d., Securities Market Agency of the Republic of Slovenia, Restructuring and Privatisation Agency of the Republic of Slovenia, etc.). He is also a member of the Supervisory Board of Krka d.d. In addition, Mr. Jamnik has performed several supervisory functions within other industries, among others in Telekom Slovenije d.d. (President of the Supervisory Board) and Pivovarna Laško d.d. (Member of the Supervisory Board). He is also the Chair of the Council of the Slovenian Insurance Association, in the past he was also the Chair of the Slovenian Directors' Association (both non-profit).

2.4.3 THE POLICY ON DIVERSITY WITH REGARD TO SELECTION OF MEMBERS OF THE MANAGEMENT BODY, ITS OBJECTIVES AND ANY RELEVANT TARGETS SET OUT IN THAT POLICY, AND THE EXTENT TO WHICH THESE OBJECTIVES AND TARGETS HAVE BEEN ACHIEVED

(Article 435 (2.c) of the CRR)

The Bank has not adopted a separate policy for the selection of members of its management bodies, as this area is covered in full, in substantive terms, by the Nova KBM Group's Policy on the Selection of Suitable Candidates for Management Body Members. That policy was last updated by the Bank in September 2021. In addition to the expansion of the policy's validity and the expansion of implementation to Nova KBM Group companies, the policy also envisages, in accordance with the provisions of paragraph 2 of Article 35 of the Banking Act (ZBan-3), the establishment and implementation of an appropriate selection policy for suitable candidates that ensures:

- that the management body, as a whole, takes into account the wide range of knowledge, skills and experience of its members, which facilitates an in-depth understanding of the Bank's business activities and the risks to which it is exposed;
- initiatives to achieve diversity within the management body, including the appropriate representation of both genders and policies to achieve these objectives by increasing the number of members of an under-represented gender on the management body; and
- the definition of conditions for the performance of a specific function, including the required profile of members of the management body before they are appointed.

The criterion of experience is thus defined for members of the management body (the education, work experience and knowledge of individual members or candidates in key areas are assessed in this regard), as well as the criterion of personal reliability and reputation, and the criterion of management.

In accordance with EBA Guidelines on internal governance, and the supervisory guidelines and recommendations of regulatory authorities (the Bank of Slovenia and ECB), the section 'Criterion of experience' also defines other related matters that could have a decisive effect on the Bank's future operations. This concerns, in particular, the fulfilment of the condition regarding knowledge and experience in the areas of sustainable financing and associated ESG risks, IT risks, cyber risks, sustainable business models and digitalisation. Candidates for members of the management body must fulfil the aforementioned criteria, both individually and at the level of the entire body. In accordance with the revised EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, the policy now includes knowledge of the prevention of money laundering and terrorist financing as a condition for the fulfilment of conditions covering knowledge, skills and experience. That factor will thus be taken into account when assessing the suitability of members of the Bank's management body.

The revised policy also includes provisions in line with EU guidelines on the prevention of money laundering and terrorist financing, which state that the management body is responsible for implementing a policy and rules on the prevention of money laundering and terrorist financing. The Bank must appoint the member of the Management Board with the most knowledge and experience in the aforementioned area to implement the above-described provisions.

In accordance with the Bank's bylaws and the best practices of regulatory bodies (e.g. the Bank of Slovenia and ECB), the policy now includes a section entitled 'Climate and environmental risks, and the collective suitability of the Bank's Management Board', which requires members of the management body to formulate a strategic approach to the management of ESG risks and the appropriate understanding of the topic in question.

In accordance with the revised EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, the Bank must take into account additional requirements in the selection process. Those requirements must be met to ensure diversity and respect of the principle of equal opportunities (e.g. career planning and measures to ensure the equal treatment of and equal opportunities for employees of different genders, the organisation of training for managerial functions, discrimination prevention policy, etc.).

The composition of the Supervisory Board as a whole must be taken into account in the selection process. That composition must also meet requirements regarding suitability in terms of the functioning of the Supervisory Board as an integrated and unified system. Care must be taken to ensure that any lack of expertise on the part of any member of the Supervisory Board, in particular taking into account the desired diversity of professions and educational backgrounds of the members of the Supervisory Board, can be compensated for by the expertise of the other members of the Supervisory Board. In the event of a lack of expertise in a specific area, every member of the Supervisory Board can attend additional training in accordance with the rules of procedure of the Supervisory Board. When establishing the committees and commissions of the Supervisory Board required by law, care must be taken to ensure that the members of each committee or commission have the relevant expertise and experience in the work areas of the committee or commission which are required to ensure that the qualifications and skills of an individual committee or commission as a whole enable its members to systematically cover in full all of the relevant areas of expertise, thereby enabling the committee or commission as a whole to perform its tasks and duties with the required level of conscientiousness and prudence. Taking into account the composition of the Supervisory Board and its tasks and duties, it is recommended that the work experience and age of individual members of the Supervisory Board be as diverse as possible (i.e. from slightly older to younger members). It is also recommended that the diversity of the Supervisory Board in terms of age, gender, geographical origin, education and professional experience be ensured, where an appropriate balance of representation by gender is particularly important. The Bank must also ensure the diversity of the Supervisory Board's composition taking into account the long-term planning of HR policies and succession planning. The diversity of the Supervisory Board's composition plays a role in collective decision-making by the aforementioned body. It can also encourage the presentation and exchange of independent and constructively critical opinions of individual Supervisory Board members in the scope of discussions at the level of the entire Supervisory Board, under the previously mentioned assumption, of course, that the members of the Supervisory Board have sufficient theoretical and practical banking experience to understand and appropriately supervise the Bank's operations.

In accordance with the new EBA guidelines on the assessment of suitability, the policy was supplemented with a provision that requires the Bank to take into account additional requirements and/or introduce additional measures to ensure diversity in terms of gender (women account for 20% of members of management bodies and 14% of members of supervisory bodies), and to respect the principle of equal opportunities with the aim of enhancing the positive impact on the decision-making process at individual levels of management.

The Nomination Committee set a target in terms of the number of members of an under-represented gender at the level of the management body. The Bank must therefore strive, to a reasonable extent, to improve balance of members in terms of gender over the next five (5) years. The Bank's policy governing the aforementioned objective (i.e. to improve the balance of representation in terms of gender) must be taken into account already in the process of appointing/selecting new candidates for members of the management body. In order to increase the number of members of the under-represented gender in practice, the candidate who represents the under-represented gender must be selected when deciding between a male and a female candidate. Once a year, the Nomination Committee will review and verify the balance of representation of members of the management body in terms of gender.

In practice, diversity is ensured through procedures for proposing and appointing members to management and supervisory bodies. Diversity criteria (professional experience, age, education and expertise) were met, except for the criteria regarding representation by gender, which can be achieved by increasing the number of members of the under-represented gender. There were no women on the Supervisory Board during the first three months of 2021. On 17 March 2021, the General Meeting of Shareholders appointed a new female member to the Supervisory Board due to the termination of the function of another member. With the appointment of a new female member to the Supervisory Board, the representation of women on the supervisory body improved slightly (to 14%). As at 31 December 2021, the Supervisory Board comprised seven members: one woman and six men.

The representation of women on the Bank's Management Board is slightly higher (at 20%). As at 31 December 2021, the Management Board comprised five members: one woman and four men. The female member of the Management Board has actually performed her function since 2014, which further contributes to the continuity and quality of the Management Board's decision-making process.

2.4.4 THE INSTITUTION HAS A SEPARATE RISK COMMITTEE PUT IN PLACE

(Article 435(2.d) of the CRR)

The Bank has established the Risk Committee, which is a consultative body of the Supervisory Board of Nova KBM d.d., and whose mission consists of supervising the Bank's senior management with regard to the implementation of the risk management strategy at the Bank and at the Group. It also provides advice with regard to the Bank's current and future risk appetite. The committee met seven times in 2021 (four ordinary sessions and three correspondence sessions).

2.4.5 DESCRIPTION OF THE INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY

(Article 435(2.e) of the CRR)

The risk management division and finance division draw up reports on exposure to various types of risk, the utilisation of the limit system and the risk appetite, on non-performing exposures, on the management of non-performing claims and on the Bank's performance, and submit them to the **Management Board**, the **Risk Committee** and the **Supervisory Board**.

Monthly reports on risks are also made to the **ALCO**.

Reporting is undertaken on a daily, monthly, quarterly and annual level. The risk management division reports data separately at the levels of the Nova KBM Group and the Biser Topco Group.

The Bank sets out the frequency of reporting and the person responsible for reporting in its individual risk management policies.

The risk management division published the most important indicators of liquidity risk, interest rate risk and market risk on the intranet on a daily basis. It also draws up the risk management report on a monthly basis, and submits it to the Management Board, the executive directors, and the directors of the relevant departments.

The Operational Risk Committee, which has been functioning at the Bank since 2015, comprises the following members: the President of the Bank's Management Board, the Management Board member responsible for risks (CRO), the Management Board member responsible for the Bank's operational performance (COO), the Management Board member responsible for finance (CFO), the Director of the Strategic Risk Management Department, the Director of the Physical and Information Security Management Department and the Head of the Operational Risk Management Department, while the directors of the Information Technology Department, Internal Audit Department, Compliance Department, HR Development Department, and the Head of the Fraud Prevention Department all have a permanent invitation to committee meetings.

The **Operational Risk Committee** is an advisory body of the Bank's Management Board. The committee is tasked with studying and discussing, and making decisions regarding issues relating to operational risk management. The committee meets quarterly or more often, as required.

The **Model Risk Committee** was established in 2019. It is responsible for drawing up and implementing the model risk management framework, and has the central coordinating role in ensuring that the actions of stakeholders in model risk management comply with accepted standards.

The Physical and Information Security Department reports to the Management Board regarding the management of incidents and threats to business continuity and information security following the occurrence of major incidents, during the elimination of the associated consequences and the implementation of measures to mitigate the consequences and risks arising from incidents. It also reports to the Operational Risk Committee on a quarterly basis, and regarding incidents when they are detected.

Since its formal establishment in February 2020, the **Information Technology Committee** has been responsible for ensuring that the IT area functions in accordance with the Bank's business plan. The committee addresses the following topics in the scope of its work: the review of and decisions regarding plan-related requirements, decisions regarding the prioritisation of requests for changes by business users, the discussion of and decisions regarding all current strategic IT requirements, the review and discussion of the work of external IT service providers, and monthly reporting regarding the area's work, the status of projects, the status of change requests and daily tasks.

The Bank has in place a separate and independent Anti-Money Laundering Office that independently manages all AML/CFT or the area of restrictive measures. The office is managed by the AML/CFT officer. The AML/CFT officer reports to the Management Board on a monthly, quarterly and annual basis. The AML/CFT officer reports monthly on the findings of first- and second-level controls, reports of suspicious transactions, identified risks and measures adopted to manage those risks, while reports on the functioning of internal controls in the area of AML/CFT and regarding restrictive measures are submitted on a quarterly basis. Once a year, the AML/CFT officer drafts a report on its annual activities (amendments to internal rules, application systems, etc.), and on realised annual plans for the implementation of second-level controls and annual training. The report for the Office for Money Laundering Prevention is part of the Annual Report and is prepared in accordance with implementing regulations.

The Anti-Money Laundering Office coordinates activities in the areas of money laundering prevention, terrorist financing and restrictive measures at the Group level.

The Risk Management Department assesses the risk profile of the Bank and the Group once a year. The risk profiles of the Bank and the Group are discussed by the Management Board and the Risk Committee.

3 SCOPE OF APPLICATION

This section defines the disclosure requirements set out in Article 436 of Part Eight of the CRR.

3.1 NAME OF THE INSTITUTION TO WHICH THE REQUIREMENTS OF THIS REGULATION APPLY

(Article 436(a) of the CRR)

As the parent bank, Nova KBM d.d. is obliged to publish disclosures for the group in accordance with Article 13 of the CRR.

3.2 HARMONISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS, COMPILED IN ACCORDANCE WITH THE VALID FINANCIAL REPORTING FRAMEWORK, WITH THE CONSOLIDATED FINANCIAL STATEMENTS, COMPILED IN ACCORDANCE WITH THE REQUIREMENTS OF CONSOLIDATION FOR PRUDENTIAL PURPOSES BASED ON CHAPTERS 2 AND 3 OF TITLE II OF PART ONE

(Article 436(b, c, d and e) of the CRR)

The Biser Topco Group comprises the controlling company Biser Topco S.à r.l. and its direct and indirect subsidiaries. Those include Biser Bidco S.à r.l. and the Nova KBM Group. Nova KBM d.d. is the parent company of the Nova KBM Group, which controlled two subsidiaries and included one associate as at 31 December 2021.

Nova KBM d.d. is a commercial bank with many years of tradition. It focuses on the provision of standard banking services to retail and corporate customers. Its registered office is at Ulica Vita Kraigherja 4, 2000 Maribor, Slovenia.

The Bank’s share capital amounted to €150,000,000 as at 31 December 2021, and was divided into 10,000,000 no-par-value ordinary registered shares.

Biser Bidco S.à r.l. became the holder of 100% of Nova KBM’s shares on 21 April 2016. The company through which those shares were purchased is managed by certain investment funds, as branches of Apollo Global Management, Inc., and the European Bank for Reconstruction and Development.

The parent bank is obliged to compile consolidated financial statements at the level of the Nova KBM Group and Biser Topco Group.

The financial statements of the Nova KBM Group are included in the consolidated financial statements of Biser Topco S.à r.l.

Table 5: Composition of the Biser Topco Group

Company	Relationship	Proportion of voting rights held by the Group (%)	Location of operations (or country of registration)
Biser Topco S.à r.l.	controlling company		Luxembourg
Biser Bidco S.à r.l.	subsidiary	100.00	Luxembourg
Nova KBM d.d.	subsidiary bank	100.00	Maribor, Slovenia
Summit Leasing Slovenija d.o.o.	subsidiary	100.00	Ljubljana, Slovenia
ALEJA finance d.o.o.	subsidiary	100.00	Ljubljana, Slovenia
Bankart d.o.o.	associate	29.22	Ljubljana, Slovenia

On the day the acquisition of Abanka was completed in 2020, Nova KBM also assumed control of Anepremičnine d.o.o., which was 100 % owned by Abanka. Based on ECB authorisation and in accordance with paragraph 2(b) of Article 19 of Regulation (EU) 575/2013 (CRR), the aforementioned company was excluded from consolidation for prudential and accounting purposes, effective 1 January 2021 until its sale. The sale of Anepremičnine d.o.o. was completed on 20 July 2021.

In October 2021, the Bank completed the purchase of a 100% participating interest in ALEJA finance d.o.o., one of the leading companies in Slovenia in the area of factoring, and thus expanded its activities to the aforementioned area. The company was temporarily excluded from consolidation for accounting purposes in 2021, as it has no impact on the true and fair presentation of the Group's financial position. Based on ECB authorisation and in accordance with paragraph 2(b) of Article 19 of Regulation (EU) 575/2013 (CRR), the aforementioned company was temporarily excluded from consolidation for prudential purposes. The company will be included in consolidation for accounting and prudential purposes, effective 1 January 2022.

In November 2021, Daimler Mobility AG and Summit Leasing Slovenija d.o.o. signed an agreement on the sale of Mercedes-Benz Leasing Hrvatska d.o.o. to Summit Leasing Slovenija. With the acquisition of Mercedes-Benz Leasing Hrvatska, Summit Leasing Slovenija, a member of the Nova KBM Group and the largest provider of solutions for the financing of car purchases in Slovenia, entered the Croatian market on the back of established operations.

Mercedes-Benz Leasing Hrvatska provides private and business customers a range of comprehensive financing services for the purchase of Mercedes-Benz Group cars, delivery vehicles, trucks and buses on the Croatian market.

The company will be included in consolidation for prudential and accounting purposes following the completion of the transaction and the acquisition of control.

Template 1: EU LI1 – Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories

€000

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
1	Assets							
2	Cash in hand, cash balances at central bank and demand deposits at banks	2,894,937	2,894,937	2,894,937				
3	Financial assets held for trading	3,717	3,717		3,707			13
4	Non-trading financial assets mandatorily at fair value through profit or loss	23,876	23,876	10,675			13,200	24
5	Financial assets at fair value through other comprehensive income,	1,293,858	1,293,858	1,293,858				1,294
6	Financial assets at amortised cost	5,563,064	5,563,064	5,563,064				13
7	Investments in the equity of subsidiaries and associates	11,668	11,668	11,668				
8	Property, plant and equipment	93,768	93,768	93,768				
9	Intangible assets	33,909	33,909					33,909
10	Receivables for corporate income tax	30,670	30,670					36,438
11	Other assets	13,333	13,333	13,333				
12	Non-current assets held for sale and discontinued operations	1,868	1,868	1,868				
13	**Total assets**	**9,964,668**	**9,964,668**	**9,883,172**	**3,707**		**13,200**	**71,691**

		a	b	c	d	e	f	g
				Carrying values of items				
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
14	Liabilities							
15	Financial liabilities held for trading	4,727	4,727		4,065			667
16	Financial liabilities designated for measurement at fair value through profit and loss (FVTPL)	0	0					
17	Financial liabilities at amortised cost	8,870,244	8,870,244					
18	Provisions	36,021	36,021					
19	Tax liabilities	6,849	6,849					
20	Other liabilities	13,239	13,239					
21	**Total liabilities**	**8,931,080**	**8,931,080**		**4,065**			**667**
22	Share capital	2,008	2,008					
23	Share premium	174,830	174,830					
24	Equity component of compound financial instruments	1,014	1,014					
25	Revaluation surplus	422	422					
26	Consolidated equity adjustment	0	0					
27	Profit reserves	487	487					
28	Retained earnings/loss	753,642	753,642					
29	Net profit/loss	101,185	101,185					
30	**EQUITY ATTRIBUTABLE TO OWNERS OF PARENT BANK**	**1,033,588**	**1,033,588**					
31	Minority interests	0	0					
32	**TOTAL EQUITY**	**1,033,588**	**1,033,588**					
33	**TOTAL EQUITY AND LIABILITIES**	**9,964,668**	**9,964,668**		**4,065**			**667**

Template 2: EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

€000

		a	b	c	d	e
		Total	Items subject to			
			Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of prudential consolidation (as per template EU LI1)	**9,892,977**	9,883,172		3,707	13,200
2	Liabilities carrying value amount under the scope of prudential consolidation (as per template EU LI1)	9,964,001			4,095	
3	Total net amount under the scope of prudential consolidation	9,892,977	9,883,172		3,707	13,200
4	Off-balance-sheet amounts	1,984,717	1,984,717		2,714	
5	Differences in valuations	-1,326	-1,326			
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to the consideration of provisions					
8	Differences due to the use of credit risk mitigation techniques (CRMs)					
9	Differences due to credit conversion factors	-1,387,554	-1,387,554			
10	*Differences due to securitisation with risk transfer*					
11	*Other differences*	5,768	1,035		2,568	
12	Exposure amounts considered for regulatory purposes	**10,494,582**	**10,480,045**		**8,989**	**13,200**

Template 3: EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

Biser Topco Group

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Summit Leasing Slovenija d.o.o.	Full consolidation	x					Leasing company
ALEJA finance d.o.o.	Company not consolidated				x		Factoring company
Bankart d.o.o.	Equity method			x			Payment instrument processing
Nova KBM d.d.	Full consolidation	x					Financial intermediation
Biser Bidco S.à r.l.	Full consolidation	x					Acquisition and management of investments
Biser Topco S.à r.l.	Full consolidation	x					Acquisition and management of investments

Nova KBM Group

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Summit Leasing Slovenija d.o.o.	Full consolidation	x					Leasing company
ALEJA finance d.o.o.	Company not consolidated				x		Factoring company
Bankart d.o.o.	Equity method			x			Payment instrument processing
Nova KBM d.d.	Full consolidation	x					Financial intermediation

Template 4: EU PV1 – Prudent valuation adjustments

The Bank is not obliged to disclose Template EU PV1 – Prudent valuation adjustments because it does not use the core approach for determining additional value adjustments in accordance with Chapter III of Commission Delegated Regulation (EU) 2016/101 (Delegated Regulation 2016/101). The Bank meets the conditions for the use of the simplified approach set out in Article 4 of Chapter II of Delegated Regulation 2016/101 because the sum of the absolute value of fair-valued assets and liabilities does not exceed the threshold of €15 billion. The threshold of €15 billion applies on an individual and consolidated basis. If the threshold is breached, the core approach is applied to all entities included in consolidation. In accordance with Article 5 of Chapter II of Delegated Regulation 2016/101, additional valuation adjustments are calculated as 0.1% of the sum of fair-valued assets and liabilities. That amount is a deduction item from regulatory capital in accordance with Article 34 of the CRR, and is calculated taking into account Delegated Regulation 2016/101 and Article 105 of the CRR.

Table 6: EU LIA – Explanations of differences between accounting and regulatory exposure amounts

Legal basis	Qualitative information
Article 436(b) of the CRR	It is evident from Template EU LI1 that the accounting scope and the scope of prudential consolidation are exactly the same.
Article 436(d) of the CRR	Template EU LI2 illustrates the main differences between the carrying values reported in the financial statements under the scope of prudential consolidation and the exposure amounts that are treated, for prudential purposes, as the basis for the calculation of risk-weighted exposures under each risk framework. The main differences for the credit risk framework are the result of differences due to credit conversion factors and adjustments to the value of debt securities measured at fair value through other comprehensive income. The main differences for the counterparty credit risk framework derive from the use of the original exposure method for the calculation of exposure values from derivatives. In addition to the above-described differences the 'Total' column also includes differences for deduction items from regulatory capital as the result of differences in valuations calculated in accordance with Articles 4 and 105 of the CRR, and as the result of differences for deferred tax assets that relate to future income calculated in accordance with Article 38 of the CRR.

3.3 ANY CURRENT OR FORESEEN MATERIAL PRACTICAL OR LEGAL IMPEDIMENT TO THE PROMPT TRANSFER OF OWN FUNDS OR REPAYMENT OF LIABILITIES AMONG THE PARENT UNDERTAKING AND ITS SUBSIDIARIES

(Article 436 (f) of the CRR)

Taking into account regulatory requirements regarding the operations of an individual Group company, there are no legal impediments on the transfer of own funds and the settlement of liabilities between the parent company and subsidiaries within the Group.

3.4 THE AGGREGATE AMOUNT BY WHICH ACTUAL OWN FUNDS ARE LOWER THAN REQUIRED AT ALL SUBSIDIARIES NOT INCLUDED IN CONSOLIDATION, AND THE NAME OR NAMES OF SUCH SUBSIDIARIES

(Article 436(g) of the CRR)

The Bank includes all subsidiaries in supervision on a consolidated basis, except ALEJA finance d.o.o., which was excluded from consolidation for accounting and prudential purposes in 2021 on account of immateriality. The actual own funds of ALEJA finance d.o.o. are not below the required level.

3.5 CIRCUMSTANCE FOR APPLYING THE PROVISIONS LAID DOWN IN ARTICLES 7 AND 9

(Article 436(h) of the CRR)

This disclosure is irrelevant for Nova KBM d.d.

4 OWN FUNDS

This section defines the disclosure requirements set out in Article 437 of Part Eight of the CRR, and in the technical standards from Article 4 of Commission Implementing Regulation (EU) 2021/637.

4.1 FULL RECONCILIATION OF COMMON EQUITY TIER 1 ITEMS, ADDITIONAL TIER 1 ITEMS, TIER 2 ITEMS AND FILTERS AND DEDUCTIONS APPLIED PURSUANT TO ARTICLES 32 TO 35, 36, 56, 66 AND 79 TO OWN FUNDS OF THE INSTITUTION AND THE BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS OF THE INSTITUTION

(Article 437(a) of the CRR)

The scope of consolidation and the method used to consolidate the statement of financial position are the same as the scope and method of consolidation set out in Chapter 2, Part One, Title II of the CRR.

Template EU CC2 below discloses the difference between the on-balance-sheet and regulatory own funds of the Biser Topco Group and Nova KBM Group as at 31 December 2021. Items of regulatory own funds are disclosed in Template EU CC1.

Template 5: EU CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements of the Biser Topco Group and Nova KBM Group

€000

		a	a	c
		Balance sheet as in published financial statements as at 31 December 2021		Reference to row in EU CC1
		Biser Topco Group	Nova KBM Group	
Assets – Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash, cash balances at central banks and demand deposits at banks	2,894,937	2,884,836	
2	Financial assets held for trading	3,717	3,717	
3	Non-trading financial assets mandatorily at fair value through profit or loss	23,876	23,876	
4	Financial assets measured at fair value through other comprehensive income	1,293,858	1,293,858	
5	Financial assets at amortised cost	5,563,064	5,562,529	
6	- debt securities	601,460	600,925	
7	- loans to banks	78,325	78,325	
8	- loans to non-banking customers	4,857,886	4,857,886	
9	- other financial assets	25,393	25,393	

		a	a	c
		Balance sheet as in published financial statements as at 31 December 2021		Reference to row in EU CC1
		Biser Topco Group	Nova KBM Group	
10	Investments in subsidiaries, associates and joint ventures	11,668	11,668	
11	Property, plant and equipment	93,768	99,028	
12	- property, plant and equipment	68,325	73,584	
13	- investment property	25,443	25,443	
14	Intangible assets	33,909	33,909	8
15	Receivables for corporate income tax	30,669	29,772	
16	- receivables for taxes	0	0	
17	- deferred tax assets	30,669	29,772	part. 10
18	Other assets	13,334	13,334	
19	Non-current assets held for sale and discontinued operations	1,868	1,868	
20	**Total assets**	**9,964,668**	**9,958,393**	
Liabilities – Breakdown by liability classes according to the balance sheet in the published financial statements				
21	Financial liabilities held for trading	4,727	4,727	
22	Financial liabilities at amortised cost	8,870,244	8,869,524	
23	- deposits from banks and the central bank	4,976	4,976	
24	- deposits from non-banking customers	8,176,349	8,176,349	
25	- loans from banks and the central bank	346,365	346,365	
26	- debt securities	267,495	267,495	part. 48
27	- other financial liabilities	75,058	74,338	
28	Provisions	36,021	36,021	
29	Corporate income tax liabilities	6,849	6,849	
30	- tax liabilities	6,849	6,849	
31	Other liabilities	13,240	13,240	
32	**Total liabilities**	**8,931,079**	**8,930,360**	
Shareholders’ equity				
33	Share capital	2,008	150,000	1
34	Share premium	174,830	403,302	1
35	Own funds instruments issued, excluding share capital	1,014	-	
36	Accumulated other comprehensive income	422	2,743	3
37	Profit reserves	487	20,228	3
38	Retained earnings (including net profit for financial year)	854,827	451,761	2
39	**Total shareholders’ equity**	**1,033,588**	**1,028,034**	

4.2 DESCRIPTION OF THE MAIN FEATURES OF THE COMMON EQUITY TIER 1 AND ADDITIONAL TIER 1 INSTRUMENTS AND TIER 2 INSTRUMENTS ISSUED BY THE INSTITUTION

(Article 437(b) of the CRR)

Table EU CCA below discloses information regarding the own funds instruments of the Biser Topco Group and Nova KBM Group.

Items of regulatory own funds are disclosed in Template EU CC1.

Template 6: EU CCA – Main features of regulatory own funds instruments and eligible liabilities instruments of the Biser Topco Group and Nova KBM Group

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
1	Issuer	Biser Topco S.à r.l.	Nova KBM d.d.	Nova KBM d.d.
2	Unique identifier	/	Designation: KBMS; ISIN: SI0021116494	Designation: KBM11; ISIN: SI0022103897
2a	Public or private placement		Closed circle of investors	Closed circle of investors
3	Governing law(s) of the instrument	Luxembourg Law on Commercial Companies from 1915, together with amendments	ZGD, ZTFI, ZNVP, ZBAN	ZBAN, Bank of Slovenia regulations
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No	No
	Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Consolidated basis	Individual and sub-consolidated basis	Individual basis (at the level of Nova KBM), sub-consolidated basis (at the level of Nova KBM) and consolidated basis (at the level of Biser Topco S.à r.l.) as Tier 2 instrument in accordance with Article 63 of Regulation (EU) No 575/2013 (*Capital*

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
				Requirements Regulation or 'CRR')
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Additional Tier 1 capital
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	€176 million	€553 million	€90.4 million on an individual and sub-consolidated basis, and €77.5 million on a consolidated basis
9	Nominal amount of instrument	Paid-in capital: €2.0 million Share premium: €174.1 million	Paid-in capital: €150 million Share premium: €403 million	€90.4 million
9a	Issue price	Paid-in capital: €1 per share; share premium: €100.85 per share	€87 per share	€90.4 million (€0.1 million per bond)
9b	Redemption price	n.a.	n.a.	Principal on bond (€0.1 million) and accrued but unpaid interest on principal up to (but excluding) the maturity date (or up to (but excluding) the date of repurchase in the case of early repurchase)
10	Accounting classification	Shareholders' equity	Shareholders' equity	Financial liability
11	Original date of issuance	13 April 2016	19 December 2013	9 October 2019
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	n.a.	n.a.	9 October 2029
14	Issuer call subject to prior supervisory approval	n.a.	n.a.	Yes
15	Optional call date, contingent call dates and redemption amount	n.a.	n.a.	The issuer may, with prior notice, redeem the bonds in full in advance, but not in instalments, in the amount payable, at any time on or after the fifth anniversary of the bond issue date. The amount for payment on a bond is equal to principal, together with accrued but unpaid interest on principal up to

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
				(but excluding) the date stated for repurchase.
16	Subsequent call dates, if applicable	n.a.	n.a.	See point 15 above
Coupons/dividends				
17	Fixed or floating dividend/coupon	n.a.	n.a.	A fixed coupon rate applies up to (but excluding) 9 October 2024; a floating coupon rate applies from 9 October 2024 on.
18	Coupon rate and any related index	n.a.	n.a.	Fixed: 4% p.a. Floating: annual swap rate (expressed in a percentage) for swap transactions in euros with a maturity of five years + 4.4% p.a.
19	Existence of a dividend stopper	n.a.	n.a.	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	n.a.	Fully discretionary right	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	n.a.	Fully discretionary right	Mandatory
21	Existence of step up or other incentive to redeem	n.a.	n.a.	No
22	Noncumulative of cumulative	n.a.	n.a.	Noncumulative
23	Convertible or non-convertible	n.a.	n.a.	non-convertible[1]
24	If convertible, conversion trigger(s)	n.a.	n.a.	See note 1
25	If convertible, fully or partially	n.a.	n.a.	See note 1
26	If convertible, conversion rate	n.a.	n.a.	See note 1
27	If convertible, mandatory or optional conversion	n.a.	n.a.	See note 1
28	If convertible, specify instrument type convertible into	n.a.	n.a.	See note 1

[1]Note: Given that bonds are Tier 2 instruments, conversion and/or partial write-down is possible in accordance with valid legislation: (i) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (*Bank Recovery and Resolution Directive*), (ii) Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (*Single Resolution Mechanism Regulation*), and (iii) the Resolution and Compulsory Winding Up of Banks Act.

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
29	If convertible, specify issuer of instrument it converts into	n.a.	n.a.	See note 1
30	Write-down features	n.a.	n.a.	See note 1
31	If write-down, write-down trigger(s)	n.a.	n.a.	See note 1
32	If write-down, full or partial	n.a.	n.a.	See note 1
33	If write-down, permanent or temporary	n.a.	n.a.	See note 1
34	If temporary write-down, description of write-up mechanism	n.a.	n.a.	See note 1
34a	Type of subordination (only for eligible liabilities)	n.a.	n.a.	n.a.
EU-34b	Ranking of the instrument in normal insolvency proceedings	n.a.	n.a.	Bonds represent the direct, unsecured and subordinated liabilities of an issuer, and are deemed Tier 2 instruments.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n.a.	ordinary liabilities	In the event of ordinary insolvency proceedings (bankruptcy or compulsory liquidation) against the issuer, claims arising from principal on bonds are repaid in the following order: (a) following the repayment of all current and future claims arising from: (i) the unsecured and non-subordinated instruments or liabilities of the issuer; and (ii) eligible liabilities instruments of the issuer in accordance with Article 72b of the CRR; (b) in the same order (*pari passu*): (i) mutually; and (ii) with all other current and future claims arising from: (x) the Tier 2 instruments of the issuer; and (y) all other instruments or liabilities of the issuer that are repaid or are designated for repayment in the same

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
				order as bonds (except the subordinated instruments and liabilities of the issuer that are repaid or designated for repayment with priority or subordinate in relation to bonds); and (c) prior to the repayment of all current and future claims arising from: (i) Additional Tier 1 instruments of the issuer in accordance with Article 52 of the CRR; (ii) ordinary shares of the issuer and any other Common Equity Tier 1 instruments of the issuer in accordance with Article 28 of the CRR; and (iii) all other subordinated instruments or liabilities of the issuer that are repaid or are designated for repayment after the issuer's liabilities arising from bonds. Instruments immediately senior to bonds: Unsecured claims arising from debt securities that meet certain conditions from point nine of the second paragraph of Article 207 of the Resolution and Compulsory Winding-Up of Banks Act.
36	Non-compliant transitioned features	n.a.	n.a.	No
37	If yes, specify non-compliant features	n.a.	n.a.	n.a.
37a	Link to the full term and conditions of the instrument (signposting)	/	KDD - Centralna Klirinško Depotna Družba d.o.o. - Notification	Shares and bonds NKBM

n.a. – not applicable for this instrument

4.3 FULL TERMS AND CONDITIONS OF ALL COMMON EQUITY TIER 1, ADDITIONAL TIER 1 AND TIER 2 INSTRUMENTS

(Article 437(c) of the CRR)

Regulatory own funds are broken down into categories with respect to its characteristics:

- Tier 1 capital, which includes
    - Common Equity Tier 1 capital; and
    - Additional Tier 1 capital; and
- Tier 2 capital.

Common Equity Tier 1 capital comprises:

- capital instruments (paid-up and share premium);
- retained earnings;
- accumulated other comprehensive income;
- other reserves;
- value adjustments on account of prudent valuation requirements;
- own fund deduction items:
    - for intangible assets,
    - for deferred tax assets, and
    - for insufficient coverage of non-performing exposures; and
- other adjustments to/deductions from Common Equity Tier 1 capital.

The Group has not issued Additional Tier 1 instruments.

In 2019, the Bank issued the subordinated bond KBM11 in the amount of €90.4 million acceptable as additional regulatory capital. The Bank includes issued bond in full in Additional Tier 1 capital at the level of Nova KBM and the Nova KBM Group, while applying the provisions of Articles 86 and 87 of the CRR for inclusion at the level of the Biser Topco Group. Based on the relevant legislation, the Bank obtained the requisite authorisation of the ECB, as supervisory authority, to include issued Tier 2 capital instruments in the calculation of regulatory own funds.

According to the situation as at 31 December 2021, all own funds instruments of the Nova KBM Group are eligible for inclusion in CET1 and Tier 2 capital, while own funds instruments of the Biser Topco Group in the amount of €0.7 million are not eligible for inclusion in Common Equity Tier 1 capital and instruments in the amount of €12.9 million are not eligible for inclusion in Tier 2 capital based on the provisions of Articles 86 and 87 of the CRR.

Annual profit for the 2021 financial year is not included in the calculation of Common Equity Tier 1 capital at all three levels of reporting. The Bank includes profit based on a General Meeting of Shareholders resolution. At the Biser Topco Group level, the Bank does not include €5 million in net profit from 2018, which is earmarked for the payment of dividends.

4.4 SEPARATE DISCLOSURE OF THE NATURE AND AMOUNTS OF FILTERS AND DEDUCTIONS

(Article 437(1)(d) of the CRR)

In template EU CC1, the Biser Topco Group and Nova KBM Group disclose the amounts and items of regulatory own funds and capital ratios as at 31 December 2021 in accordance with the provisions of the CRR and other regulations.

The groups disclose:

(i) prudential filters applied in accordance with Articles 32 to 35;

(ii) deductions in accordance with Articles 36, 56 and 66; and

(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79.

The structure of the Biser Topco Group's regulatory own funds was sound as at 31 December 2021. A total of 92% of total regulatory own funds is accounted for by Common Equity Tier 1 (CET1) capital, while 7% is accounted for by Tier 2 (T2) capital. Original own funds are comprised solely of CET1 capital. CET1 capital comprises own funds instruments issued by the Biser Topco Group in the amount of €176 million. Tier 2 capital comprises own funds instruments issued by Nova KBM in the amount of €90.4 million, where the provisions of Articles 86 and 87 of the CRR were applied for inclusion at the level of the Biser Topco Group (instruments in the amount of €12.9 million were not eligible for inclusion as at 31 December 2021).

The amount of the Biser Topco Group's regulatory own funds as at 31 December 2021 was down by €44 million relative to the situation as at 31 December 2020, broken down as follows: the amount of CET1 capital was down by €53 million, while the amount of Tier 2 capital was up by €9 million. The reduction in CET1 capital was primarily the result of dividend payment in line with the internal dividend policy. The increase in Tier 2 capital was the result of the application of the provisions of Articles 86 and 87 of the CRR for inclusion at the level of the Biser Topco Group.

The structure of the Nova KBM Group's regulatory own funds was also sound as at 31 December 2021. A total of 90% of total regulatory own funds is accounted for by Common Equity Tier 1 (CET1) capital, while 10% is accounted for by Tier 2 (T2) capital. Original own funds are comprised solely of CET1 capital. CET1 capital comprises own funds instruments issued by Nova KBM in the amount of €553 million. Tier 2 capital comprises debt instruments issued by Nova KBM in the amount of €90.4 million.

The amount of the Nova KBM Group's regulatory own funds as at 31 December 2021 was down by €71 million relative to the situation as at 31 December 2020, solely due to a drop in the amount of CET1 capital. The reduction in CET1 capital was primarily the result of the payment of dividends in accordance with the provisions of the internal dividend policy.

Data regarding the regulatory own funds of the Biser Topco Group and Nova KBM Group as at 31 December 2021 are disclosed in the rows of Template EU CC1 that are relevant for them.

Template 7: EU CC1 – Composition of regulatory own funds of the Biser Topco Group and Nova KBM Group

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		a	a	b
		Amounts as at 31 December 2021		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		Biser Topco Group	Nova KBM Group	Reference to row in EU CCR2
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	176,153	553,302	33 + 34
	of which: Instrument type 1	176,153	553,302	
2	Retained earnings	748,629	339,154	part. 38
3	Accumulated other comprehensive income (and other reserves)	909	22,970	36 + 37
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**925,690**	**915,426**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-1,326	-1,326	
8	Intangible assets (net of related tax liability) (negative amount)	-33,909	-33,909	14
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-36,438	-35,540	17
27a	Other regulatory adjustments	-13	-13	
28	**Total regulatory adjustments to Common Equity Tier 1 capital (CET1)**	**-71,686**	**-70,788**	
29	**Common Equity Tier 1 (CET1) capital**	**854,004**	**844,637**	
Additional Tier 1 (AT1) capital: instruments				
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	**0**	
Additional Tier 1 (AT1) capital: regulatory adjustments				
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	**0**	
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**854,004**	**844,637**	
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	-	90,400	26

		a	a	b
		Amounts as at 31 December 2021		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		Biser Topco Group	Nova KBM Group	Reference to row in EU CCR2
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	77,493	-	26
51	**Tier 2 (T2) capital before regulatory adjustments**	**77,493**	**90,400**	
Tier 2 (T2) capital: regulatory adjustments				
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**0**	
58	**Tier 2 (T2) capital**	**77,493**	**90,400**	
59	**Total capital (TC = T1 + T2)**	**931,497**	**935,037**	
60	**Total risk exposure amount**	**5,147,224**	**5,151,262**	
Capital ratios and requirements including buffers				
61	Common Equity Tier 1 capital	16.59%	16.40%	
62	Tier 1 capital	16.59%	16.40%	
63	Total capital	18.10%	18.15%	
64	Institution CET1 overall capital requirements	8.70%	8.95%	
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical capital buffer requirement	0.01%	0.01%	
67	of which: systemic risk buffer requirement	0.00%	0.00%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.00%	0.25%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.69%	1.69%	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**10.40%**	**10.21%**	
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	15,149	15,149	part. 3, part. 4, part. 6

		a	a	b
		Amounts as at 31 December 2021		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		Biser Topco Group	Nova KBM Group	Reference to row in EU CCR2
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-5,768	-5,768	

4.5 DESCRIPTION OF ALL RESTRICTIONS APPLIED TO THE CALCULATION OF OWN FUNDS IN ACCORDANCE WITH THIS REGULATION AND THE INSTRUMENTS, PRUDENTIAL FILTERS AND DEDUCTIONS TO WHICH THOSE RESTRICTIONS APPLY

(Article 437(e) of the CRR)

This disclosure is included in point 4.4. of this document.

4.6 WHERE INSTITUTIONS DISCLOSE CAPITAL RATIOS CALCULATED USING ELEMENTS OF OWN FUNDS DETERMINED ON A BASIS OTHER THAN THAT LAID DOWN IN THIS REGULATION, A COMPREHENSIVE EXPLANATION OF THE BASIS ON WHICH THOSE CAPITAL RATIOS ARE CALCULATED

(Article 437(f) of the CRR)

This disclosure is not relevant for the Group.

4.7 DISCLOSURES IN CONNECTION WITH TRANSITIONAL ARRANGEMENTS FOR MITIGATING THE IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS

(Article 437(f) of the CRR)

This disclosure is not relevant for the Group because it did not opt to apply transitional arrangements to mitigate the impact of the introduction of IFRS 9 on original own funds.

4.8 TRANSITIONAL PROVISIONS FOR DISCLOSURE OF OWN FUNDS

(Article 492 of the CRR)

This disclosure is not relevant for the Group because it has not applied the transitional provisions for the calculation of regulatory own funds or any other risk-weighted asset amount since 1 January 2018. The transitional provisions are only taken into account in the calculation of capital buffers, which are in line with the provisions of the CRD.

5 OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

This section defines the disclosure requirements set out in Article 438 of Part Eight of the CRR, and in the templates prescribed in Articles 1(2), 1(3), 1(4), 11(d), 12, 13(g) and 15(2d) of Commission Implementing Regulation (EU) 2021/637.

5.1 SUMMARY OF THE INSTITUTION'S APPROACH TO ASSESSING THE ADEQUACY OF ITS INTERNAL CAPITAL TO SUPPORT CURRENT AND FUTURE ACTIVITIES

(Article 438(a) of the CRR)

The Group's risk appetite framework, including the risk appetite statement, is in place at the levels of the Nova KBM Group and the Biser Topco Group. In that document, the Bank defined the risk appetite at the Group level taking into account the given risk-bearing capacity.

The Group has adopted the Policy on the Management of Own Funds and Own Funds Requirements for the purpose of managing and calculating Pillar 1 own funds requirements, as well as the Policy on the Implementation of the Internal Capital Adequacy Assessment Process in the scope of Pillar 2. Implementing documents for both policies comprise methodologies that define the approach for identifying and measuring risks, for calculating Pillar 1 and Pillar 2 own funds requirements and regulatory own funds, and for performing stress tests. All of the aforementioned internal documents also apply at the level of the Biser Topco Group.

The assessment of internal capital requirements represents the Group's own view of the level of capital required to cover all expected and unexpected losses arising from risks to which it is materially exposed in its operations, both at the level of the Nova KBM Group and the Biser Topco Group. The Group calculates the amount of internal capital required to cover risks using the going concern approach. The amount of Pillar 2 own funds requirements is equal to Pillar 1 own funds requirements or assessed internal capital requirements, whichever is higher.

The Group takes into account regulatory requirements and its own internal assessments when setting minimum capital ratios.

The current amounts of regulatory own funds and internal capital of the Nova KBM Group and the Biser Topco Group are monitored at meetings of the ALCO, Risk Committee and Supervisory Board.

Table 7: Selected risks for 2021

Credit risks	Market risks	Operational risks	Liquidity risks	Other risks
Credit risk (risk of default)	Credit spread risk	Compliance risk	Risk associated with securing sources of liquidity	Business/strategic risk
Credit concentration risk	Credit valuation adjustment risk	Risk in connection with employee conduct	Market liquidity risk	Equity risk
Counterparty risk	Foreign exchange risk	Cybercrime risk	Intraday liquidity risk	Interest rate risk in the banking book
Country risk	Position risk	Model risk	Asset encumbrance risk	Profitability risk
Risk associated with foreign currency loans		Data quality risk		
Credit rating migration risk		Risk of fraud (internal and external)		
Residual risk		HR management risk		
Risk in connection with special credit facilities (project financing risk)		Operational risk		
Risk associated with variable rate loans		Outsourcing risk		
Risk in connection with real estate		Project risk		
Sovereign risk		Reputation risk		
		System/IT risk		

The Group discloses information about regulatory own funds in section 4 and about risk exposure under Pillar 2 in section 2.1.6.

5.2 AMOUNT OF ADDITIONAL OWN FUNDS REQUIREMENTS BASED ON THE SUPERVISORY REVIEW PROCESS AS REFERRED TO IN POINT (A) OF ARTICLE 104(1) OF DIRECTIVE 2013/36/EU AND KEY METRICS

(Articles 438(b) and 447 of the CRR)

The Group must fulfil the minimum Pillar 1 own funds requirements set out in the CRR and that relate to:

- the Common Equity Tier 1 capital ratio and must be at least 4.5%;
- the Tier 1 capital ratio and must be at least 6.0%; and
- the total capital ratio and must be at least 8.0%.

In the context of the above-mentioned, the Group must also meet the Pillar 2 own funds requirements set out in the CRD and defined by the joint supervisory team:

- Pillar 2 requirement (P2R);
- Pillar 2 guidance (P2G); and
- the combined buffer requirement (CBR).

Total minimum and supervisory capital requirements comprise the total SREP capital requirement (TSCR), while the total minimum and supervisory capital requirements and the combined buffer requirement comprise the overall capital requirement (OCR) that must be met by the Group. Amongst the ECB's measures relating to COVID-19, the Group must meet the following since 12 March 2020: the P2R of at least 56.25% via the Common Equity Tier 1 ratio (CET1 ratio) and of at least 75% via the Tier 1 ratio (T1 ratio). The Group must also meet the combined buffer requirement via the CET1 ratio. In that context, the Group must also comply with P2G, likewise via the CET1 ratio.

Table 8: Minimum capital requirements as at 31 December 2021

	Biser Topco Group	Nova KBM Group
TSCR	11.00%	11.00%
OCR	13.51%	13.76%
OCR (incl. P2G)	15.31%	15.56%

* The difference between the two groups is 0.25 percentage points and derives from the capital buffer for other systemically important institutions, which is only binding at the Nova KBM Group level.

The groups fulfil all requirements set out in the law and by supervisory authorities: as at 31 December 2021, Common Equity Tier 1 capital (CET1 capital) exceeded the required minimum TSCR, which must comprise CET1 capital, by €535 million at the Biser Topco Group level and by €526 million at the Nova KBM Group level.

Table 9: Regulatory buffer requirements

	2021	2022
P2R	3.00%	2.30%
P2G	1.80%	1.50%
OSIB*	0.25%	0.50%

* OSIB is only binding at the Nova KBM Group level.

The total capital ratio (TC ratio) of the Biser Topco Group was 18.10% as at 31 December 2021, while the Common Equity Tier 1 capital ratio (CET1 ratio) stood at 16.59%, as detailed in the Template 8 below. The TC ratio was down by 200 basis points and CET1 ratio was down by 211 basis points relative to the values as at 31 December 2020 due a reduction in regulatory own funds of €44 million due to the payment of dividends in line with the internal dividend policy while the total risk exposure amount was up by €294 million (the main reason was an increase in the risk-weighted exposure amount for credit risk on account of newly approved loans).

Template 8: EU KM1 – Key metrics template for the Biser Topco Group

€000

		a	c	e
		31 December 2021	30 June 2021	31 December 2020
Available own funds (amounts)				
1	Common Equity Tier 1 capital	854,004	914,535	907,524
2	Tier 1 capital	854,004	914,535	907,524
3	Total capital	931,497	984,255	975,549
Risk-weighted exposure amounts				
4	Total risk exposure amount	5,147,224	4,974,500	4,853,479
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	16.59%	18.38%	18.70%
6	Tier 1 ratio (%)	16.59%	18.38%	18.70%
7	Total capital ratio (%)	18.10%	19.79%	20.10%
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 (%)	3.00%	3.00%	3.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.69%	1.69%	1.69%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.25%	2.25%	2.25%

		a	c	e
		31 December 2021	30 June 2021	31 December 2020
EU 7d	Total SREP own funds requirements (%)	11.00%	11.00%	11.00%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	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%
9	Institution specific countercyclical capital buffer (%)	0.01%	0.01%	0.01%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer* (%)	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.51%	2.51%	2.51%
EU 11a	Overall capital requirements (%)	13.51%	13.51%	13.51%
12	CET1 available after meeting the total SREP own funds requirements (%)	10.40%	12.19%	12.10%
Leverage ratio				
13	Total exposure measure	10,527,569	10,350,672	9,732,425
14	Leverage ratio (%)	8.11%	8.84%	9.32%
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%	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	-
EU 14c	Total SREP leverage ratio requirements (%)	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 (%)	0.00%	0.00%	-
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	-
Liquidity coverage ratio				

		a	c	e
		31 December 2021	30 June 2021	31 December 2020
15	Total high-quality liquid assets (HQLA) (weighted value-average)	3,681,684	3,359,832	2,850,170
EU 16a	Cash outflows – total weighted value	1,209,784	1,088,775	1,057,547
EU 16b	Cash inflows – total weighted value	248,867	228,377	260,293
16	Total net cash outflows (adjusted value)	960,917	860,398	797,254
17	Liquidity coverage ratio (%)	384.90%	390.44%	361.05%
Net stable funding ratio				
18	Total available stable funding	8,431,806	8,323,600	7,864,119
19	Total required stable funding	4,833,674	4,679,067	4,381,683
20	NSFR (%)	174.44%	177.89%	179.48%

The OSIB is only binding at the Nova KBM Group level.

5.3 UPON DEMAND FROM THE RELEVANT COMPETENT AUTHORITY, THE RESULT OF THE INSTITUTION'S INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

(Article 438(c) of the CRR)

The Group is not obliged to disclose the results of the Internal Capital Adequacy Assessment Process.

5.4 TOTAL RISK-WEIGHTED EXPOSURE AMOUNT AND THE CORRESPONDING TOTAL OWN FUNDS REQUIREMENT DETERMINED IN ACCORDANCE WITH ARTICLE 92, AND AN EXPLANATION OF THE EFFECT ON THE CALCULATION OF OWN FUNDS AND RISK-WEIGHTED EXPOSURE AMOUNTS THAT RESULTS FROM APPLYING CAPITAL FLOORS AND NOT DEDUCTING ITEMS FROM OWN FUNDS

(Article 438(d) of the CRR)

The Group uses the Standardised Approach to calculate own funds requirements for credit and market risks, while the Basic Indicator Approach is used to calculate own funds for operational risk.

The Biser Topco Group's total risk exposure amount as at 31 December 2021 was up by €294 million on 31 December 2020, as a result of:

- increases in the risk-weighted exposure amount for credit risk (€328 million) as detailed below;
- decreases in the risk-weighted exposure amount for operational risk (€42 million), primarily affected by changes in income statement items over the last three years, and the application of the clarification of the EBA Q&A (2018-3969);
- increase in the risk-weighted exposure amount for position risk (€9 million) due to rising share values; and
- decrease in the risk-weighted exposure amount for credit counterparty risk (€2 million) due to implementation of the original exposure method.

Increase of credit risk-weighted exposure amount on the reporting date of 31 December 2021 relative to 31 December 2020 derive primarily from:

- new loans in the international lending segment;
- new investments in bank bonds and corporate bonds;
- new loans in the corporate and project financing segment.

Decrease of credit risk-weighted exposure amount on the reporting date of 31 December 2021 relative to 31 December 2020 derive primarily from:

- reduction of the portfolio of non-performing exposures;
- changes in value adjustments to assets;
- past-due and repaid loans covered by legislative and bilateral moratoria introduced in response to the Covid-19 pandemic;
- replacement of SMARS valuations of immovable property with immovable property valuations recognised by the CRR; and
- sale of a non-strategic subsidiary, Anpremicnine d.o.o.

Changes in the total risk exposure of the Biser Topco Group are also reflected in changes in the total risk exposure of the Nova KBM Group.

Template EU OV1 below discloses the structure of the total risk exposure of the Biser Topco Group and the Nova KBM Group as at 31 December 2021 and 31 December 2020.

Template 9: EU OV1 – Overview of total risk exposure amounts of the Biser Topco Group

€000

		Total risk exposure amount (TREA)		Total own funds requirements
		a	b	c
		31 December 2021	31 December 2020	31 December 2021
1	Credit risk (excluding CCR)	4,644,760	4,317,005	371,581
2	of which the Standardised Approach	4,644,760	4,317,005	371,581
6	Counterparty credit risk – CCR	10,584	12,550	847
7	of which the Standardised Approach	0	10,384	0
EU 8a	of which exposures to a CCP	384	0	31
EU 8b	of which credit valuation adjustment – CVA	3,390	2,166	271
9	of which other CCR	6,809	0	545
20	Position, foreign exchange and commodities risks (market risk)	26,471	16,991	2,118
21	of which the Standardised Approach	26,471	16,991	2,118
23	Operational risk	465,409	506,933	37,233
EU 23a	of which Basic Indicator Approach	465,409	506,933	37,233
29	**Total**	**5,147,224**	**4,853,479**	**411,778**

Template 10: EU OV1 – Overview of total risk exposure amounts of the Nova KBM Group

€000

		Total risk exposure amount (TREA)		Total own funds requirements
		a	b	c
		31 December 2021	31 December 2020	31 December 2021
1	Credit risk (excluding CCR)	4,647,464	4,321,309	371,797
2	of which the Standardised Approach	4,647,464	4,321,309	371,797
6	Counterparty credit risk – CCR	10,584	12,550	847
7	of which the Standardised Approach	0	10,384	0
EU 8a	of which exposures to a CCP	384	0	31
EU 8b	of which credit valuation adjustment – CVA	3,390	2,166	271
9	of which other CCR	6,809	0	545
20	Position, foreign exchange and commodities risks (market risk)	26,471	16,991	2,118
21	of which the Standardised Approach	26,471	16,991	2,118
23	Operational risk	466,743	512,316	37,339
EU 23a	of which Basic Indicator Approach	466,743	512,316	37,339
29	**Total**	**5,151,262**	**4,863,166**	**412,101**

5.5 THE ON- AND OFF-BALANCE-SHEET EXPOSURES, THE RISK-WEIGHTED EXPOSURE AMOUNTS AND ASSOCIATED EXPECTED LOSSES FOR EACH CATEGORY OF SPECIALISED LENDING REFERRED TO IN TABLE 1 OF ARTICLE 153(5) AND THE ON- AND OFF-BALANCE-SHEET EXPOSURES AND RISK-WEIGHTED EXPOSURE AMOUNTS FOR THE CATEGORIES OF EQUITY EXPOSURES SET OUT IN ARTICLE 155(2)

(Article 438 (e) of the CRR)

This disclosure is not relevant for the Group because it does not use the IRB Approach to calculate own funds requirements for credit risk.

5.6 EXPOSURE VALUE AND THE RISK-WEIGHTED EXPOSURE AMOUNT OF OWN FUNDS INSTRUMENTS HELD IN ANY INSURANCE UNDERTAKING, REINSURANCE UNDERTAKING OR INSURANCE HOLDING COMPANY THAT THE INSTITUTIONS DO NOT DEDUCT FROM THEIR OWN FUNDS IN ACCORDANCE WITH ARTICLE 49 WHEN CALCULATING THEIR CAPITAL REQUIREMENTS ON AN INDIVIDUAL, SUB-CONSOLIDATED AND CONSOLIDATED BASIS

(Article 438(f) of the CRR)

The Biser Topco Group and Nova KBM Group have the same capital investment portfolio, as the Biser Topco Group does not hold authorisations or licences to perform any type of banking activity. The two groups did not hold a material capital investment in the own funds instruments of insurance undertakings, reinsurance undertakings or insurance holding companies that they did not deduct from their own funds as at 31 December 2021, but do hold an immaterial investment for which they calculate risk-weighted assets for credit risk using a risk weight of 100%.

Template EU INS1 below discloses the insurance participations of the Biser Topco Group and Nova KBM Group as at 31 December 2021.

Template 11: EU INS1 – Insurance participations of the Biser Topco Group and Nova KBM Group

€000

		a	b
		Exposure value	Risk exposure amount
1	Own fund instruments held in insurance or re-insurance undertakings or insurance holding company not deducted from own funds	127	127

5.7 SUPPLEMENTARY OWN FUNDS REQUIREMENT AND THE CAPITAL ADEQUACY RATIO OF THE FINANCIAL CONGLOMERATE CALCULATED IN ACCORDANCE WITH ARTICLE 6 OF DIRECTIVE 2002/87/EC AND ANNEX I TO THAT DIRECTIVE WHERE METHOD 1 OR 2 SET OUT IN THAT ANNEX IS APPLIED

(Article 438(g) of the CRR)

This disclosure is not relevant for the Group.

5.8 VARIATIONS IN THE RISK-WEIGHTED EXPOSURE AMOUNTS OF THE CURRENT DISCLOSURE PERIOD COMPARED TO THE IMMEDIATELY PRECEDING DISCLOSURE PERIOD THAT RESULT FROM THE USE OF INTERNAL MODELS, INCLUDING AN OUTLINE OF THE KEY DRIVERS EXPLAINING THOSE VARIATIONS

(Article 438(h) of the CRR)

This disclosure is not relevant for the Group because it does not use the IRB Approach to calculate own funds requirements for credit risk.

6 EXPOSURE TO COUNTERPARTY CREDIT RISK

This section defines the disclosure requirements set out in Article 439 of Part Eight of the CRR and Section 4.11 of the Guidelines.

6.1 DESCRIPTION OF THE METHODOLOGY USED TO ASSIGN INTERNAL CAPITAL AND CREDIT LIMITS FOR COUNTERPARTY CREDIT EXPOSURES, INCLUDING THE METHODS TO ASSIGN THOSE LIMITS TO EXPOSURES TO CENTRAL COUNTER-PARTIES

(Article 439(a) of the CRR)

The Bank manages counterparty credit risk using the appropriate processes (daily monitoring and valuation, and margin calls) and the limit system, while the own funds to cover those risks are allocated in the scope of the allocation of own funds for credit risk (default risk).

The calculation of the allocation of internal capital for derivatives, repo transactions and securities lending transactions is performed in accordance with an internal methodology that defines the method used to calculate the allocation of internal capital. The Bank's exposure to counterparty credit risk is rather immaterial due to the small scope of such business transactions. For this reason, the Bank allocated own funds in the amount of Pillar 1 own funds requirement for such exposures in the scope of the allocation of internal capital.

The Bank's portfolio does not include any repo transactions or securities lending transactions.

Under Pillar 1, own funds requirements for derivatives are calculated using the original exposure method in accordance with Article 282 of the CRR.

The Group has a limit system in place to monitor exposure to counterparty credit risk. Exposure to customers and the usage of limits are monitored daily. The limit system defines the maximum permitted exposure to an individual counterparty. That exposure depends on the customer's credit rating and other parameters that are subject to the customer's risk assessment, and the size and type of financial instrument.

6.2 DESCRIPTION OF POLICIES RELATED TO GUARANTEES AND OTHER CREDIT RISK MITIGANTS, SUCH AS THE POLICIES FOR SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

(Article 439(b) of the CRR)

The parent bank of the Group has concluded an ISDA (International Swaps and Derivatives Association) master agreement with financial institutions for the purpose of concluding derivatives transactions outside the regulated market. For the purpose of mitigating credit risk, the Bank has signed a credit support annex (CSA) to the aforementioned ISDA Master Agreement with certain banks. That annex governs coverage in the event of unfavourable movements on the market, and thus mitigates credit risk.

The parent bank of the Group has entered into a framework agreement on derivatives transactions with non-financial counterparties. That agreement ensures the netting of claims and liabilities from derivatives transactions in the event of counterparty default.

The Bank only provides derivatives transactions without collateral to customers with the highest credit rating, while it includes the respective exposure to credit risk from such transactions in the calculation of the total exposure. The Bank only provides derivatives transactions to other customers with the approval of the competent body of the Bank or if the latter receives prime collateral.

6.3 DESCRIPTION OF POLICIES WITH RESPECT TO GENERAL WRONG-WAY RISK AND SPECIFIC WRONG-WAY RISK

(Article 439(c) of the CRR)

If exposure to a counterparty increases due to unfavourable market movements, the Bank asks the counterparty to provide additional prime collateral. The Bank has the option of closing the position if the counterparty does not provide that prime collateral. The Bank monitors counterparty credit risk daily on the basis of available market prices or prices calculated according to an internal model, the input data for which are prevailing market prices.

The Bank has defined the minimum acceptable credit quality of assets that it accepts as collateral for repo transactions.

6.4 AMOUNT OF COLLATERAL THE INSTITUTION WOULD HAVE TO PROVIDE IF ITS CREDIT RATING WAS DOWNGRADED

(Article 439(d) of the CRR)

Given the low stock of derivatives in the Group's portfolio, the downgrading of the Bank would not lead to an increase of the stock of collateral.

6.5 AMOUNT OF SEGREGATED AND UNSEGREGATED COLLATERAL RECEIVED AND POSTED PER TYPE OF COLLATERAL, FURTHER BROKEN DOWN BETWEEN COLLATERAL USED FOR DERIVATIVES AND SECURITIES FINANCING TRANSACTIONS

(Article 439(e) of the CRR)

The Bank exchanges collateral in accordance with concluded CSAs.

The Group does not use contractual netting. The gross positive value of contracts equals to the net credit exposure from derivatives.

Template 12: EU CCR5 – Composition of collateral for CCR exposures of the Biser Topco Group

€000

		a	b	c	d
		Collateral used in derivative transactions			
		Fair value of collateral received		Fair value of posted collateral	
	Collateral used in SFTs	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	0	0	0	4,763
11	**Total**	**0**	**0**	**0**	**4,763**

6.6 EXPOSURE VALUES BEFORE AND AFTER THE EFFECT OF THE CREDIT RISK MITIGATION, WHICHEVER METHOD IS APPLICABLE, AND THE ASSOCIATED RISK EXPOSURE AMOUNTS BROKEN DOWN BY APPLICABLE METHOD

(Article 439(f), (g) and (m) of the CRR)

The Group monitors exposure to counterparty credit risk for derivatives using the original exposure method in accordance with the provisions of Article 282 of the CRR (Section 5 of Chapter 6 of Part Three, Title II).

The template below discloses relevant data at the level of the Biser Topco Group as at 31 December 2021.

Template 13: EU CCR1 – Analysis of CCR exposure by approach for the Biser Topco Group

€000

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	WEA
EU-1	EU - Original Exposure Method (for derivatives)	3,707	2,714		1.4	8,989	8,989	8,989	7,193
6	**Total**					**8,989**	**8,989**	**8,989**	**7,193**

6.7 ESTIMATE OF alpha WHERE THE INSTITUTION HAS RECEIVED THE PERMISSION OF THE COMPETENT AUTHORITIES TO USE ITS OWN ESTIMATE OF alpha

(Article 439(k) of the CRR)

Because the Group does not use an internal model method to calculate exposure, this disclosure is not relevant.

6.8 EXPOSURE VALUES AFTER CREDIT RISK MITIGATION EFFECTS AND THE ASSOCIATED RISK EXPOSURES FOR CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

(Article 439(h) of the CRR)

Credit valuation adjustment (CVA) means the adjustment of the portfolio of transactions with a counterparty to valuation according to the mean market value. The aforementioned adjustment reflects the current market value of counterparty credit risk for an institution, but does not reflect the current market value of the institution's credit risk for the counterparty. The template below discloses relevant data at the Biser Topco Group level as at 31 December 2021.

Template 14: EU CCR2 – Transactions subject to own funds requirements for CVA risk for the Biser Topco Group

€000

		Exposure value	RWEA
4	Transactions subject to the standardised method	3,744	3,390
5	**Total transactions subject to own funds requirements for CVA risk**	**3,744**	**3,390**

6.9 EXPOSURE TO CENTRAL COUNTERPARTIES

(Article 439(i) of the CRR)

The Bank concludes certain transactions with the central counterparty LCH Limited. Since 1 January 2021 (i.e. following Brexit), LCH is treated as a third-country central counterparty and is approved by the ESMA. The Bank accesses the clearing house LCH via a clearing member and is subject to mandatory clearing. The Bank performs clearing with LCH for interest rate swaps. In addition to the initial margin and exposure calculated in accordance with Article 282 of CRR, the Bank also has a floating margin of €1,442 thousand at LCH Limited.

Template 15: EU CCR8 – Exposures to CCPs of the Biser Topco Group

€000

		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**384**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	63	63
3	(i) OTC derivatives	63	63
8	Non-segregated initial margin	322	322

6.10 NOTIONAL AMOUNTS AND FAIR VALUE OF CREDIT DERIVATIVE TRANSACTIONS

(Article 439(j) of the CRR)

This disclosure is not relevant. The Biser Topco Group's portfolio does not include credit derivatives.

6.11 VARIATIONS IN THE RISK-WEIGHTED EXPOSURE AMOUNTS OF THE CURRENT DISCLOSURE PERIOD COMPARED TO THE IMMEDIATELY PRECEDING DISCLOSURE PERIOD THAT RESULT FROM THE USE OF INTERNAL MODELS, INCLUDING AN OUTLINE OF THE KEY DRIVERS EXPLAINING THOSE VARIATIONS

(Article 438(h) of the CRR)

Because the Group does not use an internal model method to calculate exposure, this disclosure is not relevant.

6.12 DISCLOSURES INCLUDED IN POINT (E) OF ARTICLE 444 AND POINT (G) OF ARTICLE 452

(Article 439(l) of the CRR)

The disclosures are presented in Sections 11.5 and 19.

7 COUNTERCYCLICAL CAPITAL BUFFERS

(Article 440 of the CRR)

This section defines the disclosure requirements set out in Article 440 of Part Eight of the CRR, in Chapter 4 of Title VII of the CRD and in the templates prescribed in Article 5 of Commission Implementing Regulation (EU) 2021/637.

The Bank of Slovenia also adopted for use countercyclical capital buffer, which is currently set at 0%. The aim of the buffer is to protect the banking sector against losses that could arise as the result of cyclical economic risks. The value of the buffer may range from 0% to 2.5% of the total risk exposure amount, and depends on the level of risk in the system. Institutions must meet the internal countercyclical capital buffer requirement via the CET1 – Common Equity Tier 1 capital ratio (CET1 ratio).

7.1 GEOGRAPHICAL DISTRIBUTION OF THE EXPOSURE AMOUNTS AND RISK-WEIGHTED EXPOSURE AMOUNTS OF ITS CREDIT EXPOSURES USED AS A BASIS FOR THE CALCULATION OF THEIR COUNTERCYCLICAL CAPITAL BUFFER

(Article 440(a) of the CRR)

Template EU CCyB1 discloses credit exposures according to the Standardised Approach, calculated in accordance with Article 111 of the CRR, for the relevant credit exposures for credit risk set out in Article 140(4)(a) of the CRD and the relevant credit exposures set out in Article 140(4)(b) of the CRD. Exposures based on a direct obligor are taken into account for the determination of geographical location in accordance with Commission Delegated Regulation (EU) No 1152/2014.

The institution-specific countercyclical capital buffer rate comprises the weighted average of countercyclical buffer rates that apply in countries in which the related credit exposures of the institution are located.

Template 16: EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer of the Biser Topco Group

€000

	a	c	f	g	h	j	k	l	m
31 December 2021	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Slovenia	4,822,692	26,471	4,849,163	268,243	2,118	270,360	3,379,502	76.06%	0.00%
Netherlands	219,617	0	219,617	15,549	0	15,549	194,362	4.37%	0.00%
Germany	178,231	0	178,231	12,592	0	12,592	157,406	3.54%	0.00%
United States	158,291	0	158,291	11,950	0	11,950	149,370	3.36%	0.00%
France	103,590	0	103,590	6,575	0	6,575	82,190	1.85%	0.00%
Luxembourg	88,074	0	88,074	7,361	0	7,361	92,007	2.07%	1.04%
United Kingdom	79,529	0	79,529	6,182	0	6,182	77,277	1.74%	0.00%
Italy	69,020	0	69,020	6,247	0	6,247	78,092	1.76%	0.00%
Croatia	53,602	0	53,602	5,386	0	5,386	67,322	1.52%	0.00%
Spain	50,963	0	50,963	4,987	0	4,987	62,334	1.40%	0.00%
Austria	33,093	0	33,093	1,688	0	1,688	21,098	0.47%	0.00%
Norway	25,964	0	25,964	256	0	256	3,203	0.07%	0.07%
Gibraltar	24,395	0	24,395	1,952	0	1,952	24,395	0.55%	0.00%
Sweden	20,877	0	20,877	898	0	898	11,221	0.25%	0.00%
Belgium	11,946	0	11,946	644	0	644	8,056	0.18%	0.00%
Hungary	10,411	0	10,411	833	0	833	10,408	0.23%	0.00%
Isle of Man	7,110	0	7,110	569	0	569	7,110	0.16%	0.00%
Czech Republic	5,961	0	5,961	471	0	471	5,885	0.13%	0.07%
Finland	4,140	0	4,140	33	0	33	414	0.01%	0.00%
Bosnia and Herzegovina	3,613	0	3,613	225	0	225	2,807	0.06%	0.00%
Canada	3,106	0	3,106	124	0	124	1,553	0.03%	0.00%
Denmark	3,085	0	3,085	247	0	247	3,085	0.07%	0.00%
Switzerland	2,726	0	2,726	115	0	115	1,437	0.03%	0.00%
Serbia	1,573	0	1,573	106	0	106	1,319	0.03%	0.00%
Kosovo	548	0	548	37	0	37	463	0.01%	0.00%
Slovakia	538	0	538	26	0	26	322	0.01%	0.01%
Macedonia	312	0	312	19	0	19	236	0.01%	0.00%
Turkey	292	0	292	11	0	11	141	0.00%	0.00%
Ukraine	123	0	123	7	0	7	83	0.00%	0.00%
Poland	110	0	110	3	0	3	40	0.00%	0.00%

	a	c	f	g	h	j	k	l	m
31 December 2021	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Bulgaria	106	0	106	7	0	7	84	0.00%	0.00%
Russian Federation	94	0	94	6	0	6	71	0.00%	0.00%
Montenegro	34	0	34	2	0	2	29	0.00%	0.00%
Romania	22	0	22	1	0	1	16	0.00%	0.00%
Portugal	17	0	17	1	0	1	13	0.00%	0.00%
United Arab Emirates	16	0	16	1	0	1	15	0.00%	0.00%
China	10	0	10	1	0	1	13	0.00%	0.00%
Other	49	0	49	3	0	3	42	0.00%	0.00%
Total	5,983,889	26,471	6,010,360	353,356	2,118	355,474	4,443,426	100.00%	-

Template 17: EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer of the Nova KBM Group

€000

	a	c	f	g	h	j	k	l	m
31 December 2021	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Slovenia	4,827,991	26,471	4,854,462	268,666	2,118	270,784	3,384,802	76.09%	0.00%
Netherlands	219,617	0	219,617	15,549	0	15,549	194,362	4.37%	0.00%
Germany	178,231	0	178,231	12,592	0	12,592	157,406	3.54%	0.00%
United States	158,291	0	158,291	11,950	0	11,950	149,370	3.36%	0.00%
France	103,590	0	103,590	6,575	0	6,575	82,190	1.85%	0.00%
Luxembourg	87,498	0	87,498	7,314	0	7,314	91,431	2.06%	1.03%
United Kingdom	79,529	0	79,529	6,182	0	6,182	77,277	1.74%	0.00%
Italy	69,020	0	69,020	6,247	0	6,247	78,092	1.76%	0.00%
Croatia	53,602	0	53,602	5,386	0	5,386	67,322	1.51%	0.00%

31 December 2021	a	c	f	g	h	j	k	l	m
	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Spain	50,963	0	50,963	4,987	0	4,987	62,334	1.40%	0.00%
Austria	33,093	0	33,093	1,688	0	1,688	21,098	0.47%	0.00%
Norway	25,964	0	25,964	256	0	256	3,203	0.07%	0.07%
Gibraltar	24,395	0	24,395	1,952	0	1,952	24,395	0.55%	0.00%
Sweden	20,877	0	20,877	898	0	898	11,221	0.25%	0.00%
Belgium	11,946	0	11,946	644	0	644	8,056	0.18%	0.00%
Hungary	10,411	0	10,411	833	0	833	10,408	0.23%	0.00%
Isle of Man	7,110	0	7,110	569	0	569	7,110	0.16%	0.00%
Czech Republic	5,961	0	5,961	471	0	471	5,885	0.13%	0.07%
Finland	4,140	0	4,140	33	0	33	414	0.01%	0.00%
Bosnia and Herzegovina	3,613	0	3,613	225	0	225	2,807	0.06%	0.00%
Canada	3,106	0	3,106	124	0	124	1,553	0.03%	0.00%
Denmark	3,085	0	3,085	247	0	247	3,085	0.07%	0.00%
Switzerland	2,726	0	2,726	115	0	115	1,437	0.03%	0.00%
Serbia	1,573	0	1,573	106	0	106	1,319	0.03%	0.00%
Kosovo	548	0	548	37	0	37	463	0.01%	0.00%
Slovakia	538	0	538	26	0	26	322	0.01%	0.01%
Macedonia	312	0	312	19	0	19	236	0.01%	0.00%
Turkey	292	0	292	11	0	11	141	0.00%	0.00%
Ukraine	123	0	123	7	0	7	83	0.00%	0.00%
Poland	110	0	110	3	0	3	40	0.00%	0.00%
Bulgaria	106	0	106	7	0	7	84	0.00%	0.00%
Russian Federation	94	0	94	6	0	6	71	0.00%	0.00%
Montenegro	34	0	34	2	0	2	29	0.00%	0.00%
Romania	22	0	22	1	0	1	16	0.00%	0.00%
Portugal	17	0	17	1	0	1	13	0.00%	0.00%

	a	c	f	g	h	j	k	l	m
31 December 2021	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
United Arab Emirates	16	0	16	1	0	1	15	0.00%	0.00%
China	10	0	10	1	0	1	13	0.00%	0.00%
Other	55	0	55	4	0	4	46	0.00%	0.00%
Total	5,988,613	26,471	6,015,084	353,734	2,118	355,852	4,448,150	100.00%	-

7.2 AMOUNT OF INSTITUTION SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

(Article 440(b) of the CRR)

Template EU CCyB2 illustrates the calculation of the amount of the institution specific countercyclical capital buffer of the Group as at 31 December 2021.

Template 18: EU CCyB2 - Amount of institution specific countercyclical capital buffer of the Biser Topco Group and Nova KBM Group

€000

	a	a
	31 December 2021	
	Biser Topco Group	Nova KBM Group
Total risk exposure amount	5,147,224	5,151,262
Institution specific countercyclical capital buffer rate	0.01%	0.01%
Institution specific countercyclical capital buffer requirement	515	515

8 INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE

(Article 441 of the CRR)

This disclosure is not relevant. Nova KBM d.d. is not deemed a global systemically important bank.

9 EXPOSURE TO CREDIT RISK AND DILUTION RISK

9.1 GENERAL QUALITATIVE INFORMATION REGARDING CREDIT RISK

9.1.1 DEFINITION OF 'PAST DUE' AND 'IMPAIRED' FOR ACCOUNTING PURPOSES

(Article 442(a) of the CRR)

The Group treats as past due all on- and off-balance-sheet assets where the counterparty has failed to settle its contractual obligations in a timely manner and in the contractually agreed amount.

Impaired items for accounting purposes are all on- and off-balance-sheet exposures to defaulters and non-defaulters for which the Group has created impairments or provisions.

The Group calculates impairments in accordance with IFRS 9, which requires accounting for expected credit losses (ECLs) from the initial recognition of financial instruments and the earlier recognition of expected losses for the entire lifetime of those instruments.

ECLs represent the probability-weighted assessment of credit losses over a specific period (12 months or the expected duration) of a financial instrument. Given that ECLs take into account the amount and timing of payments, credit losses also arise if the Bank expects to receive full payment but that payment is received later than set out in the associated contract. Financial instruments measured at amortised costs (AC) and those measured at fair value through other comprehensive income (FVTOCI) are subject to the assessment of ECLs. Financial instruments measured at fair value through profit or loss (FVTPL) are not subject to impairment via the calculation of ECLs; rather fair value is assessed for them in accordance with the Methodology for Determining the Fair Value of Loans.

When calculating ECLs via the risk parameters PD, LGD, EAD and CCF, the Group takes the relevant macroeconomic variables into account, where possible.

9.1.2 DESCRIPTION OF THE APPROACHES AND METHODS ADOPTED FOR DETERMINING SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS

(Article 442(b) of the CRR)

General credit risk adjustments are not recognised under the IFRS. For this reason, the Group does not calculate or disclose such adjustments. The Group calculates and discloses specific credit risk adjustments, which are defined as adjustments to carrying value due to credit risk and relate to both on- and off-balance-sheet exposures.

The Group classifies financial instruments to the following categories:

- at amortised cost (AC) – when the objective of holding a financial asset is to receive contractual cash flows, and cash flows received are exclusively payments of principal and interest on the outstanding amount of principal;
- at fair value through other comprehensive income (FVTOCI) – when the objective of holding a financial asset is to receive contractual cash flows and to sell financial assets, and cash flows received are exclusively payments of principal and interest on the outstanding amount of principal;
- at fair value through profit or loss; and
- purchased or originated credit-impaired (POCI) assets at the time of initial recognition.

The Group calculates impairments in accordance with IFRS 9, which requires accounting for expected credit losses (ECLs) from the initial recognition of financial instruments and the earlier recognition of expected losses for the entire lifetime of those instruments.

Financial instruments measured at amortised cost and at fair value through other comprehensive income are subject to the assessment of expected credit losses.

The Group classifies financial assets for which it assesses expected credit losses to three stages:

- Stage 1: exposures where there has not been a significant increase in credit risk in the period since initial recognition and risk is low;
- Stage 2: exposures where there has been a significant increase in credit risk in the period since initial recognition and exposures derive from claims against customers for which credit losses are calculated according to the simplified approach; POCI assets are also classified to Stage 2 if the associated obligor is classified to a non-default rating grade; and
- Stage 3: exposures in default and exposures classified as POCI.

In accordance with IFRS 9 and guidelines on the management of credit risk and the calculation of expected credit losses, the Group takes into account forward-looking information (FLI) that it has identified as relevant for the assessment of expected credit losses based on reasonable judgement, generally accepted methods of economic analysis and forecasting, and that is supported by a sufficient set of data.

Besides taking into account regulatory criteria such as 30 days past due, the Group acts in accordance with the Customer Classification Methodology of the Nova KBM Group when determining whether there has been a significant increase in credit risk (SICR) in connection with an individual asset since initial recognition. In that regard, it believes that a significant increase in credit risk is primarily reflected in a relative change in a customer's credit rating in the period since initial recognition.

When classifying customers to rating grades, the Group uses all available quantitative information in the scope of the model-based and expert analyses of the financial statements and projections, based on clearly defined criteria and on qualitative or soft information relating to an individual customer, as well as factors linked to the sector in which the customer operates and the general macroeconomic environment. The Bank also uses an early warning system (EWS) to monitor credit risk.

The Group has developed internal models for calculating key parameters used to measure credit losses:

- exposure at default (EAD),
- probability of default (PD), and
- loss given default (LGD).

Expected credit losses are equal to the product of probability of default, loss given default and exposure at default.

Expected credit losses represent the probability-weighted assessment of credit losses over a specific period with respect to a specific macroeconomic scenario. The Bank assesses 12-month expected losses for Stage 1 exposures, and lifetime losses or losses for the entire duration of contractual obligations for exposures from the other two stages.

Stage 3 exposures, where total exposure to a small group of connected clients exceeds €300,000, are impaired individually based on an assessment of the sustainability of the Bank's business plan and strategy vis-à-vis a customer and thus on all expected cash flows from both operations and the redemption of collateral. The Bank uses a collective or automated calculation of expected credit losses for other Stage 3 exposures.

The Bank amended its customer credit rating classification models in December 2021. Through-the-cycle (TTC) PD is used to classify customers to rating grades. TTC PD represents the average probability of default for a customer during a period of 12 months over the entire economic cycle and is stable over time, as it is not affected by current macroeconomic conditions.

The calculation of expected credit losses is based on point-in-time (PIT) probability of default based on credit ratings assigned with the help of TTC PD.

In calculating PIT PD, the Bank takes into account all available relevant information about a customer, such as financial and behavioural data that differ with respect to customer type. It also takes into account the current macroeconomic environment and expected changes thereto.

9.1.3 NON-PERFORMING AND FORBORNE EXPOSURES

(Article 442(c) of the CRR)

The Group designates as non-performing exposures (NPE) those exposures where it justifiably expects that an obligor will be unable to settle its obligations in full by the contractual deadline.

The Group deems exposures to be non-performing if any of the following criteria are met:

- the exposure has the status of 'defaulted' or is classified as Stage 3 in accordance with IFRS 9 and the Group's Methodology for Assessing Expected Credit Losses;
- a material exposure to an obligor is more than 90 days past due;
- an exposure has been forborne, whereby the Group has experienced a material economic loss or assesses that an obligor's liabilities will probably not be repaid – forbearance with a low probability of payment;
- the exposure has already been treated as non-performing and the exit criteria are not met; and
- the customer is in insolvency proceedings.

Material past due amount:

- a past due liability is material if the sum of all past due unpaid obligations of an individual obligor to the Nova KBM Group company exceeds 1% of total exposure to that obligor and is greater than €100 or €500, depending on calculated exposure;
- the counting of days past due begins on the day when the above-described conditions for a material past due liability are met; and
- the Nova KBM Group's total exposure is taken into account in the calculation of the materiality threshold for past due amounts.

Reclassification to non-performing exposures after forbearance:

- any of an obligor's exposures are 30 days past due during the two-year probationary period or repeat forbearance was carried out.

The Group applies a standardised definition of default and non-performing exposures (for the purpose of supervisory reporting in accordance with implementing standards). Gaps between the definitions default and the broader definition of non-performing exposures are filled by rules that define the status of default:

- if an obligor is part of a group of connected clients, it is assessed whether other entities in that group are deemed defaulters, provided that they are not already considered impaired or defaulters in accordance with Article 178 of the CRR, except for entities affected by individual disputes that are not linked to capital adequacy of a counterparty;
- an obligor must remain in default for at least 12 months after forbearance. If an analyst from the sector responsible for assessing credit risk determines that the

financial position of an obligor has improved, the customer may be classified to a non-default rating grade (grade 9) prior to the prescribed minimum 12-month period; and

- when an obligor has been classified to a non-default rating grade after forbearance, it is subject to a two-year observation period following restructuring if it is more than 30 days past due in the settlement of an obligation. Taken into account in this regard is a material past due amount at the customer level. When this happens, the obligor is downgraded to at least rating grade 10.

The Group has precisely defined criteria for exit from default status. When those criteria are met, it deems that the risk associated with a customer has been mitigated and default status can be discontinued. When a customer is reclassified to a non-default rating grade, the associated exposure in a given observation period is reclassified as Stage 2 in accordance with IFRS 9.

When the reasons that resulted in a significant increase in the credit risk associated with the specific financial asset of a performing obligor no longer exist and the Bank has sound reason to believe that there will not be another significant increase in the credit risk associated with such exposures over the short term, that financial asset is reclassified from Stage 2 to Stage 1, and expected credit losses are recalculated for a 12-month period.

The Workout Department and Legal Office manage the portfolio of customers in default who are classified to default rating grades.

9.2 GENERAL QUANTITATIVE INFORMATION ABOUT CREDIT RISK

This section defines the requirements set out in Article 442(c) of Part Eight of the CRR and implementing technical standards with regard to the public disclosure of the information referred to in Part Eight of Regulation (EU) No 575/2013.

The definition of exposure classes is in line with the definition of exposure classes in accordance with Article 112 of the CRR – Standardised Approach.

9.2.1 PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

(Articles 442(c) and 442(f) of the CRR)

Template 19: EU CR1 - Performing and non-performing exposures and related provisions for the Biser Topco Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	2,741,258	2,737,731	3,527	0	0	0	-59	-59	0	0	0	0	0	0	0
010	Loans and advances	4,900,576	4,344,084	556,493	147,247	0	147,247	-39,537	-16,142	-23,394	-46,683	0	-46,683	-91,633	2,336,751	48,822
020	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
030	*General governments*	140,150	137,520	2,629	147	0	147	-747	-305	-442	-115	0	-115	-486	89,449	0
040	*Credit institutions*	98,054	95,651	2,403	0	0	0	-194	-194	0	0	0	0	0	0	0
050	*Other financial corporations*	275,240	263,046	12,194	7	0	7	-4,755	-1,789	-2,966	-2	0	-2	-43,102	6,848	0
060	*Non-financial corporations*	1,933,801	1,676,668	257,133	40,800	0	40,800	-18,704	-8,600	-10,103	-16,847	0	-16,847	-37,018	833,775	12,970
070	*Of which SMEs*	800,823	693,077	107,745	27,117	0	27,117	-6,973	-3,549	-3,423	-7,562	0	-7,562	-1,119	480,281	11,304
080	*Households*	2,453,332	2,171,199	279,763	106,293	0	106,293	-15,138	-5,254	-9,884	-29,719	0	-29,719	-11,026	1,406,679	35,853
090	Debt securities	1,841,303	1,841,303	0	0	0	0	-857	-857	0	0	0	0	0	118,410	0
100	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
110	*General governments*	855,626	855,626	0	0	0	0	-291	-291	0	0	0	0	0	19,006	0

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
120	*Credit institutions*	606,686	606,686	0	0	0	0	-162	-162	0	0	0	0	0	43,536	0
130	*Other financial corporations*	191,416	191,416	0	0	0	0	-206	-206	0	0	0	0	0	39,232	0
140	*Non-financial corporations*	187,574	187,574	0	0	0	0	-197	-197	0	0	0	0	0	16,636	0
150	Off-balance-sheet exposures	1,974,943	1,905,531	69,409	9,775	0	9,775	5,006	3,292	1,711	1,326	0	1,326		0	0
160	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0		0	0
170	*General governments*	7,379	7,344	32	0	0	0	13	11	1	0	0	0		0	0
180	*Credit institutions*	32,752	32,752	0	0	0	0	2	2	0	0	0	0		0	0
190	*Other financial corporations*	98,739	98,193	546	0	0	0	172	168	4	0	0	0		0	0
200	*Non-financial corporations*	1,407,382	1,369,590	37,791	7,995	0	7,995	3,351	2,432	919	844	0	844		0	0
210	*Households*	428,691	397,653	31,039	1,779	0	1,779	1,467	679	788	483	0	483		0	0
220	***Total***	**11,458,080**	**10,828,649**	**629,429**	**157,022**	**0**	**157,023**	**-45,459**	**-20,350**	**-25,105**	**-48,009**	**0**	**-48,009**	**-91,633**	**2,455,161**	**48,822**

Template 20: EU CR1 - Performing and non-performing exposures and related provisions for the Nova KBM Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	2,731,157	2,727,630	3,527	0	0	0	-59	-59	0	0	0	0	0	0	0
010	Loans and advances	4,900,576	4,344,084	556,493	147,247	0	147,247	-39,537	-16,142	-23,394	-46,683	0	-46,683	-91,633	2,336,751	48,822
020	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
030	*General governments*	140,150	137,520	2,629	147	0	147	-747	-305	-442	-115	0	-115	-486	89,449	0
040	*Credit institutions*	98,054	95,651	2,403	0	0	0	-194	-194	0	0	0	0	0	0	0
050	*Other financial corporations*	275,240	263,046	12,194	7	0	7	-4,755	-1,789	-2,966	-2	0	-2	-43,102	6,848	0
060	*Non-financial corporations*	1,933,801	1,676,668	257,133	40,800	0	40,800	-18,704	-8,600	-10,103	-16,847	0	-16,847	-37,018	833,775	12,970
070	*Of which SMEs*	800,823	693,077	107,745	27,117	0	27,117	-6,973	-3,549	-3,423	-7,562	0	-7,562	-1,119	480,281	11,304
080	*Households*	2,453,332	2,171,199	279,763	106,293	0	106,293	-15,138	-5,254	-9,884	-29,719	0	-29,719	-11,026	1,406,679	35,853
090	Debt securities	1,840,768	1,840,768	0	0	0	0	-857	-857	0	0	0	0	0	118,410	0
100	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
110	*General governments*	855,626	855,626	0	0	0	0	-291	-291	0	0	0	0	0	19,006	0

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
120	*Credit institutions*	606,686	606,686	0	0	0	0	-162	-162	0	0	0	0	0	43,536	0
130	*Other financial corporations*	191,416	191,416	0	0	0	0	-206	-206	0	0	0	0	0	39,232	0
140	*Non-financial corporations*	187,039	187,039	0	0	0	0	-197	-197	0	0	0	0	0	16,636	0
150	Off-balance-sheet exposures	1,974,943	1,905,531	69,409	9,775	0	9,775	5,006	3,292	1,711	1,326	0	1,326		0	0
160	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0		0	0
170	*General governments*	7,379	7,344	32	0	0	0	13	11	1	0	0	0		0	0
180	*Credit institutions*	32,752	32,752	0	0	0	0	2	2	0	0	0	0		0	0
190	*Other financial corporations*	98,739	98,193	546	0	0	0	172	168	4	0	0	0		0	0
200	*Non-financial corporations*	1,407,382	1,369,590	37,791	7,995	0	7,995	3,351	2,432	919	844	0	844		0	0
210	*Households*	428,691	397,653	31,039	1,779	0	1,779	1,467	679	788	483	0	483		0	0
220	***Total***	**11,447,444**	**10,818,013**	**629,429**	**157,022**	**0**	**157,022**	**-35,447**	**-13,766**	**-21,683**	**-45,357**	**0**	**-45,357**	**-91,633**	**2,455,161**	**48,822**

The figures for non-performing exposures relate to undertakings in the Nova KBM Group, as Biser Topco and Biser Bidco do not hold any non-performing or forborne exposures, because they do not undertake any commercial activities. The Nova KBM Group's holdings of non-performing exposures declined from €224.3 million to €157 million in 2021. Between 1 January and 31 December 2021 the Group continued its workout of customers' non-performing exposures on the basis of collateral liquidation via ordinary procedures and extra-judicial settlement, and executed sales of individual and packaged non-performing loans. The Group achieved its planned reduction of non-performing loans: in addition to the regular planned reduction of non-performing loans, it successfully completed two package sales of non-performing loans in 2021, thus reducing gross non-performing loans by a total of €52 million.

The Group did not record a significant increase in non-performing loans in 2021 due to the impact of the Covid-19 pandemic.

9.2.2 MATURITY OF EXPOSURES

(Article 442(g) of the CRR)

As at 31 December 2021 the Group discloses its largest net exposure in the residual maturity bucket of more than five years, namely 41.3% of the total, followed by the maturity bucket of one to five years, with 33.6%. The maturity bucket of up to one year accounts for 24.4%, and the demand bucket accounts for 0.8%.

Template 21: EU CR1-A – Maturity of exposures for the Biser Topco Group

€000

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	51,664	1,163,774	1,232,967	2,513,199	0	4,961,604
2	Debt securities	0	494,175	1,050,859	300,248	0	1,845,282
3	***Total***	51,664	1,657,949	2,283,826	2,813,447	0	6,806,886

Template 22: EU CR1-A – Maturity of exposures for the Nova KBM Group

€000

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	51,664	1,163,774	1,232,967	2,513,199	0	4,961,604
2	Debt securities	0	494,175	1,050,324	300,248	0	1,844,747
3	***Total***	51,664	1,657,949	2,283,291	2,813,447	0	6,806,351

9.2.3 CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

(Article 442(f) of the CRR)

The stock of non-performing exposures declined by €55.4 million in 2021. Outflow due to other situations in the amount of €122.1 million accounts for the largest share. Two package sales of non-performing loans were successfully completed in 2021, and the amount of €96.8 million related to outflows for repayments.

Template 23: EU CR2 – Changes in the stock of non-performing loans and advances for the Biser Topco Group and the Nova KBM Group

€000

		a
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	202,614
020	Inflows to non-performing portfolios	74,497
030	Outflows from non-performing portfolios	-129,864
040	Outflows due to write-offs	-7,758
050	Outflow due to other situations	-122,106
060	**Final stock of non-performing loans and advances**	147,247

9.2.4 CREDIT QUALITY OF FORBORNE EXPOSURES

(Article 442(c) of the CRR)

The table below presents the disclosures at the level of the Biser Topco Group, where there is no difference between the forborne exposures of the Biser Topco Group and those of the Nova KBM Group. The total amount of forborne exposures was €82.1 million as at 31 December 2021.

Template 24: EU CQ1 – Credit quality of forborne exposures for the Biser Topco Group and the Nova KBM Group

€000

		a	b	c	d	e	f	g	h
		Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0	0
010	Loans and advances	59,192	22,837	22,837	22,837	766	-7,059	65,949	13,855
020	*Central banks*	0	0	0	0	0	0	0	0
030	*General governments*	0	0	0	0	0	0	0	0
040	*Credit institutions*	0	0	0	0	0	0	0	0
050	*Other financial corporations*	0	0	0	0	0	0	0	0

		a	b	c	d	e	f	g	h
		Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
060	*Non-financial corporations*	51,482	11,532	11,532	11,532	768	-3,505	53,384	7,270
070	*Households*	7,710	11,305	11,305	11,305	-2	-3,555	12,565	6,585
080	Debt securities	0	0	0	0	0	0	0	0
090	Loan commitments given	11	114	114	114	2	70	0	0
100	***Total***	59,203	22,951	22,951	22,951	764	-7,129	65,949	13,855

9.2.5 CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

(Articles 442(c) and 442(d) of the CRR)

Template 25: EU CQ3 – Credit quality of performing and non-performing exposures by past due days for the Biser Topco Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	2,741,258	2,741,258	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	4,900,576	4,866,138	34,439	147,247	104,139	7,067	6,072	6,116	6,540	2,832	14,481	147,247
020	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
030	*General governments*	140,150	140,146	3	147	37	0	0	0	0	13	96	147
040	*Credit institutions*	98,054	98,054	0	0	0	0	0	0	0	0	0	0
050	*Other financial corporations*	275,240	275,239	1	7	6	0	0	0	0	0	0	7
060	*Non-financial corporations*	1,933,801	1,924,783	9,018	40,800	24,022	1,495	1,497	1,914	1,835	1,788	8,250	40,800
070	*Of which SMEs*	800,823	793,551	7,271	27,117	19,567	1,493	1,483	1,741	1,105	68	1,660	27,117
080	*Households*	2,453,332	2,427,916	25,416	106,293	80,074	5,572	4,575	4,202	4,705	1,031	6,135	106,293
090	Debt securities	1,841,303	1,841,303	0	0	0	0	0	0	0	0	0	0
100	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
110	*General governments*	855,626	855,626	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	606,686	606,686	0	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	191,416	191,416	0	0	0	0	0	0	0	0	0	0

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
140	*Non-financial corporations*	187,574	187,574	0	0	0	0	0	0	0	0	0	0
150	Off-balance-sheet exposures	1,974,943			9,775								9,775
160	*Central banks*	0			0								0
170	*General governments*	7,379			0								0
180	*Credit institutions*	32,752			0								0
190	*Other financial corporations*	98,739			0								0
200	*Non-financial corporations*	1,407,382			7,995								7,995
210	*Households*	428,691			1,779								1,779
220	***Total***	11,458,080	9,448,699	34,439	157,022	104,139	7,067	6,072	6,116	6,540	2,832	14,481	157,022

Template 26: EU CQ3 – Credit quality of performing and non-performing exposures by past due days for the Nova KBM Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	2,731,157	2,731,157	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	4,900,576	4,866,138	34,439	147,247	104,139	7,067	6,072	6,116	6,540	2,832	14,481	147,247
020	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
030	*General governments*	140,150	140,146	3	147	37	0	0	0	0	13	96	147
040	*Credit institutions*	98,054	98,054	0	0	0	0	0	0	0	0	0	0
050	*Other financial corporations*	275,240	275,239	1	7	6	0	0	0	0	0	0	7
060	*Non-financial corporations*	1,933,801	1,924,783	9,018	40,800	24,022	1,495	1,497	1,914	1,835	1,788	8,250	40,800
070	*Of which SMEs*	800,823	793,551	7,271	27,117	19,567	1,493	1,483	1,741	1,105	68	1,660	27,117
080	*Households*	2,453,332	2,427,916	25,416	106,293	80,074	5,572	4,575	4,202	4,705	1,031	6,135	106,293
090	Debt securities	1,840,768	1,840,768	0	0	0	0	0	0	0	0	0	0
100	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
110	*General governments*	855,626	855,626	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	606,686	606,686	0	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	191,416	191,416	0	0	0	0	0	0	0	0	0	0

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
140	*Non-financial corporations*	187,039	187,039	0	0	0	0	0	0	0	0	0	0
150	Off-balance-sheet exposures	1,974,943			9,775								9,775
160	*Central banks*	0			0								0
170	*General governments*	7,379			0								0
180	*Credit institutions*	32,752			0								0
190	*Other financial corporations*	98,739			0								0
200	*Non-financial corporations*	1,407,382			7,995								7,995
210	*Households*	428,691			1,779								1,779
220	***Total***	11,447,444	9,438,063	34,439	157,022	104,139	7,067	6,072	6,116	6,540	2,832	14,481	157,022

9.2.6 QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

(Articles 442(c) and 442(e) of the CRR)

In the table below the Group discloses its five largest exposures by individual country for on-balance-sheet and off-balance-sheet exposures in the Biser Topco Group and the Nova KBM Group. Other exposures are aggregated under "other countries". Given that the NPL ratio does not exceed 5% as at 31 December 2021, the Group makes no disclosure under columns b and d. Exposure in Slovenia accounts for 65.2% of the total at the Biser Topco Group and the Nova KBM Group.

Template 27: EU CQ4 – Quality of non-performing exposures by geography for the Biser Topco Group

€000

		a	b	c	d	e	f	g
		Gross carrying amount / nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	***On-balance-sheet exposures***	**7,868,199**		**144,130**		**-95,263**		**0**
020	*SI*	4,620,542		0		-71,970		0
030	*FR*	280,672		5		-336		0
040	*NL*	268,474		175		-3,774		0
050	*DE*	224,355		0		-749		0
060	*ES*	202,834		2,937		-498		0
070	*Other countries*	1,292,249		144,130		-9,751		0
080	***Off-balance-sheet exposures***	**2,004,342**		**9,774**			**6,458**	
090	*SI*	1,811,727		9,753			5,935	
100	*FR*	35,569		0			31	
110	*NL*	24,982		0			33	
120	*HR*	22,579		1			59	
130	*AT*	21,539		0			45	
140	*Other countries*	68,321		20			228	
150	***Total***	**9,872,541**		**158,920**		**-95,263**	**6,458**	**0**

Template 28: EU CQ4 – Quality of non-performing exposures by geography for the Nova KBM Group

€000

		a	b	c	d	e	f	g
		Gross carrying amount / nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	***On-balance-sheet exposures***	**7,867,663**		**149,146**		**-95,263**		**0**
020	*SI*	4,620,006		144,130		-71,970		0
030	*FR*	280,672		0		-336		0
040	*NL*	268,474		5		-3,774		0
050	*DE*	224,355		175		-749		0
060	*ES*	202,834		0		-498		0
070	*Other countries*	1,292,249		2,937		-9,751		0
080	***Off-balance-sheet exposures***	**2,004,342**		**9,774**			**6,458**	
090	*SI*	1,811,727		9,753			5,935	
100	*FR*	35,569		0			31	
110	*NL*	24,982		0			33	
120	*HR*	22,579		1			59	
130	*AT*	21,539		0			45	
140	*Other countries*	68,321		20			228	
150	***Total***	**9,872,005**		**158,920**		**-95,263**	**6,458**	**0**

9.2.7 CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

(Articles 442(c) and 442(e) of the CRR)

The Group discloses its largest gross exposure as at 31 December 2021 to the manufacturing sector, 31.5% of the total. The NPL ratio does not exceed 5% at the Biser Topco Group or the Nova KBM Group, and therefore the Group makes no disclosure under columns b and d.

Template 29: EU CQ5 – Credit quality of loans and advances to non-financial corporations by industry for the Biser Topco Group and the Nova KBM Group

€000

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	14,863		38		-88	0
020	Mining and quarrying	19,449		21		-20	0
030	Manufacturing	622,647		5,494		-6,480	0
040	Electricity, gas, steam and air conditioning supply	70,061		47		-73	0
050	Water supply	29,755		27		-89	0
060	Construction	122,330		4,812		-2,537	0
070	Wholesale and retail trade	246,283		7,508		-7,584	0
080	Transport and storage	113,990		3,374		-1,479	0
090	Accommodation and food service activities	98,568		11,500		-7,767	0
100	Information and communication	72,413		2,947		-1,450	0
110	Financial and insurance activities	83,013		1		-507	0
120	Real estate activities	102,780		31		-510	0
130	Professional, scientific and technical activities	216,332		1,872		-1,068	0
140	Administrative and support service activities	70,998		2,758		-1,528	0
150	Public administration and defence, compulsory social security	1		0		0	0
160	Education	7,733		26		-767	0

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
170	Human health services and social work activities	47,886		1		-3,304	0
180	Arts, entertainment and recreation	31,333		206		-337	0
190	Other services	4,168		136		39	0
200	***Total***	**1,974,602**		**40,800**		**-35,551**	**0**

9.2.8 COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

(Article 442(c) of the CRR)

Template 30: EU CQ7 – Collateral obtained by taking possession and execution processes for the Biser Topco Group and the Nova KBM Group

€000

		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	Property, plant and equipment (PP&E)	0	0
020	Other than PP&E	10,387	-8,455
030	*Residential immovable property*	0	0
040	*Commercial immovable property*	0	0
050	*Movable property (auto, shipping, etc.)*	47	0
060	*Equity and debt instruments*	0	0
070	*Other collateral*	10,340	-8,455
080	***Total***	**10,387**	**-8,455**

The item “Other collateral” relates to land received for the repayment of claims.

10 ENCUMBERED AND UNENCUMBERED ASSETS

(Article 443 of the CRR)

This section defines the disclosure requirements set out in Article 443 of Part Eight of the CRR and Commission Implementing Regulation (EU) 2021/637.

Template 31: EU AE4

The Bank provides collateral in accordance with the applicable legislation and regulations. The main driver of asset encumbrance is the TLTRO. The Bank encumbers assets in accordance with its internal methodology, in a manner that allows for the free disposal of the highest-quality assets.

The share of total assets that are encumbered averages 3.2%. Debt securities account for the largest share of encumbered assets (50%). The main source of encumbrance is debt to the ECB (TLTRO). The encumbrance of assets in relation to the ECB is undertaken in accordance with the General Terms and Conditions on the Implementation of Monetary Policy. The encumbered assets relate to Nova KBM d.d.

Template 32: EU AE1 – Encumbered and unencumbered assets

€000

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the disclosing institution**	312.988	46.837			9.455.736	1.241.055		
030	Equity instruments	0	0			71.222	0		
040	Debt securities	156.181	46.837	155.292	46.535	1.756.347	1.241.055	1.753.845	1.238.084
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: securitisations	0	0	0	0	0	0	0	0
070	of which: issued by general governments	35.878	35.878	35.883	35.883	902.853	902.353	900.812	900.312
080	of which: issued by financial corporations	116.515	5.044	115.895	5.040	665.906	218.447	665.809	218.398
090	of which: issued by non-financial corporations	4.137	3.106	4.122	3.096	183.740	117.883	183.695	116.772
120	Other assets	157.407	0			7.628.167	0		

Template 33: EU AE2 – Collateral received and own debt securities issued

€000

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the disclosing institution				
240	Own debt securities issued other than own covered bonds or securitisations				
241	Own covered bonds and securitisations issued and not yet pledged				
250	**TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**312.988**	**46.837**		

Template 34: EU AE3 – Sources of encumbrance

€000

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities	150.334	312.988

11 USE OF ECAIS

This section defines the disclosure requirements set out in Article 444 of Part Eight of the CRR and Section 4.9 of the Guidelines.

11.1 NAMES OF THE NOMINATED ECAIS AND ECAS AND THE REASONS FOR ANY CHANGES

(Article 444(a) of the CRR)

In 2021, the Bank did not change nominated external credit assessment institutions for the purpose of calculating capital requirements. It nominated Moody's as an external credit assessment institution for the exposure classes set out section 11.2.

11.2 EXPOSURE CLASSES FOR WHICH EACH ECAI OR ECA IS USED

(Article 444(b) of the CRR)

The Group calculates capital requirements for credit risk according to the Standardised Approach. The parent bank of the Group nominated Moody's as an external credit assessment institution for the assignment of risk weights to the following exposure classes:

- exposures to central governments and central banks;
- exposures to regional governments or local authorities;
- exposures to public sector entities;
- exposures to institutions;
- exposures to corporates; and
- exposures in the form of investments in covered bonds.

11.3 DESCRIPTION OF THE PROCESS USED TO TRANSFER THE ISSUER AND ISSUE CREDIT ASSESSMENTS ONTO ITEMS NOT INCLUDED IN THE TRADING BOOK

(Article 444(c) of the CRR)

For exposure classes for which an ECAI has been nominated, risk weights are assigned depending on the long-term rating of the financial instrument or obligor, and the issuer of the financial instrument. When assigning risk weights to exposures, the Bank first takes the long-term external rating of the financial instrument or exposure. If the latter is not rated, the long-term credit rating of the obligor is used. If the long-term external rating of the obligor is not available, the long-term sovereign rating of the country is used, or the risk weight for unrated exposures to the obligor is assigned.

11.4 ASSOCIATION OF THE EXTERNAL RATING OF EACH NOMINATED ECAI OR ECA WITH THE CREDIT QUALITY STEPS PRESCRIBED IN PART THREE, TITLE II, CHAPTER 2, TAKING INTO ACCOUNT THAT THIS INFORMATION NEEDS NOT BE DISCLOSED IF THE INSTITUTION COMPLIES WITH THE STANDARD ASSOCIATION PUBLISHED BY EBA

(Article 444(d) of the CRR)

This disclosure is not relevant. The relevant association is in line with the standard association.

11.5 EXPOSURE VALUES AND EXPOSURE VALUES AFTER CREDIT RISK MITIGATION ASSOCIATED WITH EACH CREDIT QUALITY STEP AS SET OUT IN CHAPTER 2 OF TITLE II OF PART THREE, BY EXPOSURE CLASS, AS WELL AS EXPOSURE VALUES DEDUCTED FROM OWN FUNDS

(Article 444(e) of the CRR)

The net values of on-balance-sheet and off-balance-sheet exposures are allocated on the basis of the rules of the standardised approach.

The EU CR5 and EU CCR3 templates below disclose the allocation of exposure value after consideration of credit risk mitigation techniques and the corresponding conversion factors in the case of off-balance-sheet exposures across exposure classes and risk weights for the Biser Topco Group as at 31 December 2021. There are three weights prevalent in the EU CR5 template: 0% in the central governments segment, 75% in the retail exposures segment, and 100% in the corporates segment. There was no significant change in their ratio to the total exposure amount relative to the previous year, where almost 40% of exposures carry a 0% weight, and just over 40% a weight of 75% or 100%. There are two weights prevalent in the EU CCR3 template: 50% in the institutions segment and 100% in the corporates segment. There was a significant change in their ratio to the total exposure amount relative to the previous year: exposures carrying a 100% weight declined from 75% to 55% of the total, while the share carrying a weight of 50% increased from 11% to 32%.

Template 35: EU CR5 – Standardised Approach for the Biser Topco Group

€000

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	3,693,923	0	0	0	39,262	0	0	0	0	0	0	0	0	0	0	3,733,185	2,683,686
2	Regional governments or local authorities	24,614	0	0	0	57,597	0	0	0	0	0	0	0	0	0	0	82,210	52,221
3	Public sector entities	24,567	0	0	0	0	0	3,537	0	0	1	0	0	0	0	0	28,105	3,520
4	Multilateral development banks	17,581	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17,581	
5	International organisations	32,104	0	0	0	0	0	0	0	0	0	0	0	0	0	0	32,104	
6	Institutions	0	0	0	0	317,503	0	284,461	0	0	6,585	0	0	0	0	0	608,549	53,325
7	Corporates	0	0	0	0	24,661	0	122,346	0	0	1,916,931	93,510	0	0	0	0	2,157,447	1,383,616
8	Retail exposures	0	0	0	0	0	243	0	0	1,952,034	0	0	0	0	0	0	1,952,277	1,952,276
9	Exposures secured by mortgages on immovable property	0	0	0	0	0	809,291	380,537	0	0	13,841	0	0	0	0	0	1,203,669	1,203,669
10	Exposures in default	0	0	0	0	0	0	0	0	0	46,450	55,310	0	0	0	0	101,761	101,761
11	Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	117,521	0	0	0	0	117,521	116,982
12	Covered bonds	0	0	0	79,261	1,062	0	0	0	0	0	0	0	0	0	0	80,323	
13	Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
14	Units or shares in collective investment undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	49,945	49,945	
15	Equity exposures	0	0	0	0	0	0	0	0	0	28,514	0	0	0	0	0	28,514	13,596
16	Other items	83,496	0	0	0	67,411	0	0	0	0	135,945	0	0	0	0	0	286,852	29,691
17	**Total**	**3,876,286**	**0**	**0**	**79,261**	**507,496**	**809,534**	**790,882**	**0**	**1,952,034**	**2,148,266**	**266,341**	**0**	**0**	**0**	**49,945**	**10,480,045**	**7,594,343**

Template 36: EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weights for the Biser Topco Group

€000

	Exposure classes	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	0
2	Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0
3	Public sector entities	0	0	0	0	0	178	0	0	0	0	0	178
4	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0
5	International organisations	0	0	0	0	0	0	0	0	0	0	0	0
6	Institutions	0	0	0	0	584	2,679	0	0	0	0	0	3,227
7	Corporates	0	0	0	0	0	0	0	0	4,935	0	0	4,935
8	Retail	0	0	0	0	0	0	0	48	0	0	0	48
9	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0
10	Other items	0	0	0	0	0	0	0	0	0	601	0	601
11	**Total exposure value**	**0**	**0**	**0**	**0**	**584**	**2,857**	**0**	**48**	**4,935**	**601**	**0**	**8,989**

12 EXPOSURE TO MARKET RISK

(Article 445 of the CRR)

This section defines the disclosure requirements set out in Article 445 of Part Eight of the CRR and Section 4.13 of the Guidelines.

The Group uses the Standardised Approach to calculate own funds requirements for market risk. Own funds requirements are calculated for the following in the scope of market risk:

- Interest rate risk (general). The Group calculates own funds requirements for derivatives (interest rate swaps) in the scope of interest rate risk.
- Equity risk (general and specific). The Group calculates own funds requirements for own funds instruments and derivatives on own funds instruments in the scope of equity risk. The Group also discloses own funds requirements for exposure to collective investment undertakings included in the trading book in the scope of equity risk.
- Foreign exchange risk. The Group calculates own funds requirements for the open foreign exchange position, which includes capital requirements for derivatives on foreign currencies, in the scope of foreign exchange risk.

The template below discloses risk-weighted exposure to market risk as at the reporting date of 31 December 2021.

Template 37: EU MR1 – Market risk under the standardised approach for the Biser Topco Group

€000

		RWEA 31 December 2021
Outright products		
1	Interest rate risk (general and specific)	70
2	Equity risk (general and specific)	26,401
3	Foreign exchange risk	0
4	Commodity risk	0
Options		
9	**Total**	**26,471**

13 OPERATIONAL RISK MANAGEMENT

(Article 446 of the CRR)

Operational risk at the Biser Topco Group level does not differ from operational risk management within the Nova KBM Group. For this reason, management of the aforementioned risk by the Nova KBM Group is presented in this section.

Operational risk is the risk of loss arising from inappropriate or failed internal processes, people and systems, or external events. This definition includes legal risk (in accordance with the CRR), but excludes strategic risk and the risk of reputation loss. However, certain operational risks could have a major impact on reputation loss. The Nova KBM Group thus addresses the following risks in the scope of general operational risk: reputation risk, model risk, risks in connection with employee conduct, system/IT risk, project risk, compliance risk, the risk of fraud (external and internal), the risk of cybercrime, human resource risk, legal risk, outsourcing risk and risk associated with data quality.

The Bank separates operational risk events to:

- legal risk events;
- loss events;
- non-financial events; and
- potential events

Legal risk events comprise all lawsuits received and filed.

Operational risk loss events resulting either in financial loss (impact on the profit and loss account – PLA) or misstatement of PLA items (more than one financial year). The Bank defined as loss events all the events where the gross loss reached or exceeded €50.

A non-financial event arising from operational risk is an event that produced no direct financial impact on the PLA, but produced an effect of regulatory nature, or an effect relating to customers, the market/competition and/or reputation.

A potential operational risk event is an event that had no financial effects on the PLA as it was prevented in a timely manner, but had the potential to cause financial/non-financial effects.

The Nova KBM Group calculates capital requirements for operational risk in accordance with Pillar I using the Basic Indicator Approach (BIA), and in accordance with Pillar 2 using internal models that take into account data regarding loss events, non-financial and potential events, the results of the self-analysis of operational risk and the status of operational risk indicators. The Nova KBM Group classifies all the events and threats of operational risk self-assessments in accordance with the standard categorisation of loss events set out in the Basel II Capital Accord, and by business area, which facilitates the linking thereof.

The Bank has a register of operational risks and questionnaires for self-assessment purposes that are adjusted to the categorisation of operational risks under Basel II, which facilitates a better comparison between reported operational risk events and assessed risks, and thus high-quality analyses of operational risk. To ensure improved risk management, the Bank also has in place an operational risk appetite system and the monitoring of key risk indicators (KRI). Key risk indicators for self-assessment purposes and analyses of operational risk scenarios make it possible for the Bank to identify potential future risks, which it mitigates using a system to manage the necessary security and organisational corrective measures.

The Nova KBM Group records operational risk events centrally. All employees at the Bank and across the entire Nova KBM Group are included in reporting on actual operational risk events. Regular reporting regarding operational risk events to senior management is carried out on a monthly and quarterly basis. CRO reports are discussed monthly by the Bank's Supervisory Board and quarterly by the Operational Risk Committee. Operational risk reports for the entire Nova KBM Group are discussed by the Operational Risk Committee, which is an advisory body to the Bank's Management Board whose role is to study, discuss and make decisions regarding operational risk issues. The presence of the Management Board and the directors of sectors and departments that play an important role in the management of operational risks also ensures that appropriate measures can be taken when high-level risks are identified.

The net loss from loss events incurred by the Nova KBM Group accounts for a very low proportion of own funds requirements of operational risk.

Operational risk under Pillar 1 for the Biser Topco Group and Nova KBM Group

The Group calculates own funds requirements for operational risk under Pillar 1 in accordance with Article 315 of the CRR using the Basic Indicator Approach. In accordance with the aforementioned approach, own funds requirements for operational risk are equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the CRR. When calculating own funds requirements for operational risk, the Group also takes into account explanation EBA Q&A ID 2018_3969, according to which a three-year average must be taken into account for the calculation of own funds requirements for operational risk at the end of the year. The Group calculates the relevant indicator once a year as the sum of the relevant profit and loss account items set out in Table 1 of Article 316 of the CRR.

Template 38: EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts for the Biser Topco Group

€000

		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk exposure amount
		2019	2020	2021		
1	Banking activities subject to Basic Indicator Approach (BIA)	264,309	238,806	241,541	37,233	465,409

14 KEY METRICS

This section defines the requirements relating to the disclosures set out in Article 447 of Part Eight of the CRR, which are presented in Template EU KM1 in section 5.2 of this document.

15 EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

(Article 448 of the CRR)

This section defines the disclosure requirements set out in Article 448 of Part Eight of the CRR.

Interest rate risk is managed at the Biser Topco Group level in the same way as at the Nova KBM Group level, as only the Nova KBM Group is exposed to this type of risk. For this reason, the required information is disclosed at the level of the Nova KBM Group.

15.1 CHANGES IN THE ECONOMIC VALUE OF EQUITY CALCULATED UNDER THE SIX SUPERVISORY SHOCK SCENARIOS REFERRED TO IN ARTICLE 98(5) OF DIRECTIVE 2013/36/EU FOR THE CURRENT AND PREVIOUS DISCLOSURE PERIODS

(Article 448(a) of the CRR)

The Group carries out stress testing with the aim of measuring vulnerability in stressed market conditions. In accordance with the EBA Guidelines on the management of interest rate risk arising from non-trading activities (July 2018), the Group employs the prescribed upward and downward shifts in the yield curve set out in point 15.5 in the third indent, and to that end takes into account the interest rate floor, which depends on maturity. The Bank takes the latter into account for all key currencies.

Table 10: Calculations and impact of changes in interest rates on the economic value of equity

Supervisory stress scenarios €000	31 December 2021 Δ in economic value of equity	31 December 2020 Δ in economic value of equity
Parallel shift in yield curve		
Upward parallel shift in yield curve	113,940	63,142
Downward parallel shift in yield curve	(14,766)	(132)
Change in incline of curve		
Shock of a steeper curve	20,222	10,342
Shock of a flatter curve	10,203	(5,697)
Change in short-term interest rates		

Supervisory stress scenarios €000	31 December 2021 Δ in economic value of equity	31 December 2020 Δ in economic value of equity
Shock of a rise in short-term interest rates	39,317	12,404
Shock of a decrease in short-term interest rates	(16,958)	(655)

The result with the most significant negative change in the economic value of equity of the six stress testing scenarios at 31 December 2021 was the shock of a decrease in short-term interest rates, under which the economic value of equity would decrease by €16,985 thousand and the potential loss would be equal to 1.99% of the Biser Topco Group's Tier 1 capital, while that figure was 0.63% of the Biser Topco Group's Tier 1 capital as at 31 December 2020. That proportion is within the regulatory limit in both years.

In addition to the above-presented shifts in the yield curve, the Group also performs a stress test in the form of a parallel shift in the yield curve for +/-200 basis points.

Standardised stress scenarios €000	31 December 2021 Δ in economic value of equity	31 December 2020 Δ in economic value of equity
+200 b.p.	113,926	63,099
-200 b.p.	(14,766)	(132)

The Group's stress test of a 200 basis point rise in interest rates would result in an increase in the economic value of equity as at 31 December 2021 of €113,926 thousand and potential profit equal to 12.23% of the Biser Topco Group's regulatory own funds, while that figure was 6.47% of the Biser Topco Group's regulatory own funds as at 31 December 2020. A drop in interest rates by 200 basis points would result in a decrease in the economic value of equity as at 31 December 2021 of €14,766 thousand and a potential loss equal to 1.59% of the Biser Topco Group's regulatory own funds, while that figure was 0.01% of the Biser Topco Group's regulatory own funds as at 31 December 2020. That proportion is within the regulatory limit in both years.

The increase in the economic value of equity in 2021 relative to 2020 was the result of a more significant increase in demand deposits, which are classified based on models to the time bucket of up to 10 years, than the increase in loans to the non-banking sector, which primarily bear a variable interest rate and are mainly classified to the time bucket of up to six months.

15.2 CHANGES IN THE NET INTEREST INCOME CALCULATED UNDER THE TWO SUPERVISORY SHOCK SCENARIOS REFERRED TO IN ARTICLE 98(5) OF DIRECTIVE 2013/36/EU FOR THE CURRENT AND PREVIOUS DISCLOSURE

(Article 448(b) of the CRR)

In accordance with the EBA Guidelines on the management of interest rate risk arising from non-trading activities (July 2018), the Group performs a quarterly standardised stress test in the form of a parallel shift in the yield curve of +/−200 basis points for all key currencies and calculates the impact on net interest income (NII).

Table 11: Calculations and impact of changes in interest rates on net interest income

Standardised stress scenarios €000	31 December 2021 Δ in net interest income	31 December 2020 Δ in net interest income
Standardised stress test		
+200 b.p.	36,482	18,992
-200 b.p.	(9,514)	(7,334)

15.3 DESCRIPTION OF KEY MODELLING AND PARAMETRIC ASSUMPTIONS, OTHER THAN THOSE REFERRED TO IN POINTS (B) AND (C) OF ARTICLE 98(5A) OF DIRECTIVE 2013/36/EU USED TO CALCULATE CHANGES IN THE ECONOMIC VALUE OF EQUITY AND IN THE NET INTEREST INCOME REQUIRED UNDER POINTS (A) AND (B) OF THIS PARAGRAPH

(Article 448(c) of the CRR)

The Group assesses exposure to interest rate risk based on the assumptions set out in the Interest Rate Risk Management Methodology of the Nova KBM Group and monitors that risk in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group.

The Group recognised the following as key assumptions:

- Demand deposits

The Group divides euro-denominated demand deposits into stable and unstable deposits based on a model for defining stable and unstable demand deposits separately for the retail and corporate sectors. It further divides stable deposits into core and non-core deposits based on a model for defining core and non-core deposits separately for the retail and corporate sectors.

Based on models, the Group classified 70% of household demand deposits and 50% of corporate demand deposits to core deposits as at 31 December 2021. Non-core demand deposits remain classified to the demand time bucket, while core deposits are classified to time buckets based on the aforementioned models. Demand deposits denominated in other currencies remain classified to the demand time bucket.

- Options

The Group used a loan prepayment model and loan refinancing model in the monitoring and management of interest rate risk. In the relevant calculation, those models take into account the amount of prepayments, depending on movements in interest rates. Both models were developed separately for the household and corporate segments, and separately for loans with a fixed interest rate and those with a variable interest rate. The corporate segment is further broken down into large and medium-sized enterprises, and small and micro enterprises. In the household segment, the percentage of prepaid and refinanced loans is calculated separately for consumer loans and housing loans. The result of an individual model is a forecast of the percentage of prepaid and refinanced loans, which differ in terms of segment and type of interest rate.

Since October 2021, the Group takes into account an early call option by the issuer in the management of interest rate risk in connection with investments in financial instruments.

The Group allows its customers to call deposits early in accordance with the valid document 'General instructions for savings, deposits and savings accounts_VA-02', and charges those customers fees in accordance with the valid documents 'List of fees for transactions with consumers' and 'List of fees for transactions with legal entities, entrepreneurs and sole traders' The Group monitors early calls of deposits monthly and finds that they are immaterial (less than 1% of approved deposits), and thus does not take them into account in the management of interest rate risk.

- Off-balance-sheet items
- Non-performing loans

The Group treats overdue principal in non-performing loans as a non-interest-sensitive item, meaning it has no impact on interest rate risk.

- Foreign currencies

The majority of the Group's portfolio is denominated in euros. Other currencies thus have an immaterial impact on the monitoring and management of interest rate risk.

- Interest rate floor on the reference or overall interest rate on loans and deposits

In its calculations, the Group takes into account an interest rate floor for loans and deposits with a variable interest rate, where so defined, in the form of an interest rate floor on the overall or reference interest rate.

15.4 EXPLANATION OF THE SIGNIFICANCE OF THE RISK MEASURES DISCLOSED UNDER POINTS (A) AND (B) OF THIS PARAGRAPH AND OF ANY SIGNIFICANT VARIATIONS OF THOSE RISK MEASURES SINCE THE PREVIOUS DISCLOSURE REFERENCE DATE

(Article 448(d) of the CRR)

In calculating of the change in NII, the Group takes into account the impact of a change in interest rates on demand deposits; in defining shocks, it uses a pass-through factor of 11.66% for households and 11.96% for corporates, assessed based on models for defining core and non-core deposits for households and corporates.

The Group takes interest rate shocks for demand deposits into account in continuous internal management scenarios and in supervisory reporting scenarios, but at the moment only in scenarios involving an upward shift in the yield curve. Given current interest rates, scenarios with a downward shift in the yield curve are without effect because the Bank assumes that interest rates on demand deposits cannot be negative. If interest rates on demand deposits rise, shocks will also be taken into account in scenarios of falling interest rates.

For more complex debt securities that, at the time of purchase, are expected to be redeemed prior to the original maturity date, the Group takes into account the expected date of redemption and not the original maturity date in calculations.

15.5 DESCRIPTION OF HOW INSTITUTIONS DEFINE, MEASURE, MITIGATE AND CONTROL THE INTEREST RATE RISK OF THEIR NON-TRADING BOOK ACTIVITIES FOR THE PURPOSES OF THE COMPETENT AUTHORITIES' REVIEW IN ACCORDANCE WITH ARTICLE 84 OF DIRECTIVE 2013/36/EU, INCLUDING:

A) DESCRIPTION OF THE SPECIFIC RISK MEASURES THAT THE INSTITUTIONS USE TO EVALUATE CHANGES IN THEIR ECONOMIC VALUE OF EQUITY AND IN THEIR NET INTEREST INCOME

(Article 448(e)(i) of the CRR)

The Group manages interest rate risk based on operational limits linked to the Bank's risk interest rate risk appetite, which is defined in the risk appetite framework (RAF).

To support the interest rate risk appetite, the Group established additional limits in 2021, as follows: a limit on the maximum negative change in the economic value of equity and a limit on the maximum negative change in net interest income in continuous internal management scenarios.

On a monthly basis, the Group implements the interest rate scenarios for continuous internal management described below, and interest rate scenarios for stress testing and the calculation of the impact of a shift in the interest rate yield curve on the economic value of equity and net interest income over a period of one year. For that purpose, the Group takes into account a model of prepaid and refinanced loans, and uses a model for defining stable and unstable deposits and a model for defining core and non-core deposits for the purpose of classifying demand deposits.

For the purpose of managing interest rate risk, the Group measures the impact of various shifts in the yield curve on the economic value of equity (EVE) on a monthly basis, and determines whether the loss amount under the adverse scenario of +/- 200 basis points is within limits and whether it exceeds 20% of regulatory own funds. In accordance with the EBA Guidelines on the management of interest rate risk arising from non-trading book activities (July 2018), the Group measures the impact of six different shifts in the yield curve (supervisory scenarios) on the economic value of equity and determines whether the loss in any of those scenarios exceeds 15% of Common Equity Tier 1 capital.

The Group uses the basis point value method to monitor and manage interest rate risk. The basis point value method indicates to what extent the value of the portfolio of interest-sensitive instruments will decrease if the general level of interest rates rises by 1 basis point of 0.01%.

B) DESCRIPTION OF THE KEY MODELLING AND PARAMETRIC ASSUMPTIONS USED IN THE INSTITUTIONS' INTERNAL MEASUREMENT SYSTEMS THAT WOULD DIFFER FROM THE COMMON MODELLING AND PARAMETRIC ASSUMPTIONS REFERRED TO IN ARTICLE 98(5A) OF DIRECTIVE 2013/36/EU FOR THE PURPOSE OF CALCULATING CHANGES TO THE ECONOMIC VALUE OF EQUITY AND TO THE NET INTEREST INCOME, INCLUDING THE RATIONALE FOR THOSE DIFFERENCES

(Article 448(e)(ii) of the CRR)

The Group uses standard modelling and parametric assumptions in the monitoring of interest rate risk.

C) DESCRIPTION OF THE INTEREST RATE SHOCK SCENARIOS THAT INSTITUTIONS USE TO ESTIMATE THE INTEREST RATE RISK

(Article 448(e)(iii) of the CRR)

For its internal needs and to calculate own funds requirements for interest rate risk, the Group calculates the impact of a change on the economic value of equity and net interest income, taking into account an interest rate floor for individual products in the event of the following shifts in the yield curve (continuous internal management scenarios):

- a shock based on past market data;
- a shock based on forecasted market data;
- a shock based on an upward or downward shift in VaR (a shift in the yield curve based on the curve's volatility during the previous year, with a 95% confidence interval);
- an upward or downward parallel shift (a sudden parallel shift in the yield curve, which is defined by a preliminary analysis of movements in market interest rates);
- a flatter yield curve scenario (the Group identified two scenarios: a scenario of an increase in short-term interest rates and a decrease in long-term interest rates, and a scenario of an increase in short-term interest rates in the context of a slight increase in long-term interest rates); and
- a steeper yield curve scenario (an increase in long-term interest rates in the context of a slight increase in short-term interest rates).

The result of the scenario with the most adverse impact on the sums min(0;ΔEVE) and min(0;ΔNII) represents the own funds requirement for interest rate risk.

The Group carries out stress testing with the aim of measuring vulnerability in stressful market conditions. In addition to a standardised stress test in the form of a parallel shift in the yield curve of +/−200 basis points, the Group performs other upward and downward shifts in the yield curve of various dimensions in accordance with the Guidelines on the management of interest rate risk arising from non-trading activities (July 2018). The calculation of the economic value of equity takes into account an interest rate floor, which depends on maturity. The Bank takes the latter into account for all key currencies.

The Group calculates the impact of a change in the economic value of equity (EVE) and net interest income (NII) as the result of the following shifts in the yield curve (regulatory scenarios):

- an upward parallel shift in the yield curve of 200 basis points;
- a downward parallel shift in the yield curve of 200 basis points;
- the shock of a steeper yield curve (a decrease in short-term interest rates and an increase in long-term interest rates);
- the shock of a flatter yield curve (an increase in short-term interest rates and a decrease in long-term interest rates);
- the shock of an increase in short-term interest rates; and
- the shock of a decrease in short-term interest rates.

The Group calculates the impact of a change in the economic value of equity (EVE) for the above-mentioned shifts in the yield curve on a monthly basis, while the impact of a change in net interest income (NII) is calculated once a year, except in the scenarios of +/- 200 basis points, for which it is calculated quarterly.

The Group implements interest rate scenarios for the continuous management of interest rate risk and performs stress tests separately for euros, US dollars and Swiss francs, and an additional stress test for total exposure to interest rate risk, as the standardised stress test prescribes a uniform shift irrespective of the currency or reference interest rate.

D) RECOGNITION OF THE EFFECT OF HEDGES AGAINST THOSE INTEREST RATE RISKS, INCLUDING INTERNAL HEDGES THAT MEET THE REQUIREMENTS LAID DOWN IN ARTICLE 106(3)

(Article 448(e)(iv) of the CRR)

The Group currently uses a natural hedge against its interest position, and thus does not perform hedge accounting. It does, however, have in place a Hedge Accounting Policy.

In December 2021, the Strategic Risk Management Department and Treasury Department performed the first analyses of the impact of hedging, which were presented to the Bank's Management Board.

E) OUTLINE OF HOW OFTEN THE EVALUATION OF THE INTEREST RATE RISK OCCURS

(Article 448(e)(v) of the CRR)

The Group monitors exposure to interest rate risk monthly, and reports to the ALCO monthly in the scope of the CRO report. The Group reports quarterly to the ECB regarding exposure to interest rate risk in the scope of STE reporting.

15.6 DESCRIPTION OF THE OVERALL RISK MANAGEMENT AND MITIGATION STRATEGIES FOR THOSE RISKS

(Article 448(f) of the CRR)

The Group monitors and manages interest rate risk in the banking book in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group and the Interest Rate Risk Management Methodology of the Nova KBM Group.

The Group has in place a risk appetite framework that defines its appetite to take up certain types of risk. The Interest Rate Risk Management Policy is part of the risk appetite framework. The interest rate risk appetite statement (RAS) is defined in that strategy.

The Group manages interest rate risk based on operational limits linked to the Bank's risk interest rate risk appetite, which is defined in the risk appetite framework.

To prevent a significant increase in interest rate risk, and to prevent the breach of regulatory limits and the interest rate risk appetite limit, the Group has in place a limit system that is defined in the Operational Limits Handbook of the Nova KBM Group. The Group monitors the utilisation of limits monthly.

15.7 AVERAGE AND LONGEST REPRICING MATURITY ASSIGNED TO NON-MATURITY DEPOSITS

(Article 448(g) of the CRR)

The Group divides euro-denominated demand deposits into stable and unstable deposits based on a model for defining stable and unstable demand deposits separately for the retail and corporate sectors. It further divides stable deposits into core and non-core deposits based on a model for defining core and non-core deposits separately for the retail and corporate sectors.

The table below discloses the average and longest repricing maturity assigned to demand deposits, expressed in years:

Table 12: Average and longest repricing maturity assigned to demand deposits

Segment	31 December 2021	
	Average maturity in years	Longest maturity in years
Corporates	1.16	7
Households	1.95	10

16 EXPOSURE TO SECURITISATION POSITIONS

(Article 449 of the CRR)

This disclosure is not relevant. The Nova KBM Group does not have securitisation positions.

17 REMUNERATION POLICY

This section defines the disclosure requirements set out in Article 450 of Regulation (EU) No 575/2013.

The Remuneration Policy, including information regarding the criteria used for the measurement of performance and risk adjustment, are presented at the Nova KBM Group level. The Biser Topco Group has no employees. Disclosure at the aforementioned level is thus not relevant.

17.1 INFORMATION CONCERNING THE DECISION-MAKING PROCESS USED FOR DETERMINING THE REMUNERATION POLICY, AS WELL AS THE NUMBER OF MEETINGS HELD BY THE MAIN BODY OVERSEEING REMUNERATION DURING THE FINANCIAL YEAR, INCLUDING, IF APPLICABLE, INFORMATION ABOUT THE COMPOSITION AND THE MANDATE OF A REMUNERATION COMMITTEE, THE EXTERNAL CONSULTANT WHOSE SERVICES HAVE BEEN USED FOR THE DETERMINATION OF THE REMUNERATION POLICY AND THE ROLE OF THE RELEVANT STAKEHOLDERS

(Article 450 (1a) of the CRR)

The Bank has had a Remuneration Policy in place since 2012 for the purpose of implementing remuneration practices. The Remuneration Policy applies to all employees, is gender-neutral and takes into account the principle of equal pay for equal work, or work of equal value, regardless of gender. It defines different groups of employees, including a group of employees with respect to the materiality of their impact on the Bank's risk profile in accordance with the criteria set out by EU regulations or in accordance with the Bank's own criteria.

The Bank's Remuneration Policy defines all forms of remuneration to which employees are entitled, general and specific principles for adjusting remuneration to risks, those responsible for establishing, amending and supervising the implementation of the Remuneration Policy, and reporting. The Remuneration Policy is based on the link between remuneration and the prudent acceptance of risks, and is designed so as not to encourage the increased willingness to accept risks or to act in contravention of the Bank's interests. This is ensured by defining appropriate ratios between the fixed and variable components of remuneration of employees whose activities have a material impact on the Bank's risk profile, taking into account the fact that the total remuneration of those employees may not be highly dependent on the variable component of remuneration.

The Remuneration Policy sets the variable component of the remuneration of employees, who through their activities have a material impact on the risk profile in such a way that ensures and promotes the effective management of all material risks (risks that the Bank identifies as material in the scope of the regular assessment of the risk profile and that are defined in the risk management strategy) that are taken up by the aforementioned employees in the performance of their work and exercising of their powers. The remuneration of identified staff is set on the basis of an assessment of adherence to the guidelines set out in the Bank's business strategy and long-term interests, and is paid on the basis of resolutions of the Bank's Supervisory Board and Management Board.

The payment of remuneration to employees who are not deemed identified staff under the Remuneration Policy may be carried out at any time in accordance with valid regulations and the bylaws of the Bank. The criteria for setting variable remuneration for those persons are described in the Rules on the monitoring, assessment and remuneration of employee performance at Nova KBM d.d., which are an integral part of the policy.

Responsibility for the creation, approval and supervision of the Remuneration Policy

The Bank's Management Board, Remuneration Committee, Risk Committee and Supervisory Board work closely in the implementation of remuneration policies and practices, and ensure the necessary harmonisation with the general corporate governance framework of the Bank, its corporate culture, risk appetite and associated management processes.

In the scope of their competences, the Remuneration Committee and the Bank's Supervisory Board regularly verify the appropriateness of adopted remuneration policies and practices, and control the implementation thereof. They also approve material exceptions for individual employees and changes to the Remuneration Policy, and carefully study and monitor their effects.

Role of independent control functions

In accordance with their competences, the Bank's individual expert departments are involved in the creation, supervision and review of the appropriateness of the Remuneration Policy.

The Strategic Risk Management Department participates in and reports on the definition of performance criteria that take into account taken-up risks (including subsequent adjustments), and assesses how the structure of the variable components of remuneration affect the Bank's risk profile and the risk take-up culture. The Strategic Risk Management Department confirms and assesses information regarding adjustments due to risks and cooperates regularly with the Remuneration Committee in this area.

The Compliance Department analyses how the Remuneration Policy affects the Bank's compliance with laws, regulations, internal policies and the risk take-up culture, and reports all identified compliance risks and issues of non-compliance to the Management Board and Supervisory Board. The findings of the Compliance Department are considered by the Supervisory Board in the approval, review and supervision of the Remuneration Policy.

At least once a year, the Internal Audit Department carries out an independent review of the bases, implementation and effects of the Bank's Remuneration Policy on its risk profile and the treatment of those effects, in accordance with the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013.

Supervisory Board and Remuneration Committee

Composition of the Supervisory Board in 2021:

- Andrej Fatur, Chairman until 20 April 2021; reappointed to new term of office, effective 21 April 2021
- Andrzej Klesyk, Deputy Chairman (since 1 September 2017)
- Manfred Puffer, member until 20 April 2021; reappointed to new term of office, effective 21 April 2021
- Andrea Moneta, member until 20 April 2021; reappointed to new term of office, effective 21 April 2021
- Michele Rabà, member until 20 April 2021; reappointed to new term of office, effective 21 April 2021
- Alexander Saveliev, member until 17 March 2021
- Kristina Žagar, member since 18 March 2021
- Borut Jamnik, member since 7 May 2019

Composition of the Remuneration Committee in 2021:

- Andrzej Klesyk, chair
- Alexander Saveliev, deputy chair until 17 March 2021
- Kristina Žagar, deputy chair since 18 March 2021
- Michele Rabà, member

All members of the Remuneration Committee are also members of the Supervisory Board. The Remuneration Committee did not use the services of external advisors in 2021.

In accordance with the Banking Act (ZBan-3), the Remuneration Committee is an advisory body of Nova KBM's Supervisory Board and has the following competences in that regard:

- responsibility for drafting remuneration-related decisions that are adopted by the Supervisory Board, in particular with regard to the remuneration of Management Board members and other employees whose professional activities have a material impact on the Bank's risk profile;
- provision of support and advice to the Supervisory Board in connection with the formulation of a gender-neutral Remuneration Policy;
- provision of support to the Supervisory Board with regard to control over the remuneration-related policy, practice and processes, and with regard to compliance with the Remuneration Policy;
- verification of whether the existing Remuneration Policy is still appropriate, and proposal of amendments as required;
- assessment of the appointment of external advisors that the Supervisory Board might hire for advisory services or support with regard to remuneration;
- assurance of the relevance of information provided to shareholders regarding the Remuneration Policy and practices, in particular regarding the proposed raising of the maximum ratio between the fixed and variable components of remuneration;
- assessment of mechanisms and systems in place to ensure that the remuneration system takes appropriate account of all types of risks, and the level of liquidity and capital, and that the overall Remuneration Policy is in line with and promotes prudent and effective risk management, and is in line with the business strategy, objectives, corporate culture, values and long-term interests of the Bank;
- assessment of the achievement of performance objectives and the need for subsequent adjustments to risks, including through malus or clawback arrangements;
- review of different potential scenarios to verify how remuneration policies and practices respond to external and internal events, and the back-testing of criteria used to define the apportionment and preliminary adjustment of variable remuneration to risks based on the results of realised risks;
- direct control over the remuneration of identified staff in independent control functions, including the member of the Management Board and Chief Risk Officer, Internal Audit Department and Compliance Department, and the drafting of recommendations for the Supervisory Board concerning the formulation of a remuneration package and remuneration amounts paid to senior employees in control functions; and
- appropriate inclusion of the HR Development Department and Accounting and Controlling Department in the relevant professional areas, and the search for external advisors, as required.

In the scope of its competences, the Remuneration Committee ensures that a centralised and independent review of the Remuneration Policy and practices is carried out at least once a year, in accordance with regulations, policies, procedures and internal rules, by the Internal Audit Department in cooperation with the Bank's expert departments, taking into account the latter's competences. The Supervisory Board is responsible for reviewing the Remuneration Policy.

The Remuneration Committee met at two regular and ten correspondence sessions in 2021, and reported on the content it discussed at sessions of the Supervisory Board.

Amendments to the Remuneration Policy were discussed twice by the Management Board and Remuneration Committee in 2021, and then confirmed by the Supervisory Board at correspondence sessions held on 16 July 2021 and 6 October 2021.

Definition of employees whose professional activities have a significant impact on the Bank's risk profile

In accordance with the law, the Bank performs an annual self-assessment of the appropriateness of the definition of employees whose professional activities have a significant impact on the Bank's risk profile based on the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) 2021/923.

In accordance with their responsibilities, the Remuneration Committee and Risk Committee are actively included in the process of defining the aforementioned employees, in cooperation with the Bank's expert departments (Strategic Risk Management Department, Compliance Department and HR Development Department), in accordance with their tasks. An assessment of the list of employees whose professional activities have a material impact on the Bank's risk profile is also carried out in the event of major changes to the Bank's organisational structure and legislative changes.

In accordance with Nova KBM's Remuneration Policy, the list of employees whose professional activities have a material impact on the Bank's risk profile was amended once based on a semi-annual and annual self-assessment of employees for 2021 in accordance with the law, and was discussed by the Bank's Management Board, Remuneration Committee and Risk Committee, and approved by the Supervisory Board on 16 July 2021, with an effective date of 1 August 2021. There were no subsequent changes based on an additional assessment for 2021.

Employees whose professional activities have a significant impact on the Bank's risk profile are placed on the list of identified staff taking into account the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) 2021/923 and based on the Bank's internal criteria.

Also taken into account in the identification of employees whose professional activities have a material impact on the Bank's risk profile is the additional condition that those employees be treated as such for at least three months during the financial year.

The category of employees whose professional activities have a material impact on the risk profile at subsidiaries includes the directors of subsidiaries, as well as employees, if subsidiaries define them as such in their bylaws. The Bank ensures that the Remuneration

Policy is implemented and taken into account by the entire group on a consolidated and sub-consolidated basis.

17.2 INFORMATION ON LINK BETWEEN PAY AND PERFORMANCE

(Article 450 (1b) of the CRR)

In accordance with the Banking Act (ZBan-3), the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, the Regulation on the application of the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, and the EBA guidelines of 2 July 2021 (EBA/GL/2021/04), the Bank is obliged to establish and implement a Remuneration Policy at the Group level for categories of identified staff that promotes sound and effective risk management.

The Remuneration Policy relates to all forms of employee remuneration at the Bank (fixed and variable), with an emphasis on employees whose professional activities have a material impact on the Bank's risk profile.

The Remuneration Policy is in line with performance targets for the Bank (which is evident from the Bank's annual business plan, which is deemed an integral part of the Remuneration Policy), business areas and employees, the Bank's business and risk management strategies, the corporate culture and values, the Bank's long-term interests and measures for the prevention of conflicts of interests. To that end, the objective is to ensure at the Bank a structure and payment of remuneration that provides for the appropriate motivation of employees, while not encouraging employees to irresponsibly take disproportionately large risks in the course of their work, or risks that exceed the Bank's risk absorption capacity.

Variable remuneration is based on the performance of the Bank, business units and employees, and takes account of the take-up of risks. The Remuneration Policy in connection with variable remuneration and the appraisal of performance clearly distinguishes between the effects of the work of business units and the corporate and control functions. The Remuneration Policy helps the Bank achieve and maintain the target level of own funds and liquidity.

The principles of the Remuneration Policy apply to all documents that govern the remuneration of employee performance at Nova KBM. Those documents include: Rules on the monitoring, assessment and remuneration of employee performance at Nova KBM d.d., with the following addenda: System for the remuneration of the performance of sales staff in the retail and micro enterprise segments, system for the remuneration of the performance of sales staff in the contact centre, system for the remuneration of employees in the SME and large corporate segment, system for the remuneration of the performance of employees in the Workout Department, and Instructions on the non-cash remuneration of employees at Nova KBM d.d.

The principles of the Remuneration Policy are captured in the remuneration policies of subsidiaries.

The Bank includes the effect of variable remuneration (immediate and deferred amounts) in the planning of own funds and liquidity, and in its internal capital adequacy assessment process. The total variable remuneration apportioned by the Bank may not limit its ability to maintain or re-establish the target level of own funds and liquidity in accordance with the Group's Risk Appetite Strategy, and must take into account the interests of shareholders, owners, depositors, investors and other stakeholders. Variable remuneration may not be apportioned or paid if this would cause a drop in the target level of own funds below the minimum capital requirement set out in the relevant SREP decision, or a drop in key liquidity ratios, defined in accordance with the risk appetite statement, below the acceptable thresholds set out in the same document. If the Bank does not have a sound capital and liquidity base or that soundness is at risk, it must adapt and implement the appropriate measures in connection with variable remuneration in accordance with the Remuneration Policy.

17.3 MOST IMPORTANT DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM, INCLUDING INFORMATION ON THE CRITERIA USED FOR PERFORMANCE MEASUREMENT AND RISK ADJUSTMENT, DEFERRAL POLICY AND VESTING CRITERIA

(Article 450 (1c) of the CRR)

The Bank has in place since 2017 a performance management system, in which the organisation's objectives for the implementation of its five strategic pillars (Growth and sustainable profitability, Client excellence, Strong risk management and compliance, Operational efficiency and Organisational culture and talent development), the objectives of organisational units and the personal objectives of individuals are set out for 2021. The objectives of employees at managerial levels B-1 and B-2 are set and assessed annually, while the personal objectives of other employees are amended quarterly. The assessment of key and managerial competences is part of an employee's annual performance assessment.

The Bank uses various remuneration policies and mechanisms for adjusting variable remuneration to risks for different employee categories. Those policies and mechanisms are defined by the performance assessment criteria for the payment of variable remuneration, which serve as an enclosure to the Remuneration Policy. The amount of apportioned variable remuneration is adjusted to changes in the performance of an employee, organisational unit and the Bank.

Criteria used for performance assessment for the payment of variable remuneration, and ratio between the fixed and variable remuneration of employees whose professional activities have a significant impact on the Bank's risk profile

The apportionment of variable remuneration for identified staff is the exclusive responsibility of the Remuneration Committee and the Supervisory Board, and is based on a performance assessment that takes into account the risk management strategy and is in line with the Bank's business strategy. When apportioning the variable element of remuneration to identified staff, the Bank takes appropriate account of the need to maintain or re-establish the target level of own funds and liquidity, the potential influences of external and internal stakeholders, and the regulatory body's recommendations and guidelines. In special circumstances, the amount of apportioned variable remuneration can be lower than defined for a specific assessment in the Remuneration Policy.

The members of the Supervisory Board only receive fixed remuneration. They may also be paid variable remuneration in exceptional cases.

The criteria used to assess performance for the payment of variable remuneration, and ratio between the fixed and variable remuneration are broken down into three categories:

I. Management Board

The remuneration of Management Board members is in line with their powers, tasks, knowledge and responsibilities. It is assessed by the Supervisory Board, whereby the proposal issued by the President of the Management Board, based on performance management indicators, is taken into account for Management Board members. The amount of variable remuneration of Management Board members is discussed by the Remuneration Committee and set by means of Supervisory Board resolution following confirmation of the Annual Report.

Depending on achieved objectives, the amount of variable remuneration of identified staff under this point is given below (percentage of gross annual wages of the employee to which the criteria relate):

Table 13: Amount of variable remuneration of Management Board (except Chief Risk Officer)

	Amount of variable remuneration
Exceptional, excellent, best possible (achievement of 96%–100% of objectives)	90%–100%
Very good, above expectations (achievement of 86%–95% of objectives)	60%-90%
Good, expected, successful (achievement of 76%–85% of objectives)	20%–80%
Average, certain elements below expectations (achievement of 64%–75% of objectives)	0%–20%
Modest, unsatisfactory (achievement of <64% of objectives)	0%
Not assessed (less than 3 months of regular employment)	0%

** Under special circumstances, the apportioned amount of variable remuneration may also be lower than the remuneration set according to the above criteria.*

II. Control functions: member of the Management Board and Chief Risk Officer, and directors of the Compliance Department and Internal Audit Department.

The remuneration of employees in control functions is primarily fixed. Employees in control functions have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, independent of the performance of the business areas they control.

Depending on achieved objectives, the amount of variable remuneration of identified staff under this point is given below (percentage of gross annual wages of the employee to which the criteria relate):

Table 14: Amount of variable remuneration of employees in control functions

	Amount of variable remuneration
Exceptional, excellent, best possible (achievement of 96%–100% of objectives)	30%–80%
Very good, above expectations (achievement of 86%–95% of objectives)	20%–70%
Good, expected, successful (achievement of 76%–85% of objectives)	3%–60%
Average, certain elements below expectations (achievement of 64%–75% of objectives)	0%–3%
Modest, unsatisfactory (achievement of <64% of objectives)	0%
Not assessed (less than 3 months of regular employment)	0%

** Under special circumstances, the apportioned amount of variable remuneration may also be lower than the remuneration set according to the above criteria.*

A total of 80% of variable remuneration represents the upper limit for exceptional performance of employees in control functions.

The actual amount of variable remuneration apportioned to employees in control functions (except the member of the Management Board and Chief Risk Officer) is set by means of Management Board resolution, while the proposed amount of apportioned remuneration is sent to the Remuneration Committee for discussion and adopted by the Bank's Supervisory Board.

Notwithstanding the provisions of this point, the member of Management Board and Chief Risk Officer is assessed by the Supervisory Board. Similar to other members of the Management Board, provisions regarding the deferral of payment and payment in the form of ordinary or preference shares of the Bank or in the form of share-linked instruments or equivalent non-cash instruments apply to the above-mentioned person.

III. Procurators and other identified staff on individual employment contracts in accordance with the additional criteria of the Bank, and committee members[2] (CC, CCHRI, IILC, ALCO and Liquidity Commission)

Depending on achieved objectives, the amount of variable remuneration of identified staff under this point is given below (percentage of gross annual wages of the employee to which the criteria relate):

Table 15: Amount of variable remuneration of procurators and other identified staff on individual contracts

	Amount of variable remuneration
Exceptional, excellent, best possible (achievement of 96%–100% of objectives)	40%–100%
Very good, above expectations (achievement of 86%–95% of objectives)	20%–90%
Good, expected, successful (achievement of 76%–85% of objectives)	3%–60%
Average, certain elements below expectations (achievement of 64%–75% of objectives)	0%–3%
Modest, unsatisfactory (achievement of <64% of objectives)	0%
Not assessed (less than 3 months of regular employment)	0%

** Under special circumstances, the apportioned amount of variable remuneration may also be lower than the remuneration set according to the above criteria.*

The actual amount of variable remuneration apportioned to procurators and other identified staff under individual employment contracts is set by means of Management Board resolution, while the proposed amount of apportioned remuneration is sent to the Remuneration Committee for discussion and adopted by the Bank's Supervisory Board.

Deferral of payment and payment in the form of ordinary or preference shares of the Bank or in the form of share-linked instruments or equivalent non-cash instruments – deferral scheme

Nova KBM's Remuneration Policy includes provisions regarding the required deferral of payment, and required payment in the form of financial or non-cash instruments as variable remuneration for identified staff. In the event of the apportionment of variable remuneration in excess of the gross amount of €100,000.00, the Bank uses a deferral scheme created as follows (principle of proportionality):

- 50% of the amount of remuneration is paid immediately (advance payment); and
- 50% of the amount of remuneration is deferred and paid in a proportionate amount in a period of 4 to 5 years;

[2] Credit Committee (CC), Credit Committee for High-Risk Investments (CCHRI), Investment and International Lending Committee (IILC), Asset-Liability Committee (ALCO) and Liquidity Commission.

- split payment: 50% in cash and 50% in equities (or equivalent non-monetary instruments) on a pro-rata basis (in the case of the Bank, these are equivalent non-cash instruments);
- 2-year vesting period for payments relating to non-cash instruments and thus extension of the deferral period; and
- in the event of high amounts (i.e. in excess of €250,000.00), the payment of 60% of variable remuneration is deferred.

The Remuneration Policy states that the valuation used by Apollo Global Management (AGM) is used to calculate the value of non-cash instruments. Valuations and the associated processes are supported by accounting estimates that serve as an integral part of the financial statements of AGM, which are subject to external auditing. Valuations are carried out quarterly and serve as the basis for determining the value of 'non-cash' deferred remuneration. The basis for determining value is the average annual value of Nova KBM, i.e. the average of the last four valuations prior to the date of payment of benefits.

Performance must be reassessed prior to payment of the deferred portion of cash or the maturity of deferred instruments for payment, and a preliminary risk adjustment made to variable remuneration, as required, to ensure that variable remuneration is in line with newly identified risks or risks that were realised following apportionment.

The process of adjusting variable remuneration to risks includes the process of measuring performance and risks, the process of apportionment and the process of payment. In all phases of risk adjustment, variable remuneration is adjusted for all current risks (ICAAP) and risks taken-up in the future (stress tests). An appropriate combination of quantitative and qualitative criteria, in the form of absolute and relative criteria, is applied in the process of adjusting variable remuneration to risks in order to ensure that all risks, performance and the necessary risk adjustments are taken into account.

The Bank sets the planned amount of variable remuneration and variable remuneration that will be apportioned on the basis of an assessment of performance and accepted risks. The adjustment of variable remuneration to risks prior to apportionment ('ex-ante risk adjustment') is based on risk indicators, and ensures that apportioned variable remuneration takes full account of risks assumed. Preliminary adjustments in the calculation of risk-adjusted variable remuneration are made at the level of the Bank and at the level of organisational unit where possible.

The highest amount that can be apportioned to employees as severance pay is 12 salaries, unless otherwise stated by the law, sectoral collective agreement or company-level collective agreement.

Severance pay may not represent a disproportionate benefit, but rather appropriate compensation for employees in the event of contract termination. It must reflect performance achieved in a given period, and may not reward an employee for non-performance or breaches. Severance pay may not be apportioned when employees terminate their employment voluntarily (termination of an employment contract by an employee or conclusion of an agreement on the termination of an employment relationship) because they have accepted a job at a different legal entity.

The Bank did not provide discretionary pension benefits in 2021.

Malus and clawback

The Remuneration Policy defines cases when the cash element of the deferred portion of variable remuneration or the number or value of instruments comprising the deferred portion of variable remuneration is reduced (including to zero) by the Bank's Supervisory Board for a member of the Management Board or by the Management Board for other identified staff on account of a subsequent risk adjustment prior to maturity for payment. The factors that affect decisions regarding changes to, and the reduction and non-payment of variable remuneration include:

- the finding that the Annual Report is null and void, and the reasons for such a finding relate to items or facts that served as the basis for the setting of variable remuneration;
- a wilful act that results in a breach of the limits set out in the Nova KBM Group's Operational Limits Handbook;
- an intentional act in contravention of authorisations that are assigned by the competent body, as set out in the Bank's bylaws and instructions;
- a breach of Nova KBM's valid Code of Conduct, including conduct that is in contravention of the ethical principles and values pursued by the Bank; and
- regular or repeated refusal to participate in obligatory education and training organised by the Bank.

Moreover, the Bank's Management Board, Remuneration Committee and Supervisory Board may take into account other potential variables when making decisions regarding variable remuneration, decisions regarding final changes to variable remuneration (either current or deferred) and decisions regarding the use of clawback.

17.4 RATIOS BETWEEN FIXED AND VARIABLE REMUNERATION SET IN ACCORDANCE WITH ARTICLE 94(1)(G) OF DIRECTIVE 2013/36/EU

(Article 450 (1d) of the CRR)

The Bank classifies remuneration to fixed or variable.

The criteria for classification to fixed remuneration are as follows:

- the level of professional experience and years of service are taken into account in a uniform manner;
- remuneration is transparent with regard to the individual amount apportioned to a specific employee;
- remuneration is constant, i.e. it is maintained for a period linked to a specific role and organisational responsibilities;
- remuneration is irrevocable; a constant amount is only changed based on collective negotiations;
- the Bank may not reduce, terminate or recall remuneration;
- remuneration does not encourage the take-up of risks;
- remuneration is not dependent on the performance of the Bank, organisational unit and employees;
- remuneration is apportioned in a form that cannot be deferred;
- remuneration is part of a typical employment package;
- remuneration is linked to a role or organisational responsibility, and is apportioned until there is no material change in connection with the responsibilities and competences of that role and such a change could lead to an employee's entirely different role or organisational responsibility;
- the amount is not dependent on other factors, but solely on the performance of a specific role or organisational responsibility; and
- all other employees who perform the same role or have the same organisational responsibility and hold a comparable position would be entitled to comparable compensation.

Remuneration that the Bank is unable to define as fixed remuneration in accordance with the criteria set out in the previous paragraphs is defined as variable remuneration.

The Bank follows the principle of proportionality when formulating and implementing the Remuneration Policy. This means that the Remuneration Policy and the implementation thereof are in line with the Bank's risk profile, risk appetite and strategy. When assessing proportionality, the Bank takes into account criteria in connection with the specific circumstances of the Bank's operations, such as size and internal organisational structure, and the nature, scope and complexity of the Bank's activities, including risk factors that derive from the amount of variable remuneration of specific identified staff.

The Remuneration Policy is a reflection of the close link between remuneration and the prudent take-up of risks, and is not designed to encourage the increased willingness to take-up risks or to act in contravention of interests. This is ensured by defining appropriate ratios between the fixed and variable components of employee remuneration, taking into account the fact that variable component of remuneration is not directly linked to the scope or value of executed transactions or with the associated risk exposure.

The fixed component of remuneration represents the contractually defined base wage, which is based on the complexity and scope of work, and correlates with assumed responsibilities, set objectives and risks.
The Bank defines the entire variable component of remuneration on the basis of the performance of an employee, an employee's organisational unit and the general operating results of the bank.

The total variable remuneration apportioned by the Bank may not limit its ability to maintain or re-establish a sound level of own funds and liquidity, and must take into account the interests of shareholders, owners, depositors, investors and other stakeholders. Variable remuneration may not be apportioned or paid if this would threaten the Bank's sound level of the own funds and liquidity.

In the scope of its Remuneration Policy, the Bank defined the maximum ratio between the variable and fixed elements of total remuneration for identified staff. That ratio is 1:1. The actual amount of apportioned variable remuneration is confirmed by the predetermined decision-making body.

The maximum ratios between fixed and variable remuneration and the bodies responsible for decisions regarding actual apportioned variable remuneration are as follows:

- **for members of the Bank's Management Board, except Chief Risk Officer**

  The maximum ratio between the fixed and variable components of remuneration is **1:1.**

- **for control functions** (member of the Bank's Management Board and Chief Risk Officer; directors of the Compliance Department and Internal Audit Department)

  The maximum ratio between the fixed and variable components of remuneration is **1:0.8.**

- **Procurators and other identified staff on individual** employment contracts in accordance with the additional criteria of the Bank, and committee members (CC, CCHRI, IILC, ALCO and Liquidity Commission)

  The maximum ratio between the fixed and variable components of remuneration is **1:1.**

Employees whose professional activities have a material impact on the Bank's risk profile must strive to avoid the use of personal insurance to hedge against risks, or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their variable remuneration.

17.5 INFORMATION ON THE PERFORMANCE CRITERIA ON WHICH THE ENTITLEMENT TO SHARES, OPTIONS OR VARIABLE COMPONENTS OF REMUNERATION IS BASED

(Article 450 (1e) of the CRR)

For determining variable remuneration for the purposes set out in points 3 and 4 of the second paragraph of Article 190 of the ZBan-3, the Bank set the lower limit for the definition of variable remuneration, such that the variable remuneration of identified staff that does not exceed €100,000.00 gross in a given year does not constitute variable remuneration for the purposes of the aforementioned provision. The limits defined by the fundamental principles of points 3 and 4 of the second paragraph of Article 190 of the ZBan-3 (the apportionment of the variable element in shares or relevant instruments, and the deferral of payment of a portion of variable remuneration) thus do not apply to variable remuneration under the lower threshold.

In accordance with the guidance referred to in the previous point, the amount of variable remuneration does not represent a material risk factor at the level of identified staff or such variable remuneration is negligible with respect to the risk posed to the Bank.

17.6 MAIN PARAMETERS AND RATIONALE FOR ANY VARIABLE COMPONENT SCHEME AND ANY OTHER NON-CASH BENEFITS

(450. (1.f) člen Uredbe)

(Article 450 (1f) of the CRR)

The main parameters and rationale for each variable component scheme are disclosed in point 17.3. Other non-cash benefits are defined in individual employment contracts, which are approved by the Supervisory Board for members of the Management Board, and by the Management Board for employees whose professional activities have a material impact on the Bank's risk profile and for others on individual employment contracts. A range of non-cash benefits is part of a typical employment package, and depends on the standard package for senior management, key function holders, identified staff and directors with respect to the scope of employee's responsibilities. They relate to:

- a company car (for business/private use),
- a mobile phone,
- the payment of rent for living quarters,
- the payment of education costs for minor children,
- a Nova KBM payment card,

- accident and health insurance,
- supplementary pension insurance,
- managerial medical examinations,
- education and training,
- liability insurance,
- air transport,
- representation costs,
- parking space, and
- payment of moving costs.

17.7 AGGREGATED QUANTITATIVE INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON THE BANK'S RISK PROFILE

The template disclosed in this section do not include rows that are not relevant for the Group. The data are presented in euros.

Template 39: EU REM1 – Remuneration awarded for the 2021 financial year
(Article 450 (1)(h)(i) and (ii) of the CRR)

			a	b	c	d
			MB supervisory function	**MB management function**	**Other senior management**	**Other identified staff**
1	**Fixed remuneration**	Number of identified staff	7	9	18.58	9.89
2		Total fixed remuneration	**612,341.76**	**4,838,439.51**	**2,595,960.69**	**957,345.70**
3		Of which: cash-based	612,341.76	4,413,396.20	2,460,512.49	888,558.64
7		Of which: other forms		425,043.31	135,448.20	68,787.06
9	**Variable remuneration**	Number of identified staff	7	9	18.58	9.89
10		Total variable remuneration		**3,482,504.00**	**1,062,750.00**	**220,946.57**
11		Of which: cash-based		1,826,252.00	952,750.00	220,946.57
12		Of which: deferred		981,751.20	55,000.00	
EU-13a		Of which: shares or equivalent ownership interests		1,656,252.00	110,000.00	
EU-14a		Of which: deferred		981,751.20	55,000.00	
17	**Total remuneration (2 + 10)**		**612,341.76**	**8,320,943.51**	**3,658,710.69**	**1,178,292.27**

Template 40: EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

(Article 450 (1)(h)(v) to (vii) of the CRR)

		a	b	c	d
		MB supervisory function	**MB management function**	**Other senior management**	**Other identified staff**
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year – number of identified staff			0.33	
7	Severance payments awarded during the financial year – total amount			**125,760.37**	
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap			125,760.37	
11	Of which highest payment that has been awarded to a single person			125,760.37	

Template 41: EU REM 3 – Deferred remuneration
(Article 450 (1)(h)(iii) and (iv) of the CRR)

		a	b	c	d	e	f	EU-g	EU-h
	Deferred and retained remuneration	**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**	**Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods**
7	**MB management function**	**4,430,002.78**	**618,059.08**	**3,811,943.70**			**372,505.22**	**990,564.30**	**1,040,183.15**
8	Cash-based	2,215,001.39	309,029.54	1,905,971.85				309,029.54	
9	Shares or equivalent ownership interests	2,215,001.39	309,029.54	1,905,971.85			372,505.22	681,534.76	1,040,183.15
13	**Other senior management**	**67,595.22**	**6,273.81**	**61,321.41**				**6,273.81**	
14	Cash-based	46,345.22	6,273.81	40,071.41				6,273.81	
15	Shares or equivalent ownership interests	21,250.00		21,250.00					
25	**Total amount**	**4,497,598.00**	**624,332.89**	**3,873,265.11**			**372,505.22**	**996,838.11**	**1,040,183.15**

Template 42: EU REM4 – Remuneration of €1 million or more per year

(Article 450 (1)(i) of the CRR)

		a
	€	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	
2	1 500 000 to below 2 000 000	2
3	2 000 000 to below 2 500 000	1

Template 43: EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

(Article 450 (1)(g) of the CRR)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB supervisory function	MB management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All others	Total
1	**Number of identified staff**										44.47
2	Of which: members of the MB	7	9	16							
3	Of which: other senior management				1	5		8.58	5	1	
4	Of which: other identified staff				1.42	1.72		2.33	2.42		
5	**Total remuneration of identified staff**	**612,341.76**	**8,320,943.51**	**8,933,285.27**	**362,218.94**	**1,047,883.12**		**2,199,671.80**	**1,052,925.68**	**174,303.42**	**13,770,288.23**
6	Of which: variable remuneration		3,482,504.00	3,482,504.00	118,750.00	249,571.57		564,083.33	313,791.67	37,500.00	**4,766,200.57**
7	Of which: fixed remuneration	612,341.76	4,838,439.51	**5,450,781.27**	243,468.94	798,311.55		1,635,588.47	739,134.01	136,803.42	**9,004,087.66**

18 LEVERAGE RATIO

(Article 451 of the CRR)

This section defines the disclosure requirements set out in Article 451 of Part Eight of the CRR, and in the templates prescribed in Article 6 of Commission Implementing Regulation (EU) 2021/637.

The Group did not elect to temporarily exclude exposures to central banks from the calculation of the leverage ratio due to the COVID-19 pandemic, as proposed in Regulation (EU) 2020/873 regarding the implementation of the CRR II QF legislative package and COVID-19 pandemic support measures.

18.1 LEVERAGE RATIO

(Article 451(a) to (c) of the CRR)

The Bank includes the following in the calculation of the total exposure measure for the purpose of calculating the leverage ratio:

- on-balance-exposures, without taking into account own funds deductions;
- the relevant portion of off-balance sheet exposures, i.e. taking into account conversion factors and excluding value adjustments; and
- the relevant exposures from derivatives.

Movements in the exposure measure and Tier 1 capital are explained in sections 4.4, 5.4 and 18.3 of this document.

18.1.1 LEVERAGE RATIO FOR THE BISER TOPCO GROUP

Template 44: EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

€000

		a Applicable amount as at 31 December 2021
1	Total assets as per published financial statements	9,964,668
8	Adjustments for derivative financial instruments	8,989
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	616,731
12	Other adjustments	-62,819
13	**Total exposure measure**	**10,527,569**

Template 45: EU LR2 – LRCom: Leverage ratio common disclosure

€000

		CRR leverage ratio exposure	
		a	b
		31 December 2021	31 December 2020
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	9,973,535	9,188,845
6	(Asset amounts deducted in determining Tier 1 capital)	-71,686	-61,742
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	9,901,849	9,125,103
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	-	7,625
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	5,041
EU-9b	Exposure determined under Original Exposure Method	8,989	-
13	Total derivative exposures	8,989	12,666
Securities financing transaction (SFT) exposures			
18	Total securities financing transaction exposures	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	1,984,764	1,741,684
20	(Adjustments for conversion to credit equivalent amounts)	-1,368,033	-1,147,028
22	Off-balance-sheet exposures	616,731	594,656
Excluded exposures			
EU-22k	(Total exempted exposures)	-	-
Capital and total exposure measure			
23	Tier 1 capital	854,004	907,524
24	Total exposure measure	10,527,569	9,732,425
Leverage ratio			
25	Leverage ratio (%)	8.11%	9.32%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8.11%	9.32%

		CRR leverage ratio exposure	
		a	b
		31 December 2021	31 December 2020
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.11%	9.32%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	0.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	0.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	no	no
Disclosure of mean values			
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10,527,569	9,732,425
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10,527,569	9,732,425
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.11%	9.32%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.11%	9.32%

Template 46: EU LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

€000

		a CRR leverage ratio exposures as at 31 December 2021
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**9,973,535**
EU-2	Trading book exposures	13,200
EU-3	Banking book exposures, of which:	9,960,335
EU-4	Covered bonds	80,323
EU-5	Exposures treated as sovereigns	3,529,364
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	217,477
EU-7	Institutions	640,606
EU-8	Secured by mortgages on immovable properties	1,178,359
EU-9	Retail exposures	1,831,162
EU-10	Corporates	1,862,040
EU-11	Exposures in default	100,441
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	520,562

18.1.2 LEVERAGE RATIO FOR THE NOVA KBM GROUP

Template 47: EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

€000

		a Applicable amount as at 31 December 2021
1	Total assets as per published financial statements	9,958,393
8	Adjustments for derivative financial instruments	8,989
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	616,731
12	Other adjustments	-61,921
13	**Total exposure measure**	**10,522,192**

Template 48: EU LR2 – LRCom: Leverage ratio common disclosure

€000

		CRR leverage ratio exposure	
		a	b
		31 December 2021	31 December 2020
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	9,967,261	9,188,435
6	(Asset amounts deducted in determining Tier 1 capital)	-70,788	-60,843
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	9,896,472	9,127,592
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	–	7,625
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	–	5,041
EU-9b	Exposure determined under Original Exposure Method	8,989	–
13	Total derivative exposures	8,989	12,666
Securities financing transaction (SFT) exposures			
18	Total securities financing transaction exposures	–	–
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	1,984,764	1,741,684
20	(Adjustments for conversion to credit equivalent amounts)	-1,368,033	-1,147,028
22	Off-balance sheet exposures	616,731	594,656
Excluded exposures			
EU-22k	(Total exempted exposures)	–	–
Capital and total exposure measure			
23	Tier 1 capital	844,637	915,189
24	Total exposure measure	10,522,192	9,734,914
Leverage ratio			

		CRR leverage ratio exposure	
		a	b
		31 December 2021	31 December 2020
25	Leverage ratio (%)	8.03%	9.40%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8.03%	9.40%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.03%	9.40%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	0.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	0.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	no	no
Disclosure of mean values			
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10,522,192	9,734,914
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10,522,192	9,734,914
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.03%	9.40%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.03%	9.40%

Template 49: EU LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

€000

		a
		CRR leverage ratio exposures as at 31 December 2021
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**9,967,261**
EU-2	Trading book exposures	13,200
EU-3	Banking book exposures, of which:	9,954,060
EU-4	Covered bonds	80,323
EU-5	Exposures treated as sovereigns	3,529,364
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	217,477
EU-7	Institutions	630,505
EU-8	Secured by mortgages on immovable properties	1,178,359
EU-9	Retail exposures	1,831,162
EU-10	Corporates	1,861,504
EU-11	Exposures in default	100,441
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	524,924

18.2 DESCRIPTION OF THE PROCESSES USED TO MANAGE THE RISK OF EXCESSIVE LEVERAGE

(Article 451(d) of the CRR)

The parent bank regularly monitors the level of the leverage ratio in the scope of own funds requirements. That monitoring was defined in the risk appetite framework and recovery plan of the Nova KBM Group. The level of the ratio is reported to:

- Supervisory Board,
- Management Board,
- and various internal committees (e.g. the ALCO).

In the risk appetite framework and recovery plan, the parent bank defined at the Group level red, yellow, and green threshold values for the leverage ratio. When the yellow threshold value is exceeded, the ALCO adopts decisions necessary for leverage. When the red threshold value is exceeded, decisions are made by the Crisis Committee, which is in line with the escalation process for the management of indicators set out in the recovery plan.

The leverage ratio was 8.11% at the Biser Topco Group level and 8.03% at the Nova KBM Group level as at 31 December 2021, which is in line with the Group's business plan, which focuses on traditional lending (including to the corporate segment to which higher risk-weights apply).

18.3 DESCRIPTION OF THE FACTORS THAT HAD AN IMPACT ON THE LEVERAGE RATIO DURING THE PERIOD TO WHICH THE DISCLOSED LEVERAGE RATIO REFERS

(Article 451(e) of the CRR)

The Group calculated the leverage ratio taking into account the relevant amount of on- and off-balance-sheet exposures, and the amount of its Tier 1 capital as at 31 December 2021. The following factors had the most significant impact on the calculation of the leverage ratio in 2021:

- changes in terms of Tier 1 capital are explained in section 4.4 of this document; and
- changes in terms of exposure measures are explained in section 5.4 of this document.

18.A LIQUIDITY REQUIREMENTS

(Article 451a of the CRR)

Template 50: EU LIQA: Liquidity risk management
(Article 451a(4) of the CRR)

Row number	Qualitative information	
(a)	Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding.	The strategies and processes are set out in Section 2.2, and separately for the ILAAP in Section 2.2.1.2.2. The Bank defined the following risk management objectives at the Group level in its risk appetite framework: • moderate, sustainable and long-term profitability; • the generation of profits while taking-up moderate credit risk; • the take-up of significant yet diversified risk from exposures to governments and investment-grade financial institutions and corporates with the aim of ensuring the high liquidity of assets; • the take-up of low funding risk and market liquidity risks; • the accelerated integration of ESG risks into the business and management environment of the Bank and banking group; and • the maintenance of other risks to which the Group is exposed at a low or moderate level.
(b)	The structure and organisation of the liquidity risk management function (authority, statute, other arrangements.)	The structure and organisation of the Group's risk management function is described in Section 2.2.2.
(c)	A description of the degree of centralisation of liquidity management and interaction between the group's units.	Liquidity risk is managed in accordance with the ILAAP Policy within the Nova KBM Group. The asset and liability management department manages operational liquidity, the strategic risk management department manages structural liquidity (including operations in normal circumstances and extraordinary circumstances), and the accounting and controlling department draws up the regulatory reporting. The bodies responsible for deciding on liquidity management are the Liquidity Committee and the Asset-Liability Committee. The roles and responsibilities are allocated in accordance with the policy. The Group's funding is set out by its business plan. The scope and nature of liquidity risk reporting and measurement systems are described in Section 2.2.3.

Row number	Qualitative information	
(d)	Scope and nature of liquidity risk reporting and measurement systems.	The scope and nature of liquidity risk reporting and measurement systems are described in Section 2.2.3.
(e)	Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.	The policies and strategies for hedging against risk, including liquidity risk, are described in Section 2.2.4. The following are the most important for liquidity risk: • Risk Appetite Strategy, including the Risk Appetite Statement • Operating Limits Handbook • Asset and Liability Management (ALM) Strategy • Business Strategy • Refinancing Plan • ESG Strategy • ILAAP Policy within the Nova KBM Group • Stress Testing Policy • Recovery and Resolution Policy • Hedge Accounting Policy • ILAAP methodology • ILAAP methodology as it relates to the performance of stress tests • liquidity risk management contingency plan methodologies • methodology of transfer (opportunity) interest rates
(f)	An outline of the bank's contingency funding plans.	The Group has put in place a contingency plan to manage liquidity emergencies, the purpose of which is to define effective measures and activities for preventing and managing various liquidity difficulties, including appropriate measures for bridging and limiting the impact of liquidity emergencies and for restoring the bank's normal liquidity position. The Group has also put in place a recovery and resolution plan and a liquidity resolution plan.
(g)	An explanation of how stress testing is used.	Stress tests are described in Section 2.2.1.2.3. The performance of stress tests in the scope of the ILAAP is an integral part of the Group's overall risk management. It is set out in the Stress-Testing Policy and in the ILAAP methodology. The Group presents the results of stress tests to the Supervisory Board, the Bank's Management Board and to other relevant decision-making levels, in order to take into account the results and findings in the further operations of the Group. The aim of liquidity stress testing is to ensure sufficient liquidity even in stress conditions.
(h)	A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy.	The declaration of the management body regarding the adequacy of risk management arrangements is given in Section 2.2.5.

<table>
<tr><th>Row number</th><th colspan="2">Qualitative information</th></tr>
<tr><td>(i)</td><td>A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in the EU LIQ1 template under this ITS) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body.

These ratios may include:
· concentration limits on collateral pools and sources of funding (both products and counterparties),
· customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank,
· liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity,
· balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps</td><td>The management body's concise risk statement is described in Section 2.2.5.

Funding risk and market liquidity risk are low. The Group tries to hold funding risk at a low level by maintaining a highly diverse and stable portfolio of deposits by domestic retail and corporate customers, while wholesale funding also accounts for a certain proportion of funding. The Group intends to maintain a similar funding structure over the period covered by the financial plan, in the form of an extensive and diverse portfolio of retail and corporate operations, and funding obtained on the wholesale money market or the interbank market.

The Group gives precedence to maintaining a significant stock of high-quality liquid assets, thereby holding liquidity risk below the statutory requirements and market standards. The Group follows an investment strategy, which is approved by the Management Board and sets out the diversification of assets with a relatively low duration of the bond portfolio as a whole.
Compliance with the liquidity risk appetite is monitored via the defined targets for the following key risk indicators:
• liquidity coverage ratio (LCR)
• net stable funding ratio (NSFR)
• survival period
• internal liquidity buffer
Other indicators are monitored within the framework of the system of operational risk limits:
• AER
• 30 largest depositors
• LTD ratio for the non-banking sector
• breakdown of liabilities by maturity bucket
• liquidity gap by maturity bucket as a ratio to total liabilities</td></tr>
</table>

Template 51: EU LIQ1: Quantitative information of LCR at the level of the Biser Topco Group

		Total unweighted value				Total weighted value			
Scope of consolidation (consolidated)									
Currency and units (million eur)									
Quarter ending on (DD Month YYY)		31.12.2021	30.09.2021	30.06.2021	31.03.2021	31.12.2021	30.09.2021	30.06.2021	31.03.2021
Number of data points used in the calculation of averages									
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					3.682	3.559	3.360	3.109
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	6.670	6.585	6.475	6.363	393	388	383	379
3	*Stable deposits*	5.220	4.950	4.694	4.440	261	247	235	222
4	*Less stable deposits*	1.142	1.230	1.322	1.417	130	138	146	154
5	Unsecured wholesale funding	1.013	931	868	827	535	496	467	448
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	1.013	931	868	827	535	496	467	448
8	*Unsecured debt*	0	0	0	0	0	0	0	0
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	1.347	1.299	1.239	1.117	185	169	152	130
11	*Outflows related to derivative exposures and other collateral requirements*	1	1	1	1	1	1	1	1
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	1.346	1.297	1.238	1.116	184	167	151	128
14	Other contractual funding obligations	75	67	66	70	68	61	61	66
15	Other contingent funding obligations	593	540	464	386	29	27	25	24
16	**TOTAL CASH OUTFLOWS**					1.210	1.139	1.089	1.046
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	300	280	270	273	235	217	209	212
19	Other cash inflows	14	17	19	30	14	17	19	30
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	314	296	289	303	249	234	228	242
EU-20a	***Fully exempt inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows Subject to 90% Cap***	0	0	0	0	0	0	0	0
EU-20c	***Inflows Subject to 75% Cap***	314	296	289	303	249	234	228	242
EU-21	**LIQUIDITY BUFFER**					**3.682**	**3.559**	**3.360**	**3.109**
22	**TOTAL NET CASH OUTFLOWS**					**961**	**905**	**860**	**804**
23	**LIQUIDITY COVERAGE RATIO (%)**					385%	394%	390%	386%

Table 16: EU LIQB: Qualitative information on LCR, which complements template EU LIQ1 (Article 451a(2) of the CRR)

Row number	Qualitative information	
(a)	Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time	The Bank's business model has not changed over the observation period, but in 2021 there was a significant rise in the stock of liquid assets as a result of high inflows of sight deposits, which were reflected in higher expected outflows, and an increase in inflows.
(b)	Explanations on the changes in the LCR over time	The average LCR did not change significantly over the observed quarters. The LTD ratio has been stable, despite the significant increase in liquid assets and deposits.
(c)	Explanations on the actual concentration of funding sources	The Bank's business model is based on deposits by the non-banking sector, which account for 82.1% of total liabilities. Deposits by the non-banking sector are highly stable. The Bank also regularly monitors exposure to the largest depositors, and restricts concentration through limits set internally.
(d)	High-level description of the composition of the institution's liquidity buffer	The majority (96%) of the liquidity buffer consists of Level 1 extremely high-quality assets, of which 67% are held in a settlement account at the central bank. The remaining 4% consists of Level 2 assets.
(e)	Derivative exposures and potential collateral calls	The Bank has low exposure to derivatives, but all derivatives are closed by counter transactions, and therefore do not pose a significant liquidity risk, and no material additional collateral is envisaged for them.
(f)	Currency mismatch in the LCR	Currency risk is defined as the risk of a loss caused by any change in the exchange rate of on-balance-sheet and off-balance-sheet foreign currency items. Currency risk is defined as financially immaterial at the Bank. Nova KBM maintains a closed currency position on a daily basis, and therefore has no need to calculate own funds requirements for currency risk in accordance with the CRR. Other members of the Group hold an immaterial position in foreign currencies.
(g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	/

Template 52: EU LIQ2: Net Stable Funding Ratio at the level of the Biser Topco Group (Article 451a(3) of the CRR)

The Group discloses its NSFR as at 30 June, 30 September and 31 December 2021. It first reported the NSFR as at 30 June 2021.

	30.06.2021	a	b	c	d	e
	(in million eur)	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**915**	**0**	**0**	**70**	**984**
2	*Own funds*	915	0	0	70	984
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**6.590**	**107**	**42**	**6.344**
5	*Stable deposits*		5.417	78	27	5.247
6	*Less stable deposits*		1.174	29	15	1.097
7	Wholesale funding:		**1.146**	**85**	**385**	**845**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1.146	85	385	845
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**0**	**119**	**0**	**24**	**24**
12	*NSFR derivative liabilities*	0				
13	*All other liabilities and capital instruments not included in the above categories*		119	0	24	24
14	**Total available stable funding (ASF)**					**8.198**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**171**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**53**	**0**	**0**	**26**
17	Performing loans and securities:		**688**	**692**	**3.949**	**3.997**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		72	20	177	194
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		506	534	2.775	3.279
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		88	57	34	377
22	*Performing residential mortgages, of which:*		48	49	502	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		17	22	400	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		62	89	496	524
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**56**	**7**	**318**	**362**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		1	0	0	1
29	*NSFR derivative assets*		6			6
30	*NSFR derivative liabilities before deduction of variation margin posted*		6			0
31	*All other assets not included in the above categories*		43	7	318	356
32	Off-balance sheet items		**2.161**	**0**	**0**	**123**
33	**Total RSF**					**4.679**
34	**Net Stable Funding Ratio (%)**					175,21%

30.09.2021		a	b	c	d	e
(in million eur)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**913**	**0**	**0**	**71**	**984**
2	*Own funds*	913	0	0	71	984
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**6.604**	**90**	**33**	**6.332**
5	*Stable deposits*		5.429	66	23	5.243
6	*Less stable deposits*		1.175	25	10	1.089
7	Wholesale funding:		**1.161**	**60**	**531**	**1.004**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1.161	60	531	1.004
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**0**	**119**	**0**	**26**	**26**
12	*NSFR derivative liabilities*	0				
13	*All other liabilities and capital instruments not included in the above categories*		119	0	26	26
14	**Total available stable funding (ASF)**					**8.346**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**168**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**61**	**0**	**0**	**30**
17	Performing loans and securities:		**763**	**661**	**4.068**	**4.123**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		84	17	210	227
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		556	507	2.847	3.352
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		118	49	44	389
22	*Performing residential mortgages, of which:*		46	50	505	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		13	22	395	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		77	87	506	545
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**53**	**5**	**285**	**326**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		1	0	0	1
29	*NSFR derivative assets*		3			3
30	*NSFR derivative liabilities before deduction of variation margin posted*		5			0
31	*All other assets not included in the above categories*		45	5	285	322
32	Off-balance sheet items		**1.942**	**0**	**0**	**109**
33	**Total RSF**					**4.756**
34	**Net Stable Funding Ratio (%)**					175,50%

	31.12.2021	a	b	c	d	e
(in million eur)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**854**	**0**	**0**	**77**	**931**
2	*Own funds*	854	0	0	77	931
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**6.725**	**0**	**0**	**6.331**
5	*Stable deposits*		5.578	0	0	5.299
6	*Less stable deposits*		1.147	0	0	1.032
7	Wholesale funding:		**1.369**	**29**	**579**	**1.141**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1.369	29	579	1.141
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**0**	**106**	**0**	**28**	**28**
12	*NSFR derivative liabilities*	0				
13	*All other liabilities and capital instruments not included in the above categories*		106	0	28	28
14	**Total available stable funding (ASF)**					**8.432**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**171**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**74**	**0**	**0**	**37**
17	Performing loans and securities:		**700**	**707**	**4.146**	**4.182**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		76	16	249	264
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		512	563	2.792	3.348
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		122	42	31	424
22	*Performing residential mortgages, of which:*		44	55	560	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		14	24	462	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		69	73	545	570
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**41**	**4**	**300**	**332**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		0	0	1	0
29	*NSFR derivative assets*		2			2
30	*NSFR derivative liabilities before deduction of variation margin posted*		5			0
31	*All other assets not included in the above categories*		34	4	299	330
32	Off-balance sheet items		**1.985**	**0**	**0**	**111**
33	**Total RSF**					**4.834**
34	**Net Stable Funding Ratio (%)**					174,44%

19 USE OF THE IRB APPROACH TO CREDIT RISK

(Article 452 of the CRR)

The Bank uses an internal credit rating system that is in line with the IRB approach for the purpose of determining obligor ratings and in other related processes.

The IRB approach is not used in the process of calculating Pillar 1 own funds requirements, where the standardised approach remains in use. An 'IRB-like' approach is used to calculate Pillar 2 own funds requirements.

20 USE OF CREDIT RISK MITIGATION TECHNIQUES

This section defines the disclosure requirements set out in Article 453 of Part Eight of the CRR and Section 4.8 of the Guidelines.

20.1 POLICIES AND PROCESSES FOR, AND AN INDICATION OF THE EXTENT TO WHICH THE ENTITY MAKES USE OF, ON- AND OFF-BALANCE-SHEET NETTING

(Article 453(a) of the CRR)

This disclosure is not relevant. The Nova KBM Group does not use on- and off-balance-sheet netting as a form of credit protection.

20.2 POLICIES AND PROCESSES FOR COLLATERAL VALUATION AND MANAGEMENT

(Article 453(b) of the CRR)

The Loan Collateral Policy of the Nova KBM Group (hereinafter: the policy) is the core document governing the collateralisation of the investments of the Bank and Group. The policy summarises basic guidelines regarding the acceptance, valuation, monitoring and the reporting on collateral, with the aim of mitigating credit risk. The policy also set out the conditions that must be met for a particular form of collateral to be acceptable by the Bank. The valuation of collateral is described in the policy and the Methodology for Loan Collateral Valuation and Allocation.

The main objective of the policy is to mitigate credit risk. Collateral represents a secondary source for the repayment of contractual obligations, if an obligor, for any reason, ceases to settle its obligations, or if there is a change in the circumstances that were known at the time of loan approval.

For collateral in the form of a lien on assets or property, in particular real estate, movable property or financial instruments, that lien must give highest priority to the Bank.

When concluding a transaction, the Bank and Group obtain, for each form of collateral, documentation required to ensure legal certainty if a secondary source of payment is used. In accordance with the applicable legislation, the Group has a system in place for the valuation, monitoring of and reporting on collateral. The valuation of collateral in the form of property is carried out prior to loan approval. The market value of the majority of real estate and movable property pledged as collateral is obtained from the valuation reports drawn up by certified external appraisers. The Group has prepared a list of external real estate and movable property appraisers, whose valuations are accepted by the Group and with whom it has entered into cooperation agreements. The valuation reports drawn up by external appraisers are reviewed by the competent expert department, primarily in terms of credibility and compliance with the International Valuation Standards. Reviewed and approved valuations serve as the basis for making the necessary collateral arrangements. The Group dedicates special attention to the legal certainty, integrity and saleability of the assets it accepts as collateral. To this end, the competent expert departments verify the suitability of an asset in terms of legal certainty, integrity and saleability before it is accepted as collateral. The market value of financial instruments is obtained from the regulated organised market (stock exchange), while the value of unquoted instruments is determined using internal instructions.

In the scope of the ESG strategy, risks in connection with the value of real estate collateral are also assessed. Subject to assessment is the impact of climate change, which includes physical risk (the financial impact of climate change, which includes more frequent extreme weather events, gradual climate change and environmental degradation) and transitional risk (financial loss incurred directly or indirectly by the Bank as the result of adaption to a low-carbon or more sustainable economy). In the event of loan collateral in the form of real estate, valuations received already include the aforementioned risks.

During the contractual relationship, the Group monitors the appropriateness of collateral, secures the necessary valuations and ensures that investments are covered by collateral. The monitoring of the value of collateral during the loan repayment period is carried out in accordance with the legally prescribed periods and internal methodologies. For example, the Group verifies the value of real estate pledged as collateral at least once a year, either by obtaining a valuation report from an external appraiser or by using an internal methodology that is based on publicly available data regarding real estate transactions and prices, which are published by the competent government institutions (the Surveying and Mapping Authority of the Republic of Slovenia and the Statistical Office of the Republic of Slovenia). Should the value of the collateral fall, the Bank requests additional collateral.

The basis for determining the value of collateral is the market value of a pledged asset, while in the processes of loan origination, the assessment of impairments of financial assets and reporting, the Group also uses expert adjustments to the value of assets that reflect expectations regarding cash flow in the event of the redemption of collateral. The Group uses the value adjustments prescribed by the regulator for individual types of assets in the calculation of own funds requirements.

Table 17: Haircuts to individual forms of collateral

Type of collateral	HC range, %
Bank deposits	0
Guarantees/sureties	0-100
Immovable property	30-50
Movable property	50-100
Securities	30-100
Participating interests	100
Receivables	75-100
Life insurance policies	50-100
Other collateral	100

20.3 DESCRIPTION OF THE MAIN TYPES OF COLLATERAL TAKEN BY THE INSTITUTION

(Article 453(c) of the CRR)

With the aim of mitigating credit risk, the Group accepts all types of collateral that meet the minimum requirements for recognising the effects of collateral. The Group accepts different types of funded and unfunded credit protection.

The Group accepts collateral in accordance with the provisions of the Regulation on credit risk management at banks and savings banks. Other forms of funded and unfunded protection are also accepted as collateral for loans to corporates and sole traders if it is assessed that they can generate cash flow as a secondary source of repayment, if required, and that the conditions regarding the legal certainty and operational requirements of those instruments are met. If it is assessed that it is unlikely that any such collateral instrument will generate cash flow, the Bank takes a conservative approach and does not accept it. The Bank only accepts other forms of funded and unfunded protection if they meet the following minimum requirements for recognising the effects of collateral:

- legal certainty,
- quality, and
- operational requirements for efficient redemption.

The Group accepts the following forms of funded collateral:

- collateral in the form of commercial and residential immovable property,
- collateral in the form of movable property,
- collateral in the form of monetary claims,

- financial collateral (e.g. bank deposits, debt securities of various issuers, investment fund units, equities and pledged participating interests),
- the pledging or assignment of claims as collateral,
- the pledging of other assets (e.g. inventories), and
- other funded protection (e.g. life insurance policies and cash at other institutions).

The Group accepts the following forms of unfunded credit protection:

- joint and several guarantees provided by individuals and legal entities,
- bank guarantees and the Slovene Enterprise Fund,
- guarantees of central governments, local governments and central banks, and
- insurance via an insurer.

Loans are frequently secured by a combination of various types of collateral.

The Group strives to have the highest-quality collateral for its portfolio in the sense of an adequate LTV and legal certainty in the event of liquidation. The general recommendations with regard to the security of loans are set out by internal instructions. The decision with regard to the type of collateral and the LTV depends on analysis of information about the obligor (the obligor's credit rating and creditworthiness) and the maturity of the loan asset, and distinguishes between loans approved for retail customers and corporate customers. Legal persons and sole traders are required to submit a bill of exchange and declaration of surety for each loan when it has been approved.

The largest share of the Group's portfolio is secured by immovable property, followed by insurance from insurers, guarantees, movable property, sureties and bank deposits. A small part of the portfolio is secured by other forms of collateral.

Table 18: Exposure value by type of collateral:

€000

	Type of collateral	Amount	Breakdown
1	Deposits	54,616	1.95%
2	Guarantees	161,603	5.77%
3	Sureties	56,681	2.02%
4	Securities and pledge of receivables from mutual fund points	8,297	0.30%
5	Mortgages	2,044,488	73.02%
6	Pledge of inventories and movable property	76,798	2.74%
7	Pledge and assignment of receivables	0	0.00%
8	Pledge of equity interest	0	0.00%
9	Reserve fund assets	0	0.00%
10	Insurer	392,884	14.03%
11	Pledge of receivables from insurance with insurer	471	0.02%
12	Securities portfolio	0	0.00%
13	Other types of collateral	4,201	0.15%
	Total	**2,800,039**	**100.00%**

The table does not include exposures from consumer loans by the subsidiary SLS in the amount of €71,496 thousand, which are insured with an insurer.

20.4 MAIN TYPES OF GUARANTOR AND CREDIT DERIVATIVE COUNTERPARTY AND THEIR CREDITWORTHINESS

(Article 453(d) of the CRR)

The Group accepts collateral in the form of sureties, guarantees and insurance via an insurer. The following are deemed eligible issuers of guarantees:

- central governments and central banks,
- regional governments or local authorities,
- multilateral development banks,
- international organisations, exposures to which are assigned a risk weight of 0% under the Standardised Approach,
- public sector entities, claims against which are treated as claims against central governments,
- export agencies and insurance companies, credit institutions and investment firms, and financial institutions, whose exposures to the financial institution (e.g. the Bank) are treated as exposures to institutions in accordance with Article 119(5) CRR,

- other companies, including those that are in control of the institution, or subordinated to or associated with the institution in another way, and
- central counterparties.

The Group also accepts the following as issuers of guarantees:
- individuals, provided that the repayment capability of the respective guarantor is ensured, and
- sole traders, provided that the value of the respective guarantor's assets is sufficient to cover the obligations of the obligor.

Table 19: Major guarantors by type of guarantee:

Guarantees €000

ISSUER	INTERNAL CREDIT RATING	AMOUNT	BREAKDOWN
Banks	1-3	6,607	48.66%
	4-7	6,972	51.34%
TOTAL		**13,579**	**100.00%**

Sureties

ISSUER		INTERNAL CREDIT RATING	AMOUNT	BREAKDOWN
Central government	Slovenia	2	210,117	61.62%
	other countries	0-2	65,775	19.29%
Slovene Enterprise Fund		3	62,997	18.47%
Others (municipalities, funds, etc.)		1-3	2,034	0.59%
		5-7	83	0.02%
TOTAL			**341,006**	**100.00%**

Insurance with insurer

ISSUER	INTERNAL CREDIT RATING	AMOUNT	BREAKDOWN
Insurer	0-2	395,640	100%
TOTAL		**395,640**	**100%**

The table does not include insurance held with an insurer by the subsidiary SLS.

20.5 INFORMATION ABOUT MARKET OR CREDIT RISK CONCENTRATIONS WITHIN THE CREDIT MITIGATION TAKEN

(Article 453(e) of the CRR)

In accordance with its policies, the Group approves loans, where expected cash flows represent the primary source of repayment, and collateral received represents a secondary source of payment and is used to a lesser extent in the event of default by obligor.

When monitoring large exposures, the Group monitors the concentration of credit risk that arises from unfunded sureties accepted as collateral.

The Group limits the amount of collateral in the form of sureties, where the amount of surety is included in the indirect exposure of the guarantor. That amount is weighted depending on the credit rating of the underlying obligor for whom the guarantor provides surety.

The Group monitors market risk concentration in the scope of accepted credit protection in terms of assessing the liquidity of securities received as collateral. With the support of expert departments, the Group assesses realisability and value adjustments due to reduced liquidity based on a comparison of normal turnover and the amount of securities received.

The Group monitors and reports on the value of collateral by individual type.

Table 20: Value of collateral by individual type

	Type of collateral	Amount, €000	Breakdown, %
1	Bank deposits	36,113	0.65%
2	Irrevocable Slovenian government guarantees	210,117	3.76%
3	Shares and participating interests	20,498	0.37%
4	Debt securities	0	0.00%
5	Units in collective investment undertakings	5,470	0.10%
6	Commercial immovable property	1,965,352	35.17%
7	Residential immovable property	2,593,094	46.40%
8	Insurer	395,640	7.08%
9	Other forms of collateral	361,568	6.47%
	Total	**5,587,852**	**100.00%**

The table does not include insurance held with an insurer by the subsidiary SLS.

20.6 DISCLOSURE OF TOTAL EXPOSURE VALUE (AFTER ON- OR OFF-BALANCE-SHEET NETTING, WHERE APPLICABLE) THAT IS COVERED – AFTER THE APPLICATION OF VOLATILITY ADJUSTMENTS – BY ELIGIBLE FINANCIAL CREDIT PROTECTION, AND OTHER ELIGIBLE CREDIT PROTECTION, SEPARATELY FOR EACH EXPOSURE CLASS, WHEN INSTITUTIONS CALCULATE RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE STANDARDISED APPROACH OR THE IRB APPROACH, BUT DO NOT PROVIDE OWN ESTIMATES OF LGDS OR CONVERSION FACTORS IN RESPECT OF THE EXPOSURE CLASS

(Articles 453(f) and 453(g) of the CRR)

Clarifications of the description of the eligible types of collateral taken by the institution are cited in Sections 20.1 to 20.5. For the purposes of calculating risk-weighted assets for credit risk, the Group had defined its eligible credit protection for credit risk mitigation in its internal methodology. It comprises:

1. funded credit protection:

- collateral in the form of commercial and residential immovable property
- financial collateral (e.g. bank deposits, debt securities of various issuers, equities)

2. unfunded credit protection:

- joint and several guarantees
- guarantees of investment-grade banks
- guarantees of central governments, local governments and central banks

The aforementioned credit protection is only considered eligible in the calculations of risk-weighted assets if it meets all the requirements of the relevant legislation. The Group uses the simple approach as a suitable risk-exposure mitigation technique.

The table below presents a breakdown of the gross carrying amount of the exposures, excluding allowances/impairments, into secured/unsecured exposures and by type of credit protection.

Template 53: EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques for the Biser Topco Group

€000

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	5,393,407	2,385,574	2,166,726	218,848	0
2	Debt securities	1,722,893	118,410	0	118,410	
3	Total	7,116,300	2,503,984	2,166,726	337,258	0
4	*Of which non-performing exposures*	98,425	48,822	45,230	3,592	0
EU-5	*Of which defaulted*	98,425	48,822	45,230	3,592	0

Template 54: EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques for the Nova KBM Group

€000

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	5,393,407	2,385,574	2,166,726	218,848	0
2	Debt securities	1,722,358	118,410	0	118,410	
3	Total	7,115,765	2,503,984	2,166,726	337,258	0
4	*Of which non-performing exposures*	98,425	48,822	45,230	3,592	0
EU-5	*Of which defaulted*	98,425	48,822	45,230	3,592	0

*The total exposure amount represents the Group's entire exposure to credit risk calculated in accordance with the CRR.

20.7 INSTITUTIONS CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE STANDARDISED APPROACH, THE VALUE OF ON- AND OFF-BALANCE-SHEET EXPOSURES BY EXPOSURE CATEGORY BEFORE AND AFTER APPLYING CORRESPONDING CONVERSION FACTOR AND THE CREDIT RISK MITIGATION ASSOCIATED WITH THE EXPOSURE, AND THE RISK-WEIGHTED EXPOSURE AMOUNT AND THE RATIO BETWEEN THAT RISK-WEIGHTED EXPOSURE AMOUNT AND THE EXPOSURE VALUE AFTER APPLYING THE CORRESPONDING CONVERSION FACTOR AND THE CREDIT RISK MITIGATION ASSOCIATED WITH THE EXPOSURE

(Article 453(h) and (i) of the CRR)

Template 55: EU CR4 – Standardised approach – Credit risk exposure and CRM effects for the Biser Topco Group

€000

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWA density (%)
1	Central governments or central banks	3,459,664	71	3,728,176	5,009	7,853	**0%**
2	Regional governments or local authorities	81,168	4,074	81,168	1,043	11,519	**14%**
3	Public sector entities	137,187	5,026	27,319	786	1,769	**6%**
4	Multilateral development banks	17,581	0	17,581	0	0	**0%**
5	International organisations	51,241	0	32,104	0	0	**0%**
6	Institutions	640,606	32,749	600,636	7,914	212,316	**35%**
7	Corporates	1,862,040	1,029,238	1,775,324	382,124	2,052,386	**95%**
8	Retail	1,831,162	715,133	1,828,810	123,467	1,401,350	**72%**
9	Secured by mortgages on immovable property	1,178,359	82,234	1,178,359	25,310	459,468	**38%**
10	Exposures in default	100,441	8,451	100,379	1,382	129,416	**127%**
11	Exposures associated with particularly high risk	77,889	100,079	67,485	50,035	176,281	**150%**
12	Covered bonds	80,323	0	80,323	0	8,139	**10%**
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	**0%**
14	Collective investment undertakings	49,945	0	49,945	0	6,323	**13%**
15	Equity	28,514	0	28,514	0	28,514	**100%**
16	Other items	286,759	1,376	286,758	94	149,427	**52%**
17	**Total**	**9,882,881**	**1,978,432**	**9,882,881**	**597,164**	**4,644,760**	**44%**

Template 56: EU CR4 – Standardised approach – Credit risk exposure and CRM effects for the Nova KBM Group

€000

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWA density (%)
1	Central governments or central banks	3,459,664	71	3,728,176	5,009	7,853	**0%**
2	Regional governments or local authorities	81,168	4,074	81,168	1,043	11,519	**14%**
3	Public sector entities	137,187	5,026	27,319	786	1,769	**6%**
4	Multilateral development banks	17,581	0	17,581	0	0	**0%**
5	International organisations	51,241	0	32,104	0	0	**0%**
6	Institutions	630,505	32,749	590,535	7,914	210,296	**35%**
7	Corporates	1,861,504	1,029,238	1,774,788	382,124	2,051,851	**95%**
8	Retail	1,831,162	715,133	1,828,810	123,467	1,401,350	**72%**
9	Secured by mortgages on immovable property	1,178,359	82,234	1,178,359	25,310	459,468	**38%**
10	Exposures in default	100,441	8,451	100,379	1,382	129,416	**127%**
11	Exposures associated with particularly high risk	77,889	100,079	67,485	50,035	176,281	**150%**
12	Covered bonds	80,323	0	80,323	0	8,139	**10%**
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	**0%**
14	Collective investment undertakings	49,945	0	49,945	0	6,323	**13%**
15	Equity	28,514	0	28,514	0	28,514	**100%**
16	Other items	292,019	1,376	292,017	94	154,686	**53%**
17	**Total**	**9,877,504**	**1,978,432**	**9,877,504**	**597,164**	**4,647,464**	**44%**

21 USE OF THE ADVANCED MEASUREMENT APPROACHES TO OPERATIONAL RISK

(Article 454 of the CRR)

This disclosure is not relevant. The Nova KBM Group does not use the Advanced Measurement Approaches to operational risk.

22 USE OF INTERNAL MARKET RISK MODELS

(Article 455 of the CRR)

This disclosure is not relevant. The Nova KBM Group does not use Internal Market Risk Models.

23 COVID-19 RELATED DISCLOSURES

Summary of measures taken by the Slovenian government

On 18 October 2020, the Slovenian government declared the COVID-19 as an epidemic for a second time, initially until 17 March 2021. The epidemic was then extended every month until 15 June 2021 when it officially ended.

As part of its anti-coronavirus measures, the Slovenian government has passed a number of laws and measures both to contain the spread of the virus and to mitigate its economic impacts the impact.

As part of the sixth package of measures (PKP6), the Act on Intervention Measures to Mitigate the Consequences of the Second Wave of the COVID-19 Epidemic (hereinafter: the ZIUOPDVE) entered into force on 28 November 2020, facilitating a new deferral of payments from loan agreements under the PKP1 and the deferral of payments from new loan agreements to mitigate the negative effects of the second wave of the COVID-19 epidemic on the economy and retail borrowers. According to the ZIUOPDVE, the Bank was able to grant borrowers the deferral of the payment of obligations under loan agreements by no later than 31 January 2021. In addition, the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (hereinafter: ZDLGPE) has also entered into force to provide an ex lege Slovenian government guarantee for the loans of borrowers.

As part of the seventh package of anti-coronavirus measures (PKP7), the Act on Intervention Measures to Mitigate the Consequences of the Second Wave of the COVID-19 Epidemic (hereinafter: the ZIUPOPDVE) entered in force on 31 December 2020. According to the ZIUPOPDVE, borrowers were able to request a deferral for a period of up to nine months by no later than 26 February 2021. However, the moratorium had to enter into force by no later than 31 March 2021.

PKP8 was adopted on 5 February 2021 and provided additional measures to preserve jobs and help the economy in the adverse conditions brought about by the COVID-19 epidemic. In May 2021, assistance in the form of the partial reimbursement of the wages of furloughed workers was extended for another month until 30 June 2021.

On 14 July 2021, two new intervention laws entered into force: the Act on Intervention Measures to Assist the Economy and Tourism Sector (ZIUPGT), aimed at mitigating the consequences of the COVID-19 epidemic, and the Healthcare Intervention Measures Act (ZNUPZ). Both acts are included in PKP9.

On 27 December 2021 PKP10 entered into force with additional measures to mitigate the consequences of the COVID-19 epidemic. In addition to certain supplements for the most vulnerable groups of the population, PKP 10 introduced liability for damages in the event of complications from vaccination or the use of medicine against COVID-19. It also included several measures to aid the economy, with new credit lines for liquidity purposes to be offered via the Enterprise Fund. Also envisaged are the partial reimbursement of the purchase costs of self-tests and the extension of the validity of tourist vouchers.

Actions of the Group in response to the pandemic

The Group responded to borrowers with both legislative and non-legislative (bilateral) moratoriums, updated its methodologies used in the decision-making process and instructions for identifying financial difficulties faced by borrowers. The Group has responded to the pandemic with a coordinated program of activities that remain in force to ensure the proper management of credit risk. The Group has maintained regular contact with the regulatory authorities, informed them about its response to the pandemic and submitted all required regulatory reports in connection with COVID-19. Since the beginning of the pandemic the Group has implemented all necessary measures as required by the Government to protect its customers and employees by ensuring the relevant safety conditions and making sure that the services offered by the Group are provided without any disruption.

During 2021 the Group continued with a series of exercises designed to assess the impact of the pandemic on individual corporate borrowers and to identify the associated measures to be taken, including, where appropriate, the revision of ratings, a review of forbearance status, staging and provisioning. The Group reviewed individual cases and the associated measures at weekly meetings of its Problem Loan Committee.

In the retail sector, the Group regularly reviews its retail portfolio in order to assess whether retail borrowers may encounter payment issues once moratoriums offered by the intervention acts in Slovenia under PKP1, PKP6 and PKP7 expire. As of 31 December 2021, the proportion of the total household loan portfolio accounted for by the non-expired household loan portfolio subject to COVID-19-related measures was 0.02%. As at the date of this report, the Group has not identified a material increase in default events or other specific patterns in the entire portfolio that would indicate a significant increase in credit risk related to the pandemic. The Group also acknowledges that the Government has implemented targeted support measures that have enabled individuals employed in sectors directly affected by the containment measures to maintain their income, and that these measures have contributed to retail borrowers' continuing capacity to service their debts.

According to the Group's analysis, the vast majority of borrowers resumed payments when their legislative or bilateral moratoria expired, and only a limited number of customers are facing payment difficulties. As at 31 December 2021, the Group had granted moratoria (legislative, bilateral and newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to the COVID-19 crisis) in respect of loans and receivables in the amount of €464,892 thousand in total moratoria. Of that amount, €425,682 thousand in moratoria have already expired. Comparing to 31

December 2020 not expired loans with moratoriums decreased from €377,458 thousand to €39,210 thousand. After 30 September 2020, all moratoria application forms are tested against forborne status. As of 31 December 2021, the total amount of active non-expired loans and other financial assets subject to COVID-19 measures accounted for 0.78% of the total loan portfolio. The largest share, 55%, relates to the manufacturing industry. As of 31 December 2021, there are no non-expired legislative moratoria, while bilateral moratoria accounted for 0.3% of the non-financial and household portfolio.

Although certain measures have been taken to counter the pandemic, ongoing and more recent developments including the need for »booster« vaccines, new mutations of the virus (e.g. Omicron) and discussions also in other EU states on stricter »lockdowns« combined with low domestic vaccination rates adds to uncertainty of the evolution of the macro environment for 2022. Further containment measures will like impact the retail service sector and leisure and tourism although to date the restrictions have been relatively light.

Given the above, the Group assessed that the uncertainties brought about by the pandemic had not dissipated as of 31 December 2021, that there remains a possibility of a resurgence of the coronavirus via new variants and of further restrictive containment measures being imposed by the Government.

Supply chain disruption, increased commodity and energy prices and inflation

In addition to the uncertainties regarding the pandemic, the strong recovery in demand seen during late 2020 and during 2021 has created or brought to the fore supply chain issues across many industries and has seen a steep rise in commodity, energy, transportation and certain food and services prices.

In Slovenia, there have been price increases in the manufacturing and construction sectors during 2021 following shortages of certain raw materials and components linked to supply chain and transportation pressures.

Similarly, price increases can be expected the primary and processing food sectors. These impacts have been reflected in increases in published economy wide inflation levels in Slovenia, the EU and elsewhere.

As of year-end 2021 the Bank conducted a survey of its 70 largest corporate borrowers. The findings indicated that larger clients with stronger balance sheets and better margins may be able to absorb observed price shocks without material challenges. They are likely to have capacity to absorb price increases or have sufficient bargaining and competitive power to pass on price increases to customers. They may also be able to adjust or increase inventory levels using liquidity at hand. On the other hand clients with weaker balance sheets (such as those with higher leverage, lower equity and/or less sustainable or medium term sources of funding etc), those undergoing business restructuring and/or those who are already now experiencing liquidity challenges (in general such clients carry a below average credit rating) have provided indications that they may face issues if these trends continue into 2022 and beyond.

The Group continues to monitor the probability of corporate customer default on a case-by-case basis, without any automation of the classification of major customers. This is performed by applying the Group's existing rules regarding the identification of default events, in combination with customers' existing financial information, forward-looking indicators provided by its early warning system and its COVID-19 watch list. In summary, the Group is applying an expert-based approach and takes into account all available reliable information related to (i) customers' current and likely future financial and liquidity positions, and (ii) various support measures (i.e. those of borrowers, the Government and the Bank) that are put in place and impact the creditworthiness of borrowers.

Summary assessment

The Group will also continue to monitor the impact of the pandemic on the creditworthiness of its customers and implement measures accordingly.

As at the date of this report, the Group assesses that it has adequate liquidity to support its operations. Access to liquid assets is also available through the refinancing of its own portfolio and through instruments to be available via the ECB. Senior management deems the amount of these funds to be appropriate to support the Bank's operations.

The Group's Management Board and Supervisory Board assess that the Group's response to the pandemic has been and remains appropriate and has met supervisory expectations. The Group has reviewed and continues to review the assessment of the COVID-19 pandemic's impact on the current and future economic and business environments.

Template 57: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria (EBA/GL/2020/07, Annex 3, Template 2)

€000

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
			Total	of which: legislative moratoria	of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	2,117	314,786							
2	Loans and advances subject to moratorium (granted)	2,117	314,786	314,786	314,786	0	0	0	0	0
3	of which: households		69,779	69,779	69,779	0	0	0	0	0
4	*of which: collateralised by residential immovable property*		43,144	43,144	43,144	0	0	0	0	0
5	of which: non-financial corporations		245,006	245,006	245,006	0	0	0	0	0
6	*of which: small and medium-sized enterprises*		110,998	110,998	110,998	0	0	0	0	0
7	*of which: collateralised by commercial immovable property*		213,651	213,651	213,651	0	0	0	0	0

Template 58: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis (EBA/GL/2020/07 Annex 3 / Template 3)

€000

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			Of which forborne	Public guarantees received	Inflows to non-performing exposures
1	**Newly originated loans and advances subject to public guarantee schemes**	24,308	**11,691**	**15,948**	0
2	of which: households	87			0
3	*of which collateralised by residential immovable property*	0			0
4	of which: non-financial corporations	24,221	11,691	15,948	0
5	*of which: small and medium-sized enterprises*	549			0
6	*of which collateralised by commercial immovable property*	16,835			0