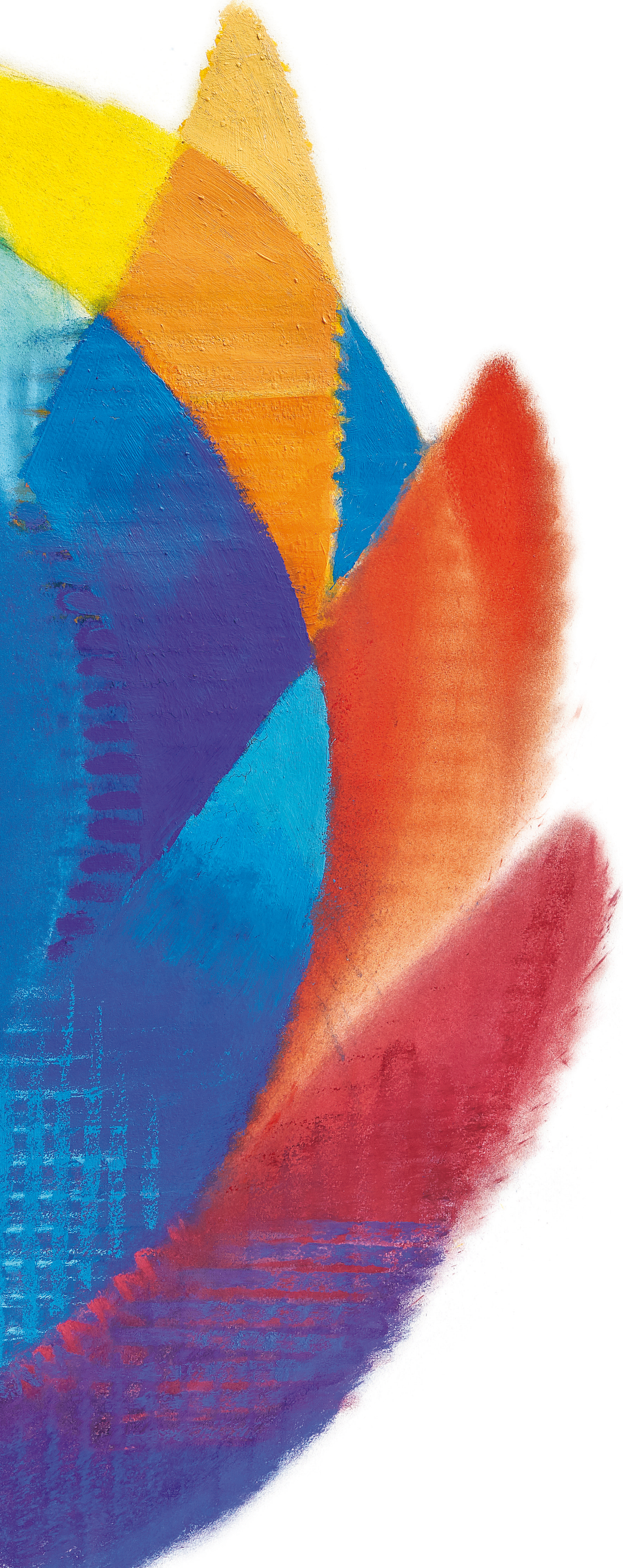

NATIONAL-BANK

Mehr. Wert. Erfahren.

ANNUAL REPORT 2022

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ANNUAL FINANCIAL STATEMENTS

Statement of Financial Position

ANNUAL STATEMENT OF FINANCIAL POSITION, DECEMBER 31, 2022 OF NATIONAL-BANK AKTIENGESELLSCHAFT
IN €

Assets	**12/31/2022**	**12/31/2021**
Cash reserve	**70,098,886.19**	**1,273,614,905.51**
a) Cash on hand	13,015,454.02	14,106,917.24
b) Balances with central banks	57,083,432.17	1,259,507,988.27
including:		
at the Deutsche Bundesbank	57,083,432.17	1,259,507,988.27
Receivables from banks	**1,455,179,264.57**	**15,194,686.47**
a) payable on demand	1,454,981,926.37	14,840,448.89
b) Other receivables	197,338.20	354,237.58
Receivables from customers	**4,107,817,717.64**	**3,737,064,076.04**
including:		
Secured by mortgages	1,891,094,713.71	1,746,133,384.93
Communal loans	100,989,412.95	89,488,787.51
Debt securities and other fixed-income securities	**404,149,817.51**	**678,991,352.55**
a) Bonds and debt securities	404,149,817.51	678,991,352.55
aa) by sovereign issuers	284,709,967.98	360,317,838.60
including:		
eligible as collateral for borrowings from German Federal Bank	284,709,967.98	360,317,838.60
ab) from other issuers	119,439,849.53	318,673,513.95
including:		
eligible as collateral for borrowings from German Federal Bank	114,787,287.20	293,597,064.21
Shares and other variable yield securities	**17,997,670.62**	**20,600,792.85**
Long term equity investments	**1,072,538.23**	**825,531.63**
including:		
in banks	11,877.31	11,877.31
in financial services institutions	(-)	(-)
Shares in affiliated companies	**387,166.42**	**387,166.42**
including:		
in banks	(-)	(-)
in financial services institutions	251,929.84	251,929.84
Fiduciary assets	**8,225,138.91**	**8,679,222.23**
including:		
Fiduciary loans	8,225,138.91	8,679,222.23
Intangible fixed assets	**1,670,275.12**	**1,886,983.61**
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	1,325,412.17	1,743,825.17
d) prepayments	344,862.95	143,158.44
Tangible fixed assets	**55,686,992.08**	**56,295,941.52**
Other assets	**5,839,545.74**	**18,950,573.00**
Prepaid expenses	**2,138,651.92**	**2,136,739.36**
Excess of plan assets over pension liability	**49,238.35**	**124,559.40**
Total assets	**6,130,312,903.30**	**5,814,752,530.59**

ANNUAL STATEMENT OF FINANCIAL POSITION, DECEMBER 31, 2022 OF NATIONAL-BANK AKTIENGESELLSCHAFT
IN €

Liabilities	12/31/2022	12/31/2021
Liabilities to banks	**570,724,155.35**	**585,454,856.95**
a) overnight	724,096.87	11,603,173.48
b) with agreed maturity or notice period	570,000,058.48	573,851,683.47
Liabilities to customers	**4,967,011,162.89**	**4,654,903,900.42**
a) Savings deposits	193,513,538.58	205,015,094.01
aa) with agreed notice period of three months	193,232,108.67	204,577,836.34
ab) with agreed notice period of more than three months	281,429.91	437,257.67
b) other liabilities	4,773,497,624.31	4,449,888,806.41
ba) overnight	3,962,094,586.03	3,836,571,939.05
bb) with agreed maturity or notice period	811,403,038.28	613,316,867.36
Securitized liabilities	**5,112.92**	**5,112.92**
a) debt securities issued	5,112.92	5,112.92
Trust liabilities	**8,225,138.91**	**8,679,222.23**
including:		
Fiduciary loans	8,225,138.91	8,679,222.23
Other liabilities	**4,184,356.64**	**4,597,966.94**
Prepaid expenses	**2,131,020.05**	**1,802,859.52**
Provisions	**110,821,445.70**	**106,945,745.80**
a) Provisions for pensions and similar obligations	86,466,878.06	80,132,588.58
b) Provisions for taxes	4,517,796.16	10,072,633.69
c) other provisions	19,836,771.48	16,740,523.53
Subordinated liabilities	**50,369,178.08**	**50,369,178.08**
Fund for general banking risks	**23,500,000.00**	**15,500,000.00**
including: special item pursuant to section 340e (4) HGB	0.00	0.00
Equity	**393,341,332.76**	**386,493,687.73**
a) called capital		
subscribed capital	44,769,351.00	44,658,021.00
of which: purchased treasury shares	-158,649.00	-269,979.00
b) capital reserves	205,644,264.14	205,545,806.91
c) revenue reserves	130,946,917.62	124,974,659.82
ca) legal reserve	990,883.67	990,883.67
cb) other revenue reserves	129,956,033.95	123,983,776.15
d) Net retained profits	11,980,800.00	11,315,200.00
Total liabilities	**6,130,312,903.30**	**5,814,752,530.59**

	12/31/2022	12/31/2021
Contingent liabilities	**115,984,325.73**	**104,320,451.61**
Liabilities from guarantees and warranties	115,984,325.73	104,320,451.61
Other obligations	**772,333,820.27**	**768,074,148.40**
Irrevocable loan commitments	772,333,820.27	768,074,148.40

Income Statement

INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2022 OF NATIONAL-BANK AKTIENGESELLSCHAFT

IN €

Expenses	**2022**	**2021**
Interest expenses	**3,309,872.26**	**1,213,787.48**
including:		
negative interest from liabilities	5,583,456.25	7,163,514.04
Commission expenses	**5,692,712.49**	**7,261,410.41**
General administrative expenses	**99,530,290.38**	**91,906,510.80**
a) Personnel expenses	61,527,103.33	55,028,631.91
aa) Wages and salaries	45,482,738.30	44,773,762.07
ab) Social security costs and expenses related to pension plans and for support	16,044,365.03	10,254,869.84
including:		
for post employment benefits	8,520,948.03	2,879,616.92
b) other administrative expenses	38,003,187.05	36,877,878.89
Amortization/depreciation and valuation allowances on intangible and tangible fixed assets	**3,191,906.80**	**3,232,517.56**
Other operating expenses	**3,861,813.75**	**8,595,274.77**
Write-downs of and allowances on receivables and certain securities and transfers to provisions for loan losses	**10,668,247.16**	**11,891,359.87**
Write downs and allowances on equity investments, shares in affiliated companies and securities treated as fixed assets	**54,161.02**	**11,227.46**
Transfer to fund for general banking risks	**8,000,000.00**	**0.00**
Extraordinary expenses	**0.00**	**0.00**
Taxes on income	**12,582,813.69**	**15,034,005.49**
Other taxes not recognized under "other operating expenses"	**337,133.60**	**362,098.47**
Net income for the financial year	**16,892,800.00**	**14,665,978.64**
Total expenses	**164,121,751.15**	**154,174,170.95**

	2022	**2021**
Net income for the financial year	**16,892,800.00**	**14,665,978.64**
Transfers to revenue reserves	**4,912,000.00**	**3,350,778.64**
to other revenue reserves	4,912,000.00	3,350,778.64
Net retained profits	**11,980,800.00**	**11,315,200.00**

INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2022 OF NATIONAL-BANK AKTIENGESELLSCHAFT

IN €

Income	**2022**	**2021**
Interest income from	**101,987,869.54**	**89,140,717.53**
a) Lending and money market transactions	100,047,408.48	87,876,525.16
b) fixed-income securities and debt-register claims	1,940,461.06	1,264,192.37
including:		
positive interest on receivables	2,866,852.21	3,256,363.26
Recurring income from	**555.06**	**1,136.88**
a) Shares and other variable yield securities	555.06	86.88
b) Long term equity investments	0.00	1,050.00
c) Shares in affiliated companies	0.00	0.00
Commission income	**57,061,527.89**	**62,019,264.88**
Income from write-ups to equity investments, shares in affiliated companies and securities treated as fixed assets	**0.00**	**0.00**
Other operating income	**5,071,798.66**	**3,013,051.66**
Extraordinary income	**0.00**	**0.00**
Total income	**164,121,751.15**	**154,174,170.95**

MANAGEMENT REPORT

Fundamentals of the Company

NATIONAL-BANK pursues the strategy to be one of the leading independent private regional banks in Germany for discerning private and corporate customers, as well as for medium-sized institutional investors. In addition to our competitive and customer group specific financial solutions, our individualized consulting andpersonalized services are a distinct competitive advantage. The same applies to our longstanding customer relationships, as well as the maintaining of the highest degree of customer satisfaction. The bank's main regional market territory is North Rhine-Westphalia. The Bank plans to continue to develop its defined target groups within its regional core market.

The independence of the Bank is an essential foundation for its success. The Bank's independence is to be bolstered and secured-through active investor relationship measures. The objective is the creation of a sustainable shareholder structure. The Bank's objective is to generate with its future-oriented, risk-aware acting a sustainable added value for its customers, shareholders and employees.

The Bank pursues a customer-driven business model with a comprehensive consultation approach for discerning private and corporate customers. Customers, who value individual and personal service, are deemed to be discerning. The same applies to the willingness to employ several financial solutions. Private and corporate customers not classified as discerning, also receive consultation based on their individual needs. In these cases, it is the Bank's objective to develop a business relationship with its customers by offering individualized financial solutions. The Bank continues to expand its collaboration with medium-sized institutional investors, such as foundations, regional utility companies and pension schemes, as well as smaller institutional investors.

The Bank's objective is to consequently gear its financial solutions to the needs of its target customers. The Bank develops its financial solutions in-house or purchases them from independent third parties (Open Architecture). Cooperation partners are carefully selected and undergo regular reviews. The loan and deposit business is an integral component of the business model. In compliance with our business and risk strategy and the complementing credit risk strategy, loans are to be provided with the objective of having customers take advantage of the other financial solutions our Bank offers (strategic loan business). In each case, the price of the loan must cover the Bank's equity return target rate for the loan business.

Sales organization and income-related controlling are geared toward these customer groups. On the one hand, to sales and marketing of our finance solutions is hereby demand-oriented optimized within the individual areas (cross selling), and on the other hand, optimally interrelated with the other service units of the individual customer segments (connectivity). The net interest and commission income are the essential income components of the Bank. Based on its current distribution, a growing share of the overall income is to continue to be generated by commission business, which does not tie up equity.

Continuing intensive competition takes place within the Bank's market territory, in particular, in the Rhine/Ruhr region, the Bergisches Land and the Münsterland. Competition structure shows a differentiated pattern according to target groups. The Bank considers major banks, as well as major savings institutions and people's banks to be significant competitors with medium sized business customers, and savings and cooperative institutions to be significant competitors with retail, craft and trade customers. In Private Banking & Wealth Management, the Banks competitors are area-wide major banks, regionally private banks in individual cases and also savings institutions in some cases. In the segment institutional customers, the major banks and the central institute for cooperative banks are to be mentioned as relevant. As regards the Bank's business with private customers and freelancers savings institutions, cooperative institutions and the major banks are of importance. In the standardized private customer business, the entire finance sector is a competitor, including direct and online banks. Opportunities to grow new customer business result from the Bank's positive reputation as a medium-sized, approachable, competent and reliable partner. The Bank's cultural engagement is hereby identity-creating and identity-forming. Furthermore, additional opportunities to gain new customers result from the reduction of branches, restructuring measures and the consolidation of the German finance sector.

The Bank commits to a risk-aware, future-oriented and sustainable acting with the aim to meet the expectations of customers and employees, as well as the shareholders and the company. The following sustainability objectives are associated with this acting: positioning as an attractive employer on a consistent basis, achieving maximum customer satisfaction with long-term customer relationships, reducing the utilization of natural resources for banking operations, transformation of our loan and investment portfolios towards climate neutrality by 2045 under consideration of shareholder and customer interests, actively use business relationships in such a manner that our partner assume environmental and social responsibility, prevention, detection and sanctioning of corruption, money laundering and terrorism financing and other violations of the law in the Bank, as well as the long-term cultural and societal commitment.

Overall Economic Environment

While the German economy still grew in spring 2022 based on the recovery of private spending from the pandemic, the Russian war of aggression against Ukraine dampened the economic upturn. The significant increase in the cost of imported energy raw materials – in particular natural gas – resulted in a drastic deterioration of the Terms of Trade in the whole federal territory coinciding with a significant outflow of income into the rest of the world. In addition, the interplay between higher natural gas prices and pressures on the electricity market also caused wholesale prices to soar also there, what gradually impacted end consumer prices. In addition to the strains put on energy intensive industries, the massive energy price increase also resulted, in particular, in a significant loss of purchasing power for private households, with the consequence of contracting private consumption, which will probably last far into the current year. On the one hand, the industry in the Germany as a whole and also at Rhine and Ruhr still draws on high order backlogs, which support production while material bottlenecks are subsiding. On the other hand, however, did the export outlook along with the global economic environment, at least for the time being, further deteriorate; the weak macroeconomic development has, in addition, a negative effect on the investment climate.

Taken together, the recovery phase was interrupted by the sum of exogenous shocks during the course of 2022. Due to these factors, the leading indicators declined markedly well into winter and even touched temporarily the lowest levels of spring 2020 at the begin of the Corona Pandemic: Considering the weak economic figures, the economy in North Rhine-Westphalia is on the brink of a recession, at least, however, overcoming the stagnative environment remained out of sight until recently in the current year. How difficult the winter actually is and will be for companies, primarily depends on the further development of energy costs, here, the thus far again mild weather pattern averted the risk of gas rationing. Given full gas reservoirs and marked governmental relief, business expectations somewhat brightened again at the begin of the year. It is true, the order books remain, in principle, well filled, primarily in the manufacturing sector, however, new orders come in at decreasing rates, so that the confidence of companies noticeably erodes. However, the shortage of intermediate input products eased recently, as expected by us – bottlenecks eased primarily in the automotive sector and in the furniture industry. In contrast, diminishing orders, as well as a sustained high inflation cause massive trouble in particular for the trade in North Rhine-Westphalia. At the begin of winter business expectations even reached here a new historic low point; they were even worse than at the begin of the Corona Pandemic. Many trade companies plan, in addition, to reduce personnel. For the first time since more than two years, the majority of wholesalers and retailers assessed their situation to be negative again. The business climate in the primary construction sector has downright crashed. Along with the high costs for materials, the turnaround in interest rates must now be factored in as an additional burden. All construction sectors expect a declining construction activity for the next three months. In addition to that it becomes more and more difficult for many construction companies to obtain loans. At year's end, economic sentiment indices could then indeed somewhat consolidate again due to better energy supply perspectives, overall, however, the assessment for the sentiment in the NRW economy continues to be negative.

In conclusion, we expect, also based on the most recent data points, for the nation in total an increase of the price-adjusted GDP by 1.9 % in the year 2022 and a contraction of the overall economic output of 0.3 % in the current year. Based on the most recent data of the national accounts for the Länder for the first half year 2022, as well as based on the relative development of the leading indicators, we also expect that the NRW growth path for the current year and last year is likely for each year around 0.3 percentage points below the nation's trend. Accordingly, for the year 2022 we consider increases by 1.6 % for NRW to be realistic and the current year will likely come in with a contraction of 0.6 % for the economy in NRW.

Course of Business

In 2022 NATIONAL-BANK markedly increased average lending volume from € 3,650.8 million to € 4,059.1 million. Repayments in the amount of € 519.1 million were overcompensated. For refinancing purposes, average customer deposits could be increased from € 4,197.5 million to € 4,707.0 million.

While net interest income of € 98.7 million was very significantly above previous year's level of € 87.9 million, net commission income declined from € 54.7 million to € 51.4 million. Furthermore, as a result of a much-improved balance from other operational income and expenses from € -5.6 million to € 1.2 million, gross profit improved significantly and increased from € 137.1 million to € 151.3 million. Administrative expenses increased, in particular, due to greater personnel expenses from € 95.1 million to € 102.7 million. Risk provision slightly improved from € -11.9 million to € -10.7 million. The main driver for the negative risk provision result were write-downs on securities holdings.

As a result, net Income improved from € 14.7 million to € 16.9 million. This result exceeds our previous year's expectations. Based on this result and subject to the adoption of a corresponding resolution by the functional committees, the Bank is in a position to pay the same dividend as in the previous year of € 0.80 per share. This represents a total dividend of € 12.0 (11.3) million, as well as additional € 4.9 (3.4) million to the reserves. In addition, € 8.0 million were already transferred to the fund for general banking risks in accordance with Section 340g HGB.

Financial Performance

NET INTEREST INCOME

Net interest income increased markedly to € 98.7 (87.9) million. The essential drivers for the year-on-year increase were the dynamic loan growth in the first half year 2022, which was also associated to subsequently markedly higher interest income, as well as the effects of the turnaround in interest rates during the second half year, which, in particular, had the effect that the cost for liquidity holdings at the German Federal Bank declined and that in the meantime income is generated again from the return on interest on the credit balance at the German Federal Bank. This also overcompensates the fact that after the first ECB interest rate increase on August 1, 2022, all credit balance charges on liabilities to customers (deposits at notice) on which notice has not yet been given had been suspended.

NET COMMISSION INCOME

Net commission income decreased to € 51.4 (54.8) million and remained below the previous year's record result a.o. due to the declining Asset Management result, which is attributable to the uncertain circumstances on the capital markets. By contrast, international business, commissions from loan business and management of payment transactions performed very pleasing.

OTHER OPERATING INCOME AND EXPENSES

The balance from other operating income and expenses was € -1.2 (-5.6) million. The reason for the significant increase was, in particular, the decrease of interest expenses for pension provisions to € -2.8 (-7.1) million, which resulted from the fact that the relevant discount interest rate declined further nine base points to 1.78 % after a decrease in the previous year from 2.30 % to 1.87 %. Income from reversal of no longer required other provisions amounted to € 2.8 (0.6) million.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses increased to € 102.7 (95.1) million. While personnel expenses increased markedly to € 61.5 (55.0) million, operating expenses rose to a somewhat lesser extent to € 38.0 (36.9) million. The main driver for the significant increase of personnel expenses was the inflation-caused adjustment of the pension increase trend, which affects the pension provisions for the pension scheme the Bank established in 2001. Filling of open positions and salary increases also contributed to the personnel expense increase. The increase of operating expenses is a.o. caused by the improvement of the security architecture, primarily with a view on information security and the threat of cyber risks. In addition, expenses for the bank levy also increased further and initial expenses for the planned migration of the core banking system arose.

DEPRECIATION OF TANGIBLE FIXED ASSETS AND INTANGIBLE FIXED ASSETS

Depreciation of tangible fixed assets and amortization and write-downs of intangible fixed assets were unchanged at € 3.2 (3.2) million.

RISK PROVISION

(Net) expenses for risk provision fell to € 10.7 (11.9) million. Due to the turnaround in interest rates during the second half of the year and the uncertainties on capital markets because of geopolitical crises, write-downs in the amount of € 12.3 million were made on securities holdings classified as current assets. Concerning this situation and considering the conservative accounting strategy, the Bank made the conscious decision to waive the option to reclassify these securities as fixed assets. Loan risk provisions from specific valuation allowances in loan business were again very inconspicuous. Due to the first-time application of the accounting standard IDW RS BFA 7, the existing global valuation allowance received additional € 15.1 million funding.

OPERATING RESULTS

The operating result amounted to € 37.8 (30.1) million. This resulted from a markedly increased gross profit of € 151.3 (137.1) million and also increased administrative expenses of € 102.7 (95.1) million and a greater risk provision of € 10.7 (11.9) million.

TAXES

Tax expenses reduced to € 12.9 (15.4) million. This corresponds to a tax rate reduction from 51.2 % to 34.2 %. An increasing effect had - as in previous years - in particular transfers to pension provisions and global valuation allowances, as well as the non-tax-deductible bank levy. Based on an updated legal opinion, the provision for tax treatment of securities transactions, which was created in 2020, was reversed and significantly reduced the tax rate.

NET INCOME FOR THE FINANCIAL YEAR

Net income for the financial year increased to € 16.9 (14.7) million. This increase was, in particular, the result of a markedly increased net interest income and an improved balance of other income, as well as less tax expenses.

Financial Position

TOTAL ASSETS AND BUSINESS VOLUME

Total assets and business volume, which includes in addition contingent liabilities from guarantees and warranties, were € 6,130.3 (5,814.8) million and € 6,246.3 (5,919.1) million respectively and as such again above the previous year's level.

REFINANCING STRUCTURE

The Bank has unchanged a stable and broad-based financing structure at its disposal. The Bank primarily refinances through customer deposits, subordinated promissory notes and equity capital. Liabilities to customers increased to € 4,967.0 (4,654.9) million. This results in the Bank being largely independent of capital market refinancing. Deposits and overnight money and time deposits in the amount of € 4,773.5 (4,449.9) million with a share of ca. 96 (96) % of total customer deposits were around the previous year's level. Refinancing has on average a shorter contractual capital and interest lock-up than lending business and the Bank's own investments. In the past it turned out, however, that short-term customer deposits were available to the Bank over a longer period.

LIQUIDITY

The Bank's liquidity and risk measurement and control system ensures that adequate liquidity is always available Liquidity maintained with the German Federal Bank and other cash reserves as an expression of a conservative liquidity policy were € 1,470.1 (1,273.6) million. For liquidity controlling purposes the bank entered into overnight and time deposit transactions with other banks. Throughout the year, the Bank maintained at any time a sufficiently dimensioned liquidity reserve with the German Federal Bank, consisting of balances with the central bank, as well as a collateral pool of securities and loan receivables eligible as collateral with the German Federal Bank of € 440.2 million. Against the backdrop of the, at the time, not specifically foreseeable effects of the Corona Pandemic, the Bank participated as a means of an utmost precautionary enhancement of the Bank's liquidity in a long-term refinancing transaction (TLTRO III) in the amount of € 100.0 million with the European Central Bank and repaid this as at June 29, 2022. Beyond the balance sheet date 2022, the Bank borrowed € 70.0 million from the German Federal bank within the scope of a main refinancing operation.

The Bank's liquidity was guaranteed at any time. Consequently, the liquidity coverage ratio reached at year's end € 137.8 (148.4) % and the net stable funding ratio 138.3 (137.5) %. Both ratios clearly exceeded the regulatory minimum requirement of 100.0 %.

LOAN BUSINESS

Receivables from customers increased to € 4,107.8 (3,737.1) million. Hereby were high repayments of around € 519.1 (588.5) million overcompensated by a strong new business volume of € 707.9 (777.3) million. In particular loans to mid-sized corporate customers and real estate financing contributed to this result.

DEPOSIT BUSINESS

In spite of still consequently agreed custody fees in the first year 2022, which were suspended as at August 1 for deposits at notice on which notice has not yet been given, customer deposits increased to € 4,967.0 (4,654.9) million. Short-term demand deposits of € 3,962.1 (3,836.6) million contributed significantly to this development. Time deposits and savings deposits, increased together to € 1,004.9 (818.3) million.

INTERBANK BUSINESS

Regarding liabilities to banks in the amount of € 570.7 (585.5) million, the emphasis remained on long-term funding under public sector lending programs. Loan holdings decreased due to decreased corresponding customer loans. On the asset side, receivables from banks increased from € 15.2 million to € 1.455.2 million. This increase results from the fact that overnight deposits within the context of the deposit facility rate at the German Federal Bank are not to be recognized as cash reserves but are taken into account under the balance sheet item receivables from banks.

SECURITIES HOLDINGS

Investments in bonds and other fixed interest securities in the amount of € 404.2 (679.0) million, were at 82.4 % issuances of debt securities by German Federal States and promotional banks, as well as bonds. A major portion is eligible as collateral for borrowings from German Federal Bank. Due to the turnaround in interest rates, new investments of € 10.0 (34.4) million were only made to a minor extent in 2022.

DERIVATIVES

The bank does not trade in derivatives. Financial derivative transactions are essentially made to cover customer positions. The nominal volume of derivatives of € 1,400.4 (1,160.9) million. Of this, 99.1 (94.8) % was related to OTC products. In addition, the Bank held € 13.2 (60.5) million of publicly traded products. Broken down by business segments, a nominal volume of € 477.1 (469.0) million was attributable to currency and € 910.1 (631.4) million to interest rate related contracts, including positions to control the Bank's interest rate risk. Since transactions with customers are directly collateralized by transactions with other banks or on the stock exchange via "micro hedges" and the Bank's positions serve to limit interest rate and currency risks of the bank book, the Bank's positions were virtually not exposed to any market price-dependent risks arising from financial derivatives, the Bank was only exposed to market price-dependent counterparty and credit risks.

SUBORDINATED LOANS

The inventory of in October 2020 issued subordinated promissory notes of € 50.0 million with an initial maturity of ten years remained unchanged. Subject to the approval by the Federal Financial Supervisory Authority [Bafin], the Bank has a right to unilateral redemption after five years and after five years annually.

FUND FOR GENERAL BANKING RISKS

During the reporting year, the fund for general banking risks increased to € 23.5 (15.5) million.

EQUITY

From net income in 2022, € 4.9 (3.4) million can be transferred to retained earnings within the scope of appropriation of net income. Accordingly, equity according to commercial code is increased – after deduction of purchased treasury shares – from € 386.5 million by € 6.8 million to € 393.3 million.

Under inclusion of subordinated loans and the fund for general banking risks, regulatory own funds amount to € 467.2 (466.3) million. The Bank's own funds — measured as the ratio of regulatory relevant equity capital in terms of the Capital Requirements Regulation [CRR] to risk-weighted assets – after the approval of the annual financial statements — were 13.2 % (14.2 %). Equity Tier 1 capital ratio is 11.2 (11.7) %.

STRATEGIC KEY FIGURES

The following strategic key figures are the Bank's financial key performance indicators. The target ranges for the strategic key figures were defined at a time when other general monetary and regulatory conditions applied and were marginally adjusted in previous years. In the meantime, the monetary policy conditions, in particular for combating inflation, changed in the second half year. Insofar general regulatory conditions are affected, the requirements in connection with Basel

III turn out - also against our expectations - to be not conclusive.

Return on equity before taxes increased to 10.0 (8.0) %, in particular due to the significantly improved net interest income. It is therefore above the target range of 7 to 9 %. This exceeds significantly our previous year's expectations.

Due to the increased loan volume, the Equity Tier 1 capital ratio decreased to 11.2 (11.7) % and is thereby still within the target range of 11 to 14 %. This corresponds to our previous year's prognosis.

The cost income ratio, i.e. the ratio between administrative expenses and gross profit, improved from 69.4 % to 67.9 % and is within the target range of 65 to 70 %. We expected in the previous year that this ratio will be above the target range.

Loan to deposit ratio of slightly above 0.73 is approximately at the previous year's level (0,70) and – as expected last year – continues to be clearly below the maximum target value of 1.00.

PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

The first target figures for the share of women represented at the 1. and 2. management level were determined in September 2015 to be 10 and 18 % respectively. These figures corresponded to the status quo at that time. A desirable higher target was not resolved, because the Bank was about to implement a major restructuring in the very near term to position the Bank for the unprecedented historically low and in parts negative interest level so that the Bank could meet its strategic target ranges by cost-cutting measures. Within the course of the associated, also personnel, changes, more women than men showed interest in the exclusively voluntary severance offers. This behavior could also be observed within the course of another restructuring implemented in 2017. This was aggravated by the fact that for the few new hires (understandable in the case of restructuring) male candidates had to be given preference in spite of our best efforts to recruit women. These decisions were shared by the works council without any reservations. As a result of this situation, the target figures were continuously undershot. This contradicted the intention of the Management Board, because the promotion of the underrepresented gender as a component of diversity is not only an integral component of corporate governance but also a component of the Bank's business strategy. Also for this reason, the Bank committed to the Diversity Charter. Furthermore, as a certified family friendly company since 2014 and being a member of the "Essener Bündnis für Familie", the Bank initiated numerous measures to promote, in particular, reconciliation of family and profession. This includes, a.o., expansion of framework working hours, as well as the continuation of the concept of individual flexible working hours (preferred working hours) in the case of particular family developments.

In June 2022, the target figures for the share of women at the 1. and 2. management level were determined to be 12 and 19 % respectively. This does not include a women share increase in spite of the percentage wise accretion. Rather the adjustment was made because of the changed target organizational chart. Although the Management Board does not assume that the intended changes will materialize in the short-term, it is confident that its resolutions will have a positive effect. This is underscored by the fact that in the 3. level encouraging changes are already taking place, which may result in the personnel development planning for the 2. level to a significant greater employment of women. As regards the 1. level, due to, a.o., the present age structure, a below average low fluctuation rate, as well as the tendency to downsize organizational structures in the case of personnel changes, the results of the promotion of the underrepresented gender might only be visible after some time.

Risk and Opportunity Report

RISK STRATEGY / RISK INVENTORY

The Bank's risk management guidelines are defined in the form of a risk strategy. The risk strategy is derived from the Bank's business activities, as defined in the Bank's business strategy and their associated risks. The risk strategy forms the framework for risk type-specific sub-strategies, which in turn put in concrete terms the requirements for the management of risks within the structural and process-oriented organization.

The Bank's business strategy principally only includes such business activities for which reasonable risk management has been adopted in advance in the risk strategy, including sub-strategies and which have been implemented in the Bank's structural and process-oriented organization.

The risk management focus is to contain all material risks within the specified limits from an economic perspective for the internal capital adequacy or to reduce such risks within the specified limit, as well as to counterbalance foreseeable unfavorable developments of internal capital adequacy, liquidity, as well as the reputation of the Bank, as well as to comply with all regulatory and supervisory requirements of the normative perspective. The enforcement of risk-adjusted terms in the market for all business activities from which quantifiable risks for the Bank's internal capital adequacy arise is a material principle of risk management. However, the risk situation in a market, a business segment or for a business partner may subsequently develop negatively for the bank, without the option of being able to adjust the terms accordingly. For this reason, active risk management within the Bank's processes is necessary, in addition to the enforcement of reasonable terms at the conclusion of a business transaction.

The risk management implemented in the Bank's processes contains the following four basic strategies

RISK ASSUMPTION

The assumption of risks is a prerequisite for the generation of income. The Bank pursues business, which corresponds to the business strategy and internal risk-return requirements. Principally, the Bank assumes the risks associated with these business transactions. Transactions that show an insufficient opportunity risk profile at the closing date are not completed. An insufficient opportunity risk profile exists e.g., if loans do not meet the minimum margin requirement and such insufficient margin cannot be compensated by other income from the associated customer base.

RISK MITIGATION

In the event, assumed risks for individual transactions or for a portfolio increase, the Bank may demand additional securities or enter into hedging transactions and reduce the respective business activities.

RISK TRANSFER TO THIRD PARTIES

The Bank may transfer partial risks or the entire risk to other market participants, if business transactions do not meet the Bank's risk profile requirements and risk mitigation is not possible.

RISK AVOIDANCE

Business transactions with customers, whose potential risk could threaten the Bank's internal capital adequacy, may not be entered into. This applies, in particular, to business transactions with customers, in which the monetary damage could exceed major portions of the operating profit before risk provisions, if such risks materialize. Transactions, using the Bank's own investments, with the public sector, banks, insurance companies and corporates are being limited depending on the risk rating. For the public sector, banks and insurance companies that are subject to governmental financial supervision, greater limits are permissible due to transparency. Transactions, which – after applied risk mitigation - at their amount (“exposure value after application of exemptions and credit risk mitigation“) exceed the Bank’s major loan upper limit, are to be avoided. In addition, business activities that may damage the Bank’s reputation are also to be avoided or discontinued.

RESULT OF RISK INVENTORY

From the business activities as defined by the business strategy, result the following risks, which the Bank classifies as material in terms of MaRisk or in terms of the NATIONAL-BANK’s internal definition:

- Counterparty and credit risk
- Market price risks, including foreign currency risks not classified as material
- Interest rate risk
- Operational risks, including legal risks and associated sub-risks and cross-sectional risks Within the operational risks, the personnel risk and the information security risk are classified as material.
- Liquidity risks
- Business risks
- Reputational risks

Sustainability risks (ESG Risks) are, insofar, not an independent risk type and are not classified as “material” or “not material”. Sustainability risks affect in the dimensions environment, social and governance as a risk factor the known risk types.

OVERALL RISK POSITION / INTERNAL CAPITAL ADEQUACY

The analysis of internal capital adequacy serves both, the objective of a going-concern for the institute and the protection of creditors against losses. To meet these two protection objectives, the German banking supervisory authorities expect from the institutes that they analyze two perspectives within the scope of its internal capital adequacy concept: a normative and an economical perspective

The normative perspective is to be understood as the regulatory requirements as a whole, as well as the internal requirements based on them. This includes, in particular, the requirements on

- capital (Common Equity Tier 1 Capital requirement, SREP total capital requirement and the combined buffer requirement),
- the own funds target key figure and
- the capital structure.

For this reason, the starting point for these analyses are the regulatory key figures, as well as their calculation logic, which are all taken from the supervisory reporting system. In addition to meeting the regulatory requirements as of the reporting date, a capital planning is prepared that covers at least a period of three years and which is updated at least once a quarter. The calculation logic for future periods is also specified by the supervisory authorities. Only the parameter variation for various scenarios (plan scenario and at least one adverse scenario) may be determined by the institute. In the normative perspective of internal capital adequacy, the Bank consistently complied with the regulatory requirements on equity, including all buffer requirements, during the past fiscal year.

The Federal Financial Supervisory Authority [Bafin] ordered by general decree of January 31, 2022, the implementation of an countercyclical capital buffer of 0.75 % of the risk-weighted assets on domestic risk positions. This requirement must be complied with in full no later than February 1, 2023. Furthermore, by general decree of April 1, 2022, the Federal Financial Supervisory Authority [Bafin] ordered a sectoral system risk buffer of 2 % for all domestic risk positions that are secured by mortgages on residential real estate. NATIONAL-BANK is affected by these capital buffer requirements. The regulatory requirements on equity, including all buffer requirement, are complied with from the current perspective,

The analysis of internal capital adequacy in the economic perspective serves the objective to secure the substance of the institute for the long-term and as such to protect creditors against losses. Within the scope of risk capacity analysis from the economic perspective, the sum of risk contributions is compared with the risk covering potential. Risk capacity is met, if the risk covering potential is at least equal to or exceeds the sum of risk contributions.

To determine the risk contributions, the individual risk types are first separately analyzed. The internal capital adequacy calculation from the economic perspective then consolidates the quantitative results relating to the counterparty and credit risk, market price risk, interest rate risk, operational risk, liquidity risk and the reputational risk into a standard model and subjects these risks to a stress test. A risk contribution is not determined for the business risk classified as material, because the corresponding current result is not included within the risk covering potential.

Internal capital adequacy requirements were met throughout the reporting period. As of the reporting date, a free risk capital of € 231.7 million results from the difference between risk covering potentials of € 355.2 million and risk contributions of € 123.5 million based on the analysis of the internal capital adequacy from the economic perspective.

ECONOMIC INTERNAL CAPITAL ADEQUACY
IN € MILLION

Internal capital supply risk covering potential (RCP)	**12/31/2022**
Risk coverage potential	**355.2**
internal economic capital needed risk contributions	
VaR counterparty and credit risk	80.2
VaR market price risks liquid securities holdings plus spread risks	18.4
VaR market price risks money market transaction plus spread risks	0.0
VaR market price risks foreign currencies	0.5
Interest rate risk	13.4
Operational risks	8.6
Liquidity cost risk	0.4
Reputational Risk	2.1
Total risk position	**123.5**
Available risk capital	**231.7**

Within the scope of the internal capital adequacy analysis from an economic perspective a comprehensive stress scenario simulating a severe economic downturn is conducted. In addition, stress tests are performed on material risk types, as well as an inverse stress test and cross-risk stress tests based on causes originating from the Bank and/or the market at large.

STRUCTURE OF RISK MONITORING AND CONTROL

The implementation of an effective risk management in the structural and process-oriented organization is the responsibility of all Management Board members. The Management Board is responsible for the Bank's overall risk management, specifically risk-bearing capacity, including the set limits, liquidity and the Bank's reputation. The Management Board is hereby supported by cross-functional committees.

Risk management is performed by the following organizational units:

- The management of counterparty and credit risks, as well as market price risks is the responsibility of Credit Risk Management / Quality Management.
- The management of interest rate and liquidity risks is the responsibility of the Treasury department.
- The management of operational risks is ensured in a decentralized manner by all organizational units.
- Business risk is managed by the sales managing unit heads and other managers responsible for income and expenses.
- The management board is responsible for ongoing monitoring, documenting and managing any possible risks to the bank's reputation. The management board is supported by the reputational risk officer.
- Management of Bank's sustainability risks is the responsibility of the management board. Operational execution is the responsibility of the individual areas, departments or functions. The sustainability risk committee advises the Board in the handling and management of sustainability risks.

Risk Management / Risk Controlling department is responsible for the identification, measurement and analysis of risk potentials, as well as the determination and analysis of internal capital adequacy from an economic perspective and has the following important responsibilities:

- Support of management regarding the development and implementation of the risk strategy and the design of a risk management system.
- Conduct of a risk inventory and preparation of an overall risk profile.
- Implementation and development of risk management and risk controlling processes.
- Set-up and continued development of a system of risk key figures and a procedure for the early detection of risks.
- Ongoing monitoring of the Bank's risk situation and the internal capital adequacy, as well as compliance with set risk limits.
- Regular preparation of risk reports
- Responsibility for the processes for passing on material risk related ad hoc information to the relevant committees and departments of the Bank and
- if the number of non-performing loans (NPL) is high, monitoring and measurement of non-performing risk positions (Non-Performing-Exposure, NPE), and the progress to achieve the NPE target values.

The Risk Management division / departments Accounting & Bank supervision, as well as Controlling are responsible for monitoring the internal capital adequacy in the normative perspective.

The head of Risk Management assumes the risk controlling function according to AT 4.4.1 MaRisk.

RISK CATEGORIES

To identify, assess, manage, monitor and communicate all individual risks, as well as the Bank's internal capital adequacy, we employ and are continually enhancing a comprehensive risk management and risk reporting system. Regarding risk reporting, we refer to the respective segment.

COUNTERPARTY AND CREDIT RISK

Counterparty and credit risk is defined as the risk that occurs when the Bank suffers a loss through the default of a counterparty with whom the bank maintains a business relationship.

In regard to the essential loan business, the counterparty and credit risk is defined as the risk that a borrower does not meet or only partially meets its contractually agreed obligations to make interest or redemption payments when due and in the specified amount. Regarding the issuer and counterparty business segments, the counterparty and credit risk is defined as the risk that the Bank suffers a loss through the default of an issuer or a counterparty with which the Bank entered into a debt or equity instrument or derivative transaction. The default of an equity investment is also a counterparty and credit risk. In the context of determining the counterparty and credit risk, the migration risk is also taken into account. Migration risk is the risk of a credit deterioration in the form of an increased default probability. The counterparty and credit risk also takes negative changes to the assessed value of loan collaterals into account.

Among the individual risk types, the counterparty and credit risk represents in compliance with the business model the greatest quantitative share as regards internal capital adequacy. This results from the Bank’s strategic emphasis on customer loan business.

The sales units and back office are integrated into the loan process. The sales units and back-office functions are separated — also in the case of substitution — up to and including the management level and the organizational structure.

The weekly quantification of risks is based on the expected loss and the value at risk concepts. Quantification, analysis and control of the counterparty and credit risk is performed on the individual transaction level, as well as on the portfolio level and includes the sub-portfolios Private Customers, Freelance Professions, Corporate Customers, Treasury (issuers and counterparties), and Equity Investments. All individual credit risks are aggregated into internal risk units, which include, in addition to loan customer entities according to Section 19 (2) German Banking Act, also groups of affiliated customers according to Art. 4 (1) No. 39 Capital Requirements Regulation (CRR).

Central parameters for the determination of the expected and unexpected loss are the probabilities of default of the borrowers and the unsecured total loan. The unsecured total loan in the primary customer loan business is determined by subtracting the measurable loan collaterals from the total loan. In the sub-portfolio Treasury, also issuer- and counterparty group-related loss ratios are used. In relation to the essential customer loan business in the sub-portfolios Private Customers, Freelance Professions and Corporate Customers, the probabilities of default is determined on the basis of the annually validated rating system CredaRate. The probabilities of default in the sub-portfolios Treasury and Equity Investments are primarily derived from external ratings.

At the end of the reporting period, the Bank’s expected loss was € 25.1 (€ 25.2) million according to the standard scenario. Of that, the main portion of € 24.4 (23.9) million is attributable to the essential customer loan business in the sub-portfolios Private Customers, Freelance Professions and Corporate Customers:

SUB-PORTFOLIOS WITHIN THE LENDING PORTFOLIO
IN € MILLION

	12/31/2021	12/31/2022
Private Customers	0.4	0.4
Freelance Professions	2.8	2.8
Corporate Customers	20.7	21.3
Treasury	1.2	0.6
Long term equity investments	0.1	0.1
Total	**25.2**	**25.1**

Regarding, individual borrowers of the primary customer loan business, total loan, unsecured total loan and the expected loss of € 24.4 million are distributed between the rating scales and the corresponding average probabilities of default of the respective rating scales as follows:

LENDING PORTFOLIO ACCORDING TO RATING CLASSES
IN %

Rating scale	average default probability of the rating class	Share in total loan	Share in unsecured total loan	Share in expected loss
not rated	0.340	5.4	8.8	2.9
1	0.030	5.2	5.2	0.2
2	0.058	5.3	3.0	0.2
3	0.108	9.5	6.2	0.7
4	0.190	9.4	7.2	1.3
5	0.340	15.8	17.5	5.8
6	0.553	11.6	13.4	7.2
7	0.808	8.3	9.5	7.5
8	1.188	9.7	9.9	11.5
9	1.788	9.3	9.1	15.7
10	2.725	5.4	5.0	13.2
11	4.150	2.3	2.3	9.1
12	6.250	1.6	1.9	11.2
13	9.375	0.4	0.4	3.4
14	14.000	0.6	0.6	8.0
15	20.000	0.3	0.1	2.2
Total		**100.0**	**100.0**	**100.0**

Value at risk is a risk measure that indicates, which loss value is not exceeded by a risk position (in this case the loan portfolio) under the assumption of a set probability (confidence level) and within a set period (as a rule one year). The basic idea behind value at risk determination is that the repeated simulation of borrower defaults provides a basis for the projection of the probability for potential loss arising from loan business. The risk calculation system applies the statistical portfolio model "Credit Risk+" for the value at risk determination and complements this model with a correlation model for industry-specific default rates based on Federal Office of Statistics data. The migration risk is taken into account at NATIONAL-BANK by inclusion of the probabilities of default shift.

The unexpected loss of € 80.2 (€ 70.1) million is determined on the basis of the internal categorization system and is quantified with a confidence level of 99.9 % and an observation period of one year.

Risk concentration analyses are also components of risk reporting, in addition to volume concentrations that are principally considered in the determination of unexpected losses in the value at risk model.

(2) Collateral values are generally determined prior to each loan decision to measure expected collateral revenues. For this purpose, minimum haircuts are defined for the determination of the collateral values depending on the provided collateral type. If there are indications that these values have changed, the collateral values are updated. Within the scope of risk measurement these collateral valuations are applied.

Imminent default risks are taken into account through the creation of specific valuation allowances and provisions. An imminent default risk arises, if the Bank considers it improbable that a debtor is in a position to pay all of its liabilities to the Bank. An important criterion for the identification of an imminent risk is the assessment of the borrower's sustained capacity to provide net debt service i.e. to which extent the borrower will likely be in a position to provide net debt service from expected future inflows (cash flow, salary, other income). The assessment of the individual risk provision considers the probable realization value from available collaterals. In addition, payment inflows are taken into account that can be used during the next five years for the reduction of the Bank's claim.

On the reporting date, the share of non-performing loans and credits in the gross carrying amount of loans and credits was 1.42 %. Since 2017 this share could be reduced by 1.57 percentage points.

MARKET PRICE RISK

Market price risk is defined as the risk that market parameters and consequently the value of positions exposed to market price risks develop unfavorably for the bank due to general market movements. Corresponding to the different market transaction parameters, market price risk is differentiated into price, interest and currency risks. Potential price declines of interest-bearing instruments due to deteriorating credit ratings (changes of the spreads), are also classified as market price risk.

The Bank invests in securities and enters into money market transactions within the investment book. The Bank holds investment funds to a limited extent, without trading intent, for the processing of routine investments in capital-forming schemes and securities saving The Bank transacts customer orders in securities exclusively on a commission basis. Orders involving NATIONAL-BANK shares are processed as fixed price transactions via the investment book. In addition, the Bank's investment book, interest swaps are also included to hedge the fiscal year's net interest income. They are components of interest rate risk management, which is done in Treasury.

Open foreign currency positions from interest and currency transactions with customers within the scope of interest and currency management (currency exchange rate peaks) are to be kept to a strict minimum. The Bank does not engage in proprietary trading on this basis. Corresponding processes for the daily monitoring and immediate closure of open positions have been implemented. Option risks result exclusively from interest and currency transactions with customers and are generally hedged by equivalent transactions in the interbank market.

The weekly market price risk report, as well as the market price risk report at month's end is prepared by the Risk Management area/Risk Controlling department.

Within the scope of interest and currency management for customers, a risk contribution is determined and reported weekly and at month's end for all of the Bank's own investments, as well as for interest and currency transactions. The report is provided to the Management Board, the responsible area and department heads, as well as to the Credit Risk Management division/ Quality Management department and the functional responsible employees of the affected areas. In addition, the market price risks are reported within the scope of quarterly reporting.

The material elements of risk management are risk and loss limits. Risk limits and warning levels are set on an annual basis for the Bank's own investments, as well as for interest and currency transactions. Loss limits are also defined for shares, funds and bonds. These limits cap the permitted pending portfolio losses. Expected losses from the purchase of interest-bearing securities above par price are proportionately added to the loss limits for bonds on a daily basis. During the course of the year realized losses also cut the set loss limits.

To monitor used limits, the Risk Controlling department provides a market risk report on the existing risk and loss limits to the Credit Risk Management division / Quality Management department on a weekly basis and at month's end.

If warning levels, risk limits or loss limits are reached or exceeded, as well as in the case of controlling relevant back testing deviations, Risk Controlling calls a Market Price Risk Committee meeting. If warning levels, risk limits or loss limits are reached or exceeded, this committee will prepare a base strategy in accordance with the business and risk strategy for the next steps, as well as associated controlling measures in a timely manner.

For the value at risk determination the risk calculation system applies the so-called variance-covariance approach. The determination of the value at risk with the support of the variance-covariance approach is based on the assumption that past fluctuation ranges (volatilities) measured for various assets is a good indicator for the fluctuation range of the future market prices of these assets. According to the portfolio theory, the fluctuation range of the market price of an entire portfolio can be derived from the fluctuation ranges of the market prices of the individual assets of a portfolio, if the weights of the individual positions (investments) in the portfolio and their correlations amongst each other are known. In this context, the focus is not placed on the volatilities and correlations of the specific investment objects' market prices, rather the focus is placed on categorized standard market objects.(interest rate term structures, stock indices, currencies). For weekly quantification and for the quantification at month's end, as well as for the management of the market price risk of the Bank's own investments, as well as transactions within the scope of interest and currency management, a value at risk model is applied, which determines the value at risk for a holding period of 250 days with a confidence level of 99.9 %. Furthermore, the value at risk concept is supplemented by hypothetical and historical scenario calculations and a comprehensive stress test.

Spread risks are determined using a scenario analysis specific to issuer/asset category. The calculated spread premiums of the asset categories are added to the respective interest rate term structures used for the valuation and based on these values are valuation simulations conducted, with which new market prices are calculated. The resulting difference between the calculated market prices as compared to the valuation of the securities with the unchanged valuation curve is the spread risk per asset category. The sum of the valuation changes from all asset categories represents the full spread risk.

The Risk Controlling department checks the forecast quality of the risk model underlying the market price risk report during the preparation back testing reports. Back testing compares the risk contribution (value at risk and spread risks) calculated on the day before the qualifying date with the actual market movements on the qualifying date. The Risk Controlling head calls for a meeting of the Market Price Risk Committee, as soon as the calculated risk contribution varies from the actual market movements to a controlling relevant extent.

On the reporting date the value-at-risk for market price risks from the bank's own investments was € 18.4 million (previous year € 6.7 million, including spread risks). On the reporting date, the value at risk for the market price risk from interest and currency transactions was around € 0.5 (0.1) million.

INTEREST RATE RISK

Interest rate risk is a sub-category of the market price risk. Interest rate risk is understood as the risk of negative effects on the Bank's financial performance and financial position arising from interest rate level and interest structure developments, as well as developments regarding the interest book's volume and structure. The interest rate risk is assessed on the one hand based on a periodic dimension and on the other hand based on a net present value dimension.

The interest rate risk quantification and the interest rate risk reports are prepared by the Risk Management area/Risk Controlling department. The management of the entire bank book is the responsibility of the Management Board on the basis of suggestions put forth by the Treasury department and the interest rate risk committee. The interest rate risk committee is responsible to timely conduct a detailed analysis of the causes for the exceeding of defined risk limits, warning levels and thresholds and to present to the management board alternatives and recommendations for the further course of action.

The interest rate risk quantification is based on a periodic net interest income simulation, as well as an analysis of the interest book at net present value. The interest book contains all of the Bank's business transactions that are exposed to an interest rate risk. In addition, the interest rate risk arising from pension obligations is also considered. Reports are provided to the Management Board and the Supervisory Board at least on a quarterly basis. Within the scope of the interest income simulation for the fiscal year, the net interest income for the next twelve months is determined based on various interest scenarios under the assumption of a constant balance sheet structure. The applied interest rate scenarios include a constant interest rate level, parallel shifts and reversals of the interest rate structure curve upward and downward, as well as the Bank's interest rate forecast.

In addition, historically derived and hypothetical stress scenarios are simulated. Moreover, in addition to changes in the interest structure, inventory changes are also simulated. Furthermore, depending on the scenario the simulation period is extended.

At the end of the reporting period, periodic interest rate risk was around € 3.4 (1.8) million. The interest rate risk at the net present value, which is relevant for the analysis of internal capital adequacy from an economic perspective, is derived from a negative change of the economic value in the case of a sudden and unexpected positive or negative interest rate change by 100 base points. At the end of the reporting period, the interest rate risk at the net present value was € 13.4 (€22.9) million.

In addition to the interest rate risk at the net present value, the interest rate coefficient is determined. This key indicator shows the highest negative change of the interest book's economic value in relation to the regulatory own funds in the event of an upward or downward parallel shift in the interest rate yield curve by 200 base points. If this interest rate coefficient exceeds 20.0 %, the institute is considered to be a "credit institute with an increased interest rate risk". The determined net present value development remained below this value on all qualifying dates. At the end of the year, the negative net present value development was 5.5 % (9.7 %). In addition to this so-called standard test, six interest scenarios (parallel shock up, parallel shock down, steepened shock, flattener shock, short rates shock up, short rates shock down) were used for the calculation of the early warning indicator. For these tests, the change of the interest book's economic value is put in relation to the regulatory Common Equity Tier 1 Capital. Reporting is provided quarterly according to the regulatory requirements.

OPERATIONAL RISK

Operational risk is the risk of losses that are caused by inadequate or failing internal procedures, individuals and systems or that are caused by external events, including residual risks.

The objective of operational risk management is to minimize these risks to the extent possible under consideration of cost-benefit aspects. The characteristics of the specific risk (probability, effects of its occurrence, in particular the potential loss amount) determine how the Bank manages operational risks.

The identification of operational risks, as well as damages arising from materialized operational risks, the assessment of such operational risks and the development and implementation of controlling measures for specific operational risks is not performed centrally in the organizational units and in the affiliated companies, which caused the operational risks. For these purposes, the Risk Management areas/Risk Controlling department is the central contact for the entire Bank.

Identification of significant operational risks is determined by an expert survey based on a risk identification sheet. The heads of the Bank's organizational units are responsible for the preparation and updating of the so-called risk inventory for their areas/departments. In addition to the risks identified in the risk inventory, an overall Bank assessment is performed; i.e. branch risks, branch office risks, as well as risks for the affiliated companies are also included in the risk inventory. The expert and scenario-based assessment of the operational risks is updated quarterly. The Risk Management area/Risk Controlling department assesses the plausibility of the individual risk inventories, which are then aggregated into the overall Bank risk inventory. The risk inventory was further detailed due to banking law, regulatory and technological developments in the Bank's business environment. The risk contribution from operational risks was € 8.6 million on the reporting date (€ 9.9 million).

Risk contribution is attributable to loss cause categories as follows:

LOSS CAUSE CATEGORY IN %

internal procedures	26.2
human causes	23.6
external events	44.8
systems	5.4
Total	**100.0**

Herein included are, in particular, cyber risks, risk arising from pandemics, as well as methodological and model risks, which are of high importance within the operational risk. With a view on the exchange of the core banking system an independent (Project-)OpRisk-Inventory is being prepared. Hereby are, for example, risks taken into account that could arise from resource shortages, extended implementation periods or effects on the control environment or functionality problems in the updated applications or the underlying technologies. Losses arising from operational risks exceeding € 1.0 thousand gross are entered into a central loss database. The Management Board receives routine reports, as well as event-driven ad-hoc reporting on the current risk situation, as well as control measure recommendations, if required.

LIQUIDITY RISK

The term liquidity risk is defined as the risk of the Bank's own illiquidity (illiquidity risk), the risk of market illiquidity (market illiquidity risk) or the increase of refinancing costs (liquidity cost risk).

The Bank's liquidity risk management is to ensure that current and future payment obligations can be met in full at any time. In addition to the regulatory liquidity requirements, liquidity risk management must also ensure short-term (dispositive) as well as medium and long-term (structural) liquidity. The liquidity risk management is anchored in the line processes of the bank under consideration of required organizational separations. The daily dispositive liquidity risk measurement is performed by the Risk Management area/Accounting & Controlling department. Liquidity risk management is the responsibility of the Treasury department. The determination of the liquidity cost risk is performed within the scope of the monthly risk capacity analysis from an economic perspective by the Risk Management division/Risk Controlling department.

Liquidity management is performed on the basis of daily liquidity key indicators, i.e. on the strategic liquidity positions. Within the scope of dispositive liquidity management, in particular, investment and refinancing options offered by the European Central Bank can be used based on a considerable security deposits volume. Measures such as issuance of promissory notes or sale of promissory notes or of securities that are not eligible for the pool of pledged assets, as well as potential structural customer deposit changes are available for structural liquidity controlling.

Close monitoring provides for initiating measures at an early stage to optimize the liquidity structure and thus avoid potential liquidity shortfalls.

The core responsibilities within the scope of the controlling of the dispositive liquidity by the Treasury department are to ensure the Bank's ability to meet its payment obligations, to invest excess liquidity, to efficiently perform refinancing, to ensure compliance with minimum reserve requirements, as well as to ensure compliance with regulatory requirements concerning the liquidity coverage ratio. Various key indicators are determined on a daily basis to monitor the dispositive liquidity situation. In 2022, indications of a liquidity bottleneck were not given. The liquidity coverage ratio of 137.8 (148.4) % at year's end was markedly greater than the regulatory minimum requirement of 100.0 %.

In order to assess the structural liquidity position, a liquidity overview with expected inflows and outflows of funds is prepared. To determine liquidity cash flows assumptions on customer deposit withdrawals (including consideration of potential deposit concentrations), credit line use and securities sales are made; standard scenario and stress scenarios are simulated. The standard scenario simulation took liquidity reserves into account, showing both a positive cumulative cash flow over the next 24 months.

The standard scenario (observation period five years) and the stress scenario (observation period six months) produced only positive cumulated liquidity cash flows.

CUMULATED CASH FLOWS IN THE STRUCTURAL LIQUIDITY RISIK
IN € MILLION

Period of time	Cumulative cash flow standard analysis	Cumulative cash flow stress-analysis
12/31/2022 to 01/31/2023	1,445.3	946.3
12/31/2022 to 02/28/2023	1,413.6	854.3
12/31/2022 to 03/31/2023	1,362.1	719.5
12/31/2022 to 04/30/2023	1,348.9	634.8
12/31/2022 to 05/31/2023	1,318.9	533.5
12/31/2022 to 06/30/2023	1,334.6	454.7
12/31/2022 to 07/31/2023	1,317.2	439.4
12/31/2022 to 08/31/2023	1,294.5	418.8
12/31/2022 to 09/30/2023	1,276.9	403.3
12/31/2022 to 10/31/2023	1,251.8	380.3
12/31/2022 to 11/30/2023	1,231.5	362.1
12/31/2022 to 12/31/2023	1,225.7	358.4
12/31/2022 to 12/31/2024	1,433.8	343.4
12/31/2022 to 12/31/2025	1,586.2	278.7
12/31/2022 to 12/31/2026	1,783.9	476.4
12/31/2022 to 12/31/2027	1,955.6	648.2

In addition to liquidity cash flow analysis, compliance with the net stable funding ratio is a component of structural liquidity management. The net stable funding ratio is controlled by Treasury. The net stable funding ratio of 138.3 (137.5) % at year's end was markedly greater than the regulatory minimum requirement of 100.0 %.

The liquidity cost risk is taken into account within the scope of the Risk Controlling department's monthly internal capital adequacy analysis from an economic perspective. Due to the significant refinancing via customer deposits, liquidity costs (all other things being equal) may be incurred on the liabilities side of the balance sheet through an increase in interest rates to be paid to the customers and the associated liquidity-based margin reduction. The liquidity cost risk was € 0.4 million on the reporting date (€ 0.4 million).

BUSINESS RISK

Business risk is defined as the negative deviation between the realized i.e. expected items of the income statement of the current year and the previously budgeted items of the income statement. The Bank's business risk is comprised of the respective risks arising from commission and interest business, as well as the other income and expense risk.

The business risk is managed by the sales managing unit heads and other managers responsible for income and expenses. Controlling of result figures by the Accounting & Bank Supervision and Controlling departments is primarily based on the monthly profit and loss statement, as well as the Management Information System (MIS).

The risk of sales objective shortfalls is monitored by ongoing plan-actual checking at the sales managing unit level, supported by the MIS. In relation to the remaining profit and loss items, the monthly profit and loss statement, as well as decentralized evaluations and information are used for controlling purposes.

REPUTATIONAL RISK

Reputational risk is defined as the risk of an unexpected loss due to reactions of stakeholders (primarily customers, shareholders and other investors, business partners, employees, agencies and media) based on a changed perception of NATIONAL-BANK.

The NATIONAL-BANK business model's sustainability concerning its market success, its capital basis, as well as the quality of its products and services is determined to a high degree by its reputation in the public (customer, shareholders, creditors, business partners, banking supervisory authorities, other governmental institutions) and the perception by its employees.

Safeguarding an impeccable reputation at any time is a central maxim within the NATIONAL-BANK strategy.

The management of the Bank's reputation, as well as potential reputational risks is the responsibility of all Management Board members. Operational execution is the responsibility of the reputational risk representative and, if necessary, in cooperation with the involved areas, departments or functions. To ensure adequate bank-wide risk control, this task is also supported by the reputational risk committee and the Management Board.

The bank took adequate measures against all identifiable risks to the bank's reputation.

SUSTAINABILITY RISK

Sustainability risks are events or conditions from the areas environment, social or governance (ESG risks), whose occurrence could have actually or potentially negative effects on the financial position and financial performance, as well as the reputation.

Sustainability risks may occur as physical and/or transitory risks and thereby affect all known and within the Bank 's risk strategy defined risk types. Because a differentiation between sustainability risks and the other risk type is hardly possible, the sustainability risk is not a separate risk type.

Management of Bank's sustainability risks is the responsibility of all management board members. The sustainability risk committee advises the Board in the handling and management of sustainability risks. It also advises the Board about proposed actions to be taken for the implementation of sustainability risk aspects. Operational execution is the responsibility of the individual areas, departments or functions. Each branch office or organizational unit has also a sustainability representative to manage consumption of resources and to focus sustainability-related issues of their (central) areas of responsibility.

The Bank continues to develop its sustainability management on an ongoing basis in consideration of the dynamic economic, political, regulatory and ecological framework conditions. Existing or initiated and in the further course necessary process changes were ascertained and within the scope of the sustainability committee under involvement of all essential operative and sales units extensively discussed and advanced.

METHODS, PROCESSES AND IT SYSTEMS

The bank conducts routine reviews on the adequacy of the methods and processes used to determine and analyze risks and risk capacity; adjustments are made as needed. Within the scope of internal capital adequacy assessment from an economic perspective, risk-reducing effects resulting from diversification among individual risk types are not taken into account. In contrast, risk reducing assumptions on diversification are applied to the value at risk calculations of the counter-party default risks and the market price risk. They are based on customary models used in the banking industry; the bank's individual parameters are routinely reviewed and adjusted as needed.

A state-of-the-art risk information technology system is used to prepare the Bank’s risk calculation, analysis and reporting. This system is based on externally developed standard software and a central data warehouse for the calculation of counterparty and credit risk, interest rate risk, market price risk and liquidity risk. The information technology is operated by an organizational unit that is separate from the Risk Management area.

COMPENSATION AND SUPPORT MEASURES

Due to its membership in the Compensation Scheme of German Banks [Entschädigungseinrichtung deutscher Banken GmbH] and based on the European Bank Levy, special payments may be requested from the Bank in the event of compensation and support measures. In which amount such payments could materialize is currently not foreseeable due to the calculation scheme, which, in particular, considers the relative development of bank-specific parameters as compared to the banking industry for the calculation of payments. In general, such payments may, however, put pressure on the Bank’s financial position and performance, as well as the Bank’s liquidity position.

ONGOING DEVELOPMENT IN 2023

One of NATIONAL-BANK's principles is the ongoing development of our risk management. We are committed to ensuring that the full depth and breadth of market developments are taken into account and that all regulatory requirements are complied with. In the year 2023, a focus will be placed on the continued development of sustainability risk and controlling.

RISK REPORTING

Risk inventory and risk reporting regarding individual engagements and at the portfolio level to the Board and/or supervisory board is conducted in regular intervals and if necessary, event-driven.

RISK REPORTING

		Reporting Cycle	Created by	Recipient
All Risk Types	Profit and loss statement	Monthly	Accounting & Bank Supervision and Controlling	Board/ Supervisory Board
	Analysis internal capital adequacy economic perspective	Monthly	Risk Controlling	Board
	Analysis internal capital adequacy normative perspective	Quarterly	Controlling	Board/ Supervisory Board
	Quarterly report - risk controlling function	Quarterly	Risk controlling, Controlling, Accounting & Bank Supervision a. o.	Board/ Supervisory Board
	Risk Inventory	Annually/Event driven	Risk controlling and controlling	Board
Counterparty default risk	Individual loan reporting	Daily	Market unit/credit risk management	according loan competence matrix
	Credit Risk Report	Monthly	Risk controlling/credit risk management	Board
	Development loan risk provisions and commitments with special risks	Monthly	Credit Risk Management	Board
	Loan commitments with risk-relevant circumstances	Quarterly	Credit Risk Management	Board/ Supervisory Board
	Major commitments according to the Audit Report of the Annual Financial Statements	Annually	Credit Risk Management	Board/ Supervisory Board
	Counter-party and Issuer Risks	Annually	Credit Risk Management	Board/ Supervisory Board
	Loans to executive bodies and transactions with executive bodies	Immediately	Credit Risk Management/ Personnel	Board/ Supervisory Board
Market Price Risks	Market Pride Risk report	Weekly	Risk Controlling	Board
	Back Testing Analysis Market Price Risk	Event driven	Risk Controlling	Board
Interest rate risk	Treasury-Report	Monthly	Treasury	Board
	Interest rate risk report	Quarterly	Risk Controlling	Board
Operational Risk	OpRisk Report (incl. Information Risk)	Quarterly/ Annually	Risk Controlling	Board
	Reports on significant losses	Event driven	Responsible Department	Board
Liquidity risk	Liquidity Status	Weekly	Treasury	Board
	Liquidity risk report	Quarterly	Risk Controlling	Board
Business Risk	Reports on customer and product groups	Event driven	Sales units	Board
	Profit and loss statement	Monthly	Accounting & Bank Supervision and Controlling	Board/ Supervisory Board
	Profit Center Accounting	Monthly	Controlling	Board
	Customer satisfaction report	Quarterly/ Annually	Communication & Marketing	Board
Reputational Risk	Reporting on reputational risks	Quarterly/ Event driven	responsible department/ reputational risk representative	Board/ Supervisory Board
Sustainability Risk	Reporting on sustainability risks in the sustainability committee	Monthly	Management sustainability committee	Board
Intern control functions	Quarterly / Annual Report of Internal Audit	Quarterly/ Annually	Audit	Board/Supervisory Board
	Quarterly / annual report of compliance representative	Quarterly/ Annually	Compliance Officer	Board/Supervisory Board
	Quarterly / annual report of money laundering representative	Quarterly/ Annually	Money Laundering / Fraud / Embargo Representative	Board/Supervisory Board
	Quarterly / annual report of information security representative	Quarterly/ Annually/Event driven	Information security representative	Board/Supervisory Board
	Quarterly / annual report of data protection representative	Quarterly/ Annually	Data Protection Representative	Board/Supervisory Board

OPPORTUNITIES

Opportunities may arise primarily in a better than expected course of the economy. This would result in a stronger loan demand and an increase of the net interest income.

Against the backdrop of the turnaround in interest rates — under consideration of the Bank's interest book structure — opportunities in regard to net interest income and the interest book's economic value may arise.

Against the backdrop of the strong interest rate increase in 2022, opportunities may also arise for the risk result of the liquid securities holdings in the form of price recoveries and result in a positive contribution to the Bank's result.

As regards business development, above plan business volumes may result from high customer loyalty, deep networking in the market territory, as well as the reduction of branches and restructuring measures of competitors.

Regarding the internal capital adequacy of the Bank, it is possible that the actual risks fall short of the imputed risks.

The model-based quantification of the expected and unexpected loss in the counterparty and credit risk segment is performed on the basis of statistical methods and on the basis of historical observations. Opportunities arise, if the actual credit rating development of the loan risk-carrying positions takes on a more positive course than that observed in the past. In this case the loan risk provisions are below the calculated credit default risk and fewer migrations occur into the weaker (lower) credit rating levels.

In addition, in regard to positions with a counterparty and credit risk that meet the default definition, higher revenues than estimated can be realized within the scope of the disposal of securities. The market price risk is determined according to a model. High volatilities, which result in a high market price risk, can, however, be associated with a positive overall development of the instruments with a market price risk.

Liquidity potentials held to ensure liquidity may be used to react flexibly to arising business opportunities.

Opportunities from the operational risk arise if the actual loss occurrences fall short of the imputed risk potentials. Loss occurrences are the impetus for continued improvements.

In addition to risks, opportunities for the Bank's reputation may, for example, also arise based on the positive perception of the Bank with its customers and in izs customer-related environment, in particular, in the case loss of reputation at other banks.

A consequent orientation to sustainability and the management and controlling of sustainability risks may positively influence the opportunities as regards the individual risk types.

We expect opportunities in the mid-term, in addition, from our investments in information technologies.

Internal Control System regarding the Financial Reporting Process and Risk Controlling

The Internal Control System (ICS) in Accounting is a component of the Bank's comprehensive overall internal control system. It is comprised of principles, processes and measures, designed to ensure that the Bank's accounting is correct, complete and efficient and that all statutory requirements are complied with. It ensures that the annual financial statements give a true and fair view of the Bank's financial position and performance.

The Bank employs standardized software components throughout the Bank, so that business transactions are predominantly posted and recorded electronically. The systems used for this can only be operated by employees specifically authorized for this purpose. Manual postings are limited to certain types of commission business. Manual postings are subject to dual control, if manual posting is required in individual cases. The system parameters are set under strict compliance with the separation of functions and is expressly provided for in detail in the Bank internal written guideline.

A comprehensive process for new business ensures that new financial products are accounted for appropriately in the internal and external accounting and reporting system, as well as the risk controlling through the inclusion of the Accounting & Bank Supervision, Controlling and Risk Controlling departments. Numerous established coordination processes also ensure that all business transactions recorded in the systems are properly and completely depicted.

Reporting to the Management Board, the market areas and the branch offices is performed on a monthly basis.

The Audit department, which monitors the internal accounting control system, regularly checks the systems and work processes within the scope of the internal and external accounting and reporting system, as well as the risk controlling. The Internal Audit department is involved in all internal accounting control system development projects.

Report on Expected Developments

At the begin of 2023, the global economy has major imbalances. They are prima facie the result that the economies of the earth's countries are unchanged influenced by the Covid Pandemic. Be it, as in China, that the economy was significantly affected by combating the epidemic, be it that late effects of the Corona crisis still directly determine the economic activities, primarily in the form of inflation, which massively undermines the purchasing power of private households. The war against the Ukraine, which broke out in last year's February, and the western sanctions against Russia temporarily massively fueled increasing prices for energy raw materials and Europe, where dwindling gas supplies from Russia could only be replaced to a minor extent, is now faced with an at least structural energy crisis. As a result of the private households' declining purchasing power, also consumption-related economic sectors come increasingly under pressure. In particular energy-intensive enterprises were affected by the crisis on the gas market, here gas was substituted or alternatively production was outright markedly curbed. While as a consequence, in Europe and in Germany, at least a stagnation phase can be surely expected, the US economy is, in spite of the significant monetary and fiscal restrictive policy, remarkable resilient. Based on the private sector's sound financial position and surging wage incomes, a veritable economic downturn improbable. Earlier than expected did the Chinese leadership change course and changed its Corona policy by 180 degrees. The background to the deviating Covid strategy of the leadership in Beijing was thus far primarily the still low vaccination coverage in major parts of the population, primarily for the most threatened older age cohorts in combination with an underdeveloped health system. The previous strategy, which primarily was aimed to virus types with more serious disease progressions, was, however, in the face of the more recent variants no longer appropriate. The Chinese leadership's change of course with a view to the Covid policy might in the short-term lead to a significant increase of infections. Once the majority of the population has been infected with Covid, it is, however, likely that significant growth impulses and catch-up effects will arise. The economic activity could therefore markedly recover starting in spring, so that the stabilizing impulses from Asia with a view on the economic leadership of China in the Asia-Pacific region might set in overall earlier than previously expected.

The high inflation dynamics forces the monetary policy globally to act. For example, since March 2022, the US central bank raised the prime rate in several big steps. In summer 2022, the European Central Bank also started to raise its key interest rates. In contrast, the Chinese central bank lowered its interest rate slightly; there, in the face of a thus far pleasantly moderate inflation, the concern for the economic development is still predominant. The risks of the massive tightening of monetary policy are generally serious, because both, the actual driving forces of inflation and the underlying strength of the leading economies are currently uncertain to the highest degree. Primarily in the Eurozone could the macroeconomic dynamics face, in the perspective, a stronger nosedive as soon as the order backlog has been processed, so that the adequate calibration of monetary policy is of extreme high importance. A key issue for the determination of the adequate policy mix is hereby the appropriate judgment of the European potential growth path, more and more parallels to the 1970 years warn to not overestimate the potential growth path. In contrast, in the USA the question arises whether the US central bank's abrupt policy change cools of the economy to much, especially with a view to the global importance of the US monetary policy, where cross effects of the monetary policy's tightening also puts a massive strain on many emerging markets.

At the core, the Corona Pandemic and the war in the Ukraine severely disturbed globally the balance between supply and demand – therefore, one of the key questions for the further economic development but also with a view on the capital markets is currently whether there are additional structure changing determining factors, which with and/or triggered by the Pandemic change the economic conditions. The list of potential threats for the global economy is long, while looking back onto the good decades that were nevertheless characterized by prosperity: An intensification of geopolitical conflicts could be co-causative for an erosion of the global trade regime, with the consequence of an ever-increasing deglobalization. It is also uncertain to which extent demographic shifts will significantly change labor supply permanently. The more intensive the mentioned factors come into play, the less likely will it be that the international central banks will be successful to quickly curb price pressure. From our perspective it is indeed disputable how quickly the situation will normalize but it is relatively unambiguous that the fallout from the Corona Pandemic massively drove inflation. Once supply and demand are again in balance, the then beginning disinflation process might ultimately point to the fact that the structural strains will at least in the coming years not be of such a big deal. All in all, the current dataset indicates that the global momentum will, at a minimum until mid-year 2023, continue to decline. This is indeed absolutely necessary to further lower inflation. The further global growth path will, at this point, be mainly decided by when the central banks are in a position to suspend their tough contractionary monetary policies. At the core, the momentum will then gradually be supported by the stabilization of the perspectives in the emerging markets primarily in Asia, while the growth pace in the industrial nations will further decline. Overall, we estimate the growth rate for last year to be 3.4 %, currently, data indicate a global cooling for the current year and an increase of around 2.9 %. The economic dynamics continue to further weaken in the global aggregate but a recession does, however, not materialize so that the global economy will be able to converge to the potential growth path during the course of 2024 and which the global economy will then reach in the year 2024 at growth rates of around 3.2 %.

Primarily for the international bond markets the absolute paramount questions remains naturally, how quick will the inflationary pressure now decline globally. The quantifying analyses point here in the aggregate relatively unambiguously to the fact that the structural secular narratives, which are especially invoked in the German and European debate, presumably point in the wrong direction. The underlying prognosis risks continue, however, to remain high above average, with a view to inflation, the effects from the Covid Pandemic will, however, starting from the USA, noticeable subside in the current year and presumably also worldwide. We expect specifically that the US price trend turns sustained downward at the latest at half year; during spring 2023 it is probably already noticeable that the inflation issue has been resolved to a great extent, at least in the USA. The big question is then primarily, how strong and how quick this disinflation impulse will transfer to the Eurozone. Lower price flexibility and significantly more extensive social security systems in combination with the relative high capacity utilization on the European labor markets speaks, in general, for a at least greater persistence of the inflationary impulses. On the other hand, the economic perspectives are so weak here in Germany that this could bring about price damping effects faster than thought. The prognosis for the transfer of the US disinflation impulse to the EU countries is therefore much more complex and consequently fraught with more risks. The ECB must balance a multitude of diverging forces and the disinflation process in Europe did not even start to begin. In addition, the Ukraine conflict continues to smolder with an uncertain outcome. Finally, primarily the global compound structure of inflation may provide at least the decisive backing for the reduction of the inflation.

The international cyclical synchronization normally effects a more or less parallel development, primarily within the mid to long-term maturity range, because the markets expect aligned actions of the central banks. With a view on the usual lead time of the US economy before the European economic cycle, it is therefore primarily important in the future how quick the ECB will and can follow the Fed. Shape and position of the European interest rate yield curve will hereby also be a function of the disinflation process in Europe, primarily during the second half year of the current year: The stiffer this process will be the flatter might be the course of the curve in Europe and vice versa. With a view to the described development, we expect now that the high point of the Fed Fund will be at 5.25 %. We expect the ECB interest rate for the deposit facility to be at a value around 4.0 %. As long as the ECB has still so little information, it will rather continue to raise key interest rates. We estimate for yields on ten- year Bund yields to be around 1.8 %, over the course of the year we expect meanwhile an interest decline for US American ten-year benchmark rates at values of around 3.3 % over the next twelve months.

After a review at the end of 2021, the target ranges for the strategic key figures of the Bank were kept unchanged and carried forward for the year 2023. Consequently, the target ranges for return on equity are 7 to 9 %, for the Equity Tier 1 capital ratio 11 to 14 %, for the Cost Income Ratio 65 to 70 %, as well as for the loan-to-deposit ratio less than one.

For the year 2023, we plan for somewhat lower gross profit, slightly increasing administrative expenses and a risk provision, which is slightly below the past fiscal year. This will result in a net income for the financial year, which is below the sum of past year’s net income and transfer to the fund for general banking risks in accordance with Section 340g HGB, however above past year’s net income and as such allows for dividend continuity. Within the scope of the annual resolution on dividends, we take into account both, in addition to the dividend attractiveness, the business development and the economic, operational or regulatory induced necessity to retain earnings. In case of doubt, the Bank's stability and solidity is decisive.

In the year 2023, return on equity will be presumably within the target range of 7 to 9 %. We expect for the common equity tier 1 capital ratio a value at the low end of the target range of 11 to 14 %. The cost income ratio will in 2023 presumably be somewhat above the target range of 65 to 70 % due to the continuing low interest rate environment. We expect for the loan-to-deposit ratio to be markedly below the figure of one, which is not to be exceeded.

SEPARATE NON-FINANCIAL REPORT

NATIONAL-BANK uses for its non-financial report the framework "German Sustainability Code [Deutscher Nachhaltigkeitskodex] (DNK)", supplemented by the performance indicators according to the Sustainability Reporting Standards (SRS) of the Global Reporting Initiative (GRI), and publishes this report at www.national-bank.de and at www.deutscher-nachhaltigkeitskodex.de.

Annex to the Management Report

REPORT ON EQUALITY AND EQUAL REMUNERATION ACCORDING TO SECTION 21 ACT TO PROMOTE TRANSPARENCY OF PAY STRUCTURES

INITIATIVES TO PROMOTE EQUALITY OF WOMEN AND MEN AND THEIR EFFECTS

Equality of employees conforms to the management's identity. For this reason, gender specific promotion programs do not exist. All offerings are available to all employees. This ensures that the same actual and legal requirements apply to all employees independent of the gender. Within the scope of its family-conscious personnel policy, the Bank offers a variety of support measures so that each employee is in a position to reconcile profession and family.

The following framework conditions for the promotion of equality between women and men exist:

Flexibility of working time and work location

- Trust-based flex time
- Mobile working
- Up to five working days unpaid release from work
- Part-time employment during parental leave also for executives and management team members
- Individual part time arrangements

Special offers for families

- Support for employees faced with additional burdens when caring for family members by individually coordinated sabbaticals
- Offering of advice and counsel services via a service provider encompassing family topics
- Family / part time friendly meeting culture

Training of employees

- Vocational training offerings for part time and full-time employees
- Individual support for qualified employees when returning from parental leave or an extended sabbatical due to caring for family members

Promotion of Diversity in the company

- Signing of the Diversity Charter
- Appointment of a Diversity Representative
- Joint participation of female and male staff members in the selection of personnel
- Employee information on the General Act on Equal Treatment (AGG) for new hires
- Complaints board for discrimination cases, composed of employees from HR and works council
- Equal opportunities are anchored in the Principles of Corporate Governance

Information on the aforementioned subjects, such as contacts, works agreements and processes, are available to the employees by easy access on the Intranet. Moreover, innovations and changes are communicated internally.

Depending on the stage and model of life, employees use these offerings to a varying degree.

Furthermore, the Bank is a member of the initiative "Essener Bündnis für Familie" and supports, among others, infrastructure development measures for the reconciliation of profession and family in Essen. The Bank's employees profit from this alliance network, because, in the case of need, contacts can be quickly identified and established. The Bank was certified by the alliance as family friendly company for the first time in 2014. Since then, the Bank received two additional certifications.

The evaluation of the measures was conducted in 2021 within the scope of an employee survey. A focal topic was health and family. As a result from this survey, the Bank expanded for example the framework working hours to further promote reconciliation of profession and family responsibilities.

INITIATIVES TO ESTABLISH EQUAL REMUNERATION FOR WOMEN AND MEN

Special initiatives to establish equal remuneration are not required, because the Bank's remuneration scheme is free from any discrimination. The Bank is bound by the collective bargaining agreement for private banks, which contributes to ensuring equal remuneration between women and men. Furthermore, determination of non-tariff remuneration is performed in a structured multi-step process with the involvement of various hierarchy levels and organizational units and with the involvement of female and male decision makers. Classification into pay scales is made based on consistent criteria according to performed function, qualification and responsibilities. The criteria for the determination of remuneration are published in a Bank-internal guideline and are as such transparent and understandable for all employees. Furthermore, a works council is established at the Bank that monitors compliance with the laws that must be complied with in favor of the employees.

In addition, where candidates are equally qualified for a position, the underrepresented gender is preferably hired, so that access to higher paid positions is made easier for this group.
Moreover, competency profiles for each position are gender-neutral drafted.

Since 2018, a semi-formal works agreement [Regelungsabrede] regarding the information procedure according to the 'act to promote transparency of pay structures' is in place, which can be inspected by all employees via the Intranet. Since the introduction of this act, no request for information was filed.

STATISTICAL DATA FOR THE YEAR 2021

The average total number of all employees was 607 employees in 2021. 293 employees were women and 314 employees were men. In total, 485 employees were employed full time and 122 employees were employed part time on average.

The change as compared to the most recent report is a follows:

	2021	2016	Change
Average total number of all employees	607	662	- 8.3 %
of which women	293	315	- 7.0 %
of which men	314	347	- 9.5 %
Average number of full time employees	485	547	- 11.3 %
of which women	180	204	- 11.8 %
of which men	305	343	- 11.1 %
Average number of Part time employees	122	115	6.1 %
of which women	113	111	1.8 %
of which men	9	4	125.0 %

Balance sheet figures in € million	**12/31/2020**	**12/31/2021**	**12/31/2022**	**Adjustment 2021/2022**
Receivables from customers	3,543.5	3,737.1	4,107.8	9.9 %
Guarantees	87.1	104.3	116.0	11.2 %
Customer deposits	4,381.8	4,654.9	4,967.0	6.7 %
Receivables from banks	37.1	15.2	1,455.2	-100%
Deposits from banks	559.6	585.5	570.7	-2.5 %
Bonds and debt securities	798.5	679.0	404.1	-40.5 %
Stocks and Other Non-Fixed Interest Securities	0.0	20.6	18.0	-12.6 %
Equity (excluding subordinated loans)	342.0	390.7	404.9	3.6 %
Subordinated loans (excluding accrued/deferred interest)	50.0	50.0	50.0	0.0 %
Total assets	5,460.0	5,814.8	6,130.3	5.4 %
Business volume	5,547.1	5,919.1	6,246.3	5.5 %

Income statement in € million	**2020**	**2021**	**2022**	**Adjustment 2021/2022**
Gross profit	**128.3**	**137.1**	**151.3**	**10.4 %**
Net interest Income	88.3	87.9	98.7	12.3 %
Commission Income	44.7	54.8	51.4	-6.2 %
Other Income and Expenses	-4.7	-5.6	1.2	-100%
Administrative expenses	**91.9**	**95.1**	**102.7**	**8.0 %**
Personnel expenses	54.1	55.0	61.5	11.8 %
Operating expenses	34.6	36.9	38.0	3.0 %
Depreciation on tangible assets	3.2	3.2	3.2	0.0 %
Risk Provision	**2.5**	**11.9**	**10.7**	**-10.1 %**
Operating Results	**33.9**	**30.1**	**37.8**	**25.6 %**
Net income for the financial year	**12.1**	**14.7**	**16.9**	**15.0 %**

Ratios, other key figures	**12/31/2020**	**12/31/2021**	**12/31/2022**
Total capital ratio	13.6 %	14.2 %	13.2 %
Common Equity Tier 1 capital ratio	11.1 %	11.7 %	11.2 %
Number of shareholders (approx.)	5,200	5,300	5,300
Dividend [1)]	0.80 €	0.80 €	0.80 €
Dividend Yield in % [1)]	2.61 %	2.60 %	2.65 %
Earnings per share in € [2)]	0.91 €	0.98 €	1.66 €

[1)] Disclosure for 2021 relates to old share

[2)] In 2022 and 2013 including adjustments to the fund for general banking risks.

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