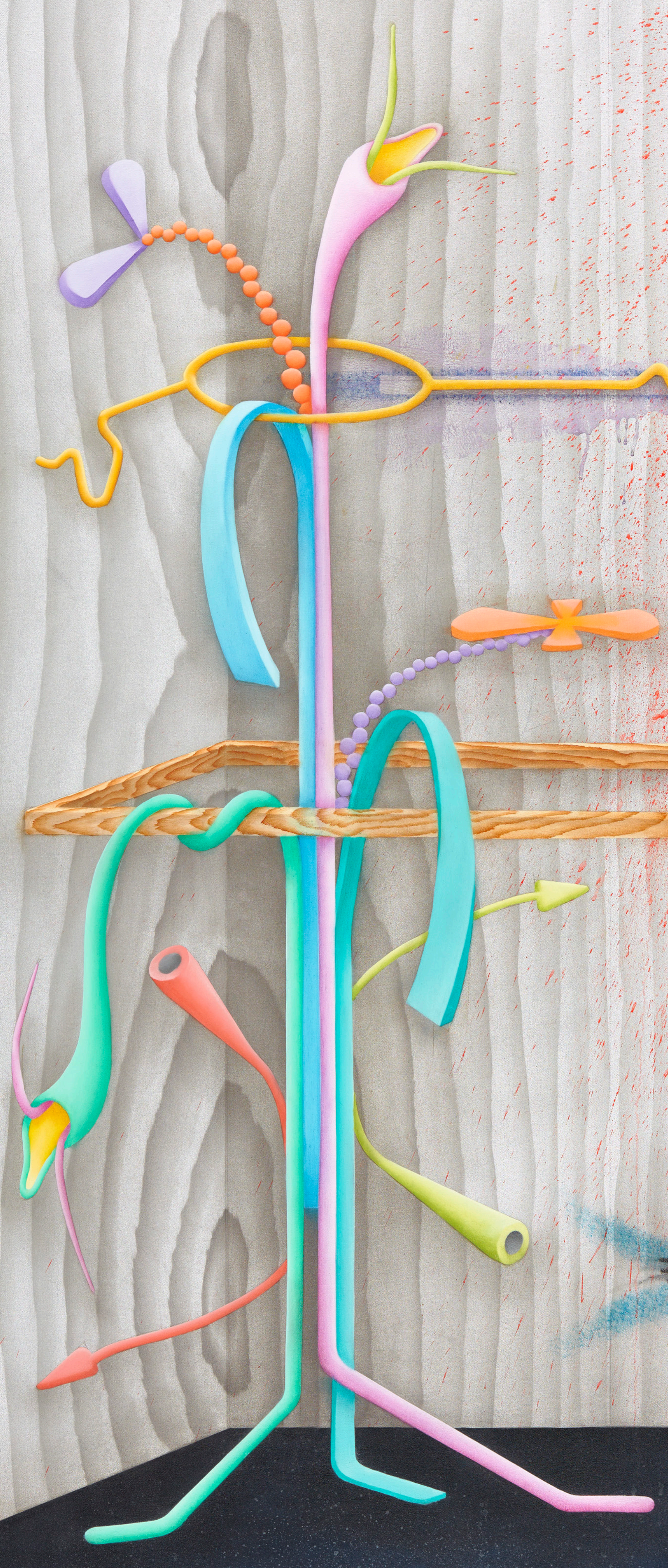

NATIONAL-BANK

Mehr. Wert. Erfahren.

ANNUAL REPORT 2023

TABLE OF CONTENTS

ANNUAL FINANCIAL STATEMENTS 04

MANAGEMENT REPORT 08

ANNUAL FINANCIAL STATEMENTS

Statement of Financial Position

ANNUAL STATEMENT OF FINANCIAL POSITION, SUNDAY, DECEMBER 31, 2023 OF NATIONAL-BANK AKTIENGESELLSCHAFT

IN €

Assets	12/31/2023	12/31/2022
Cash reserve	**38,278,396.32**	**70,098,886.19**
a) Cash on hand	12,544,155.48	13,015,454.02
b) Balances with central banks	25,734,240.84	57,083,432.17
including:		
at the Deutsche Bundesbank	25,734,240.84	57,083,432.17
Receivables from banks	**1,895,973,179.04**	**1,455,179,264.57**
a) overnight	1,892,114,308.13	1,454,981,926.37
b) Other receivables	3,858,870.91	197,338.20
Receivables from customers	**4,015,190,497.28**	**4,107,817,717.64**
including:		
Secured by mortgages	1,873,236,426.44	1,891,094,713.71
Communal loans	131,602,853.59	100,989,412.95
Debt securities and other fixed-income securities	**347,597,880.23**	**404,149,817.51**
a) Bonds and debt securities	347,597,880.23	404,149,817.51
aa) by sovereign issuers	233,383,782.98	284,709,967.98
including:		
eligible as collateral for borrowings from German Federal Bank	233,383,782.98	284,709,967.98
ab) from other issuers	114,214,097.25	119,439,849.53
including:		
eligible as collateral for borrowings from German Federal Bank	112,303,274.39	114,787,287.20
Shares and other variable yield securities	**19,055,573.49**	**17,997,670.62**
Long term equity investments	**1,111,061.91**	**1,072,538.23**
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	(-)	(-)
in investment institutions	251,929.84	251,929.84
Fiduciary assets	**6,541,319.49**	**8,225,138.91**
including:		
Fiduciary loans	6,541,319.49	8,225,138.91
Intangible fixed assets	**840,439.17**	**1,670,275.12**
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	840,439.17	1,325,412.17
d) prepayments	0.00	344,862.95
Tangible fixed assets	**55,225,287.38**	**55,686,992.08**
Other assets	**6,817,383.15**	**5,839,545.74**
Prepaid expenses	**2,919,097.98**	**2,138,651.92**
Excess of plan assets over pension liability	**84,310.27**	**49,238.35**
Total assets	**6,390,021,592.13**	**6,130,312,903.30**

ANNUAL STATEMENT OF FINANCIAL POSITION, DECEMBER 31, 2023 OF NATIONAL-BANK AKTIENGESELLSCHAFT

IN €

Liabilities	**12/31/2023**	**12/31/2022**
Liabilities to banks	**481,134,521.46**	**570,724,155.35**
a) overnight	756,104.32	724,096.87
b) with agreed maturity or notice period	480,378,417.14	570,000,058.48
Liabilities to customers	**5,271,226,005.01**	**4,967,011,162.89**
a) Savings deposits	132,768,748.30	193,513,538.58
aa) with agreed notice period of three months	132,540,468.48	193,232,108.67
ab) with agreed notice period of more than three months	228,279.82	281,429.91
b) other liabilities	5,138,457,256.71	4,773,497,624.31
ba) overnight	3,364,714,215.64	3,962,094,586.03
bb) with agreed maturity or notice period	1,773,743,041.07	811,403,038.28
Securitized liabilities	**5,112.92**	**5,112.92**
a) debt securities issued	5,112.92	5,112.92
Trust liabilities	**6,541,319.49**	**8,225,138.91**
including:		
Fiduciary loans	6,541,319.49	8,225,138.91
Other liabilities	**6,917,806.42**	**4,184,356.64**
Prepaid expenses	**1,870,219.77**	**2,131,020.05**
Provisions	**121,858,047.19**	**110,821,445.70**
a) Provisions for pensions and similar obligations	84,975,591.47	86,466,878.06
b) Provisions for taxes	17,741,077.18	4,517,796.16
c) other provisions	19,141,378.54	19,836,771.48
Subordinated liabilities	**50,369,178.08**	**50,369,178.08**
Fund for general banking risks	**51,800,000.00**	**23,500,000.00**
including: special item pursuant to section 340e (4) HGB	0.00	0.00
Equity	**398,299,381.79**	**393,341,332.76**
a) Called capital		
Subscribed capital	44,507,037.00	44,769,351.00
of which: purchased treasury shares	-420,963.00	-158,649.00
b) Capital reserves	205,777,847.07	205,644,264.14
c) Retained earnings	134,536,097.72	130,946,917.62
ca) legal reserve	990,883.67	990,883.67
cb) other revenue reserves	133,545,214.05	129,956,033.95
d) Net retained profits	13,478,400.00	11,980,800.00
Total liabilities	**6,390,021,592.13**	**6,130,312,903.30**

	12/31/2023	**12/31/2022**
Contingent liabilities	**109,378,206.77**	**115,984,325.73**
Liabilities from guarantees and warranties	109,378,206.77	115,984,325.73
Other obligations	**490,586,989.02**	**772,333,820.27**
Irrevocable loan commitments	490,586,989.02	772,333,820.27

Income Statement

INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2023 OF NATIONAL-BANK AKTIENGESELLSCHAFT

IN €

Expenses	2023	2022
Interest expenses	**55,072,945.14**	**3,309,872.26**
including:		
negative interest from liabilities	174,677.04	5,583,456.25
Commission expenses	**4,457,731.47**	**5,692,712.49**
General administrative expenses	**109,601,520.58**	**99,530,290.38**
a) Personnel expenses	60,249,759.12	61,527,103.33
aa) Wages and salaries	49,182,577.25	45,482,738.30
ab) Social security costs and expenses related to pension plans and for support	11,067,181.87	16,044,365.03
including:		
for post employment benefits	3,039,273.27	8,520,948.03
b) other administrative expenses	49,351,761.46	38,003,187.05
Amortization/depreciation and valuation allowances on intangible and tangible fixed assets	**2,992,993.83**	**3,191,906.80**
Other operating expenses	**1,395,362.08**	**3,861,813.75**
Write-downs of and allowances on receivables and certain securities and transfers to provisions for loan losses	**15,190,672.51**	**10,668,247.16**
Write downs and allowances on equity investments, shares in affiliated companies and securities treated as fixed assets	**37,361.81**	**54,161.02**
Transfer to fund for general banking risks	**28,300,000.00**	**8,000,000.00**
Extraordinary expenses	**0.00**	**0.00**
Taxes on income	**28,648,013.47**	**12,582,813.69**
Other taxes not disclosed in "other operating expenses"	**361,198.70**	**337,133.60**
Net income for the financial year	**19,393,400.00**	**16,892,800.00**
Total expenses	**265,451,199.59**	**164,121,751.15**

	2023	2022
Net income for the financial year	**19,393,400.00**	**16,892,800.00**
Transfers to revenue reserves	**5,915,000.00**	**4,912,000.00**
to other revenue reserves	5,915,000.00	4,912,000.00
Net retained profits	**13,478,400.00**	**11,980,800.00**

INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2023 OF NATIONAL-BANK AKTIENGESELLSCHAFT

IN €

Income	**2023**	**2022**
Interest income from	**209,996,346.04**	**101,987,869.54**
a) Lending and money market transactions	200,954,036.66	100,047,408.48
b) fixed-income securities and debt-register claims	9,042,309.38	1,940,461.06
including:		
positive interest on receivables	1,469.26	2,866,852.21
Recurring income from	**1,085,636.35**	**555.06**
a) Shares and other variable yield securities	281.59	555.06
b) Long term equity investments	1,085,354.76	0.00
c) Shares in affiliated companies	0.00	0.00
Commission income	**51,721,657.15**	**57,061,527.89**
Income from write-ups to equity investments, shares in affiliated companies and securities treated as fixed assets	**0.00**	**0.00**
Other operating income	**2,647,560.05**	**5,071,798.66**
Extraordinary income	**0.00**	**0.00**
Total income	**265,451,199.59**	**164,121,751.15**

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 and personalized 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 represents 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.

NATIONAL-BANK pursues a customer-driven business model with a comprehensive consultation approach for discerning private and corporate customers. Customers, who value individual consulting 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, which the Bank develops inhouse or procures from independent third parties (Open Architecture). Cooperation partners are carefully selected and undergo regular reviews. The integral components of the business model comprise the loan and deposit business. 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 management of the Bank 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). Net interest and net commission income represent 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 NATIONAL- 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, increasingly 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 no-branch 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 of major banks 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

The German economy declined by 0.3 % in 2023. In particular, the continued declining, real disposable income of households dampened private spending noticeably. Overall, the economic situation in Germanyis by now to be considered as critical. The analytical results for the economic perspectives for Germany point, as a whole, to the fact that the cumulative effects along the deterioration of the geo-economic environment massively weighed on economic development since summer 2022 until today.

In this context, our analyses and simulations point to the fact that the trend of the overall economic development in Germany has been, since as early as fall 2022, continuously within contractionary territory – although the German economy was thus far shielded from the underlying economic trend due to the initially high order backlog. How massive and lasting the German order flow's structural break is currently, is also signified by the disruption of the consonance between the transatlantic business cycles, where since mid-year 2022 a persistent decoupling of the European momentum from the US-American momentum can be observed. This time profile also points to the fact that it is in fact the combined effects of a geopolitically caused high degree of uncertainty locally, in combination with higher energy prices, which exercise a continuous direct effect on the German and European economic cycle.

This weak indication for Germany as a whole was also reflected in the IFO sentiment surveys for North Rhine-Westphalia. Unlike 2022, during the previous year did not only expectations deteriorate, rather, businesses already felt the weakening business cycle during their current business activities. This is emphasized by the fact that the NRW.BANK.ifo-business climate dropped again substantially in fall 2023, the indicator turned negative again for the first time since February 2021. With a view to the individual sectors, the climate cooled significantly during the year even in the services sector, which initially had shown some resilience. Industrial firms reported fewer and fewer orders, which is why production was already cut back. At the beginning of the final quarter a slight upward trend could be noticed, which reversed, however, at year's end. Companies looked noticeable more skeptical to the first half-year 2024, whereby the deteriorated sentiment could be observed across all industry segments.

The strain on the North Rhine-Westphalia economy by the strong increase of energy prices was significantly greater than on the German economy. The significant difference is primarily caused by the fact that the output decline in the production sector was markedly more pronounced in North Rhine-Westphalia than in the nation. This fact primarily reflects the greater importance of energy-intensive industries for NRW such as the chemical industry and the manufacture of basic metals. In addition, the services sector recovered less strong in NRW than on average across Germany, which was primarily attributable to the performance in the business services sector, which grew less strong in NRW than in the nation as a whole due to its sectoral specifics. On the basis of the most recent economic data of the Federal States, the NRW growth path for the previous year should be 0.2 percentage points below the Federal trend and GDP should have contracted by 0.5 %.

Course of Business

In 2023 NATIONAL-BANK increased average lending volume from € 4,059.1 million to € 4,142.6 million. For refinancing purposes, average customer deposits could be increased from € 4,707.0 million to € 5,062.9.

While net interest income of € 156.0 million was very significantly above previous year's level of € 98.7 million, net commission income declined relatively slightly from € 51.4 million to € 47.3 million. The balance from other operational income and expenses improved slightly from € 1.2 million to € 1.3 million and gross profit improved significantly and increased from € 151.3 million to € 204.5 million. Administrative expenses increased, in particular, due to the expenses for project *Jupiter* (see below) from € 102.7 million to € 112.6 million. Risk provision increased from € -10.7 million to € -15.2 million. The main driver for the negative risk provision result was the additional funding of provisions for general banking risks.

As a result, net Income improved from € 16.9 million to € 19.4 million. In addition, € 28.3 million could be transferred to the fund for general banking risks in accordance with Section 340g HGB, so that the expectation formed in the previous year for the annual result could be clearly exceeded. 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 a € 0.10 higher dividend than in the previous year of € 0.90 per share. This represents a total dividend of € 13.5 (12.0) million, as well as additional € 5.9 (4.9) million to fund the reserves.

Project *Jupiter*

With the decision to introduce a new IT platform for process core business functions, NATIONAL-BANK is implementing a project that is known internally as *Jupiter*. After intensive preliminary considerations and market observation over a period of several years, potential providers were evaluated in a preliminary study by employees from all departments based on the criteria of "technicality", "IT/control", "transformation" and "commercial support". Atruvia AG, the IT-service provider of the Cooperative Financial Group, stood out clearly in this preliminary study with its service offerings *„agree21"*. The findings were transferred to a preliminary project in which the status quo was compared to the respective scope of services of the application. After intensive analysis of the market-proven, standardized solution from Atruvia AG and the options for customization of the functionalities, unjustifiable obstacles could not be identified that would stand in the way of a migration to *"agree21"* and a partnership with Atruvia AG. The core project started in 2023 with the objective to migrate the data by the end of 2024. Atruvia AG is one of the leading software providers in Germany and provides its services to Volksbanken and Raiffeisenbanken as well as numerous private banks.

Financial Performance

NET INTEREST INCOME

Net interest income increased markedly to € 156.0 (98.7) million. A major portion of the year 2022 was still characterized by the negative interest rate level of the previous years and a smaller net interest income. Because due to the various ECB interest rate adjustments the interest rate level was increased gradually, the Bank's net interest income could be significantly expanded during the course of 2023, although receivables from customers declined as compared to the previous year.

NET COMMISSION INCOME

Net commission income declined to € 47.3 (51.4) million. Securities business was robust and was at the previous year's level. Commissions from acquisition and commercial financing, from construction financing referrals as well as international business declined. The decline of commissions from acquisition and commercial financing is, in particular, the result of a reduced risk appetite of the Bank. The reasons for the reduced net commission incomes from referred construction financing and the international business are lower demands.

OTHER OPERATING INCOME AND EXPENSES

The balance from other operating income and expenses was € 1.3 (1.2) million. The reason for the increase was, in particular, the significant decrease of interest expenses for pension provisions to € -1.1 (-2.8) million, which resulted from the fact that the relevant discount interest rate, after a decline in the previous year from 1.87 % to 1.78 %, increased - for the first time after the recalculation of pension entitlements under the Accounting Law Modernization Act [BilMoG] in 2010 - by four base points to 1.82 %. Income from reversal of no longer required other provisions amounted to € 0.6 (2.8) million.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses increased to € 109.6 (99.5) million. While personnel expenses declined to € 60.3 (61.5) million, other administrative expenses rose very markedly to € 49.4 (38.0) million. The year-over-year decline in personnel expenses was due to reduced funding of pension provisions. Because of the high inflation expectations in 2022, the pension increase trend had to be significantly raised in 2022. Project *Jupiter* (see above) is the reason for the significant increase of operating expenses. Because expenses for the project cannot be capitalized, operating expenses are significantly higher in the years 2023 and 2024 than in previous years. Operating expenses for the project *Jupiter* were € 8.7 million in 2023.

DEPRECIATION OF TANGIBLE FIXED ASSETS AND INTANGIBLE FIXED ASSETS

Depreciation of tangible fixed assets and amortization and write-downs of intangible fixed assets decreased slightly to € 3.0 (3.2) million.

RISK PROVISION

(Net) expenses for risk provision increased to € 15.2 (10.7) million. After securities holdings - which are classified as liquidity reserve and therefore measured like current assets - were depreciated by € 12.3 million in the previous year as a consequence of the turnaround in interest rates, a net value of around € 4.1 million could be reversed in 2023. Loan risk provisions from specific valuation allowances in loan business were again inconspicuous. In application of the accounting standard IDW RS BFA 7 the existing global valuation allowances were reduced by € 0.3 million, after in the previous year € 15.1 million were still transferred to global valuation allowances. The main driver for the negative risk provision result was the additional funding of provisions for general banking risks.

OPERATING RESULTS

The operating result, i.e. the result after risk provision and before transfer to the fund for general banking risks, increased very markedly to € 76.7 (37.8) million. This resulted from a very markedly increased gross profit of € 204.5 (151.3) million, composed of net interest and net commission income and other operating income and expenses, and increased general administrative expenses of € 109.6 (99.5) million, as well as increased risk provision of € 15.2 (10.7) million.

TAXES

Tax expenses increased due to the increased operating result to € 29.0 (12.9) million, which is equivalent to an increased tax rate from 34.2 % to 37.8 %. An increasing effect had - as in previous years - in particular transfers to pension provisions, changes to the provisions for general banking risks, as well as the non-tax-deductible bank levy.

NET INCOME FOR THE FINANCIAL YEAR

Net income for the financial year increased to € 19.4 (16.9) million. This increase was caused by a markedly increased net interest income, which significantly overcompensated higher expenses for project *Jupiter,* higher risk provisions and higher 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 € 6,390.0 (6,130.3) million and € 6,499.4 (6,246.3) 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 € 5,271.2 (4,967.0) million. This results in the Bank being largely independent of capital market refinancing. Demand deposits and overnight money and time deposits in the amount of € 5,138.5 (4,773.5) million with a share of ca. 97 (96) % of total customer deposits were slightly above 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

NATIONAL-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 € 1,882.3 (1,470.1) million. For liquidity management 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 € 389.9 million. The Bank did not borrow any funds by main refinancing operations from the Deutsche Bundesbank beyond the balance sheet date, after the Bank still borrowed € 70.0 million beyond the previous year's balance sheet date.

The Bank's liquidity was guaranteed at any time. Consequently, the liquidity coverage ratio reached at year's end € 184.6 (137.8) % and the net stable funding ratio 148.6 (137.6) %. Both ratios clearly exceeded the regulatory minimum requirement of 100.0 %.

LOAN BUSINESS

Receivables from customers decreased to € 4,015.2 (4,107.8) million. Hereby, repayments of around € 385.6 (519.1) million could not be completely compensated by the receding new business volume of € 307.2 (707.9) million. Because receivables from customers were € 3,737.1 million at the end of 2021, the average deposits for the year 2023 provided in the segment 'Course of Business' increased as compared to the average deposits for the year 2022, although the figure at the reporting date 2023 was below the 2022 figure.

DEPOSIT BUSINESS

Customer deposits increased to € 5,271.2 (4,967.0) million in the year 2023. Time deposits, which increased by € 962.3 million, contributed significantly to this development, while demand deposits and savings deposits, each declined. The net-shift from demand deposits to time deposits is primarily caused by the increasing higher yields for time deposits during the course of the year.

INTERBANK BUSINESS

Regarding liabilities to banks in the amount of € 481.1 (570.7) million, the emphasis remained on long-term funding under public sector lending programs. The decline is primarily caused by the fact that a main refinancing operation from Deutsche Bundesbank beyond the balance sheet date of € 70.0 million existed in 2022, where such main refinancing operation did not exist on December 31, 2023. In addition, loan holdings decreased due to decreased corresponding customer loans. On the asset side, receivables from banks increased from € 1,455.2 million to € 1,896.0 million. This increase results from the fact that overnight deposits within the context of the deposit facility rate at the Deutsche Bundesbank increased significantly.

SECURITIES HOLDINGS

Investments in bonds and other fixed interest securities in the amount of € 347.6 (404.2) million, were at 84.3 (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. In 2023, new investments of € 93.7 (10.0) million were made.

DERIVATIVES

The bank does not trade in derivatives. Financial derivative transactions are essentially made to cover customer positions. The nominal volume of derivatives was € 1,486.1 (1,400.4) million. Of this, 99.2 (99.1) % was related to OTC products. In addition, the Bank held € 12.6 (13.2) million of publicly traded products. Broken down by business segments, a nominal volume of € 384.3 (477.1) million was attributable to currency and € 1,089.2 (910.1) 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 default 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 € 51.8 (23.5) million.

EQUITY

From net income in 2023, € 5.9 (4.9) 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 € 393.3 million by € 5.0 million to € 398.3 million.

Under inclusion of subordinated loans and the fund for general banking risks, regulatory own funds amount to € 513.3 (467.2) million. The Bank's own funds — measured as the ratio of regulatory relevant equity capital to risk-weighted assets – after the approval of the annual financial statements and approval by the general meeting of the appropriation of profit proposal by the Management Board and supervisory board — were 15.3 % (13.2 %). Equity Tier 1 capital ratio is 12.8 (11.2) %.

STRATEGIC KEY FIGURES

The following strategic key figures constitute 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. Since the second half year 2022, monetary policy conditions, in particular for combating inflation, changed.

Return on equity before taxes increased to 20.2 (10.0) %, in particular due to the significantly improved net interest income. It is therefore way above the target range of 7 to 9 %. This exceeds significantly our previous year's expectations.

Including the appropriation of profit, the Equity Tier 1 capital ratio increased to 12.8 (11.2) % and is therefore within the target range of 11 to 14 %. This also exceeds our previous year's prognosis, where we still expected a figure at the lower end of the target range.

The cost income ratio, i.e. the ratio between administrative expenses and gross profit, improved from 67.9 % to 55.1 % and is below the target range of 65 to 70 %. The previous year's expectation was that this ratio would be slightly above the target range due to the additional expenses for project *Jupiter*.

The loan to deposit ratio of 0.67 is slightly below the previous year's level (0.73) 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 it to meet its strategic target ranges by means of cost-cutting measures in the face of the unprecedented historically low and in parts negative interest rate levels since 2014. 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 (10) % and 19 (18) % 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. The target ratio was not achieved for the first and the second management level at 7 % (6 %) and 17 % (20 %) respectively, which is unsatisfactory and contradictory to the Management Board's intention. This is caused by the reorganization of individual units of the Bank during the reporting period, which entailed a change of the share of women. An additional factor was personnel changes at the request of individuals for individual or family reasons, which our NATIONAL-BANK had to accept – without any options to influence these decisions. Equal opportunities for men and women are a high priority for the Bank and for this reason we will continue to adhere to these set objectives. In spite of some setbacks to promote women to the first and second management level, we are very confident that the entirety of the adopted initiatives, which affect the whole life cycle of employees, and which are comprised of the areas talent attraction, talent development and talent promotion, will spread unchanged its positive effects.

Risk and Opportunity Report

RISK STRATEGY / RISK INVENTORY

The risk management guidelines of NATIONAL-BANK are defined in the risk strategy, which are derived from the business activities, as defined in the Bank's business strategy, and the 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. Foreseeable unfavorable developments of internal capital adequacy, liquidity, as well as the reputation of the Bank must be counterbalanced. All regulatory and supervisory requirements of the normative perspective must be complied with. 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 represents a material principle of risk management. Ongoing risk management must consider the risk situation in a market, a business segment or for a business partner.

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

RISK ACCEPTANCE

The acceptance of risks is a prerequisite for the generation of income. NATIONAL- 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. In the case of operational risks, the decision on the acceptance of risks is, in particular, based on weighing alternatives under consideration of cost/benefit aspects.

RISK MITIGATION

In the event, accepted risks for individual transactions or for a portfolio increase, the Bank may mitigate risks, e.g., by accepting additional collateral or by entering into hedging transactions and by reducing the respective business activities. Operational risks can be mitigated by measures like, for example, optimizing organizational processes, qualification of employees or contingency planning.

RISK TRANSFER

NATIONAL-BANK may transfer risks in parts or completely to other market participants, if business transactions do not meet the Bank's risk profile requirements and where 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 the application of 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.

RISK CULTURE

An important prerequisite for efficient risk management is a pronounced risk culture within the Bank as a whole. The risk culture refers in general to the manner in which the institution's staff (should) deal with risks in the course of their duties. The risk culture should, in addition, promote the identification and conscious handling of risks and ensure that decision-making processes lead to outcomes that are balanced also from a risk perspective. At NATIONAL-BANK and initiated by the Management Board's practiced leadership culture, risk aware conduct is requested from all managers and employees. In particular, open communication, a critical and constructive dialog at and between all levels, as well as adequate incentive structures are basic prerequisites in this regard. To monitor the practiced risk culture in the entire Bank, in particular, routine surveys are conducted with managers and employees. The need for measures to further promote the risk culture is checked and reviewed by these surveys.

RESULT OF THE 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

ESG risks are not an independent risk type and, in so far, 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, NATIONAL- BANK consistently complied on all reporting dates with the regulatory requirements on equity, including all buffer requirements.

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 at first analyzed separate from each other. 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. An already realized, expected or planned net loss for the financial year would, in addition, always be deducted from the risk covering potential.

Internal capital adequacy requirements were met throughout the reporting period. As of the reporting date, a free risk capital of € 272.2 million results from the difference between risk covering potentials of € 432.7 million and risk contributions of € 160.6 million based on the analysis of the internal capital adequacy from the economic perspective.

ECONOMIC INTERNAL CAPITAL ADEQUACY OVERVIEW

IN € MILLION

Internal capital supply risk covering potential (RCP)	**12/31/2023**
Risk coverage potential	**432.7**
Internal economic capital needed risk contributions	
VaR counterparty and credit risk	81.6
VaR market price risks liquid securities holdings plus spread risks	16.4
of which spread risk	*2.2*
of which share price risk	*1.2*
VaR market price risks money market transactions plus spread risks	0.0
VaR market price risks foreign currencies	0.3
Interest rate risk	38.8
Operational risks	21.7
Liquidity cost risk	0.4
Reputational Risk	1.3
Total risk position	**160.6**
Available risk capital	**272.2**

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 effective risk management in the structural and process-oriented organization is the responsibility of all Management Board members. The Management Board is also 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-departmental and cross-functional committees, such as the (overall) risk committee.

Regarding the risks associated with the individual business activities, risk management is performed by the following organizational units:

- The management of counterparty and credit risks is the responsibility of Credit Risk Management / Quality Management.
- The management of market price risks, the interest rate and liquidity risks is the responsibility of the Treasury department.
- The management of operational risks is generally ensured in a decentralized manner by all organizational units. The management of the information security risk is the responsibility of the information security representative in accordance with the Management Board and the support by the IT department.
- The management of business risks is the responsibility of the front office unit heads.
- 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 the Bank's ESG risks is the responsibility of the Management Board. Operational execution is the responsibility of the individual areas, departments or functions.

The risk control function according to MaRisk AT 4.4.1 is the responsibility of the head of the risk control department, which is responsible to identify, measure and analyze the risks, as well as to determine and analyze the Bank's internal capital adequacy. The risk control function has the following important responsibilities:

- Support management in all risk policy issues, in particular, as regards the development and implementation of risk strategies and the design/ implementation of a risk management system to limit risks.
- Conduct of a risk inventory and preparation of an overall risk profile.
- Support management in the implementation and development of risk management and risk control 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.
- Conduct of a self-assessment across risk types Risk Culture

RISK CATEGORIES

To identify, assess, manage, monitor and communicate all individual risks, as well as the Bank's internal capital adequacy, a comprehensive risk management system is implemented, including a risk reporting system, which undergoes continued further development. 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. An impairment up to a full write-down 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, which is understood as 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 collateral into account.

Among the individual risk types, counter-party default risk - as defined by the business model - represents the greatest quantitative share as regards risk capacity. This results from the Bank's strategic emphasis on customer loan business.

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

The monthly quantification of risks is based on the expected loss and the value at risk concepts (Value at Risk, VaR). 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 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 € 23.2 (€ 25.1) million according to the standard scenario. Of that, the clear main portion of € 22.6 (24.4) 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

	12/31/2022	12/31/2023
Private Customers	0.4	0.3
Freelance Professions	2.8	2.6
Corporate Customers	21.3	19.7
Treasury	0.6	0.6
Long term equity investments	0.1	0.1
Total	**25.1**	**23.2**

Regarding, individual borrowers of the primary customer loan business, total loan, unsecured total loan and the expected loss of € 22.6 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	6.2	9.3	3.2
1	0.030	4.4	5.4	0.2
2	0.058	4.8	2.3	0.1
3	0.108	7.9	5.7	0.6
4	0.190	10.8	8.4	1.6
5	0.340	14.7	15.1	5.2
6	0.553	12.4	11.8	6.6
7	0.808	10.5	13.7	11.2
8	1.188	8.8	9.2	11.1
9	1.788	8.0	8.9	16.0
10	2.725	5.0	5.3	14.6
11	4.150	4.1	3.2	13.3
12	6.250	0.7	0.8	5.0
13	9.375	0.9	0.3	3.0
14	14.000	0.7	0.4	6.2
15	20.000	0.2	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) within a set period (as a rule one year) as compared to the expected loss under the assumption of a set probability (confidence level). 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 through the inclusion of a shift of default probabilities.

The unexpected loss of € 81.6 (€ 80.2) 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 value at risk model.

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.

Sustainability issues can be considered in the primary customer loan business within the manual risk classification (Rating) and also in relation to the collateral value through the valuation of real estate. Together with CredaRate Solutions GmbH, whose pool-based rating system is used by NATIONAL-BANK since years for the risk classification of its counterparty and credit risk in the customer loan business, an ESG-Scoring system was developed and integrated into the loan process.

On the reporting date, the share of non-performing loans and credits in the gross carrying amount of loans and credits was 1.90 %. Since 2017 this share could be reduced by 1.09 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 market price risk report at month's end is prepared by the Risk Control department. Within the scope of interest and currency management for customers, a risk contribution is determined and reported 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 Treasury 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, Risk Control department provides a market risk report on the existing risk and loss limits to Treasury at month's end.

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

For the value at risk determination the risk calculation system applies the so-called variance-covariance approach. This method is based on the assumption that past fluctuation ranges (volatilities) measured for various assets are 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 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 3>are added to the respective interest rate term structures used for the valuation. Based on these values, valuation simulations are conducted, with which new market prices are then 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 Control department checks the forecast quality of the risk model underlying the market price risk report during the preparation of 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. As soon as the calculated risk contribution varies from the actual market movements to an extent requiring management measures, a meeting of the Market Price Risk Committee is called.

ESG risks may have an impact, directly or indirectly, on the market price risk. The Bank's strategic direction within the context of its investment strategy also considers ESG aspects. Within the context of managing the liquidity portfolio by means of the investment strategy, the classification of issuers according to the "MSCI ESG-Rating" provided by Morgan Stanley Capital International (MSCI) is, among others, taken into account. This risk management can influence the composition of market price risk-bearing investments and in this manner have an impact on the market price risk. It is also possible that developments which result from the market participants' orientation for sustainability and the consideration of ESG factors in the financial markets, may have an impact on the spread risks of held or planned investments. This can, for example, materialize in the form of a spread difference shift between bonds classified as sustainable and bonds not classified as sustainable.

On the reporting date the value-at-risk for market price risks from the bank's own investments was € 16.4 million (previous year € 18.4 million). On the reporting date, the value at risk for the market price risk from interest and currency transactions was around € 0.3 (0.5) 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 Control 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. Reports are provided to the Management Board and the Supervisory Board at least on a quarterly basis.

The interest book contains all of the Bank’s business transactions that are exposed to interest rate risk. In addition, the interest rate risk arising from pension obligations is also considered.

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 looked at. Furthermore, depending on the respective scenario the simulation period is extended.

ESG risk may have an indirect impact on the net present value of the interest rate risk and the periodic interest rate risk. The Bank’s strategic direction under ESG aspects can change the Assets and Liabilities structure in the mid- and long-term and with this effect influence the interest rate risk. It is also possible that developments, which result from the economy’s orientation for sustainability or for other ESG events, may have an impact on the interest rate risk, for example by affecting the interest rate level or the interest rate structure. Risk management of sustainability caused interest rate risks is done at a senior level through the management of the entire interest book.

At the end of the reporting period, periodic interest rate risk was around € 2.6 (3.4) 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 200 base points. At the end of the reporting period, the interest rate risk at the net present value was € 38.8 (13.4) million

In addition to the interest rate risk at the net present value, the supervisory interest rate risk coefficient is determined, which indicates 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 8.4 (5.5) %. 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 legal 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 and 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 management measures for specific operational risks is performed in a decentralized manner in the affected organizational units and the affiliated companies. They are supported by the so-called OpRisk Officer. The Risk Control department is the central contact for the entire Bank.

The material operational risks are identified by expert surveys 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. Branch risks, branch office risks, as well as risks for the affiliated companies are also included in the risk inventory. ESG relevant aspects are explicitly considered with the risk analyses. The expert assessment of the operational risks is updated annually at a minimum. The Risk Control department assesses the plausibility of the individual risk inventories, which are then aggregated into the overall Bank risk inventory.

Losses arising from operational risks exceeding € 1.0 thousand gross are generally entered into a central loss database.ESG relevant aspects are separately marked. 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.

As the risk contribution for operational risks, an ascertained risk contribution of € 21.7 million as at the reporting date is recognized in column I according to the supervisory OpR Basic indicator approach (BIA). In addition, based on the risk inventory, an expected loss of € 4.9 million is deducted from the risk coverage positions.

LIQUIDITY RISK

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 and the, at a minimum, quarterly, structural risk measurement is performed by the Risk Control 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 Control department.

Liquidity management is performed on the basis of daily/short-term cash flows and liquidity key indicators, as well as on the basis of the mid-term and long-term liquidity cash flow. Within the scope of dispositive liquidity management, in particular, investment and refinancing options offered by the European Central Bank can be used due to a considerable security deposits depot. 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 management.

Close monitoring by the Treasury department and the Risk Control department provides for initiating measures at an early stage to optimize the liquidity structure and thus avoid potential liquidity shortfalls. The liquidity risk committee ensures consistency of activities and measures.

ESG risks may have an indirect impact on the liquidity risk. The Bank's strategic direction under ESG aspects can change the Assets and Liabilities structure in the mid- and long-term and with this effect influence the liquidity risk. It is also possible that developments which result from the economy's orientation for sustainability or for other ESG events, may have an impact on the liquidity risk, for example through a changed customer behavior in relation to customer deposits or through increasing credit losses. Risk management of sustainability caused liquidity risks is done at a senior level through the management of the bank-wide interest book.

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 2023, indications of a liquidity bottleneck were not given. The liquidity coverage ratio of 184.6 (137.8) % 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 liquidity cash flows are simulated in the form of a standard scenario and also under consideration of stress scenarios.

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
12/31/2023 to 1/31/2024	1,897.7	1,517.4
12/31/2023 to 2/29/2024	1,787.3	1,364.5
12/31/2023 to 3/31/2024	1,666.9	1,196.5
12/31/2023 to 4/30/2024	1,608.1	1,074.8
12/31/2023 to 5/31/2024	1,517.2	921.1
12/31/2023 to 6/30/2024	1,429.4	765.5
12/31/2023 to 7/31/2024	1,401.8	729.7
12/31/2023 to 8/31/2024	1,361.0	680.8
12/31/2023 to 9/30/2024	1,336.5	648.3
12/31/2023 to 10/31/2024	1,294.9	598.5
12/31/2023 to 11/30/2024	1,269.5	565.0
12/31/2023 to 12/31/2024	1,253.1	566.2
12/31/2023 to 12/31/2025	1,361.9	595.5
12/31/2023 to 12/31/2026	1,446.1	600.1
12/31/2023 to 12/31/2027	1,596.8	750.8
12/31/2023 to 12/31/2028	1,739.0	893.1

In addition to the analysis of liquidity cash flows, compliance with the net stable funding ratio is a component of structural liquidity management. The net stable funding ratio is the responsibility of Treasury. Its percentage value of 146.5 (138.3) % 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 Control 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 (0.4) million on the reporting date.

BUSINESS RISK

Business risk is the negative deviation between the realized i.e. expected items of the income statement of the current year and the beforehand 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.

Business risks may result as consequential risks from ESG risks and as such cause a negative deviation between realized or for the current year expected items on the income statement and the beforehand budgeted items.

REPUTATIONAL RISK

Reputational risk is the risk of an unexpected loss due to the 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's business model regarding 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 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, while operational execution is the responsibility of the reputational risk representative and, if necessary, in cooperation with 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 to resolutely counter all identifiable reputational risks.

ESG RISK

ESG risks are events or conditions from the areas environment, social or governance, whose occurrence could have actual or potential negative effects on the Bank's financial position and financial performance, as well as the Bank's reputation.

As environmental risks, they 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 ESG risks and the other risk type is hardly possible and these risks are rather cross-sectional risks i.e. risk drivers, ESG risks are not defined as a separate risk type.

Management of the Bank's ESG risks is the responsibility of the Management Board, while 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 ESG risks and, in exchanging opinions as experts, proposes actions to be taken for the implementation of sustainability risk aspects, if needed. 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. Already existing or initiated and in the further course necessary process changes are ascertained continuously and within the scope of the sustainability risk 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 internal capital adequacy and adjustments are made as needed. Within the scope of internal capital adequacy assessment from an economic perspective, the Bank does not take risk-reducing effects resulting from diversification among individual risk types into account. In contrast, risk reducing assumptions on diversification are applied to the value at risk calculations of the counterparty and credit risk 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 department.

COMPENSATION AND SUPPORT MEASURES

Due to our membership in the Compensation Scheme of German Banks [Entschädigungseinrichtung deutscher Banken GmbH] and based on the obligation to provide payments to the Single Resolution Fund, SRF, 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 2024

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 2024, as a component of the core banking migration project, the main focus will be placed on the replacement of all key risk calculation methods and models. The transition to the risk modules of VR Control involves the exchange of models for numerous calculation methods. This is complemented by the implementation of ESG risk quantifications.

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	Preliminary profit and loss statement	monthly	Accounting & Bank Supervision	Board/ Supervisory Board
	Final profit and loss statement	monthly	Accounting & Bank Supervision	Board/ Supervisory Board
	Analysis internal capital adequacy economic perspective	monthly	Risk Control	Board
	Analysis internal capital adequacy normative perspective	quarterly	Controlling	Board/ Supervisory Board
	Quarterly report - report of risk control function	quarterly	Risk Control, Risk control, Controlling, Accounting& Bank Supervision a. o.	Board/ Supervisory Board
	Risk Inventory	annually/ event driven	Risk control and controlling	Board
Counterparty and credit risk	Individual loan reporting (including loan risk provisions)	Daily	Market unit/credit risk management	according to loan competence matrix
	Credit Risk Report	quarterly	Risk control/ credit risk management	Board
	Development loan risk provisions	quarterly	Credit Risk Management	Board
	Loan commitments with risk-relevant circumstances	quarterly	Credit Risk Management	Board/ Supervisory Board
	Major commitments according to Audit Report of the Annual Financial Statements	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 Pride Risk	Market Pride Risk report	monthly	Risk Control	Board
	Back Testing Analysis Market Price Risk	Event driven	Risk Control	Board
Interest Rate Risk	Treasury-Report	monthly	Treasury	Board
	Interest rate risk report	quarterly	Risk Control	Board
Operational Risk	OpRisk Report (incl. Information Risk)	quarterly/ annually	Risk Control	Board
	Reports on significant losses	Event driven	responsible Department	Board
Liquidity Risk	Liquidity Status	weekly	Treasury	Board
	Liquidity risk report	quarterly	Risk Control	Board
Business Risk	Reports on customer and product groups	Event driven	Sales units	Board
	Preliminary and final profit and loss statement	monthly	Accounting & Bank Supervision	Board/ Supervisory 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
ESG Risk	Reporting on ESG risks in the sustainability risk committee	monthly	Management sustainability risk committee	Board
Internal control functions	Quarterly / Annual Report of Internal Audit	quarterly/ annually	Audit	Board/ Supervisory Board
	Quarterly / Annual Report of the compliance representative	quarterly/ annually	Compliance representative	Board/ Supervisory Board
	Quarterly / Annual Report of the money laundering representative	quarterly/ annually	Money Laundering / Fraud / Embargo Representative	Board/ Supervisory Board
	Quarterly / Annual Report of the information security representative	quarterly/ annually/ event driven	Information security representative	Board/ Supervisory Board
	Quarterly / Annual Report of the 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 materialized turnaround in interest rates — and 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 from economic developments.

Against the backdrop of the continued interest rate increase, opportunities may also arise for the risk result of the liquid securities holdings in the form of continued 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 from 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 risk contributions.

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 counterparty and credit 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 based on 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 its customer-related environment, in particular, in the case loss of reputation at other banks.

A consequent orientation to sustainability and the management and control of ESG 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 Control

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, under inclusion of the Accounting & Bank Supervision, Controlling and Risk Control departments, new financial products are accounted for appropriately in the internal and external accounting and reporting system, as well as in risk control. 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 monthly.

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

The global economy recovers only gradually from the strains of the pandemic, the invasion of Russia in the Ukraine and the dampening effects caused by the strong increase of cost of living, in particular for energy and food. Looking back, the global economy's resilience is, however, very remarkable: In spite the massive increase of geopolitical tensions, overloaded supply chains, disruptions on the energy and food markets, as well as the tightening of the monetary policy conditions to combat an almost all-encompassing price shock of historical proportions, the global economic development cooled, but a veritable slump did, however, not materialize. Pandemic-induced imbalances can be more and more reduced. Still, economic growth remains weak, at least so far, and is also unevenly distributed, whereby regional growth divergences until most recently became even more accentuated.

In the year 2022, after the pandemic subsided demand for labor-intensive services recovered throughout the economy. Demand was here in many cases even so high that this sector became temporarily a main driver for the global price pressure. Most recently, it became more and more noticeable, however, that the services boom was about to end, also as a consequence of the adjustments in the business services sector. Furthermore, a major portion of the economic slow-down was caused by the significant tightening of the monetary policy conditions. Most recently, contractionary monetary policies had, however, noticeable peaked, because interest rate cuts were already likely, primarily in China, but also in Latin American countries. Economic activities were to a large extent determined in the Eurozone but also in the USA by the exposure to commodity price shocks. Economies, which depended to a large extent from Russian energy supply, suffered a significantly stronger slump, while countries such as the USA, which are mostly energy independent, were less affected. In the industrial nations, first indications of an easing of the overload in the labor markets could be identified, after unemployment rates had reached historic lowest marks. Of crucial importance was here that until most recently there were hardly any indications for the development of a wage-price spiral, real wages remained here in the aggregate clearly below the pre-pandemic level.

Primarily the emerging Asian economies have proven more resilient than expected, with the exception of

China, where housing crisis left its mark on economic development. In contrast, because of the already lower trend growth, economic growth in the industrial nations was, due to its demographics, strained by tighter labor markets. Especially the Eurozone, with the economic main driving force Germany suffered until recently under the occurrence of cyclical, structural and geo-economical strains. Globally, led by the USA, the industrial nations, as a whole, should succeed to achieve a so-called “Soft Landing”, while the continued high trend growth in Asia should ensure an only marginal reduction of the globally aggregated growth pace. Because it is expected that inflation can be gradually brought under control more and more, it is to be hoped that the pressure from monetary policy can be reduced in the perspective. In addition, it is to be expected that the counter-running inventory cycle in the industry ends and that in the manufacturing sector an upturn gradually spreads, which should support export around the globe. According to our prognoses, worldwide economic growth will be able to slightly accelerate from 3.0 % in 2023 to 3.1 % in 2024.

Considering the multitude of geo-economic shocks, the economy in the Eurozone has proven relatively resilient in the years after the pandemic subsided. This economic development pattern is probably caused by several factors and a key role should have played here primarily the high post-pandemic backlog demand. Although the Eurozone grows continuously since mid-year 2020, but as compared to other countries and regions, the recovery after the corona-caused slump was, however, very limited. Four years after the outbreak of the pandemic it can be said that the European countries other than the majority of industrial nations did hardly exceed the output level of the pre-crisis year 2019 and as such significantly fall short of the previous growth trend. This should, on the one hand, be caused by the combined effects surrounding the Ukraine war in the form of a dramatic increase of natural gas and electricity prices and the therefrom resulting uncertainty among consumers and businesses. On the other hand, this fits, however, the pattern that the Eurozone, quasi after each major crisis, has a more flat expansion path and falls back further in international comparison.

As a result, the previous economic resilience of the Eurozone was also owed to the circumstance that the course of crises is overall slower and more flat due to the greater density of governmental regulations, but in turn continue to have an effect for a longer period. The key determinant of this lower - price-wise - elasticity is here also that the course of adjustments in the European labor markets is slower due to the overall greater regulation, so that the stability of private consumption is at first higher. In the short-term, the inherent stickiness of labor markets stabilizes as such the prospects. Should real loss of purchasing power within the course of declining inflation rates gradually reduce, additional impulses from private consumption can even be expected in this regard. In the long-term, a lower price elasticity is, however, at a minimum potentially, always also a burden, which becomes primarily visible in the low productivity in the most countries of the Eurozone. Accordingly, the big question is overall, what will the economic momentum be, once the dynamics of the post-Covid recovery ends and the actual underlying trend path becomes visible. The macroeconomic projections of the economic research institutions are, at their core, strongly influenced by the convergence of mean values. Here, the noticeable reduction of consumer price inflation in combination with the continued robust situation in the labor market has the effect of gradually higher real wages, which are, in the perspective, supporting private consumption more and more noticeable. After real gross domestic product could expand by 0.5 % in the previous year, most institutes expect for the year 2024 an overall economic growth of 0.9 %. Such development is for sure well possible, but with a view on the data this is increasingly unlikely, because the counter-movement at order entry is until now almost nowhere to be seen. All in all it is at least until now not identifiable that the macroeconomic dynamics during the current year will be significantly above the dynamics of the previous year. Accordingly, we are of the opinion that, based on our simulations, growth rates around 0.5 % to be more realistic. In substance, Europe will, at the core, persist in a state of stagnation , at least for the time being, unless signs of a significant improvement of the economic dynamics can be identified. For Germany we expect only a marginal growth rate of 0.3 % on average in 2024, which is even below the more recent prognoses of the institutes.

As in previous years, the development in the international bond markets will be primarily characterized by the development in the USA. During the course of the year, everything pointed to a prolonged easing of price movements in the USA. Disinflation, which had also reached around mid-year the broadly defined and slow-reacting median scales, was at first, however, still strongly driven by arising negative base effects. At mid-year, disinflation impulses from upstream production stages reached, however, more and more downstream sectors, although not across the board. In many sectors of the US economy, in particular in the services sector, price pressure continued until summer more or less unchanged, which was still a major concern primarily to the US central bank. For this reason, the main factor might have been for the US central bank that the reduction of imbalances in the US labor market took longer than initially expected. This confirms our assessment that the post-epidemic excess demand in the form of a high number of open positions was and is the key to the projection of the underlying price dynamics. Until year's end, official data showed indeed only a gradual reduction of the excess demand in the US labor market, however, complementary "unofficial" data sets pointed, in contrast, until the turn of the year to the fact that in the meantime overall clearly more than half of the way to the reduction of the imbalances has already been covered.

As it was not to be expected otherwise against the backdrop of the high level of transatlantic cause- and-effect relationships, more and more movements could be observed in the European inflation data landscape: The price surge for food reduced noticeably and thereby contributed along with declining energy prices to the reduction of the overall inflation. In addition, core inflation eased more than expected on a board base. As a result of the development for producer and import prices, a downward trend reversal was expected for a long time for consumer prices of industrial goods. Finally, the economic perspectives for the German economy deteriorated more and more and, as argued, it is foreseeable that Germany will persist in a recessive state, if the war in the Ukraine continues. In fall of last year, ECB also emphasized with great unity that the interest rate peak had probably been reached. First Council Members even began to advocate interest rate cuts in the second half of 2024. In fact, as part of the ongoing normalization of monetary policy, ECB has undertaken the largest key interest rate hike in its history. In so far, the fact that ECB acted already at this point atypically "more dovish" than the Fed, points to the enormous setback risks for ECB's monetary policy.

Overall, the thesis of "Higher for Longer" and the expectation of a return into the low interest rate regime of the last one and a half decades were, until the turn of the year, still at a draw. From our perspective, the arguments for a, at a minimum, significantly lower interest rate level still prevail. As discussed, within the course of an overall continued globalization, international price discipline remains maintained based on a high level of global price transparency enabled by new technologies. With the gradual flattening of growth rates even in Asia, the equilibrium real rates rather decline globally. In this context it is characteristic that the econometric estimates for the equilibrium real interest rates for the Eurozone have recently fallen below zero and have thus reached a new historic minimum. The indication for the longer-term downward trend in the - inflation adjusted - key interest rates - continues to be fully intact, at least in Europe. All in all, the turning point in monetary policy is getting closer and closer, also in the leading industrial nations. The exact timing of the global turnaround in key interest rates naturally remains uncertain, but the probability that the interest rate cut cycle will begin in the coming quarters is, however, very high. From our perspective, it is ultimately still more likely that the rise in inflation will prove to be a temporary episode attributable to the disruptions of the pandemic , so that a significant convergence of mean values is to be expected. In this scenario, we estimate for yields on 10-year government bonds with an increasing downward bias at around 1.8 %, while we continue to see projections for US American 10-year benchmark rates at around 3.4 % over the next twelve months.

The target ranges for the strategic key figures of the Bank were kept unchanged and carried forward for the year 2024 Consequently, the target ranges for return on equity before taxes 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 2024, we plan for a gross profit, which is ca. 8 to 12 % below the gross profit of the year 2023. While net commission income will remain approximately at previous year's level, planned net interest income slips by ca. 10 to 15 %. Growth is not planned in net interest income and in large parts of net commission income for 2024, as a high portion of employee capacities in sales and distribution will be tied up by the migration of the core banking system.

Planned general administrative expenses will increase by approx. 10 to 15 % as compared to 2023, because the expenses for the core bank project will be incurred to a greater extent in 2024. The provisions made for fixed interest securities in 2022 is only temporary due to the so-called interest rate turnaround and will after partial reversals in 2023 also show a positive algebraic sign in 2024. Because of the current economic situation and in accordance with the principle of planning caution, risk provisions for loans are made somewhat more than half higher than the actual value for 2023.

From the stated effects, an annual result (before any allocation to the fund for general banking risks in accordance with Section 340g HGB) that is, however, significantly lower than the record result for 2023, but nevertheless allows both dividend continuity and the strengthening of retained earnings due to the absolute amount. Within the scope of the annual resolution on dividends, we take into account both, in addition to 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.

Return on equity before taxes will, as a consequence of the above stated effects, be cut almost in half, but will be nevertheless above the target range by 2 to 3 % points. We expect for the equity tier 1 capital ratio a value at the upper end of the target range of 11 to 14 %. The cost income ratio will in 2024 presumably be in the upper half of the target range due to increased general administration expenses for the migration of the core banking system. The loan-to-deposit ratio will be, as expected, 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] (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.

Balance sheet figures in € million	12/31/2021	12/31/2022	12/31/2023	Change 2022 / 2023
Receivables from customers	3,737.1	4,107.8	4,015.2	-2.3 %
Guarantees	104.3	116.0	109.4	-5.7 %
Customer deposits	4,654.9	4,967.0	5,271.2	6.1 %
Receivables from banks	15.2	1,455.2	1,896.0	30.3 %
Deposits from banks	585.5	570.7	481.1	-15.7 %
Bonds and debt securities	679.0	404.1	347.6	-14.0 %
Shares and other variable yield securities	20.6	18.0	19.1	6.1 %
Equity (excluding subordinated loans)	390.7	404.9	436.6	7.8 %
Subordinated loans (excluding accrued/ deferred interest)	50.0	50.0	50.0	0.0 %
Total assets	5,814.8	6,130.3	6,390.0	4.2 %
Business volume	5,919.1	6,246.3	6,499.4	4.1 %

Income statement in € million	2021	2022	2023	Change 2022 / 2023
Gross profit	**137.1**	**151.3**	**204.5**	**35.2 %**
Net interest Income	87.9	98.7	156.0	58.1 %
Net Commission Income	54.8	51.4	47.3	-8.0 %
Other Income and Expenses	-5.6	1.2	1.2	0.0 %
General administrative expenses	**95.1**	**102.7**	**112.6**	**9.6 %**
Personnel expenses	55.0	61.5	60.2	-2.1 %
Operating expenses	36.9	38.0	49.4	30.0 %
Depreciation on tangible assets	3.2	3.2	3.0	-6.3 %
Risk Provision	**11.9**	**10.7**	**15.2**	**42.1 %**
Operating Results	**30.1**	**37.8**	**76.7**	**102.9 %**
Extraordinary Result	**0.0**	**0.0**	**0.0**	**0.0 %**
Net income for the financial year	**14.7**	**16.9**	**19.4**	**14.8 %**

Key figures, other disclosures	12/31/2021	12/31/2022	12/31/2023
Total capital ratio	14.2 %	13.3 %	15.3 %
Common Equity Tier 1 capital ratio	11.7 %	11.2 %	12.8 %
Number of shareholders (approx.)	5,300	5,300	5,300
Dividend [1)]	0.80 €	0.80 €	0.90 €
Dividend Yield in % [1)]	2.60 %	2.65 %	2.73 %
Earnings per share in € [2)]	0.98 €	1.66 €	3.18 €

[1)] Disclosure for 2021 relates to old share

[2)] Disclosure for 2022 and 2023 under consideration of the adjustment of the fund for general banking risks.

NATIONAL-BANK AG
Theaterplatz 8 · 45127 Essen
Telephone: 0201 8115-0 · Telefax: 0201 8115 -500
national-bank.de · info@national-bank.de