Disclosures of NLB Group for the year 2012

in accordance with the Regulation on disclosures by banks and savings banks

NLB

Ljubljana, April 2013

Contents

1. Introduction

European capital legislation based on Basel II principles among other introduced the requirements on transparency of banks' operations. European banks are obliged to disclose certain information with the aim to inform potential investors on the assumed risks.

In Slovenian legislation, the mandatory disclosures are determined by Regulation on disclosures by banks and savings banks. NLB published disclosures in line with this regulation for the first time in 2007, and since then, the list of disclosures was extended.

According to the capital legislation, NLB d.d. being »EU parent bank« is obliged to publish disclosures on the consolidated level. Disclosures can be published as a part of annual report or separately on the bank's website. NLB decided for the second option.

In the table in the appendix, a list of required disclosures by articles of the regulation is shown together with the references to the correspondent chapters of this material, where the information required in relevant articles are disclosed.

NLB Group applies the following approaches in calculating the capital requirements:
- credit risk – standardized approach,
- market risks – standardized approach,
- operational risk - basic indicator approach.

Therefore, certain disclosures relating to approaches that are not used in calculations are not applicable for the NLB Group:
- disclosures relating to the IRB approach for credit risk (Article 13. c, Article 17 and Article 24),
- disclosures relating to internal models to calculate capital requirements for market risks (Article 19 and Article 14. i),
- disclosures relating to the advanced measurement approach for operational risk (Article 20. b and Article 26).

Furthermore, certain disclosures relating to the types of transactions, that the NLB Group does not currently carry, are not applicable for the NLB Group as well:
- disclosures relating to securitization (Article 23),
- disclosures relating to credit derivatives (Article 14. g, 14. h and 25. d),
- disclosures relating to balance-sheet netting as a credit protection (Article 25.a).

Numerical data in this material are based on COREP reports sent to the supervisory authorities. Due to rounding to thousand euros, there may be minimal discrepancies in totals within each category and differences between the tables.

Disclosures of NLB Group for the year 2012 have been verified by the Internal audit and not by an independent certified auditor.

2. Risk management objectives and policies

(Article 10 of the Regulation on disclosures by banks and savings banks)

2.1. The strategies and processes for managing risk

(Article 10.a of the Regulation on disclosures by banks and savings banks)

NLB is a universal bank, which is present through NLB Group at most in South-Eastern markets and to a lesser degree also in Western-Europe markets. A key strategic market remains Slovenia, where the group generates most of its revenue. Next to traditional banking products, NLB Group's offer consists of other financial services providing the comprehensive treatment of clients' financial needs. The key strategic pillars of the offer are:

- retail banking (commercial banking, asset management, life and pension insurance, private banking) and
- corporate banking (commercial banking, corporate finance, brokerage in the capital markets for the needs of customers, trade finance).

In South-Eastern Europe markets, that include Bosnia and Herzegovina, Montenegro, Kosovo and Macedonia, NLB Group is active mainly in retail segment.

In accordance with the Decision of the European Commission related to two capital increases provided by the Republic of Slovenia, which are according to EC rules treated as a state aid, Restructuring plan for NLB Group was prepared. Based on the Restructuring plan, new Strategy of the NLB Group will be formed. The main objective of the plan is to provide long-term sustainable and profitable business model for NLB, so that no further state aid is needed. Accordingly, it is necessary to provide:

- focus on the core business of the NLB Group, where establishment or improvement of competitive advantage is possible in the markets identified as strategic;
- sustainable risk-assuming profile, stable structure of refinancing, quality corporate governance and the highest integrity and reputation of the Group;
- optimal management of non-core activities and investments of the NLB Group;
- development of relevant skills (sales, expert, process, management - strategic and operational, communications, creative and other) throughout the NLB team.

To achieve the above mentioned objectives, special attention is given to proactive management of all risk types, particularly credit risk and liquidity risk. Basic features of the NLB Group's risk appetite or its target risk profile was defined in the Restructuring plan. This plan includes specified risky activities, where exposure should not increase, list of non-strategic activities and projection of key performance indicators, including some of the indicators of riskiness of operations. In addition, criteria for the risk appetite are identified for the key risks the NLB Group.

Internal risk management policies of NLB Group members, approved and regularly amended by the management boards and discussed by the supervisory bodies of the members, specify in details the approaches and methodologies for monitoring, measuring and managing all types of risk, with the aim of:

- monitoring credit portfolio and minimizing the credit-risk related losses,
- providing adequate level of liquidity,
- minimizing negative market-risk related income effects,
- preventing the potential loss events resulting from operational risks.

NLB Group also identifies all the other important risks assumed in its operations. Accordingly, strategic risk, reputation risk, capital risk and profitability risk are monitored. Management policies for individual risk types of each Group member must be in line with the risk management standards in NLB Group and with the guidelines adopted by Management board of NLB d.d..

Monitoring of deviations from the set framework of the strategy and individual policies in risk management is provided through a system of reporting on realization (violations) of guidelines in individual policies and through a system of limits and specified framework ratios (foremost in non-credit risks) discussed by expert committees and Management board. Management board and committees who are also given the power to adopt decisions take the appropriate corrective actions.

Risk management processes are summarized in Chapter 7 of the financial section of the Annual report and are therefore not specifically exposed at this point.

2.2. The structure and organisation of the relevant risk management function

(Article 10.b of the Regulation on disclosures by banks and savings banks)

Management of risks assumed by each member of the NLB Group in its operations is foremost the responsibility of the member's management board, which must follow the business objectives and NLB Group’s strategy regarding the risk-assuming and risk-management and must accordingly adopt the appropriate risk management policies. Supervisory body of each group-member gives approval to objectives and policies and within its competence monitors their implementation as well as assesses their effectiveness. The member's management board and its committees may in accordance with their authorisations transfer certain, in particular operational responsibilities in risk management to lower management levels.

In the banking members of the NLB Group, risk monitoring is centralized in separate organisational unit (recommended also to other financial organisations). Centralised risk monitoring enables the standardised and systemic approach to risk management and consequently comprehensive aspect on developments in balance sheet of NLB Group and individual members. In accordance with the Risk management standards in the NLB Group, organisational structure of each group member should provide, that the risk monitoring function is separated from the risk management and business activities, which is important to obtain the objectivity needed in evaluation of business decisions.

Organisational unit of the bank/member, responsible for the risks, monitors the risk exposure in line with the adopted policies and checks the possible overdrafts of the limits set in advance in coordination with business units. Limits are generally confirmed by the company’s supervisory body. The exception is credit rating assessment and determination of maximum borrowing limits for materially important clients, which is in exclusive competence of NLB d.d.. In case that individual group member faces »large exposure« (10% of bank’s capital or more) to materially unimportant client, new exposures to such clients must be approved by supervision body of the group member with previous opinion of the NLB d.d.. Management of exposure is in the competence of business units.

Organisational unit responsible for the risks is directly responsible to the Management board and its committees (Credit committee, Assets and liabilities committee, Operational risk committee, Trading and market risk committee), which are responsible to supervisory body (Risk committee of the Supervisory board or Supervisory board).

Monitoring the risks in the NLB Group is carried out within two divisions of the NLB d.d.. Global risk division is responsible for the setting and supervising the implementation of risk management policies and monitoring the NLB Group’s exposure to all types of business risks. Credit risk and control division prepares credit analysis, proposals for credit ratings classification and maximum borrowing limits for all individual clients or groups of related clients and exercises the control over conclusion and implementation of credit transactions and transactions on financial markets in line with internal and external risk management rules.

All of the NLB Group members subject to consolidation report their risk exposure to NLB d.d. – Global risk division. All the relevant risks are reported further to Management board, Supervisory board and Assets and liabilities committee of the NLB Group, which adopt appropriate measures and decisions when needed. Global risk division in cooperation with Credit risk and control division is also responsible for preparation of guidelines, which enables the harmonisation of policies for management of credit, market and operational risks in individual group members and monitoring of their implementation.

2.3. The scope and nature of internal risk reporting and risk measurement systems

(Article 10.c of the Regulation on disclosures by banks and savings)

Organisation and delimitation of competences in risk management area are designed to prevent the conflict of interest and to ensure a transparent and documented decision-making process including the appropriate flow of information bottom-up and top-down. The reporting in NLB Group follows the internal guidelines, taking into the account not only the internal requirements but also the local legislation and demands of Bank of Slovenia (regarding the content and the frequency of reports).

Reports are in standardised forms, which enable appropriate harmonisation of risk management policies together with the methodologies for measurement and management of risk exposures, as well as establishment of relevant database on the group level.

Risk measurement systems are an integral part of risk management policies. For the purpose of supervision on a consolidated basis they are compliant with the regulatory requirements of the Bank of Slovenia, which are in line with European Directives 2006/48/EC and 2006/49/EC on the capital adequacy of banks (using standardized approach for credit and market risk and basic indicator approach for operational risk, except for NLB d.d, using a standardized approach for operational risk).

For internal use, next to regulatory methodologies, NLB Group uses also internal methodologies to measure the exposure to credit, market, interest rate and operational risk, consistent with the Basel guidelines and generally accepted in the banking practice. NLB Group established also internal methodologies for measuring the exposure to other non-financial risks.

Methodologies for measuring and monitoring risks are summarized in financial section of Annual report (Chapter 7) and are therefore not specifically exposed at this point.

2.4. The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

(Article 10.d of the Regulation on disclosures by banks and savings banks)

On the level of the NLB Group, the most important documents regarding risk mitigation are the following:

- Corporate governance policy of the NLB Group,
- Risk management in the NLB and the NLB Group,
- Risk management standards in the NLB Group,
- Liquidity risk management strategy of the NLB Group,
- Capital management policy of the NLB Group,
- Credit policy of the NLB and the NLB Group,
- Credit protection policy,
- Capital risk management policy of the NLB Group,
- Profitability risk management policy of the NLB Group,
- Strategic risk management policy of the NLB Group,
- Strategy for trading with financial instruments in the NLB Group,
- Policy of asset and liability management in NLB d.d. and NLB Group,
- Minimum standards – financial markets.

For the major categories of risk, members of the NLB Group adopted their own policies, which are consistent with the requirements of Risk management standards in the NLB Group. Guidelines, which are part of the minimum standards, are mostly based on internal policies of NLB d.d.:

- Foreign exchange risk management policy,
- Interest rate risk management policy,
- Liquidity risk management policy,
- Operational risk management policy,
- Policies for managing securities,
- Policies for managing non-financial risks.

Short summaries of policies are an integral part of Annual report of the NLB Group (financial section, Chapter 7 – Risk management).

3. Information on entities included in disclosures

(Article 11 of the Regulation on disclosures by banks and savings banks)

The bank obliged to make disclosures for the NLB Group is Nova Ljubljanska banka d.d., Ljubljana.

Consolidation in accordance with the International financial reporting standards:
Subsidiary undertakings, in which the NLB Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over operations, have been fully consolidated in accordance with the International financial reporting standards (IFRS). Investments in associates, in which the NLB Group directly or indirectly holds between 20% and 50% of voting rights, and over which the group exercises significant influence but does not control, are in the consolidated financial statements accounted for using the equity method of accounting. Joint ventures are included in the consolidated financial statements using the equity method of accounting. Detailed disclosure of the listed companies is available in Annual report of the NLB Group (Chapter 5.13 of financial report and Chapter: NLB Group of business report)

Consolidation for the purpose of the supervision on a consolidated basis pursuant to the Regulation on the supervision of banks and savings banks on a consolidated basis:
In consolidation for the purpose of supervision on a consolidated basis, only credit institutions, financial institutions, ancillary services undertakings and asset management companies are included. Therefore, financial reports based on this type of consolidation do not include companies in life-insurance and pension-insurance activities as well as non-financial companies. Furthermore, joint ventures are accounted for using proportional method of consolidation.

Members of the NLB Group, that are not included in consolidation for the purpose of the supervision on a consolidated basis due to their activity:

NLB Nov Penziski fond a.d., Skopje
Management board:
- Davor Vukadinović, president the Management board
- Peter Velkavrh, member of the Management board
- Mira Šekutkovska, member of the Management board

Activity: obligatory and voluntary pension insurance
Share capital: EUR 2,120 thousands
Status: NLB Group subsidiary
NLB Group ownership interest: 100%

Skupna pokojninska družba d.d., Ljubljana
Management board:
- Aljoša Uršič, president of the Management board
- Peter Krassnig, member of the Management board

Activity: supplementary voluntary pension insurance
Share capital: EUR 6,750,763.80
Status: NLB Group associate
NLB Group ownership interest: 28.13%
Other qualified owners: Zavarovalnica Triglav (30.14%), Gorenjska banka d.d. (26.03%)

NLB Vita d.d., Ljubljana
Management board:
- Barbara Smolnikar, president of the Management board
- Irena Prelog, member of the Management board

Activity: life and accident insurance
Share capital: EUR 6,860,290.44
Status: NLB Group joint venture
NLB Group ownership interest: 50%
Other qualified owners: KBC Insurance (50%)

Argo d.o.o., Horjul
Management:
Andrej Benkovič, company manager
Tomaž Verhovec, procurator
Activity: trading and manufacturing
Share capital: EUR 17,913.18
Status: available for sale
NLB Group ownership interest: 75%
Other qualified owners: Amato d.o.o. Trzin (12.5%), Alpro d.o.o. Mengeš (12.5%)

Joint ventures, that are included in consolidated financial reports for the purpose of supervision on a consolidated basis using proportional method of consolidation (in consolidation in accordance with IFRS included using equity method of accounting):

Prvi faktor d.o.o.
Management:
Ernest Ribič, managing director
Matej Špragar, managing director
Activity: factoring
Share capital: EUR 3,168,419.30
Status: NLB Group joint venture
NLB Group ownership interest: 50%
Other qualified owners: SID – Slovenian export and development bank (50%).
Daughter companies that are indirectly consolidated in NLB Group (all in 100% ownership of Prvi factor d.o.o. and all in factoring activity):

- Prvi faktor Beograd
- Prvi faktor Sarajevo
- Prvi faktor Zagreb
- Prvi faktor Skopje (inactive).

There is no significant current or foreseen practical or legal impediment to the prompt transfer of capital or repayment of liabilities among the parent and daughter companies in the NLB Group. Possible legal impediments to the transfer of capital derive from provisions regarding the minimum amount of capital in accordance with the local legislation relevant for individual group members.

All of the NLB Group subsidiaries that are not included in the consolidation under the Decision on the Supervision on a consolidated basis as at 31 December 2012 fulfilled the required minimum capital. The total amount of capital deficit is 0.

4. Capital (own funds)

(Article 12 of the Regulation on disclosures by banks and savings banks)

4.1. Key information on the main features of all own funds items and components

(Article 12.a of the Regulation on disclosures by banks and savings banks)

Banks' capital (own funds) consists of three categories (tiers), according to characteristics and conditions prescribed by the Regulation on the calculation of own funds of banks and savings banks (Official Gazette 85/10, 97/10, 100/11 and 100/12) (hereinafter Regulation on capital): Tier 1 capital (original own funds), Tier 2 capital (additional own funds) and Tier 3 capital (ancillary own funds).

Tier 1 capital is the highest-quality element of the capital and is mostly composed of the elements of the balance-sheet equity (share capital and related capital reserves) and to a limited extent also of certain high-quality hybrid instruments. Main features of Tier 1 capital components are: permanency (without maturity or with very long maturities, limited possibility of exercising call options), flexibility in terms of disbursements (payments of returns are not cumulative) and full availability to cover losses (subordination to all of the other banks' obligations). The required characteristics are detailed in the Article 10 (shares) and Article 16 (hybrid instruments) of the Regulation on capital.

The current legislation treats Tier 1 capital as a single category, but the European Banking Supervisory Authority (EBA) introduces the subcategory Core tier 1 consisting of top-quality capital, which should in principle include only elements related to equity shares, but not hybrid instruments. The only exceptions are convertible capital instruments which fulfil all the required criteria for inclusion in Core tier 1 capital.

Tier 1 capital of the NLB Group therefore consists of ordinary shares and related reserves and of convertible hybrid instrument (so-called CoCo), which complies with all the EBA criteria and is therefore eligible for inclusion in Core tier 1 capital. In line with the contract, instrument is to be converted in ordinary share capital in case of deterioration of NLB's capital position below predetermined level. Trigger for conversion was fulfilled in the beginning of the year 2013.

Given that the NLB Group currently holds no other Tier 1 hybrid instruments, its total Tier 1 capital according to EBA criteria qualifies as Core tier 1 capital.

Tier 2 capital is composed of hybrid instruments, subordinated debt instruments and part of revaluation reserves. Tier 2 hybrid instruments have no maturity; the call is only possible after five years. Subordinated debt instruments can have maturity, but it must be longer than five years. Subordinated debt instruments are gradually excluded from Tier 2 capital in the last five years before their maturity (cumulative annual 20 percent discount). The required features of the instruments are detailed in the Article 25 (hybrid instruments) and Article 28 (subordinated debt) of the Regulation on capital.

NLB Group includes several hybrid instruments and subordinated debt instruments in Tier 2 capital, their key characteristics are shown in the table below.

in thousands of EUR

Capital instrument	Type	Maturity	Incentive to redeem	Interest rate	Nominal value	Included in calculation of capital
Convertible hybrid - CoCo (Core Tier 1 eligible)	loan	-	NO	10.0%	320,000	320,000
Hybrid financial instruments in Tier 1 capital						**320,000**
Hybrid instrument	debt security	-	YES	3M EURIBOR+1.6% to 17.12.2014, thereafter 3M EURIBOR +3.1%	29,100	29,100
Hybrid instrument	loan	-	YES	3M EURIBOR + 0.95% to 24.7.2012, thereafter 3M EURIBOR + 1.7%	84,500	84,500
Hybrid financial instruments in Tier 2 capital						**113,600**
Subordinated debt	loan	30.12.2014	YES	6M EURIBOR + 5.1% to 22.03.2014, thereafter 6M EURIBOR + 8.5%	4,500	900
Subordinated debt	loan	14.6.2016	YES	EURIBOR + 0.45% to 14.6.2011, thereafter EURIBOR + 1.1%	75,000	45,000
Subordinated debt	loan	30.6.2018	YES	6M EURIBOR + 4.2% to 22.9.2013, thereafter 6M EURIBOR + 6.3%	12,000	12,000
Subordinated debt	loan	30.6.2020	YES	6M EURIBOR + 5.7% to 30.6.2015, thereafter 6M EURIBOR + 7.7%	5,000	5,000
Subordinated debt	debt security	25.2.2013	NO	6M EURIBOR+1.4%	12,500	0
Subordinated debt	debt security	9.6.2013	NO	7.0%	48,963	0
Subordinated debt	debt security	24.5.2017	NO	6.25%	61,419	49,135
Subordinated debt in Tier 2 capital						**112,035**
Total					**652,982**	**545,635**

Tier 3 capital consists of subordinated debt instruments, which are subordinated only to ordinary banks' obligations, but not to the above listed capital instruments of higher quality. NLB Group currently holds no such instrument.

Next to above mentioned elements of capital, several deduction items should be considered in the calculation of the banks' capital, that reduce the total amount of individual capital categories. Tier 1 capital of the NLB Group is reduced by the amount of investments in intangible assets and 50% of investments in equity and other capital instruments of those financial companies in which NLB Group holds more than 10% shares (or 20% in case of insurance companies). The remaining 50% of such investments are deducted from Tier 2 capital.

4.2. Capital and capital adequacy of the NLB Group – the amounts of individual components of capital adequacy calculation

(Articles 12.b, 12.c, 12.d and 12.e of the Regulation on disclosures by banks and savings banks)

in thousands of EUR

	31.12.2012	31.12.2011
TOTAL REGULATORY CAPITAL (OWN FUNDS)	**1,168,223**	**1,500,022**
TIER 1 CAPITAL	**1,011,264**	**1,027,032**
Paid up share capital	104,731	92,314
Own shares	-2,962	-3,609
Capital reserves (share premium)	774,472	727,603
Reserves and retained profit or loss	-90,515	199,204
Minority interest	18,879	21,535
Valuation differences - prudential filters	-874	-9,702
Hybrid instruments in Tier 1	320,000	130,000
Of which hybrid instruments in transition period (4th paragraph of Article 34)	*0*	*130,000*
Of which hybrid instruments with incentives to redeem	*0*	*130,000*
Other deductions	-112,467	-130,313
Intangible assets	*-112,467*	*-130,313*
Excess on limits for innovative instruments	*0*	*0*
Impairments and provisions not reported due to a book-entry delay	*0*	*0*
Difference between impairments and provisions according to IFRS and	*0*	*0*
Other	*0*	*0*
TIER 2 CAPITAL	**240,633**	**571,487**
Hybrid instruments	113,600	220,000
Subordinated debt	112,035	342,511
Other	14,998	8,976
DEDUCTIONS FROM TIER 1 AND TIER 2 CAPITAL*	**-83,674**	**-98,497**
Of which shortfall of impairments and provisions under IRB approach (Article 30.f)	*0*	*0*
TIER 3 CAPITAL (to cover market risks)	**0**	**0**
CAPITAL REQUIREMENTS	**884,431**	**1,080,758**
TOTAL CAPITAL REQUIREMENT FOR CREDIT RISK (standardised approach)	768,739	953,802
TOTAL CAPITAL REQUIREMENT FOR MARKET RISK	17,560	28,650
CAPITAL REQUIREMENT FOR OPERATIONAL RISK	98,132	98,306
CAPITAL ADEQUACY RATIO	**10.6%**	**11.1%**
TIER 1 RATIO	**8.8%**	**7.2%**
CORE TIER 1 RATIO	**8.8%**	**6.3%**

** Deduction items reduces Tier 1 and Tier 2 capital, each in 50% of deduction item amount*

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5. Minimum capital requirements and process of internal capital adequacy assessment)

(Article 13 of the Regulation on disclosures by banks and savings banks)

5.1. A summary of the bank’s approach to assessing the adequacy of its internal capital to support current and planned activities

(Article 13.a of the Regulation on disclosures by banks and savings banks)

In the Internal capital adequacy assessment process (ICAAP), NLB Group complies with the regulatory requirements by Bank of Slovenia, as well as other recommendations and best banking practices. Key highlights of the implementation of the ICAAP process in the NLB Group are as follows:
- definition of the risk profile, which is the basis for the operating guidelines;
- definition of risk assuming and risk management strategy of the NLB Group, where NLB Group’s attitude towards risk-taking is declared;
- definition of methodologies for internal assessment of capital requirements;
- planning the amount of available capital, definition of target capital adequacy ratio;
- ongoing monitoring and identification of measures to control and mitigate risks.

ICAAP process in the NLB Group is incorporated in the implementation of long-term planning process. With the active role of the NLB's management, it represents one of the components of corporate governance with the aim of providing long-term stability of the NLB Group. Identification and assessment of risks are performed on the basis of internal methodologies which consider the complexity of the structure of operations with the tendency of upgrading to more demanding advanced risk measurement approaches. NLB formed a risk profile, where its willingness to assume risks is declared and corresponding limits are defined. NLB Group established a system that aims to assume risks within its ability (defined as the volume of available capital). Within the ICAAP process, regular quarterly monitoring is performed and a set of corrective measures to control and mitigate risks is defined.

Based on the key strategic guidelines arising from macroeconomic forecasts, business model and regulatory requirements, long-term willingness to take risks ("risk appetite") is defined at the level of NLB Group. For each of identified key risk types, criteria for risk assessment and risk appetite are defined (guidelines on assuming risk and identification of the target risk profile). The risk profile is subject to regular review with the respect to changes in key business and financial policies of the NLB Group.

Internal assessment of capital requirements takes the following steps:
- identification of risks and definition of significant types of risk;
- choosing the approach for calculating regulatory capital requirements ("Pillar1");
- internal methodologies for calculation of capital requirements for non-regulatory risk ("non-Pillar1");
- stress scenarios for non-regulatory risks ("non-Pillar1")
- methodology for making an aggregate assessment of capital requirements for all the significant types of risk.

In the scope of regulatory risk, which includes credit, operational and market risks, NLB Group uses the standardized approach for credit and market risks and basic indicator approach for calculation of capital requirements for operational risk.

When preparing internal assessment of capital requirements, NLB identifies additional risks that are not included in the calculation under regulatory approach, but are just as important for the bank. Among them are, in scope of credit risk: concentration risk (to individual customers or groups of connected clients, within institutional sector and collateral concentration risk) and credit risk associated with equity investments. The Group calculates the capital requirement for non-financial risks (including capital risk, profitability risk, strategic risk and reputation risk) when any of them is identified as a key risk for NLB Group. Besides, non-regulatory risks include also effects of stress scenarios for credit risk, foreign exchange risk, liquidity risk, interest rate risk in the banking book and market risk from securities.

Internal methodologies for the calculation of capital requirements for non-regulatory risks are defined in the document "ICAAP process - methodology of assessing capital requirements".

5.2. Capital requirements

(Articles 13.b, 13.d and 13.e of the Regulation on disclosures by banks and savings banks)

NLB Group applies the following approaches in calculating the capital requirements:

- credit risk – standardized approach,
- market risks – standardized approach,
- operational risk - basic indicator approach.

Capital requirements at the end of the year 2012, compared to the end of 2011, were as follows:

in thousands of EUR

	31.12.2012	31.12.2011
TOTAL CAPITAL REQUIREMENTS	**884,431**	**1,080,758**
TOTAL CAPITAL REQUIREMENT FOR CREDIT RISK (standardised approach)	768,739	953,802
Central governments or central banks	1,208	29,302
Regional governments or local authorities	5,029	6,395
Public sector entities	3,985	4,046
Multilateral development banks	1,355	1,540
International organisations	0	0
Institutions	21,103	34,862
Corporates	285,950	401,238
Retail	209,055	234,240
Secured by real estate property	14,463	592
Past due items	88,600	101,848
Items belonging to regulatory high-risk categories	85,654	86,830
Covered bonds	467	0
Short-term claims on institutions and corporate	0	0
Collective investments undertakings	0	0
Other items	51,871	52,909
TOTAL CAPITAL REQUIREMENT FOR MARKET RISKS	17,560	28,650
CAPITAL REQUIREMENT FOR OPERATIONAL RISK	98,132	98,306

6. Credit risk and dilution risk

(Articles 15 and 16 of the Regulation on disclosures by banks and savings banks)

To calculate capital requirements for credit risk, NLB Group uses a standardized approach, prescribed by the Regulation on the calculation of capital requirements for credit risk under the standardised approach for banks and savings banks, following the Directives 2006/48/EC and 2006/49/EC on capital adequacy of banks. In calculation of capital requirements, the effect of credit protection as a secondary source of repayment of receivables is taken into account. For these effects, NLB uses a simple method of calculation in accordance with the aforementioned decision and the Regulation on credit protection. In line with the prescribed methodology, capital requirement is calculated according to the segment and the credit quality of customers (determined by external credit assessment) and the quality of the credit protection, which must be appropriately valued and must meet the regulatory minimum requirements.

6.1. The use of credit assessments made by external credit assessment institutions (ECAI) in the calculation of capital requirement for credit risk

(Articles 16.a, 16.b, 16.c and 16.d of the Regulation on disclosures by banks and savings banks)

For the purpose of calculating capital requirements for credit risk of NLB Group, credit institution Fitch Ratings was nominated. Bank of Slovenia listed Fitch Ratings agency among the eligible external credit assessment institutions and published the rules for mapping its credit assessments (ratings) to credit quality categories specified in the regulation. The credit assessments of this agency are used for the following categories of exposure:

- to central governments and central banks and
- to institutions, including exposure to institutions with short-term credit assessment.

The process of determining the risk weights for each category of exposure is conducted in accordance with the Decision on capital adequacy for credit risk under the standardized approach.

For categories of exposure, for which the eligible external credit assessment institution (ECAI) was nominated, the risk weights are determined according to credit assessment of the financial instrument (exposure). In case that credit assessment is not available, the higher weighting of the one corresponding to the long-term credit rating of the debtor, to the rating of other financial instruments of the same debtor or to the credit rating of the debtor's country. In assigning risk weights to unrated financial instruments, prescribed weight increases must be applied, related to the weight of other short-term instruments of the same debtor.

For categories of exposure, for which ECAI has not been nominated, risk weight is assigned in accordance with prescribed regulation, which means they are assigned on a basis of rating of the debtor's country and according to specific rules for each category of exposure.

6.2. A definition of past due and impaired items for accounting purposes

(Article 15.a of the Regulation on disclosures by banks and savings banks)

Individual exposures are classified in the category of past due items, when the debtor is more than 90 days in delay with total exposure or with part of the exposure exceeding 2% of the withdrawn amount of the exposure or EUR 50,000, but not less than EUR 200. This definition is in line with the Regulation on the calculation of capital requirements for credit risk under the standardised approach for banks and savings banks.

Impairment methodology is disclosed in the financial section of the Annual report, Chapter 2.13.

6.3. A description of the methodology for making value adjustments to items and provisions

(Article 15.b of the Regulation on disclosures by banks and savings banks)

Disclosed in the financial section of the Annual report, Chapter 2.13.

6.4. A breakdown of exposures and credit protection techniques by category of exposure

(Articles 15.c, 16.e, 25.f and 25.g of the Regulation on disclosures by banks and savings banks)

in thousands of EUR

Category of exposure	Original exposure pre conversion factor	Share of each category	Net value of exposure	Credit risk mitigation techniques (CRM)				Value of CRM / Net exposure	Net exposure after CRM substitution effects pre conversion factors	Exposure value	Risk weighted exposure	Capital require ment	Share of capital require ment
				Unfunded credit protection: adjusted values (GA)		Funded credit protection							
				Guaran tees	Credit deriva tives	Financial collateral: simple method	Other funded credit protection						
	1	2=1/sum(1)	3	4	5	6	7	8=(4+5+6+7)/3	9	10	11	**12**	.3=12/sum(12
Exposures to central governments and central banks	2,632,360	14.31%	2,630,694	0	0	0	0	0.00%	3,665,714	3,642,258	15,100	**1,208**	0.16%
Exposures to regional governments or local authorities	114,550	0.62%	111,302	0	0	0	0	0.00%	111,302	111,076	62,864	**5,029**	0.65%
Exposures to public sector entities	173,274	0.94%	166,771	53,248	0	53,798	0	64.19%	63,166	56,819	49,811	**3,985**	0.52%
Exposures to multilateral development banks	33,866	0.18%	33,866	0	0	0	0	0.00%	33,866	33,866	16,933	**1,355**	0.18%
Exposures to institutions	788,482	4.29%	787,467	101,534	0	20,397	0	15.48%	693,795	620,043	263,788	**21,103**	2.75%
Exposures to corporates	5,003,197	27.19%	4,756,424	727,166	0	58,477	0	16.52%	4,015,569	3,574,371	3,574,371	**285,950**	37.20%
Retail exposures	4,162,546	22.62%	4,056,072	1,881	0	145,872	0	3.64%	3,974,768	3,484,255	2,613,193	**209,055**	27.19%
Exposures secured by real estate property	424,331	2.31%	413,282	0	0	0	0	0.00%	413,282	403,040	180,783	**14,463**	1.88%
Past due items	1,791,037	9.73%	908,288	321	0	877	0	0.13%	907,664	905,985	1,107,505	**88,600**	11.53%
Items belonging to regulatory high-risk categories	1,930,607	10.49%	943,965	16,084	0	2,382	0	1.96%	929,005	843,829	1,070,670	**85,654**	11.14%
Exposures in the form of covered bonds	31,490	0.17%	31,490	0	0	0	0	0.00%	31,490	31,490	5,834	**467**	0.06%
Other items	1,314,126	7.14%	1,308,282	0	0	0	0	0.00%	1,308,282	1,308,276	648,384	**51,871**	6.75%
Total	**18,399,865**	**100.00%**	**16,147,901**	**900,234**	**0**	**281,803**	**0**	**7.32%**	**16,147,901**	**15,015,309**	**9,609,236**	**768,739**	**100.00%**

The table above shows the distribution of exposure, credit protection techniques, risk weighted assets and capital requirements of the NLB Group according to the categories of exposure.

Exposures to corporates represent 27.2% of total exposure (at the end of 2011 more than 37%) and 37.2% of total capital requirements for credit risk (42% at the end of 2011), followed by retail with 22.6% of total exposure (22.5%at the end of 2011) and 27.2% of total capital requirements (at the end of 2011 almost 24.6%). If we add the exposures secured by real estate, regulatory high-risk items and past-due items, which also constitute the segments of companies and natural persons, all five categories represent more than 70% of total exposure (the same at the end of 2011) and over 89.0% of total capital requirements for credit risk (86.5%at the end of 2011). The share of regulatory high-risk and past-due items in the year 2012 increased by 3 percentage points from the end of 2011, reflecting the phase in economic cycle and the related deterioration in quality of corporate segment in credit portfolio. Exposures to governments and institutions contribute significantly to total exposure, but not to capital requirements, as the weights used for these categories are low.

6.5. The geographic distribution of exposures, broken down by material categories of exposure

(Article 15.d of the Regulation on disclosures by banks and savings banks)

in thousands of EUR

Country	Category of exposure					
	Exposures to central governments and central banks	Exposures to institutions	Exposures to corporates	Retail exposures	Past due items	Other
Slovenia	1,532,527	134,442	3,597,028	2,787,291	828,269	2,919,881
Bosnia and Herzegovina	224,685	6,075	221,937	390,068	223,818	221,241
Macedonia	199,527	15,246	323,474	421,686	38,297	201,517
Serbia	141,300	15,084	236,344	115,884	160,923	238,285
Montenegro	37,468	0	218,362	227,211	130,197	143,845
Croatia	4,212	57,229	131,879	32,807	228,842	91,404
Republic of Kosovo	50,140	0	131,086	173,303	12,507	44,355
Germany	121,655	122,891	1,560	3,170	18,111	11,582
Austria	83,551	81,761	2,887	196	13,035	1,112
Netherlands	48,138	25,995	46,857	26	0	30,728
Luxemburg	5,179	68,726	4,416	9	4,292	32,769
Czech republic	2,106	4,677	16,718	919	43,924	45,594
France	63,014	36,899	0	348	270	27
Belgium	56,949	33,214	8,005	232	263	877
Italy	10,048	25,494	24,393	5,550	20,095	7,309
Great Britain	0	66,130	1,684	742	1,077	7,237
Switzerland	7	21,040	18,645	206	2,391	12,197
United States of America	11	23,904	4,912	1,004	588	2,092
Other countries	51,842	49,676	13,009	1,893	64,138	10,194
Total	**2,632,359**	**788,482**	**5,003,197**	**4,162,546**	**1,791,037**	**4,022,243**

In the table above, geographic distribution of the key categories of exposure is shown, representing 78.1% of total exposure as at 31.12.2012.

The exposure of the Group is geographically concentrated in markets, where the headquarters of banking members of the group are (strategic markets). Exposure in Slovenia exceeds 64% of total exposure, while nearly 90% of the exposure is concentrated in the above-mentioned strategic markets of the group. In other markets, only exposure in the segments of governments and central banks and institutions is significant, while the exposure to corporate and retail segments is smaller.

6.6. The distribution of exposures by institutional sector and counterparty type, broken down by category of exposure

(Article 15.e of the Regulation on disclosures by banks and savings banks)

The distribution of exposures by counterparty type, broken down by category of exposure

in thousands of EUR

Category of exposure	CD	FO	IN	JS	PO	RB	RD	Drugo
Exposures to central governments and central banks	2,632,359	0	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0	0	0	114,550	0
Exposures to public sector entities	0	0	0	173,275	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0	33,866	0	0
Exposures to institutions	0	0	788,482	0	0	0	0	0
Exposures to corporates	0	0	0	0	5,003,197	0	0	0
Retail exposures	0	3,075,632	0	0	1,086,914	0	0	0
Exposures secured by real estate property	0	134,208	0	0	290,123	0	0	0
Past due items	138	159,054	25,904	32	1,602,809	0	3,101	0
Items belonging to regulatory high-risk categories	0	11,921	3,780	18	1,914,245	0	643	0
Exposures in the form of covered bonds	0	0	31,490	0	0	0	0	0
Other items	479,177	29,860	3,562	15	239,561	0	2	561,950
Total	**3,111,674**	**3,410,675**	**853,218**	**173,339**	**10,136,848**	**33,866**	**118,296**	**561,950**

Legend:
CD – central governments
FO – retail customers
IN – institutions
IS – investment funds
JS – public sector
PO – corporate customers
RB – multilateral development banks
RD – regional governments

Distribution of exposure categories by types of customers shows that the largest share of past due exposure relates to corporate segment (89%), followed by a retail segment (9%). Regulatory high-risk exposures are almost entirely from corporate segment. Retail segment consists of exposures to individuals (74%) and companies (26%).

The distribution of exposures by institutional sector, broken down by category of exposure

in thousands of EUR

Category of exposure	Individuals	Ministries (public sector)	Heavy industry	Trade	Finance	Construction	Transport and communica tions	Other*
Exposures to central governments and central banks	0	2,632,359	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	107,676	4,021	0	0	539	0	2,313
Exposures to public sector entities	0	7,185	2,231	73	111,687	954	20,982	30,163
Exposures to multilateral development banks	0	0	0	0	33,866	0	0	0
Exposures to institutions	0	0	0	0	788,482	0	0	0
Exposures to corporates	0	12,259	1,242,737	1,066,790	261,632	329,238	938,882	1,151,659
Retail exposures	3,075,632	1,647	242,194	353,962	11,238	108,310	103,435	266,128
Exposures secured by real estate property	134,208	0	110,045	65,224	7,175	14,996	32,092	60,591
Past due items	159,054	3,277	240,469	372,767	89,526	395,607	150,859	379,478
Items belonging to regulatory high-risk categories	11,921	1,286	319,898	177,396	333,725	739,847	71,549	274,984
Exposures in the form of covered bonds	0	0	0	0	31,490	0	0	0
Other items	0	0	0	0	0	0	0	1,314,126
Total	**3,380,815**	**2,765,689**	**2,161,596**	**2,036,211**	**1,668,820**	**1,589,491**	**1,317,799**	**3,479,442**

** Category "Other" includes other industries, category "Other categories of exposure" and balancing.*

In terms of exposure, most important segments are individuals (18%) and ministries including public administration (15%), while among the industrial sectors, concentration is largest in heavy industry, trade and construction. The largest share of past-due items in total exposure is recorded in construction (25%), followed by trade with over 18%. Even 47% of total exposure in construction industry is categorized as regulatory high-risk items.

6.7. A breakdown of all categories of exposure into residual maturities of up to one year and more than one year

(Article 15.f of the Regulation on disclosures by banks and savings banks)

in thousands of EUR

Category of exposure	Remaining maturity	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Exposures to central governments and central banks	long-term	1,059,527	0	1,486
	short-term	1,572,833	0	179
Exposures to regional governments or local authorities	long-term	51,895	0	1,302
	short-term	62,655	0	1,947
Exposures to public sector entities	long-term	84,033	0	2,100
	short-term	89,241	1	4,404
Exposures to multilateral development banks	long-term	4,605	0	0
	short-term	29,260	0	0
Exposures to institutions	long-term	254,680	0	232
	short-term	533,802	0	784
Exposures to corporates	long-term	1,860,119	115	48,280
	short-term	3,143,078	214	198,493
Retail exposures	long-term	1,715,181	399	40,081
	short-term	2,447,365	945	66,393
Exposures secured by real estate property	long-term	171,004	0	3,815
	short-term	253,326	0	7,235
Past due items	long-term	687,316	563,047	384,759
	short-term	1,103,720	710,225	497,990
Items belonging to regulatory high-risk categories	long-term	1,146,583	992,898	630,071
	short-term	784,023	478,507	356,571
Exposures in the form of covered bonds	long-term	9,891	0	0
	short-term	21,599	0	0
Other items	long-term	2,636	0	16
	short-term	1,311,490	4,722	5,828
Total		**18,399,865**	**2,751,074**	**2,251,964**

As can be seen from the table above, the claims in delay over 90 days are almost entirely classified as past-due and regulatory high-risk items. Delays in these categories appear in both short-term as in long-term exposures. For these two categories, 83% of total impairments and provisions are formed.

6.8. Past due exposures and the amount of impairments provisions for significant institutional sectors and significant geographical areas

(Articles 15.g, 15.h and 15.i of the Regulation on disclosures by banks and savings banks)

In the following tables, the amount of exposure together with the amount of past-due items and the amount of impairments and provisions is shown for the important institutional sectors / geographic areas.

The distribution of exposures, the amount in delay over 90 days and the amount of established impairments and provisions, broken down by institutional sector

in thousands of EUR

Institutional sector	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Individuals	3,380,815	157,281	163,895
Ministries (public sector)	2,765,689	3,474	8,077
Heavy industry	2,161,596	418,921	381,603
Trade	2,036,211	392,747	399,756
Finance	1,668,820	331,616	271,657
Construction	1,589,491	851,533	498,366
Transport and communications	1,317,799	139,835	122,753
Undefined*	1,224,128	0	0
Services	1,180,204	296,174	244,920
Electricity, gas and water	424,032	20,542	30,469
Services - accommodation and food	336,812	54,761	45,080
Agriculture, forestry and fishing	169,262	77,933	73,265
Mining	67,715	4,459	5,035
Health care and social security	52,886	671	4,820
Education	24,403	1,126	2,269
Total	**18,399,865**	**2,751,074**	**2,251,964**

** Category "Undefined" include exposures in other sectors and exposures listed as" Other categories of exposure"*

The share of exposures in delay more than 90 days in total exposure is highest in construction, heavy industry, trade and services. Consequently, highest impairments and provisions are established in these sectors.

The distribution of exposures, the amount in delay over 90 days and the amount of established impairments and provisions, broken down by countries

in thousands of EUR

Country	Exposure value	Amount in delay over 90 days	Amount of established impairments and provisions
Slovenia	11,799,437	1,762,523	1,323,795
Bosnia and Herzegovina	1,287,825	109,081	144,274
Macedonia	1,199,746	55,732	116,625
Serbia	907,820	228,430	196,317
Montenegro	757,082	127,238	121,569
Croatia	546,372	258,423	136,072
Republic of Kosovo	411,392	11,698	22,838
Germany	278,969	18,243	14,117
Austria	182,543	14,095	14,081
Netherlands	151,745	1,043	26,755
Luxemburg	115,390	1,642	1,276
Czech republic	113,937	82,344	64,735
France	100,558	296	297
Belgium	99,540	263	454
Italy	92,889	20,300	24,778
Great Britain	76,869	1,075	648
Switzerland	54,487	2,392	2,372
United States of America	32,511	588	788
Bulgaria	31,619	14,735	19,553
Ukraine	31,042	27,678	14,345
Finland	25,750	0	0
Slovakia	20,621	11,871	3,748
Russian federation	12,657	0	5
Poland	11,278	0	56
Ireland	10,704	0	0
Other countries	47,081	1,384	2,466
Total	**18,399,865**	**2,751,074**	**2,251,964**

The amount of claims in delay more than 90 days represents 15% of total exposure; coverage with impairments and provisions is 12%. Among major geographic areas, most outstanding in terms of delays are Croatia (47% of receivables are past due over 90 days) and Serbia (25%). Accordingly, the coverage with impairments and provisions is high in both areas (Croatia 21.6%, Serbia 24.9%).

Disclosures according to Articles 15.g and 15.i of the Regulation on disclosures by banks and savings banks regarding the amounts and changes in value adjustments and provisions for significant institutional sectors or counterparty types are shown in the financial section of the Annual report 2012, Chapter 7.1 - Credit Risk Management.

7. Counterparty credit risk (CCR)

(Article 14 of the Regulation on disclosures by banks and savings banks)

7.1. The methodology used to assign internal capital and credit limits for counterparty credit exposures and the method used for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions

(Articles 14.a and 14.f of the Regulation on disclosures by banks and savings banks)

NLB Group monitors the exposure to counterparty credit risk using the mark-to-market method in accordance with the provisions of the Regulation on the calculation of capital requirements for market risk for banks and savings banks. Value of exposure equals the sum of current replacement cost and potential future credit exposure. In case of repo transactions, the exposure equals the current value of exposure of the placement (which includes the nominal value and accrued interest) less the current value of the collateral (the market price of the security). Here, the current value of exposure cannot exceed the agreed amount, which is not transmitted within the "margin call.

Monitoring of exposure takes place within the maximum borrowing limit for individual customer. Determination of the maximum borrowing limits is conducted in accordance with the criteria and procedures for approving investments and with the relevant regulations of the Bank of Slovenia.

Calculation of internal capital requirements for the above mentioned financial instruments is in analogy with calculation for the other types of investments under the standardised approach for credit risk. Given the low exposure of these financial instruments in the structure of all transactions, ther use of capital is relatively low.

7.2. A description of policies for securing collaterals and description of the effects of a downgrade in the bank's credit assessment in increasing the amount of collateral to be secured by the bank

(Articles 14.b and 14.d of the Regulation on disclosures by banks and savings banks)

Conclusion of derivatives in the NLB Group is specified in the document Strategy for trading with financial instruments in the NLB Group. In internal business policies, the minimum credit rating of the counterparty is determined, under which the bank does not enter into transactions with derivatives. The Bank has signed ISDA contracts with several banks, with which it concludes derivatives transactions, and with some of them also CSA. CSA is an addendum that governs the exchange of collaterals to cover market exposures of all transactions under the respective ISDA contract. Counterparty banks are not expected to terminate cooperation prematurely or to demand increased amount of collaterals, as NLB regularly covers the market exposure above the agreed level.

7.3. A description of policies with respect to wrong-way risk exposures

(Article 14.c of the Regulation on disclosures by banks and savings banks)

If the counterparty is called upon to provide the necessary additional first-quality collateral as a consequence of unfavourable movements on financial markets and if the counterparty fails to do so, the bank can close synthetic forward transaction and gather the repayment with the realisation of the existing collateral, while in other derivatives, collaterals are treated for individual transaction in accordance with the current master contract for transactions with derivatives. On the interbank market, NLB operates in accordance with the signed ISDA agreement and related annexes (CSA).

7.4. Gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank's disposal, and net credit exposure from derivatives

(Article 14.e of the Regulation on disclosures by banks and savings banks)

NLB Group applies contractual netting (such as CSA Agreement, Margin call) in a very small scale and only for internal purposes of monitoring the exposures. For regulatory reporting (calculation of exposure and capital requirements for credit risk), the NLB Group does not use a contractual netting. In accordance with Article 3, Point 2.b of the Regulation on disclosures by banks and savings banks, more detailed information is regarded as proprietary information of NLB and is therefore not disclosed.

8. Credit protection

(Article 25 of the Regulation on disclosures by banks and savings banks)

8.1. The policies and processes for collateral valuation and management

(Article 25.b of the Regulation on disclosures by banks and savings banks)

Credit protection policy

Cover document that governs area of credit risk protection of investments is the Credit protection policy in NLB d.d. and NLB Group. Policy is adopted by Management board of NLB d.d., whereas in other members of the group, policies are adopted by Supervisory board. Policy summarizes the basic guidelines that must be taken into account by bank employees when accepting, valuating and monitoring collaterals in order to reduce credit risk. Members of the NLB Group use appropriately adapted policies which must be coordinated with NLB d.d.

NLB Group prefers the acceptance of collaterals that meet the Basel II requirements in order to achieve both the improvement in credit risk management as well as the rationalisation in the use of capital. In line with Basel II rules, NLB Group accepts and monitors: deposits pledged as collateral, government guarantees, bank guarantees, debt securities issued by central governments and central banks, debt securities of banks and real estate collaterals (for the recognition of the effects on capital, these properties should be located in the European Economic Area).

Processes for collateral valuation

In accordance with the legal requirements, NLB Group established a system of monitoring and reporting the collaterals at fair (market) value. Collateral valuation is carried out prior to approval of the investment.

Market value of the pledged immovable and movable property is obtained from valuating reports of appraisers with appropriate licenses or, in case of collaterals for investments of lower values, from sales contracts, which may not be older than one year. In addition, NLB d.d. acquired the mortgage lending value for Basel II compliant business properties. The market value of financial instruments accepted as collaterals in NLB Group is acquired on an organized market (stock exchange), if the financial instrument is quoted there.

Monitoring of the value of accepted collaterals in investment's repayment period in NLB Group is established in accordance with the legally prescribed intervals and internal guidelines. For example, value of real-estate collaterals is monitored either by making individual valuation, either using internal methodologies for making own assessments of property values (applies to Slovenia in particular) based on public data and real-estate indexes, published by the competent government institutions (e.g. in Slovenia: Surveying and Mapping Authority of the Republic of Slovenia).

NLB d.d. formed a reference list of suitable appraisers with appropriate licenses. All appraisals must be made for the purpose of credit protection and in accordance with IVS. For the evaluations of loan collaterals of natural persons, contractual appraisers from the reference list are usually hired. In granting investments to legal entities and sole proprietors, appraisals are submitted by clients as a rule. If a customer submits the pricing, which is not prepared by the appraiser from the bank's reference list, the value is checked by expert unit of the bank which employs appraisers with the relevant licenses (legal civil engineering appraisers licensed by the Ministry of Justice and Public Administration and accredited real-estate appraisers licensed by the Slovenian Institute of Auditors). The expert unit is also responsible for appraisals of real-estate used to protect the investments of higher values.

In other members of the NLB Group, evaluations are carried-out by their employed appraisers and external appraisers with appropriate licenses. NLB Group also created a special reference list of appraisers eligible for preparing appraisals of real-estate properties located outside of Slovenia.

In real-estate collaterals, NLB follows the gudeline, that the bank's lien must be entered with a higher ranking. Exceptionally, in case of sufficiently large value of the real estate pledged as colateral, the lien with a different ranking can be recorded.

When accepting loan collaterals, bank follows the internal rules which determine the minimum safety or pledge quotients. NLB Group tends to conclude collateralized transactions in a way that the value of the collateral is higher than the collateralized exposure (depending on client's credit rating, maturity of investment, quality of credit protection, …) in order to reduce negative consequences in case of major fluctuations in market prices of the pledged assets. In case that the value of collateral decreases and/or the credit rating of the client deteriorates, NLB aims to gain additional collateral - where appropriate and in accordance with the contractual terms.

8.2. A description of the main types of collateral taken by the bank

(Article 25.c of the Regulation on disclosures by banks and savings banks)

NLB Group accepts different types of funded and unfunded credit protection to mitigate credit risk.

Using funded credit protection, in case of failing to fulfil the contractual obligations, NLB gains the right to sell certain assets to repay their claims, to retain certain non-monetary or monetary assets or to reduce/offset the amount of counterparty claim against the bank.

NLB Group accepts the following funded credit protection:

- property collaterals:
  - commercial and residential real-estate property
  - movable property
  - cash receivables
  - financial collateral (bank deposits or cash assimilated instruments, debt securities of various issuers, units of investment funds, equities and convertible bonds, investment portfolios)
  - pledge or assignment of receivables as collateral,
- other funded credit protection instruments (life insurance policies pledged to the bank...).

Unfunded credit protection is a type of credit risk mitigation, where a third person commits to pay the amount due in case of default by the original debtor (borrower).

NLB Group accepts the following unfunded credit protection: joint guarantees of natural and legal persons, bank guarantees, government guarantees (i.e. Republic of Slovenia,...), guarantees of regional and national development agencies, insurance company guarantees...

Quite often, investments are secured with the combination of different types of credit protection.

The decision regarding the type of credit protection and coverage of investment with collaterals depends on an analysis of customer data (credit rating and creditworthiness of the debtor) and maturity of the transaction, and varies depending on whether the investment is approved to natural or legal person. Legal entities and sole proprietors are required to submit the bill of exchange with the statement at the approval of any investment.

NLB Group is striving to achieve, especially in long-term exposures, high level of coverage with proper credit protection, primarily with real estate collateral. Thus, real estate collateral is the most common form of credit protection for the retail and corporate exposures. In corporate segment, it is followed by the government guarantees and guarantees of legal persons. In retail operations, the second most common credit protection is by insurance company and guarantors.

8.3. Information about market or credit risk concentrations within the credit protection taken

(Article 25.e of the Regulation on disclosures by banks and savings banks)

In granting loans, counterparty risk is the most important, and therefore, detailed analysis of the customers' creditworthiness is prepared. Collaterals are secondary source of repayment and their quality should not be the deciding factor in granting loans. However, collaterals are important in case of deterioration of client's creditworthiness. To avoid the impact of risks arising from various types of credit protection, the bank prescribed minimum pledge quotients (ratios between the value of collateral and exposure), which reflect the risk of each type of collateral and client and are determined on the basis of bank's experience and regulatory guidelines. Quotients are prescribed in the Credit protection manual.

In the current circumstances of decreasing value of collaterals, the bank pays special attention to careful monitoring of the fair value of received collaterals and their regular and conservative revaluation. At the same time, as a consequence of a detailed review of all received collaterals, only collaterals with realistic possibilities of providing repayment are considered.

The largest concentration is recorded in real estate collaterals, which were in the past considered as reliable and high quality type of collateral, but their quality dropped in the circumstances of poor liquidity of the real estate market and declining market value of the property. Consequently, additional impairments and provisions must be established for the non-performing exposures collateralized by real estates, based on estimated discounts on their value to be realized in the sales process.

When using securities as collateral, the bank faces market risk, specifically the risk of change in the price of securities on capital markets. In order to limit the size of such risks or possibility that the value of the pledged instruments fell below the value of exposure, the Credit protection manual prescribes for such collaterals the minimum ratio between the amount of exposure and the value of the security. Derogation from the prescribed quotients is only possible with the approval of the Credit committee or the Management board. The ratio between the value of exposure and the value of securities depends on the liquidity of the securities, their maturity, degree of correlation with movements of market indexes, i.e. the key features that reflect the degree of market-value fluctuation of securities and the possibility to sell them at their market price. Furthermore, for certain types of securities, the ratio is also influenced by the rating of the issuer, which reflects the credit risk of a pledged security. In case of unfavourable developments in capital markets, the ratio between the value of collateral and exposure might fall below the prescribed limit, then the debtor is required to provide additional securities or other types of credit protection.

When using guarantees as collateral, credit risk of guarantor appears. Therefore, the amount of accepted guarantee is included in the limit (debt ceiling) of its provider. The creditworthiness of the customer is impacted also by the potential credit risk related to the realization of credit protection.

Credit protection manual also defines the process of concluding credit protection, their realization and the characteristics required for collateral to meet regulatory and bank's internal rules, with the aim to eliminate the operational and legal risk.

The volume of credit protection that carry market or credit risk is therefore not limited, but is regularly monitored (by the volume and the value).

9. Operational risk

(Article 20 of the Regulation on disclosures by banks and savings banks)

Operational risk is the risk of loss arising from deficiencies or errors in operations of internal processes, systems and people or due to external events with the impact on operational results of the bank. This definition includes the legal risk, but not also the strategic risk and reputational risk. The latter is hard to evaluate, but is still considered in assessment of operational risk due to awareness of its importance.

When calculating regulatory capital requirements for operational risk at the consolidated level of the NLB Group, basic indicator approach is used, while at the individual level of NLB d.d., somewhat more sophisticated standardized approach is applied.

In accordance with the guidelines imposed by legislation, but also on the basis of best practices by banks, NLB Group established monthly reporting of identified loss events. At the level of Operational risk committee, at the level of business-line management in NLB d.d. and at the level of NLB Group members, analysis of loss events is one of the bases for making decisions to reduce potential similar cases in the future. As a preventive step in control of the operational risks in NLB Group, identification and evaluation of operational risks in all processes is performed, allowing adoption of preventive measures to control all material risks.

Operational risk management policy of the NLB is a cover document that provides guidance on operational risk management in NLB d.d. and partly in the NLB Group. There is a number of other subordinated documents that prescribe methodologies for risk management and provide practical guidelines for risk control in specific areas such as information technology, money laundering, protection of persons, business information and property, business continuity plans and the like. Based on this policy, members of the NLB Group adopted their own documents regarding the operational risk management, applying the unified definition and methodology, partially adapted to the size of members and complexity of the services they provide, also taking into account the relevant local legislation.

10. Market risks

(Article 18 of the Regulation on disclosures by banks and savings banks)

NLB Group uses a standardized approach to calculate capital requirements for market risk, prescribed by the Regulation on the calculation of capital requirements for market risk for banks and savings banks.

In calculating the capital requirement for foreign exchange risk, foreign currency positions takes into account the value adjustments (impairments) and provisions for all claims - "net principle". Net principle or net position represents the net asset items minus liabilities. Capital requirement for foreign exchange risk is calculated by multiplying the sum of net positions in foreign currencies and net position in gold with the weighting of 8%.

NLB Group classifies its net position in debt instruments in trading book according to the currency in which they are denominated. Capital requirement for general and position market risk is calculated separately for net positions in each currency. Capital requirement for position risk associated with debt financial instruments is calculated as the sum of capital requirements for specific and general market risk. For the purposes of calculating capital requirements for debt financial instruments, NLB Group uses a maturity based approach.

In equity instruments in trading book, all of the net long positions and all of the net short positions are summed separately. The sum of the absolute values of all net long and net short positions represents total gross position in equity instruments. The difference between the value of all net long positions and all net short positions represents the total net position in equity instruments.

The capital requirement for specific position risk associated with equity instruments is calculated by multiplying the total gross position in equities with a weighting of 8%. The capital requirement for general position risk associated with equity instruments is calculated by multiplying the total net position in equities by 8%. Capital requirement for market risk associated with equity instruments is calculated as the sum of the capital requirements for specific position risk and capital requirements for general position risk.

Breakdown of capital requirements for market risks of NLB Group:

in thousands of EUR

	31.12.2012	31.12.2011
TOTAL CAPITAL REQUIREMENT FOR MARKET RISKS	17,560	28,650
Settlement / delivery risk	80	0
Position risk - traded debt instruments	2,649	1,972
of which general and specific risk in MKR SA TDI	*2,649*	*1,972*
of which specific risk for traded portfolio with correlation	*0*	*0*
Position risk - equity instruments	2,995	11,998
Foreign exchange	11,836	14,680
Commodities	0	0

NLB Group's exposure to market risk at the end of 2012 was lower than at the end of the previous year, primarily due to decrease in positions of equity securities.

11. Investments in equity securities not included in trading book

(Article 21 of the Regulation on disclosures by banks and savings banks)

Total amount of NLB Group's investments in equity securities not included in the trading book amounted to EUR 116,777 thousand at the end of 2012, which represents less than one percentage of NLB Group's total assets. Even 96.6% of this amount relates to banking book portfolio of the NLB d.d. (EUR 112,775 thousand). Other members of the NLB Group contributed EUR 4,002 thousand to this amount.

Majority of equities in banking book of NLB d.d. are securities, received by the bank as a collateral for credit placements (82% or EUR 89,379 thousands). In accordance with internal regulations, other group members are strictly limited in trading with equity securities (no new transactions are allowed, gradual disposal of the existing equity portfolio). Therefore, most of their equity portfolio was gathered from strategic reasons and part of it due to requirements of local legislation.

In terms of accounting treatment, a major part of the portfolio is classified as financial assets available for sale (EUR 111,808 thousand), which are, in accordance with the NLB Group policy, valued at fair value through equity. In case of the impairment, negative effects are transferred from equity to income statement. Only a minor part of the equity shares are treated as instruments at fair value through profit or loss. Total value of such investments of the NLB Group was EUR 4,969 thousand.

In accordance with applicable accounting policies of the NLB Group, the book value always equals to the fair value of these investments. In case of stock-exchange listed papers, the fair value equals the market price. If paper is not quoted on the stock-exchange, the fair value is determined on the basis of generally accepted valuation models based on market assumptions. 82% of equity securities and equity shares in the group's portfolio is stock-exchange listed, which in terms of value represent EUR 95,761 thousand of AFS equity portfolio in banking book.

There was no change in accounting policies regarding equity securities treatment in 2012.

NLB d.d. realized EUR 871 thousand of net profit from equity securities. Other members of the group recorded loss in the amount of EUR 155 thousands from sale of equity securities in banking book.

NLB Group recorded EUR 14,744 thousand of net unrealised profits from equity securities in banking book, shown as revaluation adjustment in equity at the end of the year. In 2012, the group recognized impairment of EUR 30,498 thousand in its profit and loss account from revaluation of equity securities. Impairment derives from the fall in market prices of securities in 2012.

In accordance with the legislation, total negative effect of the revaluation of equity securities in the banking book is included in Tier 1 capital (original own funds). Due to inclusion of unrealized losses from these securities, Tier 1 capital of the NLB Group was EUR 874 thousand lower. On the other hand, 80% of positive revaluation effect was included in Tier 2 capital (additional own funds), which means that unrealized gains on equity securities in the banking book contributed EUR 13,085 thousand of the Tier 2 capital of the NLB Group.

12. Interest-rate risk from items not included in trading book

(Article 22 of the Regulation on disclosures by banks and savings banks)

12.1. The nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk

(Article 22.a of the Regulation on disclosures by banks and savings banks)

Monitoring of interest rate risks exposure and interest risk management are not centralised at the NLB Group level, however the exposure of individual members is regularly reported to Assets and liabilities committee of the NLB Group (NLB Group ALCO). Members of the NLB Group monitor the exposure to interest rate risks mostly due to structural movements and macroeconomic conditions, in accordance with the guidelines on risk management in the NLB Group. Exposure to interest rate risk is monitored on a monthly basis, using the interest rate gaps methodology and related limits, separately for banking members of the group and for financial organisations (leasing and factoring companies) in the NLB Group. Reports include analysis of interest rate sensitivity, stress scenario and compliance with limits.

Exposure to interest rate risk is monitored and managed by using the interest rate gaps methodology. The reports include interest rate sensitivity analysis by individual time intervals, sensitivity analysis and stress scenarios are also applied in determination of the exposure. Interest rate risk exposure arises at most from first-class debt securities (mostly ECB eligible assets), which in the current circumstances on financial markets represent a significant source of secondary liquidity reserves, while the exposure from traditional credit-deposit banking transactions is relatively low.

12.2. The effect on earnings or any other value measure used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies

(Article 22.b of the Regulation on disclosures by banks and savings banks)

Using the Basis point value method (BPV), the change in market value of trading book positions as a result of a parallel shift of the yield curve is estimated. BPV method measures the sensitivity of the value of financial instruments to market interest rates, i.e. to change in expected return on the market. Value of BPV assuming parallel shift of the yield curve by 50 basis points amounted to EUR 26.4 million as at 31 December 2012, which is 2.01% of NLB Group’s capital (EUR 37.8 million as at end of 2011).

Interest income sensitivity analysis assumes a shift in interest rates of 50 basis points in the short term. The analysis is based on the assumption that the net open positions in the calculation remain unchanged, and on the assumption of a parallel shift in the short-term part of the yield curve. The impact of the change in interest rate by 50 basis points (+ / - 0.5 percentage point) on the net interest income of the NLB Group from the banking book positions at the end of 2012 was estimated to EUR 14.8 million.

13. Liquidity risk

(Article 23a of the Regulation on disclosures by banks and savings banks)

Liquidity risk is monitored and managed in the NLB Group in accordance with the relevant policies and strategies, which set out rules and a hierarchy of responsibility. Standardized liquidity risk monitoring and management guidelines were implemented in NLB Group companies in accordance with the Liquidity risk management strategy of the NLB Group. Liquidity risk management is decentralized, with each company ensuring its own liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. A standardized current reporting system functions within the Group, and ensures adequate control over the provision of liquidity in all of the NLB Group companies.

NLB Group fulfils the requirements regarding liquidity management in line with the local legislation relevant for each group member and with internal documents of the NLB Group:

- Liquidity risk management policy,
- Plan for liquidity management of the bank in exceptional circumstances,
- Policy for managing debt securities in the banking book,
- Liquidity risk management strategy of the NLB Group.

The NLB Group places special emphasis on ensuring an appropriate level of long-term or structural liquidity in the current conditions on the financial markets.

The objectives of liquidity risk monitoring and management in the NLB Group and its members are as follows:

- ensuring a sufficient level of liquid assets to settle all due liabilities,
- minimizing the cost of maintaining liquidity,
- optimizing the balance of liquidity reserves,
- ensuring a sufficient level of liquidity for different scenarios and levels of stress situations,
- anticipating exceptional circumstances and crisis situations and implementing the adopted contingency plans in the event of extraordinary circumstances.

Liquidity is managed at three levels in the NLB Group: operational level, structural level and strategic level.

Operational level

Liquidity management at the operational level means managing liquidity for a period of several days or weeks, based on the planning and monitoring of cash flows. Liquidity management at the operational level in the NLB Group is decentralized, meaning each member of the NLB Group is responsible for its own liquidity position, and undertake the following activities:

- planning and monitoring cash flows;
- following-up the central bank’s regulations regarding liquidity and ensuring compliance with them;
- adopting business decisions;
- creating and managing a portfolio of secondary liquidity reserves.

NLB d.d. as a parent bank regularly monitors and, when needed, provides the liquidity to other NLB Group members.

Structural level

Liquidity management at the structural level means managing liquidity over a longer time frame, and includes the following activities:

- defining structural liquidity indicators, and the regular calculation and monitoring thereof,
- defining optimal values or thresholds for individual selected structural liquidity indicators,
- monitoring trends in the selected structural liquidity ratios,
- preparing analyses and proposals for changes in the structure of the balance sheet that affect the liquidity position and liquidity risk and
- preparing the static plans of liquidity gaps.

The objective of the liquidity management at the structural level is to achieve a balance sheet structure that ensure the NLB Group's long-term liquidity considering the criteria of maturity matching, types and concentration of funding sources, ability to redeem and quality (ratings) of investments.

NLB d.d. calculates a wider range of structural liquidity indicators of the bank and also monitors the liquidity of other group members, both on a monthly basis. For selected indicators of structural liquidity, targets are defined in a form of target value or target trend movement, shown in the tables below:

- for NLB d.d.:

		Limits / Guidelines
1a	Share of sources from non-banking sector in total assets/liabilities	Increasing trend
1b	Share of sources from banking sector in total assets/liabilities	Decreasing trend
1c	Share of issued securities in total assets/liabilities	Trend of moderate growth
2	Share of sources from 30 largest depositors in total sources	4-5%; in case of exceeding due to extraordinary transactions, adjustment of liquid investments is required
3a	Coverage of loans to non-banking sector (Net) with deposits from NBS (Loan To Deposit ratio)	At most 150%, Decreasing trend
3b	Coverage of loans to non-banking sector (Gross) with deposits from NBS (Loan To Deposit ratio)	At most 150%, Decreasing trend
4	Liquid assets vs. short-term liabilities	Maintenance of baseline position
5	Secondary reserve vs. total short-term sources	At least 50%
6	Share of long-term sources from banks in total long-term sources	Decreasing trend, Target value 70%
7a	Share of long-term loans from non-banking sector in total loans from NBS (contractual maturity)	Decreasing trend, Target value at most 70%
7b	Share of long-term loans from non-banking sector in total loans from NBS (residual maturity)	
8a	Coverage of long-term loans with long-term sources (contractual maturity)	Increasing trend, Target value at least 70%
8b	Coverage of long-term loans with long-term sources (residual maturity)	
9	Amount of structural liquidity deficit	Decreasing trend
10	Average weighted residual maturity of loans (in months)	Decreasing trend
11	Spread in average weighted residual maturity of sources and loans (in months)	Decreasing trend
12	Share of minimum liquidity reserve	Target value at least 1, In current circumstances maintenance of baseline position

- for banking members of the NLB Group:

		Limits / Guidelines
1	Share of sources from NLB d.d. in total assets/liabilities	Trend towards gradual decrease
2	Amount of sources from NLB d.d. compared to the capital of the bank	Trend towards gradual decrease
3	Share of sources from 10 largest depositors in total assets/liabilities	Trend towards diversification of sources
4a	Coverage of investments to non-banking sector with sources from NBS	In line with trend of movement of L4b indicator
4b	Coverage of loans to non-banking sector with deposits from NBS (Loan To Deposit ratio)	Maximum 125%
4c	Coverage of loans to non-banking sector with deposits from NBS (Loan To Deposit ratio)- Net principle	Maximum 125%
5	Liquid assets vs. short-term liabilities	Providing the appropriate level of secondary liquidity in accordance with guidelines of treasury business-line
6	Liquidity reserve vs. short-term liabilities	Providing the appropriate level of secondary liquidity in accordance with guidelines of treasury business-line

7	Share of long-term sources from banks in total long-term sources (contractual maturity)	Trend towards diversification of long-term sources, acquiring of long-term sources of financing from non-banking sector
7a	Share of long-term sources from banks in total long-term sources (residual maturity)	
8	Share of long-term loans from non-banking sector in total loans from NBS (contractual maturity)	Maximum 70%
8a	Share of long-term loans from non-banking sector in total loans from NBS (residual maturity)	
9	Coverage of long-term loans with long-term sources (contractual maturity)	Minimum 40%
9a	Coverage of long-term loans with long-term sources (residual maturity)	

- and for non-banking members of the NLB Group:

		Limits / Guidelines
1	Share of sources from NLB d.d. in total assets/liabilities	Decreasing trend
2	Amount of sources from NLB d.d. compared to the capital of the bank	Decreasing trend
3a	Concentration of funding sources	Proper diversification
3b	Concentration of funding sources	Proper diversification
3c	Concentration of funding sources	Proper diversification
4	Share of equity in total assets/liabilities	Proper capital position of the company
5	Proportion between primary investment transaction and credit transactions	Performance of primary activity
6	Share of non-performing loans	Decreasing trend

Strategic level
NLB Group companies perform the following activities in the context of liquidity management at the strategic level:

- preparing dynamic projections of liquidity;
- monitoring the liquidity gaps for each maturity bucket, preparing analyses and proposals for changes in the structure of bank’s statement of financial position that affect the bank's liquidity situation;
- preparing liquidity management stress test scenarios; and
- defining liquidity reserves and the required extend thereof.

NLB Group regularly examines its liquidity risk management principles, methods, instruments and opportunities with the aim of auditing the adequacy of existing liquidity management methods in different circumstances. Members of the NLB Group calculate liquidity gaps in maturity buckets monthly on the basis of cash flows from asset and liability items from the statement of financial position and from certain off-balance sheet items. When preparing the stress scenarios for liquidity management in exceptional circumstances, NLB considers several factors that may affect the liquidity position of individual company in case of stress (internal and external factors and a combination of both) and several levels of escalation according to the extent and duration of the stress event. For each stress test scenario and each level of stress, NLB Group companies prepare the cash flow plan that reflects the possible reactions of customers and business partners, and the measures taken by the group member to ensure an adequate level of necessary liquidity. In addition, the NLB Group also verifies the accuracy of applied assumptions (so-called "back-testing").

On the basis of liquidity management stress test scenarios, the NLB Group has defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognizing problems, searching for solutions and handling the exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of the NLB Group’s liquidity and protects the business interests of clients and shareholders.

Liquidity reserves consist of primary (cash, settlement account at the central bank, sight deposits and short-term deposits at banks) and secondary liquidity reserves (debt securities, loans eligible as collateral for Eurosystem claims). The structure is shown in business report of the Annual report, in Chapter: Operations of NLB Group in 2012, Liquidity Management (table 12).

Structure of funding sources of the NLB Group

As at 31 December 2012, deposits from non-banking sector represented the largest share in NLB Group's sources of funding, reaching 64.0%. Compared to 2011, the share of deposits from non-banking sector increased by 1.9 percentage points, while the share of loans from banks declined by 1.6 percentage points and stood at 14% at the end of 2012. Major decline in the balance sheet structure in 2012 was recorded in issued debt securities, which fell from 7.5% at the end of 2011 to 0.8% at the end of 2012. Share of subordinated instruments amounted to 2.4% of all funding sources at the end of 2012, which is 2.4 percentage points less than at the end of 2011.

Transfer pricing methodology

Internal transfer pricing system is based on the methodology, which considers the current market conditions and strategic guidelines of the bank on a daily and monthly basis and enables a more efficient management of liquidity risk and monitoring of performance at the level of the whole group. The current system of internal transfer pricing and its planned development are focused on the redistribution of costs and benefits of the liquidity management among the remaining business lines. Considering the individual elements of internal transfer pricing, all of which separately represent the basis for risk management, segmental analysis of the bank's operations is prepared quarterly, reflecting the effects of transfer of costs, benefits and risks.

Plan on covering liabilities

NLB Group regularly monitors the movement of planned liabilities and, accordingly, carries out the activities to obtain funding sources. The form of borrowing depends at most on market conditions and investors' interest for individual instruments.

The NLB Group will continue to pursue the goal of providing optimal conditions of funds-raising for each member of the NLB Group. Here, the principle of diversification of sources will be followed, which means that the NLB Group will seek to maintain a presence in various segments of the financial market, as it allows the use of different funding instruments and expands the range of investors. Such a concept demands the maintaining and development of good business relationships with key partners, something the NLB Group has been working for many years.

14. Remuneration system
(Article 23b of the Regulation on disclosures by banks and savings banks)

14.1. Description of the decision-making process used to determine the bank's remuneration policy
(Article 23b.a of the Regulation on disclosures by banks and savings banks)

Policy of remuneration for the employees performing special work was prepared by the Human resources department in cooperation with the Accounts administration and payroll, the Legal centre and colleagues from risk management area.

Management board discussed the proposal of Policy of remuneration for the employees performing special work (hereafter the Remuneration policy) on 13 December 2011. The Remuneration policy was also discussed by the Remuneration and appointment committee (on 19 December 2011) and by Supervisory board (on 20 December 2011), suggesting some changes and supplementations. Updated material was confirmed by the Management board on 29 December 2011. Policy of remuneration for the employees performing special work was adopted by the Supervisory board of NLB d.d. on 6 January 2012.

The composition and powers of the Remuneration committee from Article 75 of ZBan-1 (Banking act):

Remuneration and appointment committee includes the following members: Klemen Vidic (chairman), Riet Docx, Miroslav Germ and Stephan Wilcke.

The Committee monitors the basic strategic issues and prepares proposals of decisions for the Supervisory board in the following areas:

- appointment and dismissal of president and members of the Management board,
- determination of ways of recruiting candidates for president and members of the Management board and determination of ways of selecting the president and members of the Management board,
- conclusion and overseeing of contents of individual employment contracts with the president and members of the Management board,
- remunerations of the president and members of the Management board and determination of criteria for remunerations,
- remuneration policies and
- other areas, which the Supervisory board estimates to fall within the scope of work of the Committee.

In relation to remuneration policies, the Remuneration and appointment committee is, among other, responsible for:

- preparation of proposals of general principles for remuneration policies, including the establishment of positions regarding the specific aspects of remuneration,
- assessing the adequacy of established methodologies, based on which the remuneration system encourages the proper management of risk, capital and liquidity,
- preparation of reports to the Supervisory board regarding the implementation of remuneration policies,
- preparation of proposals on decisions regarding the employee remunerations, including those that affect the risks and risk management of the bank,
- review of the adequacy of an external consultant, whose services were used by the Supervisory board in determining the bank's remuneration policies.
- reviewing of the adequacy of the general principles of remuneration policies and their implementation,
- verification of compliance of remuneration policies with the business policy in the long-term period,
- implementation of direct control over the revenues of those employees with the specific nature of work that operate in functions of the internal control system and other control functions.

No external consultant was involved in forming of the policy.

In forming of the policy, employees from risk management area and Legal Centre were included. Their contribution was in definition of criteria to assess the impact of the employee on the bank's risk profile and implementation of the policy in employment contracts.

14.2. An explanation of the impact of the performance of an employee, an employee's organisational unit and the general operating results of the bank (hereinafter: performance) on an employee's remuneration

(Article 23b.b of the Regulation on disclosures by banks and savings banks)

Financial performance criteria are:

1. The objectives of NLB d.d. (or objectives of the NLB Group for the Management board members and employees in the NLB Group management division) for each business year are determined by the Management board and approved by the Supervisory board. The objectives of NLB d.d. can include among other:
   - profit of NLB d.d.
   - ratio between profit before provisions and capital requirements for risks
   - cost-to-income ratio (CIR)
   - ratio between loans to non-banking sector and retail and corporate deposits
   - return on equity after tax (ROE).

2. The objectives of the organisational unit of the employees performing special work:
   Specific objectives of organization units (which derive from the objectives of NLB d.d.) where the employees performing special work assume the risks, are determined by their direct superior officer for each business year and include the following areas:
   - business objectives of the organizational unit
   - financial objectives of the organizational unit (if any).

Non-financial performance criteria are:

- Development objectives of the employees performing special work (which include: realization of the annual interviews, development of their employees, development of competences...), defined by their direct superior manager or the Management board.

Illustration of the variable part of the payments for the employees performing special work:

Performance criteria	Achievement of the objectives	Achievement of the objectives	Achievement of the objectives	Achievement of the objectives
1. Objectives of the NLB Group (for the Management board and the NLB Group management division) and objectives of NLB d.d.	Yes	No	No	Yes
2. Objectives of organizational unit	Yes	Yes	No	Yes
3. Non-financial or personal objectives	Yes	Yes	Yes	No
Entitlement to the variable part of salary	Yes	Yes	Yes	No
Amount of the variable part of salary	For the Management board and the front offices= 2 salaries + 2 salaries + 1 salary = 5 salaries in total For other employees = 1 salary + 1 salary + 1 salary = 3 salaries in total	For the Management board and the front offices= 2 salaries + 1 salary = 3 salaries in total For other employees = 1 salary + 1 salary = 2 salaries in total	For the employees performing special work 1 salary in total	No payment of the variable part

The decision whether the performance criteria have been achieved and the decision to pay the variable part of the salary to the Management board members are adopted by the Supervisory board. For other employees performing special work these decisions are adopted by the Management board of the bank or the superior director of the employee performing special work.

During the deferral period the variable part of the salary is paid to the employees performing special work who are included in a business function according to the following model:

- 50% is paid after the confirmation of the performance results at the Bank's General Meeting,
- 50% over the period of 3 years.

The deferment of payment of the variable part of the salary for other employees performing special work is determined annually by the Remuneration and appointment committee based on the assessment of whether the employee has a significant impact on the risk profile of NLB d.d.

During the deferral period, the deferred amount of variable part of the salary shall bear interests or be reduced according to the achieved return on equity (ROE).

14.3. The most important contextual characteristics of the remuneration policy

(Article 23b.c of the Regulation on disclosures by banks and savings banks)

As stated in Article 4 of the Remuneration policy, NLB d.d. ensures that the Remuneration policy complies with and even encourages the adequate and efficient risk management. Also, payments of the variable part of the salary depend on fulfilment of obligations or achievement of objectives referring to capital or liquidity.

Assignment and payment of the variable component (also the deferred part) to an employee performing special work depends on the adjustment criteria related to risk management. These criteria are: compliance with the adopted policies, methodologies, orientations, requirements of regulators and auditors and the work-related authorisations of employees performing special work (Article 11).

The Remuneration policy (Article 12) also defines, that the performance criteria for employees performing special work who are included in the supervisory function are established on the basis of the objectives of the supervisory function and are independent of performance results of the organizational part subject to their supervision.

The decision whether the performance criteria have been achieved and the decision to pay the variable part of the salary to the Management board members are adopted by the Supervisory board, and for other employees performing special work these decisions are adopted by the Management board of the bank or the superior director of the employee performing special work.

The criteria for determining the ratio between fixed and variable part of the salary are various and depend on the organisational unit of the employee performing special work. Namely, larger proportion of the variable part is designated for the employees performing special work included in the business function and smaller proportion of the variable part for the employees in other organisational parts of the bank. As a criterion to determine an appropriate ratio, the employee's impact on the bank's risk profile is also considered. Besides, the variable part should also be encouraging enough to stimulate employees to achieve the results.

For the employees performing special work who are included in a business function, the defined ratio is 12 salaries (fixed part): 5 salaries (variable part). For the employees performing special work in other areas of the bank, the ratio is 12 salaries (fixed part): 3 salaries (variable part).

During the deferral period the variable part of the salary is paid to the employees performing special work who are included in a business function according to the following model:

- 50% is paid after the confirmation of the performance results at the Bank's General meeting,
- 50% over the period of 3 years.

The deferment of payment of the variable part of the salary for other employees performing special work is determined annually by the Remuneration and appointment committee based on the assessment of whether the employee has a significant impact on the risk profile of NLB d.d.

During the deferral period, the deferred amount of variable part of the salary shall bear interests or be reduced according to the achieved return on equity (ROE).

The Remuneration policy determines that prior to the payment of the variable part of the salaries, fulfilment of obligations or achievement of objectives referring to capital or liquidity must be checked. Assignment and payment of the variable part of the salary (also the deferred part) to an employee performing special work depends on the adjustment criteria related to risk management. These criteria include: compliance with the adopted policies, methodologies, orientations, requirements of regulators and auditors as well as work-related authorisations of the employee performing special work.
During the deferral period, the deferred amount of variable part of the salary shall bear interests or be reduced according to the achieved return on equity (ROE).

14.4. Performance criteria, based on which an employee is entitled to shares, options and other forms of variable remuneration, and the main parameters and rationale for using any form of variable remuneration and other non-cash benefits for employees

(Article 23b.d of the Regulation on disclosures by banks and savings banks)

The bank does not pay the variable remuneration in the form of financial instruments, because it is considered as a part of the salary and does not include other forms of benefits (e.g. bonuses, etc...).

14.5. Information regarding the aggregate amount of remuneration paid in the previous financial year, broken down by business area

(Article 23b.e of the Regulation on disclosures by banks and savings banks)

Total amount of remunerations paid out for the year 2012, broken down by business areas:

in EUR

Business segment	No.	Gross salaries + holiday allowance	Bonuses	Supplementary pension insurance	Other remunerations	Total remunerations
Investment banking	2	174.594	4.112	2.761	3.903	**185.369**
Retail banking	12	867.580	17.722	16.566	20.609	**922.477**
Asset management	2	142.783	1.435	2.761	2.970	**149.949**
Other	55	4.228.531	95.342	74.776	96.461	**4.495.111**
Total	**71**	**5.413.487**	**118.611**	**96.864**	**123.943**	**5.752.906**

14.6. Information regarding the aggregate amount of remuneration paid for the previous financial year, broken down by employee category

(Article 23b. f of the Regulation on disclosures by banks and savings banks)

Total amount of remunerations paid out for the year 2012, broken down by employee category:

in EUR

Employee category	No.	Gross salaries + holiday allowance	Bonuses	Supplementary pension insurance	Other remunerations	Total remunerations
Management board	6	454.442	14.685	8.136	11.888	**489.152**
Back office & general administration	32	2.425.515	51.381	43.195	52.895	**2.572.986**
Front office	33	2.533.530	52.545	45.534	59.160	**2.690.769**
Total	**71**	**5.413.487**	**118.611**	**96.864**	**123.943**	**5.752.906**

In 2012, there were no pay-outs of the variable part of remunerations.

Remuneration policy for employees with the specific nature of work in a bank is in force since 1 January 2012. In accordance with this policy, variable parts of the remunerations are not paid-out in the form of financial instruments. Bank recorded no deferred variable parts of remunerations in 2012.

Severance pays are the same as last year, as there were no new severances agreed this year. The amount of severance pay is specified in the employment contracts in accordance with the law.

Table of remunerations for individual members of the Management board for the year 2012:

in EUR

	Member	Remuneration	Amount
1	Božo Jašovič	Short - term benefits	98,703
	1.1.2012 - 30.9.2012	Gross salary, benefits and holiday allowance	98,703
		Cost refunds	979
		Long - term bonuses	1,148
		- Severance pay	*0*
		- Post employment benefits	*1,148*
		- Other bonuses	*0*
		Total	**100,831**
2	Janko Medja	Short - term benefits	31,903
	2.10.2012 - 31.12.2012	Gross salary, benefits and holiday allowance	31,903
		Cost refunds	324
		Long - term bonuses	230
		- Severance pay	*0*
		- Post employment benefits	*230*
		- Other bonuses	*0*
		Total	**32,457**
3	David Benedek	Short - term benefits	128,079
	1.1.2012 - 31.12.2012	Gross salary, benefits and holiday allowance	128,079
		Cost refunds	1,095
		Long - term bonuses	10,067
		- Severance pay	*0*
		- Post employment benefits	*10,067*
		- Other bonuses	*0*
		Total	**139,242**
4	Guy Snoeks	Short - term benefits	129,596
	1.1.2012 - 31.12.2012	Gross salary, benefits and holiday allowance	129,596
		Cost refunds	1,267
		Long - term bonuses	1,378
		- Severance pay	*0*
		- Post employment benefits	*1,378*
		- Other bonuses	*0*
		Total	**132,241**
5	Marko Jazbec	Short - term benefits	128,128
	1.1.2012 - 31.12.2012	Gross salary, benefits and holiday allowance	128,128
		Cost refunds	1,181
		Long - term bonuses	1,378
		- Severance pay	*0*
		- Post employment benefits	*1,378*
		- Other bonuses	*0*
		Total	**130,687**
6	Robert Kleindienst	Short - term benefits	64,572
	1.1.2012 - 30.6.2012	Gross salary, benefits and holiday allowance	64,572
		Cost refunds	447
		Long - term bonuses	3,906
		- Severance pay	*0*
		- Post employment benefits	*3,906*
		- Other bonuses	*0*
		Total	**68,924**
7	Blaž Brodnjak	Short - term benefits	10,786
	1.12.2012 - 31.12.2012	Gross salary, benefits and holiday allowance	10,786
		Cost refunds	110
		Long - term bonuses	0
		- Severance pay	*0*
		- Post employment benefits	*0*
		- Other bonuses	*0*
		Total	**10,897**
	Total		**615,278**

15. Significant business contact

(Article 23c of the Regulation on disclosures by banks and savings banks)

No member of the Management board of NLB d.d. and the Supervisory board of NLB d.d., as well as no member of management and supervisory bodies of subsidiaries and / or their immediate family has significant business contact with the company where is the member of management or supervisory body in accordance with Article 12 of the Decision on the diligence of the members of management and supervisory boards for banks and savings banks.

16. Compliance with regulations that govern conflicts of interest involving the members of the management and supervisory bodies of subsidiary financial companies registered outside the Republic of Slovenia

(Article 23d of the Regulation on disclosures by banks and savings banks)

In accordance with local regulations and internal rules of banks, following conflicts of interest involving members of the management and supervisory bodies of subsidiaries registered outside the Republic of Slovenia have been reported in 2012:

1. Marjeta Zver Cankar, a member of the Supervisory board of NLB Tutunska Banka and a member of the Supervisory board of NLB Lizing Skopje was in 2012 in a conflict of interest in case of selling business building of NLB Lizing Skopje to NLB Tutunska Banka. In the first voting of Supervisory board of NLB Tutunska Banka on purchase, where the consensus of the two parties was not reached yet, she abstained.

2. Martina Bensch-Müller, a member of the Supervisory board in LHB Frankfurt/Main (employee representative) in principle is in no conflict of interest, except in cases, where the interests of employees are in a conflict with the interests of management of LHB Frankfurt/Main (according to German law) and are different from the interests of NLB d.d. as the owner.

Appendix: The list of required disclosures according to Regulation on disclosures by banks and savings banks with references to the relevant chapters

Article	Regulation on disclosures by banks and savings banks	Chapter
10.	**Risk management objectives and policies**	**2.**
	a) The strategies and processes for managing risks	2.1.
	b) The structure and organisation of the relevant risk management function or other appropriate arrangements	2.2.
	c) The scope and nature of internal risk reporting and risk measurement systems	2.3.
	d) The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigations	2.4.
11.	**Information on entities included in disclosures**	**3.**
	a) The name of the bank obliged to make disclosures pursuant to this regulation	3.
	b) An outline of the differences in the basis of consolidation for accounting and prudential purposes (consolidation for supervision on a consolidated basis), with a brief description of entities: - that are fully consolidated - that are proportionally consolidated - in which the bank holds investments deducted from own funds - that are neither consolidated nor deducted from capital.	3.
	c) Any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	3.
	d) The aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries	3.
12.	**Own funds**	**4.**
	a) Key information on the main features of all own funds items and components thereof, including separate disclosure of: - hybrid instruments in original own funds specified in Article 16 of Regulation on the calculation of own funds of banks and savings banks (own funds regulation) - financial instruments with the incentives to redeem specified in own funds regulation - financial instruments specified in 4th paragraph of Article 34 of the own funds regulation	4.1.
	b) The amount of the original own funds (Tier 1), with separate disclosure of: - all positive items and deduction components of Tier 1 - total amount of hybrid instruments in original own funds, of which separately disclosed financial instruments specified in 4th paragraph of Article 34 of the own funds regulation - total amount of hybrid instruments in original own funds with the incentives to redeem, of which separately disclosed financial instruments specified in 4th paragraph of Article 34 of the own funds regulation	4.2.
	c) Total amount of additional and ancillary own funds (Tier 2 and Tier 3) as can be taken into consideration in the calculation of the bank's own funds in accordance with the own funds regulation	4.2.
	d) Deductions from original and additional own funds with separate disclosure of items specified in point (f) of the Article 30 of the own funds regulation	4.2.
	e) Total amount of the own funds	4.2.
13.	**Minimum capital requirements and process of estimating necessary internal capital**	**5.**
	a) A summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities	5.1.
	b) The amount of the capital requirement for credit risk under the standardized approach (SA) for all categories of exposure as defined in Article 4 of the Regulation on the calculation of capital requirements for credit risk under the SA	5.2.
	c) The amount of the capital requirement for credit risk under the internal ratings-based approach (IRB)	Not applicable
	d) The capital requirements for market risks	5.2.
	e) The capital requirements on operational risk	5.2.

14.	**Counterparty credit risk (CCR)**	**7.**
	a) A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures	7.1.
	b) A description of policies for securing collaterals	7.2.
	c) A description of policies with respect to wrong-way risk exposures	7.3.
	d) A description of the effects of a downgrade in the bank's credit assessment in increasing the amount of collateral to be secured by the bank	7.2.
	e) Gross positive fair values of contracts, netting benefits, netted current credit exposures, collateral at the bank's disposal, and net credit exposure from derivatives	7.4.
	f) A description of the method used for calculating the exposure value for derivatives, swaps, securities or commodities lending or borrowing transactions, margin lending transactions, and long settlement transactions defined in Articles 48 to 68 of the market risk regulations	7.1.
	g) The nominal value of credit derivatives used for hedging, and the distribution of current credit exposure by types of credit exposure	Not applicable
	h) The nominal value of credit derivatives transactions (the value of these instruments for the bank's own portfolio and the values for clients being illustrated separately, and an indication of the types of credit derivatives further broken down as bought and sold)	Not applicable
	i) An estimate of α if the bank holds the Bank of Slovenia authorisation to use its own estimate of α	Not applicable
15.	**Credit risk and dilution risk**	**6.**
	a) A definition of past due and impaired items for accounting purposes	6.2.
	b) A description of the methodology for making value adjustments to items and provisions	6.3.
	c) The total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount (from quarterly data) in the reporting period, by category of exposure	6.4.
	d) The geographic distribution of exposures, broken down by material categories of exposure, and further detailed if appropriate	6.5.
	e) The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure, and further detailed if appropriate	6.6.
	f) A breakdown of all categories of exposure into residual maturities of up to one year and more than one year, and further detailed if appropriate	6.7.
	g) The following items for significant institutional sectors or counterparty types as at the end of the reporting period: - the amount of past due exposures, and within this the amount of impaired exposure - the amount of value adjustments due to impairments and provisions, - the amount of net eliminated/formed value adjustments due to impairments and provisions during the reporting period	6.8.
	h) For significant geographical areas the amount of past due exposures as at the end of the reporting period, and within this the amount of impaired exposures, including, if possible, the amounts of impairments and of provisions related to each geographical area	6.8.
	i) For impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions, these comprising: - a description of the value adjustments and provisions by type of asset, - the opening balance of the value adjustments and provisions as at the beginning of the reporting period, - the increase in the reporting period, - the decrease in the reporting period, - the closing balance of the value adjustments and provisions as at the end of the reporting period	6.8.
16.	**Additional disclosures by bank using standardised approach**	**6.**
	a) The business names of the nominated external credit assessment institutions (hereinafter: ECAIs) or export credit agencies (hereinafter: ECAs), and the reasons for any replacements	6.1.
	b) An indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure	6.1.
	c) A general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments	6.1.

	d) An indication of the mapping of the credit assessments of a particular nominated ECAI or ECA to the credit quality steps specified in the standardised approach regulation, if it is a mapping not published by the Bank of Slovenia	6.1.
	e) The exposure values and the exposure values taking into account the effects of credit collaterals, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on credit protection and the values of capital deduction items	6.4.
17.	**Additional disclosures by bank using IRB approach**	**Not applicable**
18.	**Breakdown of market risk capital requirements**	**10.**
19.	**Additional disclosures by bank using internal models to calculate market risk capital requirements**	**Not applicable**
20.	**Operational risk**	**9.**
	a) The approach used to calculate operational risk capital requirements	9.
	b) A description of the advanced measurement approach methodology, if used	Not applicable
21.	**Investments in equity securities not included in trading book**	**11.**
	a) The purpose of the investments including attitude to capital gains and strategic reasons, used accounting techniques and valuation methods and any changes in accounting practices	11.
	b) The balance sheet value and the fair value of investments, and, for exchange-traded securities, a comparison with the market price where it is materially different from the fair value	11.
	c) The types, nature and amounts of exposures from exchange-traded securities, exposures from private equity if sufficiently diversified, and other exposures	11.
	d) The cumulative realised gains and losses from the sale of investments in equities in the reporting period	11.
	e) The total amount of unrealised gains and losses, and any of these amounts that the bank includes in original own funds (Tier I) and additional own funds I (Tier II)	11.
22.	**Interest-rate risk from items not included in trading book**	**12.**
	a) The nature of the interest-rate risk and the key assumptions (including assumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk	12.1.
	b) The effect on earnings or any other value measure used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies	12.2.
23.	**Securitisation**	**Not applicable**
23a	**Liquidity risk**	**13.**
	a) The methodology of liquidity risk management , including: - distribution of costs, benefits and risks in ensuring liquidity - identification, measurement, control and monitoring of liquidity, including information regarding off-balance sheet commitments (in particular those that exceed contractually specified - "implicit support")	13.
	b) Liquidity risk mitigation including: - system of limits for restricting exposure to liquidity risk - liquidity reserve - diversification of sources of liquidity	13.
	c) Measures to prevent and eliminate the causes of liquidity shortage, including: - stress scenarios - contingency plans	13.
23b.	**Remuneration system**	**14.**
	a) A description of the decision-making process used to determine the bank's remuneration policy. A bank shall also disclose information regarding: (i) the composition and mandates of the remuneration committee specified in Article 75 of the ZBan-1, (ii) the external consultant whose services a bank has used in determining the remuneration policy, and (iii) the roles of other persons involved in determining the remuneration policy	14.1.

	b) An explanation of the impact of the performance of an employee, an employee's organisational unit and the general operating results of the bank (hereinafter: performance) on an employee's remuneration.	14.2.
	c) The most important contextual characteristics of the remuneration policy (e.g. objectives and ensuring the independence of the remuneration policy in control functions), including criteria for: aligning the variable component of remuneration with the risks, the payment of the variable component and a deferral policy	14.3.
	d) Performance criteria, based on which an employee is entitled to shares, options and other forms of variable remuneration, and the main parameters and rationale for using any form of variable remuneration and other non-cash benefits for employees	14.4.
	e) Information regarding the aggregate amount of remuneration paid in the previous financial year, broken down by business area	14.5.
	f) Information regarding the aggregate amount of remuneration paid for the previous financial year, broken down by employee category… also separately for individual members of the bank's management board	14.6.
23c	**Significant business contact**	**15.**
	Information regarding direct and indirect significant business contacts that exist between a member of the management board or supervisory board or a member of his or her immediate family and a bank or its subsidiary	15.
23d	**Compliance with regulations**	**16.**
	a) A list of conflicts of interest identified in the previous year involving the members of management and supervisory bodies of subsidiaries with a registered office outside the Republic of Slovenia	16.
	b) Measures adopted by the supervisory board to prevent and limit the conflicts of interest specified in point a)	16.
24.	**IRB approach**	**Not applicable**
25.	**Credit protection**	**8. (and partly 6.)**
	a) The policies and processes for using balance-sheet netting, and the extent of use of this type of protection	Not applicable
	b) The policies and processes for collateral valuation and management	8.1.
	c) A description of the main types of collateral taken by the credit institution	8.2.
	d) The major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness	Not applicable
	e) Information about market or credit risk concentrations within the credit protection taken	8.3.
	f) For a bank that uses the standardised approach or an IRB approach to calculating credit risk capital requirements without its own estimates of LGDs (and CFs), the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure	6.4.
	g) The total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure. For the category of exposures from equity instruments, this requirement shall apply to each of the approaches set out in Articles 133, 134 and 138 of the IRB approach regulation	6.4.
26.	**Operational risk – advanced measurement approach**	**Not applicable**